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Foreword

This Economic Survey was prepared by Katja Schmidt and Gilles Thirion under the supervision of Pierre Beynet. Research assistance was provided by Béatrice Guérard, editorial assistance by Elodie Lormel and communication assistance by François Iglesias. Cameron Hall contributed valuable input to the Survey.

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Information about this and previous Surveys and more information about how Surveys are prepared is available at <https://www.oecd.org/en/topics/economic-surveys.html>.

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Basic statistics of Romania, 2024

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	19.1		Population density per km²	82.8	(39.6)
Under 15 (%)	15.7	(16.7)	Life expectancy at birth (years, 2023)	76.4	(81.2)
Over 65 (%)	20.0	(18.6)	Men (2023)	72.6	(78.6)
International migrant stock (% of population, 2020)	3.4	(15.7)	Women (2023)	80.4	(83.8)
Latest 5-year average growth (%)	-0.3	(0.5)	Latest general election	May-2025	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	382.6		Agriculture, forestry and fishing	3.6	(2.5)
In current prices (billion RON)	1 759.2		Industry including construction	27.6	(25.3)
Latest 5-year average real growth (%)	1.8	(1.7)	Services	68.8	(72.2)
Per capita (thousand USD PPP, OECD: 2023) ¹	49.0	(59.0)			
GENERAL GOVERNMENT					
Expenditure	43.6	(42.7)	Gross financial debt	63.5	(112.5)
Revenue	34.2	(37.9)	Net financial debt	35.7	(65.9)
EXTERNAL ACCOUNTS					
Exchange rate (RON per USD)	4.60		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	1.88		Machinery and electronics	28.1	
In per cent of GDP			Transportation	19.0	
Exports of goods and services	35.6	(30.3)	Metals	8.4	
Imports of goods and services	41.6	(29.9)	Main imports (% of total merchandise imports)		
Current account balance	-8.2	(-0.4)	Machinery and electronics	25.7	
Net international investment position	-40.2		Chemicals	11.1	
			Transportation	11.0	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	49.2	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	5.4	(4.9)
Men	58.6	(65.4)	Youth (aged 15-24, %)	23.8	(11.1)
Women	40.6	(51.0)	Long-term unemployed (1 year and over, %)	1.8	(1.0)
Participation rate (aged 15 and over, %)	52.1	(61.0)	Tertiary educational attainment (aged 25-64, %)	19.2	(41.2)
Average hours worked per year	1 829	(1 736)	Gross domestic expenditure on R&D (% of GDP, 2022)	0.5	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2023)	1.6	(3.7)	CO ₂ emissions from fuel combustion per capita (tonnes)	3.3	(7.5)
Renewables (%)	17.8	(13.1)	Water abstractions per capita (1 000 m³, 2023)	0.4	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2020)	99.4	(56.5)	Municipal waste per capita (tonnes, 2022, OECD: 2023)	0.3	(0.6)
SOCIETY					
Income inequality (Gini coefficient, 2023, OECD: latest available)	0.282	(0.315)	Education outcomes (PISA 2022 score)		
Relative poverty rate (% , 2023, OECD: 2022)	12.7	(11.5)	Reading	428	(476)
Median disposable household income (thousand USD PPP, 2023, OECD: 2022)	4.5	(30.5)	Mathematics	428	(472)
Public and private spending (% of GDP)			Science	428	(485)
Health care (2023, OECD: 2024)	5.7	(9.3)	Share of women in parliament (%)	19.2	(33.3)
Pensions (2021)	8.9	(9.9)	Net official development assistance (% of GNI)	0.2	(0.4)
Education (total spending, 2021)	3.4	(4.4)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries

1. OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

Key messages

Romania's income and productivity convergence with OECD levels has been impressive, despite a recent growth slowdown driven in part by fiscal consolidation. Romania continues to benefit from substantial EU funding that supports investment and long-term growth potential. While strong wage growth in recent years has supported nominal incomes, it has also contributed to inflation and weakened price competitiveness, highlighting the need for more balanced growth.

This Survey highlights four key messages:

- Past fiscal expansion has strongly widened the budget deficit, creating the risk of an unsustainable debt trajectory. Improving spending efficiency and broadening the tax base are essential to correct fiscal imbalances. Monetary policy should hold rates steady until inflation approaches target.
- Low-skilled youth, women, and older workers remain underrepresented in the formal labour market. Expanding participation calls for better education, affordable childcare, inclusive employment policies, and better health outcomes to support the integration of older workers.
- Climate change adaptation should accelerate. Priorities include improving risk disclosure, limiting residential development in high-risk areas, enhancing flood defences, improving water management and expanding insurance coverage.
- Romania has made strong progress in global integration. To support technology and knowledge spillovers, and move up the value chain, it should boost innovation, digital adoption, education outcomes, and business dynamism. Effective implementation and monitoring of anti-corruption measures also remain key to support the business environment.

Continued structural reforms are needed to sustain income convergence

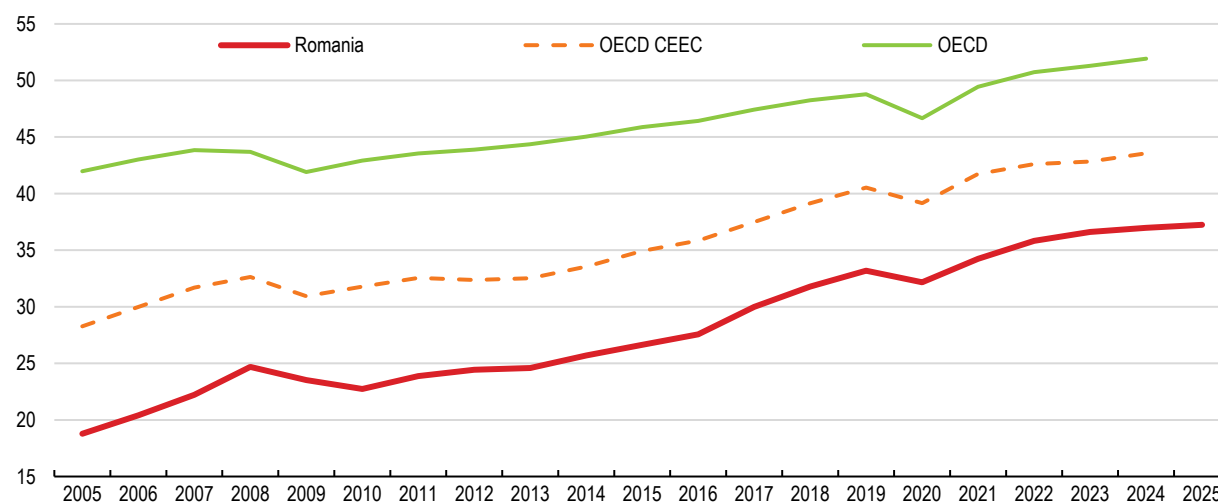
Robust growth over the last two decades has narrowed the gap with OECD living standards. Sustained structural reforms and fiscal prudence are necessary to support convergence and macroeconomic stability.

Romania has achieved substantial real income convergence with OECD countries over the last two decades (Figure 1), driven by market opening, reforms to enhance product and labour markets, and an improved rule of law. The significant inflow of EU funds has supported investment and modernisation, while full Schengen integration in 2025 marked another step forward in EU integration. Monetary policy has successfully transitioned to inflation targeting, contributing to lower inflation and reduced volatility. The public debt ratio has remained relatively low until recently, while the financial sector has been significantly strengthened.

Despite notable progress, Romania continues to face persistent challenges and should sustain its reform momentum. Since the 2024 Economic Survey, key reforms include a pension reform linking retirement age to life expectancy, the removal of several tax exemptions and preferential tax regimes, progress in digital infrastructure and e-government, and the initiation of major education reforms. To consolidate these achievements, Romania should enhance strategic planning and oversight within government, reduce institutional fragmentation, improve tax compliance and legislative stability, and ensure an effective implementation of reforms. Strengthening public service delivery across regions is also critical to addressing regional disparities.

Figure 1. Income convergence with OECD countries has been strong

GDP per capita, thousand USD, volume, constant PPPs, reference year 2020



Note: OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD National Accounts database.

StatLink  <https://stat.link/9861w4>

Economic activity has slowed, while inflation stays above target

Economic growth is constrained by the urgent need to restore fiscal balances and by more subdued external demand. EU investment flows can help support activity in the near term. Monetary policy will need to remain restrictive until inflation returns to target.

Despite strong resilience during the pandemic and the energy crisis triggered by Russia's war of aggression against Ukraine, Romania's economic activity has started to lose steam. It slowed over 2024 and 2025, reflecting weaker external demand

and, since 2025, the dampening effects of fiscal consolidation on domestic activity. Public investment remains supported by substantial EU funding, while private investment has decelerated. Inflation has declined since the energy crisis but remains

significantly above target. Strong wage growth over recent years has fuelled underlying inflation and added pressure on cost competitiveness.

The fiscal stance is posing challenges for the conduct of monetary policy. Monetary policy should maintain interest rates steady until underlying inflation shows a clear downward trend toward target. Private sector borrowing has increased, though overall private indebtedness remains low by OECD standards. Close monitoring and stricter regulation of vulnerable segments, such as euro-denominated corporate borrowing and government-backed lending, will be important to safeguard financial stability.

GDP growth is expected to remain below potential in the near term, at 1.0% in 2026, before gaining momentum in 2027. Inflation is projected to stay elevated through mid-2026, before gradually declining as the impact of fiscal measures fades.

Recent wage policies, including public sector wage freezes and the absence of minimum wage adjustments, are expected to curb wage growth in the near term.

Risks to the outlook remain significant. Domestically, while fiscal consolidation may weigh on growth more than currently expected, failure to restore fiscal sustainability could undermine investor confidence and delay access to EU funding. Slow absorption of EU funds, particularly under the Recovery and Resilience Facility, may also dampen growth. By contrast, fiscal discipline, quick EU fund absorption, and complete Recovery and Resilience Plan implementation could bolster investor confidence and growth. While Romania has limited direct exposure to global trade tensions, its integration into EU value chains leaves it vulnerable to external shocks.

Table 1. Necessary fiscal consolidation is weighing on near-term growth prospects

Annual growth rates, unless specified

	2024	2025	2026	2027
Gross domestic product	0.9	0.7	1.0	2.2
Private consumption	5.7	0.6	0.6	1.2
Government consumption	1.2	-1.9	0.4	0.9
Gross fixed capital formation	-2.5	4.1	4.7	3.7
Exports	-2.5	3.9	1.1	2.5
Imports	4.0	4.8	-0.3	1.4
Unemployment rate, % of labour force	5.4	6.1	6.1	5.7
Consumer price index	5.6	7.3	6.6	3.0
General government fiscal balance, % of GDP	-9.3	-8.3	-6.3	-6.3
General government gross debt (Maastricht), % of GDP	54.8	59.2	61.5	64.9

Source: OECD Economic Outlook database.

Safeguarding fiscal sustainability is crucial

Romania's public finances have deteriorated strongly, posing risks for the long-term sustainability of public finances. Avoiding this will require enhancing the efficiency of public expenditure, as well as broadening the tax base and improving tax compliance. Strengthening medium-term fiscal planning will also be needed to ensure fiscal discipline.

The budget deficit is elevated, at 9.3% of GDP in 2024. Public debt, while still relatively low in OECD comparison, has increased by 20 percentage points since before the pandemic, reaching 55% of GDP in 2024 and continuing on an upward trajectory. In response, Romania implemented a series of fiscal consolidation measures in 2025, aimed at correcting fiscal imbalances. While these measures mark important progress, sustained efforts over the coming years will be necessary to significantly reduce

the deficit and place public debt on a firmly downward trajectory.

Romania needs to enhance spending efficiency to strengthen public finances and support growth. The recent pension reform – notably by raising the retirement age for women, limiting special pensions, and introducing new indexation rules – is a positive step toward improving the sustainability of the pension system and encouraging labour force participation. Strengthening public investment

management and prioritisation and accelerating EU fund absorption also remain priorities to boost growth. At the same time, Romania faces growing pressure to increase spending on healthcare, education, social assistance, and innovation, to support inclusive growth. Public wages account for a growing share of government spending, calling for tighter control.

Revenue measures should aim at broadening the tax base and improving tax compliance. Environmental and property taxes remain underutilised and should be strengthened. The flat personal income tax and a low non-taxable allowance, along with high social security contributions creates high tax wedges for low-income earners and limits redistribution and labour supply of low-income workers. Reforms to enhance fairness and work incentives could include raising the allowance or introducing an earned income tax

credit, alongside a gradual reduction in social security contributions over time. The recent lowering of the microenterprise tax threshold is a welcome step toward strengthening corporate taxation. Further digitalisation and risk-based audits of the tax administration would help improve enforcement and revenue collection.

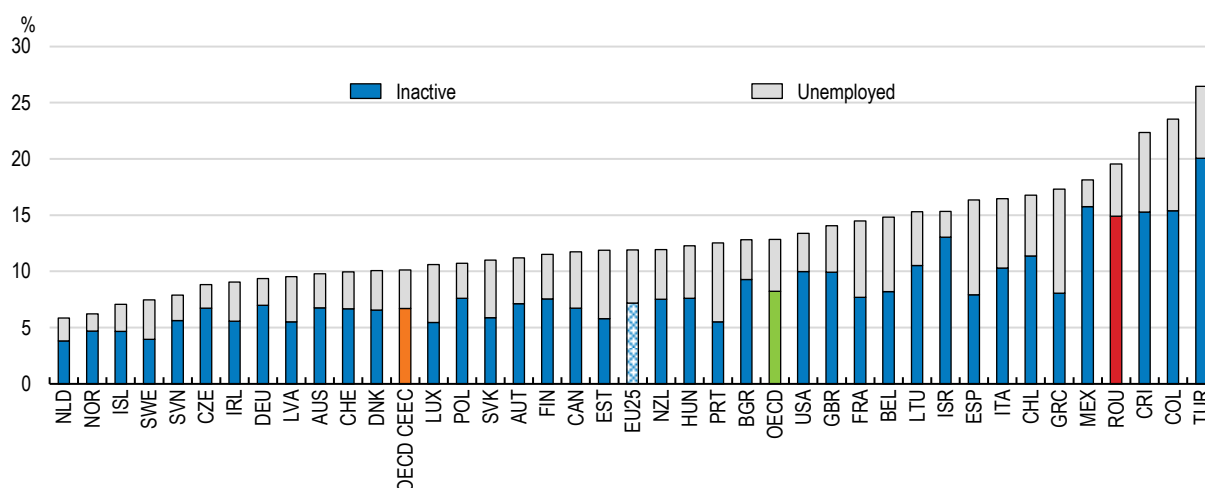
While Romania's formal budget framework aligns with OECD best practices, its credibility has been weakened by repeated exemptions and *ad hoc* spending decisions. Enhancing fiscal credibility requires consistent enforcement of national fiscal rules, supported by a stronger role for the Fiscal Council. Greater emphasis on medium-term budget planning, together with systematic performance-based budgeting and spending reviews, would strengthen accountability and improve resource allocation.

Promoting participation and healthier working lives would mitigate demographic challenges

To offset the labour force decline driven by population ageing and emigration, labour market participation of underrepresented groups should be increased. Policy efforts should focus on improving education and training for inactive youth, removing barriers for women and older workers, and promoting longer and healthier working lives.

Figure 2. Inactivity rates of young people are high

Share of 15–29-year-olds not in employment, nor in education or training (NEET), 2024 or latest



Note: OECD CEEC is a non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Education at a Glance database.

Romania's labour force is shrinking due to rapid population ageing and sustained emigration. The old-age dependency ratio is set to further rise by 20 percentage points by 2050, placing increasing pressure on the labour market, pension systems, and

public finances. At the same time, several groups are underrepresented in the formal labour market, including low-skilled youth, women, and older individuals.

StatLink  <https://stat.link/g3fuq5>

Youth inactivity is higher than in most OECD countries (Figure 2), reflecting also a stark urban-rural divide. Addressing this challenge calls for comprehensive improvements across the education system, from expanding access to quality early childhood and secondary education to strengthening vocational training and the transition to the workforce. Targeted financial support for vulnerable families and more effective active labour market policies will also be necessary.

Low female labour force participation reflects gender barriers to employment – including cultural norms – and unequal caregiving roles. Expanding formal childcare and gradually reducing generous parental leave could encourage mothers to return to work. Targeted active labour market policies and stronger workplace anti-discrimination measures can also help boost female labour force participation.

Older worker participation needs improvement, including through better health outcomes. Pension reform, combined with lifelong learning and flexible

work arrangements, would help support their labour market participation. Promoting healthier ageing is also key to support participation. Strengthening prevention, primary care, and early detection is essential to improving overall health outcomes. Promoting healthier lifestyles and strengthening incentives to reduce risky behaviours, such as through tighter regulation of the sale and marketing of unhealthy foods, tobacco, and alcohol, would help ease pressure on the healthcare system. Expanding general practitioners' preventive roles and care coordination, alongside improving access to quality healthcare for vulnerable populations, is key to more efficient service delivery.

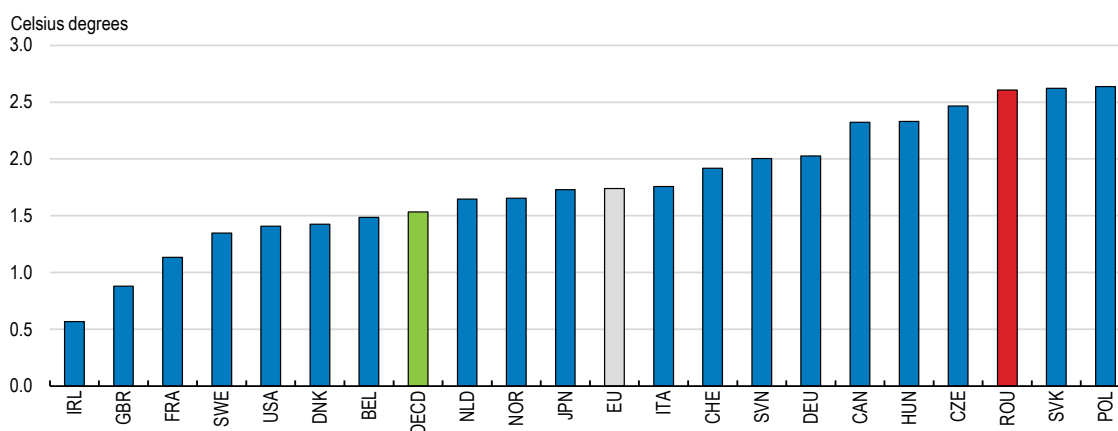
Managing rising third-country immigration more effectively calls for reforming the quota system and labour market tests. Stronger efforts are also needed to support the labour market integration of returning Romanian migrants, including through a dedicated integrated portal.

Strong exposure to climate change calls for enhancing resilience

Climate-change is exerting growing pressure on economic activity and social well-being. Accelerating adaptation measures – such as improved flood defence maintenance, expanded disaster insurance coverage, and enhanced water management – is essential to safeguard vulnerable populations and protect critical infrastructures.

Figure 3. Romania is strongly exposed to global warming and extreme weather events from climate change

Change in the annual mean surface air temperature over land in 2024 compared to the baseline period 1981-2010



Source: OECD-IEA Historical exposure to extreme temperature dataset.

Romania is highly exposed to global warming and extreme weather events, particularly heatwaves, droughts and river flooding (Figure 3). These pose significant human and economic risks: climate-related

economic costs amounted to 6% of GDP between 1980 and 2023. The scale of future damage will depend on the government's capacity to anticipate and respond to climate impacts. While Romania's National Strategy

StatLink  <https://stat.link/t693wb>

for Adaptation to Climate Change 2024-2030 provides a solid policy framework, substantial implementation gaps remain, calling for more decisive policy action in areas such as flood protection, water management and agricultural adaptation.

Romania has made progress in flood management in line with the EU Floods Directive, but many defence systems remain in poor condition. A national maintenance plan could help prioritise measures, clarify costs and implementation steps, and promote cost-effective, flexible nature-based solutions. Strengthening multilevel governance in land-use planning is essential to prevent construction in flood-prone areas, requiring stricter enforcement of regulations and clear bans on development in high-risk zones. For existing properties, mandatory disclosure of flood risk in transactions and stronger incentives for resilience upgrades are needed. Increasing the uptake of mandatory disaster risk insurance is also critical.

Romania is already facing localised water scarcity, a challenge likely to intensify with climate change.

Strengthening competitiveness to increase benefits from global integration and move up the value chain

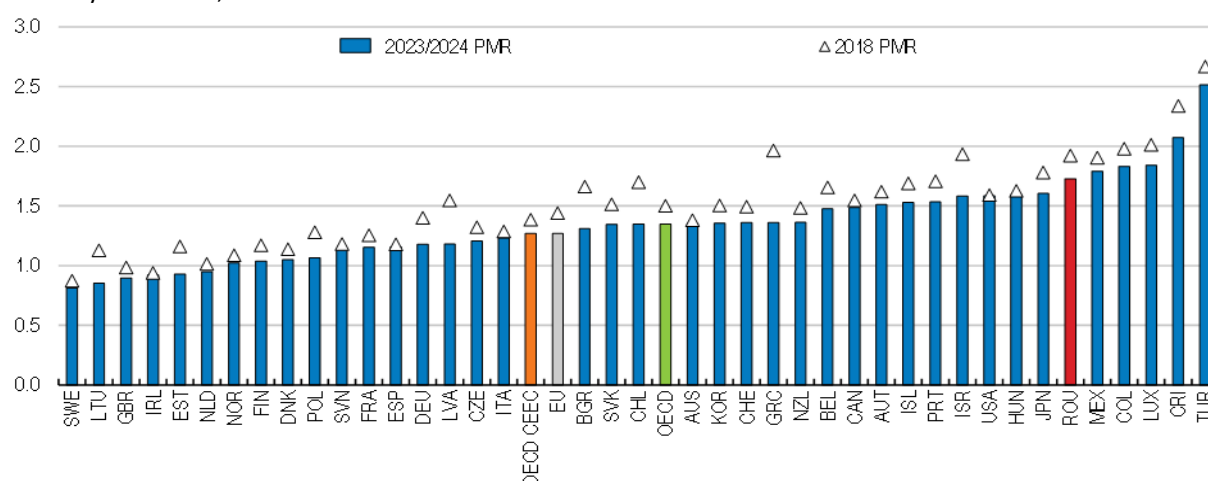
Romania has made significant strides in global market integration over recent decades. To sustain this momentum, it must tackle persistent structural challenges – particularly in innovation, digitalisation, education, and business dynamism – that continue to constrain productivity and limit its economic potential.

Water losses from aging infrastructure and inefficient irrigation are compounded by low wastewater treatment and limited water reuse. Romania should modernise water infrastructure, upgrade treatment systems, and promote water reuse, while addressing inefficiencies in water use. Climate-smart farming practices can ease pressure on the agricultural sector. In housing, better targeting incentives for climate-resilient renovations should be paired with a more effective governance framework for renovation programmes. Overall, delivering on these priorities will require sustained commitment, cross-sectoral coordination, and stable long-term financing.

Additional climate mitigation efforts in synergy with adaptation measures are needed to meet agreed emission reduction targets. Key priorities include strengthening carbon pricing, expanding low-carbon electricity generation while phasing out fossil fuels, greening transport through higher fuel and vehicle taxes, and improving energy efficiency in urban mobility and buildings.

Figure 4. Driving continued progress in the business environment

Economy-wide PMR, index scale 0-6 from least to most restrictive



Note: OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD-WG Product Market Regulation database

StatLink  <https://stat.link/nfy8gd>

Romania has deepened its integration into global markets, yielding substantial productivity gains, facilitating technology transfers, and expanding market access. Foreign direct investment has been a key driver of this process. Nonetheless, there remains significant potential to strengthen linkages with foreign investors and to enhance the domestic value-added content of trade by improving the economy's absorptive capacity. Persistently low levels of innovation and educational attainment, coupled with remaining infrastructure deficits, continue to constrain Romania's economic competitiveness.

While digital infrastructure is strong and continues to improve, the use of digital technologies and innovation capacity are held back by limited digital skills and insufficient managerial capabilities. Improving the efficiency and accessibility of existing R&D tax incentives, alongside the provision of user-friendly digital information and funding mechanisms, as well as continuous digital upskilling, could significantly strengthen firms' ability to benefit from digital transformation. Limited access to finance calls for further promoting training and mentorship programmes to strengthen SMEs' financial literacy and reporting practices.

The shift toward higher value-added activities will require equipping the workforce with advanced skills. Implementing the ongoing education reform is key to raise attainment, reduce dropout rates, and improve learning outcomes. This should be supported by the delivery of planned funding increases and improved strategic planning within government to better target resources and ensure effective monitoring of reform progress. Improving the quality and relevance of vocational education will require enhanced curricula, labour market-oriented

programmes, and clearer pathways to higher education. Efforts should also be made to render access to tertiary education more inclusive. Broader participation in adult learning would help promote lifelong skill development.

Romania has made significant progress in streamlining and digitalising business registration and remains highly open in network industries as well as in the trade and investment environment. Nonetheless, further efforts are needed to simplify and digitalise the business licensing framework to further lower the administrative burden on businesses (Figure 4). The high share of non-viable but still operating firms also highlights the need to improve the insolvency framework, particularly with respect to restructuring mechanisms and court procedures. Strengthening the efficiency and accessibility of public procurement also remains a key priority. Romania has made progress on ambitious integrity reforms, including recently strengthening its frameworks for lobbying and pre- and post-public employment. Effective implementation and monitoring will be key to sustain these reforms.

Romania has set out ambitious plans to close existing transport infrastructure gaps. High absorption of EU funds will be essential to boosting investment, alongside improved road maintenance. Stable revenue should be secured through the implementation of the planned toll system for heavy goods vehicles (TollRo) and the development of additional road use charges for passenger vehicles. Shifting more freight from road to rail, supported by rail network modernisation, would also be beneficial. In addition, infrastructure governance should be strengthened through streamlined administrative procedures and enhanced local capacity.

MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic developments & policy	
After the fiscal deficit widened to 9.3% of GDP in 2024, the government has adopted several important consolidation packages. However, with no measures specified after 2026, long-term fiscal sustainability is at risk.	Beyond the full implementation of recently adopted consolidation measures, continue spending restraint and broaden tax bases over the medium-term to achieve fiscal commitments.
Headline and core inflation remain well above the tolerance band of the 2.5% $\pm$ 1 percentage point target.	Resume policy rate cuts only once inflation is on a clear downward path toward the inflation target.
Government-backed corporate loans exhibit higher levels of impairment.	Gradually phase out broad-based public loan guarantee schemes.
The use of spending reviews in budgetary processes is still at an early stage.	Strengthen performance-based budgeting and spending reviews, and integrate them systematically into the budget process.
The public-sector wage bill represents a large share of spending and ad hoc pay increases undermine fiscal sustainability while weakening links between pay and performance.	Strengthen control of the public wage bill, notably by adopting a transparent and fiscally prudent formula for wage increases.
Low tax compliance and widespread informality limit revenue collection, with a high VAT compliance gap. Income under-reporting is common among lower income groups.	Strengthen tax collection by digitalising and modernising the tax administration, enhancing risk-based tax management tools, and building staff capacity to carry risk-based audits.
Property taxes, which are among the least detrimental to economic growth, are low compared with OECD countries.	Gradually increase revenue from recurrent taxes on immovable property by basing taxation on market value and raising tax rates.
Promoting higher workforce participation and healthier working lives	
Many unemployed are not registered with public employment services, raising risks of long-term labour market detachment. ALMPs are underfunded, with scarce and poorly targeted training.	Step up efforts to strengthen outreach by public employment services to inactive individuals while expanding access to high-quality, labour market-relevant training.
Low enrolment rates in childcare and early childhood education, particularly in rural areas, stems from gaps in service provision.	Expand affordable childcare and early childhood education, and as availability improves, gradually reduce duration of leave entitlements.
Mortality rates from preventable causes are high. Nearly half of all deaths in Romania are linked to behavioural risk factors, highlighting the insufficient focus on prevention.	Promote healthier behaviours by tightening regulations on the sale and marketing of unhealthy food, tobacco and alcohol and considering higher taxes on tobacco and alcohol.
Labour market integration of returnees is hindered by weak and scattered labour market integration services and complex procedures for recognising foreign qualifications and experience.	Create an online platform centralising integration services to support returnees' resettlement, job search, and recognition of foreign credentials.
Enhancing resilience to climate risks	
An increasing number of properties and infrastructure are exposed to climate-related risks. Land-use planning practices often fall short of systematically incorporating climate risk considerations.	Strengthen the enforcement of flood and other climate-risk related regulations in land-use planning, including the explicit prohibition of construction in high-risk zones.
Although disaster insurance is mandatory for households, coverage and enforcement are low.	Increase uptake of mandatory disaster insurance for households by raising awareness, clarifying obligations, and enforcing compliance.
Low wastewater treatment, limited water reuse policies, and high losses from ageing water systems are straining freshwater resources.	Improve wastewater treatment and ensure full compliance with EU regulations, fully leveraging EU and domestic funding.
Romania's housing stock faces significant climate risks and suffers from low resilience and energy efficiency, due to poor thermal insulation and inefficient heating and cooling.	Establish a more effective management framework for housing renovation programmes, including improved coordination across levels of governance, and fully leverage available EU funding.
Strengthening Romania's competitiveness	
Weak business R&D constrains local SMEs from innovating and creating value.	Enhance access to information on public R&D tax incentives and grants, and consider making R&D tax credits refundable for SMEs.
Bank-based financial intermediation and capital markets remain underdeveloped, while alternative non-bank financial instruments are limited, constraining both access to and demand for financing.	Strengthen SMEs' financial literacy and financial reporting through targeted training and mentorship programmes.
Dropout rates in vocational education (VET) are very high.	Strengthen systematic collaboration with industry bodies in the design and delivery of dual VET programs.
The system offers limited pathways into other education tracks.	Improve pathways from VET to higher education.
Despite progress, business licencing remains cumbersome, with timelines that are unclear and lengthy.	Establish clear procedures and timelines for business licensing and enhance transparency and online access to all licensing requirements.
Public procurement has a solid legal basis but is impeded by limited access, lack of standardisation, and frequent legal changes.	Improve predictability, clarity, and standardisation in procurement.
Significant gaps in transport infrastructure persist. Poor project planning and execution lead to delays and cost overruns.	Streamline administrative procedures and local capacity to plan and implement infrastructure projects.
Romania has made progress on ambitious integrity reforms, including recently strengthening its frameworks for lobbying and pre- and post-public employment. Effective implementation of integrity measures remains a challenge.	Strengthen capacity of institutions and officials with integrity roles to support effective implementation, including of the newly reformed lobbying and pre- and post-public employment frameworks.



ROMÂNIA
Ministerul Finanțelor



1 Macroeconomic developments and policy challenges

Katja Schmidt

Gilles Thirion

Romania's economy has demonstrated resilience through multiple crises, but growth has slowed recently due to weaker external conditions and the dampening effect of fiscal consolidation on domestic demand. Inflation remains elevated and well above the tolerance band of the inflation target, further driven since mid-2025 by the removal of electricity price caps and significant increases in taxes and excise duties in the context of fiscal consolidation. Monetary policy should maintain current interest rates until inflation shows a clear downward trend toward the target. While financial stability appears broadly sound, stricter regulation should be put in place for vulnerable segments, such as corporate foreign currency lending and government-backed credit schemes. Fiscal policy has initiated an overdue and ambitious consolidation plan, which must be fully implemented and pursued beyond 2026 to stabilise the public debt ratio. Improving the efficiency of public spending will be necessary, but revenues should also be strengthened, particularly by addressing the large VAT gap.

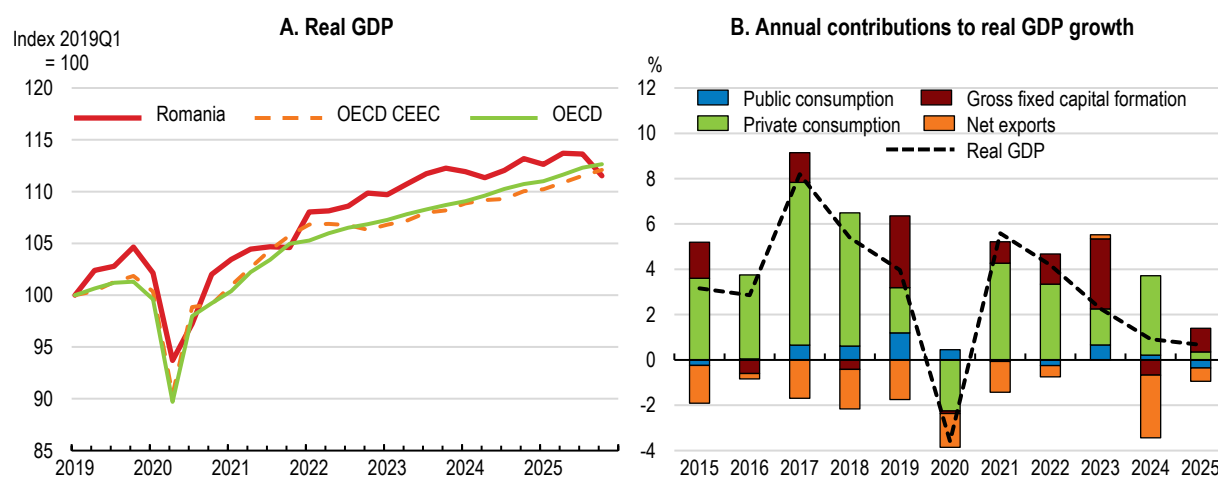
1.1. Economic activity has moderated

1.1.1. Romania's economy slowed amid weaker external demand and high domestic policy uncertainty

Romania has experienced one of the fastest GDP growth rates in comparison with OECD Members over the past two decades, resulting in strong income convergence in GDP per capita (PPP), from 43% of the OECD average in 2004 to 71% in 2024. Productivity gains, supported by significant investment and efficiency improvements, have led to a significant catch-up in productivity levels (see Chapter 4). Romania's economy has also weathered well successive economic shocks during recent years, such as the pandemic, Russia's war of aggression against Ukraine, and the subsequent energy crisis.

However, GDP growth has declined recently from 2.3% in 2023 to 0.9% in 2024 and an estimated 0.7% in 2025 (Figure 1.1, Panel A&B). Private consumption, traditionally Romania's main growth driver, has started to weaken in the course of 2025 (Figure 1.1, Panel B), reflecting lower real income growth due to decelerating wage growth, freezes of public sector wages and pensions in 2025, and additional price pressures following the removal of caps on electricity prices in July, as well as increases in VAT and excise duties in August.

Figure 1.1. GDP growth has slowed



Note: In panel A, OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic and Slovenia.

Source: OECD Economic Outlook database.

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Investment has accelerated in 2025, supported by strong public investment and inflows of EU funding. This follows weaker performance in 2024, when subdued external prospects constrained private investment amid elevated policy and economic uncertainty, multiple elections, and global trade tensions. Export performance has been subdued in recent years due to weak external demand from Romania's main trading partners. The direct impact of higher US tariffs is limited due to low direct US trade exposure (about 2.5% of total goods exports), but Romania is indirectly affected through its integration into European supply chains, particularly as a supplier of intermediate inputs (see Chapter 4).

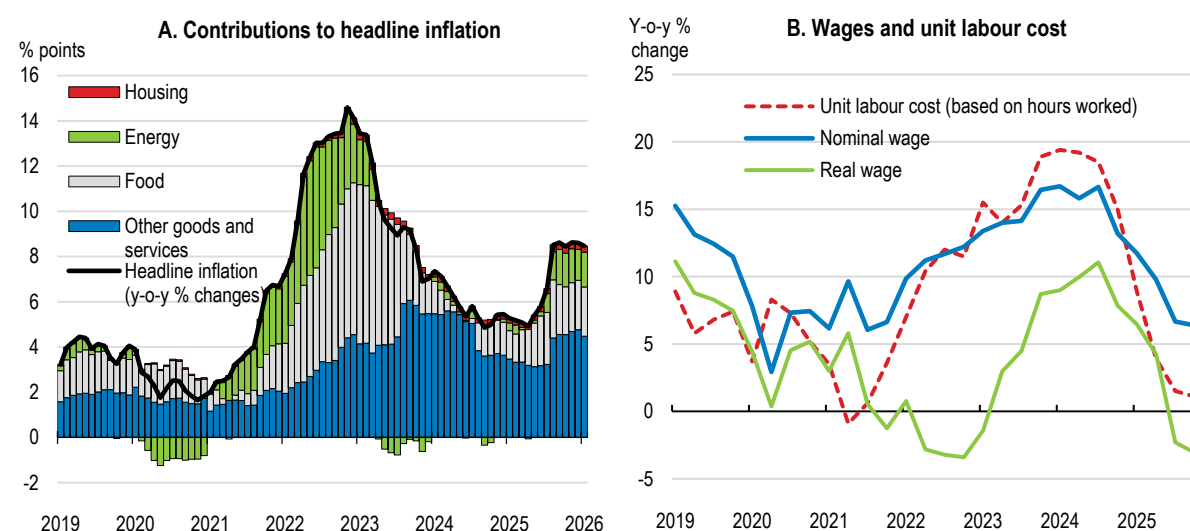
1.1.2. Domestic factors contribute to higher inflation

As a catching-up country, inflation has been relatively high in Romania compared to more advanced economies over the last two decades. After the strong price variations related to the pandemic and the energy crisis – inflation peaked at 14.6% in November 2022 before broadly stabilising around 5-5.5% between mid-2024 and mid-2025 – inflationary pressures have intensified again recently. Headline inflation stood at 8.5% in January 2026 (Figure 1.2, Panel A), well above the tolerance band of the inflation target (2.5% $\pm$ 1 percentage

point). More recently, these factors were compounded by the phase-out of price controls on electricity introduced during the energy crisis (July 2025) and increases in consumption taxes (August 2025). While temporarily contributing to higher inflation, the removal of electricity price controls is a welcome step.

The persistence of high inflation following the stabilisation of energy prices reflects the impact of strong domestic cost pressures, as rapidly rising unit labour costs have fuelled core inflation (non-food and non-energy goods and services) over the past few years (Figure 1.2, Panel A). External factors, particularly higher commodity food prices have also contributed, though to a lesser extent. Rapid wage increases also raised pressures on cost-competitiveness, although unit labour cost growth has slowed markedly since the second half of 2024 (Figure 1.2, Panel B).

Figure 1.2. Inflation remains elevated, wage growth has started to moderate from high rates



Note: Headline inflation is measured by Eurostat's harmonised consumer price index (HICP).

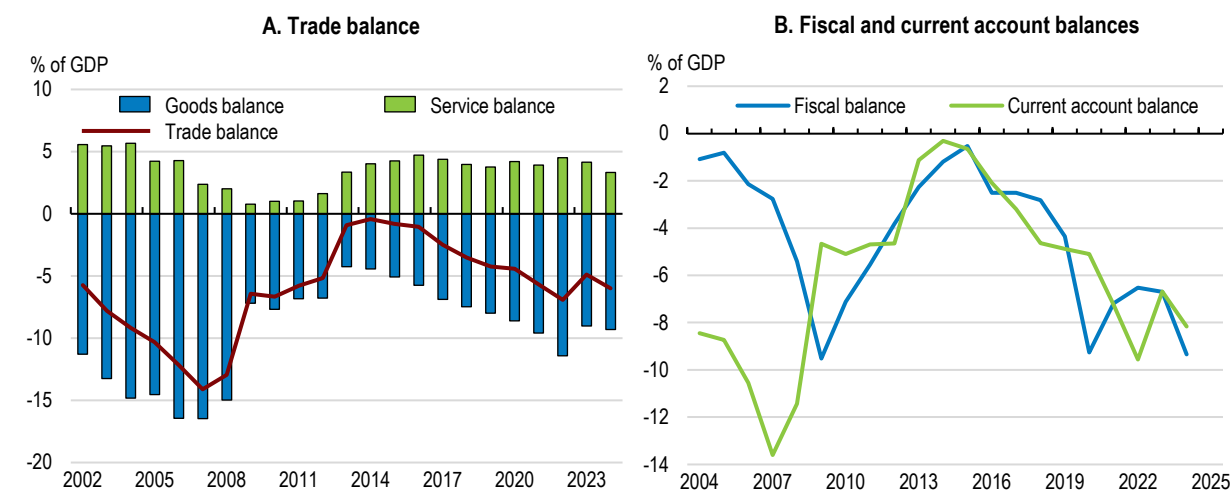
Source: OECD calculations based on Eurostat data and National Institute of Statistics data.

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Real wages have continuously risen at faster rates than labour productivity over the past years (Figure 1.4, Panel B). While hourly labour costs remain the second lowest in the region, they also grew much faster than in most regional peers in 2024 (Figure 1.4, Panel A). Public-sector wages rose by 18.5% in 2024, and the statutory minimum wage increased by more than 30% between 2023 and 2024. Over time, sustained gaps between productivity and real wage growth undermine cost-competitiveness, notably in the labour-intensive tradable sub-sectors (see Chapter 4). Romania adopted, as recommended in the previous *Survey* and in line with the *EU Minimum Wage Directive*, a reform aimed at making minimum wage increases more predictable and based on objective criteria by linking them to productivity gains and inflation (OECD, 2024^[1]).

1.1.3. Romania has a persistent current account deficit

Romania has maintained a persistent trade deficit over the last decades, which has gradually widened since the mid-2010s, reaching -6.0% of GDP in 2024 (Figure 1.3, Panel A). This deterioration mainly reflects the goods trade balance, while the surplus in services has remained broadly stable. While catching-up economies usually run a trade deficit, this has also reflected a gradual erosion in cost competitiveness, weighing on goods exports. At the same time, strong domestic demand – driven by probably unsustainable wage growth (rapid income growth was not matched by corresponding productivity gains) and expansionary fiscal policy – has contributed to the deterioration of the trade balance. In Romania, the fiscal and current account balances tend to move closely in tandem (“twin deficit”) (Figure 1.3, Panel B).

Figure 1.3. The trade balance has deteriorated since the mid-2010s

Note: Panel A: Balance of payment (BoP) basis.

Source: OECD Economic Outlook database.

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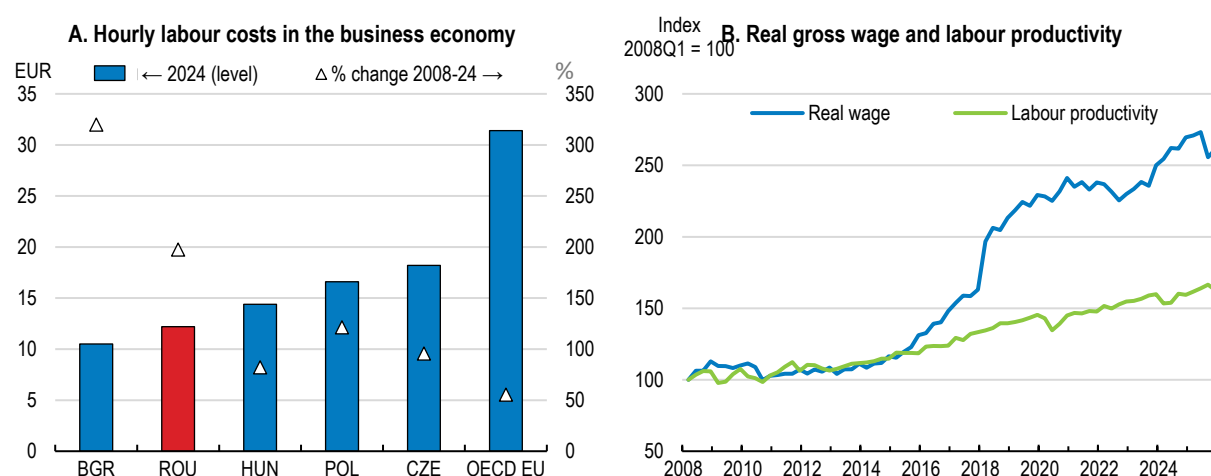
1.1.4. The labour market is softening alongside structural challenges

Boosting Romania's workforce is a key priority since a large share of the population remains detached from the formal labour market while, at the same time, the workforce is projected to decline significantly in the next decades (see Chapter 2). Despite having increased, the employment rate remains below the OECD average, reflecting large regional disparities and low levels of employment for certain groups, such as young people, the low-skilled, women, and Roma people. If immigration of low-skilled workers has recently helped offset workforce losses (net international migration turned positive in 2022-2023), emigration remains high, often involving better-educated workers than those entering (National Bank of Romania, 2025^[2]).

More recently, the effects of the economic slowdown on the labour market became visible in the second half of 2024, with a gradual rise in unemployment, slower wage growth (Figure 1.2, Panel B), and weaker employment prospects. The slowdown of wages reflects the freezing of public sector wages and the absence of new minimum wage adjustments following increases in July 2024 and January 2025. As of July 2026, the minimum wage is set to increase again, by 6.8%. Additionally, the government capped extra-wage benefits and bonuses for civil servants as part of its fiscal consolidation efforts. The elimination as of January 2025 of sectoral tax exemptions in agriculture, food processing, construction and IT further contributed to slowing net wage growth.

Low employment rates also reflect Romania's still large informal economy. The share of undeclared work is well above the OECD average and above other OECD CEE countries (Franic, Horodnic and Williams, 2023^[3]; OECD, 2022^[4]). As with low formal employment rates, informality is concentrated in rural areas, where subsistence farming and family work remain common. A substantial portion of employment also occurs in unregistered firms, without formal labour contracts, or is only partially declared. This often involves "envelope wages", where earnings above the minimum wage are paid off the books and not officially reported (Robayo, Balaban and Wronski, 2024^[5]). Informal jobs are often associated with low pay, poor working conditions, and limited access to career development and training opportunities (OECD, 2022^[4]). Workers in undeclared employment are largely excluded from social protection systems, including health insurance and pensions, which contributes to poor health outcomes and increases the risk of old-age poverty.

Figure 1.4. Labour costs have risen at a faster pace than productivity



Source: Eurostat; National Institute of Statistics; OECD Economic Outlook database; and OECD calculations.

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1.1.5. Growth is set to remain moderate amid fiscal consolidation

GDP growth is projected to remain below potential in the near term, constrained by fiscal consolidation, with growth of 1% in 2026 (Table 1.1). Public investment, supported by EU-funded projects, will help sustain activity while private consumption will remain weak until mid-2026 due to decelerated wage growth, higher unemployment, and tighter fiscal policy. Planned freezes of public wages and pensions until end-2026, together with the temporary impact of higher VAT and excises, will constrain real incomes. Demand from trading partners is set to recover gradually as activity in the EU strengthens. GDP growth is expected to pick up afterwards, reaching 2.2% in 2027, supported by rising consumption (owing to wage growth) while private investment is also expected to strengthen as financing conditions improve. Headline inflation is projected to remain elevated until mid-2026, returning within the NBR's tolerance band ($2.5\% \pm 1$ percentage point) by the first quarter of 2027, reflecting negative base effects.

Romania's outlook is subject to significant downside risks (Table 1.2). Delays in the absorption of EU funds would dampen investment, constrain short- and medium-term growth, while increasing reliance on domestic sources of funding. Fiscal consolidation could weigh stronger on growth than currently expected. Political uncertainty and delays in implementing additional fiscal consolidation measures beyond 2026 could weaken fiscal discipline, negatively affecting sovereign borrowing capacity and public debt sustainability. Subdued growth among EU trading partners, intensification of global trade and geopolitical tensions could slow the recovery in export-oriented industries and reduce foreign capital inflows. Risks to inflation remain, including renewed rising energy and food prices. Sharp and prolonged drought could significantly reduce crop yields in Romania and across the region, disrupting domestic agricultural output and tightening food supply. This would lead to substantial food price increases, disproportionately affecting rural areas that depend on local agricultural production and vulnerable households that spend a large share of their income on food. On the upside, continued commitment to medium term fiscal adjustment, along with strong absorption of EU funds and the implementation of structural reforms under the Recovery and Resilience Plan (RRP) could strengthen investor confidence and support growth prospects. Increased EU defence spending, including through the European Defence Fund could boost activity further.

Table 1.1. Macroeconomic indicators and projections

	2022	2023	2024	2025	2026	2027
	Current prices (RON billion)	Percentage change, volume (2020 prices)				
Gross domestic product (GDP)	1385	2.3	0.9	0.7	1.0	2.2
Private consumption	875	2.5	5.7	0.6	0.6	1.2
Government consumption	231	4.0	1.2	-1.9	0.4	0.9
Gross fixed capital formation	348	12.3	-2.5	4.1	4.7	3.7
Housing	45	0.9	-2.5	1.1	1.1	2.3
Final domestic demand	1454	5.1	3.1	0.9	1.6	1.8
Stockbuilding ^{1,2}	27	-3.3	0.5	0.2	-1.2	0.0
Total domestic demand	1480	2.1	3.4	1.2	0.5	1.8
Exports of goods and services	602	-1.3	-2.5	3.9	1.1	2.5
Imports of goods and services	698	-1.5	4.0	4.8	-0.3	1.4
Net exports ¹		0.2	-2.8	-0.6	0.5	0.3
Other indicators (growth rates, unless specified)						
Employment	..	-1.4	2.1	-1.7	0.8	0.7
Unemployment rate (% of labour force)	..	5.6	5.4	6.1	6.1	5.7
GDP deflator	..	12.4	9.6	7.9	6.9	3.2
Consumer price index	..	10.4	5.6	7.3	6.6	3.0
Core consumer price index	..	12.4	6.2	6.6	6.0	2.9
Terms of trade	..	2.9	2.7	2.4	1.3	0.1
Household saving ratio, net (% of disposable income)	..	-0.2	5.4	2.2	-1.1	0.4
Trade balance (% of GDP)	..	-4.9	-6.0	-5.3	-4.1	-3.6
Current account balance (% of GDP)	..	-6.7	-8.2	-7.5	-6.7	-6.1
General government fiscal balance (% of GDP)	..	-6.7	-9.3	-8.3	-6.3	-6.3
Cyclically adjusted fiscal balance (% of potential GDP)	..	-7.7	-9.5	-7.6	-5.0	-5.0
General government gross debt (Maastricht, % of GDP)	..	49.3	54.8	59.2	61.5	64.9
General government gross debt (national accounts, % of GDP)	..	58.8	63.5	67.9	70.2	73.6
Policy interest rate, average	..	7.0	6.8	6.5	6.3	4.6
Ten-year government bond yield, average	..	6.7	6.3	6.9	6.2	4.6

1. Contributions to changes in real GDP, actual amount in the first column.

2. Including statistical discrepancy.

Source: OECD Economic Outlook database and OECD calculations.

Table 1.2. Events that could lead to major changes in the outlook

Vulnerability	Possible outcome
Aggravation of geopolitical tensions	Heightened global uncertainty and renewed supply chain disruptions could lead firms to postpone investment, weaken external demand, and fuel inflation.
Prolonged and severe drought	Lower crop yields could disrupt agriculture output and result in large increases in food prices.

1.2. While the financial system has proven resilient, monetary policy should address persistently high inflation

1.2.1. Fiscal policy complicates the conduct of monetary policy

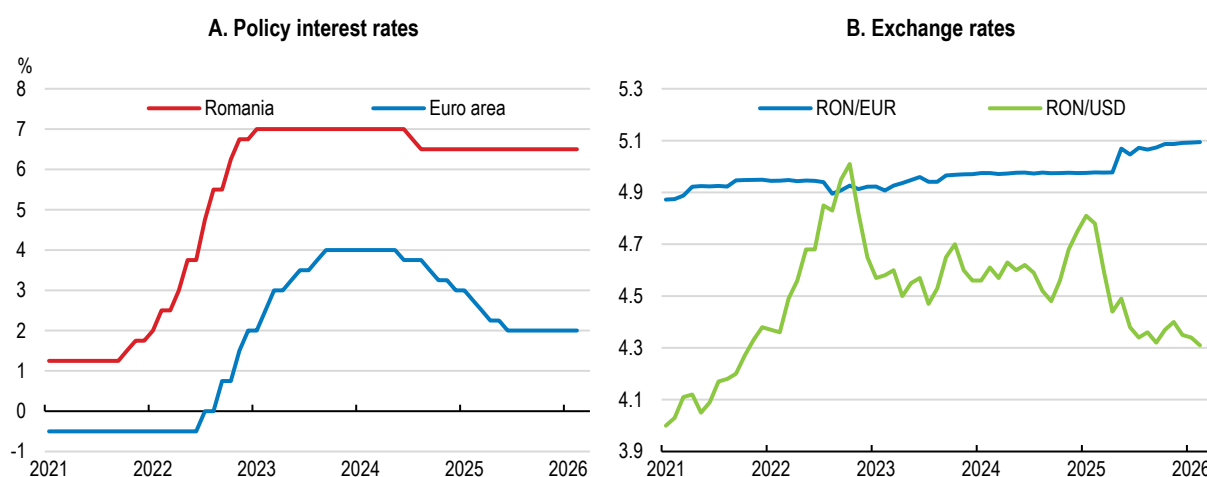
The National Bank of Romania (NBR) has maintained its key policy rate at 6.50% since August 2024 (Figure 1.5, Panel A), striking a cautious balance between persistently high inflation and an economic slowdown. Headline and core inflation remain well above the tolerance band of 2.5% $\pm$ 1 percentage point, also due to the temporary effects of the removal of the electricity price cap and higher VAT and excise duties. These fiscal measures are expected to contribute approximately 4.0 percentage points to headline and 1.4 percentage points to core inflation between mid-2025 and mid-2026 (National Bank of Romania, 2025^[2]). Rate cuts should

be deferred until underlying inflation, net of one-off effects related to fiscal measures, shows a clear downward trend toward the inflation target.

Monetary policy has faced challenges in achieving disinflation over recent years due to the expansionary fiscal stance. In 2023 and 2024, strongly expansionary fiscal policy – particularly substantial public sector wage and pension increases – exerted significant upward pressure on domestic inflation. These measures amplified external inflationary shocks and triggered second-round effects. As a result, the accommodative fiscal stance partially offset the restrictive monetary policy pursued by the NBR. Fiscal policy is now pursuing a more restrictive stance, which is expected to support disinflation, although temporary upside price effects persist due to tax and excise increases. Looking ahead, achieving a more balanced macroeconomic policy mix will be essential to safeguard price stability and support more sustainable growth.

In addition to its monetary policy responsibilities, the NBR is also tasked with formulating and implementing Romania's exchange rate policy, which is characterised officially by a "managed float" (European Commission, 2024^[6]). The NBR intervenes in the foreign exchange (FX) market to maintain the national currency (lei/RON) within a relatively narrow band against the euro. Although the NBR does not disclose information regarding the scale or rationale of its FX interventions, it is widely understood that exchange rate stability plays a significant role in the Bank's monetary policy strategy. While the RON/EUR exchange rate has remained relatively stable between early 2021 and mid-2025, a depreciation has been observed since then, with the lei crossing the threshold of 5 lei per euro for the first time in May 2025 (Figure 1.5, Panel B). The depreciation coincided with heightened political uncertainty following Romania's presidential elections in May 2025.

Figure 1.5. Monetary policy has been on hold since mid-2024



Note: In Panel B, the average monthly exchange rate (RON/EUR and RON/USD) is calculated as a simple arithmetic mean of daily exchange rates on the forex market.

Source: OECD Economic Outlook database; and National Bank of Romania.

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Romania's FX reserves held by the NBR remain near record highs, reaching EUR 65 billion in December 2025, well above the 2009-2024 average of EUR 35 billion. This shows the NBR's strong buffer position and its capacity to manage exchange rate pressures and intervene in the FX market when needed. However, FX interventions come with associated costs (Adler and Mano, 2021^[7]). The NBR also handles all foreign exchange inflows on behalf of the Ministry of Finance in the context of EU funds. Limited statistical data on the composition of FX flows makes it challenging to disentangle the various drivers behind changes in reserves (IMF, 2023^[8]). To strengthen the economy's overall shock-absorption capacity and reduce costs associated with FX operations, Romania should consider allowing for some greater flexibility of the lei against the euro within its managed float regime, focusing interventions on episodes of excessive volatility.

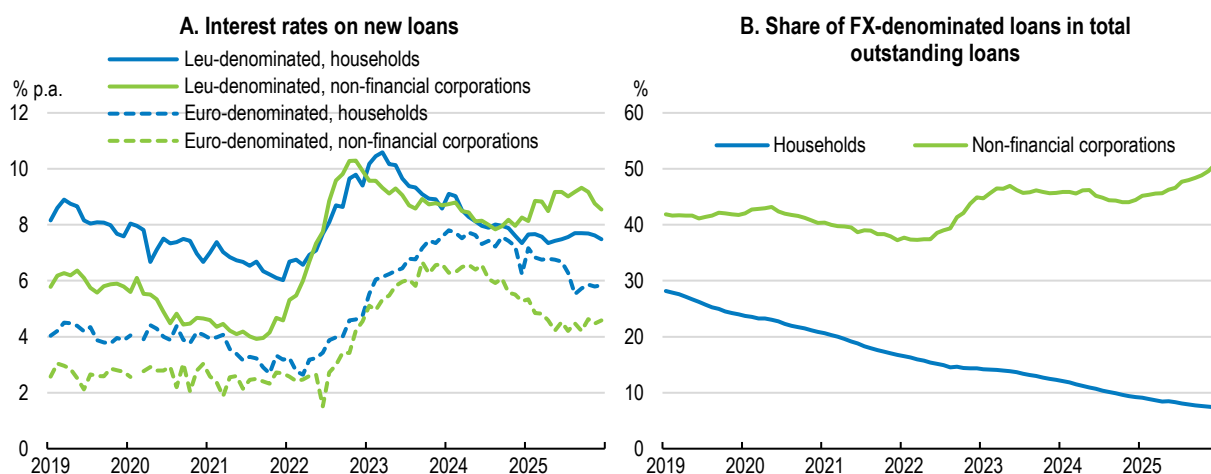
Romania's monetary policy transmission operates through the standard channels – interest rate, credit, asset prices, exchange rate, and expectations – but its overall effectiveness remains somewhat constrained by structural characteristics of the financial system. Low levels of financial intermediation (see Chapter 4), combined with significant euroisation, limit the pass-through of domestic interest rates to credit and deposit making. Limited data and information on long-term inflation expectations may undermine the effectiveness of the expectations channel in monetary policy transmission. Addressing these structural issues would strengthen the overall transmission channels of monetary policy.

Romania is legally required to adopt the euro once all convergence criteria are met (Article 140 TFEU), and successive Romanian governments have reiterated support for euro accession. However, elevated inflation and fiscal deficits reduce the likelihood of entering ERM II – a prerequisite for euro adoption – over the next couple of years, which could allow for greater exchange rate flexibility to increase the shock absorption capacity of the economy and a reduction of euro borrowing to reduce financial stability risks.

1.2.2. Private sector borrowing has picked up, but levels of indebtedness remain low

Lending rates to the private sector have eased from their peaks, with euro-denominated loan rates declining more rapidly than those of leu-denominated loans, reflecting divergent monetary policy trajectories since mid-2024. Rates for leu-denominated corporate loans have even edged upward again since mid-2024 (Figure 1.6., Panel A). Private credit growth has gained some momentum following the slowdown in 2022-2023, with robust year-on-year growth rates of 8% for household loans and more subdued growth of 4% for loans to non-financial corporations (NFCs) as of December 2025. Within the household segment, consumer credit is particularly dynamic (11%). However, private sector indebtedness remains low by OECD and EU standards – around 40% of GDP overall, and 23% of GDP for bank lending – reflecting high homeownership and low mortgage lending for households and limited reliance on debt financing for corporates (Figure 1.7; see also Chapter 4).

Figure 1.6. Lending rates have declined more significantly for euro-denominated loans and borrowing in euro remains elevated among corporates



Source: National Bank of Romania.

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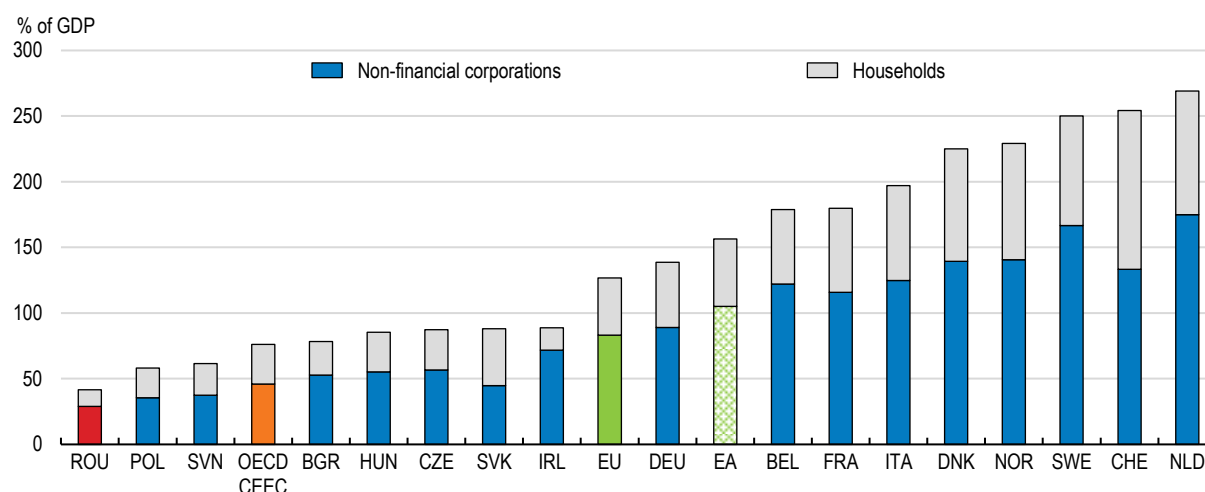
FX-borrowing (predominantly in euro) remains widespread in Romania, accounting for close to 50% of outstanding corporate loans and around 7% of household loans in December 2025 (Figure 1.6, Panel B). However, new household borrowing in euros is limited, accounting for less than 1% of total new loans. As in other countries in the region, corporate FX borrowing has increased after the pandemic, driven by widening interest rate differentials with the euro area. Still, it has remained well below the post-GFC peak of 62% and

has broadly plateaued since 2023 and the last *Survey* (OECD, 2024^[1]). While export-oriented Romanian enterprises typically conduct their business in euro, thereby mitigating debt-servicing risks in the event of local currency depreciation, domestically focused firms operating in leu face higher FX risk exposure. According to data published for 2023, net exporting firms received one-third of FX credit in 2023, while nearly half of the new FX loans went to net importers (National Bank of Romania, 2024^[9]). This vulnerability is compounded by the limited use of currency hedging instruments, particularly by smaller firms. While financial stability risks for banks are partially mitigated by the high share of FX corporate deposits, which reduces loan-to-deposit mismatches in banks' FX exposure, FX exposure risks for individual lenders persist.

Regulators and banks in Romania regularly monitor and highlight the risks associated with FX borrowing (National Bank of Romania, 2025^[10]). Close monitoring should be maintained. Borrower-based macroprudential measures, including loan-to-value (LTV) and debt-service-to-income ceilings (DSTI) for household loans, are also more stringent for FX-denominated loans than for those in local currency. These measures have been effective in reducing household FX borrowing, which has fallen significantly (Figure 1.6, Panel B). Tight regulation should continue to be applied to household FX borrowing. To further mitigate risks in the corporate sector, regulators should strengthen measures on corporate FX loans such as enhanced supervisory guidance to banks (e.g. mandatory hedging if loans are not naturally hedged against currency risks), more detailed communication on FX exposures (e.g. publishing the shares of hedged vs. unhedged FX loans by bank and NFC business activity), and incentives to promote the development and use of accessible FX hedging instruments. For instance, in Poland, banks have introduced streamlined FX forward contracts and automated hedging platforms tailored to SMEs, making these tools more accessible for smaller firms.

Figure 1.7. Debt levels of households and corporates are very low

Non-consolidated private sector gross debt (securities other than shares, loans) for non-financial corporations and households, 2024



Note: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: Eurostat.

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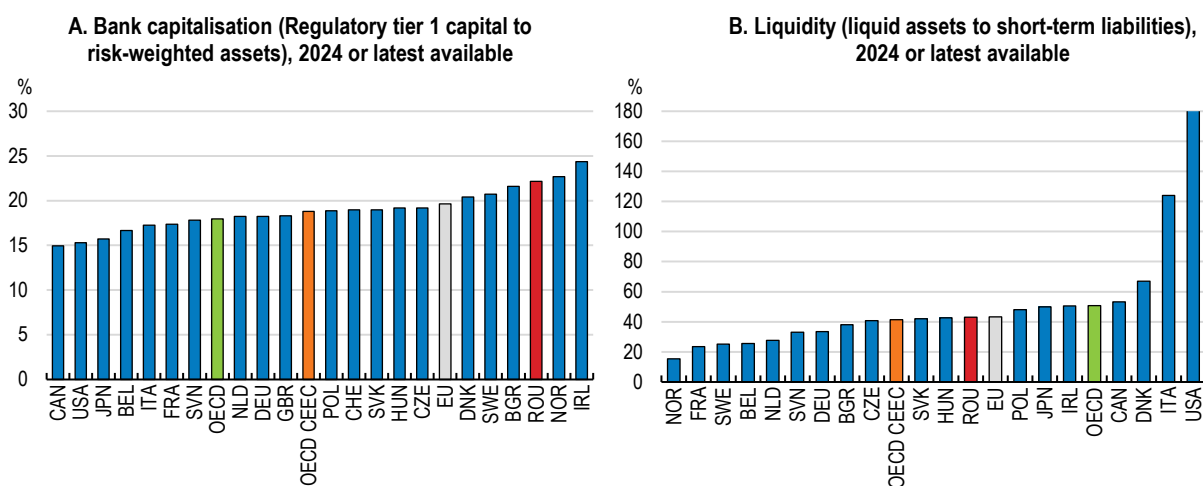
The ratio of non-performing loan (NPL) remains low by historical standards and near the EU average (2.2% for EU countries participating in the Single Supervisory Mechanism). However, credit quality has slightly deteriorated over the last year, with the overall NPL ratio rising modestly to 2.9% at the end of Q3 2025, compared to 2.5% a year earlier, with a higher NPL ratio for corporates. Credit risks are more pronounced for certain categories of corporate loans, particularly those extended to SMEs in domestic currency. While this does not pose an immediate risk for banks, it warrants continued monitoring in case the situation deteriorates further. Since the pandemic, government-backed loan guarantee schemes have been significantly expanded (with *IMM Invest*, Romania's emergency government-backed loan programme during the Covid19-crisis, later expanded and rebranded as *IMM Plus*). Currently, about 18% of the outstanding loan stock to corporates is

supported by government-backed guarantees (National Bank of Romania, 2025^[11]). These portfolios also exhibit lower credit quality: their NPL ratio reached 9.0% in September 2025, and they account for about 21% of all non-performing loans (National Bank of Romania, 2025^[10]). The Romanian government should continue phasing-out broad-based public loan guarantee schemes. Any government backed support programme should be narrowly targeted (for example, on young and highly innovative firms, to correct market failures) and based on transparent eligibility criteria and rigorous financial standards. The National Committee for Macprudential Oversight (NCMO) issued recommendations on this matter in October 2025, which should be fully implemented (NCMO, 2025^[12]).

1.2.3. The financial sector appears sound, but pockets of vulnerabilities exist

The Romanian banking system appears sound. Capital buffers and liquidity ratios are high and significantly exceed regulatory requirements (Figure 1.8), and asset quality (NPL coverage by provisions, NPL ratio) is good. Bank profitability has slightly declined since its mid-2023 peak but remains high by historical standards, standing at 1.7% for returns on assets (ROA) at the end of Q3 2025. However, the system continues to be shallow relative to the size of the Romanian economy, with banking sector assets amounting to just 50% of GDP – the lowest ratio among EU countries. Nonetheless, banking remains the predominant segment of Romania’s financial sector, accounting for around 74% of total financial assets. Foreign-owned institutions continue to play a major role, holding around two-thirds of total banking assets and representing four of the top five largest banks by asset size.

Figure 1.8. Bank’s balance sheets appear sound



Note: OECD, OECD CEEC and EU are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: IMF Financial Soundness Indicators database.

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Macprudential regulation in Romania is well-established and benefits from longstanding expertise, contributing to overall financial stability (Eller et al., 2021^[13]). Capital-based macroprudential measures in Romania’s banking sector include a countercyclical capital buffer (CCyB), maintained at 1% since October 2023; a capital buffer for other systemically important institutions (O-SII), applied at the consolidated bank level and currently ranging from 1% to 2.5%; a systemic risk buffer (SyRB), ranging from 0% to 2% according to the banks’ portfolio quality; and a capital conservation buffer (CCoB), set at 2.5% in line with European regulatory requirements (NCMO, 2024^[14]). Borrower-based measures such as LTV and DSTI caps are applied, with distinctions made between leu and FX loans (see above).

A vulnerability of the Romanian banking system lies in its relatively strong sovereign-bank nexus, reflected in banks’ substantial exposure to government loans and holdings of government securities. Direct exposure through government lending and sovereign securities holdings amount to 27% of total banking sector assets

at the end of Q1 2025, with sovereign securities representing the majority (22%), which is high in international comparison (National Bank of Romania, 2025^[11]). The risks are not evenly distributed across the sector, with domestically owned banks generally exhibiting higher exposure. However, the lack of readily available data on individual banks' sovereign exposures makes institution-level analysis challenging. While such exposures may support short-term bank profitability, they heighten the sector's vulnerability to sovereign risk (National Bank of Romania, 2025^[11]). Some policies proposed to reduce banks' sovereign bond holdings – such as applying positive risk weights or introducing exposure limits – could help address concentration risks but may entail some important risks in the shorter term (e.g. financial volatility) (see for a recent discussion Estrada et al. (2025^[15])), which would require careful consideration before implementing such measures. Under current EU regulation, sovereign exposures to EU Member States continue to receive a zero-risk weight. This highlights the critical importance of pursuing fiscal consolidation to limit borrowing needs.

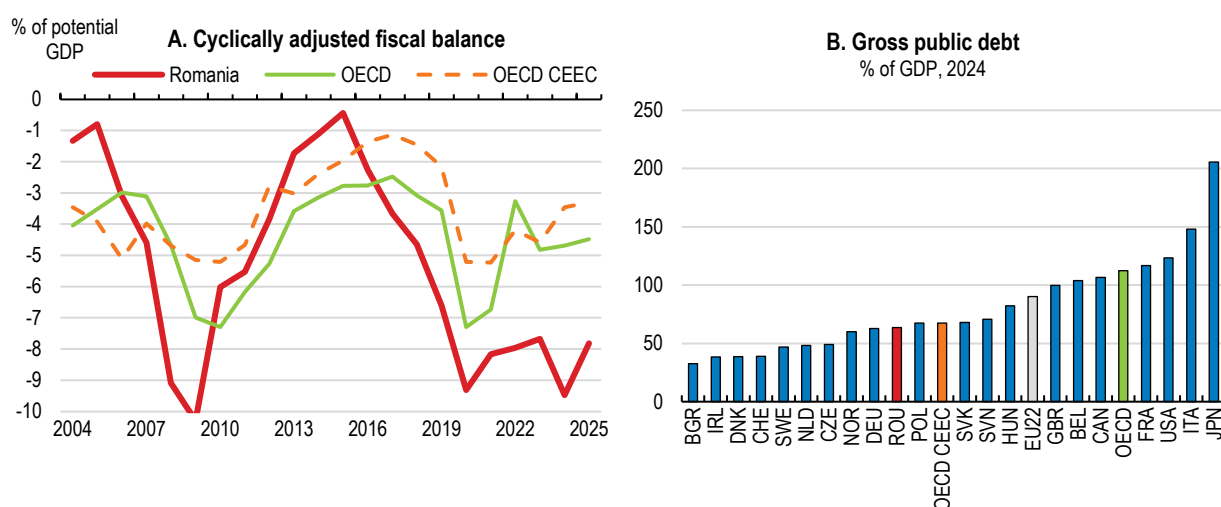
In 2023, the Romanian government introduced an extraordinary tax on the banking sector, effective from 2024, applying a 2% levy on the turnover of credit institutions operating in Romania. This rate was increased to 4% as of July 2025, in line with the new fiscal consolidation package (institutions with a market share below 0.2% continue to benefit from a reduced rate of 2%). This levy is expected to remain in force until the end of 2026. The government justified the tax as part of its broader fiscal consolidation strategy, targeting sectors with high profitability, such as banking.

Although several EU countries, such as Czechia, Spain, and Italy, have introduced extraordinary bank levies in recent years, Romania's approach stands out due to its reliance on turnover rather than profitability. This design disproportionately penalises high-volume (transaction) institutions and may discourage lending activity, which is undesirable in a country where financial intermediation is low. As highlighted in the last *Survey*, the banking levy and its discretionary adjustments cannot be a substitute for a corporate tax reform, which should remain a policy priority (see below). The bank levy should be phased out by end-2026 as planned. In any case, the design of such a tax should be based on profitability rather than turnover.

1.3. Sustained efforts are needed to preserve fiscal sustainability

Romania is facing major fiscal challenges. Despite having been under the EU's Excessive Deficit Procedure (EDP) since 2020, government budget deficits have remained persistently high, significantly exceeding the 3% Maastricht deficit criterion (Figure 1.3, Panel B). In 2024, the public deficit rose to 9.3% of GDP from 6.7% in 2023. This reflected large increases in public sector wages, higher pension spending following the September 2024 recalculation of pension rights and domestically financed capital spending. After some fiscal consolidation measures adopted in January 2025 by the previous government, the new government strengthened consolidation for 2025-2026 during summer 2025 (see Box 1.2 for further details).

Despite the recent consolidation efforts, the public debt ratio is currently on an unsustainable trajectory, as shown in the debt sustainability analysis (Figure 1.10). The public debt ratio remains relatively low by OECD standards, but it has risen rapidly in recent years, from 45% of GDP before the pandemic to 63% by the end of 2024 (Figure 1.9, Panel B). Rapid increases in the debt stock combined with deteriorating financing conditions prompted a surge in interest payments, which almost doubled from 2020 to 2024. Planned fiscal consolidation measures for 2025-2026 are positive steps but remain insufficient to stabilise public debt over the medium and long term.

Figure 1.9. The budget deficit has deteriorated and debt has increased

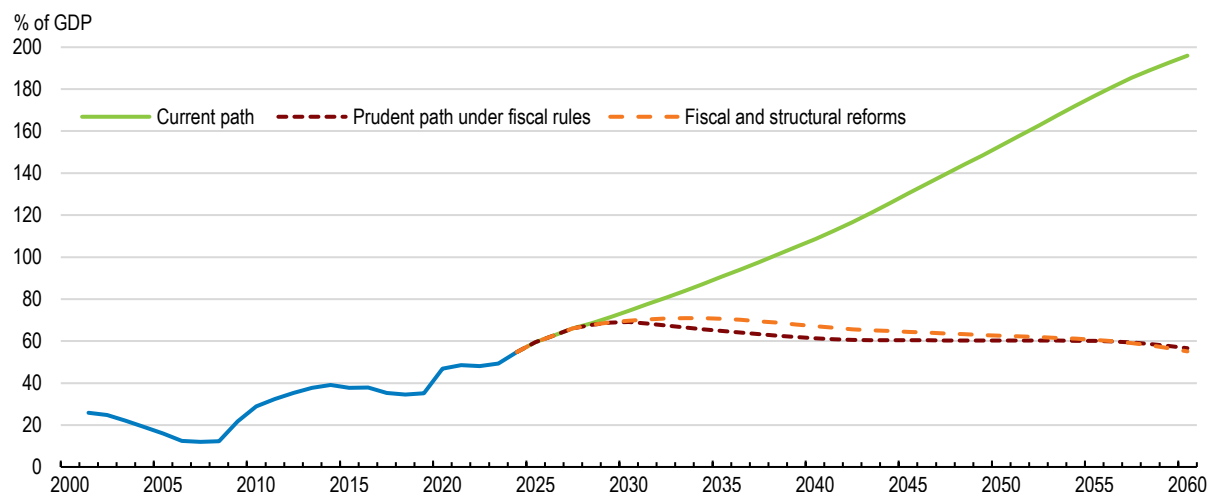
Note: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Economic Outlook database.

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Figure 1.10. Restoring fiscal sustainability requires stronger consolidation efforts

General government gross debt, Maastricht definition



Note: In the current path scenario, made under a no-policy change assumption, the structural primary balance deficit remains constant at the projected 2027 level, adding the projected changes in ageing costs derived from the EU AWG 2024. In the prudent path under fiscal rules, the course of fiscal policy assumes additional gradual consolidation of the structural primary balance compared to the current path, equivalent to 4.25% of GDP between 2027 and 2031, in line with Romania's fiscal commitment under its national medium-term fiscal plan to reach a surplus of 1.7% by 2031. In the fiscal and structural reforms scenario, a set of structural and fiscal reforms is implemented improving the budget situation directly (through fiscal consolidation measures) and indirectly (through the positive impact of structural reforms on public finances and potential GDP growth) compared to the current path. GDP, inflation and implicit interest rates are simulated by the OECD long-term model.

Source: OECD calculations based on OECD Economic Outlook database and OECD Economic Outlook long-term database; (European Commission, 2024_[16]).

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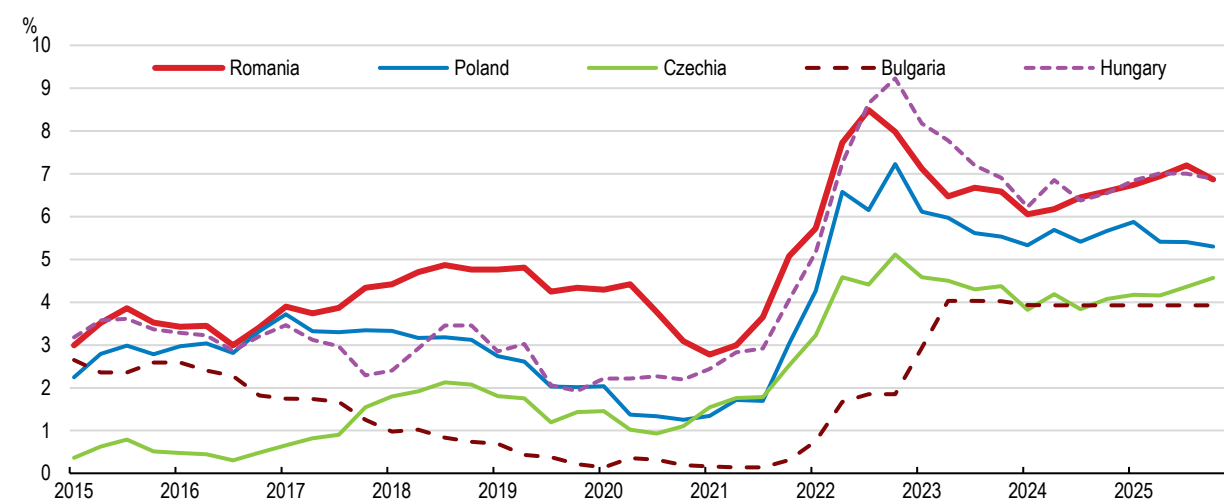
Substantial EU funds are contingent on compliance with EU fiscal rules and RRP implementation. Losing access to these funds would either negatively impact the debt trajectory or lower public investment that is much needed to stabilise the economy in the context of fiscal consolidation. Specifically, Romania risks a partial suspension of EU funds under the 2021-2027 framework if it fails to take effective action on its budget deficit under the EDP, while delays in implementing RRP reforms and investment could lead to the loss of significant

grants under the EU's Recovery and Resilience Facility (RRF). Between 2020 and 2024, spending financed by non-refundable EU grants has accounted for about 2.2% of GDP annually on average.

Owing to strong fiscal consolidation measures taken in 2025, risks of a downgrade by rating agencies have receded. However, if fiscal imbalances are not adequately addressed beyond 2026, rating agencies may downgrade sovereign debt, which could significantly raise borrowing costs and reduce access to international capital markets. Between late 2024 and March 2025, all three major rating agencies revised their outlook on Romania's sovereign rating to negative. To finance an increasing debt stock, the government has become increasingly dependent on external investors. In 2024, limited absorption of EU funds constrained access to concessional financing. This increased Romania's exposure to shifts in international market sentiment. At the same time, the bank-sovereign nexus, already high, has deepened further (European Commission, 2025^[17]), which heightens interdependence between public finances and the financial sector (see above). Government financing conditions have started to improve during the fourth quarter of 2025, after a deterioration that started in 2024 (Figure 1.11).

Figure 1.11. Financing costs have increased moderately since 2024

10-year government bond yields



Source: OECD Economic Outlook database.

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Romania faces the difficult task of correcting large fiscal imbalances at a time of slowing economic growth and increasing spending pressures. The impact of a declining workforce, rising pension and health costs linked to demographic ageing (see Chapter 2), together with pressing investment needs in healthcare, education, infrastructure, defence, innovation and climate adaptation (see Chapters 3 and 4), compound fiscal policy trade-offs. According to the EU Ageing Working Group projections, which are included in the debt analysis, ageing-related costs are set to rise by about 2.8% of GDP between 2024 and its peak in 2053 – a cost still significant, although considerably reduced by the 2024 pension reforms. Moreover, interest payments are also set to increasingly weigh on fiscal space until the budget deficit is significantly reduced.

A credible and well-designed fiscal strategy is needed to ensure the long-term sustainability of public finances. To put debt on a sustainable path, Romania will need to specify additional measures to sustain budgetary consolidation beyond 2026. The prudent path under fiscal rules reflects Romania's commitment under the national multi-annual fiscal plan in the context of EU fiscal surveillance, which targets a surplus of the primary structural balance of 1.7% of GDP by 2031. This implies an additional structural budgetary adjustment of approximately 4.25% of GDP relative to the current path, based on the OECD forecasts for 2027. Such an adjustment would reduce somewhat the public-debt-to-GDP ratio over the medium- to long-run, which would reach about 55% (in Maastricht terms) by 2060.

The fiscal and structural reform scenario outlines a strategy that pairs fiscal consolidation – about 3.1% of GDP (see Table 1.3) – with the structural reforms proposed in this *Survey* (see Box 1.1), aimed at boosting employment and productivity, and improving social and environmental perspectives. By supporting stronger growth, these reforms would help restore the sustainability of public finances, allowing the debt ratio to fall to around 55% (in Maastricht terms) by 2060 (Figure 1.10), necessitating a milder fiscal consolidation than the prudent path scenario.

The sequencing of the fiscal measures presented in Table 1.3 is consistent with a gradual fiscal consolidation of the government budget balance. This implies that any new deficit-increasing measures identified across the *Survey* should be phased in only as fiscal space becomes available through the implementation of deficit decreasing measures. Given the scale of recent fiscal packages, the economic and fiscal impacts of these measures should be closely monitored and regularly assessed to avoid an inappropriate policy stance if economic and fiscal conditions turn out different than expected. Finally, generating the fiscal space needed to finance new measures will crucially depend on sustained progress in tax collection capacity, by strengthening VAT compliance and reducing informality over the medium run (see further discussion below). As such efforts will take some time to translate into higher revenues, accelerating progress in that domain is essential.

Box 1.1. Estimated impact of structural reforms recommended in the *Survey* on potential GDP and the fiscal balance

Table 1.3 presents estimates of the fiscal impact of selected structural reforms in this *Survey* over the medium-term. The estimates are indicative and do not allow for behavioural responses. Moreover, revenue gains from the recommended reform package via higher employment are not included.

Table 1.3. Illustrative fiscal impact of recommended reform package

Fiscal savings (+) and costs (-)

Policy	% of GDP
Spending measures	
Enhancing R&D through stronger business tax incentives and higher public research funding	-0.2
Implementing reforms to raise educational attainment and improve educational outcomes	-1
Expanding life-long learning, ALMP spending and digital skills	-0.2
Upgrading water systems and management (partly financed by better water efficiency)	-0.5
Improving access to quality healthcare, particularly in rural areas	-0.5
Expanding childcare provision (+0.5% of GDP, partly financed by shortening the maximum duration of parental leave)	-0.2
Developing the workforce and facilities needed to expand long term care	-0.1
Spending efficiency gains through performance-based budgeting and spending reviews.	+0.35
Savings through more efficient public procurement	+0.15
Strengthening control over the public wage bill over the medium run	+0.5
<u>Total spending measures</u>	<u>-1.7</u>
Revenue measures	
Improving tax collection efficiency and VAT compliance	+2.5
Broadening the VAT base by removing exemptions and reduced rates (except basic food, medicines and social housing)	+0.25
Increase the real value of excise duties on tobacco and alcohol	+0.25
Harmonising social security contribution bases across the employee and self-employed regimes	+0.4
Raising fossil fuel excise duties and phasing out fossil fuel subsidies	+0.9
Increasing immovable property taxes	+0.5
<u>Total revenue measures</u>	<u>+4.8</u>
Total budgetary impact	+3.1

Note: The measures shown here represent nationally financed programmes, while EU-funded initiatives are expected to continue serving as the principal source of additional investment in priority areas such as transport and digital infrastructure. Regulatory measures (e.g. removing administrative burdens to run a business) are treated as fiscally neutral and are not shown.

Source: OECD calculations.

Table 1.4 quantifies the potential GDP impact of selected structural reforms. Simulations are realised with the OECD long-term model. While other reform proposals in this survey have GDP implications, not all can be quantified due to model limitations.

Table 1.4. Estimated impacts on potential GDP levels

	10-year effect	Effect by 2060
Increasing total R&D spending (+0.2% of GDP)	0.5%	1.8%
Implementing education reforms (closing gaps in education attainment and outcome with the OECD average by 2040)	0.6%	3.0%
Increasing ALMP and lifelong learning (+0.2% of GDP representing about +10% of GDP per capita per unemployed)	1.0%	1.5%
Improving business environment and regulatory framework especially licensing and insolvency filings (improving PMR indicator to OECD average by 2040)	1.2%	2.8%
Enhancing the anti-corruption and public integrity framework (improving Rule of Law to OECD average by 2040)	0.4%	1.3%
Expanding early childcare provision (+0.5% of GDP)	0.6%	1.1%
Increasing workforce participation and effective retirement age of older workers by improving access to quality healthcare	0.4%	2.6%
Upgrading public water infrastructure (+0.5% of GDP by 2030)	0.4%	0.9%
Total impact	5.1%	15.0%

Source: Long-run scenarios using OECD Long-Term Model and OECD calculations.

Box 1.2. Romania has adopted fiscal measures for 2025-2026

A package of reforms effective as of January 2025, which amounted to about 2% of GDP, including:

- Freezing of public wages and pensions in 2025.
- The removal as of January 2025 of PIT exemptions and reduced SSC obligations in the construction, agriculture, food industry and computer software sectors.
- Reduction of the turnover threshold for the micro-enterprise tax regime from EUR 500 000 to EUR 250 000 as of 2025, and to EUR 100 000 in 2026.
- Increase in dividend tax from 8% to 10%.

Fiscal measures adopted in July 2025, with fiscal savings estimated at 0.6% of GDP in 2025, and 2.85% of GDP in 2026. The full-year effect of these measures amounts to 3.45% of GDP according to government estimates, which appear plausible.

- Expansion of the freeze on public sector wages and pensions until 2026, capped bonuses and allowances in public administration, investment cuts, cost cutting measures in education.
- January 2026: Increase in the dividend tax from 10% to 16%.
- From August 2025: increase of the standard VAT rate from 19% to 21%, and introduction of a single reduced rate of 11%, replacing the former 9% rate and 5% rate. Some exemptions were lifted.
- In August 2025 and January 2026: excise duties on petrol, diesel, alcohol, beer, and sugar-sweetened non-alcoholic beverages rose (will rise) in two stages, by 10% each time.
- From 1 September 2025 until end 2027: introduction of a (temporary) 10% health contribution to pension income above 3 000 lei per month. Groups previously exempt from health contributions (CASS) such as co-insured spouses are now required to contribute to maintain health coverage.
- A doubled special tax on bank sector gross revenues, from 2% to 4% in 2025.

The following measures were adopted in September 2025 in Parliament and are estimated to save 0.3% of GDP in 2026, including:

- Increase in property taxation and increase in capital gains taxation.
- Increase of the social security contribution ceiling for the self-employed.
- Improvements in the governance of state-owned enterprise.
- Introduction of a logistical tax on small value extra-EU parcels.

In December 2025, the government adopted new revenue measures applicable in 2026, estimated to have a marginal revenue decreasing impact (around -0.07% of GDP):

- Halving the minimum turnover-based tax from 1% to 0.5% in 2026, with elimination from 2027.
- Temporary extension of the non-taxable allowance for minimum-wage earners (RON 300 until end-June and RON 200 for July–December 2026).
- Introduction of a single 1% turnover tax for micro-enterprises, applicable up to a EUR 100 000 revenue ceiling.
- Extension until end-2027 of the monopoly tax in the electricity and natural gas sector and of the tax on revenues from natural resource exploitation.
- Maintaining the turnover tax for oil and gas operators until end-2026.

In February 2026, the government adopted additional fiscal measures:

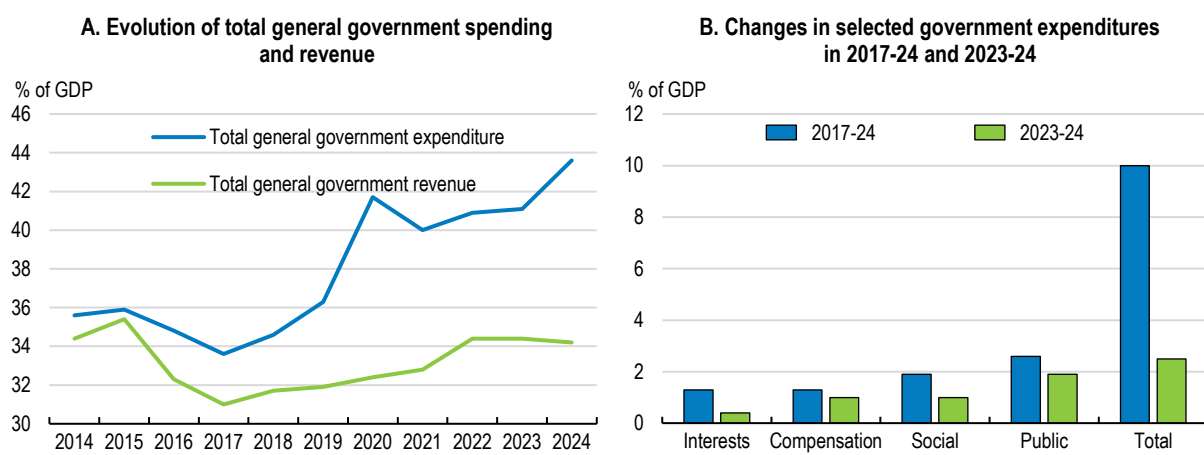
- Aiming at reducing public-sector payroll costs by 10%.
- Amending the property tax reforms to reduce the scale of the tax increase for vulnerable taxpayers.

The following sections outline options to create the fiscal space needed to restore fiscal sustainability. They first examine ways to enhance the efficiency of current and capital public spending in a context of rising spending pressures. The following sections then delve into options to raise government revenues in a prudent way, through more efficient tax administration and reforms that increase tax revenue while minimising distortions and enhance fairness. Finally, the last section considers improvement to the fiscal framework that could enhance medium-term budget management.

1.4. Improving spending quality amid rising pressures

Romania has experienced large increases in public spending in recent years, with total government spending rising by around 10% of GDP between 2017 and 2024 (Figure 1.12, Panel B). In 2024, government expenditure reached 43.6% of GDP (Figure 1.13, Panel C), after rising by about 2.5% of GDP compared to 2023 (Figure 1.12, Panel A), driven by ad-hoc rises in public wages and pensions and nationally financed public investment.

Figure 1.12. Government spending has increased rapidly while revenue has stagnated

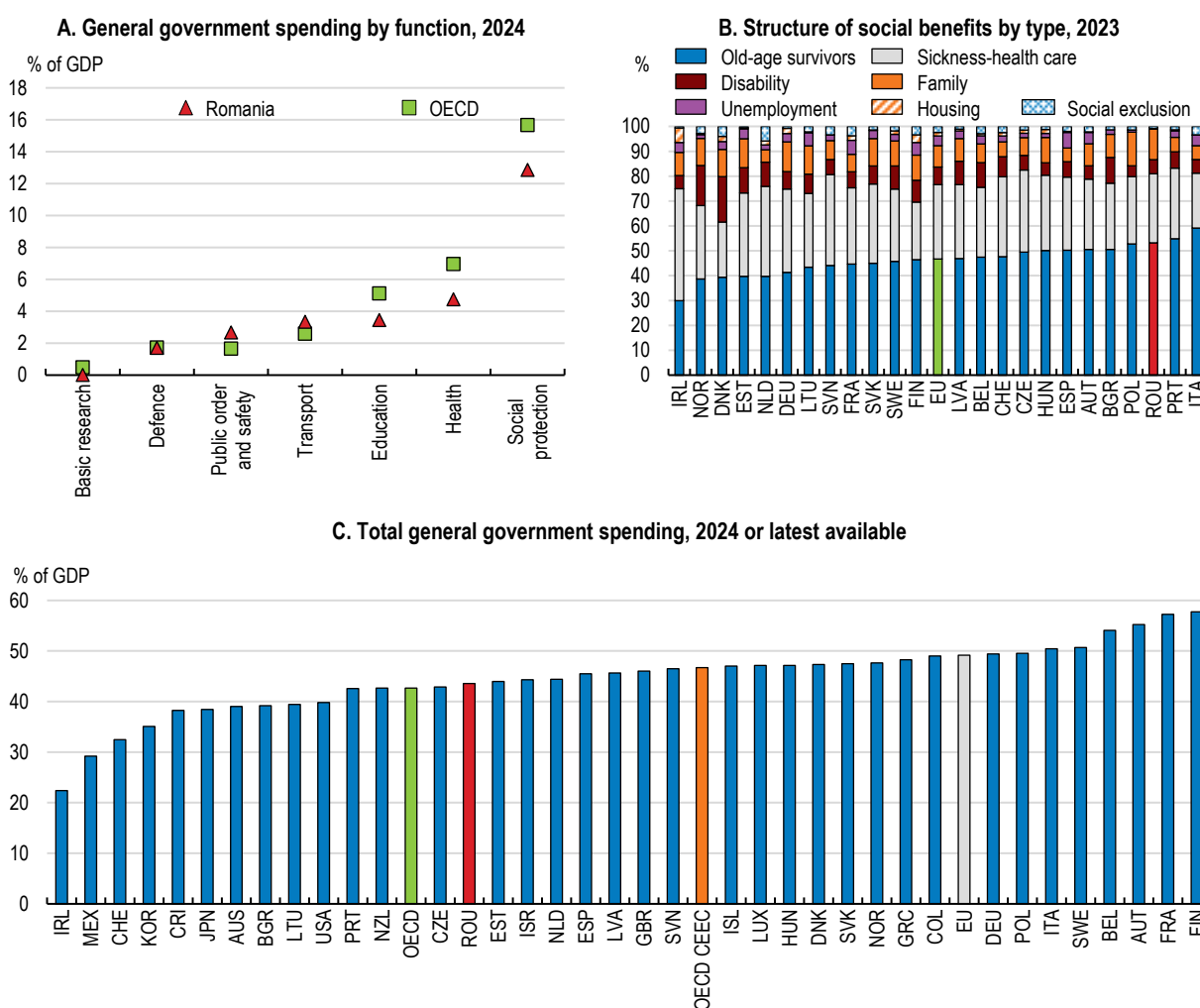


1. Public investment, nationally financed, corresponds to general government gross fixed capital formation minus the revenue of capital transfers from the institutions and bodies of the EU.

Source: Eurostat; and OECD calculations.

Given Romania's constrained fiscal space and the mounting pressures from demographic ageing, Romania should aim for stronger efficiency gains in public spending to pursue consolidation. Romania faces rising pressures to fund healthcare, education, social assistance, infrastructure, and innovation – critical pillars for sustaining economic growth and ensuring a basic social safety net. Romania spends still relatively low amounts in these categories in comparison with OECD countries (Figure 1.13, Panel A). Given the need for continued fiscal consolidation, addressing these spending pressures – alongside financing the other deficit-increasing measures outlined in the Survey (Box 1.1) – will require a gradual and prudent approach. At the same time, more effective prioritisation and improved resource efficiency would contribute to creating necessary space for productive expenditure while improving the quality of public spending. Moreover, stronger control mechanisms are needed to mitigate the risks of large spending increases and to strengthen the management and predictability of public expenditure.

Figure 1.13. Spending on social protection, health, and education is below the OECD average



Note: Panel A: OECD is a non-weighted average excluding Canada, Chile, Mexico, New Zealand and Türkiye. Panel C: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD National Accounts database; OECD Economic Outlook database; DREES (2025).

1.4.1. Strengthening spending efficiency

Keeping the public wage bill under control

Public wages account for a comparatively large share of total government spending in Romania, 25.7% of government spending in 2024 versus the OECD average of 20.6%, underscoring some potential for reducing the public wage bill. There is evidence that the public sector is also paying a wage premium compared to the private sector, even after controlling for worker characteristics (World Bank, 2021^[18]). Moreover, at present, salaries, bonuses, and allowances often differ among equivalent positions in different ministries, creating inconsistencies and weak performance links. As such, structural reform of Romania's wage-setting system is necessary both for fiscal sustainability and to improve the quality of public service delivery.

There is a need for a more cautious, predictable, and transparent management of the public payroll (OECD, 2025^[19]). Pay increases are largely determined by discretionary decisions that de facto undermined the unitary nature of the pay system and they have at times resulted in large unpredicted spending increases; most recently in 2024, when public wage raises granted in response to protests and upcoming elections led the wage bill to jump by nearly 1% of GDP. While some of the increases were justified (such as ensuring more competitive wages for teachers), large ad-hoc increases complicate budget management, contribute to comparatively high share of public wages in the government's total spending, and also influence private sector's wages. As such, this can fuel inflation, potentially affecting a country's cost competitiveness and external position (OECD, 2024^[1]).

Since 2025, the government has adopted a freezing of public-sector wages which has been extended through 2026, as foreseen under the provisions of the Fiscal Responsibility Law (see below). While freezes alone are insufficient to deliver long-term fiscal stability (IMF, 2016^[20]), they should in this case be considered a first step towards a permanent moderation of the public wage bill. In February 2026, the government adopted an Emergency Ordinance aimed at reducing public-sector payroll costs by 10%. This is particularly important as Romania's RRP envisages a comprehensive reform of public sector human resource management, including a fully unitary pay system, revised coefficients to reflect job complexity, new salary scales, and capped bonuses.

While necessary to improve public pay fairness and to promote a more competitive public administration, such reform typically implies an upward adjustment of the wage bill since specific categories of salaries would be revised upwards while pay cannot decrease (World Bank, 2024^[21]). Such additional short-term fiscal costs would not be appropriate at the current juncture. To minimise near-term fiscal costs, the introduction of the new public pay system should be delayed until sufficient fiscal space is available, and it could then be phased-in progressively, targeting in priority the jobs that are most underpaid. In the medium-run, the reformed pay system should ensure a gradual decline of the wage bill as a share of GDP relative to 2024 levels, to support fiscal consolidation. This could be achieved through a predictable, formula-based mechanism that temporarily links wage increases to growth below that of consumer inflation and/or productivity growth. The indexation rule could be reconsidered over time, taking fiscal sustainability into account. In addition, Romania could consider removing automatic links between certain public pay adjustments, such as bonuses and allowances, and increases in the minimum wage.

Integrating programme-based budgeting and spending reviews in budgetary processes

There is scope to improve the efficiency of public spending and ensure that resources are better aligned with policy objectives and outcomes. As noted by the Committee of Senior Budget Officials in the context of its accession review, there is potential to strengthen Romania's performance-based approach to spending management, including in public administration where it contributes to inefficient resource allocation. Currently, the budget is not voted on a programme basis. Although reforms have been introduced, implementation remains inconsistent, weakening the link between resources and results. Under the RRP, the government plans to gradually roll out programme-based budgeting, piloted in three ministries in 2024 and extended to the central administration from 2025 (World Bank, 2024^[21]). Romania already has a solid legal foundation for strengthening budget planning and policy coherence.

In addition, the systematic integration of spending reviews into budgetary processes can improve spending quality, support fiscal consolidation, and reallocate resources to priority areas. International evidence shows they are most effective when they are: closely linked to the annual and multi-annual budget cycle; underpinned by strong political commitment; followed by clear implementation and monitoring; and published to ensure transparency (Doherty and Sayegh, 2022^[22]). Romania has made progress in establishing the legal basis for a systematic use of spending reviews, including through the adoption of the *Spending Review Strategy 2024-2030* (Ministry of Finance, 2023^[23]) in June 2023 and amendments enacted to Romania's Public Finance Law (Hoogeland, Dimitriadis and Mandl, 2024^[24]). They clarify governance arrangements and expand the Fiscal Council's mandate to assess their impact, though limited resources will make this challenging (see below) (OECD, 2022^[25]). The Ministry of Finance developed methodologies for monitoring impacts and identifying multi-annual priorities. The government's medium-term plan commits to mandatory annual reviews and savings targets.

Effective implementation remains challenging, though. Delivering on the ambitious objectives of the *Spending Review Strategy 2024-2030* would mark significant progress. A precondition for expanding the rolling-out of spending reviews is to strengthen administrative capacity through training and guidance for staff in the Ministry of Finance and other public institutions. Better coordination across institutions – particularly around access to data and decision-making – would enhance effectiveness, as will a stronger connection between the review process and budget preparation. This requires aligning timetables and ensuring findings of reviews feed directly into budget discussions. Continued progress in these areas, if backed by consistent political commitment, would help deliver lasting improvement in spending quality.

In the future, spending reviews should involve actionable and transparent recommendations on fiscal targets either to generate savings or to identify fiscal space as a way to enable re-prioritisation. Recently, the government has carried out reviews of the health and education sectors. While this is a welcome step, fiscal targets were not sufficiently clearly defined, particularly for the review of the education sector (World Bank, 2024^[21]). Moreover, clearer evidence of follow-through, for instance in terms of concrete budgetary outcomes, would help build credibility by making achievements more tangible.

Better managing government purchases

There is also room to generate additional savings by tackling inefficiencies in government purchases via improved public procurement. This could enhance the effectiveness of government capital spending (see Chapter 4) and reduce intermediate consumption, which currently stands at 15.1% of total spending (compared to the OECD average of 14.4%). The government public procurement system, which is highly decentralised and distributed across multiple institutions, would benefit from more effective coordination between stakeholders (OECD, 2025^[26]). Efforts should aim at expanding centralised public procurement to more goods and services, focusing in priority on high spending sectors. Implementing the related reforms foreseen in the RRP and in Romania's medium-term fiscal plan is necessary.

Improving the quality of public investment management and speeding up the absorption of EU funds

Public investment is central to Romania's long-term growth and living standards, particularly given its catching-up needs. Public investment spending increased to 5.9% of GDP in 2024, from 3.4% of GDP in 2019, supported, in part, by increasing receipts of EU funds. While preserving a robust level of public investment is crucial to avoid compromising future growth, prioritisation will be key given the restricted fiscal space (Yang et al., 2023^[27]). Higher absorption of EU funds and implementation of the RRP should play a key role in sustaining robust public investment levels. The pace of increase in domestically financed capital spending seen in 2024 has been a large contributor to the budget deficit deterioration in 2024. Moreover, during the same year the government revised upward its capital investment target by about 11% compared to the initial budget. Enhanced project prioritisation and inter ministerial cooperation is warranted on the planning of public investment to avoid further increases domestically financed capital spending in the current context.

Persistent challenges affect public investment management across the entire cycle (World Bank, 2023^[28]). The low quality of project preparation, weak prioritisation, delays in procurement, and political interference have been reported in past *Surveys* as contributing to long investment cycles (OECD, 2022^[4]). A stronger budgeting system is necessary, including closely tracking projects advancement and short- and medium-term spending commitments. Public investment decisions lack coherence and long-term strategic planning, as responsibilities are fragmented across line ministries (see Chapter 4). Planning is typically siloed by funding source (EU vs domestic). This prevents the government from effectively tackling complex multi-sectoral challenges (World Bank, 2021^[29]). While the regulatory framework for public investment is comprehensive on paper, it remains highly complex and presents important execution difficulties in practice. Positive steps have recently been taken, including the introduction of improved tools for capital budgeting, and stronger appraisal and prioritisation of major projects (World Bank, 2021^[29]).

Romania needs a coherent medium-term investment management framework anchored in long-term strategies, such as the government's *Romania 2030*, in a way that enhances coherence and spurs synergies across EU funded and nationally financed investment priorities. Such a framework should integrate and harmonise procedures across all financing sources (including SOEs and PPPs), and embed performance evaluation into project selection to improve project prioritisation. At present, the Ministry of Finance plays only a limited oversight role, and its weak coordination capacity reduces the visibility of central government over public investment plans and undermines its ability to anticipate near- and medium-term financing needs (European Commission, 2025^[30]). Stronger oversight by the Ministry of Finance of project planning and implementation across ministries is essential. Multi-annual budgeting should also become a central requirement for all projects, in view of creating a more predictable environment for investment.

Romania should accelerate efforts to make full use of the large potential from EU funding. The low revenue from EU grants in 2024 reflects subdued progress on the RRP implementation and a large decline in absorption of other EU funds compared to 2023. Risks of losing part of the EUR 12.1 billion from RRF grants (plus EUR 1.4 billion from REPowerEU) would compound the situation. As such, swift implementation of the remaining RRP reforms and investment and faster absorption of other EU funds would provide major macroeconomic stabilisation in 2026, while also supporting fiscal balancing by financing a larger amount from EU funds. Slower absorption involves risks of major funding shortfalls, project cancellations, while greater reliance on the national budget would complicate consolidation.

Accelerating the absorption of EU funds under the programming period 2021-2027 is essential to sustain EU funding after the termination of the RRF at the end-2026. Romania has access to over EUR 90 billion for 2021-2027, including EUR 31 billion of EU grants from cohesion policy. These funds can be used until end-2029, with the eligibility period extended to end-2030 under certain conditions. Weak local administrative capacity is a key bottleneck to EU funds absorption. Local authorities are central to securing and implementing EU-funded projects (except for the RRF) but often face weak financial resources, insufficient qualified staff, and a lack of technical expertise. More than two-thirds of rural municipalities have no staff trained in drafting project proposals (Marin, 2020^[31]). The authorities should scale up targeted capacity-building programs for rural and disadvantaged municipalities in view of maximising the absorption of EU funds.

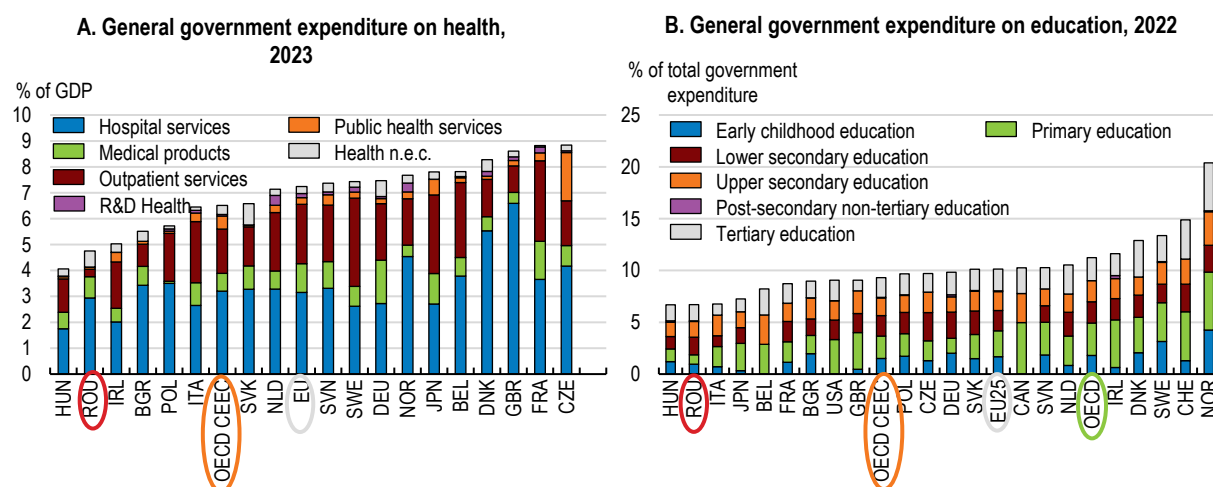
1.4.2. Demographic change and new spending needs require fiscal space

Spending priorities in education, health, and social assistance

Socio-economic disparities remain wide across Romania. Major cities such as Bucharest are growing at a rapid pace, with low unemployment and per capita incomes above the OECD average. In contrast, many other regions face lower living standards and limited economic opportunities. Although poverty has declined, it remains particularly acute in rural areas and among Roma communities, where inadequate housing, weak infrastructure, and poor access to health and social services persist. A large share of working-age Romanians remains outside the formal labour market.

As discussed in other chapters of this *Survey*, expanding access to quality education and training is essential to support labour market participation, reduce poverty (see Chapter 2), and boost productivity (see Chapter 4), especially in disadvantaged areas. The 2023 Education Law rightly aims to raise education spending, which is comparatively low in Romania (Figure 1.14, Panel B). Limited access to quality education and high drop-out rates in upper secondary school, especially in rural areas, leave many young people without basic competencies, contributing to high NEET rates and persistent poverty. In 2023, half of adults with low educational attainment were at risk of poverty, compared with just 1.3% among the tertiary-educated. Adult training opportunities are also scarce, with ALMP spending at just 0.1% of GDP in 2023. This restricts opportunities for reskilling and job matching. At the same time, strengthening the efficiency of public spending in these areas is essential to ensure that investments in education and social sectors translate into better outcomes.

Figure 1.14. Spending on health and early childhood education is relatively low



Note: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD National Accounts database; and OECD Education at a Glance database.

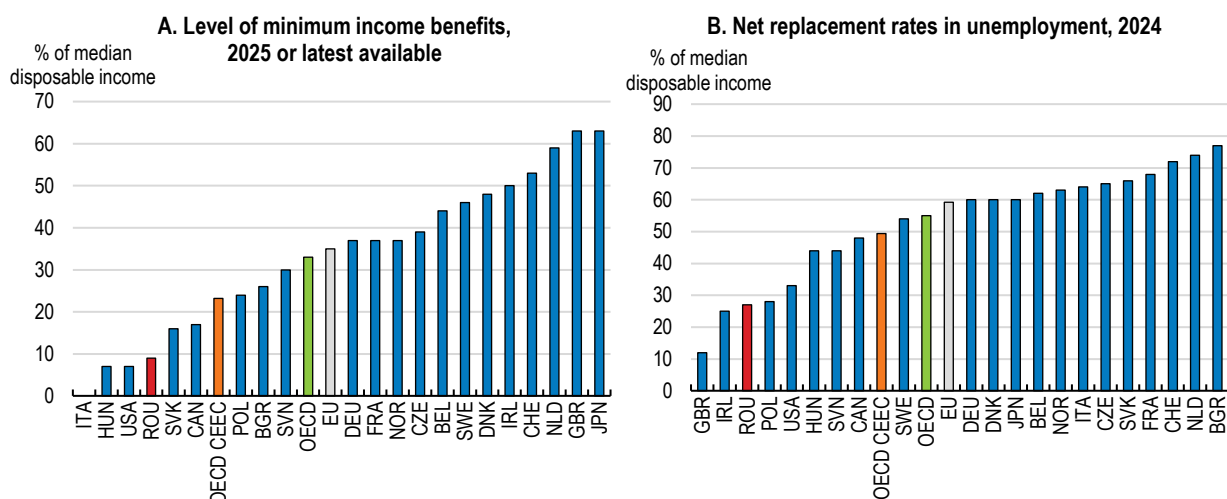
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Stronger investment and more efficient organisation of the health system are essential to improve access and health outcomes (see Chapter 2). In 2023, Romania's public spending on healthcare account for only 4.7% of GDP – well below the CEEC average of 6.6% (Figure 1.14, Panel A). Private health spending accounts for 1.4% of GDP, below the average in the OECD. A strategy combining increases in excise taxes on tobacco and alcohol, along with tighter regulations and stronger health literary education would help reduce unhealthy lifestyles. Efficiency gains could also be achieved by strengthening preventive and primary care as this would help contain higher health costs arising when diseases are addressed at a later stage. Integrating relevant findings from the 2024 spending review could help raise efficiency. Yet, these measures cannot replace the need for additional resources in the longer run, notably to strengthen access in rural areas through community care centres. Expanding access to quality healthcare would also help improve living conditions and encourage young families to build their future in Romania (OECD, 2024^[1]). Long-term care provision is underdeveloped, too. Home-based services are scarce, especially in rural and remote areas, and only a small share of older people live in care institutions (European Commission, 2025^[30]). With the old-age dependency ratio set to increase sharply, the lack of formal care risks leaving needs unmet while placing a heavy burden on families. This also constrains female labour market participation, as women provide most unpaid care.

Romania faces pressures to increase social assistance and unemployment spending. Social protection expenditure remains low at 12.9% of GDP in 2024, below the OECD average of 15.7%, and concentrated on pensions (9% of GDP), while support for the working-age population is limited (Figure 1.13, Panel A&B). It focuses on family benefits, which are relatively high due to generous parental leaves – while childcare and

early childhood education remains underdeveloped – undermining both child development and female labour force participation. They could become more efficient if rebalanced from supporting long parental leaves toward a larger focus on childcare support (see Chapter 2). Unemployment benefits provide limited income insurance. Replacement rates are among the lowest in the OECD (Figure 1.15, Panel B), which might hurt adequate job search and increase mismatching (OECD, 2025^[32]). Coverage is minimal, with only 7.9% of unemployed people receiving benefits in 2023 compared with 36.3% in the EU (European Commission, 2025^[30]). Raising replacement rates and easing eligibility would improve income security and allow more effective job search. Despite recent reform in 2024, adequacy of the minimum-income scheme remained low in 2025 (Figure 1.15, Panel A). Further increases are needed to bring minimum-income support closer to the poverty threshold.

Figure 1.15. The levels of social assistance and unemployment benefits are low



Note: EU and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia. In panel A, data refers to single person without children and includes housing benefits. In panel B, Net replacement rates give the share of previous net income replaced by unemployment benefits and top-ups for a single person with previous earnings at the average wage in the second and seventh month of registered unemployment. Calculations are for a 40-year-old single person without children who has been continuously employed since the age of 18 in full-time employment. Previous earnings are at the median of the national full-time earnings distribution.

Source: OECD Adequacy of minimum income benefits dataset; and OECD Net replacement rates in unemployment dataset.

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The recent pension reform created near term pressures, but marks a critical step forward for long term sustainability

The pension reform implemented in September 2024 strengthens long-term fiscal sustainability by encouraging longer working lives. The reform is in line with the recommendation from the previous *Survey*, although the recalculation of pension rights led to a one-time increase in pension costs. In particular, the reform considerably strengthened the links between benefits and contributions. The statutory retirement age for women will increase to 65 by 2035, bringing it in line with that of men and supporting higher labour force participation among older women, which is currently among the lowest in the EU (see Chapter 2).

From 2035, the retirement age will be linked to life expectancy. Based on current projections, this would raise the retirement age to 67 for an individual entering the labour market in 2022 at age 22 (OECD, 2025^[32]). This should help correct the fact that the average age of the first old-age pension receipt remains low in Romania, at 59.5 years as of 2023 compared to 61.3 years on average in the EU (see also Chapter 2). With rising life expectancy, additional measures to encourage longer careers remains a priority, including through flexible work arrangements, lifelong education, workplace adaptations, and better healthcare.

Regarding the pension level, new indexation rules make increases more predictable and reduce reliance on ad-hoc adjustments. New rules index pensions annually to inflation plus half of real wage growth, within upper

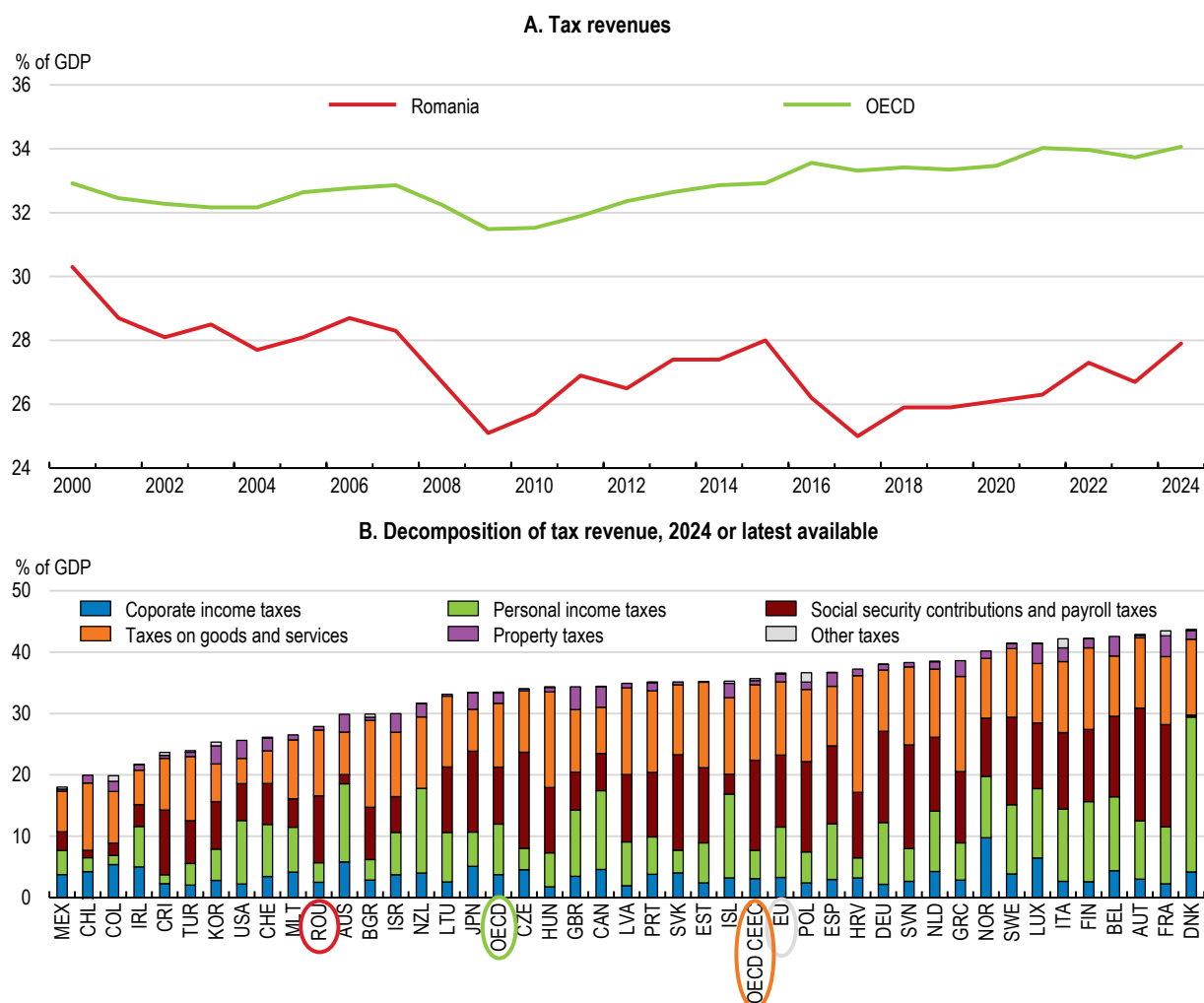
and lower bounds. This is an important step to safeguard pension sustainability. The formula implies a gradual fall in replacement rates from the public scheme. The development of the mandatory defined contribution (DC) second pillar, introduced in 2008, is therefore an essential part of Romania's strategy to enhance long-term pension adequacy and sustainability. OECD modelling suggests that once mature, the DC scheme could raise replacement by 20 percentage points for a median worker entering the labour market in 2022 (OECD, 2025^[32]). Recent reforms strengthened the retirement-income function of the DC scheme. A draft law adopted in August 2025 caps lump-sum withdrawals at 30%. Sectoral exemptions (IT, construction, agriculture, food) were also abolished in January 2025, broadening coverage and strengthening sustainability.

Overall, the reform improved pension adequacy, particularly for lower earners (OECD, 2025^[32]). The 2024 reform raised pensions for low earners proportionally more than for average earners. The projected net replacement rates combining the public and private mandatory pillars are above the OECD average, at 77% for average earners (OECD average of 61%) and 95% for low earners for a worker (OECD average of 73%) entering the labour market in 2022 at age 22 and retiring at the earliest possible age without penalty (OECD, 2025^[32]). The reform thus helps tackle old-age poverty, which is high (16% in 2021), though equal to the total population poverty rate. If the pension freezes were to be extended beyond 2026, targeted and temporary compensatory measures could be envisaged to offset the impact of pension freezes on vulnerable retirees. At aggregate level, the freezes foreseen in 2025 and 2026 will nearly offset the average increase in pension benefits of about 20% following the recalculation of pensions in 2024.

Special occupational pensions were reformed in 2024, aligning them more closely with the contributory principle and introducing minimum contribution periods. This limits fiscal costs and helps correct unjustified preferences. After the Constitutional Court struck down the reform of magistrates' non-contributory benefits in December 2024, the government proposed in 2025 a revised reform gradually raising the retirement age to 65 over 15 years and capping benefits at 70% of final net salary; this law was upheld by the Constitutional Court in February 2026 and promulgated by the President.

1.5. Enhancing the tax structure to boost growth and strengthen revenues

Further tax reforms are needed to improve the efficiency and fairness of the tax system, as well as raising more tax revenue. Prior to the introduction of the new revenue raising measures (Box 1.2) in July and September 2025, tax revenues (including social contributions) stood at 27.9% of GDP, below the OECD average of 34.1% and the CEEC average of 35.8% in 2024 (Figure 1.16, Panel A&B). The new measures reduce several distortionary and fiscally costly tax exemptions and special regimes identified in previous *Surveys*, while also raising additional revenue resources—including through increased VAT—that are much needed in the current budgetary situation (see above). However, more can be done to address remaining inefficiencies while also raising taxes that are relatively less distortive. Weak tax compliance and widespread informality continue to narrow the tax base, leaving Romania with the highest VAT compliance gap in the EU (29.5% in 2024) and widespread un- or underdeclared income. The relatively high tax wedge on low-income earners discourages formal employment, and the flat income tax and uniform social contributions do little to reduce income inequality. Revenue from PIT and SSC combined are comparatively low (Figure 1.16, Panel B), which also partly reflects low capital income taxation. Moreover, recurrent property taxes—among the least harmful to growth—remain underused, while environmental taxes are weakened by extensive fuel exemptions and relatively low fossil fuel taxation. This section identifies priority reforms to the taxation of income, capital, consumption.

Figure 1.16. Tax revenues are relatively low and they have declined over the past two decades

Note: The OECD, EU and OECD CEEC aggregates are non-weighted averages. OECD CEEC includes Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Global Revenue Statistics database; and Eurostat.

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1.5.1. Making the taxation system more efficient and fairer

Efforts to remove exemptions and harmonise tax treatment across income sources should continue

Romania took key steps to remove distortive tax exemptions that previously restricted its personal income tax and social security bases. In January 2025, Romania eliminated sector-specific exemptions in IT, construction, agriculture, and food, covering an estimated 20% of total employment (World Bank, 2023_[33]). All sector-level exemptions have now been removed, in line with recommendations from the previous *Survey*. The introduction of a 10% health insurance contribution (CASS) in August 2025 on pension income above 3000 lei per month is another positive, albeit temporary step in removing unjustified tax exemptions. This will increase the progressivity of the tax and contribution system while also supporting revenue. Romania should make this measure – currently planned until end 2027 – a permanent change of its tax system and envisage to continue efforts towards aligning the taxation and health contribution on pension incomes with that of wages. Gross pension income is subject to a 10% income tax, but unlike labour income, which is taxed on the full amount (excluding the social contribution base), the tax on pensions applies only to the portion exceeding a non-taxable threshold of RON 3 000 per month.

Effective tax rates remain much lower for the self-employed, especially at higher incomes due to discrepancies in social contributions between employees and the self-employed. SSC treatment should be harmonised across employment types as differences create inequities, scope for tax arbitrage, while reducing government revenue. Employees pay full SSCs on their actual earnings, whereas self-employed workers face a ceiling that limits their liability. While the ceiling has been increased in September 2025, it should be removed or raised significantly more, at least for health contributions. This favours self-employment in high-skilled sectors, such as the liberal professions and consultancy. In Romania bogus self-employment as a share of total employment is among the highest among the EU (European Labour Authority, 2023^[34]).

Capital income taxation remains relatively low

The previous *Survey* noted that effective tax rates on capital are comparatively low in Romania relative to wages, pointing to opportunities to raise additional revenue while also improving the fairness of the system and investment neutrality. Relatively low capital income taxes contribute to Romania's low revenue from personal income taxes (Figure 1.16, Panel B) and limit the redistributive capacity of the tax system because capital income is predominantly earned by higher income groups. For high-income earners, a high tax (and contribution) wedge on wages can encourage to incorporate to reduce their tax bill. Thus, in reforming the personal income tax system, attention will be needed to calibrate effective labour income tax rates on top earners across capital and labour income sources (OECD, 2024^[1]).

The increase in the dividend tax from 10% to 16% on January 2026 is a welcome step, which increases the progressivity of the overall income tax system. There is also room to increase taxation on rental income by reducing the reduction in the standard allowed deduction of 40%, which narrows the tax base. To improve the neutrality in the taxation of different forms of capital income, Romania could consider bringing up the tax rates of other investment incomes towards 16%, as most of them are taxed at 10% (e.g. capital gains, rents, interests, royalties). Capital gains tax on residential property should be introduced, while primary residences could remain exempted. This could be done in a forward looking basis, by applying it only to properties purchased after the reform, such that it would avoid a revaluation of all properties (World Bank, 2023^[33]).

Removing distortions around the taxation of corporate income and micro enterprises

Romania's statutory CIT rate of 16% is among the lowest in the OECD but broadly in line with other CEE countries. Romania collects among the lowest CIT revenues in the OECD in percentage of GDP. Informality is high while numerous corporate tax concessions further narrow the base. These concessions should be reassessed regularly to ensure cost-effectiveness and possibly rationalised.

Romania has considerably reduced the scope of its microenterprise regime, which allowed many firms to opt for a 1% or 3% (depending on qualifying condition) turnover tax instead of the 16% CIT. As of January 2026, Romania introduced a single 1% rate. The previous eligibility threshold – EUR 1 million until 2022 – was excessively high, covering around 96% of firms in 2020, and encouraging firms to stay small, split into multiple entities, and under-declare turnover. The threshold will fall to EUR 250 000 in 2025 and EUR 100 000 in 2026, near but still above the VAT registration limit (about EUR 78 000 end 2025). This reduces arbitrage opportunities while broadening the CIT tax base. Yet, some room for arbitrage between the VAT and microenterprise regimes still exist and could be removed by harmonising the two thresholds. As a next step, the authorities should exclude highly profitable sectors whose owners can comply with the general tax regime, such as consultancy and liberal professions, since they benefit disproportionately from the system due to high margins.

Stronger tax administration and compliance is essential (see below) to support revenue collection as many firms transition to the regular CIT system. Without effective enforcement, benefits may be offset by lower compliance and possibly increase informality. The revised microenterprise regime should be closely monitored to detect unintended effects and to ensure a smooth transition to the standard CIT system. Supporting capacity building would help firms moving to the standard tax regime to deal with new administrative constraints. Shifting more businesses to the regular CIT system could potentially even help reduce informality,

as the turnover tax previously discouraged the formalisation of business purchases since the taxpayer was not allowed to deduct actual costs from its profit base (Mas-Montserrat et al., 2023^[35]).

Recent turnover taxes on large businesses should be phased out. In 2024, Romania introduced a minimum turnover-based tax for firms with annual income above EUR 50 million, set at 1% of turnover, if higher than their CIT liability. As of January 2026, this turnover-based tax was decreased to 0.5%, and the government plans to eliminate the tax by 2027. Additional sectoral levies were also imposed. Credit institutions must pay a 4% turnover tax (see above), and oil and gas firms a 0.5% levy, both on top of the standard 16% CIT. The turnover tax for oil and gas firms and credit institutions was extended until end-2026. While turnover taxes are easy to administer and can support government revenue, sectoral levies are arbitrary, and risk distorting investment and innovation, particularly for low-margin and input-intensive firms.

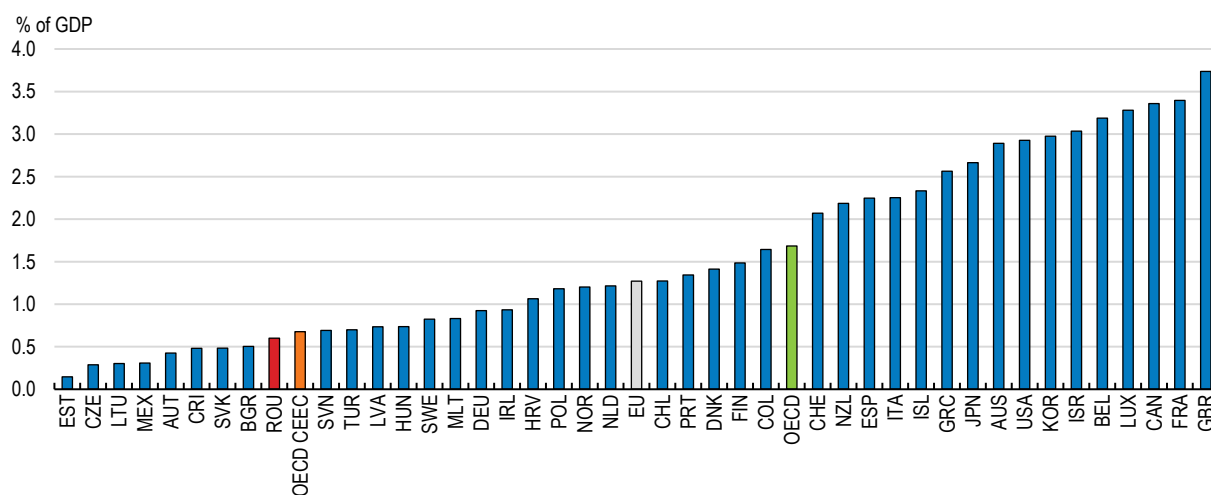
There is scope for raising more property taxes, particularly on immovable property

There is scope to increase revenue from property taxation, which is comparatively low in Romania (Figure 1.17), particularly for the recurrent immovable property taxation, which is one of the least detrimental tax to economic growth (Arnold et al., 2011^[36]). Weak links between property taxes and actual housing values, combined with low tax rates limit both revenue potential and tax equity. Property tax revenue was only 0.6% of GDP in 2024 – less than half the OECD average. Raising further revenue from such tax would strengthen fiscal capacity of local governments, while also reducing pressures on the central government (OECD, 2023^[37]).

Romania should move ahead with plans to shift toward a market value base for all recurrent property taxes. A reform, initially proposed to take effect in 2023 was postponed until 2026. In Romania, the taxable value of dwellings and land remains still largely based on area. As of 2026, the government has nearly tripled the value of the property tax base, which is expected to contribute to higher fiscal revenues. Completing the transition to market-value property taxation requires a robust mass valuation model supported by comprehensive cadastral and notarial data and associated administrative systems. A World Bank project is underway to develop such a digital platform for local authorities to calculate market values automatically based on real transaction data. Once in place, valuations should be regularly updated (World Bank, 2023^[33]).

Figure 1.17. Property taxes remain underused

Property taxes, 2024 or latest available



Note: The OECD, EU and OECD CEEC aggregates are non-weighted averages. OECD CEEC includes Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Global Revenue Statistics database; and Eurostat.

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Revising the property tax rate structure and eliminating concessions could further enhance revenues. The central government sets tax rate bands – currently between 0.08% and 0.20% for residential property – from which local governments chose their rates. These bands could be increased progressively to help Romania

reach levels of revenues similar to the OECD average. Moreover, tax concessions and exemptions should be limited and better targeted, focusing on vulnerable taxpayers, public buildings, or narrow group of specific public-benefit organisations. All concessions and exemptions should be, at minima, frequently reassessed based on cost-benefit analysis (Wen, Rakhimova and Norregaard, 2025^[38]).

Market valuation should be phased in gradually to ease the transition and protecting low-income households (OECD, 2024^[1]). Given the high share of homeowners, including many low-income earners and a large stock of poorly maintained rural housing, discrepancies between property values and owner's incomes may necessitate targeted support measures. This could take the form of a tax relief for low-income households up to a certain threshold or a tax deferral until the property is sold. To facilitate the transition, in its 2013 reform Ireland adopted a tax deferral until the property is sold, which also helped build political support by allowing households to postpone payments (OECD, 2023^[37]).

Greater emphasis could be placed on environmental taxation

Environmental tax revenue accounted for 1.6% of GDP as of 2023, about 0.3 percentage points above the OECD average. Yet, energy tax rates remain too low to effectively curb energy use and support a transition to clean energy sources (see chapter 3), and their increases are largely driven by higher consumption and a growing car fleet. Excise duties and implicit carbon prices are low, uneven across fuels, and weakened by subsidies (OECD, 2024^[1]), while preferential treatment of diesel compared to petrol is environmentally unjustified. Despite recent increases, excises on diesel – and to a lesser extent petrol – remain relatively low, while natural gas and coal, responsible for over half of fuel-combustion emissions, are taxed very lightly.

Gradual, well-communicated price rises, combined with targeted support for vulnerable households, would help align incentives with Romania's 2030 climate targets. Aligning fossil fuel prices with their full external costs could generate large revenues, up to 1.3% of GDP by 2030 (World Bank, 2023^[33]). Since then, Romania took tax measures in that direction (see below), meaning that the remaining revenue potential from raising such tax is now lower (Box 1.1). While revenues would fall over time with decarbonisation, they could play an important role in financing early transition costs, supporting investment in low-emission technologies, and cushioning the impact of higher energy prices on vulnerable groups. Excise duties on diesel and petrol were raised by 6% in January 2025 and by 10% in August 2025. The authorities should consider a faster increase than currently planned under the multi-year path of fuel excise increases legislated through 2027, and extend efforts beyond 2027.

Romania is expanding environmental taxation beyond energy, for instance by raising waste-related taxes in several municipalities. Full implementation of the planned heavy truck toll (TollRo), planned for July 2026, would be another important step in that direction. Current vehicle charges provide weak incentives for cleaner fleets. Developing additional road user charges for passenger vehicles, ideally by preparing for kilometre-based road-use charging, would be a natural next step (see Chapter 4). Moreover, recycling rates are poor, and producer responsibility schemes underdeveloped (OECD, 2024^[1]). Raising low landfill taxes would generate revenues that can be re-channelled to finance municipal waste infrastructure.

Romania should also set out a clear strategy to phase out fossil-fuel subsidies, which weaken carbon price signals, encourage inefficient energy use and impose significant fiscal costs. These include tax incentives and direct transfers for coal, natural gas and district heating, often through state-owned enterprises (World Bank, 2023^[33]). Reduced VAT rates of 11% (previously 5%) also apply to district heating and firewood instead of the standard 21% (previously 19%). Moreover, additional fuel tax reductions apply in agriculture, fisheries and forestry, notably through diesel excise duty refund schemes. The government lacks comprehensive data on the size of these supports, but conservative estimates put them at least at 0.4% of GDP before recent changes (OECD, 2024^[39]). Romania should also withdraw retail gas price caps, which have been in place following the energy crisis. The electricity price cap for households was lifted in July 2025. If energy prices rise again, targeted and temporary income support – such as lump-sum transfers decoupled from consumption – would better protect vulnerable households while preserving price signals.

There remains room to remove regressive reduced VAT rates

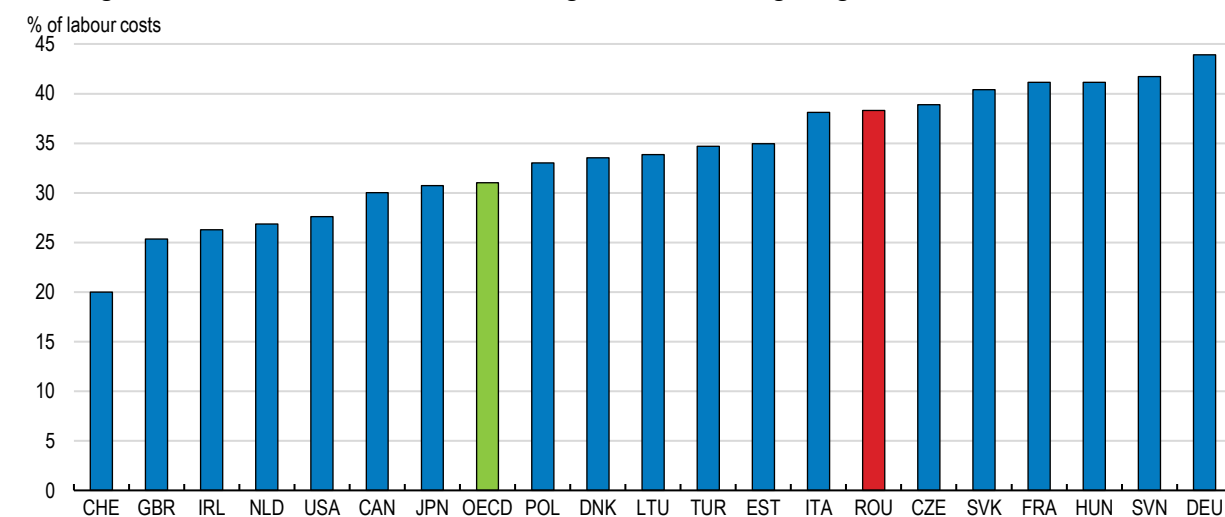
There is still scope to strengthen VAT revenues by broadening the application of the standard rate. In August 2025, Romania raised the standard VAT rate from 19% to 21%, removed several exemptions, and merged its two reduced rates of 5% and 9% into a single rate of 11%. Prior to the reform, the actionable VAT policy gap – capturing foregone revenue due to reduced rates – was estimated at 24.7% in 2023 (European Commission, 2025^[40]), broadly in line with regional peers. Further broadening of the standard rate could raise additional revenue while limiting economic distortions. As inflation slows, the standard rate could be applied to more goods and services by removing reduced rates that do not fulfil a clear policy objective. In particular, applying the standard rate to items primarily consumed by higher income households, such as restaurant meals and catering, hotel accommodation, and culture, are good candidates to increase revenue, as these reduced rates are known to be particularly regressive in Romania (World Bank, 2023^[33]) and should be lifted.

Personal income taxation lacks progressivity and results in a high tax wedge on low-income earners

The structure of PIT and social security contributions (SSC) results in low redistribution and imposes a relatively high tax wedge on low-income earners (Figure 1.18). There is room to improve both the distributive role of taxation, notably through progressive tax rates on higher income and to enhance work incentives, particularly for low-income earners (see also discussion in Chapter 2). Romania applies a flat 10% personal income tax (PIT), among the lowest rates in the OECD. The main economic argument for a flat tax is its simplicity, which can help strengthen tax collection through higher tax compliance and lower evasion as it is simpler to administer by the tax authorities and easier to understand for taxpayers. A work insurance contribution of 2.25 percent on gross labour income is paid by employers. In contrast, employee SSCs are high at 25% for pensions and 10% for health insurance (with SSCs deductible against the PIT base). This results in a combined effective tax and contribution rate of 41.5% for a wage earner not eligible for the basic low-income or dependent allowances. PIT start being applied on the first amounts of labour income, though some modest deductions exist, creating limited progressivity. When the basic PIT allowance for low-income earners is applied, the tax wedge modestly declines to 38.3% for a single worker earning 67% of the average gross wage. Yet, these phase out at relatively low incomes, after which the average contribution and tax rate becomes flat.

Figure 1.18. The tax wedge is relatively high for low earners

Tax wedge for an individual with no children earning 67 % of the average wage, 2024



Note: The tax wedge is the difference between the employer's labour costs and the employee's net take-home pay.

Source: OECD Taxing wages database; and Eurostat.

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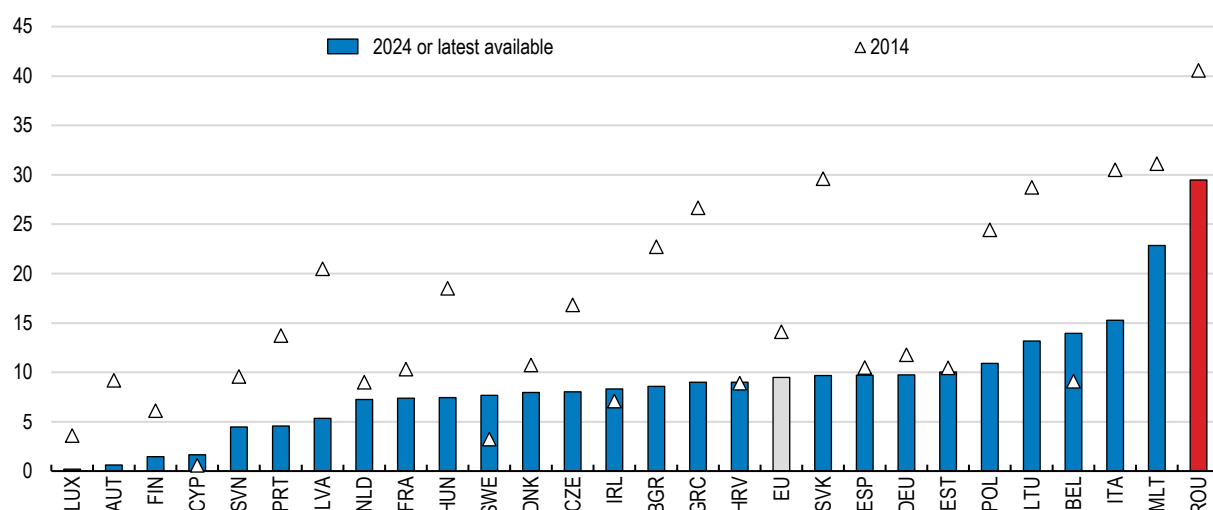
1.5.2. Strengthening revenue mobilisation capacity

Modernising tax administration would strengthen enforcement and improve compliance

Strengthening tax compliance and enforcement is critical for an effective fiscal management and to create additional fiscal space. Moreover, without improvements on that front, tax increases alone may not raise sustainable revenues, given risks of base erosion. Romania's low tax revenue reflects in part the scale of its informal economy, which accounted for 27.1% of gross value added according to recent estimates, the highest in the EU (Francic, Horodnic and Williams, 2023^[3]). The VAT compliance gap at 29.5% in 2024 (Figure 1.19) has seen little improvement since 2018, when it stood at 32.8%, and remains EU's largest. This contrasts with significant improvements achieved in most other Central and Eastern European countries over the past decade. Hungary, for instance, nearly closed its VAT compliance gap (from 22% of GDP in 2012) in just a decade.

Figure 1.19. VAT compliance remains a large challenge

Value added tax compliance gap, % of estimated total VAT liability



Note: The VAT compliance gap measures the difference between the VAT revenue that would be collected if there were full compliance and actual VAT receipts. The VAT gap covers revenues lost due to fraud and evasion but also insolvencies, administrative errors and legal tax optimisation. Source: European Commission (2025), Directorate-General for Taxation and Customs Union, VAT gap in the EU- 2025 report.

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One avenue that Romania could explore to reduce further the VAT compliance gap is to reduce the use of cash in the economy and accelerate the shift to digital payments. Reliance on cash remains widespread, particularly in rural areas. In a survey conducted in 2021, 62% of adults reported paying utility bills in cash only, far above regional peers (World Bank, 2023^[28]). Since 2018 Romania has modernised rules for fiscal electronic cash registers, and it strengthened in 2024 their integration into the systems of the National Agency for Fiscal Administration (ANAF). Restrictions on cash use were tightened by lowering ceilings on cash payments between legal entities, capping firm's cash holdings (November 2023), and mandating companies and self-employed to accept one non-cash payment instrument (June 2024). More could still be done, notably by further reducing cash ceilings and mandating the electronic payment of tax liabilities. In September 2025, Romania announced requirements for all companies to maintain at least one domestic bank account. A next step could be to require bank-based payment of salaries. Additionally, sustained progress will also require tackling low financial inclusion through improved financial literacy and better rural payments infrastructure (World Bank, 2023^[28]).

The RRP supports the introduction of major digital instruments to strengthen tax administration, drawing on the successful experience in other Central and Eastern European (OECD, 2022^[4]). By raising the collection efficiency of its three main sources of tax revenue (VAT, CIT and PIT), Romania could raise the tax-to-GDP ratio

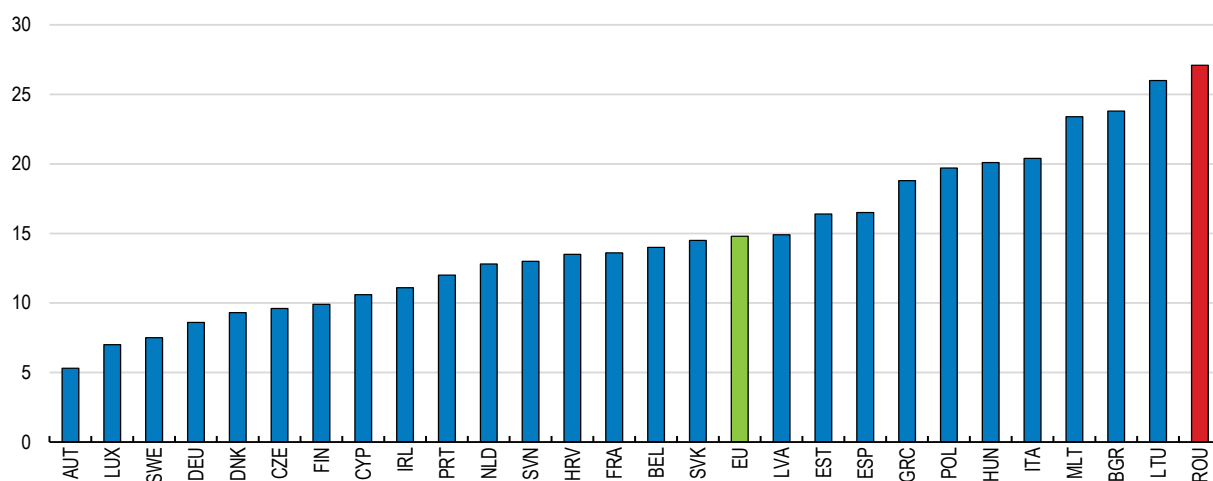
by 2.5 percentage points according to a conservative estimate (World Bank, 2024^[21]). While the long-term benefits of stronger compliance and enforcement can be significant if reforms are successfully implemented, these revenues have not yet materialised and the near-term impact of recent advances is inherently uncertain, particularly in a context of recent tax increases. Thus, the authorities should refrain from integrating ambitious, short-term revenue gains from such reforms in their budgetary plans.

Recent measures are expanding digital reporting and integrating data across sources. By providing ANAF with near-real-time data to target inspections, detect irregularities and reduce compliance costs (e.g. through pre-filled tax returns), these digital tools have significant potential to increase revenue if fully integrated and efficiently utilised. (OECD, 2021^[41]). Major measures include a mandatory *RO e-invoice* system for all B2B since January 2025 and B2C transactions since July 2024, the *RO e-Transport* system (January 2024) monitoring the transport of goods (focusing on high fiscal-risks items and international freight). The *SAF-T* (Standard Audit File for Tax) has required standardised electronic reporting from large and medium taxpayers since 2023 and was expanded to small taxpayers. The launch of the *e-TVA* system on 1 August 2024 consolidates data to automatically generate a pre-filled VAT statement for registered businesses, which can then be reconciled with their VAT returns. Extending such efforts to personal and corporate income tax registration could further lower compliance costs and encourage formalisation.

Strengthening risk-based audits is essential, but success depends on building administrative capacity. Key RRP measures being implemented aim to help identify high-risk taxpayers and transactions for desk checks and on-the-spot audits (European Commission, 2025^[30]) using a fully operational electronic risk register, an analytics platform, and an early-warning tool for VAT fraud based on *e-TVA* data. Effective implementation requires integrating multiple data sources, building advanced analytics capacity, and ensuring sufficient resources and expertise. Poland's experience highlights the importance of investing in technical expertise and collaboration with private IT specialists (Polish Economic Institute, 2019^[42]).

Figure 1.20. Undeclared work accounts for a high share of gross value added

Undeclared work in the private sector as % of total gross value added, 2019



Note: EU is a non-weighted average.

Source: (Frantic, Horodnic and Williams, 2023^[3]).

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A more holistic approach is needed to reduce undeclared work

A coordinated national strategy is essential to tackle undeclared work effectively. The share of undeclared work accounts for a comparatively high share of GDP (Figure 1.20). Romania lacks a high-level coordinating body or national strategy to tackle this issue (European Labour Authority, 2023^[34]). Establishing an integrated national approach – for instance such as Croatia's inter-ministerial committee on undeclared work – could improve coherence across ministries, tax authorities, labour inspectorates, and social security institutions.

Regular joint inspections and systematic information sharing between ANAF, the Labour Inspectorate, and other agencies would make enforcement more effective than isolated actions, which remain the norm today (OECD, 2025^[32]).

1.6. Strengthening the budget framework

Romania's institutional framework for setting fiscal objectives is well developed in terms of legislation, and generally aligned with the OECD's best practices in budgetary governance (OECD, 2022^[25]). It includes a *Fiscal Responsibility Law* with comprehensive fiscal rules and an independent Fiscal Council. As of 2025, fiscal sustainability rules under the *Fiscal Responsibility Law* have required the automatic capping of public wages and pensions as long as the public debt-to-GDP ratio remains above 50% of GDP. In a currently high inflation environment, the application of this rule is set to generate large fiscal savings (see Box 1.2).

In practice, commitment to fiscal targets is weak. Repeated derogations have undermined the credibility of the fiscal framework and rendered the rules largely inoperable (European Commission, 2023^[43]). Key provisions of the *Fiscal Responsibility Law* are frequently ignored. Emergency ordinances have often been used to mandate fiscal measures outside the parameters of the fiscal rules. Parliament has also passed ad-hoc spending laws in contravention of constitutional requirements to identify offsetting funding sources, often without the legally mandated impact assessments (OECD, 2022^[25]). In several instances, this has obliged the Ministry of Finance to delay implementation or challenge legislation before the Constitutional Court, contributing to an uncertain fiscal environment. Restoring credibility will require consistent enforcement of the national institutional fiscal framework. This could be supported by a stronger role for the Fiscal Council in independently monitoring compliance and assessing the fiscal impact of new legislation. To support more effective implementation of fiscal frameworks, other OECD countries have given their fiscal councils a formal role in monitoring budgetary outcomes and compliance with fiscal rules, including the activation of derogations and escape clauses. For example, the Irish Fiscal Advisory Council is required to confirm the government's compliance with the domestic implementation of the EU fiscal rules (Rawdanowicz et al., 2021^[44]).

There is scope to improve the use and accuracy of forward year baselines and to anchor these into the fiscal strategy to mitigate the danger of overestimating available fiscal space for multi-year planning. The frequent overshooting of expenditure ceilings reflects weak spending management practices and the limited effectiveness of ceilings due to frequent underestimation of spending needs during budget preparation. This is partly due to a short-term approach to budgeting. Greater emphasis on medium-term fiscal planning is needed to ensure a gradual and credible deficit reduction. Completing the introduction of multi-annual expenditure ceilings linked to fiscal objectives, as done for instance in the Netherlands (OECD, 2025^[45]), would support a more systematic integration of the medium-term effects of spending decisions into budget planning. This, in turn, requires major improvements in the accuracy of forward-year forecast baselines. Additionally, limited time for budget preparation limits the Ministry of Finance's ability to engage with line ministries early in the budget cycle. As noted by the Committee of Senior Budget Officials in the context of its accession review, providing more time could strengthen the Ministry of Finance's ability to assess spending requests, to pursue fiscal impact assessments, while allowing the Ministry of Finance to play a more proactive coordination role in managing spending ceiling adjustments and shaping the overall budget in situations of fiscal pressures.

Romania should ensure that the independent fiscal institution (IFI), the Fiscal Council, has sufficient resources to fulfil its mandate. The Fiscal Council is recognised as independent and produces technically robust assessments of the fiscal impact of budget measures, monitors budget execution and compliance with fiscal targets (OECD, 2022^[25]). Its mandate has recently been expanded to cover evaluations of spending reviews, but it faces persistent staffing shortages, with fewer than half of its 20 positions filled (European Commission, 2025^[30]). Without adequate resources, the Council will struggle to deliver on its expanded remit and sustain the frequency and depth of its analyses. While it maintains strong media visibility, its role in policy dialogue

and budget preparation is limited. Stronger involvement in budget monitoring could enhance its role, though any expansion of its duties would necessitate additional resources.

Parliamentary scrutiny of the budget could be strengthened. The timetable for review is compressed, technical staff to support committees are limited, and the complex presentation of budget data complicates oversight. Submitting the budget earlier, extending the review period, and improving budget information would enable more meaningful scrutiny, and would allow input from expert consultations and civil society. Building up Parliament's analytical capacity – for instance through a Parliamentary Budget Office, as seen in several OECD countries – could provide lasting support for evidence-based oversight (OECD, 2022^[25]).

The Romanian Ministry of Finance has taken a welcome step toward integrating climate-related risks into fiscal planning by including a model-based assessment of potential macro-fiscal impacts of natural disasters in its 2022-2024 Fiscal-Budgetary Strategy (see Chapter 3), including their potential effects on the budget deficit and public debt.

Table 1.5. Past OECD fiscal recommendations and actions taken on fiscal sustainability, pension and tax reforms

Recommendations in past Surveys (2024)	Actions taken since the previous Survey
Reduce the budget deficit to ensure fiscal policy complements contractionary monetary policy. Establish a credible medium-term fiscal consolidation plan to ensure fiscal sustainability.	The budget deficit rose to 9.3% of GDP amid large increases in public wages and pension spending, which fuelled domestic demand. The government has adopted fiscal packages aiming to reduce the budget deficit in 2025-2026.
Follow through on promised reforms to ensure competitive public service hiring, merit-based promotion, and performance-based pay.	The reform has not yet been implemented. 2023 and 2024 saw rapid increases in public wages following several government ad-hoc decisions.
Proceed with planned use of spending reviews to systematically identify efficiencies and improve government effectiveness.	Spending reviews on the education and health sectors were completed in 2023. Absence of public information on their integration in budget planning does not allow to assess their effectiveness in generating efficiency gains.
Proceed with reforms to narrow early retirement options over time and increase pension ages with gains in life expectancy, in line with new laws. Complete reforms to still overly generous special occupational pensions.	The planned pension reform took effect in September 2024, linking pension ages with life expectancy and encouraging longer working lives. A reform of special occupation pensions was implemented.
End sectoral exemptions to private pension contributions.	Sectoral exemptions to private pension contributions were removed in 2025.
Lift relative contribution rates to private pensions, as planned.	In 2024, the contribution rate to pillar II rose to 4.75 %, as planned.
Strengthen tax enforcement to reduce tax fraud and evasion.	Romania introduced new digital tax tools in 2024 and 2025, such as e-VAT, e-invoicing, and firm reporting.
Broaden the value added tax base through more uniform application of the standard rate.	In August 2025, Romania merged its two reduced VAT rates into a single reduced rate (11%), while also moving certain items to the standard VAT rate.
End sectoral income tax exemptions.	The sectoral tax exemptions to the IT, construction, and agriculture and food sectors were lifted in January 2025.
Consider a gradual transition to progressive wage taxation, with reduced effective tax rates on low earners.	No action taken.
Further align contribution rates on employees and self-employed.	The ceiling on contributions for self-employed was raised in September 2025.
Restrict eligibility and improve the design of the microenterprise tax regime, roll back new turnover taxes, and consolidate corporate income tax concessions.	Eligibility to the microenterprise tax regime has been considerably restricted in 2024 and 2025, and again in 2026.
Raise more revenue from recurrent taxes on immovable property, levied on properties' market value.	No action yet taken, but the government plans to raise taxes on immovable property.

Table 1.6. Main findings and recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Ensuring macroeconomic stability	
After the fiscal deficit widened to 9.3% in 2024, the government has adopted several important consolidation packages. However, with no measures specified after 2026, long-term fiscal sustainability is at risk.	Beyond the full implementation of recently adopted consolidation measures, continue spending restraint and broaden tax bases over the medium-term to achieve fiscal commitments.
Monetary policy and financial stability	
Headline and core inflation remain well above the tolerance band of the 2.5% $\pm$ 1 percentage point target.	Resume policy rate cuts only once inflation is on a clear downward path toward the inflation target.
Corporate lending in euro remains significant and is largely unhedged.	Take additional regulatory measures, such as providing specific hedging instruments for SMEs, to reduce FX loan risks for corporates.
Government-backed corporate loans exhibit higher levels of impairment.	Gradually phase out broad-based public loan guarantee schemes.
Private sector lending has picked up, with particularly strong growth in household consumer credit.	Continue to closely monitor more vulnerable segments of private sector borrowing.
The Romanian government levies an extraordinary tax on turnover of banks.	Pursue a corporate tax reform to enhance revenue collection from the corporate sector. Phase out the bank levy by the end-2026 as planned.
Improving spending efficiency	
Romania has significant spending needs in education, health, innovation and social assistance but a limited fiscal space.	Prioritise essential public expenditures and enhance the efficiency of existing government spending programmes.
The use of spending reviews in budgetary processes is still at an early stage.	Strengthen performance-based budgeting and spending reviews, and integrate them systematically into the budget process.
Weak prioritisation, coordination, and limited oversight by the Finance Ministry undermine public investment planning and execution.	Strengthen government investment planning and control through improved oversight, project prioritisation, and coordination across institutions.
RRF implementation has faced significant delays. Romania risks losing significant amounts of non-repayable financing. Absorption of EU structural funds for the 2021-2027 period has been low.	Speed up the absorption of EU funds, especially RRF funds, by prioritising large and mature investment projects to sustain public investment.
The public-sector wage bill represents a large share of spending and ad hoc pay increases undermine fiscal sustainability while weakening links between pay and performance.	Strengthen control of the public wage bill, notably by adopting a transparent and fiscally prudent formula for wage increases.
Raising tax revenue while improving efficiency and fairness	
Low tax compliance and widespread informality limit revenue collection, with a high VAT compliance gap. Income under-reporting is common among lower income groups.	Strengthen tax collection by digitalising and modernising the tax administration, enhancing risk-based tax management tools, and building staff capacity to carry risk-based audits.
Different treatments of social contributions between self-employed and employees encourage arbitrage and false self-employment.	Align social contribution rates of self-employed with those of employed workers by raising contribution ceilings for self-employed.
Several non-essential items, such as restaurants and hotels, continue to benefit from reduced VAT rates.	Broaden the value added tax base through more uniform use of the standard tax rate for non-essential goods and services.
Property taxes, which are among the least detrimental to economic growth, are low compared with OECD countries.	Gradually increase revenue from recurrent taxes on immovable property by basing taxation on market value and raising tax rates.
There is no tax on capital gains on dwellings.	Restrict the capital gains tax exemption to sales of a primary residence.
Low taxation of fossil fuels leads to low implied carbon costs. The cap on retail prices of natural gas is untargted and weakens incentives to save energy or switch to cleaner fuels.	Gradually eliminate fossil fuel subsidies, such as coal, natural gas, and district heating, and raise excise tax rates; and phase out energy price caps on gas.
Strengthening the fiscal framework	
Frequent underestimation or lack of commitment to spending targets frequently result in higher-than-planned expenditures.	Improve the accuracy of multi-annual fiscal planning through stronger forecast capacity.
The Fiscal Council lacks resources to fully execute its mandate.	Ensure the Fiscal Council is equipped with sufficient resources.

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2 Promoting higher workforce participation and healthier working lives

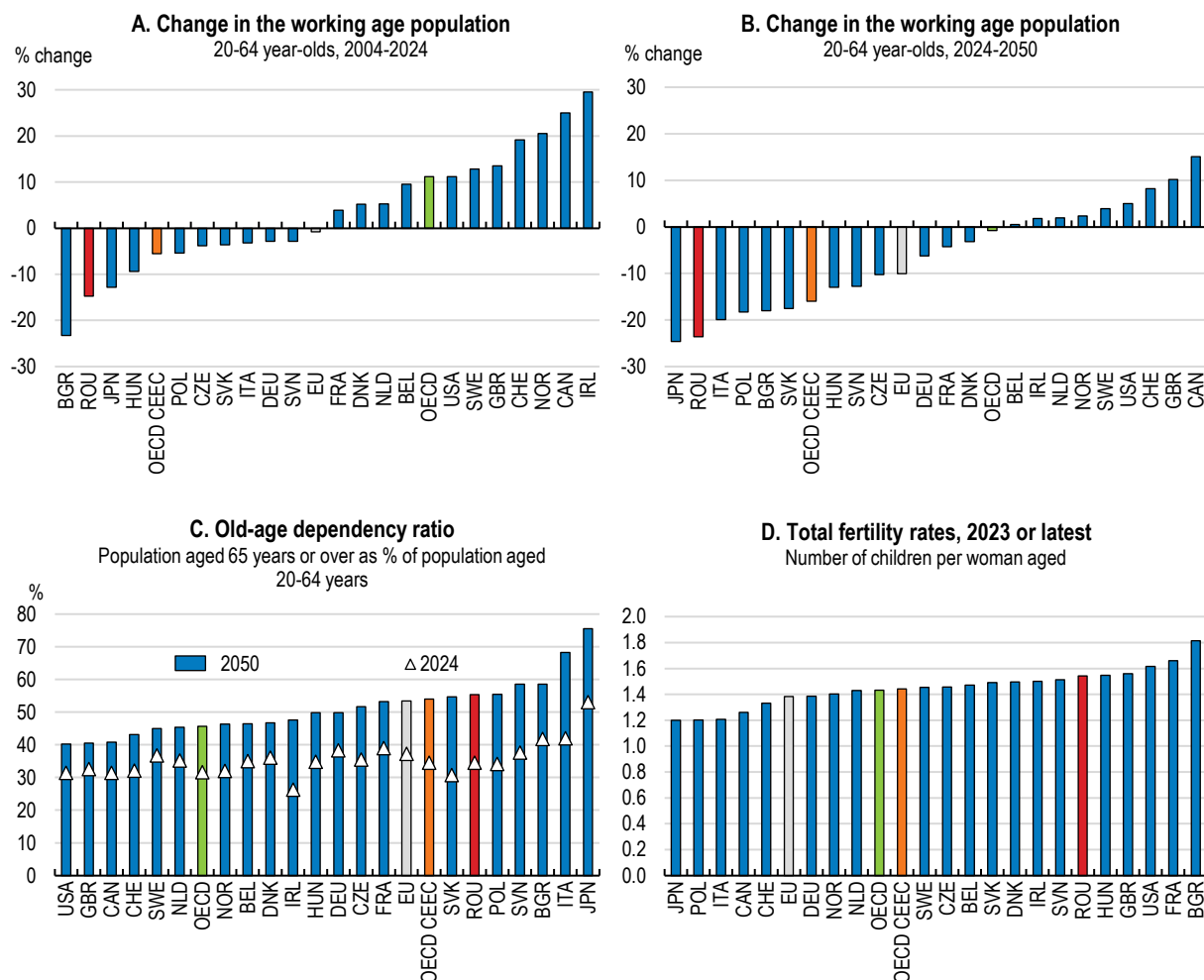
Gilles Thirion

Romania's workforce is projected to age and shrink in the coming decades, weighing on economic growth and public finances. To mitigate these demographic pressures and prepare for an ageing society, there is scope to raise Romania's still relatively low employment rate by bringing underrepresented groups into the workforce, extending working lives, and improving population health. Raising female employment requires improved access to affordable childcare and stronger work incentives after childbirth. Youth employment can be enhanced by reducing early school leaving and raising educational attainment, particularly in rural areas, and improving vocational education. Strengthening active labour market policies is essential. Extending working lives calls for stronger lifelong learning, more flexible work options, and better health outcomes. Health policies should prioritise preventive and primary care, improve access for vulnerable groups, and address medical staff shortages. Return migration could be fostered through more active diaspora engagement, while third-country immigration could be better aligned with labour market needs.

2.1. Romania's workforce is shrinking and becoming older

Romania is facing a sustained demographic contraction that will significantly affect its labour supply in the coming decades. Between 1990 and 2024, the population fell by over 4 million, from 23.2 to 19.1 million. The working-age population (ages 20-64) declined by 2.3 million over the same period (Figure 2.1, Panel A) – from 13.4 million in 1990 to 11.1 million in 2024 – and is projected to drop further to 8.5 million by 2050 (Figure 2.1, Panel B). Romania's population is also ageing: the old-age dependency ratio rose from 20.4% in 1995 to 34.5% in 2024 – above the OECD average of 31.6% – and is projected to increase by a further 21 percentage points by 2050 (Figure 2.1, Panel C).

Figure 2.1. Romania is undergoing a large demographic shift



Note: OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia. In Panel D, the total fertility rate in a specific year is defined as the total number of children that would be born to each woman if she were to live to the end of her child-bearing years and give birth to children in alignment with the prevailing age-specific fertility rates. In panel D, OECD and OECD CEEC are non-weighted averages.

Source: OECD population data and OECD population projections databases; Eurostat; and World Bank, World Development Indicators database.

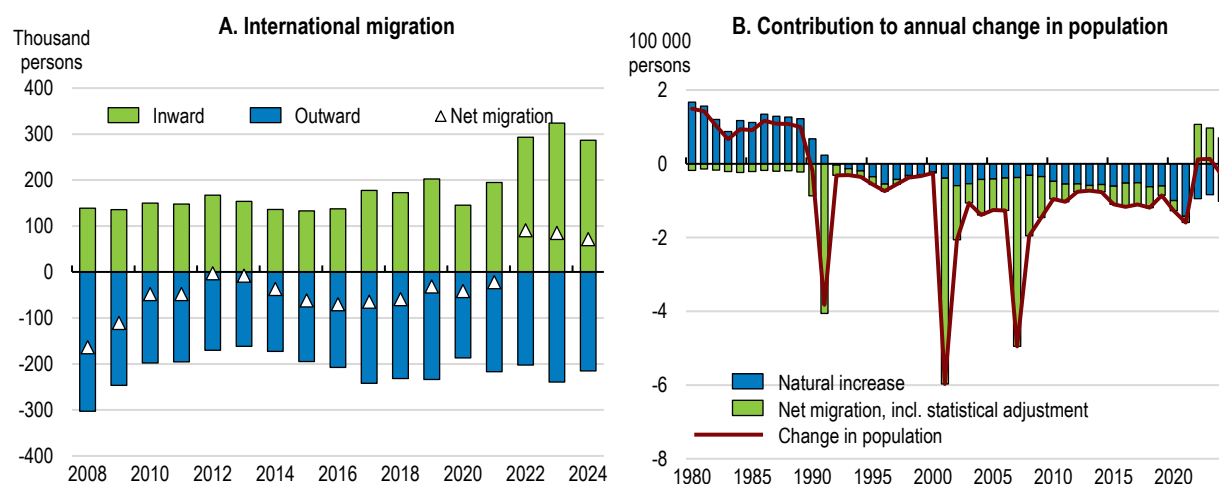
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Emigration has been the largest source of population decline since the 1990s. Outflows intensified after EU accession (Figure 2.2, Panel B) and Romania now is the seventh largest diaspora in OECD countries, with about 3.9 million Romanian emigrants above age-15 residing in OECD countries in 2020/2021. Since 2016, migration's negative contribution has been lower, and since 2022 net migration has turned positive, driven by the arrival of Ukrainian refugees and third-country workers and returning Romanian migrants (Figure 2.2 Panel

A). However, emigration remains substantial and continues to exert pressure on labour and skill availability. Natural population decline has recently accelerated (Figure 2.2, Panel B). Fertility is expected to remain below the replacement level despite being currently higher than the OECD average (1.6 versus 1.4 children per woman in 2023). Although broadly stable over the past 15 years, this rate has been insufficient to offset deaths. Natural population change has been increasingly negative since 1990 and became the main contributor to depopulation in recent years, a trend expected to continue in coming decades.

These demographic changes are expected to have a negative impact on potential growth while also increasing spending pressures (see Chapter 1). Sustaining GDP growth and income convergence in the context of a shrinking and ageing workforce will require decisive policy action to mobilise underutilised labour resources and promoting longer and healthier working lives. Close monitoring of emigration trends, along with efforts to retain and attract skilled workers, will also be necessary to prevent losses of productive labour.

Figure 2.2. Emigration has been the main driver of Romania's population decline until recently



Source: Eurostat.

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2.2. Raising labour force participation

Romania's labour market has developed positively over the last decade. Despite progress, the overall employment rate (63.7% in 2024) remains below both the OECD (70.2%) and Central and Eastern European (CEE) averages (73.7%) (Figure 2.3). Employment gaps persist for women, youth, older workers, and Roma communities, while regional disparities limit labour supply and constrain inclusive growth (Figure 2.3). This section explores policy options to mobilise additional labour utilisation, focusing on opportunities for underrepresented groups.

2.2.1. Lowering the tax and contribution burden on low-income workers

The high tax wedge at the bottom of the income distribution (see Chapter 1) – largely due to social contributions – contributes to discouraging formal employment, including informality and false self-employment (see Box 2.1). This can in turn limit social protection coverage. Reducing this high tax wedge is likely to increase formal employment among low-skilled workers, especially if combined with increased tax enforcement efforts (see Chapter 1).

Tax reform to boost formal labour market participation of low-income workers could encompass an increase of the existing basic tax allowance or the implementation of an earned income tax credit. Either measure should ideally be designed to benefit exclusively the targeted low-income group, with support gradually

phasing out above a defined income threshold. Given the limited fiscal space, such reforms could be designed to remain revenue-neutral, for example by raising the current personal income (PIT) flat rate, or in the medium- to long-term, this could be accompanied by greater overall progressivity in the PIT to strengthen the overall redistributive capacity of the tax system, which remains low in Romania (see Chapter 1).

Gradually raising PIT rates on higher incomes might help finance the suggested reduction in the tax wedge for lower incomes, as well as to enhance the tax system's capacity to redistribute income. Several OECD countries have recently reintroduced progressive taxation, including the Czechia (2021), Latvia (2018), and Lithuania (2019). Recent studies find that introducing progressive PIT through higher rates at the top of the income distribution combined with an in-work tax credit could lower the tax wedge on low-income workers, significantly reducing inequality, while maintaining revenue neutrality. In the longer run, a broader reform involving also social contributions could further reduce the tax wedge by lowering or eliminating health contributions, shifting healthcare financing to general taxation, while maintaining pension contributions at their current levels, given their clear contributory nature. Romania could introduce a maximum ceiling on social contributions as part of such reform, as in most OECD countries having progressive PIT rates.

Box 2.1. Undeclared work remains a significant challenge

Undeclared work remains widespread in Romania, estimated at around 22% of private employment, well above the OECD average and most CEE countries (Francic, Horodnic and Williams, 2023^[1]). Employees make up an estimated 81% of undeclared workers, with self-employed and family workers comprising the remainder (European Labour Authority, 2023^[2]). Many self-employed are not covered by pension and by a complete health insurance package, as contributions are only compulsory if earnings equal or exceed the minimum wage. Underreporting of salary income is a common form of undeclared work (Francic, Horodnic and Williams, 2023^[1]), often through 'envelope payments' which increase take-home pay but reduce social protection. This echoes a high concentration of earnings around the minimum wage (Robayo, Balaban and Wronski, 2024^[3]), particularly among low-income earners in rural regions, in micro-enterprises, and in sectors such as construction, accommodation, food services, and transport.

Beyond the tax wedge (see above), high labour costs in general can also fuel undeclared work. Differentiating the minimum wage by regional productivity, or to facilitate youth employment, could in theory reduce excessive labour costs in low-productivity areas, though this might also lead to risks of wage competition across jurisdictions and could pose equity issues.

Structural and institutional factors entrench undeclared work. In rural areas, formal employment opportunities are limited as most economic activities have very low productivity and subsistence farming is common. Weak actual and perceived enforcement capacity, high perceived corruption, low trust in public institutions, and social norms tolerating non-compliance further sustain informal work (Horodnic et al., 2022^[4]; European Labour Authority, 2023^[2]).

2.2.2. Addressing the high share of NEETs

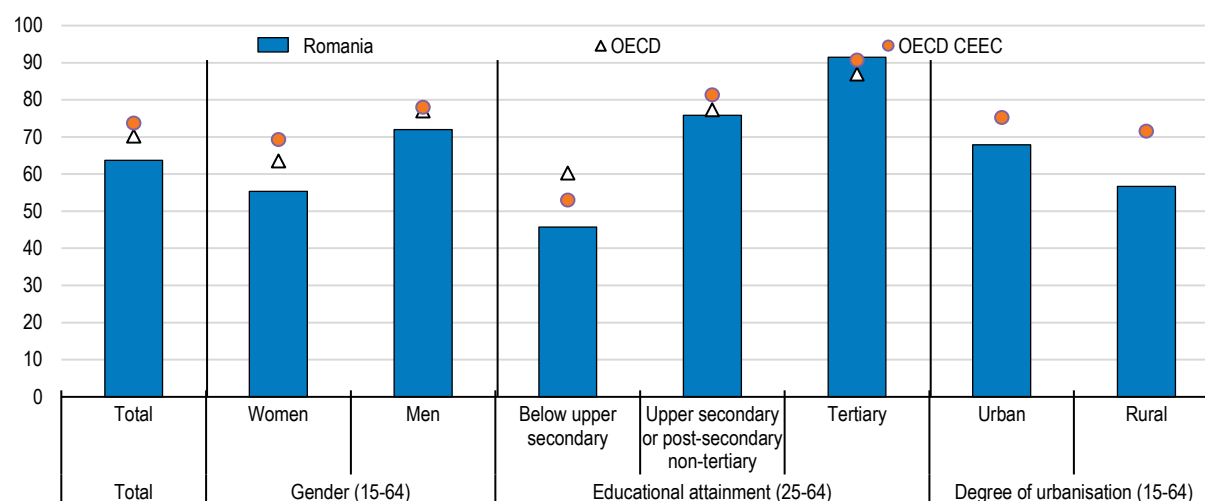
Reducing youth inactivity is critical to raising overall workforce participation, as prolonged detachment from education or work in early life has lasting labour market impacts. In 2024, 20% of Romanians aged 15-29 were not in employment, education, or training (NEET), a figure higher than most OECD countries (Figure 2.5, Panel A). The challenge is driven by inactivity rather than unemployment, concentrated among low-educated and rural youth. The NEET rate among youth with low education is particularly high, at 34.4%.

Rural-urban disparities in education contribute to high NEET rates. These emerge early on and persist as students evolve through the education system (OECD, 2025^[5]). Children in rural areas are significantly less likely to participate in early childhood education and more likely to drop out at primary and secondary levels. In 2023, early school leaving among 18-24-year-olds was 5% in cities but 26% in rural areas (Figure 2.5, Panel

B), and regional variation is wide, from about 6% in Bucharest to over 25% in Sud-Est. Similarly, educational outcomes of students from disadvantaged, rural areas, and Roma backgrounds consistently perform below their peers in PISA tests (OECD, 2023^[6]). High-quality early childhood education and care (ECEC) is critical for building foundational skills and reducing inequalities (see further below), with evidence that early investment yields high returns, particularly for children from disadvantaged backgrounds (OECD, 2025^[7]).

Figure 2.3. Employment rates for specific groups

Employment rates, 2024, % of the population in the sub-category

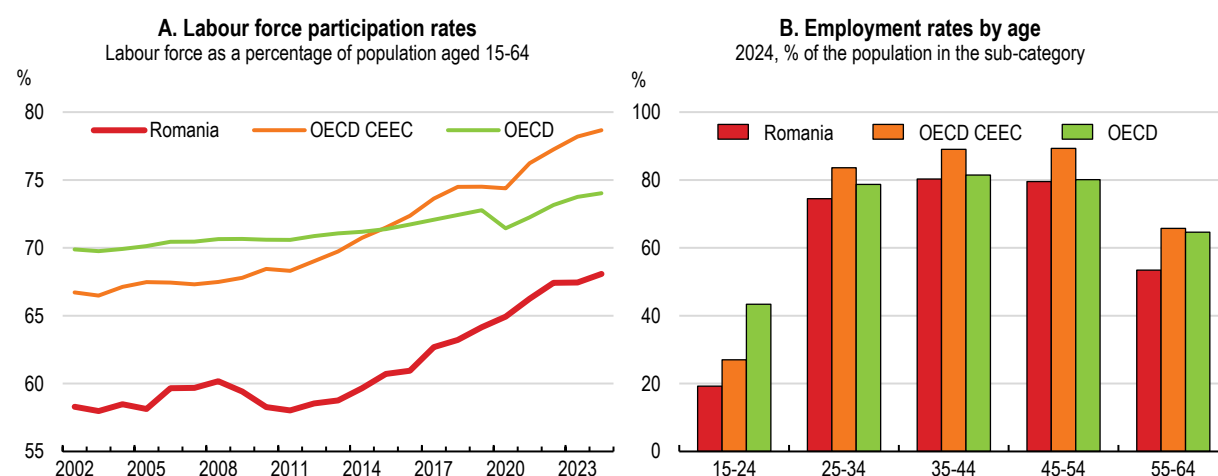


Note: OECD CEEC is a non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia. Data for OECD average by educational attainment refers to 2023. Urban employment rate is measured as the mean of the employment rates in cities and in town and suburbs.

Source: OECD Labour Force Statistics database; OECD Education at a Glance 2024 database; and Eurostat.

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Figure 2.4. Employment rates in Romania remain below CEE peers across all age groups



Note: OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Analytical database; and OECD Employment and unemployment by five-year age group and sex - indicators database.

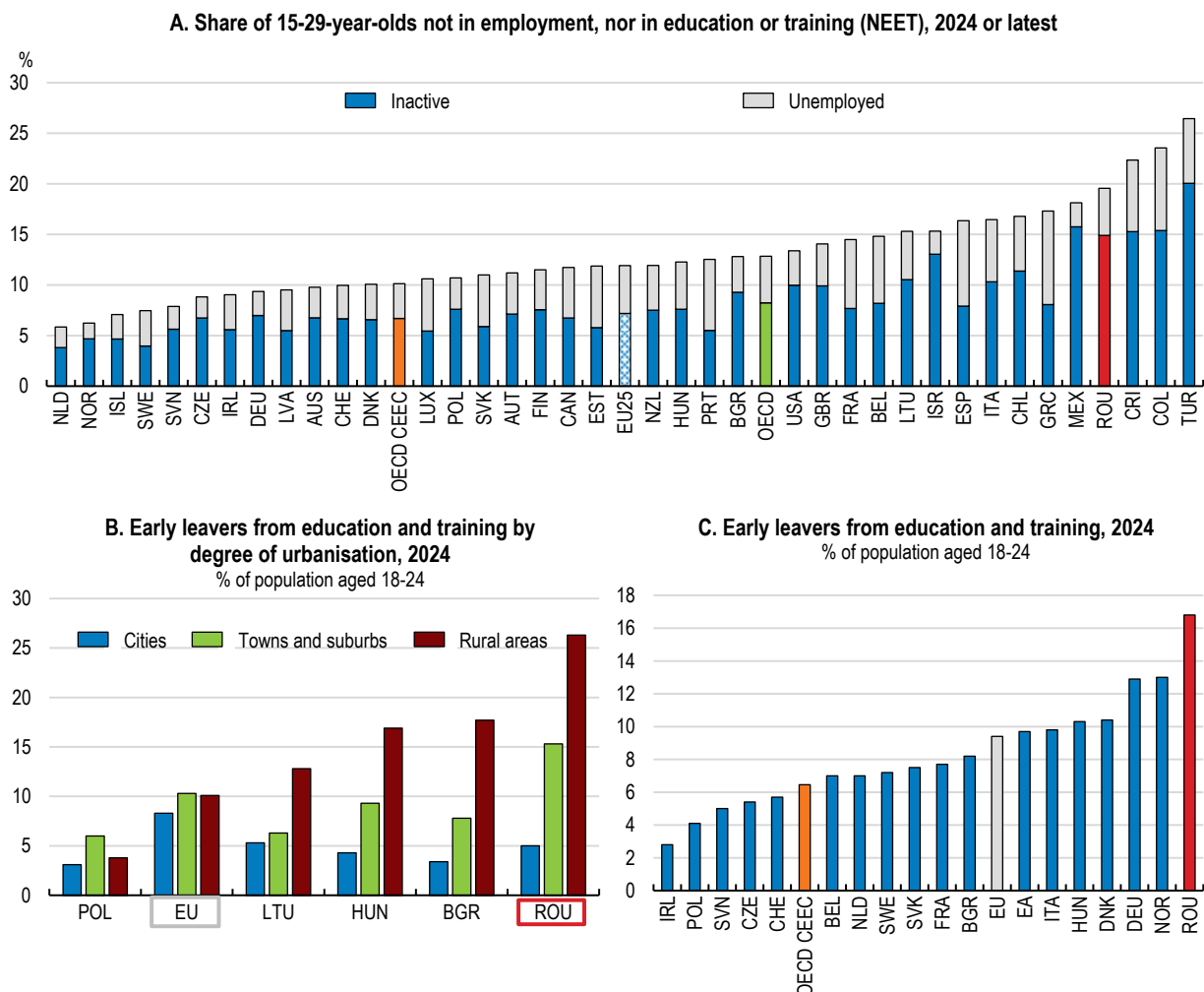
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Reducing school dropout rates

High dropout rates remain one of Romania's most pressing challenges, constraining labour supply and weakening youth employment outcomes. Early school leaving heightens the risk of long-term exclusion in an

increasingly knowledge-based economy (Kitchen et al., 2017^[8]). Only 48% of 25-34-year-olds without an upper-secondary qualification are employed, compared with 79% among those with one (OECD, 2024^[9]). In 2024, 17% of 18-24-year-olds left school before completing upper secondary education, nearly three times the CEEC average and well above the national target of 11.3% (Figure 2.5, Panel C).

Figure 2.5. The shares of NEETs and early leavers from education and training are high



Note: Panel A and C: OECD CEEC is a non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia. Panel B: data for Bulgaria and Lithuania in cities and in towns and suburbs are of low reliability.

Source: OECD Education at a Glance database; and Eurostat.

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Early school leaving is influenced by the lack of adequate access to quality high school education, particularly in rural areas. Nearly half of high school-aged youth live in rural areas, but these host only 16% of high schools, which contributes to much lower enrolment (below 60%, versus 83.5% in urban areas) (Petre et al., 2025^[10]). The 2023 Education Law revised school funding to direct more resources to small and rural schools and those enrolling disadvantaged students. Efforts to improve school access should continue, including by channelling additional resources, as planned, and be guided by evidence-based school network planning to ensure efficient resource use and coordination. OECD work offers practical guidance, drawing on lessons from countries that successfully reorganised their school networks (OECD, 2025^[5]). The National Programme for Reducing School Dropout (PNRAS), launched in 2023 with EUR 543 million from the RRP, shows promising results (World Bank, 2025^[11]). As a result, the programme will be extended to primary education in the next years, benefitting from EU funds. Additional measures include teacher training, remedial and after-school

activities, counselling, Roma mediators, career guidance, parental education, integrated community centres, and investments in educational equipment and software. The Early Warning Mechanism in Education (MATE) supports schools with real-time data on at-risk students.

Socio-economic barriers such as low parental involvement, weak family support, and long travel distances also drive early school leaving (Petre et al., 2025^[10]). About 32% of the high school-aged population must travel over 10 km to the nearest high school, heightening dropout risks during school transitions (OECD, 2020^[12]). Scholarships, second-chance programmes, and transport subsidies, could be expanded while the authorities could further promote equitable access by raising parental awareness, expanding school mediation, and integrating parental education into social services. The strategy for parental education adopted in 2024 and the new integrated community centres can support community-based approaches in this area. OECD comparative analysis also offers useful guidance on effective strategies drawn from other countries (OECD, 2025^[5]).

Improving the quality and labour market relevance of vocational education and training (VET) is key to tackle school dropouts. Dropout rates are especially high in VETs, where 57% of upper-secondary students were enrolled in 2022, and overrepresents socio-economically disadvantaged students (Cedefop, 2021^[13]). Current projects aim at enhancing dual VET pathways through closer ties with the industry, integrating general skills into VET curricula, and improving mobility across pathways, including higher education (see Chapter 4).

Strengthening ALMPs and activating young NEETs

Participation in education and training is low, including among the youth, and particularly in rural areas and among the lower-skilled. The lack of training opportunities and low awareness contribute to a persistently high share of NEET (OECD, 2025^[5]). Expanding adult learning and reskilling opportunities, especially for vulnerable groups, requires additional resources for active labour market policies (ALMPs) and public employment services (PES). Previous *Surveys* have highlighted the need for additional resources toward upskilling, counselling, and job-matching services to improve the long-term effectiveness of employment support (OECD, 2022^[14]). Greater investment in ALMPs remains necessary, including personalised job-search support and training to help unemployed individuals acquire new skills and transition to better jobs. EU funding via the European Social Fund and Youth Guarantee provides resources, but absorption is constrained by weak administrative capacity and low-quality project preparation. A welcome initiative is the *SMART PES* project, funded by the EU until 2029, which aims to modernise and expand staff capacity of the PES so it can better support jobseekers and employers by offering more personalised, better-adapted services.

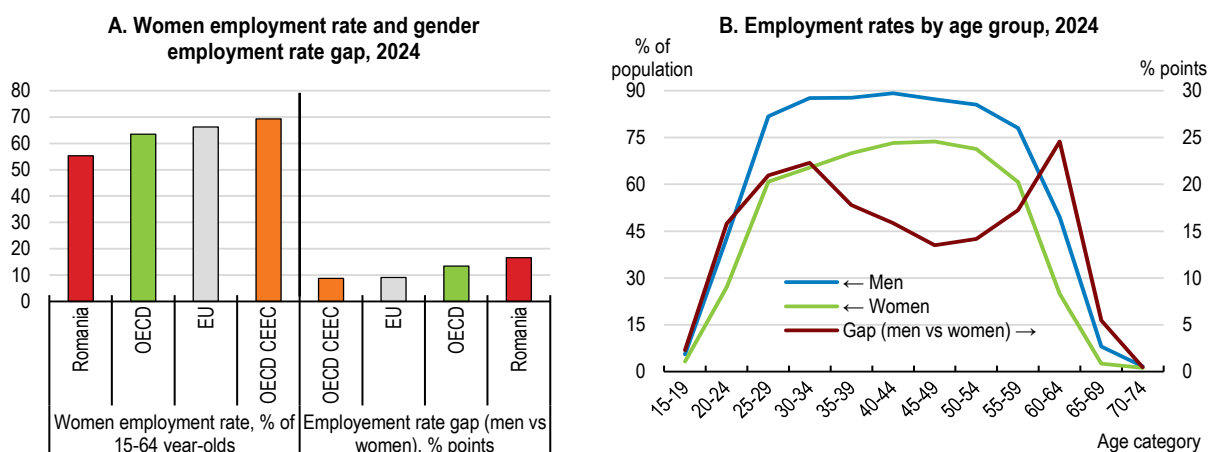
ALMPs and PES in Romania need strengthening. Most ALMPs focus on employment subsidies for low-skilled workers: in 2020, over 90% went to employment incentives (versus 25% on average in the OECD), while only 7% was devoted to training (versus an OECD average of 33%). Such subsidies primarily target inactivity among the low-educated (OECD, 2022^[14]). These programmes should be evaluated to assess their cost-effectiveness, and on that basis, their design could be fine-tuned and potentially expanded. Evidence from a group of EU OECD countries showed that evaluation of existing ALMPs can be an effective way to improve alignment with national and local labour market needs and to improve the matching between employers and jobseekers (OECD/European Commission, 2025^[15]).

Few jobseekers register with the National Agency for Employment (NAE). By strengthening outreach to inactive NEETs Romania could increase participation in training programmes and skills certification, particularly amongst marginalised groups, such as rural populations, NEET and Roma. The INTESPO project, conducted community outreach in 2017-2022 to increase participation of NEET youth in ALMPs, providing 180 000 youth with an individual activation plan. Romania should reiterate such initiative, scale it up and back it with sustained funding. In parallel, Romania could create a centralised digital platform listing all available training and support options to improve access and coordination (OECD, 2025^[5]).

2.2.3. Supporting female employment

Low female employment is a key factor of Romania's low overall labour market participation. Closing half of the employment gap between men and women of all ages would increase the labour force by around 7.2%. In 2024, only 56% of women were employed, well below the OECD (63%) and CEEC averages (70%) (Figure 2.6, Panel A). As of 2023, only 28% of women with primary education were employed. By contrast, the gender employment gap nearly disappears at higher education levels. Despite girls and women achieving equal or better educational outcomes than boys and men (OECD, 2024^[9]), the gender gap is high by OECD standards, at 17 percentage points (or around 1.1 million people), reflecting structural and social barriers. The gap is widest in rural areas, particularly among less educated households, and among Roma communities. The gap is high among women of childbearing age (Figure 2.6, Panel B), particularly mothers of young children: only 60% of mothers with children aged 0-14 were employed in 2021, compared with an OECD average of 72%. A large gap also exists among women aged between 55 and 65, reflecting Romania's lower female statutory pension age (62 in 2023), which reduces financial penalties to early retirement for women. Recent pension reform will raise women's pension age towards that of men (65 in 2023) by 2035, which is likely to contribute to higher employment rates among older women.

Figure 2.6. Employment rates by age group and gender gap in employment



Note: In panel A, OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Labour Force Statistics database.

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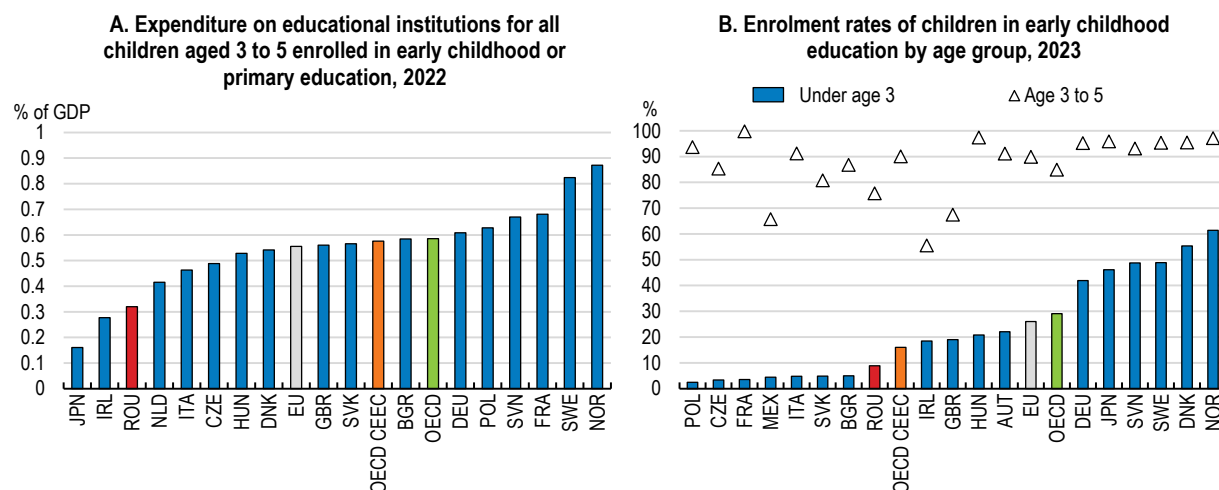
Strengthening childcare provision and incentivising return to work after childbirth

Romania faces shortages of affordable high-quality childcare (OECD, 2025^[16]). In 2023, less than 10% of children under three were enrolled in childcare, well below the OECD average of 29% (Figure 2.7, Panel B), with the largest gaps among low-income families, rural populations, and Roma communities (OECD, 2025^[16]). Public early childhood education and care (ECEC) is free from two months, but shortages of facilities and trained staff restrict access, preventing many mothers from re-entering work after childbirth. Limited formal ECEC infrastructures for early development (ISCED 01) forces around half of Romanian children into informal care which constrains mothers' employment and pressures older women to leave the labour market (OECD, 2024^[17]). Enrolment in pre-school education remains relatively low too: in 2023, only 76% of children aged 3-5 were enrolled in pre-primary education, below the OECD average (85%) and most Central and Eastern European peers (Figure 2.7, Panel B).

Recent reform of ECEC includes promising steps, but to be effective it needs to be paired with concrete budget resources. Public expenditure on ECEC is close to the lowest levels in the OECD countries and well below other CEE peers (Figure 2.7, Panel A). The starting age of compulsory education to four and the establishment of a unified governance framework were introduced in 2021, and a standard cost per child for nurseries

accompanied these changes in 2022. These steps provide a foundation for more coherent and sustainable ECEC provision (OECD, 2025^[5]). OECD analysis recommends prioritising public spending toward early and primary education to strengthen equity and future skills (OECD, 2025^[5]), though Romania's whole education system also faces broad funding gaps (see Chapter 4).

Figure 2.7. Spending on early childhood education is low



Source: OECD (2025), Education at a Glance 2025: OECD Indicators, OECD Publishing, Paris, <https://doi.org/10.1787/1c0d9c79-en>.

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Refocusing family benefits towards ECEC, rather than long parental leave, can reduce disincentives for maternal employment while also encouraging a fairer division of care. Romania currently provides up to two years of parental leave with an 85% income replacement rate, double the OECD average. This long parental leave results in long employment breaks (OECD, 2025^[5]), despite some financial incentives to encourage return to work upon giving birth (through a return to work bonus) or to combine work with parental leave. Consequently, gradually shortening leave duration or tapering benefits, as in Hungary and Finland, could support earlier return to work (OECD, 2025^[18]), with savings redirected to expand childcare. However, expanding ECEC capacity is an essential prerequisite for such reform to be effective, as it is necessary to enable more parents to work. Moreover, stronger incentives for fathers such as non-transferable leave entitlements, could promote more balanced care (Earle et al., 2025^[19]). Despite a recent extension of parental leave reserved to fathers to two months, it is still below the OECD average of three months. Although almost all parental leave can be claimed by fathers, they still rarely take it up. Other OECD countries have introduced non-transferable leave entitlements (e.g. Sweden) or bonuses for shared leave (e.g. Germany, Italy, Canada). Design considerations are key in driving father's leave uptake (Box 2.2).

Box 2.2. Adequate pay and incentives for fathers can boost father's take up: Germany's case

International experience highlights that the design of parental leave play central role in driving father's uptake of parental leave. Evidence shows that fathers are far less likely to take leave if it is unpaid or compensated only with a low-rate payment. However, financial support alone is insufficient: effective policies also require structural incentives, such as "father quotas" or bonus periods, to actively encourage participation. Germany provides an example. In 2007, the country replaced a low, means-tested flat-rate allowance with an earnings-related benefit covering ten months, and introduced an additional two "bonus" months if both parents each take at least two months of leave. This combination of adequate compensation and well-designed incentives substantially increased fathers' use of parental leave, demonstrating how pay and policy design together shape take-up.

Source: (OECD, 2025^[20])

Promoting flexible work arrangements

Flexible work options, such as part-time and remote work, can help reconcile work and family responsibilities. These remain uncommon, with only 2% of both men and women employed part-time. Labour regulations, including bans on overtime for part-time contracts and mandatory pension contributions based on full-time minimum wages, limit flexibility for low-wage workers (OECD, 2024^[17]). Expanding teleworking and easing restrictions on part-time employment could improve labour market participation, particularly in rural areas with limited local employment opportunities, while supporting work-life balance. At the same time, more part-time work may also have some negative effects on the labour supply by incentivising some of the women who currently work full-time to move to part time work.

Addressing broader social and institutional barriers to women's workforce participation

Uneven sharing of unpaid work constraints the labour market participation of women. Women spend more than twice as much time as men on childcare and are more often responsible for caring for elderly relatives (World Bank, 2023^[21]). Traditional norms remain deeply rooted, with nearly 60% of Romanians believing a woman's primary role is caring for home and family (Eurobarometer, 2024^[22]). Public awareness campaigns and promotion of gender equality in education and career choice can influence traditional gender norms and encourage more balanced sharing of unpaid care responsibilities, particularly if paired with improvement in provision of care activities.

Tackling the low female labour force participation in Romania also requires addressing broader social and institutional barriers. Strengthening workplace anti-discrimination enforcement is essential to ensure equal access to jobs and career progression. Targeted active labour market policies – such as re-skilling and support for women returning to work – can also improve outcomes. While Romania's has a relatively low gender wage gap, women remain underrepresented in leadership roles, with only 21% of board seats and 33% of manager positions (versus respectively 34% and 35% in the EU average), showing scope for further progress in this area (Eurostat, 2025^[23]).

Strengthening formal long-term care could support female workforce participation

Limited access to formal long-term care (LTC) services can be a barrier to female employment. Evidence shows that, in the absence of formal care options, women disproportionately assume caregiving responsibilities, leading to lasting negative effects on their labour market participation (Schmitz and Westphal, 2017^[24]). Romania's 2023-2030 national strategy, supported by up to EUR 800 million from cohesion funds, started projects to develop facilities and train workforce. Romania should accelerate development of training to build the necessary workforce while also developing LTC facilities. Romania can also draw on international experience to facilitate the skill recognition of informal carers through certification pathways, as in France and Italy, or through support for informal carers such as paid care leave, respite care, and subsidised pension contributions, as in France, Germany, and Slovenia (Bruegel, 2025^[25]). Useful lessons may be drawn from

Croatia's *Make a Wish programme*, which employs older unemployed women as public workers to provide basic care senior citizens and disadvantaged persons in rural areas (OECD, 2025^[26]).

Table 2.1. Past recommendations on strengthening female workforce participation

Recommendations in previous Surveys	Actions taken since 2023 Survey
Build on past efforts to reserve more parental leave for fathers. As supply of affordable childcare improves, consider reducing the duration of paid child-raising leave, and encourage a more equal sharing among parents	No action taken.
Expand access to quality formal early childhood education and care.	The implementation of the <i>SU-ETIC</i> project started in 2025 to develop a unitary system of early childhood education and care. NGEU funds are being used to establish new childcare services.
Follow through on planned investments to improve the supply and quality of long-term care services.	Romania continued investing in community and home-care services, focusing on vulnerable groups, and workforce training.

2.2.4. Enhancing the employability of older workers

Sustaining labour supply in Romania's ageing population will increasingly depend on enabling people to work longer. Participation among those aged 55-64 has grown markedly over the past decade, from 33% in 2014 to 53.4% in 2024, but remains low by international standards - especially after age 60 (Figure 2.8) and among older women (43% versus 64.6% for men). The recently adopted pension reform encourages longer careers by aligning women's retirement age with men's, linking statutory retirement age to life expectancy, while tightening early retirement options and better rewarding longer careers. Yet, to effectively translate these reforms into longer careers, complementary policies are needed to support better health (see further below) and employability, ensuring older people can remain in good quality employment until retirement.

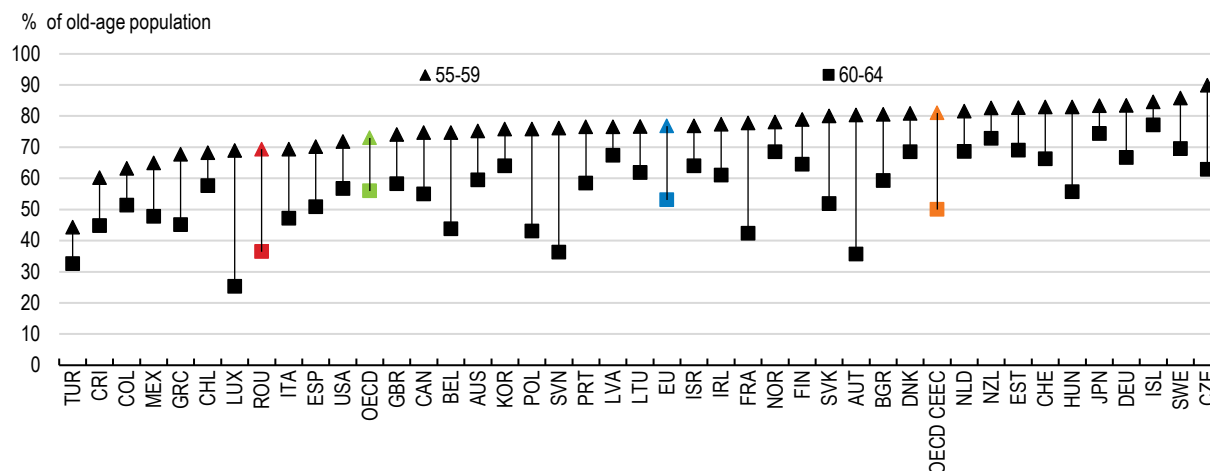
Low skill levels and poor access to training constrain longer and more productive careers. Many older workers lack basic and digital skills, which limits employability in an increasingly technology-driven labour market. Expanding adult learning and re-skilling opportunities – currently among the lowest in the EU – is fundamental, particularly for the low-skilled (see Chapter 4 for a further discussion). Strengthening incentives for firms to invest in older workers' training and reinforcing ALMPs can help maintain labour market ties. Skill-building remains marginal in current ALMPs for older workers.

Policy efforts should increasingly focus on retaining older workers. The main policy instrument is a subsidy scheme, revised in 2022, providing RON 2 250 (about EUR 440) to employers hiring unemployed individuals over 45 for at least 12 months, if employment continues for 18 months. Participation is limited, partly due to administrative complexity and low awareness (OECD, 2018^[27]). Evaluation could identify barriers and inform improvements, such as simplifying applications, linking subsidies to skill shortages, or adding training commitments. Well-designed schemes with post-subsidy employment requirements can improve older workers' employment (Eurofound, 2025^[28]). More flexible wage setting can support employment, especially where rigid seniority-based pay disconnects wages from productivity (OECD, 2025^[29]).

Flexible work arrangements can help older employees manage health concerns, caregiving responsibilities, and the transition into retirement, thereby support longer workforce participation. International experience shows that part-time, phased retirement options, job-sharing, and adapted workloads can encourage older employees to remain active while accommodating changing capacities (OECD, 2025^[29]), but such arrangements remain uncommon in Romania. Reforms in 2024 have extended flexible retirement pathways and strengthened incentives to prolong work. In 2023, only 2% of pension receipts remained in employment, the lowest in the EU (ESPAN, 2025^[30]). Romania could promote firm-level age management to facilitate internal mobility, e.g., older managers taking mentoring or advisory roles and blue-collar workers moving to less physically demanding roles. Finally, support for displaced older workers should combine re-training, job-matching and incentives to hire older displaced workers.

Figure 2.8. Employment rates of older workers in Romania are low

Employment rates of older workers, 2024



Note: OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD, Employment and unemployment by five-year age group and sex - indicators dataset.

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Combating age bias in recruitment and workplace practices is important, as stereotypes about lower productivity or adaptability can discourage employers from hiring or retaining older workers. While strong anti-discrimination laws exist, enforcement can be challenging due to financial and procedural hurdles when pursuing discrimination claims. Public awareness and shifts in media representation help combat negative attitudes (OECD, 2025^[29]). In Romania, communication about ageism is almost non-existent (National Federation Omenia, 2023^[31]). In other OECD countries, strategies combining public awareness campaigns, employer incentives, and age-inclusive human resource practices – such as Finland’s longstanding active age-management programmes – have proven effective in shifting employer attitudes and improving retention. Addressing employment barriers related to discrimination and stereotypes faced by women and Roma people when accessing employment is also essential.

2.3. Strengthening health outcomes

Health outcomes play a major role in influencing labour force participation and retirement decisions, especially as the workforce ages and people work longer. Poor health drives early labour market exit (Pinna Pintor, Fumagalli and Suhrcke, 2024^[32]), leads to absenteeism, reduces productivity, and often exacerbates pre-existing inequalities (OECD/WHO, 2015^[33]). Individuals in poor health also encounter barriers such as physical limitations and workplace discrimination, with detrimental effects on employment rates, which in the OECD are consistently lower for individuals with long-term illnesses (OECD, 2025^[29]). In Romania, deteriorating health has been reported as a leading cause of early labour market exit among older workers, largely due to the high incidence of non-communicable diseases (Eurofound, 2025^[28]). Hence, prolonging healthy lives is essential to support longer working lives.

Despite improvements, health outcomes in Romania remain below the OECD average. Life expectancy at birth reached 76.6 years in 2024, a marked increase from 71 in 2003. Yet, gender and education gaps remain significant: men live almost eight years less than women, and highly educated people seven years longer than the least educated. Preventable and treatable mortality rates are high (Figure 2.10), contributing to high levels of working-age deaths. As they remain for longer in the workforce, many older workers are increasingly vulnerable to poor health conditions. At age 50, Romanians have only 13.2 healthy life years, the second lowest in the EU.

2.3.1. Improving prevention and healthcare quality

Allocating more resources to prevention activities would be a cost-efficient way to improve health outcomes. Romania's National Health Strategy 2022-2030 and Operational Health Programme 2021-2027 focus on prevention and primary care (see further below), but as of 2023 the share of total health spending linked to prevention (1.2%) and primary care (9%) remained well below OECD averages (5% and 13%), while hospital expenditure exceeds the OECD average (OECD, 2025^[34]). Effective prevention requires shifting health budgets towards public health, improving health literacy, nudging behaviour through campaigns and regulation, and involving primary care providers in disease prevention. OECD analyses show the strong economic case for investing in prevention, with large positive economic returns (OECD, 2021^[35]).

Improving workplace safety and working conditions

Physically demanding jobs contribute to poor health and early labour market exit in Romania (Eurofound, 2025^[28]). A large share of workers is employed in manual sectors such as agriculture, construction, manufacturing, and mining, which are associated with higher rates of occupational accidents and chronic health problems, particularly among the lower-skilled workers (Mihail et al., 2023^[36]). Although accident rates have declined, they remain well above the EU average. The prevalence of undeclared work in Romania also likely undermines occupational health and safety (OHS) standards, as informal workers are less likely to benefit from inspections, insurance, or protective equipment.

Strengthening occupational health and safety, improving working conditions, and fostering supportive workplaces can contribute to extend healthy working lives. Research on Romania highlights the need to change attitudes and behaviours of employers and employees to nurture an effective safety culture (Neag and Gaureanu, 2019^[37]). Expanding preventive occupational health services, alongside information campaigns on occupational hazards, pollution, and harmful behaviours such as alcohol use and smoking, would help improve health at work (WHO, 2018^[38]). Finally, tackling undeclared employment and reinforcing labour inspections would ensure compliance and protection for workers (see Chapter 1).

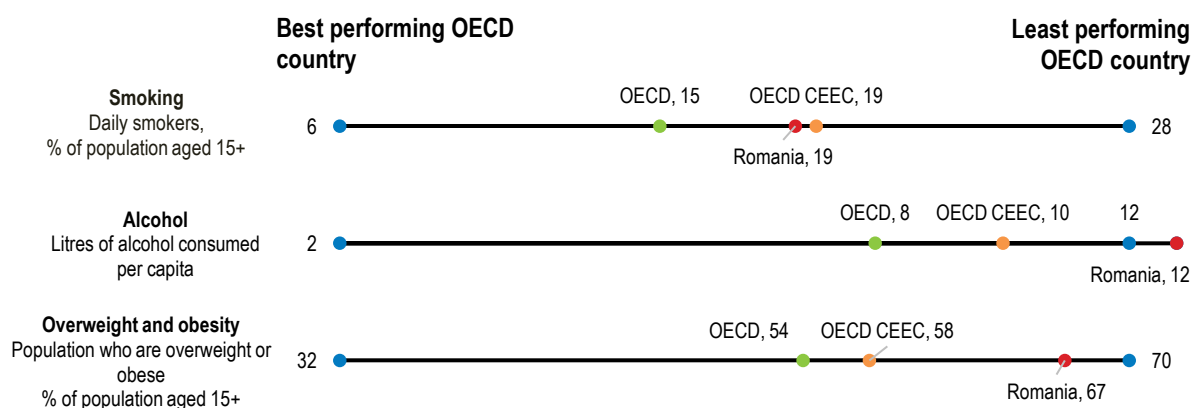
Encouraging healthier lifestyles and reducing risk behaviours

Behavioural risk factors - smoking, obesity, alcohol use, and unhealthy diets - account for nearly a third of all deaths recorded in Romania (OECD/WHO, 2025^[39]). Tobacco and alcohol use are well above the OECD average (Figure 2.9), particularly among men. Adult overweight and obesity are high by OECD standards (OECD, 2025^[34]). Poor dietary habits such as low fruit and vegetable consumption and high intake of sugary drinks are also widespread (OECD/WHO, 2023^[40]).

Restrictions on tobacco and alcohol consumption should be strengthened and access to healthy foods could be further promoted. Addressing behavioural risk factors such as smoking, harmful alcohol use, and poor diet is essential for strengthening the prevention of non-communicable diseases (NCDs). In 2024, Romania has taken additional measures going in that direction, including a sales ban for tobacco for minors and limits on advertising and online sales, together with a ban on selling foods high in fat, salt, and sugar in schools and nearby premises. Further measures could be taken, such as plain cigarette packaging and tighter restrictions on regulation on advertising and point of sales of tobacco and alcohol, which are particularly important to limit consumption among adolescents (OECD, 2025^[34]). Higher taxation can help reduce tobacco and alcohol consumption and promote healthier diets. Romania has recently taken steps to curb unhealthy behaviours, including a 2024 "sugar tax" on beverages with added sugars, and raised the VAT on sugary foods and alcoholic drinks. In August 2025, Romania increased excises on tobacco and alcohol and set a path for future hikes but taxes on these items will remain relatively low and should be raised gradually.

Figure 2.9. Behavioural risk factors associated with smoking and alcohol use are high

Risks factors over the population aged 15 and over, 2023 or latest available



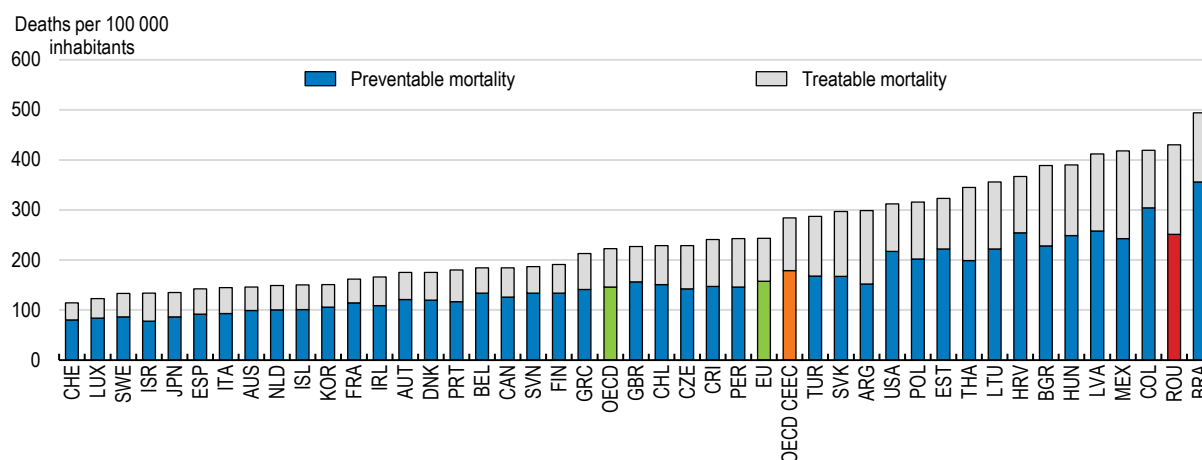
Note: OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: (OECD, 2025^[34])

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Figure 2.10. Avoidable death in Romania is high

Avoidable mortality rate, 2023 or latest available



Note: OECD, EU and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Health Statistics database.

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Improving health literacy is essential to promote healthier behaviours and greater use of preventive services. The National Public Health Strategy (Ministry of Health, 2022^[41]) rightly prioritises health education in schools to build awareness from an early age, while stronger communication campaigns through traditional and social media could further promote behavioural change. Moreover, Romania has implemented community-based initiatives to facilitate access of vulnerable groups to basic health services, including through outreach by community nurses and health mediators recruited from Roma communities. This can strengthen trust and awareness in disadvantaged areas, supporting healthier behaviours and indirectly labour force participation by reducing preventable illness (OECD, 2025^[34]).

Shifting focus towards primary care and prevention

Weaknesses in primary care contribute to low screening rates, poor chronic disease management and avoidable hospitalisations (OECD, 2025^[34]). Expanding the role of general practitioners (GPs) in early

detection, care coordination and information sharing would improve outcomes, but reforms must also address an ageing GP workforce and declining interest in family medicine (OECD, 2025^[34]).

Recent reforms aim to strengthen prevention and NCD management in primary care, for instance authorising them to prescribe certain antidiabetic drugs and shifting non-complex diabetes cases to primary care. However, administrative burden and limited equipment hinder effective screening and risk stratification (Pillars of Health, 2022^[42]). Annual preventive consultations and risk-based screening through the “riskogramme” are increasingly incentivised. Some fee-for-service payments exist (e.g. for vaccinations or monitoring chronic diseases) and a new pay-for-performance mechanism increased these (Zapata et al., 2025^[43]), but practitioners are still significantly paid through capitation (i.e. a fixed sum per registered patient), at about 40% on average, which can discourage preventive services. Expanding performance-based fees and reducing the associated administrative burden could strengthen screening and follow-up. Patients also often bypass GPs for specialists or emergency care for non-urgent needs, diminishing their role as coordinator.

Improving digital health systems is essential to delivering integrated, efficient care, including better coordination between primary care and other providers. Romania lags EU peers in the use of electronic health records (European Commission, 2025^[44]). Health data is fragmented and lacks interoperability (OECD, 2025^[34]). The forthcoming *National digital health strategy* and the new *National Agency for Digital Health*, support by EUR 442 million from RRP funds aim to integrate eHealth records across care providers, create national cancer and diabetes registries, and expand telemedicine (European Commission, 2023^[45]).

Swift implementation of the National Cancer Plan is essential. National cancer screening programmes are largely lacking, except for cervical cancer (OECD/European Commission, 2025^[46]), and current programmes lack coordination and consistent implementation. Insufficient screening equipment also affects cancer care quality. New mobile units financed under the Recovery and Resilience Plan (RRP) to provide breast and cervical cancer screening in underserved areas, and pilot projects using health mediators to encourage Roma populations to participate in screening are positive initiatives.

Stronger emphasis on primary care would enhance efficiency by shifting care to more appropriate, less resource-intensive settings. Efficiency gains could also be achieved by curbing hospital spending, for instance by reallocating underused beds identified by Regional Health Services Masterplans to day care or long-term care, or reducing excess capacity (OECD, 2025^[34]). The National Health Strategy 2022-2030 and the Operational Health Programme 2021-2027 support this transition, is backed by NRRP funding but additional resources will be needed to ensure its full implementation.

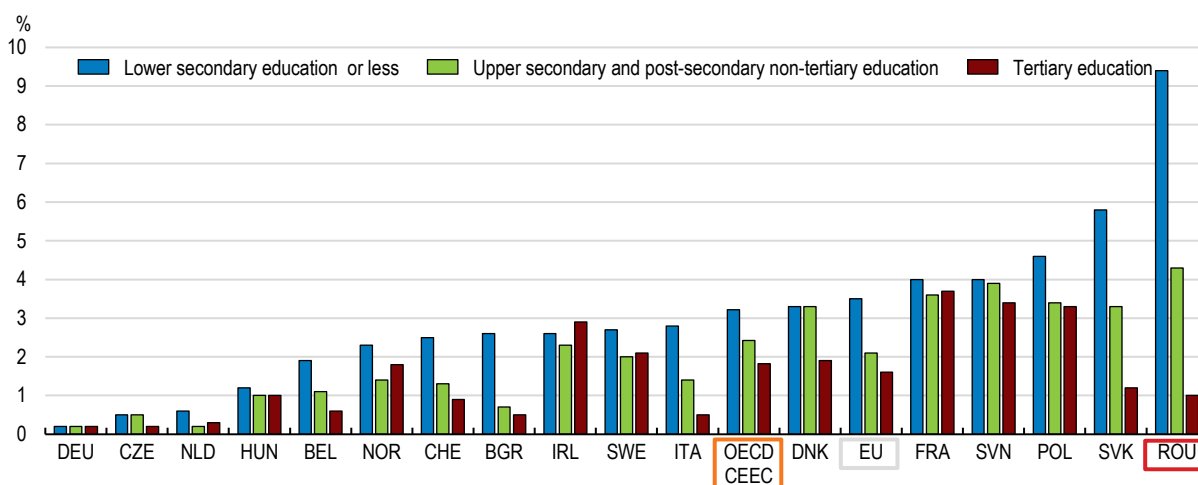
2.3.2. Addressing gaps in access to healthcare

Unmet medical needs remain high, particularly for vulnerable groups

Rural healthcare access remains limited, with over 40% of Romanians, including many Roma populations, living in rural areas where access to healthcare remains a persistent challenge due to concentration of health facilities and staff in urban centres. Poor transport networks exacerbate disparities. As of 2022, more than 90% of doctors and over 95% nurses with higher education were based in urban areas (National Institute of Statistics, 2024^[47]). Unmet medical needs in Romania are among the highest in the OECD (Figure 2.11). Unmet needs are nine times lower among those with tertiary education than among those with lower secondary education or less (Figure 2.11). High out-of-pocket costs drive unmet medical needs (i.e. treatment or examination), particularly among vulnerable groups. In 2023, 22.7% of outpatient medicine costs were borne by patients, above the EU average of 15.5%. Social safety nets partially mitigate this, but expanding publicly covered services, revisiting cost-sharing arrangements, and promoting cost-effective prescribing could reduce unmet needs and protect households from catastrophic spending.

Figure 2.11. Unmet medical needs are high for lower income people

Share of people aged 16 years and over reporting unmet needs for medical examination or treatment due to being too expensive, too far to travel or waiting lists, by level of education, 2023



Note: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: Eurostat.

StatLink  <https://stat.link/cvorqn>

Gaps in insurance coverage exacerbate care affordability challenges. Access to the *comprehensive basic benefits package* is tied to contribution payments (with some exceptions), excluding many informal workers and unregistered individuals – including many Roma populations, and some self-employed workers. The recent removal of free coverage through spouse's co-insurance could further increase the uninsured share, which was around 11% of the population in 2024, over five times the OECD average (OECD, 2025^[34]). Uninsured individuals receive a state-funded minimal package, expanded in 2023, which covers services such as emergency care, pregnancy, primary care, and screening recommended by GP. However, uninsured patients still pay out-of-pocket for outpatient medicines, other laboratory tests and imaging services, while informal payments continue to undermine access to care.

Addressing health workforce shortages

Persistent shortages of doctors and nurses, especially in rural areas, continue to constrain access to care. Romania's doctor's density has increased and is now close to the OECD average, but nurse density remains lower, emigration continues, and rural shortages persist. While outflows of medical staff have moderated, 60% of doctors under 35 still consider migrating due to poor infrastructure and working conditions (Ministry of Health, 2024^[48]). While the demographic profile of Romania's medical workforce is young, with 63% of physicians other than family medicine being under 45 years old, the ageing profile of family doctors is concerning (Zapata et al., 2025^[43]): only 2.2% of GPs are under 35 and nearly half are aged 61 or older (OECD, 2025^[34]). Thus, a key challenge is to train and incentivise enough new doctors to pursue career paths in family medicine. Declining numbers of practising GPs over the past few years (Ministry of Health, 2022^[41]) reflect lower perceived career opportunities and emigration among young doctors (OECD Health Review 2024). This puts primary care under additional pressure.

The *Multi-Annual Strategy for Human Resources in Health 2022-2030* (Ministry of Health, 2022^[41]) provides a solid framework to improve education, recruitment, and retention of the health workforce while reducing imbalances, including those across urban and rural areas. It promotes improved workforce planning through a new *National Registry of Healthcare Professionals* aimed to better anticipate future needs (James et al., 2025^[49]). Although the strategy is well detailed, with assigned responsibilities and monitoring and evaluation indicators, it needs to be backed by a dedicated budget to effectively address workforce challenges.

Enhancing access to care in underserved areas

The on-going expansion of community care centres under the RRP is a positive step toward strengthening primary and preventive care for vulnerable populations, including in rural areas in the Roma community. Romania aims to expand community health centres, giving greater responsibility and coverage. It aims to establish or upgrade 54 integrated community centres in rural and underserved regions (European Commission, 2024^[50]), by enhancing logistics and equipment such as laboratories for basic diagnostics, dental offices, and specialty medical equipment. By integrating primary healthcare, health mediation, and social work, these centres can create new jobs and deliver comprehensive and coordinated primary care, while also allowing for coordinated recruitments and actions of GPs, specialists, and nurses. Successful operation of community centres critically depends on training and attracting health professionals.

The *Multi Annual Strategy for Human Resources in Health* provides guidance to local authorities on recruiting and retaining health professionals in underserved areas. Romania offers strong financial incentives for family doctors - including pay rises in remote areas and lump-sum relocation payments - but recruitment and retention remain difficult. Effective implementation requires strong local mobilisation, as hospitals are locally governed, and independent family practitioners are contracted by district health insurance funds. Collaboration with local governments to improve housing, education, and digital administrative support for new practices can be an effective strategy to support local recruitment (OECD, 2025^[34]). Continued investment in healthcare facilities and growing private sector involvement can also support retention by improving working conditions, though the development of private healthcare requires attention to avoid exacerbating inequities in access to care. Targeting students from rural backgrounds and promoting rural clinical placements in primary care could strengthen recruitment and retention in underserved areas (OECD, 2025^[34]). There is also scope for improving the pay and working conditions of community nurses to incentivise more to follow such career path and to stay in rural areas.

Mobile medical units and telemedicine can facilitate access in underserved areas. Recent legislation allows doctors and health workers to provide check-ups, preventive screenings and treatments in mobile units even if employed elsewhere (OECD, 2025^[34]). Ten RRP-financed mobile caravans now provide cervical and breast cancer screening in underserved areas. Telemedicine could also help address access gaps, particularly in rural areas, while also improving efficiency. Regulatory changes during COVID-19 facilitated teleconsultations, but telemedicine is still not supported by a secure, centralised platform and remains limited. A national digital health strategy is under development, backed by the RRP, including the creation of a National Agency for Digital Health to oversee integration and telemedicine expansion.

2.4. Tapping potential from return migration and labour migration

2.4.1. Facilitating the return of Romania's diaspora and their re-integration

Encouraging and facilitating return migration can help support Romania's workforce. Nearly one in five working-age Romanian-born individual resides abroad. This makes Romania's diaspora the seventh largest diaspora living in OECD countries, with about 3.9 million Romanian emigrants above age-15 residing in OECD countries in 2020/2021, up from 3.4 million in 2015/2016. On average younger and more educated than the resident population (OECD, 2019^[51]), this diaspora represents a sizeable pool of potential workforce. Plus, returnees' integration is facilitated by cultural ties, language skills, and familiarity with the country. Return migration has increased since the mid-2010s (Figure 2.12). However, emigration remains high, albeit stable.

Progress towards convergence with European living standards represents the main pathway to reversing net emigration and retaining Romanian workers (OECD, 2025^[16]). This requires better job opportunities, higher wages and improved public services, which are ultimately the most effective levers to curb emigration and encourage return migration. Accordingly, the policies discussed in Chapter 4 to strengthen competitiveness and raise labour productivity are critical. Also important is the provision of social services, particularly

affordable childcare, high-quality healthcare and education, adequate social protection, and good-quality housing (OECD, 2019^[51]).

Romania has introduced some financial incentives to encourage the return of Romanian migrants and retention. Some efforts to improve working conditions in key sectors, such as rising public-sector salaries since 2017, particularly in health, have encouraged retention and return. Other financial incentives include several labour market support measures for returnees registering to PES, such as an instalment premium for those resettling after at least three years abroad and access to the Start-Up Nation programme which aims to support returning entrepreneurs. However, to ensure sustainable wage growth, Romania's retention policies must maintain a balanced approach towards fiscal sustainability and competitiveness considerations.

Romania could benefit from a more proactive engagement towards its diaspora as regards return and employment opportunities. Broader information on job and business opportunities could be made available to Romanians abroad, including through more effective outreach by embassies, though this would require a better registry of Romanians abroad. The lack of reliable data when it comes to the diaspora is an important shortcoming. A comprehensive research programme on both actual and prospective migrants could inform future policies, by integrating inputs from stakeholders such as local authorities, host countries, and universities that are undertaking studies on migration. A more comprehensive strategy could also better involve businesses (OECD, 2025^[16]). The National Agency for Employment (NAE), as a member of the European Employment Services (EURES), currently provides information about job opportunities at home for long-term Romanian emigrants, coordinating with labour attachés in the embassies of the main diaspora destinations, who promote job opportunities and NAE services. However, these efforts to encourage return migration are nevertheless constrained by limited support from destination-country institutions and by the relatively low engagement of Romanian employers in recruiting workers back from abroad (OECD, 2025^[16]).

Integration policies for returnees remain underdeveloped and lack coordination. Prime-age men and highly educated returnees fare worse than their non-migrant peers (OECD, 2019^[51]). *The National Strategy for Romanians Abroad 2023-2026* makes reintegration a priority (Government of Romania, 2022^[52]), but implementation gaps persist. Registered returnees (and migrants) have access to labour market activation measures, but these are weakly targeted and poorly aligned with labour market needs; as for other population groups, improving ALMP is necessary.

Stronger and better coordinated integration support would facilitate labour market re-integration of Romania's diaspora. Support for job search and administrative procedure could be provided through an integrated return portal managed by the Department for Romanians Abroad (OECD, 2025^[16]). Such a portal could consolidate currently scattered guidance – covering employment, recognition of foreign qualifications and experience, relocation, housing, pension rights, and general administrative services to ease the reintegration of returning migrants. International experience, such as *Returning to Ireland*, shows that such portal can be effective in expanding the reach of diaspora engagement. Integration services could be further enhanced by complementing available information on recognition and equivalence of diplomas, progression experience, and qualifications with individualised guidance and through personalised support to ease access to social services and schooling to returning families. Language courses for second-generation returnees and training in high-demand sectors could improve outcomes too.

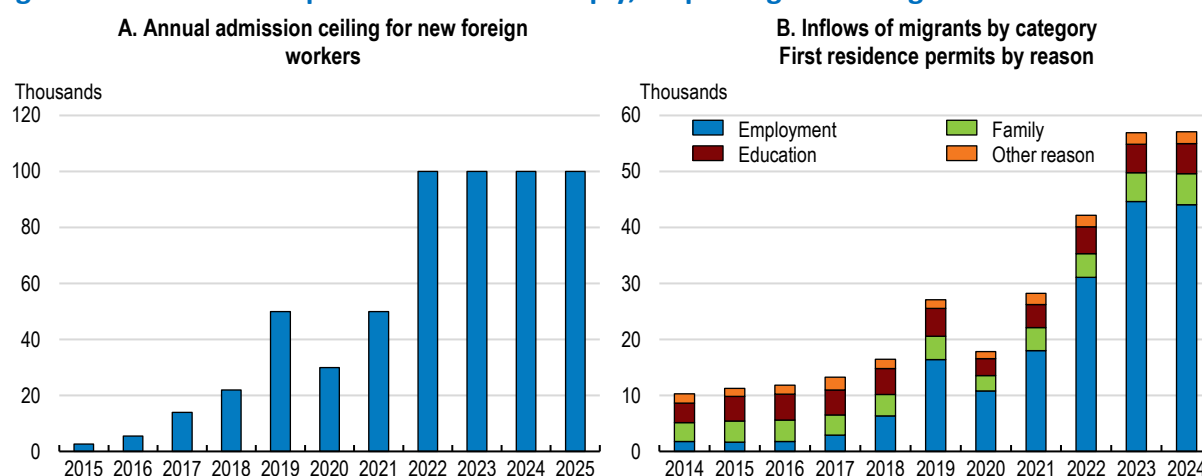
2.4.2. Improving the management of labour immigration

While the share of foreign-born residents in Romania's total population is low, it has nearly tripled in a decade: from 1.1% in 2014 to 3.6% (or 691 000 people) in 2025 (Eurostat, 2025^[53]), driven by inflows of people fleeing Ukraine and third-country workers from South Asia (Figure 2.12, Panel B). Most are young men employed in minimum-wage jobs in retail, manufacturing, hospitality, and construction, and come from Nepal, Sri Lanka and India (Romanian Centre for Comparative Migration Studies, 2025^[54]). In contrast, labour migration from EU countries is limited. While businesses report difficulties filling vacancies, evidence points to shortages mainly in skilled occupations with substantial untapped labour potential among the non-skilled, suggesting

that foreign recruitment responds to labour market mismatches, such as specific localised needs or mobility barriers, rather than broad-based national shortages (see also Chapter 4).

Recent policy changes have eased access for non-EU migrants. Procedures were simplified, the quota for work permits increased from 22 000 in 2018 to 100 000 in 2022 (Figure 2.12, Panel A), and a single quota system was introduced. Romania's framework is now more open than in many OECD countries (OECD, 2025^[16]). Work permits last two years, renewable as long as the employment contract remains valid. Quotas overstate actual inflows as they reflect authorisations granted, not visas issued. In 2023, only one in three permits led to actual entry. The system of annual quota should be based on actual visa issuance. This gap is partly due to administrative bottlenecks, notably delays in processing permits due to understaffing. Staff increases at the General Inspectorate for Immigration in late 2023 were positive, but further improvements are needed – including to digitalise procedures – to reduce waiting times.

Figure 2.12. Admission quotas have risen sharply, surpassing actual migrant inflows



Note: In Panel A, for some years, this is the sum of multiple decrees which have adjusted the numbers upwards.

Source: (OECD, 2025^[16]); and Eurostat.

StatLink  <https://stat.link/qp0y5c>

The current quota-setting system would benefit from stronger evidence and consultation with labour market stakeholders. Current reliance on reported job vacancies may not accurately reflect real shortages as Public Employment Services data is incomplete. The labour market test is also weak. Vacancies must be advertised for only five days, and listings rarely attract applicants. Moreover, placement agencies employ many labour migrants and dispatch them or find them work *via* platforms. This is unusual in OECD countries and undermines the labour market testing principle. Such practices warrant closer scrutiny, and platform-based work should not justify work permit issuance (OECD, 2024^[55]). Better statistical monitoring of migration flows and labour market outcomes is increasingly necessary. Romania should improve statistical capacity to align with OECD standards and map immigration more systematically (OECD, 2025^[16]). This would strengthen policy evaluation and allow more refined indicators to guide quota-setting. Overall, Romania would benefit from embedding immigration management into a long-term strategic vision. The absence of qualification or skill thresholds limits the ability of migration policy to target quotas in a way that addresses labour shortages.

Retention of third country immigrants is relatively low. A mismatch between the skills of the migrants and businesses' needs is a potential cause and compounded by low language skills. Stronger integration services are needed. A new format of language courses was introduced in 2022, but these are fee based for those not benefiting from international protection and lack work relevance. Linking language learning with vocational training and mandating participation could improve integration. Access to social services could also be improved by issuing Romanian Identification numbers upon their arrival (Romanian Centre for Comparative Migration Studies, 2025^[54]). The creation of a one-stop-shop, coordinating social and labour market services

would facilitate worker's integration. Romania's accession to the Schengen Area in April 2024 may have led to outflows of third-country nationals seeking better paid opportunities in other EU countries.

Weak oversight of intermediaries and employers expose migrants to abuse. Regulations tying work permits to a single employer in the first year of stay restrict job mobility and should be removed. Recruitment agencies should be more tightly regulated, and cooperation with origin countries strengthened to reduce excessive fees and improve pre-departure information (OECD, 2025^[16]). Labour law enforcement should be reinforced through stronger inspection capacity and better channels for reporting violations (Romanian Centre for Comparative Migration Studies, 2025^[54]).

Romania plans to introduce an Emergency Ordinance to tighten the regulation of agencies placing foreign workers, strengthen worker protection, and modernise the admission system for third-country labour migrants by introducing a shortage occupation list. If well designed, this could potentially improve the targeting of migrant selection, particularly if the list is based on a robust, empirically grounded methodology (see above). Work is also under way to establish *WorkinRomania.gov.ro*, a unified digital platform for procedures relevant to third-country workers. If implemented effectively, these measures could potentially represent progress, though regular monitoring will be needed assess its effectiveness.

Fostering the immigration of skilled workers could help address shortages in high-skilled occupations, such as ICT and health care, but this would require stronger targeting of the immigration system. Highly qualified migrants made up only 1% of third-country employment authorisations in 2023 and 2024 (OECD, 2025^[16]). EU schemes such as Blue Cards, Researcher permits, and Intra-Corporate Transfers remain underused. In 2024, Romania launched a grant scheme to attract highly-skilled talent under the RRP, including expatriates, in R&D and innovation (European Commission, 2025^[44]). Simplified temporary work permit procedures for doctors from European Economic Area countries were introduced in 2024 to ease health sector shortages. International student enrolment has grown, accounting for 5-6% of the students in higher education but retention is low. Facilitating access to free language courses and lifting restrictions in regulated professions would improve prospects.

Table 2.2. Policy recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Increasing employment of underrepresented groups	
Flat PIT and SSC rates result in a high tax wedge at low incomes, discouraging formal work. On the other hand, moving away from a flat PIT tax rate could involve additional challenges given high informality. It also leads to low tax progressivity on income revenues.	Reduce the tax wedge at lower earnings, for instance by increasing the basic allowance, while preserving revenue neutrality. Explore options for making the overall PIT gradually more progressive over the medium-term.
School dropout among younger people remains high, particularly in rural areas and among Roma communities.	Step up efforts to reduce early school leaving by expanding support for disadvantaged schools and at-risk students.
Many unemployed are not registered with public employment services, raising risks of long-term labour market detachment. ALMPs are underfunded, with scarce and poorly targeted training.	Step up efforts to strengthen outreach by public employment services to inactive individuals while expanding access to high-quality, labour market-relevant training.
Low enrolment rates in childcare and early childhood education, particularly in rural areas, stem from gaps in service provision.	Expand affordable childcare and early childhood education, and as availability improves, gradually reduce duration of leave entitlements.
Long and generous shared parental leave lead to prolonged periods outside the labour market and essentially used by mothers.	Encourage more equal sharing between parents through non-transferable leave periods for fathers.
Long-term care services are limited, and reliance on women for informal care further restricts their labour market participation.	Accelerate the development of integrated long-term care services, as foreseen in the <i>National Strategy on Long-Term Care and Active Ageing</i> .
Labour market participation of older Romanians is comparatively low.	Enhance the employability of older workers by expanding flexible work arrangements and facilitating transitions into less physically demanding roles within firms. Improve occupational health and safety.
Poor working conditions hamper the labour market participation of older workers.	
Improving health outcomes	
Mortality rates from preventable causes are high. Nearly half of all deaths in Romania are linked to behavioural risk factors, highlighting the insufficient focus on prevention. Health literacy across the population is generally low.	Promote healthier behaviours by tightening regulations on the sale and marketing of unhealthy food, tobacco and alcohol and considering higher taxes on tobacco and alcohol. Strengthen public health literacy education through stronger national health campaigns, school-based education and community-based programmes.
Primary care plays a too limited role in Romania's health system due to structural gaps including weak general practitioners' engagement in preventive care and poor coordination among care providers.	Strengthen early disease detection and management by incentivising preventive activities through financial incentives and training for general practitioners. Improve care coordination by accelerating development of integrated e-health record.
Access to care in rural areas is restricted by the lack of medical staff and insufficient care facilities. Community centres remain underdeveloped, though they are critical to provide basic care services to vulnerable populations, including Roma communities.	Step up the development of integrated community centres in underserved areas, including testing and screening equipment, and expand training programmes for community nurses. Strengthen incentives for doctors and nurses to relocate to underserved areas, including through local programmes offering administrative and housing assistance.
Tapping potential from return and labour migration	
The current quota-setting system relies on reported job vacancies that may not accurately reflect real labour shortages. The lack of data on migrants' employment trajectories also hinders evaluation. Romania's quota system for non-EU foreign workers is based on limited labour market information and weak labour market testing.	Establish a data-driven method to identify labour shortages that could be filled by migrants. Consider revising the mechanism for setting quotas and awarding work permits, to improve alignment with labour market needs.
Labour market integration of returnees is hindered by weak and scattered labour market integration services and complex procedures for recognising foreign qualifications and experience.	Create an online platform centralising integration services to support returnees' resettlement, job search, and recognition of foreign credentials.

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3

Enhancing resilience to climate risks

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Gilles Thirion

Romania is highly vulnerable to global warming and extreme weather events, particularly river flooding and droughts. Although a National Climate Adaptation Strategy is in place, further efforts are required to advance its implementation. Mitigation efforts should also be scaled up to meet agreed emissions reduction targets. Flood management has improved in line with the EU Flood Directive, but sustained investment in modernising flood infrastructure is essential. Construction in flood-prone areas continues, and land use planning should adequately account for flood risks. Given limited awareness of flood risks, property transactions should include legally required disclosure. The mandatory risk insurance should be better enforced to increase low coverage. Water resources face growing pressure from poor water management and ageing infrastructure. Accelerated action is needed to improve water use efficiency, including upgrading water infrastructure, and promoting sustainable irrigation and wastewater treatment practices. In agriculture, promoting climate-resilient practices can help reduce vulnerability to droughts. Other key adaptation priorities include speeding up building renovation programmes and better protecting critical infrastructure.

3.1. Adaptation and mitigation present considerable challenges

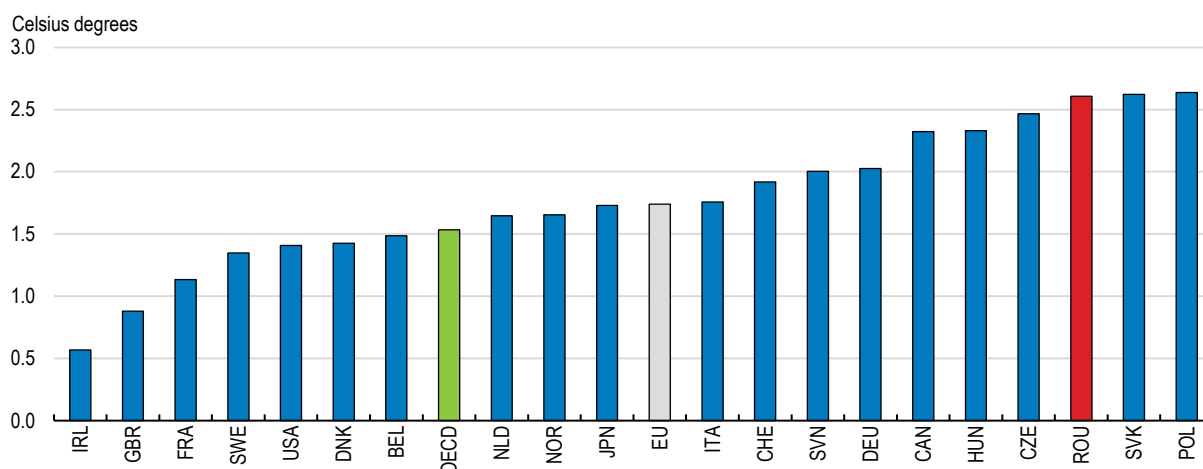
3.1.1. Climate change increases the frequency of climate-related disasters

Romania is strongly exposed to climate change in comparison with OECD countries. The annual increase in surface air temperature exceeds 2°C (compared to the baseline period of 1981-2010), significantly above the OECD average of 1.4°C (Figure 3.1). This accelerated warming trend intensifies climate-related hazards (IPCC, 2023^[1]; IPCC, 2023^[2]), placing considerable strain on Romania's agricultural sector, water resources, and energy systems. The economic consequences are far-reaching: agricultural yields are more volatile, industrial operations face increasing risks from water scarcity and heat stress, and infrastructure resilience is being tested. These impacts not only threaten long-term output but also demand substantial investment to safeguard economic growth and social well-being.

Climate change also intensifies the frequency and severity of extreme weather events, including floods, droughts and storms, with heatwaves showing a particularly marked increase (IPCC, 2023^[1]; European Environment Agency, 2024^[3]). These natural hazards can incur significant human losses and economic costs. According to data from CATDAT, economic losses of assets caused by weather and climate-related events in Romania amounted to EUR 19.6 billion (in 2023 prices) between 1980 and 2023 (6% of 2023 GDP) (European Environment Agency, 2025^[4]; European Environment Agency, 2024^[5]), a comparatively high share in EU comparison. In Romania, approximately 60% of total losses are attributed to hydrological events (floods), which often entail substantial physical damage. However, losses from climatological events, particularly heatwaves, are rising and already account for the remaining 40% of total economic losses.

Figure 3.1. Annual surface temperatures surge in Romania

Change in the annual mean surface air temperature over land in 2024 compared to the baseline period 1981-2010



Source: OECD-IEA Historical exposure to extreme temperature dataset.

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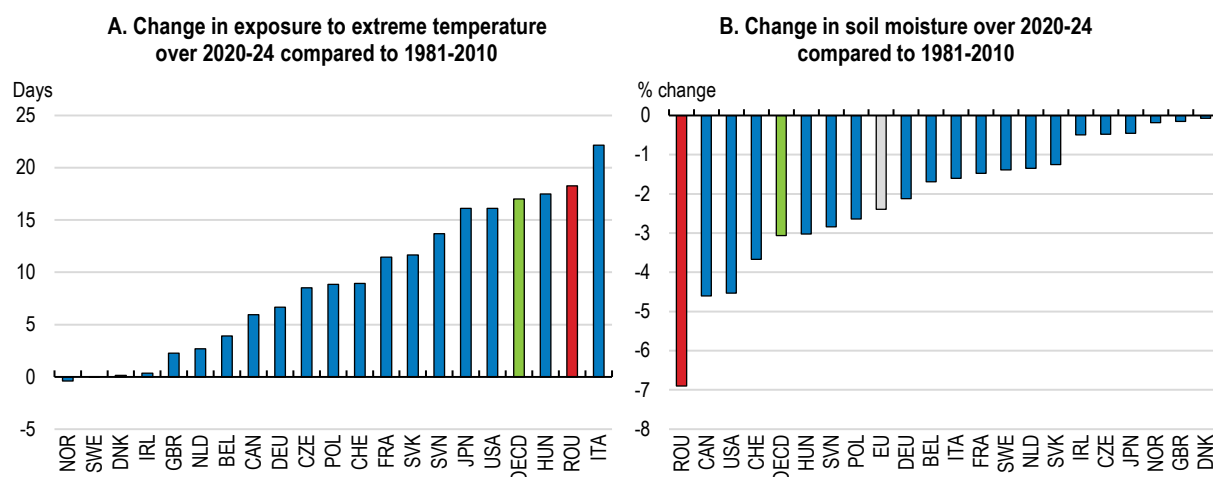
Rising temperatures and natural hazards not only cause substantial physical asset losses but also lead to a permanent decline in output levels (see, for example, Bilal and Känzig (2024^[6])). However, growth effects generally tend to be short-lived. Estimates of the magnitude of these output effects vary, but evidence suggests that the negative effect tends to accumulate over long time horizons (Bilal and Känzig, 2024^[6]). The extent of output loss to natural hazards also depends on the government's capacity to respond effectively. Countries with greater pre-disaster fiscal space typically experience smaller output losses due to more important policy responses (Nguyen, 2025^[7]). Economic diversification and enhanced labour mobility can further strengthen resilience to natural hazards (Costa and Hooley, 2025^[8]). Moreover, beyond direct output effects, climate-related events also generate indirect economic effects, such as adverse health outcomes or disruptions to transport links, generally not captured in these estimates.

3.1.2. Romania is particularly exposed to droughts, heatwaves and river flooding

Among climate-related hazards, Romania is particularly exposed to river floods, droughts, heatwaves, and landslides. Over the past five years (2020-2024), the country experienced, on average, more than 18 additional days of heat stress exposure compared to the reference period of 1981-2010 (for the methodology, see Maes et al. (2022^[9]), updated data until 2024), see Figure 3.2, Panel A. This brings the total to 48 heat stress days annually, placing Romania among the countries most affected by heatwaves. The average number of tropical nights (temperatures exceeding 20°C) nearly doubled over the same period, reaching on average 13 nights per year compared to the historical baseline. Heatwaves have a substantial negative impact on economic activity by reducing productivity, while also increasing heat-related illnesses and work absenteeism, and causing disruptions to critical infrastructure such as transport and water supply systems (see, for example, Grantham Institute (2025^[10]) and Costa et al. (2024^[11])).

Rising temperatures have also contributed to an increasing frequency and intensity of droughts and desertification processes. On average over the last five years (2019-2023), about 6% of cropland area was impacted by drought in Romania (European Environment Agency, 2024^[12]). Romania also recorded an important decline in cropland soil moisture of 7% on average over the past five years (2020-2024) compared to the historical baseline, marking the highest value in comparison with OECD countries (Figure 3.2, Panel B). Soil moisture is a key determinant of vegetation productivity, and anomalies in moisture levels – whether due to drought or other climate-related factors – can have substantial impacts on agricultural output and ecosystem health (He and Rosa, 2023^[13]; OECD, 2025^[14]). A global temperature increase of 2°C could reduce yields of grain maize and wheat in Romania by over 10%, even under irrigated conditions, with significantly greater losses expected in rainfed scenarios (Hristov et al., 2020^[15]). This is highly relevant for Romania, where agriculture continues to play a large role in the economy, accounting for 3.6% of gross value added (EU average: 1.8%), and employing a substantial share (more than 20%) of the workforce.

Figure 3.2. Romania is strongly exposed to heatwaves and droughts



Note: Panel A shows the number of additional days per year of at least strong heat stress exposure (UTI > 32°C) over the period 2020-24 compared to the reference period 1981-2010. Panel B shows the percentage change of soil moisture anomaly in cropland over 2020-24 compared to the reference period 1981-2010.

Source: OECD-IEA Historical exposure to extreme temperature and historical exposure to drought datasets.

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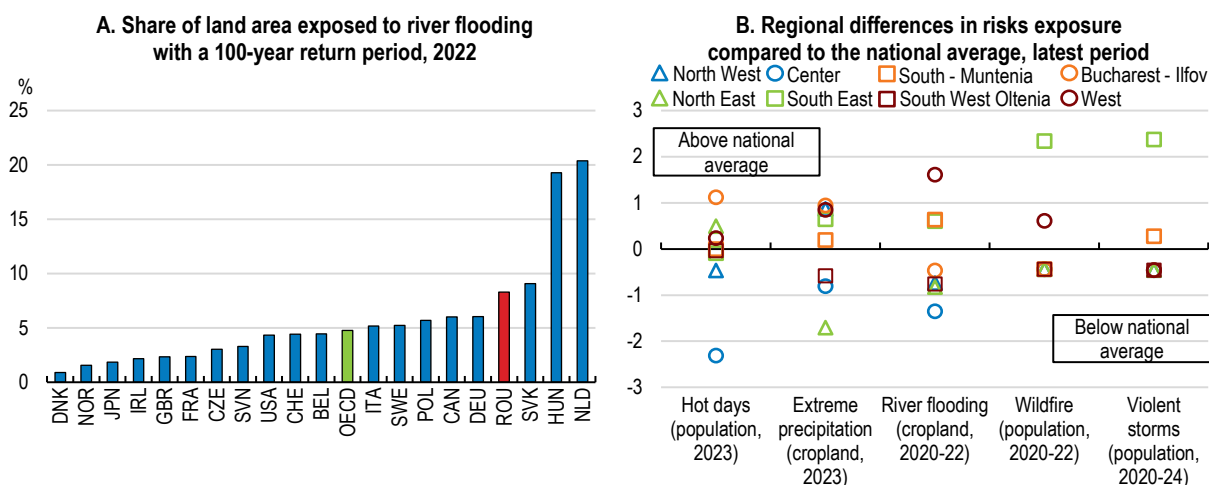
Droughts can also affect energy production, particularly given Romania's reliance on hydropower and nuclear energy, which account for approximately 32% and 20% of electricity generation respectively, both of which depend on stable water resources. In recent years, Romania has experienced several droughts, with particularly damaging events in 2020, 2022, and 2024. These droughts have had significant adverse effects on agricultural output and agrifood prices, as well as hydroelectric power generation (World Bank, 2024^[16]).

Situated within the Danube River Basin, Romania also faces significant flood exposure, with approximately 25% of the population and 8% of the national territory – 12% of built-up areas and 10% of cropland – at risk (Figure 3.3, Panel A). The Danube, along with several of its tributaries such as the Siret River, is especially susceptible to seasonal and flash floods, notably in spring and early summer. At the same time, the Danube's lower basin, including parts of Romania and Bulgaria, is increasingly exposed to prolonged dry spells. This dual vulnerability reflects the region's continental climate and complex hydrological dynamics, with climate change intensifying both extremes and complicating water resource management. River flooding can cause substantial economic losses, by damaging infrastructure, settlements, and agricultural lands.

Forest fires also represent a climate risk for Romania, with population and forest exposure falling within the medium range in comparison with OECD countries (Maes et al., 2022^[9]). Forest fires and droughts strongly reinforce each other: prolonged drought dries vegetation and soils, creating highly flammable conditions that increase both the likelihood and intensity of fires. Other climate hazards are less prominent, though not absent. Wind-related risks remain limited, and exposure to coastal flooding is relatively low (Maes et al., 2022^[9]), primarily due to Romania's short and sparsely populated Black Sea coastline, as well as the lower frequency of extreme sea-level events for the Black Sea.

Some socio-economic groups are more vulnerable to the physical impacts of climate change than others (Zahnow et al., 2025^[17]). Rural and agricultural communities are particularly vulnerable to floods, droughts, and extreme temperatures, given their dependence on natural resources. In urban areas, low-income populations are more exposed to heatwaves and flash floods due to inadequate infrastructure and housing. Elderly populations and young children are especially sensitive to extreme heat (Massetot et al., 2023^[18]), with Romania's aging population facing heightened health risks during prolonged heat events. High air surface temperatures in urban areas are also linked to increased morbidity and mortality among individuals with circulatory system diseases. Evidence indicates that the social groups most vulnerable to climate change also face the greatest barriers to accessing and participating in adaptation efforts (low "coping capacity") (Zahnow et al., 2025^[17]). Socioeconomic vulnerability and geographic location are key drivers of climate risk exposure (Figure 3.3, Panel B), raising concerns that climate impacts could exacerbate existing inequalities between urban and rural populations and across socio-economic groups in Romania.

Figure 3.3. Flooding is also a major climate risk, and general risk exposure varies widely across regions



Note: In Panel A, a return period is the average or estimated time that a specific hazard is likely to recur. Panel B shows the population exposure to specific risks, except for extreme precipitation and for river flooding, which shows the cropland exposure. Values normalised relative to the Romanian average (set to zero).

Source: OECD River flooding exposure dataset.

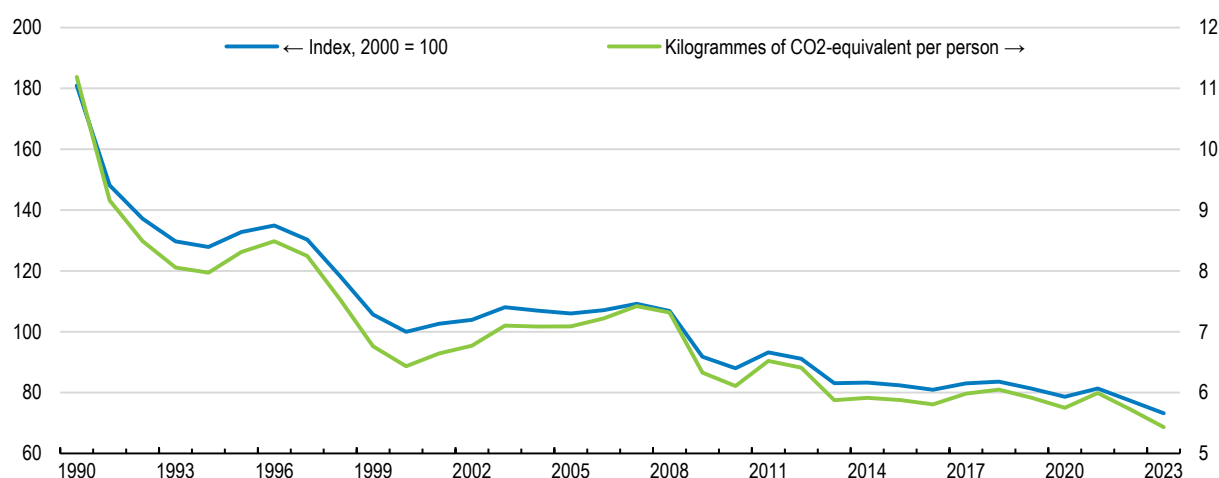
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3.1.3. Mitigation challenges remain significant

Climate mitigation was covered in detail in the 2024 Economic Survey of Romania (OECD, 2024^[19]), and this section provides a brief update on subsequent progress before examining adaptation policies. Romania has significantly reduced greenhouse gas (GHG) emissions since the 1990s (Figure 3.4), and both its absolute and per capita emissions remain relatively low compared to OECD countries. By 2023, emissions were 59% below 1990 levels, and net emissions 74% lower, allowing Romania to meet its 2020 EU effort-sharing target (European Commission, 2024^[20]). However, most of this progress was achieved during the 1990s. Since 2010, the pace of emissions reductions has been slower.

Figure 3.4. GHG emissions have been declining

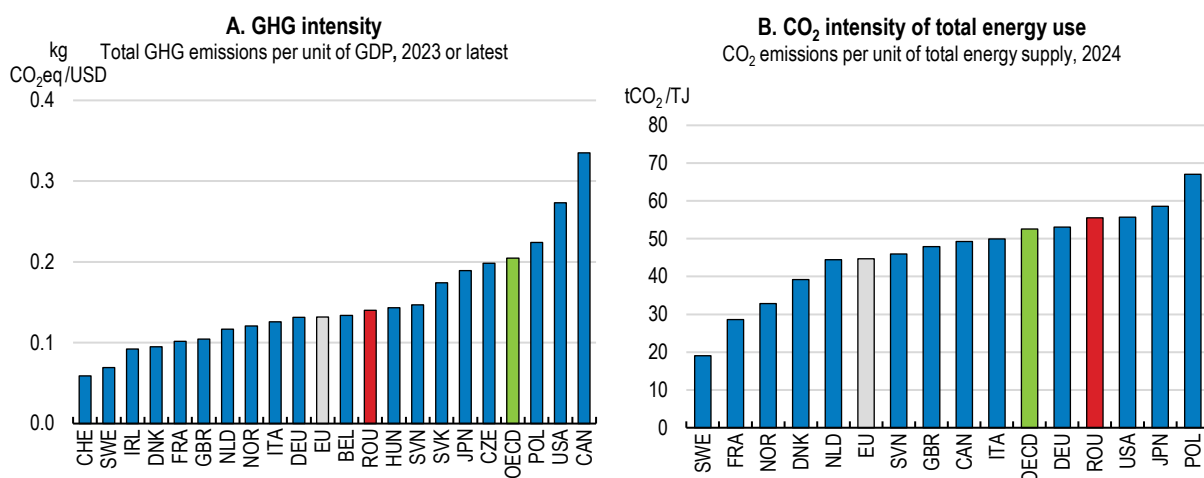
Total GHG emissions excluding LULUCF



Source: OECD Environment Statistics Database

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Figure 3.5. Emission intensity of production and energy supply remains relatively high



Source: OECD Environment Statistics database; and IEA Greenhouse Gas Emissions from Energy database.

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Low overall emission levels also reflect Romania's still modest per capita GDP. When measured per unit of GDP, Romania's economy remains relatively energy and emission intensive (Figure 3.5, Panel A). Romania's overall energy mix still relies to 70% on fossil fuels, despite the large potential from renewable energy sources, leading to high CO₂ emissions from energy supply (Figure 3.5, Panel B). Coal use has fallen but remains the largest source of emissions from electricity and heat production.

Romania must intensify mitigation efforts to meet its 2030 non-ETS targets and the 2050 net-zero goal. Non-ETS sectors (buildings, road transport, agriculture, waste and small industry) account for about 70% of emissions (OECD, 2024^[21]). The *Long-Term Strategy* adopted in December 2023 reaffirms Romania's commitment to climate neutrality by 2050. Interim goals under the updated *National Energy and Climate Plan* (NECP) target an 85% cut in net non-ETS emissions by 2030, and 96% by 2040 relative to 1990 levels (Government of Romania, 2024^[22]). Yet, projections show that Romania will fall short of its 2030 requirement under EU law by a wide margin, even with full implementation of the NECP, Recovery and Resilience Plan (RRP), and EU cohesion policy programmes (European Environment Agency, 2025^[23]). Contrary to many OECD countries, Romania has not legislated its economy-wide targets. A draft climate law tabled in June 2024 included legally binding targets and the establishment of a scientific advisory body. However, only the Advisory Council on Climate was retained in the final law, which has yet to be formally established and become operational (European Commission, 2024^[20]).

The previous *Survey* emphasised that meeting Romania's emission targets will require stronger and more consistent use of carbon pricing. Outside the EU ETS, Romania's low energy taxation results in a relatively low implicit carbon price, which leads to a weak price signal and contributes to inefficient fuel use (OECD, 2024^[19]). Excise duties on petrol and, to a lower extent on diesel, remain relatively low despite recent increases. Price caps introduced during the 2021-2022 energy crisis on electricity (lifted only in July 2025) and on gas (extended until March 2026) have weakened incentives to save energy or switch fuels, disrupted recent gas and electricity markets liberalisation, and increased investor uncertainty. Natural gas, coal and firewood used for heating are also subject to relatively low taxation, further weakening incentives for energy efficiency.

Strengthening carbon pricing would provide clearer market signals for households and businesses while supporting investment in low-carbon energy and technologies. Carbon pricing and fossil fuel subsidy reforms can generate revenues, at least until higher prices lower emissions, that can be recycled through social transfers, energy efficiency programmes and green infrastructure (see Chapter 1). Recycling these revenues would make reforms more equitable and politically sustainable (OECD, 2024^[19]). Consequently, as highlighted in the previous *Survey*, Romania should not wait for the EU reform of the Energy Taxation Directive to introduce excise duties based on the carbon content of fuels (OECD, 2024^[19]). Similarly, the expansion of the EU-wide emission trading system to transport and heating fuels in 2027 should not prevent Romania from already introducing a national carbon tax.

Coal generates around 15% of electricity but accounts for 66% of CO₂ emissions in energy supply (IEA, 2025^[24]). Under the 2022 Decarbonisation Law, coal mining and coal-fired generation are scheduled to end by 2032. Full implementation would cut emissions and accelerate decarbonisation. Romania's recent decision to delay the closure of five coal-fired power plants may complicate its path toward meeting the targets set out in the 2022 Decarbonisation Law. The country will need to carefully balance short-term energy needs with its longer-term climate objectives, while ensuring timely investment in clean energy alternatives. Expanding low-carbon generation is essential to support electrification of buildings, transport, industry, and green hydrogen production. Renewables accounted for about 50% of electricity generation in 2024 (IEA, 2025^[24]) – mainly from hydropower (32%), followed by wind (13%) and solar (4%) – but capacity would need to more than double by 2030 to stay on track for net zero (OECD, 2024^[19]). Progress in scaling up renewables is constrained by grid bottlenecks, permitting delays for approving new renewable power plants, skills shortages and regulatory uncertainty. Offshore gas projects in the Black Sea have the potential to strengthen Romania's energy security, but should be accompanied by robust emission reduction measures to avoid undermining progress toward decarbonisation.

Road transport is highly fossil fuel-dependent and expanding rapidly (see Chapter 4). Between 2005 and 2023, emissions rose 65% in Romania compared with a 5% fall in the EU (European Commission, 2025^[25]). Mobility is increasingly dominated by private cars, with car ownership expected to rise further as incomes grow, driving up future emissions from transport under current policies (European Environment Agency, 2025^[23]). The car fleet is old and emission-intensive, and electric vehicles make up less than 1% of the fleet, well below the 2030 target of 31%. Fuel and vehicle taxes remain weakly linked to emissions. Vehicle taxation and road pricing should be restructured to more accurately reflect CO₂ and air pollutant emissions. Public transport use declined over the last decade while car travel rose faster than in regional peers (OECD, 2024^[19]).

Large gaps in urban mobility persist, with unequal access across regions. Recent and planned investments in metropolitan rail, buses, and cycling infrastructure are welcome, but need to be scaled up, become better integrated, and paired with stronger incentives to shift behaviour, such as higher taxes on thermal vehicles, parking fees, congestion charges and low-emission zones. The rail network is extensive but underinvestment and poor maintenance make train travel much slower and less competitive than road (see Chapter 4). Stronger fiscal signals and targeted support for cleaner vehicles, alongside modern, electrified public transport, would reduce car dependence and improve air quality.

Romania's ageing buildings sector is also highly emission intensive. Improving the energy efficiency of existing residential buildings and switching to low-carbon heating and cooling systems would generate large energy savings and GHG emission reductions, while simultaneously addressing adaptation challenges (see discussion further below). Romania's *Long-Term Strategy* aims for a 75.8% share of renewable energy in heating and cooling by 2050, primarily through the deployment of heat pumps, solar thermal systems, and green gases. Achieving this target will require improved strategic planning and greater access to EU funding for renewable energy investments.

Table 3.1. Past OECD recommendations and actions taken on decarbonising the economy

Recommendations in past Surveys	Actions taken since the previous Survey
Build administrative capacity for designing, implementing and monitoring climate policy measures and investments.	Romania has established an interministerial committee for climate change, which is fully operational.
Improve carbon pricing by increasing energy tax rates in sectors outside the EU Emission Trading System and by gradually removing fossil fuel subsidies. Channel part of the proceeds to vulnerable households and affected businesses.	Limited actions taken. Excise duties on petrol and diesel rose by 18% in July 2024, and by a further 6% in January 2025, and 10% in August 2025 in line with consolidation efforts. A further about 10% increase took place in January 2026.
Accelerate expansion, upgrading and digitalisation of electricity grids and investment in electricity storage.	In July 2025, the Romanian Energy Regulatory Authority removed duplicate charges for stored and reinjected electricity, easing regulatory barriers to the development of battery energy storage.
Invest in integrated, smart urban mobility systems centred on public transport and incorporating walking, cycling and shared mobility.	Ongoing progress in electrifying the public transport system in Bucharest, Timisoara and Cluj-Napoca.
Ensure support for renovations is adequately targeted.	Measures implemented in 2024 under the RRP strengthened renovation support in vulnerable households. The 2025 'Casa Verde Plus' expanded grants for renewable energy systems and insulation without means-testing.

Source: OECD (2024^[19])

3.2. Policy efforts to adapt to climate risks need to be stepped up

While mitigation focuses on long-term climate objectives, adaptation is the immediate response to safeguarding people and the economy from climate-related damage. Adaptation can help limit disaster-related losses, protect critical infrastructure, and sustain agricultural productivity in the face of climate variability. Nonetheless, while the two pursue different objectives, there are important synergies and interconnections between adaptation and mitigation policies. For example, expanding green spaces can help adapt to heat stress while also absorbing carbon. Similarly, improved housing insulation can lower carbon emission related to heating or cooling while enhancing resilience to extreme temperature. Romania's adaptation efforts are positive, but significant implementation gaps remain, and the key challenge lies in translating existing strategies into effective and measurable policy action.

Many climate-related hazards have cross-sectoral and reinforcing impacts (for example, flooding can be more severe when soil is dry and less able to absorb water), underscoring the need for an integrated approach. Strengthening coherence and synergies across sectors and governance frameworks is also essential.

Adaptation starts to be embedded in policy objectives, but important implementation challenges persist

Romania's adaptation efforts are guided by the *National Strategy for Adaptation to Climate Change (SNACS)* 2024-2030, with a long-term vision extending to 2050 (Government of Romania, 2024^[26]). The strategy is closely aligned with the *EU Adaptation Strategy* and the *European Green Deal* and adopts both sectoral and cross-sectoral approaches. It targets thirteen priority sectors, such as agriculture, water resources, energy, health and air quality, and transport, to reduce vulnerabilities to climate impacts. It is supported by a *National Action Plan*, which outlines more specific implementation measures and timelines. Additionally, the strategy is complemented by a digital platform (*RO-ADAPT*) that provides access to some adaptation-related data and documentation. The strategy is still in its early implementation phase, making it premature to assess substantial progress. A key limitation is the absence of a robust mechanism for monitoring progress and evaluating outcomes, which undermines accountability of delivering adaptation measures. It will be essential to strengthen reporting and monitoring on SNACS, ensure better tracking of spending, and enhance human capacity to implement measures effectively.

Romania's *National Plan for Disaster Risk Management (2021-2027)* provides the overarching framework for addressing a wider range of disasters, including those exacerbated by climate change – such as floods, droughts, and wildfires – but also earthquakes, epidemics, and industrial accidents. The recently adopted *National Strategy for Disaster Risk Reduction (NSDRR)* 2024-2035 outlines a multi-hazard and multi-sectoral approach aimed at strengthening Disaster Risk Management. It emphasises stronger risk awareness, institutional capacity building, targeted investments in risk reduction, and enhanced preparedness and response systems. Romania's disaster governance has evolved significantly since the early 2000s, transitioning from a reactive disaster management to a more proactive disaster risk management approach focused on planning, prevention, preparedness, and response (Alfonso et al., 2023^[27]). However, especially risk prevention remains underutilised and could be further strengthened (Alfonso et al., 2023^[27]).

Romania's governance framework for climate adaptation and disaster risk management is supported by inter-ministerial coordination mechanisms (for a detailed analysis of coordination mechanism of green policies in Romania, see OECD (2024^[28])). The Ministry of Environment, Water and Forests leads the formulation and implementation of climate adaptation policies, while the Ministry of Internal Affairs, through the Department for Emergency Situations, oversees disaster risk management and emergency response. To strengthen cross-ministerial integration, Romania established an Inter-ministerial Committee on Climate Change in 2022, chaired by the Prime Minister. This body is expected to set national climate priorities and promote more policy coherence across agencies.

Despite Romania's progress in establishing a more coherent framework for climate adaptation and disaster risk management, implementation challenges persist. Sectoral coordination remains uneven (OECD, 2024^[28]), and the translation of national strategies into effective local action is constrained by gaps in technical capacity, financial resources, and institutional support at the municipal level (Alfonso et al., 2023^[27]). Effective national adaptation strategies hinge on the ability to translate plans into efficient local action (OECD, 2024^[29]). Furthermore, policy alignment between climate adaptation, disaster risk reduction, and the Sustainable Development Goals (SDGs) can still be improved, requiring ongoing efforts to harmonise these agendas.

Romania's climate adaptation and disaster risk reduction efforts are primarily financed through EU funds with some national co-financing. The Recovery and Resilience Facility (RRF) allocates approximately EUR 13.9 billion to the green transition, while the EU Structural Funds 2021-2027 provide around EUR 6.7 billion for environmental initiatives. International financial institutions such as the World Bank and the European Investment Bank (EIB) also support Romania's adaptation and disaster risk reduction agenda through grants

and loans. Nationally financed adaptation-related investments remain relatively modest, but targeted allocations do exist. For instance, the 2025 state budget allocated EUR 0.9 billion to the National Administration of Romanian Waters, a 50% increase compared to 2024, targeting flood protection infrastructure, river embankment upgrades, cross-border hydraulic works, and early warning systems (Bluefield Research, 2025^[30]). Given Romania's constrained fiscal space, it is essential to maximise the absorption of available EU and international funds to strengthen investment in climate adaptation measures. Romania would also benefit from adopting multiannual budget planning for adaptation, thereby strengthening the long-term orientation and implementation of adaptation measures.

Romania successfully began tapping international capital markets by issuing its first “green bonds” in 2024, raising EUR 2.2 billion. The proceeds were allocated to green investments, with over 40% directed toward sustainable water and wastewater management – an area of critical importance (see discussion below) (Government of Romania, 2025^[31]). This is a positive step toward scaling up adaptation finance.

3.2.1. Reducing exposure to flooding and sea-level rise

River flooding is among the most economically damaging disasters in both Romania and Europe. Each year, flooding affects around 40 000 residential properties, 3 500 road segments, and 48 000 hectares of agricultural land. Estimates indicate that the average annual expected damage from floods in Romania amounts to EUR 1.7 billion (World Bank, 2024^[32]). Climate change and continued development in flood-prone areas are expected to substantially heighten flood risk. However, well-designed and effectively implemented flood strategies can substantially mitigate these risks (Feyen et al., 2020^[33]).

Speeding up the implementation of flood protection measures

Romania has developed Flood Risk Management Plans (FRMP) and new flood hazard and risk maps (FHRM), in accordance with the requirements of the EU Floods Directive (2007/60/EC) and with the help of the World Bank (World Bank, 2024^[32]). The flood maps are publicly accessible via Romania's flood risk management platform (<https://inundatii.ro/en/maps-portal/>). Hazard maps show the depth and extension of the water surface in the case of different flood scenarios, while risk maps indicate the likely damages caused by different flood scenarios. These plans are crucial in guiding flood risk management strategies, including urban and land-use planning, infrastructure protection, and disaster preparedness and are an important step forward in better managing flood risks. In addition, Flood Risk Management Plans (FRMP) were established for each of Romania's 11 River Basin Administrations. These plans integrate both structural and non-structural measures, combining traditional flood defence infrastructure with nature-based solutions.

Despite this comprehensive framework, Romania has faced significant delays in implementation of these plans, particularly regarding protection measures. Of the 2 627 actions outlined in the second-cycle FRMP (2016–2021), 67% have not yet started (European Commission, 2025^[34]). Furthermore, only 56% of the measures from the first-cycle FRMP have been completed or are currently underway. A key constraint is the lack of assured financing for these measures. The National Administration of Romanian Waters remains chronically underfunded, facing limitations in its capacity to support and coordinate implementation at scale. In parallel, local authorities, which are responsible for executing many of the planned measures, often struggle to access adequate financial resources and technical expertise, undermining the pace and effectiveness of flood risk adaptation efforts. Romania is currently developing a multiannual financing framework for flood risk management, with support from the World Bank, which could help support medium-term planning.

A major challenge in Romania remains the poor maintenance of existing flood defences. Romania possesses an extensive network of dams, reservoirs, dikes, and riverbank protections. Yet, much of this infrastructure is aging and in need of repair. For example, more than half of the preparedness measures outlined in the FRMP focus on ongoing maintenance (European Commission, 2025^[34]), underscoring the urgency of addressing flood infrastructure degradation. According to some sources, around 75% of Romania's reservoirs, most built before 1990, operate under user restrictions (Pange, 2025^[35]). Romania currently lacks a comprehensive, standalone national maintenance plan specifically dedicated to the maintenance of flood protection infrastructure.

Developing such a plan, building on the FRMP framework, could help prioritise interventions, define costs and clear funding mechanisms, establish implementation timelines, and assign accountability across institutions.

Romania has also begun a welcome shift in its flood management approach from reliance on “grey infrastructure” – such as dikes and drainage systems – towards more nature-based solutions, including water retention areas and wetlands (European Commission, 2025^[34]). These nature-based approaches are generally more flexible to adapt to changing flood patterns, promote biodiversity, reduce soil erosion, and entail lower maintenance and operational costs (World Bank, 2024^[32]). Investments in natural retention areas are particularly cost-effective measures, with an estimated EUR 2.90 to 3.50 saved for every euro spent, compared to EUR 2.00 to 2.90 for traditional dike construction (Feyen et al., 2020^[33]). Cost-effective nature-based solutions should be further scaled up. Measures such as revitalising rivers, floodplains, wetlands, moors, and forests enhance water retention, increasing resilience not only to floods but also to droughts and dry spells (European Environmental Agency, 2021^[36]). In the Netherlands, this principle has been implemented on a large scale as part of the ‘Room for the River’ programme, offering a useful model for Romania (see Box 3.1).

Box 3.1. The Netherlands’ ‘Room for the River’ programme: a model for climate-resilient flood management

The Room for the River programme (2006-2018) marked a shift in Dutch flood management, moving away from reinforcing dikes toward allowing rivers more space to overflow safely. The initiative aimed to reduce flood risks while simultaneously improving spatial planning and ecological quality in the river delta. Key interventions involved lowering floodplains, relocating dikes, creating side channels and retention areas, and restoring natural landscapes. Implementation was underpinned by strong coordination between national ministries, regional water boards, provinces, and municipalities, and benefited from effective cross-border cooperation with Germany and Belgium.

With a total budget of approximately EUR 2.3 billion, financed by the Dutch government and EU co-funding, the programme significantly improved flood safety, increased water retention capacity, and enhanced biodiversity across restored floodplain areas. Building on its success, the Netherlands launched ‘Room for the River 2.0’ in 2025. This new phase incorporates translating IPCC climate change projections into river discharge scenarios and addressing challenges such as riverbed erosion, freshwater availability, and navigability. The programme has inspired similar initiatives across Europe, including Germany’s *Living Rivers* approach, France’s Seine floodplain restoration, and Poland’s Vistula River adaptation projects.

Source: The box is principally based on Dutch Water Sector (2025^[37]) and Dutch Water Sector (2019^[38]).

Better managing land-use planning and urban development in flood-prone areas

Romania’s regulatory framework aligns with the EU Floods Directive, which requires the integration of flood risk into land-use planning. Flood hazard and risk maps are intended to inform zoning and permitting decisions. However, there is currently no binding national regulation that explicitly prohibits development in flood-prone areas, nor a legal instrument that enforces flood-resilient urban planning across jurisdictions. While local authorities are expected to incorporate available flood maps into planning processes, enforcement is inconsistent and technical capacity varies widely. As a result, urban expansion has continued in some flood-prone areas. For example, in Constanța County, urban expansion in coastal towns has intensified without sufficient elevation or drainage upgrades despite known pluvial and coastal flood risks.

More effective multilevel governance in land use planning and development is necessary to prevent construction in flood-prone areas. This should involve stricter enforcement of flood-related regulations within land-use planning, including clear prohibitions on construction in high-risk zones. Mandatory flood risk assessments should be required for all new developments within Romania’s 526 Areas of Potential Significant Flood Risk (as defined in the FRMPs). Developments that disregard flood risks could be subject to financial

disincentives such as higher insurance premiums or additional taxation. Furthermore, local governments should be equipped with adequate resources to identify and prevent development in high-risk environments.

For existing properties, Romania should introduce mandatory disclosure of natural hazard risks, including flood risk, for all residential and commercial property transactions. Currently, such disclosure is not required in Romania. This would align with international best practices, such as in France. Making it mandatory would enhance market transparency, enable more accurate risk pricing, and encourage property-level investments in disaster risk reduction (Aiba, Hasegawa and Shirai, 2025^[39]). Damage reduction measures (e.g., waterproofing) for existing buildings can also help to substantially reduce flood-related damages, often requiring relatively modest investment (Feyen et al., 2020^[33]).

To promote wider adoption of such measures, Romania could consider offering tax incentives or targeted subsidies – when fiscal space allows – to support flood-resilient upgrades for existing homes located in flood-prone areas. Additionally, insurance-linked mechanisms that reward risk-reducing improvements could further stimulate private investment in flood protection. In exceptional cases, relocation may be necessary as a last-resort solution for areas facing extreme flood risk. For example, in Austria’s Eferdinger Becken region, the federal and regional governments provided compensation to residents in unprotected flood zones who agreed to relocate (European Commission, 2023^[40]).

Building and design codes are increasingly expected to address climate-related risks. In the United States, the International Code Council has introduced enhanced roofing and insulation to withstand extreme heat, alongside updated stormwater management requirements for heavy rainfall. Australia mandates elevated floor levels in flood-prone areas. Romania could adopt similar measures by incorporating flood-specific parameters into the National Annexes of relevant Eurocodes, such as requirements for elevated structures and water-resistant materials in Areas of Potential Significant Flood Risk (APSFR), such as Germany and the Netherlands (European Commission, 2023^[40]). High flood-resilient standards in APSFRs should also apply to critical infrastructure, including transport, energy, and telecommunications (OECD, 2024^[41]).

Expanding insurance coverage

In Romania, homeowners are legally required to purchase basic insurance since 2010 that covers damages caused by disasters from floods, landslides, and earthquakes. This mandatory insurance for residential property is issued through the Natural Disaster Insurance Pool (PAID), a joint private initiative of 12 insurance companies to provide coverage for these risks (PAID is fully privately owned and managed, including its reinsurance arrangements). The policy provides basic coverage up to EUR 20 000 for homes constructed from concrete or other durable materials, and up to EUR 10 000 for homes built using less resilient structures. Additional private insurance can be purchased to extend coverage.

Despite the legal obligation, many homeowners remain uninsured due to limited enforcement. While local authorities are authorised to fine homeowners that fail to comply with the insurance requirement, such penalties are rarely applied. Moreover, uninsured homeowners are generally not eligible for government compensation following a disaster, but applying this rule might also prove difficult in practice. As a result, only around 25% of homeowners currently hold insurance coverage for these natural hazards (PAID, 2026^[42]).

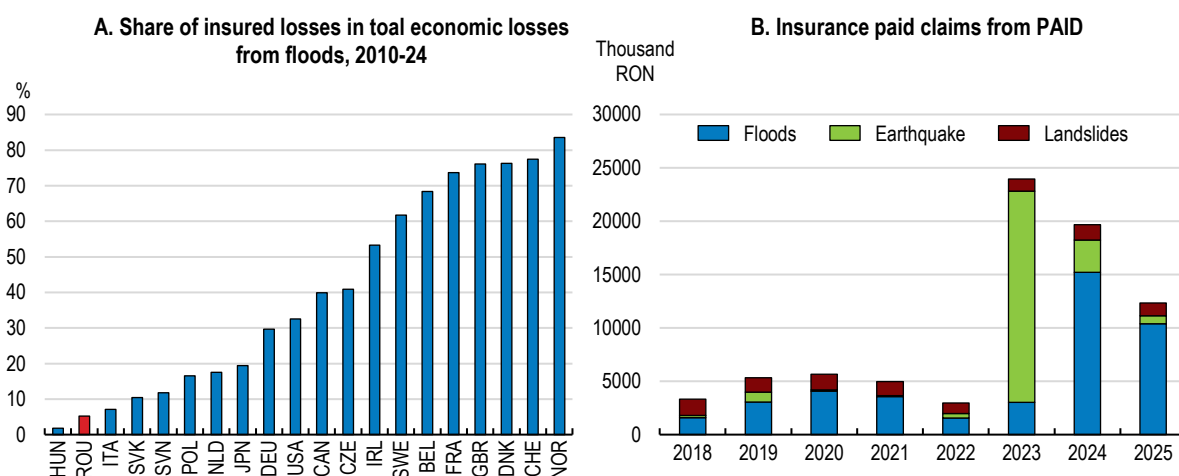
While Romania’s disaster insurance system is more developed than in many EU and OECD countries, the low uptake of catastrophe insurance remains a key challenge. Insured losses represent only a small proportion of the total losses caused by disasters (Figure 3.6). This low take-up has multiple reasons, including high expectations of government support (moral hazard), limited clarity in insurance contracts, past negative experiences with claims, and low public awareness of disaster risks (European Central Bank and European Insurance and Occupational Pensions Authority, 2024^[43]). Remaining gaps in property registration, particularly in rural areas and among older housing stock, as well as generally low levels of financial literacy in Romania (insurance penetration is generally low), also contributes to the low uptake of disaster insurance.

Such a low level of coverage calls into question the sustainability of the mandatory framework, both in terms of its ability to promote risk diversification and to prevent adverse selection in insurance uptake. Romania

should take more decisive action to boost the uptake of mandatory disaster insurance by addressing several key challenges simultaneously: improving financial literacy, raising risk awareness, clarifying the availability and compulsory nature of the insurance, and strengthening enforcement mechanisms, including the application of fines. Better integration with voluntary insurance could also enhance the value and relevance of the basic policy, for instance, by automatically including PAD in voluntary home insurance products, thereby eliminating the need for households to purchase two separate policies. Romania can also learn from solutions developed elsewhere to encourage take-up of disaster insurance. In France, the *CatNat* system automatically embeds natural-hazard coverage into all property insurance policies, ensuring broad participation, while automatic compensation once the government declares a disaster helps build trust through timely and consistent payouts. Likewise, the UK's *Flood Re* programme demonstrates how a public-private reinsurance scheme funded through an industry levy can keep premiums affordable for high-risk households and substantially increase coverage.

There is also a certain regional mismatch between risk exposure and insurance coverage. While insurance uptake is relatively high in the urban Bucharest-Ilfov area – a region that faces significant earthquake risks – many rural and low-income regions exposed to high flood risks have much lower coverage. This undermines the effectiveness of PAID as a risk transfer mechanism between regions. Strengthening disaster insurance coverage in vulnerable and underserved areas is important.

Figure 3.6. Flood insurance covers only a small share of economic losses, yet claims are rising



Source: Swiss Re, sigma database, all rights reserved; PAID (2026_[42]).

StatLink  <https://stat.link/6u2c17>

Better adapting to coastal risks

Romania's coastal flood risks are moderate due to its relatively short shoreline and the semi-enclosed Black Sea, which experiences low tidal variation (Maes et al., 2022_[9]). However, climate change is increasingly affecting coastal zones through sea-level rise, seawater intrusion into freshwater systems, and coastal erosion (Bisaro et al., 2024_[44]; OECD, 2019_[45]). Under a pessimistic scenario, the Black Sea could rise by 12-25 mm annually, reaching up to 0.5 meters by 2050. These developments, combined with more frequent storms and heavy rainfall, are intensifying the risks to infrastructure, biodiversity, and settlements, particularly in the Danube Delta and southern coast, which has a high commercial and tourism exposure.

Adaptation efforts to date have mostly focused on coastal protection measures. Avoidance measures, i.e. the planned retreat of assets and populations, have not been pursued to date. On the governance side, Romania is advancing its Integrated Coastal Zone Management (ICZM) strategy, in line with EU requirements. However, its full legal incorporation and the implementation of related action plans are still pending. While the *National Strategy for Adaptation to Climate Change* acknowledges the vulnerability of coastal zones to climate impacts,

it does not formally embed ICZM as a distinct component. Romania should accelerate the legal adoption and operationalisation of its ICZM strategy, embed it more explicitly within the national climate adaptation framework, and strengthen institutional coordination and participatory mechanisms, particularly at the local level. Enhancing coastal data systems and ensuring better integration with land-use planning processes are also essential to improve coastal protection against climate change

3.2.2. Coping with higher temperatures and more frequent droughts

Romania faces significant exposure to slowly rising temperatures and increasing risks of drought, which pose substantial challenges to key sectors of the economy, including housing, energy systems, water management, transportation, and agriculture (OECD, 2024^[41]). Romania appears relatively little prepared to manage these climate-related heat pressures, given the already high strain on its water systems, an ageing critical infrastructure, and a very energy-inefficient building stock. Addressing these risks will require significant investment, but Romania's limited fiscal space constrains the policy response. Policy responses will therefore need to prioritise and focus on: (i) strengthening water management, (ii) enhancing the energy efficiency of buildings, and (iii) promoting climate-resilient agricultural practices. Improving institutional coordination and effectively leveraging EU funding instruments, alongside private sector contribution, will be essential to support these efforts in the light of domestic fiscal constraints.

Improving water management and resilience

Climate change is expected to exacerbate seasonal fluctuations in freshwater availability (Tikoudis, Gabriel and Oueslati, 2025^[46]; European Environment Agency, 2024^[3]). Romania is already experiencing stress on its water systems, with recurring seasonal water scarcity (European Environment Agency, 2025^[47]). Water consumption, measured as a percentage of renewable freshwater resources – known as the water exploitation index – stood at over 45% on annual average, a level typically associated with severe water stress (Figure 3.7, Panel A), and this figure has shown an upward trend in recent years. Significant water losses due to aging water infrastructure and inefficient irrigation systems, combined with low levels of wastewater treatment and limited water reuse policies, are placing increasing pressure on Romania's freshwater resources.

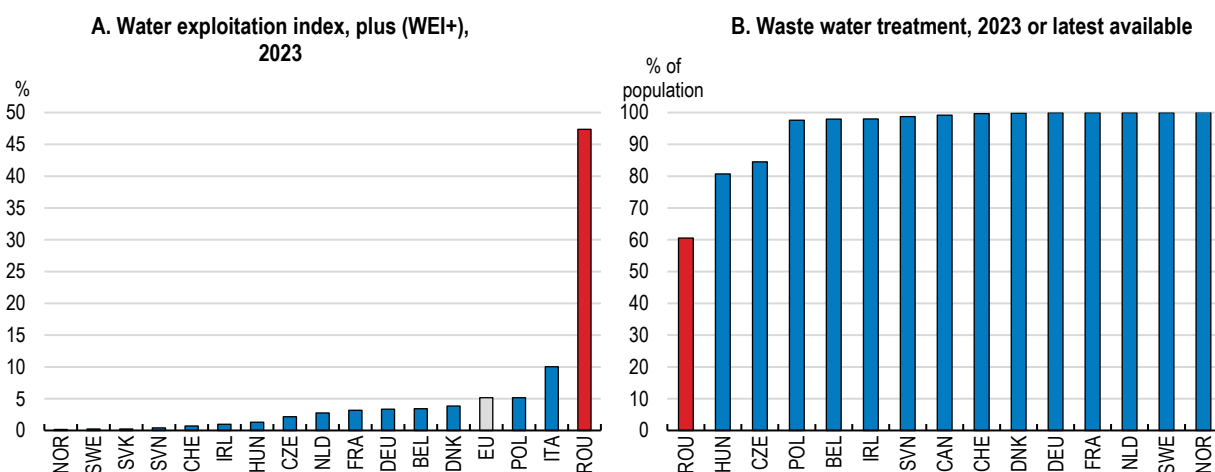
Effective water policy is essential for adapting to heat and drought stress (OECD, 2025^[14]). OECD analysis indicates that Romania has the lowest per capita spending on water and sanitation systems among EU member states. To comply with EU water directives and enhance system efficiency, annual investment would need to more than double by 2030 (OECD, 2020^[48]). Although water tariffs are sufficient to cover operational expenditures, they are unlikely to generate the resources for major investments, particularly given that affordability is already a concern for vulnerable segments of the population (OECD, 2020^[48]). Nonetheless, continued efforts to enhance the efficiency of water tariff structures, while taking affordability into account, would help strengthen the overall system.

Water losses due to leakage are widespread, with leakage rates approaching 40% (OECD, 2020^[48]). To ensure sustainable water management, Romania should scale up public investment in water systems, while continuing to effectively mobilise EU and international financing. More effective and strategic planning of public funds, supported by benchmarking and better monitoring of investment in water infrastructure, should accompany higher allocations. Addressing water losses from illegal connections and under-metering should also be prioritised, as such measures are generally less time- and cost-intensive than addressing leakages in the distribution network (OECD, 2020^[48]).

Water reuse should also be expanded. The European Commission has initiated legal action against Romania for failing to adequately collect and treat wastewater in larger agglomerations (European Commission, 2024^[49]). In Romania, only around 60% of the population is connected to the sewage network, a figure that is notably low by OECD and EU standards (Figure 3.7, Panel B). There exists a significant urban-rural divide, with over 99% of urban residents connected to sewage systems, compared to only around 19% of rural inhabitants, according to INS. Additionally, a significant share of treatment plants operates with outdated technologies

(Ecostratos, 2025^[50]). Overall, only about 15% of the urban wastewater in Romania is treated according to the requirements of the Urban Wastewater Treatment Directive (WISE, 2025^[51]).

Figure 3.7. Water management is an important challenge



Note: The water exploitation index (WEI+) provides a measure of total water consumption as a percentage of the available renewable freshwater resources. In the absence of agreed formal targets, values above 20 % are considered to be a sign of water scarcity, while values equal or greater than 40 % indicate situations of severe water scarcity. WEI+ at national level do not reflect uneven spatial and seasonal distribution of resources. Source: European Environment Agency; and OECD Environment Statistics database.

StatLink  <https://stat.link/ezrq2i>

Treated wastewater can be reused for agriculture, industrial processes, or even drinking water in advanced systems (OECD, 2025^[14]). This reduces reliance on freshwater sources, a vital strategy in drought-prone or water-scarce regions. In Romania, however, the reuse of treated wastewater remains virtually absent. In contrast, several OECD countries have developed advanced reuse systems. For example, Israel reuses over 85% of its treated wastewater for agricultural irrigation, while Spain achieves nearly 71% (OECD, 2025^[14]). An additional benefit of increased treatment levels is the reduction of nutrient and pollutant discharges into rivers, lakes, and coastal zones, which helps preserve ecosystem health – a key pillar of climate resilience. Despite high upfront costs, advanced treatment plants are a strategic investment. Romania should pursue them over the medium and long term, tapping international financial support.

Advanced wastewater systems could also be more effectively integrated with stormwater systems, enhancing urban resilience to heavy rainfall and reducing the risk of urban flooding (OECD, 2024^[41]). Capturing and reusing rainwater (“rainwater harvesting”) is increasingly recognised as a crucial pillar to improve water availability for irrigation, green space maintenance, and other non-potable uses (OECD, 2025^[14]). For example, in Flanders (Belgium), Barcelona (Spain), and several urban areas in New Zealand, rainwater collection is mandated for new buildings and renovations exceeding a certain size threshold (OECD, 2025^[14]). In addition, subsidies for retrofitting existing properties are available in several countries to encourage broader uptake. Romania should consider incentivising rainwater harvesting in building retrofits and integrating such measures into new construction regulations, particularly in drought-prone southern and eastern regions.

In addition to addressing water supply challenges, enhancing water efficiency – through improved metering systems and support for water-saving technologies – should also be actively pursued. For instance, Israel has implemented a comprehensive metering framework for both domestic and agricultural use, combining regulatory measures, financial incentives, and public awareness campaigns (OECD, 2025^[14]).

Strengthening building renovation and urban green planning

Slowly rising temperatures and the increasing intensity of heatwaves are reshaping the requirements placed on the housing stock. The overall quality of Romania’s housing stock remains relatively low, with a

predominance of older buildings that often lack adequate insulation. Around 70% of Romania's residential buildings were constructed before 1990, when thermal standards were much lower, and only about 0.4% of total residential floor space is equipped with cooling systems (BPIE, 2025^[52]). Poor thermal insulation exacerbates indoor overheating during warmer months and leads to rapid heat loss during colder periods. While Romania adheres to EU energy performance standards for new buildings, the legacy building stock continues to face significant challenges in terms of energy efficiency and climate resilience. Since 2023, energy performance certificates have been mandatory for the sale, rental, or major renovation of all residential buildings, in line with EU directives; however, regulatory measures alone are unlikely to deliver rapid resilience gains for the existing housing stock, given the scale of the challenge.

Romania's *Long-Term Renovation National Strategy* (LTRS), adopted in 2020 and updated in 2023, serves as the central policy tool for improving energy efficiency in the built environment. While the strategy focuses on energy efficiency in the building sector, such renovations also enhance resilience to shifting climate patterns, including increased heat intensity. The strategy targets the renovation of 77% of the building stock (including both residential and public buildings) by 2050 (Government of Romania, 2020^[53]). However, progress to date has been very slow: the annual renovation rate has averaged 0.5% over the past decade, far below the 3.4% target needed for this decade. Achieving these objectives will demand significant investment, estimated at EUR 12.8 billion between 2020 and 2030 (Government of Romania, 2020^[53]). The strategy relies on a mixed financing model, primarily drawing on EU funds, complemented by some national budget allocations and private co-financing. However, there is no unified management or financing framework.

Romania will need better and more targeted incentives to accelerate renovation rates. While EU funds are available, they must be more effectively channelled through national and regional programmes. A more unified management framework for existing financial instruments would also facilitate more effective progress monitoring. Mobilising private financing will also be essential to meet the required investment volumes. One of Romania's long-standing renovation initiatives is the '*Casa Verde*' programme, which provides non-reimbursable grants to support renewable energy adoption and energy efficiency improvements in residential buildings. The programme's budget envelope has gradually increased, reflecting growing demand. However, some of the projects still lack meaningful private co-financing, leading to rapid exhaustion of available funds. As highlighted in the 2024 *Survey*, Romania should establish consistent and meaningful private co-financing requirements across *Casa Verde* projects to ensure efficient use of public funds (OECD, 2024^[19]). It should also guarantee to channel existing funding and tailored support to single-family home renovations, particularly in rural areas where energy poverty is more pronounced.

This should be complemented by better promoting loan programmes for housing renovation. While some Romanian banks offer small-scale 'green mortgage' loans – preferential loans for purchasing or upgrading energy-efficient homes –, market uptake remains low. Promoting these products more effectively and expanding their development in partnership with the banking sector, even without direct public involvement in the loan scheme, could help scale up housing renovations among middle-income households. Poland's *Thermomodernisation and Renovation Fund* provides a strong example of how specialised financial instruments can support building upgrades. Under the scheme, households receive a loan repayment bonus – a thermomodernisation bonus for energy-efficiency or a renovation bonus for structural upgrades in older buildings – for loan-financed work. This design leverages private capital, while ensuring that public support – when possible supplemented by EU funds – is granted only once the improvements have been verified.

As a positive development, Romania implemented one-stop shops for energy efficiency in June 2024. These shops aim to provide households with essential information on energy efficiency and renewable energy, in line with the objectives of RePowerEU. However, as of mid-2025, only a limited number of pilot shops seem to have been operational, and the full network does not appear to be functional (Energynomics, 2025^[54]). This slows the intended impact of one-stop shops in accelerating energy-efficient building upgrades. Romania should also continue strengthening its data collection and monitoring systems regarding for the building stock, such as completed, ongoing, and urgent renovations, as envisaged in the LTRS.

Efforts to improve building resilience should be complemented by a stronger integration of climate resilience into urban planning. Expanding green spaces, such as parks and green roofs, can help reduce the urban heat island effect, while permeable pavements can improve rainwater absorption (OECD, 2025^[14]). While some Romanian cities have begun integrating climate adaptation into their urban development strategies in line with international best practices, these efforts remain at an early stage. Following public consultation, Bucharest adopted its first *Green City Action Plan* (GCAP) in August 2024, outlining a EUR 6.5 billion investment programme over five years to support more climate-resilient urban infrastructure (Municipality of Bucharest, 2025^[55]). The challenges for the city are substantial, including outdated urban planning documents, a very low share of green spaces, rising energy consumption for heating and cooling, and persistent inefficiencies in urban transport systems (Municipality of Bucharest, 2025^[55]).

Improving adaptation of the agriculture sector

Agriculture is the sector most directly affected by the economic costs of drought and rising temperatures linked to climate change (OECD, 2025^[14]; European Environment Agency, 2024^[12]). Agricultural policy in Romania is governed by the EU's Common Agricultural Policy (CAP). The 2023-2027 CAP introduced eco-schemes to strengthen support for greening and climate adaptation measures. Agriculture also features prominently in the *National Adaptation Strategy*, outlining 53 measures dedicated to the agricultural sector. Key initiatives include the rehabilitation of existing irrigation systems, promotion of crop and farm insurance, development of climate-resilient crops, improved land use planning and crop management, and enhanced awareness, risk management, and data tools (Government of Romania, 2024^[26]). Ongoing afforestation efforts (i.e. establishing a forest in places where forests have been absent for at least a very long time) are also a positive step toward revitalising agricultural land degraded by drought or at risk of desertification.

Irrigation represents a critical adaptation strategy for the agricultural sector, with the potential to significantly reduce the economic losses from climate change (Tikoudis, Gabriel and Oueslati, 2025^[46]; Hristov et al., 2020^[15]). However, given the increased demand for water associated with expanded irrigation, its implementation must be accompanied by measures to enhance water efficiency (OECD, 2025^[14]). One of Romania's key challenges is the deteriorated state of its irrigation infrastructure. Despite having an extensive irrigation network, much of it is non-functional, inefficient with high water losses, or reliant on outdated, energy- and water-intensive technologies. Of Romania's approximately 8.6 million hectares of arable land, only around 15% currently can benefit from irrigation. Under its updated *Irrigation Strategy*, Romania aims to double the irrigated area to 2.87 million hectares by 2027, primarily by rehabilitating existing systems (World Bank, 2023^[56]). The National Strategic Plan for the 2023-2027 CAP has allocated EUR 400 million to modernise existing irrigation infrastructure and further EUR 85 million to develop new, small-scale irrigation systems (World Bank, 2023^[56]). These useful investments to increase irrigation efficiency should be supported by effective water governance, including robust allocation frameworks and efficient water pricing, and the adoption of moisture-conserving agricultural practices to ensure long-term sustainability of water use.

The Romanian government is also planning to expand insurance coverage through the establishment of a national drought insurance scheme (Reuters, 2024^[57]). At present, agricultural insurance is provided by private companies, with premium subsidies of up to 70% co-financed by CAP funds (European Commission and European Investment Bank, 2025^[58]). Insurance is available for standard perils such as floods, storms, frost, hail, but also drought. Some insurance coverage is provided for approximately 30% of arable land, mostly purchased by larger agricultural producers (European Commission and European Investment Bank, 2025^[58]). Agricultural producers insured against standard risks are also eligible for government compensation in the event of natural disasters (under law 381/2002). Compensation is financed on an ad hoc basis from the state budget and there is no dedicated public disaster fund. This exposes the budget to significant risks in the event of large-scale shocks or may constrain compensation due to fiscal limitations. For example, during the severe drought in 2022, the protection gap was substantial, with over 95% of agricultural losses uninsured and likely absorbed by farmers (European Commission and European Investment Bank, 2025^[58]).

While the design of Romania's national drought insurance scheme is still under development, it will be important to anchor it in some key principles. These include leveraging as much as possible the private insurance market for insurable drought risks, with public intervention reserved for cases where private insurance might not be feasible. Insurance providers should be encouraged to include drought and drought-related conditions in their standard risk policies. This should be complemented by targeted risk awareness campaigns and efforts to expand private insurance coverage, particularly among small-scale farmers. Furthermore, public subsidies for insurance premiums could be more closely linked to affordability and climate adaptation efforts. Linking eligibility or premium rates to drought-resilient practices – e.g. the use of drought-resistant crops or efficient irrigation systems – can encourage investments in risk reduction, ultimately reducing vulnerability (OECD, 2025^[14]).

Table 3.2. Main findings and recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Policies to enhance resilience to climate risks	
Romania adopted a National Strategy for Adaptation to Climate Change in 2024. However, monitoring progress and verifying implemented actions is challenging.	Improve reporting and monitoring on the Strategy and ensure better tracking of spending to implement measures effectively.
An increasing number of properties and infrastructure are exposed to climate-related risks. Land-use planning practices often fall short of systematically incorporating climate risk considerations.	Strengthen the enforcement of flood and other climate-risk related regulations in land-use planning, including the explicit prohibition of construction in high-risk zones. Require mandatory flood risk assessments for new constructions in Areas of Potential Significant Flood Risk (APSFRR).
Flood risks are often insufficiently disclosed in property transactions, and there is scope to enhance private-sector engagement in flood adaptation measures.	Mandate the disclosure of natural hazard risks, including flood risk, in all residential and commercial property transactions. Consider introducing targeted incentives or subsidies to support flood-resilience upgrades for existing homes in flood-prone areas.
Some flood defence systems are in bad conditions, and the implementation of Flood Risk Management Plans (FRMPs), including essential maintenance measures, has faced significant delays.	Develop and implement a national maintenance plan for flood defences, building on FRMPs. Prioritise measures, define costs and funding mechanisms, and establish clear implementation timelines. Further expand the use of nature-based solutions within flood defence systems.
Although disaster insurance is mandatory for households, coverage and enforcement are low.	Increase uptake of mandatory disaster insurance for households by raising awareness, clarifying obligations, and enforcing compliance.
Low wastewater treatment, limited water reuse policies, and high losses from ageing water systems are straining freshwater resources.	Improve wastewater treatment and ensure full compliance with EU regulations, fully leveraging EU and domestic funding. Better address water use inefficiencies from illegal connections and under-metering.
Romania's housing stock faces significant climate risks and suffers from low resilience and energy efficiency, due to poor thermal insulation and inefficient heating and cooling.	Establish a more effective management framework for housing renovation programmes, including improved coordination across levels of governance, and fully leverage available EU funding. Improve efficiency of available programmes for housing renovation, ensuring household co-financing while providing adequate support for low-income households, particularly in rural areas.
Agriculture, a vital sector in Romania's economy, faces high direct economic costs from climate change.	Fully leverage available investment to modernise irrigation systems, and support this with effective water-saving measures, including efficient water pricing for agricultural use. Encourage private insurers to offer drought insurance products and raise awareness of their availability among farmers.

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4

Strengthening Romania's competitiveness

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Romania has achieved significant income convergence with the OECD over the past two decades, driven by increased openness, deeper integration into global value chains, capital inflows, and economic liberalisation. However, there is considerable potential to further integrate domestic businesses into global markets and strengthen linkages with foreign enterprises operating in Romania, which would enhance value capture from global integration. Enhancing the absorptive capacity of the domestic economy will require investments in human capital and skills, support for research and innovation, accelerated technology adoption, and improved infrastructure. Additionally, further enhancing the business environment by reducing administrative and regulatory burdens and strengthening insolvency procedures and competition will foster domestic entrepreneurship and firm growth. While Romania has made significant progress in strengthening its institutional and policy framework, further efforts to improve tax compliance, ensure legislative stability, and enforce anti-corruption measures will help create the conditions for a strong and competitive economy.

This chapter reviews Romania's recent performance in trade and foreign direct investment (FDI) and explores the challenges to sustaining long-term competitiveness. It focuses on strategies to boost productivity and move beyond cost-based production advantages, by moving up the value chain and enhancing spillovers from foreign firms in Romania. Achieving this requires boosting the absorptive capacity and productivity of the domestic economy, particularly by strengthening human capital, innovation, competition, and infrastructure. This would also help ensure that the benefits of trade and FDI are more widely shared across workers, firms, and regions. The chapter also highlights strategic sectors, such as the Information and Communications Technology (ICT), with the potential to support this objective. Finally, it explores the institutional and governance framework needed to ensure supportive conditions for a competitive economy.

4.1. Romania's income convergence is slowing and better reaping the benefits of international integration is key

4.1.1. Productivity growth has slowed after strong catch-up

Over the past two decades, Romania has recorded one of the fastest GDP growth rates in comparison with OECD members, driven by integration into global markets, EU accession, and capital inflows. This has led to significant income convergence, from an OECD average of about 43% in 2004 to 71% in 2024 in GDP per capita (PPP). Labour productivity grew by an average of 3.6% per year over the last two decades, leading to a significant catch-up in productivity levels (Figure 4.1, Panel A&B). Both capital accumulation and total factor productivity (TFP) have been driving labour productivity increases. Higher productivity enables firms to produce more with the same or fewer resources, reducing unit costs and enhancing competitiveness in global markets.

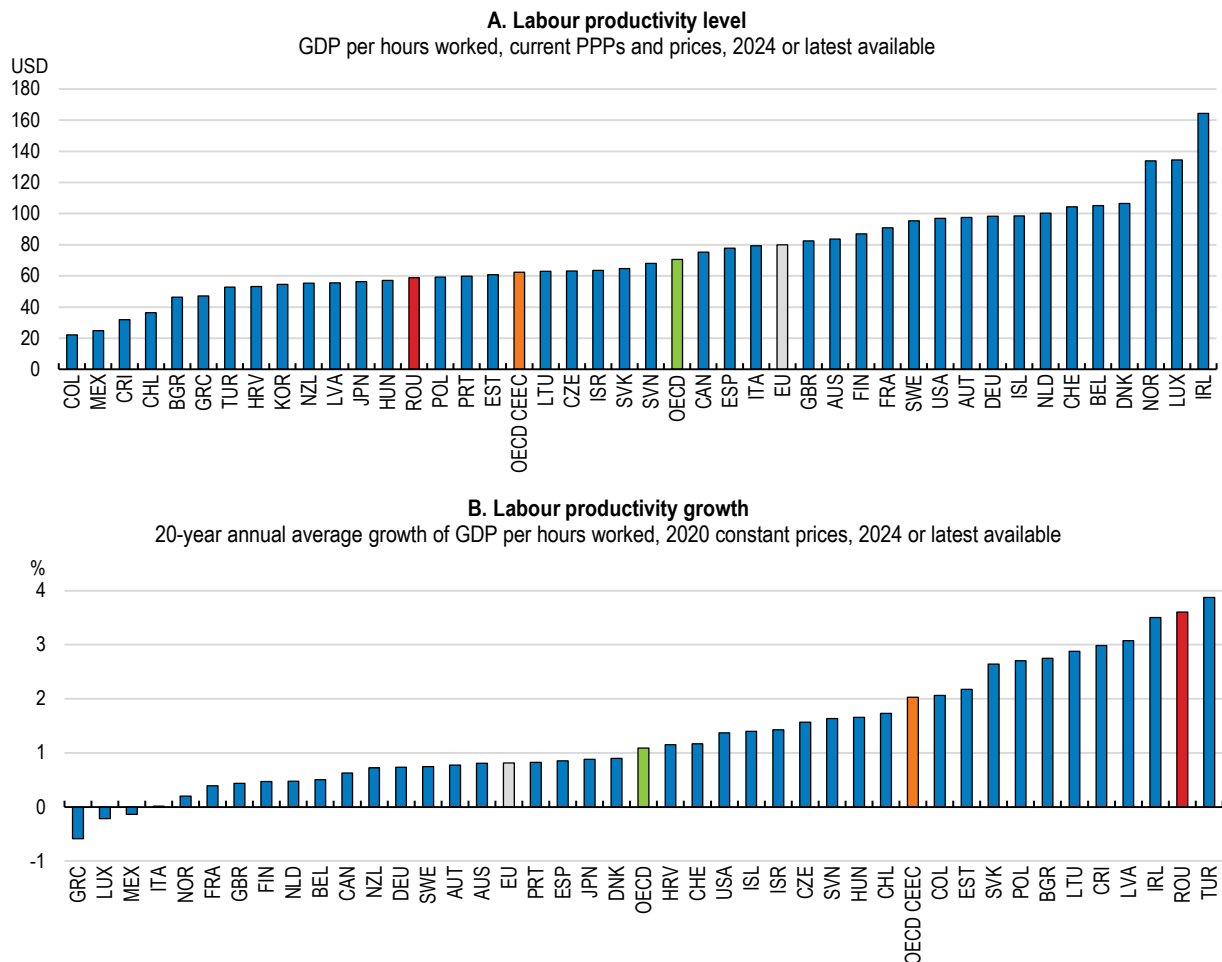
However, as Romania approaches OECD income and productivity levels, catch-up growth drivers are becoming smaller. Productivity growth momentum has weakened in recent years compared to the pre-pandemic trend and labour productivity declined by 1.2% in 2024. Romania faces the challenge of shifting from a cost-driven growth model toward one anchored in higher value-added, by sustaining productivity gains closer to the technological frontier. This will require strengthening innovation, education, technology absorption and business dynamism, supporting investment and TFP growth.

Also, productivity differences between foreign affiliates operating in Romania and domestic firms remain substantial (EUR 45 000 versus EUR 24 000 in gross value added per person employed) (Eurostat, 2025^[1]), limiting spillovers from foreign affiliates to the domestic economy. Bridging this productivity gap requires strengthening the capabilities of domestic firms, particularly through more effective technology and knowledge transfers. Enhancing these channels can help firms move up the value chain and integrate more deeply into global markets, including through stronger linkages with foreign affiliates operating in Romania.

Moreover, it will be important to ensure that these productivity gaps are appropriately analysed to inform future pro-productivity policies. Romania established in 2018 a Productivity Board which was never operational. The government is currently considering the establishment of a new Productivity Board in line with the practice of many OECD countries. The Board should have access to data and provide practical recommendations to the government on future pro-productivity policies (Cavassini et al., 2022^[2]).

From a firm-level perspective, productivity growth in Romania has largely stemmed from the reallocation of market shares toward more productive firms, rather than from improvements within firms themselves, at least prior to the COVID-19 crisis (Iloitty, Pena and De Rosa, 2019^[3]). Within-firm productivity gains have remained subdued, reflecting limited capacity to enhance efficiency through internal processes. Strengthening firms' internal capabilities for growth and expansion requires improving their operational processes and efficiency.

Figure 4.1. Productivity catch-up has been strong



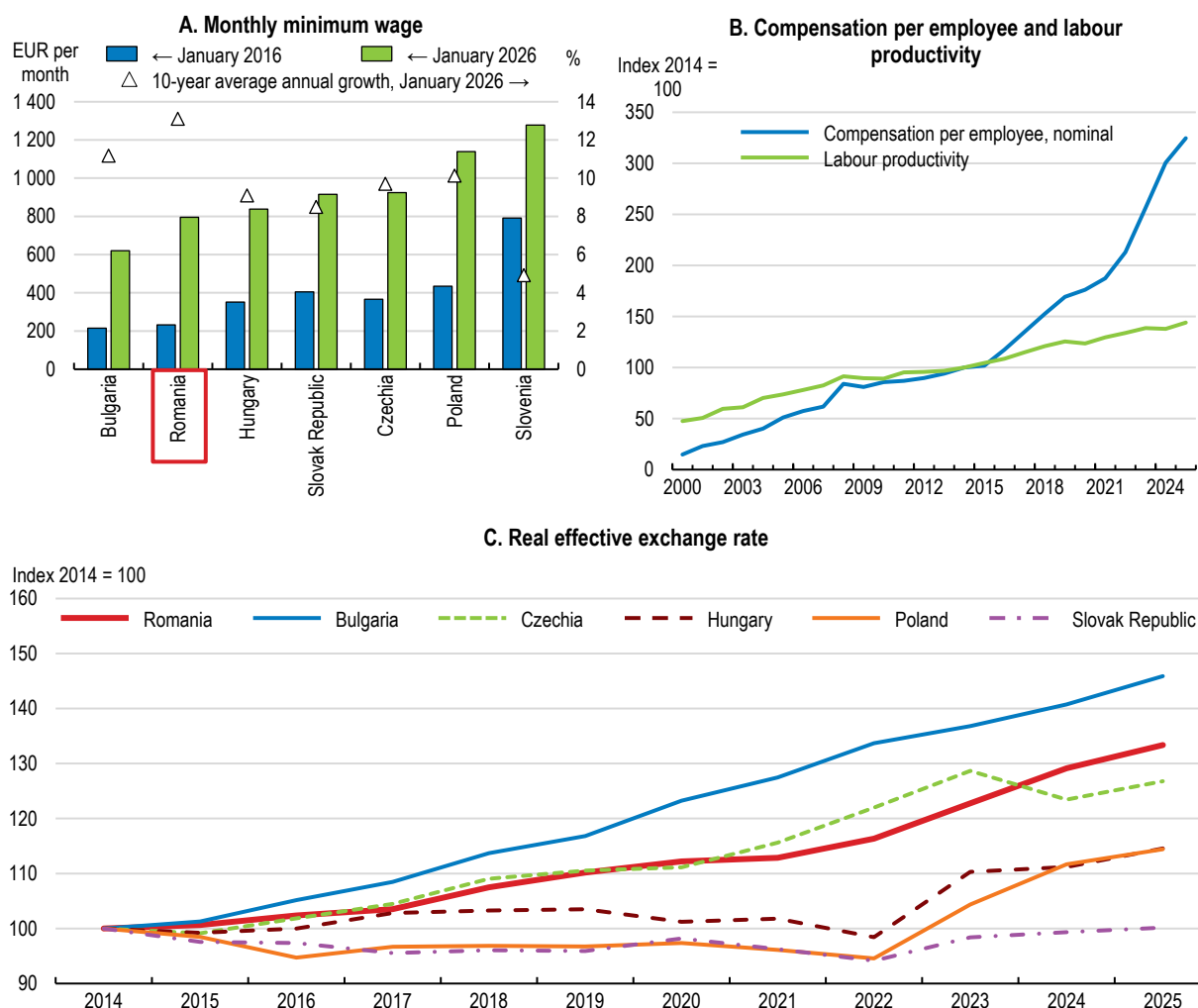
Note: OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Productivity database.

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While productivity is a key driver of both price and non-price competitiveness, wage and cost developments also shape price competitiveness. Over the past decade, strong productivity growth has been accompanied by steady wage increases, although wages have increasingly outpaced productivity growth. Minimum wages in Romania rose by an average of 13% annually over the past decade – faster than in other Central and Eastern European countries (CEEC) – and are now close to the regional average. Over the same period, compensation per employee also grew rapidly by 11% in nominal and 7% in real terms annually, outpacing labour productivity growth by nearly double (Figure 4.2, Panel A&B). This trend has resulted in a gradual erosion of Romania's cost competitiveness. To remain competitive amid rising wages, Romania must strengthen non-cost competitiveness drivers such as product sophistication, quality standards and innovation.

In line with rising wages, domestic prices have increased significantly, with inflation remaining persistently above target in recent years and higher than in peer economies (see Chapter 1). Elevated inflation can undermine investment and hinder productivity growth by raising firms' operating costs and increasing uncertainty around long-term planning. This also continues to weigh on Romania's price competitiveness, as shown by the real-effective exchange rate (Figure 4.2, Panel C). Addressing macroeconomic imbalances is therefore not only essential for economic stability, but also critical from a competitiveness perspective.

Figure 4.2. Wages have outgrown productivity

Note: The real effective exchange rate is calculated by adjusting the nominal effective exchange rate (NEER), based on constant trade weights, for relative price levels using the GDP deflators of the home country and its trading partners. A GDP deflator-based REER captures broader price trends related to domestically produced goods and services, and is less affected by import prices or consumer-specific factors.

Source: Eurostat; and OECD Economic Outlook database.

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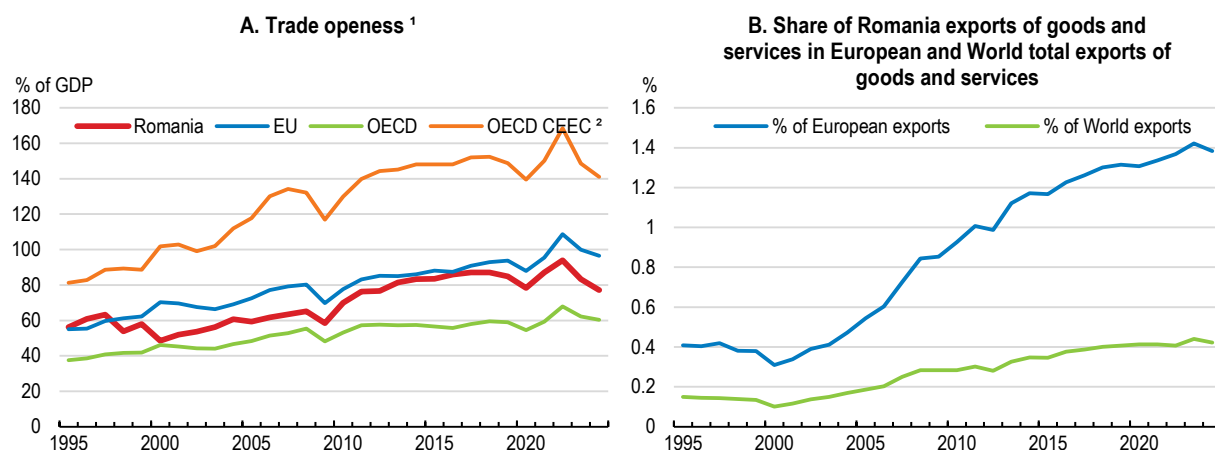
4.1.2. Integration into global markets has deepened but domestic firms are underrepresented

Greater openness to trade and deeper integration into Global Value Chains (GVCs) have been important drivers of Romania's labour productivity growth and technological upgrading. Romania's trade openness has increased from around 60% of GDP in the early 2000s to nearly 80% of GDP in 2024 (Figure 4.3, Panel A). While Romania remains somewhat less open than other EU countries, particularly its CEEC peers, it has gained significant market share in global and EU markets (Figure 4.3, Panel B). Romania's export performance was strong in the decade leading up to the COVID-19 crisis, though this trend has slowed and both, trade openness and export performance, have stagnated in recent years (Figure 4.4, Panel A).

Romania's export structure remains strongly manufacturing-based, with manufacturing goods accounting for three-quarters of goods exports in 2024. A significant share of these manufacturing exports is concentrated in a few sectors, notably automotive – which increased its share to 17% of goods exports in 2024 from 3% in 2004 – and electrical components and equipment (Figure 4.5, Panel B), heightening Romania's exposure to

these sectors. High-technology goods – defined as goods with high R&D intensity, such as those in aerospace, computing, pharmaceuticals, and electrical machinery – make up an increasing share of Romania’s goods exports (Figure 4.4, Panel B). However, this share remains below OECD and EU averages, and lags behind regional peers like Czechia and Hungary, indicating untapped growth potential in these sectors.

Figure 4.3. Romania’s trade exposure has increased



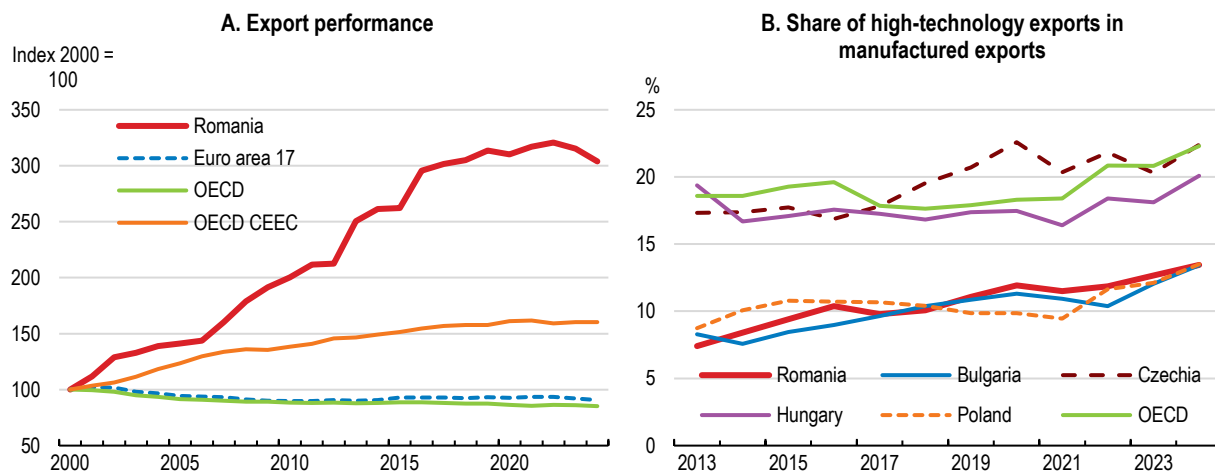
1. Sum of exports and imports of goods and services as percentage of GDP.

2. OECD Central and Eastern European countries (CEEC) non-weighted average include Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Analytical database; and World Bank, World Development Indicators database.

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Figure 4.4. Export performance has been strong from the mid-2000s until recently

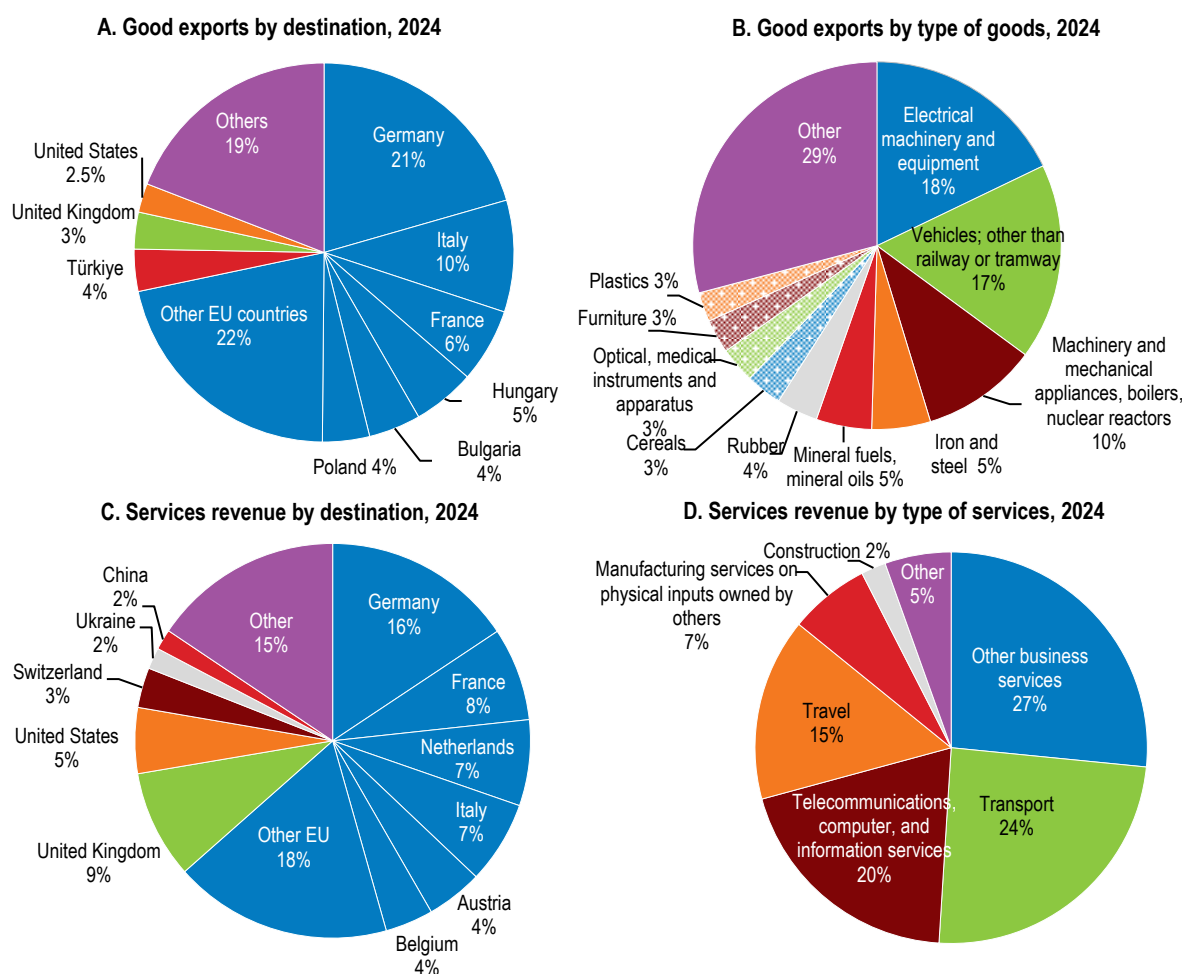


Note: In Panel A, export performance is calculated by comparing the growth of export volumes with that of export market. This shows whether the country's exports grow faster or slower than its market, i.e. if over time it is experiencing market share gains or losses. Euro area 17 covers countries that are members of both OECD and Euro area. OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Analytical database; and World Bank, World Development Indicators database.

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Services exports have become an increasingly significant component of Romania’s trade, accounting for around 32% of total exports, above both the OECD average and that of its CEEC peers. They are also a major intermediate input in goods exports. A significant proportion of these exports is composed of ICT services and other business services (Figure 4.5, Panel D). Romania’s ICT sector plays a pivotal role in this dynamic (see Box 4.1) (ANIS, 2024_[4]). Romania’s strong service orientation presents an opportunity to deepen trade competitiveness by leveraging high-value service inputs.

Figure 4.5. Manufactured goods to EU markets dominate exports

Note: Panel A and B: Data coming are collected on the basis of the Harmonised System 2017; Panel C and D: Data coming are collected according to the Balance of Payments methodology.

Source: United Nations Comtrade database; and OECD International Trade in Services database.

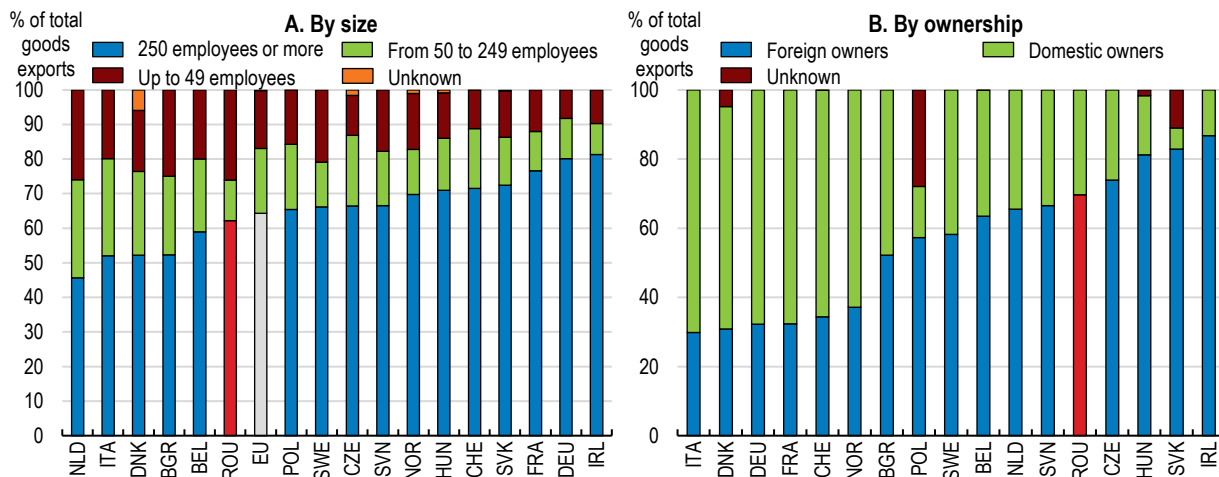
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Foreign-controlled firms play a dominant role in Romania's export activity, contributing 70% to goods exports and 80% to manufacturing goods exports in 2024 (Figure 4.6, Panel B) and the share of domestic firm participation in export activity is low, also compared to most of the other CEEC. Most goods exports are concentrated in large enterprises, mostly multinationals (MNEs) (Figure 4.6, Panel A). Romania has a large share of micro and small domestic enterprises – 99% of firms qualify as micro or small businesses – many of which may lack the capacity, resources, or knowledge to engage directly in export activities. A somewhat smaller share of services exports, about 56%, is generated by foreign enterprises, compared to goods exports.

Romania is highly integrated into trade with the European Union, with approximately 72% of its goods exports and 70% of its services exports directed to EU markets (Figure 4.5, Panel A&C). This strong orientation toward the EU reflects Romania's deep integration into European production networks and the significant role played by foreign – primarily European – enterprises in export activities. While this integration has been a key driver of export growth, it may limit the scope for rapid diversification into non-EU markets. Expanding into new markets would require efforts to strengthen domestic export capacity and advance along the value chain.

Figure 4.6. Exports are concentrated in large and foreign-controlled enterprises

Goods exports by size and type of ownership of the trading enterprises, 2024 or latest available



Source: Eurostat.

StatLink  <https://stat.link/shd4pa>**Box 4.1. Size and competitiveness of Romania's ICT sector**

Romania hosts a dynamic and expanding ICT sector, contributing 7.6% to gross value added in 2024, well above the EU (5.5%) and the averages for OECD CEEC peers (5.8%). The sector's direct, indirect, and induced impact accounted for up to 14% of Romania's GDP in 2021, underscoring its economic importance (ANIS, 2024^[4]). The ICT sector is a net exporter. Its employment share remains relatively low (2.8% versus 5.0% in the EU), and emigration of skilled ICT professionals is a challenge. Romania has a high share of ICT graduates (6.8% versus 4.5% in the EU of total graduates).

In terms of structure, the sector is dominated by custom software development (ANIS, 2024^[4]). Between 2018 and 2023, turnover in this segment nearly tripled. The ICT sector is characterised by a high prevalence of microenterprises (95%), i.e. with less than 10 employees, many of which have limited or no operational activity, highlighting structural inefficiencies and limits to scale. Despite high innovation potential of the sector, R&D investment and IP generation also remain very limited (ANIS, 2024^[4]).

The sector previously benefited from tax advantages for IT professionals, but these were repealed in 2025 as part of fiscal consolidation (see Chapter 1). These exemptions were broadly effective in supporting the development of the ICT sector (Manelici and Pantea, 2021^[5]). IT professionals are now subject to the standard 10% income tax, along with full social contributions.

Source: The analysis in this box is based on data from Employers' Association of the Software and Services Industry (ANIS) (2024^[4]), European Commission (2025^[6]; 2025^[7]) and Eurostat.

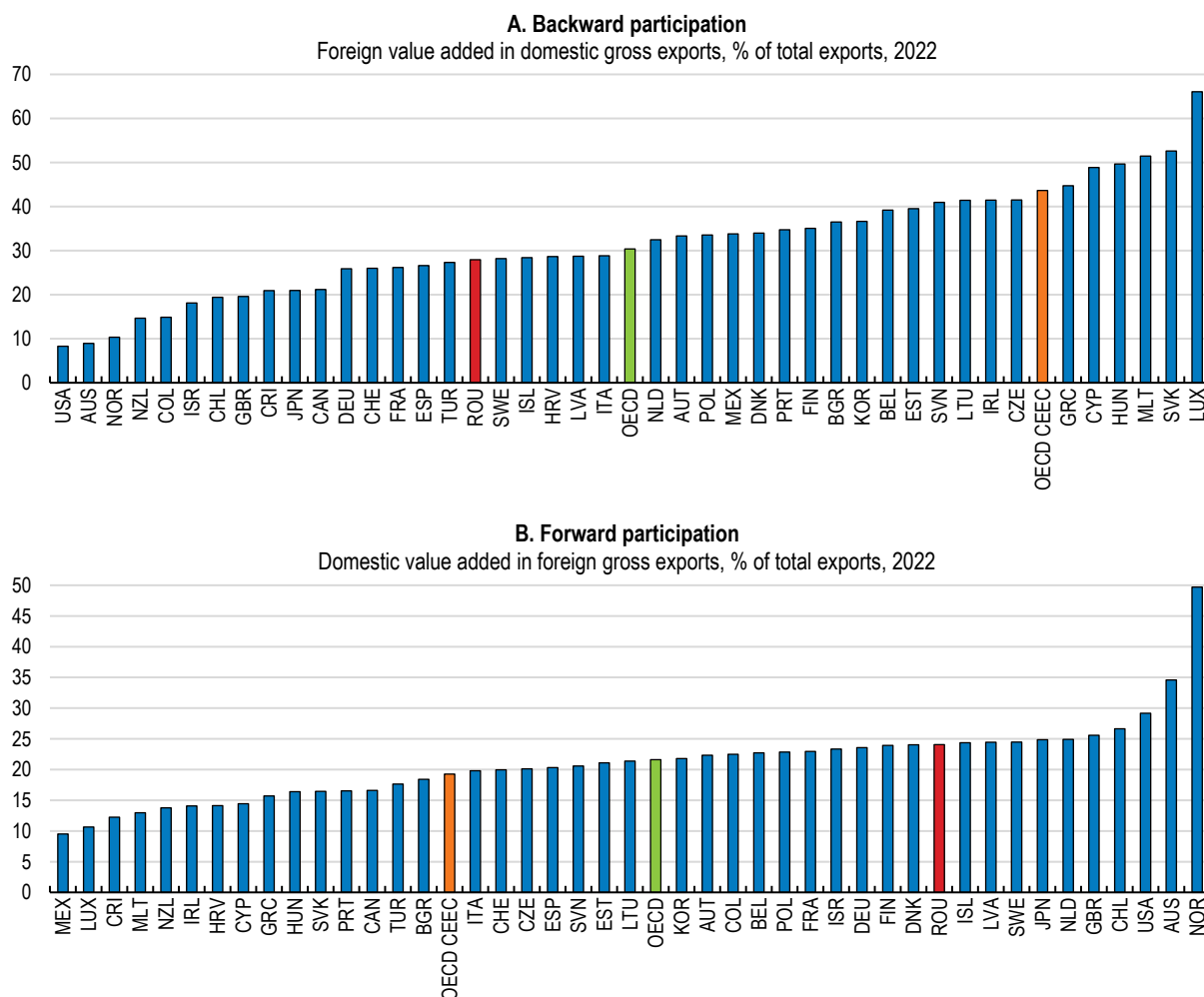
4.1.3. Romania has a mid-level position in global value chains

Romania has a mid-level position in global value chains (GVC), with forward linkages predominating. By 2022, 52% of Romania's gross exports were GVC-related, i.e. either containing foreign value added or domestic value added for other country's exports, which is close to the OECD average of 51%. Romania's backward participation, measured as the share of foreign value-added in gross exports stood at 28%, which is slightly below the OECD average and significantly lower than that of peer CEECs that are more heavily specialised in manufacturing and midstream assembly functions (Figure 4.7, Panel A). Backward linkages can increase a country's gross exports and support productivity and technology transfer, as they often involve replacing less efficient domestic inputs with more competitive imported ones (Crowe and Rawdanowicz, 2023^[8]; Javorcik,

2004^[9]). However, they can also limit the share of value produced domestically, especially when local firms are not engaged in higher-value activities within the production chain.

Romania's forward participation in GVC, i.e. the share of domestic value added embedded in foreign gross exports, stands at approximately 24%, above the OECD average and that of peer CEECs (Figure 4.7, Panel B). This shows that export demand is indirectly linked to global trade flows, reflecting the country's role in supplying intermediate goods and services. Compared to other CEECs, Romania is more oriented toward upstream production activities, such as the manufacturing of vehicle components, electrical and electronic equipment, and the provision of IT and software services. These sectors are typically associated with higher domestic value-added shares (the so called "smile-curve", where domestic value added is highest at both ends of the GVC) and stronger forward linkages within global production networks.

Figure 4.7. Romania has an intermediate position in global value chains (GVC)



Note: Backward participation is the foreign value added embodied in a country's exports as a share of this country's total exports. Forward participation is the domestic value added of a country embodied in the exports of foreign countries as a share of this country's total exports. OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Trade in Value Added (TiVA) database, 2025 edition.

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While Romania's deeper integration into GVC has brought significant benefits – such as productivity gains and technology transfers– it has also heightened the country's exposure to global business cycles (Chiacchio and Semjonovs, 2020^[10]). This vulnerability is further amplified by a growing sectoral specialisation, particularly in the automotive industry. Mitigating the risks associated with GVC dependence, while preserving the benefits

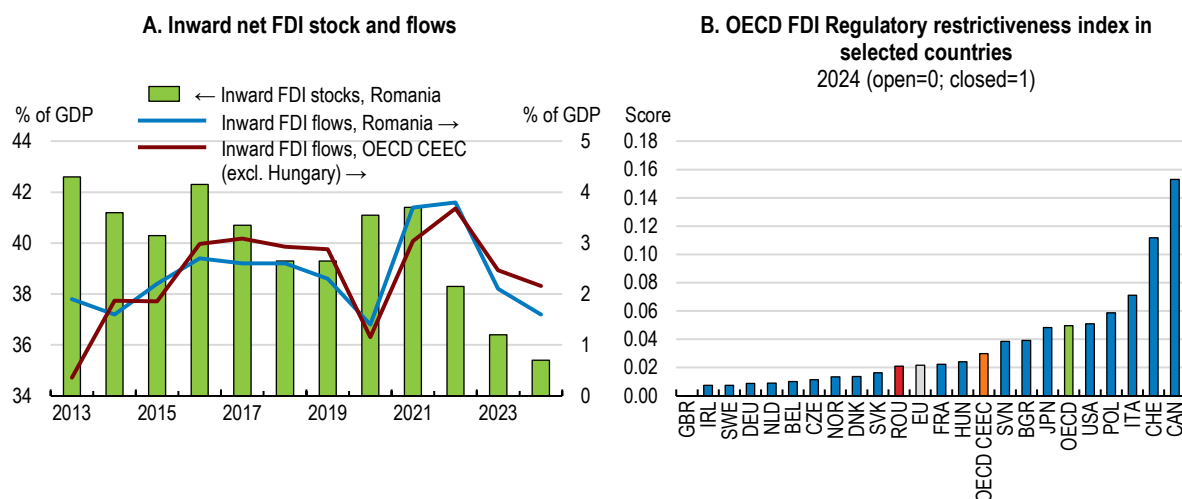
of integration, requires a broad-based policy (Crowe and Rawdanowicz, 2023^[8]). This includes diversifying the sectoral base to reduce over-specialisation, strengthening human capital and domestic research and innovation to support upgrading and value capture within GVCs, upgrading domestic SME capabilities and enhancing overall economic resilience to improve the ability to absorb external shocks.

4.1.4. Foreign investment has been an important driver of catch-up growth

Although Romania began attracting important foreign direct investment (FDI) later than other CEECs, it has made significant advances over the past two decades. Between 2014 and 2024, FDI inflows averaged 2.5% of GDP, comparable to regional peers, except for Hungary (Figure 4.8, Panel A). By 2024, the total FDI stock reached approximately 35% of GDP, still well below the OECD-CEEC average of 60% of GDP. The stock of FDI as a percentage of GDP has declined over the past decade across most CEEC, reflecting a combination of international and domestic factors. These include a shift toward more domestic demand-driven growth – less reliant on FDI-intensive export sectors –, a transition to less capital-intensive service-oriented investments, and a broader global downturn in FDI flows. Around 87% of Romania's FDI stock originates from EU members.

Romania offers a very favourable FDI regulatory environment, with minimal statutory barriers, as reflected in its low score on the OECD FDI Regulatory Restrictiveness Index (Figure 4.8, Panel B). Some existing restrictions relate to the acquisition of agricultural land, which were tightened in 2020. Nevertheless, Romania still attracts significant foreign investment in agriculture and foreign ownership is estimated at 30% to 40% of farmland (European Parliament, 2015^[11]). Sectoral restrictions include limits on foreign equity in air transport. Romania also strengthened its FDI screening in 2022-2023, aligning with the EU's 2019 directive and creating the Commission for the Examination of Foreign Direct Investments (CEISD).

Figure 4.8. Romania attracts important FDI inflows



Note: In Panel A, OECD CEEC covers Czechia, Poland, Slovak Republic and Slovenia (Hungary having very strong fluctuations of FDI flows). In Panel B, OECD, EU and OECD CEEC are unweighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia. Source: OECD FDI Main Aggregates BMD4 database, Eurostat (for Romania); and OECD FDI Regulatory Restrictiveness Index database.

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Foreign investors play a vital role in Romania's economy, either directly by creating value added and employment and indirectly through spillovers to the domestic economy, primarily in the form of productivity gains among domestic firms. In 2023, the direct contribution of foreign affiliates accounted for approximately 42% of value added and 27% of employment (Eurostat, 2025^[1]). Regarding spillovers, they are closely tied to the strength of linkages between foreign and domestic firms (Javorcik, 2004^[9]; Havranek and Irsova, 2011^[12]). Among these, backward linkages, where foreign affiliates source inputs from local suppliers, are widely recognised as the most effective channels for productivity improvements (see Box 4.2). Several studies show

the presence of positive backward spillovers in Romania, while horizontal spillovers remain limited or occasionally negative (Jude, 2015^[13]; Lenaerts and Merlevede, 2015^[14]; National Bank of Romania, 2018^[15]).

Box 4.2. Linkages between foreign enterprises and domestic suppliers in Romania

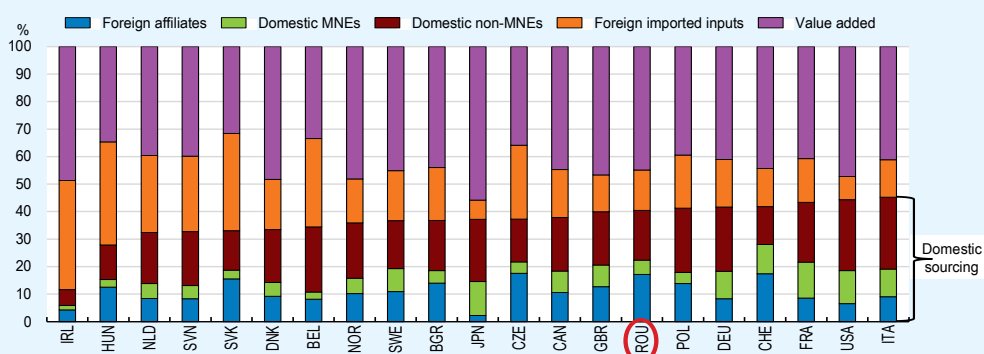
In Romania, linkages between foreign enterprises and domestic suppliers are well established, with foreign firms sourcing a significant share of their inputs locally. Based on data from the OECD AMNE database, approximately 40% of the output of foreign affiliates in Romania was sourced domestically, compared to around 20% from imported intermediates (Cadestin et al., 2019^[16]). This level of local sourcing is comparable to Poland and exceeds that of other OECD CEECs such as Hungary and Slovakia. However, a notable portion of these domestically sourced inputs originates from other foreign affiliates (Figure 4.9).

These patterns are confirmed by more recent firm-level survey data. According to the 2018-2020 edition of the EBRD-EIB-WB Enterprise Survey, foreign-owned enterprises in Romania (defined as firms with over 10% foreign ownership) source approximately 54% of their intermediate inputs domestically and 43% from foreign suppliers. In comparison, domestically owned firms source about 69% of their inputs locally.

The extent of domestic sourcing is closely linked to country size, with larger economies typically offering a broader, more diverse base of domestic suppliers (Cadestin et al., 2019^[16]). Romania also exhibits a higher share of domestic value added than many other CEECs (see main text). Nevertheless, as a larger economy, Romania still has untapped potential to further increase domestic value added and strengthen linkages of foreign affiliates with local suppliers, particularly when compared to more advanced OECD countries.

Figure 4.9. Foreign enterprises source a significant share of imports domestically

Sourcing structure of foreign affiliates, individual countries, total economy, 2020



Source: Calculations based on the OECD Analytical AMNE database, see (Cadestin et al., 2019^[16]).

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The extent to which domestic firms benefit from these effects depends heavily on their absorptive capacity, including factors such as human capital, R&D investment, and the technological gap (Jude, 2015^[13]). To fully harness the benefits of FDI, it is therefore essential to enhance the absorptive capacity of the domestic economy, as stronger linkages emerge when foreign investors find competitive local partners.

The following sections will explore policies that could help strengthen these linkages, with the aim of enhancing domestic value capture from FDI and global integration, while also contributing to broader improvements in productivity, in particular:

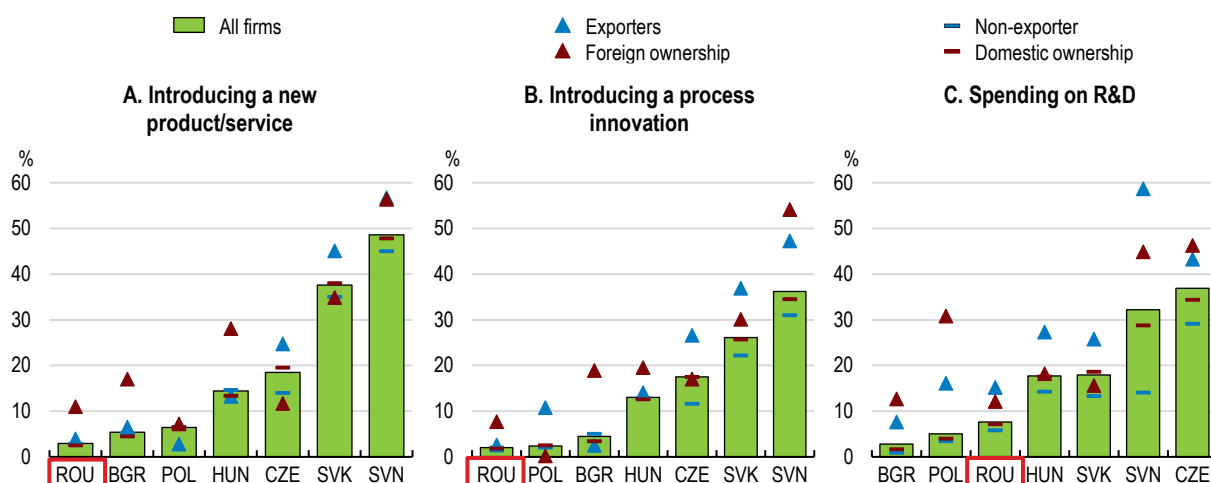
- Enhancing innovation capacities of domestic firms
- Promoting human capital and skills
- Improving the business environment and market efficiency
- Fostering infrastructure development
- Continuing the fight against corruption.

4.2. Enhancing domestic firms' innovative capacities and fostering their international integration

The relatively low productivity of domestic enterprises constrains their capacity to engage effectively with foreign affiliates and benefit from knowledge and technology spillovers. The innovation gap between domestic and foreign firms remains significant compared to regional peers, with domestic firms showing low rates of product, service, and process innovation, and limited investment in R&D (Figure 4.10). Addressing this requires measures to build absorptive capacity at the firm level. In parallel, improving access to finance, particularly for capital investment and intangible assets, is essential to enable firms to undertake productivity-enhancing investment and innovation, and scale their operations. These efforts would contribute to a more dynamic business ecosystem and higher domestic value added in export activity.

Figure 4.10. Domestic firms lack behind regional peers in innovative capacities

Share of firms introducing innovation or spending on R&D over recent past period



Note: Data refers to 2023 for Bulgaria, Hungary, Romania and Slovak Republic; 2024 for Czechia and Slovenia; and 2025 for Poland.

Source: World Bank Enterprise Surveys, www.enterprisesurveys.org.

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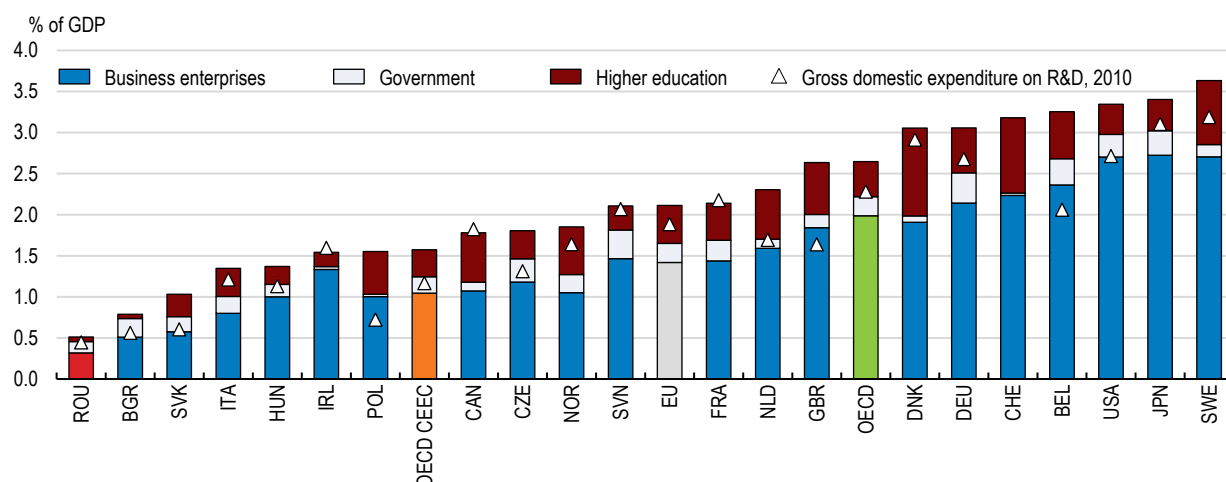
4.2.1. Strengthening R&D investment to foster innovation

The Romanian economy shows a low innovation capacity (Figure 4.10), also relative to patents, scientific publications and revenues from intellectual property. Total spending on R&D (GERD) is modest at just 0.5% of GDP, among the lowest compared to OECD members (Figure 4.11), and R&D intensity has stagnated over the past decade. The structure of R&D spending also differs notably from OECD and EU countries: contributions from the business sector and higher education institutions remain notably modest, while government accounts for a disproportionately larger share of total R&D spending.

The limited involvement of the business sector in R&D reflects a weak orientation toward innovation and a stronger focus on technological adoption, also rooted in a legacy where research was primarily conducted by public institutions. However, it is widely recognised that increased investment in R&D is typically associated with a higher rate of technology adoption and diffusion, as the two act as complements rather than as substitutes (Jiménez and Ziesemer, 2024^[17]). Hence, fostering innovation and R&D can also serve as a catalyst for faster technology adoption. While MNEs operating in Romania often have greater financial and organisational capacity to invest in R&D, many conduct these activities elsewhere. Although attracting R&D hubs from MNEs remains a strategic objective, strengthening the domestic sector's capacity for research and innovation is critical for long-term competitiveness.

Figure 4.11. Research and development spending is very low

Gross domestic expenditure on R&D, 2024 or latest available



Note: OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Main Science and Technology Indicators database.

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Romania offers relatively generous R&D tax incentives to encourage business R&D. Companies can benefit from a deduction of 50% of eligible R&D expenses from their corporate income tax (CIT) base. In addition, accelerated depreciation is permitted for equipment used in R&D activities. Furthermore, companies that exclusively carry out innovation and R&D activities are exempt from CIT for the first 10 years of operation. However, the amount of tax support effectively provided by the government through R&D tax incentives for business R&D is low, at 0.01% of GDP (vs. around 0.1% of GDP for the OECD and the EU average) (OECD, 2025^[18]), reflecting low overall business R&D activity and low uptake. Administrative hurdles and limited awareness of available tax incentives often prevent firms from making use of R&D tax credits. Some, especially SMEs, are also unaware that their activities could qualify as R&D. Access to information should be improved.

SMEs account for only about 12% of business R&D, underscoring the dominant role of large enterprises in driving R&D activities. If the uptake of R&D tax incentives by smaller domestic firms proves limited, introducing refundability – whereby the credit exceeding the tax liability is reimbursed in cash – could provide support to innovative SMEs, particularly in their early stages. Refundable tax credits are generally considered more effective in stimulating R&D investment for startups, SMEs, and firms engaged in early-stage product development (OECD, 2023^[19]). Several OECD countries, including Canada, France (through the ‘*CIR Jeune Entreprise Innovante*’), and the United Kingdom, offer refundable R&D tax credit programmes specifically targeted at SMEs. Further targeted actions – such as proposing clearly defined public-private project opportunities – could also help boost SME engagement in R&D.

In addition to tax incentives, several grant schemes support domestic SMEs, though many are not specifically designed to foster innovation. One such initiative is the ‘*Start-up Nation*’ programme, financed through EU structural funds, which provides grants covering up to 90% of eligible expenses (up to RON 250 000) for new businesses. Eligibility, however, is not linked to innovation, thereby incentivising self-employment rather than the development or commercialisation of innovative products or services. Programmes like ‘*Start-up Nation*’ should be more effectively aligned with innovation objectives by introducing clearer eligibility criteria focused on technological novelty or R&D intensity. The *National RDI Plan 2022-2027* also envisaged the introduction of bridge grants – to foster collaboration between universities and businesses – and innovation vouchers for businesses. These instruments have yet to be implemented.

Regarding the public research and innovation landscape, an in-depth review conducted in 2022 identified several important structural challenges (European Commission, 2022^[20]). One is the fragmentation of the

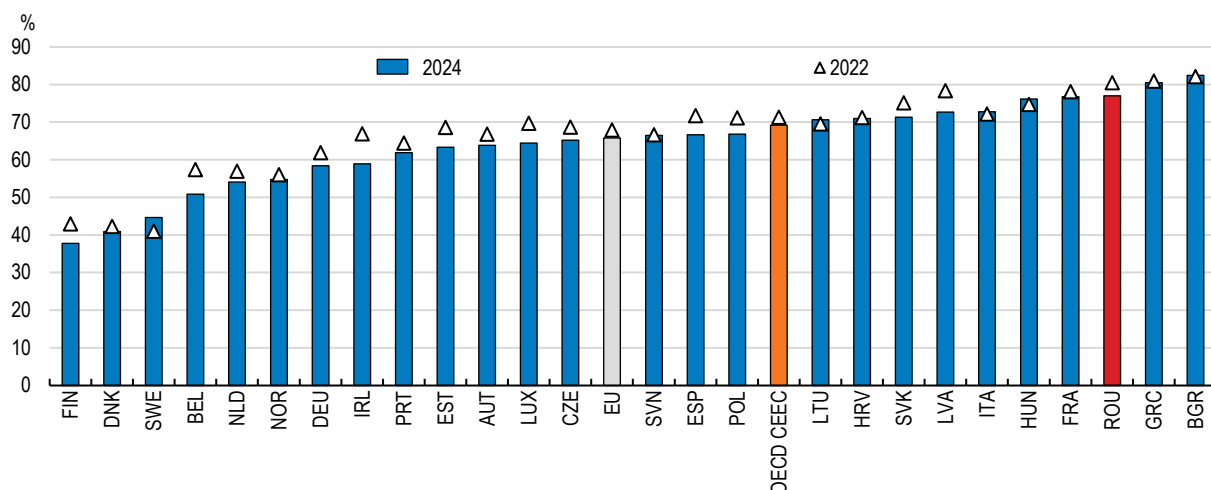
public research system, where a small number of high-performing units coexist with many underperforming and outdated institutions. The system also suffers from weak governance, limited accountability, and insufficient financial stability (European Commission, 2022^[20]). Since 2022, there has been limited progress in addressing these issues. Romanian authorities should continue efforts to reform the public research landscape. One potential step toward greater consolidation and improved coordination would be the creation of a central coordinating body for public research, with a clear mandate and performance-based oversight, like institutions such as the Netherlands Organisation for Scientific Research (NWO), the United Kingdom's Research and Innovation Agency (UKRI) or the Research Council of Finland. In parallel, increasing public investment in research remains a medium-term objective.

4.2.2. Enabling the adoption of new technologies

The capacity of domestic enterprises to adopt and effectively use digital technologies plays a critical role in their ability to engage with foreign enterprises operating in Romania and to access global markets. For instance, firms that actively use online sales or electronic sharing of information can significantly expand their reach. According to the Digital Intensity Index (DII), over three-quarters of Romanian firms show low or very low levels of digital intensity (Figure 4.12). Digital transformation is particularly slow among microenterprises (fewer than 10 employees), which represent over 90% of active firms. Romanian enterprises also lag in providing ICT training, with only 12% offering such training in 2024. The digital divide may act as a barrier to deeper integration with international firms and global markets.

Figure 4.12. Digital technology adoption among firms is low

Percentage of enterprises with low or very low digital intensity index



Note: Enterprises cover all activities (except agriculture, forestry and fishing, mining and quarrying, and financial sector) and refer to enterprises with 10 persons employed or more. OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: Eurostat.

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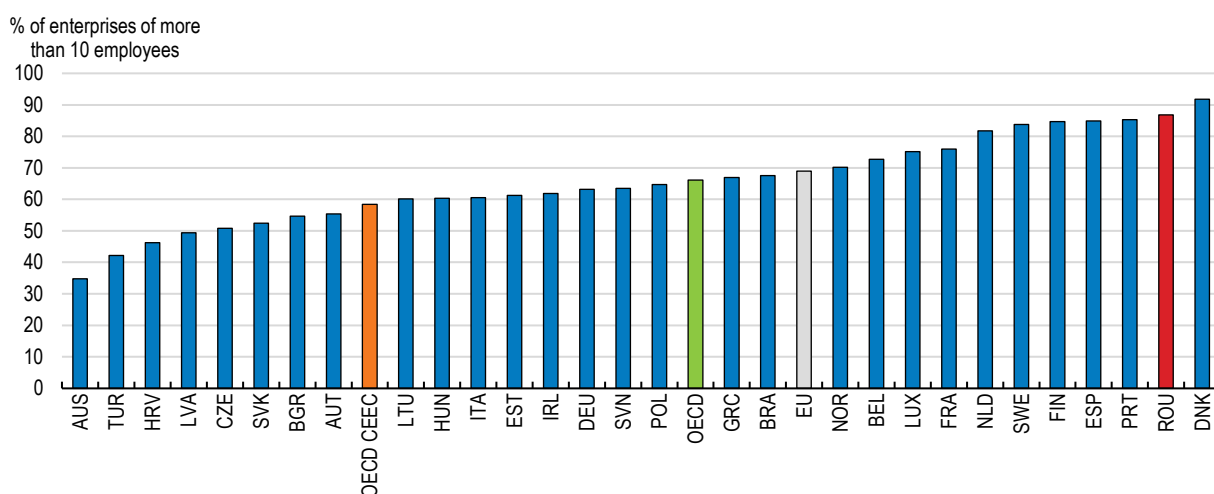
Closing the digital adoption gap requires a set of complementary policies, such as investment in digital infrastructure and the development of digital skills (Nicoletti, von Rueden and Andrews, 2020^[21]). Trade openness is often considered itself a key enabler of technology adoption and diffusion (Perla, Tonetti and Waugh, 2021^[22]). In what regards connectivity, access to digital infrastructure in Romania has significantly improved over recent years and is strong. Romania outperforms many OECD and EU countries in fixed digital connectivity, including in rural areas. In 2024, coverage of both high-speed broadband (≥ 100 Mbps) and very high-capacity networks reached 96%, well above the EU averages of 91% and 83%, respectively (see also European Commission (2025^[7])). Average fixed download speeds also exceed OECD averages (OECD, 2025^[23]). Businesses with access to rapid broadband is among the highest in the OECD (Figure 4.13). However, Romania

still lags behind in mobile 5G coverage, reaching just 47% nationally and 15% in rural areas, compared to 94% across the EU. Mobil connectivity should be further enhanced through the expansion of 5G networks.

Romania is taking further steps to streamline access to digital infrastructure. In 2025, the government lowered indicative tariffs (nonbinding reference prices) for using public road infrastructure to install telecom networks (European Commission, 2025^[7]). These tariffs, issued by the national communication regulator ANCOM, are over 90% lower than those previously set by the Ministry of Transport, making deployment significantly more affordable. While it is too early to measure the full impact, this move is expected to encourage investment, accelerate network rollout, and reduce regional disparities in connectivity. To support targeted interventions, ANCOM has also published a study and map showing where high-speed networks are available and where gaps remain, helping guide future infrastructure planning (ANCOM, 2024^[24]).

Figure 4.13. Fixed broadband access is very high

Share of enterprises with a broadband download speed of at least 100 Mbps, 2025



Note: OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD ICT Access and Usage by Businesses database.

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In contrast to strong connectivity, digital skills – both within the business environment and the broader population – remain low. In 2025, only 32% of the population had at least basic overall digital skills, the lowest level in the EU (60%), and around 9% of the population had no digital skills at all (Eurostat, 2026^[25]). While Romania has taken steps to enhance digital skills through national strategies and EU-funded programmes, progress is slow. Given the significant digital skills gap, more efforts are needed. Romania could draw for example inspiration from Portugal's *National Digital Competences Initiative e.2030*, which takes a broad approach to digital upskilling, including free digital literacy courses and a free certification pathway for informal learners (Government of Portugal, 2021^[26]).

The intensity of digital service usage has a potential strong positive impact on firms' productivity performance. OECD estimates show that a 10-percentage point increase in the share of firms using high-speed broadband internet is associated with a 1.4% increase in TFP for the average firm after one year and a 3.9% increase after three years (Gal et al., 2019^[27]). Targeted government support can facilitate greater uptake of digital services by businesses. Romania already has several public support programmes in place, primarily funded through the Recovery and Resilience Facility (RRF), including schemes that provide debt financing to SMEs for digital investments. The country has also established Digital Innovation Hubs (DIHs), under the European Union's digital strategy, to help SMEs adopt advanced digital technologies. However, information and management of support programmes is fragmented across multiple authorities – such as the Ministry of Development (for the 'Regional Operational Programme') and the Ministry of Investments and European Projects (for RRF-funded initiatives) – which complicates access for firms.

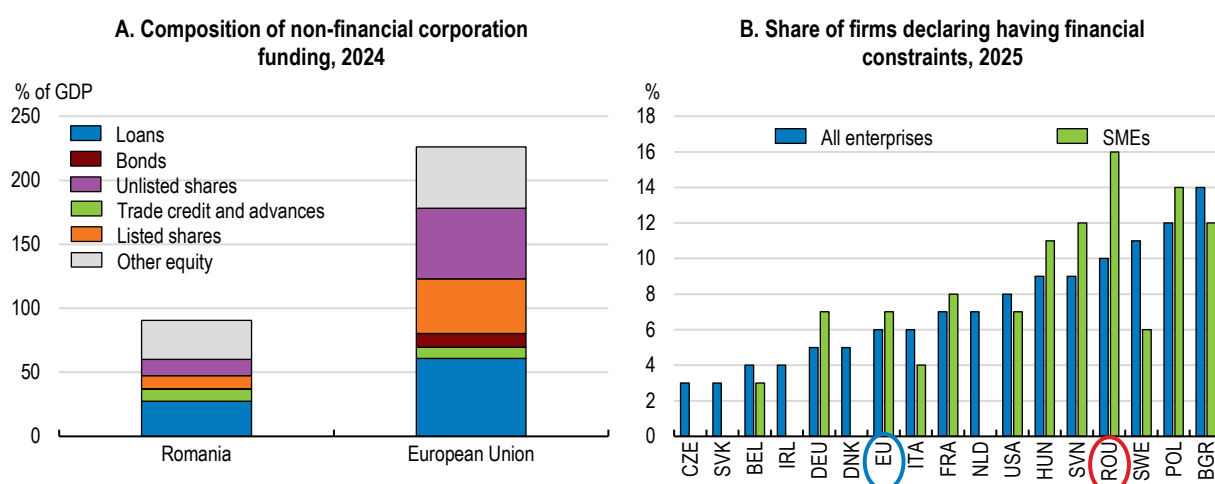
Rather than introducing new programmes, it may therefore be more effective to enhance awareness and accessibility of existing ones. In this regard, the government should consider developing a centralised online platform that serves as a single point of access for all digitalisation-related information relevant to the domestic business sector (European Investment Bank, 2023^[28]). Ireland offers a useful example through its ‘Grow Digital portal’. The platform provides practical advice, details on available supports, training and funding opportunities, and includes a self-assessment tool to help companies identify their digital needs.

Modern management practices also play a crucial role in driving technology development and diffusion (Nicoletti, von Rueden and Andrews, 2020^[21]). Beyond technical capabilities, firms require strategic leadership, efficient organisational processes, and innovation-oriented governance to effectively integrate new technologies. Strengthening management competencies – especially within domestic SMEs – should be another policy focus. Public-private partnerships could support initiatives such as mentorship schemes or capacity-building programmes focused on digital transformation and organisational efficiency.

4.2.3. Expanding access to finance

Access to finance is essential for fostering productivity-enhancing investment and innovation. However, financial intermediation in Romania remains shallow compared to peer countries and OECD standards (OECD, 2024^[29]; European Commission, 2025^[30]), particularly for SMEs and early-stage firms. The financial system is dominated by bank-based intermediation, yet the loan-to-GDP ratio for non-financial corporations (NFC) has stagnated at around 19-20% of GDP in recent years – the lowest in the EU and below the levels observed in peer economies such as Hungary (44%) and Bulgaria (40%).

Figure 4.14. Bank financing is low and some firms are financially constrained



Note: In panel A, the sum of non-financial corporation liabilities reflects the total for the non-financial corporation liabilities considered in the chart.
Source: Eurostat and European Commission (2025^[30]); EIB Investment Survey 2025.

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Romanian firms rely disproportionately on internal resources for financing. Internal funds constitute the primary source of financing for 79% of NFCs, while just around 7% of firms rely on bank loans (National Bank of Romania, 2025^[31]). The remainder is typically composed of intra-group loans or supplier credit, with minimal access to equity or non-bank financial instruments. Commercial credit is particularly prevalent: Romania exhibits one of the highest shares of trade credit financing (15% of firms or 17% of funding), reflecting firms’ limited access to formal credit markets (National Bank of Romania, 2025^[32]). Consequently, the proportion of firms declaring having financial constraints is above the EU average, particularly among SMEs (Figure 4.14, Panel B).

Several structural factors explain this low financial intermediation. On the supply side, banks maintain conservative lending practices, often requiring high levels of collateral and offering limited risk-based pricing

(OECD, 2024^[29]). The SME segment is generally viewed as high-risk due to limited formalisation. On the demand side, many firms – particularly smaller and rural enterprises – lack the financial literacy, managerial capacity, or formal documentation needed to access credit. Low capitalisation of firms – nearly a third of firms had equity below the regulatory threshold in 2024 (see further below) – also limits access to external financing (National Bank of Romania, 2025^[32]). Consequently, financially constrained firms forgo productive investment.

The use of EU funds or subsidised loans for financing also remains relatively modest, particularly among SMEs. Only about 2% of SMEs rely on EU funding or subsidised loans, where the share among larger firms reaches 7% (National Bank of Romania, 2025^[31]). Given that many of these programmes are specifically designed to support SMEs, this comparatively low uptake suggests that information about available funding is not always accessible or effectively communicated to smaller enterprises. The National Committee for Macropprudential Oversight (NCMO) has stressed that improving EU funds absorption capacity, together with a stronger role of the financial system in co-financing EU-funded projects, could substantially increase financial intermediation (NCMO, 2022^[33]).

Venture capital and private equity markets also remain underdeveloped, limiting financing for start-ups and high-growth firms. Although Romania has seen an increase in early-stage financing initiatives – largely through EU-supported instruments such as *‘Horizon Europe’* and *‘Smart Growth, Digitalisation and Financial Instruments Operational Programme’* – volumes remain modest. Private equity equates to only 0.04% of GDP and venture capital to just 0.01% of GDP in 2023 (European Commission, 2025^[30]). Romania only captures a negligible share of the region’s venture capital investment, much below regional leaders such as Poland, Hungary or Czechia (Invest Europe, 2025^[34]). Domestic institutional investors play a minimal role in equity financing, and private investment funds are few and limited in scale.

Capital markets are similarly undersized (OECD, 2022^[35]). In 2024, listed shares were equivalent to only 10% of GDP and corporate bonds 0.3% of GDP, compared to 43% and 11% in the EU (Figure 4.14, Panel A). SME access to equity markets remains limited despite the presence of the AeRO market (the AeRO market is a segment of the Bucharest Stock Exchange designed specifically for startups, early-stage enterprises, and SMEs). Low liquidity, a large number of inactive shares, weak institutional participation, and low general knowledge impede the development of market-based financing channels (OECD, 2022^[35]). The AeRO market holds considerable potential for further deepening and growth.

The outcome is a financing structure heavily skewed toward self-financing and short-term, relationship-based credit. This constrains firms – especially those with high growth potential or innovation-driven models – from scaling operations. In response, a range of targeted initiatives has been introduced to help bridge these financing gaps. Established in March 2025, the Investment and Development Bank (BID) is Romania’s first state-owned development bank, aimed at improving access to finance for SMEs, startups, and innovative enterprises, as well as managing EU fund absorption. One of its instruments, the *‘SME Portfolio Guarantee’*, launched in May 2025, aims to reduce collateral requirements for underserved firms. It would be beneficial to consolidate other existing subsidised loan programmes under this institution. To ensure their effectiveness, all government-backed financing schemes should be narrowly targeted, closely monitored and regularly evaluated (see also Chapter 1) (OECD, 2024^[29]).

Another important measure is the adoption of the *National Strategy for the Development of the Capital Market* (2023-2026), which outlines nine objectives, including improving listing conditions, increasing market liquidity, and supporting SME access to capital markets (Financial Supervisory Authority, 2023^[36]). The *National Financial Education Strategy* (2023-2030), revised and relaunched in 2023, aims to strengthen financial literacy. As part of this effort, the National Bank of Romania introduced the *‘Antreprenariat de TOP’* (TOP Entrepreneurship) initiative to enhance the financial and economic competencies of Romanian entrepreneurs.

Despite these promising initiatives, progress remains gradual, and further efforts are required to accelerate implementation. This should include the development of targeted training initiatives focused on practical financial skills for businesses – such as cash flow management, budgeting, and responsible borrowing – alongside mentorship programmes. Financial education could also be more effectively integrated into long-

term adult learning frameworks (see discussion below). Additionally, promoting the adoption of accounting software can help simplify financial reporting for SMEs.

In addition to strengthening traditional bank-based intermediation and capital markets, Romania would also benefit from developing other financial instruments. This includes promoting asset-based financing solutions such as factoring and leasing (OECD, 2024^[29]), supporting the development of fintech credit platforms, and establishing a robust regulatory framework for crowdfunding and peer-to-peer lending. Such instruments can offer flexible and tailored financial solutions for SMEs and innovative firms.

Still, addressing supply-side constraints on financing alone is not enough; demand-side barriers must also be overcome. This includes promoting business formalisation, improving financial reporting, reducing tax evasion, and strengthening the productivity and growth potential of domestic firms.

Table 4.1. Past OECD recommendations and actions taken on financial intermediation

Recommendations in past Surveys (2022 and 2024)	Actions taken since the previous Survey
Tailor the 'Star-Tech Innovation' programme to meet the financing needs of highly-innovative start-ups and evaluate it continuously.	No action taken. The Start-Up Nation programme remains broadly accessible and does not require any innovation-related criteria (see main text).
Consolidate current small business credit schemes before the Investment and Development Bank begins operating. Ensure the Bank is backed by good governance and regularly evaluated.	The IDB has been fully operational since 2025, with the aim of consolidating all guarantee products for SME credit schemes under its umbrella. - The IDB operates independently under a statutory management body, with transparent governance and avoiding competition with commercial banks. Revenues must cover operating costs, and surpluses are reinvested into activities. The Romanian state guarantees the bank's issued debt (principal) and guarantee calls. Consequently, the National SME Credit Guarantee Fund has been recalibrated and scaled back. It will no longer issue state-backed products, as these will be absorbed into the IDB's portfolio. It will continue to manage the run-off of its existing portfolio.
Strengthen oversight of the warehouse receipt system.	No action taken.
Continue cost-effective measures to support financial inclusion through the National Financial Education Strategy.	The signatory institutions (Ministry of Finances, NBR, Financial Supervisory Authority, National Authority for Consumer Protection, Romanian Association of Banks) finalised the protocol of the Strategy in 2025. Several measures have been initiated, including financial education in schools, teacher training, public awareness campaigns, and SME workshops.
Streamline listing processes for corporate bonds. Reassess the need for an extraordinary general meeting to issue a bond.	In 2025, Romania revised its corporate bond listing framework through Law no. 11/2025, which amended Law no. 24/2017 on issuers of financial instruments and market operations. These changes shortened procedural timelines, simplified disclosure and reporting obligations, and accelerated capital increase processes.

Source: OECD (2022^[37]; 2024^[29]).

4.2.4. Further developing linkages between foreign and domestic firms

In addition to efforts aimed at enhancing the absorptive capacity of domestic enterprises ("enabling conditions"), targeted measures should focus on promoting direct linkages between foreign investors and domestic SMEs through network initiatives, online platforms, matchmaking services, or local supplier development programmes (OECD, 2023^[38]). Romania has undertaken several initiatives in this area, particularly through networking and cluster development, including the creation of industrial parks. However, it has placed less emphasis on platform-based information services that support business linkages and improve access to local suppliers.

Regional peers offer instructive examples that Romania could draw upon. For instance, the Polish investment promotion agency (IPA) operates an online portal listing domestic firms and their offerings, enabling foreign companies to identify suitable suppliers for integration into their value chains (OECD, 2025^[39]). Similarly, the Slovak IPA has launched an Innovation Services Platform that connects foreign enterprises with innovative Slovak firms for joint R&D activities (OECD, 2022^[40]). While Romania has seen some private-sector efforts in B2B platforms, a more comprehensive, government-led online solution to link foreign investors with local suppliers remains absent.

The Romanian Agency for Investment and Foreign Trade (*ARICE*), Romania's IPA, is currently preparing a new Foreign Investment Strategy. The strategy seeks to enhance the availability of investment-related information and establish a one-stop shop to streamline administrative procedures for foreign investors. While these initiatives are welcome, their impact could be amplified by integrating a comprehensive database of local suppliers and offering online access to profiles of Romanian SMEs. More broadly, *ARICE* could broaden its scope and resources to actively promote linkages between foreign investors and domestic enterprises – moving beyond its traditional focus on FDI attraction and investor servicing. Ireland's IPA, *IDA Ireland*, is widely seen as a model in this regard, thanks to its focus on attracting investors and building linkages with domestic enterprises and suppliers. A strategy that concentrates solely on foreign affiliates, without parallel support for domestic firms, risks missing opportunities for broader knowledge spillovers (Cadestin et al., 2019^[16]). This should be complemented by ongoing support for the internationalisation of domestic enterprises, which could build as much as possible on the many existing EU-level initiatives and platforms in this field (European Court of Auditors, 2022^[41]).

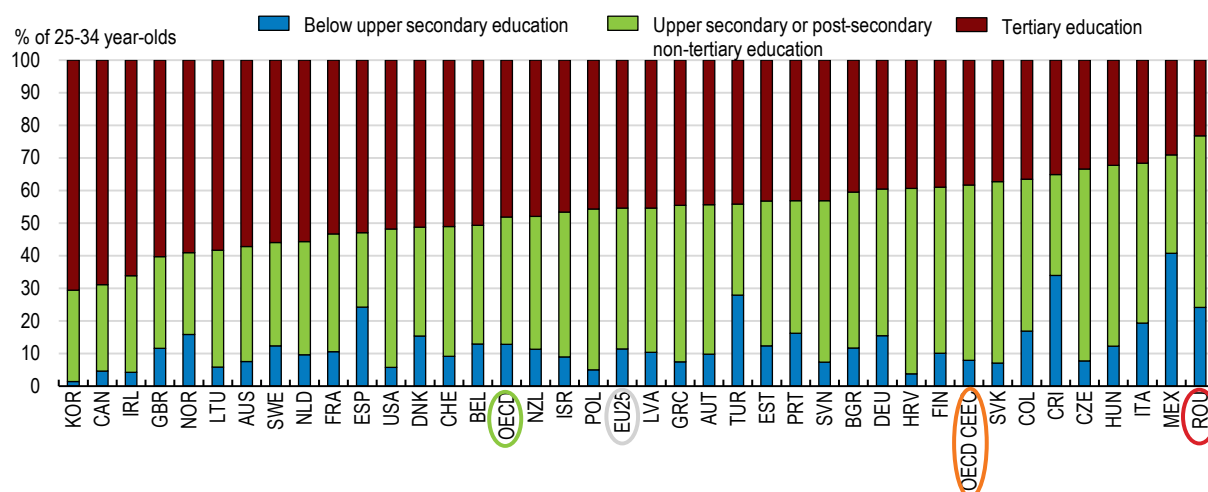
4.3. Promoting human capital and skills

Enhancing the absorptive capacity of the domestic economy depends on the availability of advanced skills. As Romania moves up the value chain, the demand for advanced technical, digital, and managerial competencies will grow. A modern, responsive education and training system plays a key role in aligning skills with the evolving needs of the labour market.

Romania starts from a challenging position, with a comparatively high share of individuals with lower levels of education and a still modest, though slowly increasing, share of higher education graduates, including among younger generations (Figure 4.15). However, over two-thirds of job openings expected to be created in Romania by 2035 will require at least a medium-level qualification (i.e. upper- and post-secondary education), while the remaining one-third will demand high-level education (Cedefop, 2025^[42]). This rising demand is not expected to be matched by a sufficient increase in the supply of highly skilled workers, leading to growing shortages in high-skilled labour (Cedefop, 2025^[42]).

Figure 4.15. Educational attainment is low

Educational attainment of young adults aged 25–34-year-old, 2024 or latest available



Note: OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Education at a Glance 2025 database.

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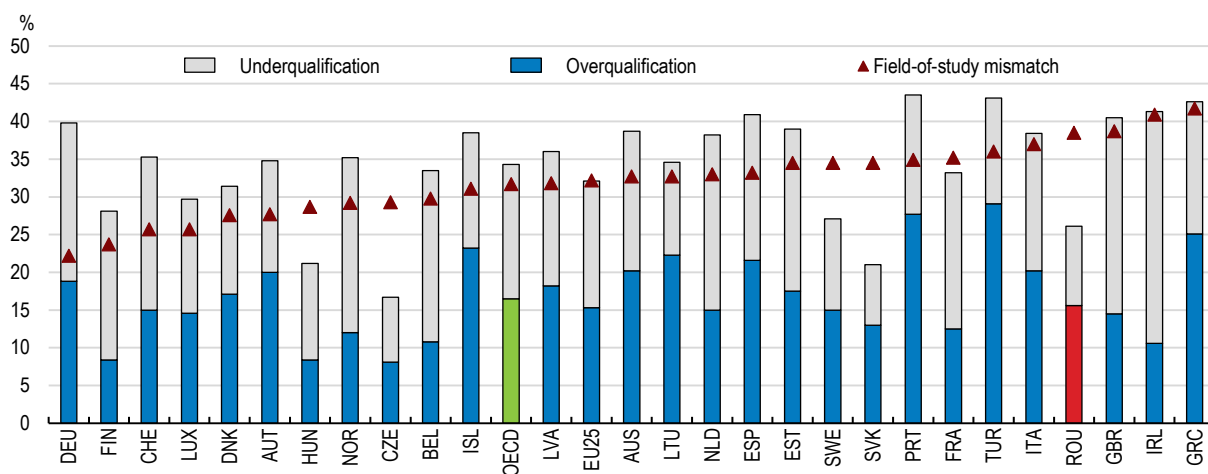
Skills gaps are already emerging in some sectors. Although Romania's job vacancy rate remains low – averaging 0.7% compared to the EU average of 2.5% in 2024 for the overall business economy – the share of enterprises

reporting labour shortages as a constraint on their operations has tendentially increased over time (European Commission, 2025^[43]). Finding available skilled staff is also reported to be one of the major obstacles to further investment by firms (European Investment Bank, 2025^[44]). There are significant shortages in high-skilled roles such as ICT, commercial managers, and engineering professionals, as well as in some medium-skilled manual occupations like assemblers (Cedefop, 2024^[45]). Outward migration continues to exacerbate shortages. Although 7% of tertiary graduates in 2023 specialised in ICT – one of the highest shares in the EU after Estonia, Ireland, and Finland – emigration continues to create shortages in the field.

Skill supply constraints are not solely attributable to low levels of educational attainment; low learning outcomes and deficiencies in foundational competencies also significantly undermine the development of a skilled workforce. Addressing skill shortages and raising the overall skill level of Romania's population requires a comprehensive effort across all levels of education, including general education, vocational training and higher education, as well as a stronger emphasis on lifelong learning (André and Gal, 2024^[46]). Building foundational skills also enhances labour mobility, a key channel for foreign-to-domestic knowledge spillovers.

Figure 4.16. Work-study mismatches are relatively widespread

Percentage of workers, aged 15 to 64, that have a qualification or field of study that does not match their job's requirements, 2019



Note: Field-of-study mismatch arises when workers are employed in a different field from what they have specialised in.

Source: OECD (2025^[47]).

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Skill mismatches, i.e. situations of overqualification or underqualification in the workplace, appear to be less widespread in Romania than in OECD countries, particularly in terms of overqualification rates, which are relatively low (OECD, 2024^[48]). However, a significant share of workers in Romania are employed in fields not related to their study area (Figure 4.16). While this reflects labour market flexibility, it also highlights a misalignment between education and labour market needs and can have adverse productivity effects (Serikbayeva and Abdulla, 2022^[49]).

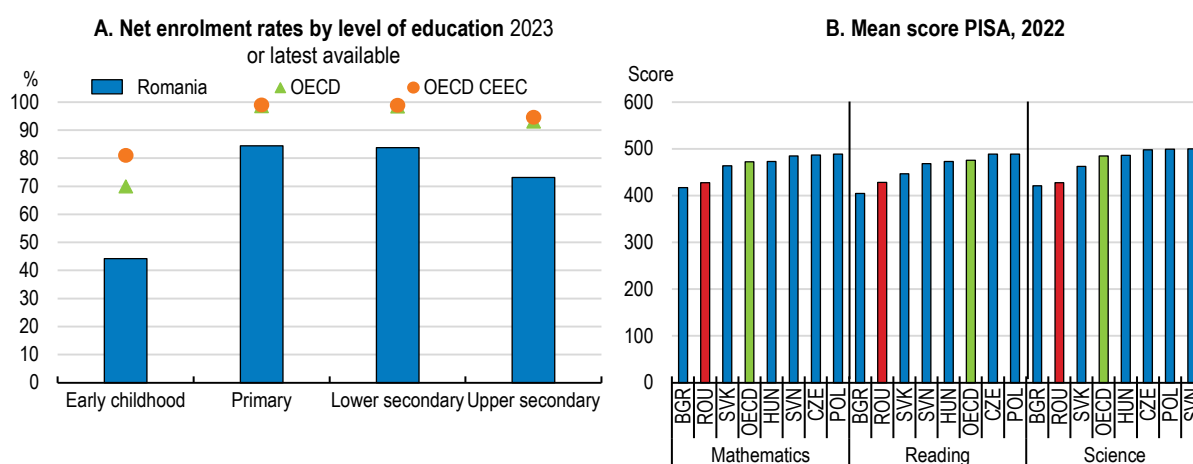
4.3.1. Improving the performance of general education

Over the past decade, Romania has made significant improvements in strengthening its education system, yet it continues to face persistent challenges (OECD, 2025^[47]). Enrolment rates in Romania are below the OECD average across all levels of education (Figure 4.17, Panel A). In the 2023-2024 school year, the enrolment rate in compulsory education (ages 3 to 18) reached solely 83% (Ministry of Education and Research, 2025^[50]). Enrolment rates have remained relatively stable over the past decade. One of the most pressing issues is the high rate of early school leaving. Romania has one of the highest dropout rates in the OECD, particularly in upper secondary education and vocational tracks (see also Chapter 2). Nearly one in four students leave school

before completing upper secondary education (OECD, 2025^[47]), which is generally required to obtain the foundational skills for a meaningful participation in the labour market.

Student learning outcomes also remain below OECD and EU averages, according to PISA results. Romanian students score lower in reading, mathematics, and science (Figure 4.17, Panel B), and these outcomes are marked by important inequalities. Students from rural areas, socio-economically disadvantaged backgrounds, and Roma communities perform systematically worse than their peers. The performance gap between advantaged and disadvantaged students in Romania is one of the largest compared to OECD members. Low PISA scores are largely explained by the high share of students who score below the baseline level of proficiency (level 2) and the low share that reach higher levels 5 or 6 (OECD, 2023^[51]). An estimated 49% of students did not meet minimum proficiency in mathematics, 44% in science and 42% in reading (OECD, 2023^[51]). Foundational skills form the essential basis for all subsequent learning and professional development, and are instrumental in achieving basic qualifications (André and Gal, 2024^[46]).

Figure 4.17. Enrolment and learning outcomes are below the OECD average



Note: In Panel A, OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia. Net enrolment rate is the percentage of children of the official age group who are enrolled in a given level of education.

Source: World Bank-UNESCO Institute for Statistics Education Survey; and OECD PISA 2022 database.

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Tackling these multiple challenges in the education system requires broad-ranging changes to the system. Romania has launched a major education reform in 2023 (OECD, 2024^[52]). The 2023 *Law on Pre-University Education* sets ambitious goals: reducing dropout rates, modernising curricula, strengthening teacher training and professional development, and increasing school autonomy and digitalisation. Another important component of the reform is the development of an integrated education data management system (*Integrated School Management System*) to improve data transparency and accountability (OECD, 2024^[52]). Consolidating systemic data into a single platform can facilitate early educational diagnostics and the implementation of targeted policy measures.

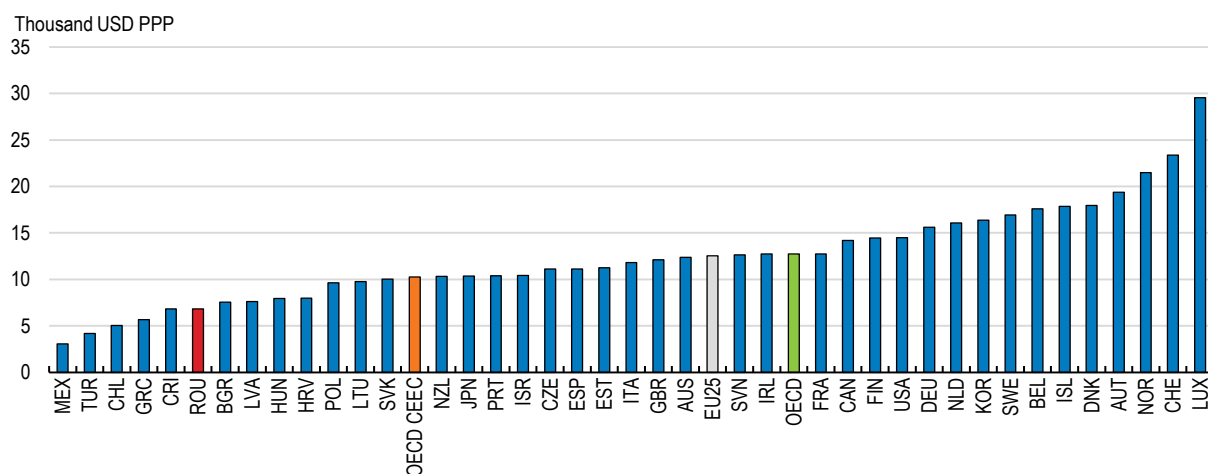
The reform and its initiatives are ambitious and promising, though it remains too early to assess their impact. Success will depend on strengthening strategic planning within government by focusing resources on key priorities and ensuring effective delivery. Prioritising the enhancement of basic skills – through targeted initiatives and systemic reforms to modernise curricula and strengthening teacher capacity – is also critical, as solid foundational competencies underpin human capital development. Also, planned reforms to clarify responsibilities between central and county authorities should continue, enabling counties to play a stronger role in driving school improvement. The reform would also benefit from a stronger emphasis on monitoring. While individual initiatives are being monitored and evaluated, the reform lacks a comprehensive performance review that clearly links actions to strategic education objectives through a set of key

performance indicators. Introducing a regular, overarching performance review aligned with well-defined metrics could substantially enhance the reform's overall strategic orientation and efficiency.

Sustained and adequate funding for education is also essential. While increased spending does not automatically lead to better outcomes, a minimum level of spending is necessary to ensure quality education and sufficient learning outcomes (Égert, de la Maisonneuve and Turner, 2023^[53]). Romania allocates one of the lowest levels of education spending per student (Figure 4.18). In 2022, average spending per student (in PPP) from primary to tertiary education in Romania was around USD 7 000, just half the OECD and EU average of USD 13 000 and significantly below that of regional peers. The Romanian government aims to increase education spending to 15% of total government expenditure by 2030 (Ministry of Education and Research, 2025^[54]), up from around 8% (3.4% of GDP) in 2023, which would help bring per-student spending closer to OECD and EU levels. Given current fiscal constraints, securing sustainable financing for this needed increase is important. Increased financing should also be paired with politically challenging reforms of restructuring local school services and reviewing funding mechanisms (OECD, 2025^[47]).

Figure 4.18. Spending on education remains low

Public expenditure on educational institutions per full-time equivalent student, 2023 or latest available



Note: Data are expressed in current prices. OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Education at a Glance 2025 database.

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4.3.2. Strengthening vocational training and access to higher education

Vocational education (VET) is a key pillar of Romania's education system, with 56% of upper secondary students enrolled in vocational tracks in 2023. The vocational system faces significant challenges, including high dropout rates, limited alignment with labour market needs, few work-based learning opportunities outside urban areas, and few opportunities for students to transition into higher education. VET continues to be widely perceived as a second-tier option within the education system, often associated with students who have limited opportunities.

In response, Romania has launched a series of reforms to modernise its VET system, notably introducing a dual education model in 2017, which combines school-based instruction with work-based learning. Traditionally, Romania's VET system – like those in many countries in the region – was exclusively school-based. Still, dual programme enrolment remains low, at just 12% of vocational students in 2023, and varies widely across regions. This contrasts sharply with countries like Germany (89%), Switzerland (91%), and Austria (50%), where dual VET education is supported by strong institutional frameworks. Measures were also introduced with the 2021-2027 *Education and Employment Programme* to reduce early school leaving in VET.

One of the main challenges remains the limited structured partnership with employers and industry bodies for dual VET programmes. While Romania has made progress – new qualifications are initiated or revised at the request of employers and their associations, who also contribute to training standards and participate in certification commissions – these efforts are largely school-level or company-specific. Experiences from reforms in other countries in the region, such as Slovakia, demonstrate that systematically involving sectoral bodies or professional chambers, which are closely connected to business needs, is crucial for successful dual VET implementation. Romania should therefore build on existing mechanism by further strengthen collaboration between VET providers and industry organisations and chambers of commerce in the design and delivery of dual VET programmes, including development of curriculum and occupational standards. Enhancing these programmes by better integrating general skills – such as career guidance, digital literacy, and entrepreneurship – could also help boost their attractiveness to students.

Upper secondary and VET programmes in Romania also offer limited flexibility for students to move between different education pathways (OECD, 2025^[47]). The recent legal framework of merging the two parallel upper secondary VET tracks (the 3-year VET programmes in *Școală Profesională* and the 4-year technological high school programmes) into a single technological high school pathway, set for the 2026-2027 school year, will be a positive step toward improving permeability (Cercez et al., 2024^[55]). This would allow students in the 3-year programme to stay at the same school and continue toward the baccalaureate without transferring. However, broader permeability across upper secondary education pathways, including transitions to more academically oriented tracks, remains limited (OECD, 2025^[47]). Enhancing this flexibility would better support students seeking to change direction due to changing career goals and will play a key role in increasing entry rates to higher education (OECD, 2025^[56]). The recent framework curricula, which establish a common core of disciplines for all upper secondary students, could help improve permeability. Nevertheless, it remains to be seen how these changes will translate into greater flexibility in practice.

The 2023 education law also foresees changes to the baccalaureate exam, making it more compatible with upper secondary VET programmes. To further strengthen pathways from vocational education to higher education, additional measures should be explored. One option could be the introduction of a combined vocational qualification and baccalaureate, similar to Germany's *Berufsabitur*, which integrates four years of dual vocational training with eligibility for admission to higher education. A new professionally oriented model of higher education, which started in the 2024-2025 school year with bachelor's programmes, also represents a step in the right direction, offering a coherent vocational pathway from upper secondary VET to higher education (ReferNet Romania and Cedefop, 2025^[57]).

Some of the persistent challenges in the lower levels of the education system carry over into tertiary education, contributing to enrolment rates that remain below the OECD average, despite increases over the years. In 2023, enrolment among the 20-24 age group stood at 31%, compared to the EU average of 37%. The tertiary education sector also faces its own structural challenges, including a strong concentration of institutions in major cities, which limits access for students from rural areas, and a scholarship system that allocates a disproportionately large share (slightly less than three-quarters of all scholarships) based solely on merit, rather than on social need. Merit-based scholarships also tend to be higher than those awarded on social grounds. Experience in OECD countries shows that merit-based scholarships tend to disproportionately benefit students from wealthier backgrounds, although they might be able to afford the costs of education without aid (OECD, 2020^[58]). Additional challenges include, among others, relatively low institutional autonomy, limited research activity and effectiveness, high dropout rates, and a limited policy focus on social inclusion (OECD, 2025^[47]). On a positive note, Romanian universities produce a higher-than-average share of graduates in STEM and ICT fields and university graduates have very good employment opportunities and generally high employment rates after graduation.

The 2023 *Law on Higher Education* aims to address several key challenges in Romania's tertiary education system, such as reducing dropout rates, expanding career counselling and guidance services, promoting STEM and ICT fields, and supporting the internationalisation of Romanian universities. To support the full implementation of the 2023 reform objectives, progress in several areas should be pursued. First, scholarship

schemes should better target students with financial needs, while ensuring that all students have clear access to information on scholarship opportunities. Targeted outreach and support for disadvantaged and underrepresented groups should also be advanced, for instance by building on initiatives like the ‘First Student in the Family’ programme. Second, access for rural and regional populations could be further improved by further leveraging digital tools and expanding flexible and part-time study options. France and Denmark offer good examples of policy approaches in this respect (such as the French *Campus Connectés*). Third, enhancing institutional autonomy would allow universities greater flexibility in academic, financial, and administrative matters. Fourth, addressing dropout rates and low competition rates through strengthened student support services, such as academic advising, mental health resources, and adaptable learning formats, could help improve retention. The Irish case could serve as a strong example to further promote access to higher education (see Box 4.3).

Box 4.3. Ireland’s success in expanding tertiary education attainment

Ireland exemplifies rapid growth in tertiary attainment, rising to 63% among 25-34-year-olds by 2023 – one of the highest in the OECD. In the early 2000s, it faced modest tertiary attainment, urban-rural disparities, high dropout rates, and limited institutional autonomy, challenges like those Romania faces today.

Key policies behind Ireland’s success are:

- **Free fees initiative:** Introduced in the mid-1990s, this policy eliminated undergraduate tuition fees for most students, significantly reducing financial barriers to access.
- **Targeted grants and supports:** Ireland has maintained a robust student grant system that supports low-income students, helping to improve equity in access.
- **Expansion of higher education institutions:** The country invested in expanding its university and technological sector, including the creation of Technological Universities with regional campuses, to decentralise access.
- **Flexible entry routes:** Ireland has promoted alternative access, such as recognition of prior learning and part-time study options and a preferential access route for underrepresented groups (*‘HEAR’*), making higher education more accessible to non-traditional learners.
- **Strong labour market linkages:** Higher education institutions have developed strong ties with industry, particularly in ICT and pharmaceuticals, aligning programmes with labour market needs.

4.3.3. Improving lifelong learning and skill upgrading

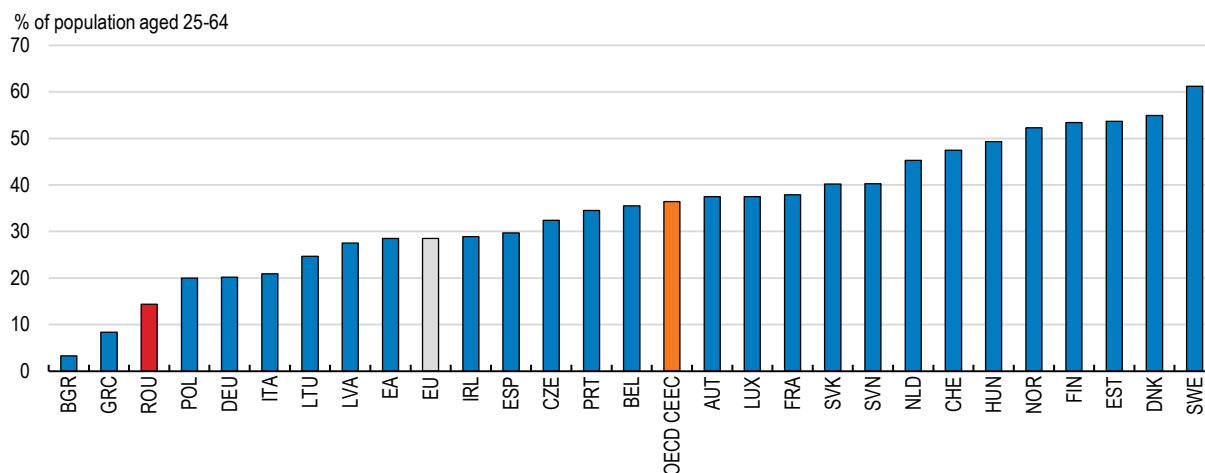
Lifelong learning is essential for maintaining individuals’ attachment to the labour market throughout their careers and for enhancing productivity (Andrews, Balazs and de la Maisonnette, 2025^[59]). The technology-driven transformation, marked by the rise of generative Artificial Intelligence and the diffusion of digitalisation across all sectors, further reinforces the need for continuous reskilling and upskilling, even in the short- to medium-term. In Romania, on average around 12% of workers are considered at high risk of automation, meaning over 25% of their skills and abilities are highly automatable (OECD, 2024^[48]). Stagnation in lifelong learning exacerbates skill mismatches, pushes low-skilled workers into high-skill roles, and discourages firms from investing in innovation, weighing on productivity and competitiveness.

Participation in lifelong learning in Romania has increased in recent years but remains low by international standards (Figure 4.19). In 2024, participation in education or training remained particularly low among rural residents (8%), low-qualified adults (4%), and the unemployed (5%), compared to 27% of tertiary-educated, 24% of urban residents, and 19% of employed individuals. While such disparities are common, they are especially stark in Romania. In contrast, top-performing OECD countries – like Scandinavian countries but also regional peers such as Estonia and Hungary – have been more effective in engaging disadvantaged groups in lifelong learning, where social returns are particularly high.

Romania's *Adult National Training Strategy 2023-2027* aims to double adult learning participation, by expanding flexible learning options, promoting awareness, and improving guidance services. Yet efforts remain fragmented. Further demand-side measures should strengthen employers' training obligations and improve financial incentives. Currently, firms must offer training every two to three years, but compliance is weak (OECD, 2025^[60]). Also, raising tax-deductible thresholds for training expenses could boost uptake. For individuals, targeted support – such as training vouchers for disadvantaged groups – would help address barriers to participation. Introducing Individual Learning Accounts, as in France, could help to accumulate entitlements to use them flexible over the career. On the supply side, improving training quality through stronger industry involvement and expanding access in underserved areas are key priorities. Given the significant digital skills gap, continuous digital learning should also be given greater emphasis (see above).

Figure 4.19. Adult learning remains underutilised

Participation rate in education and training (last 12 months), 2024



Note: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: Eurostat.

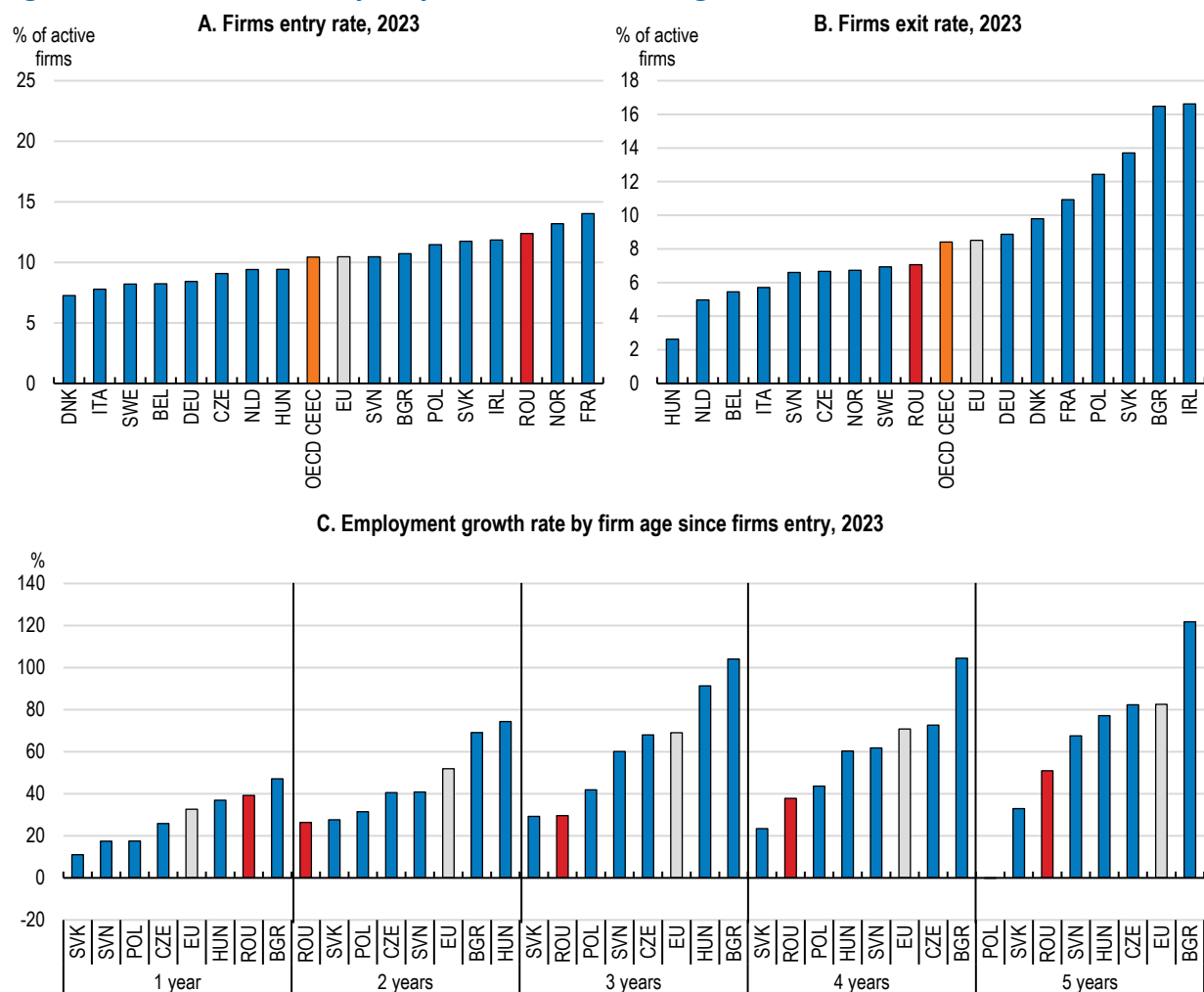
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4.4. Improving the business environment and market efficiency

Business dynamism is a key driver of competitiveness, as it facilitates the market entry and expansion of more productive firms while enabling the exit of less efficient incumbents. Moreover, administrative burden and regulatory costs associated with business entry, operation and exit also directly affect cost competitiveness.

Business demography indicators reveal high firm entry rates in Romania, while firm exit rates are below the EU average (Figure 4.20, Panel A&B). While this may suggest greater efficiency in the initial selection of firms, the persistent survival of older, undercapitalised and unprofitable firms points to weak market selection and structural deficiencies in insolvency proceeding. Surviving firms also tend to remain relatively small and generate less employment than their EU counterparts, highlighting limitations in scaling (Figure 4.20, Panel C). Smaller enterprises may lack the critical scale needed to connect with MNEs operating in Romania and to engage in export activities. Fostering a dynamic, growth-oriented business environment requires a regulatory framework that fosters entrepreneurship, competition, and firm expansion. Romania's strengths and weaknesses in this area have also been examined in detail in previous *Surveys* (OECD, 2022^[37]).

Figure 4.20. While firm entry is dynamic, firm exit and growth reveal structural weaknesses



Note: All indicators for industry, construction and market services.

Source: Eurostat.

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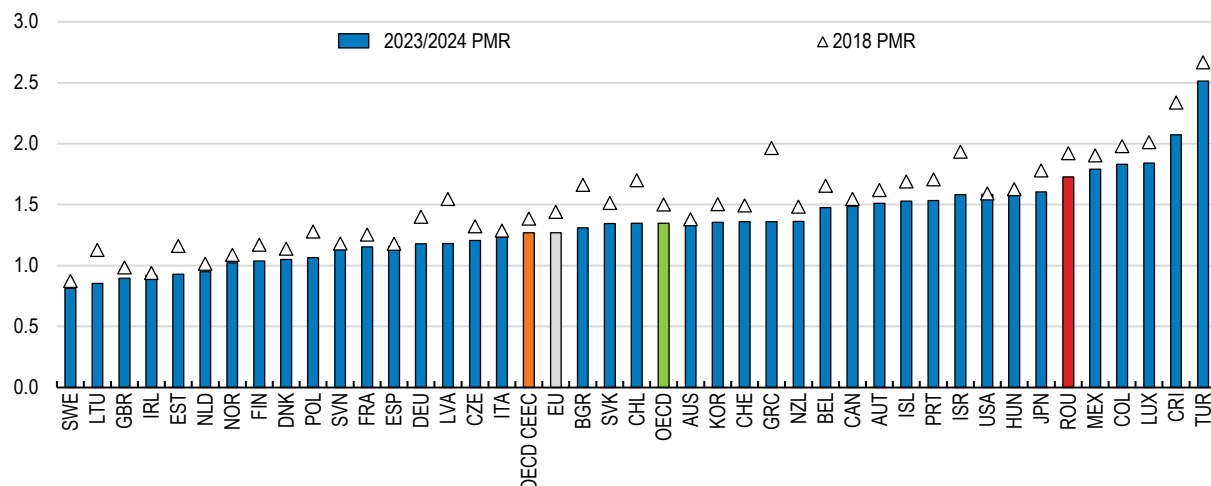
4.4.1. Further simplifying the regulatory system

Regulatory barriers to competition, as measured by the OECD Product Market Regulation (PMR) index, remain higher in Romania than both the OECD average and regional peers (Figure 4.21). However, the overall PMR score has improved between 2018 and 2023/2024 – by a larger margin than the OECD average – narrowing the gap with the OECD average to some extent.

Romania remains relatively restrictive compared to the OECD average and best-performing countries in what regards distortions induced by state involvement and administrative and regulatory burden, as well as barriers to entry in some services (Figure 4.22). Romania's regulatory framework is comparatively more competition-friendly with respect to entry barriers in network industries, which are low compared to OECD countries, as well as in barriers to trade and investment. Notably, FDI and tariff barriers are substantially below OECD averages and close to best performing countries (see also Figure 4.8, Panel B).

Figure 4.21. Regulatory barriers can be further lowered

Economy-wide PMR, index scale 0-6 from least to most restrictive

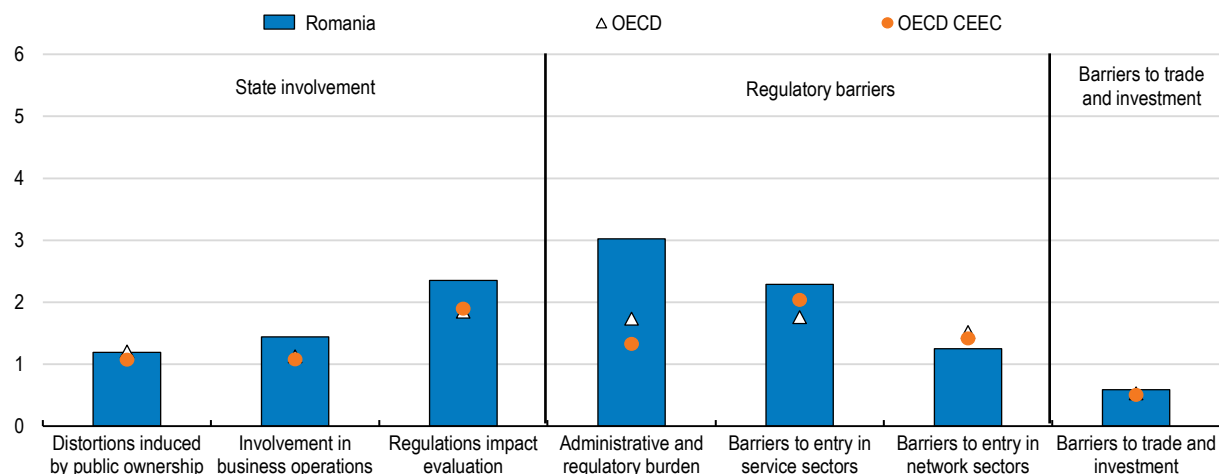


Note: OECD, EU and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD-WG Product Market Regulation database.

StatLink  <https://stat.link/l430ti>**Figure 4.22. Administrative procedures can be further simplified**

2023/2024 PMR, index scale 0-6 from least to most restrictive



Note: OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD-WG Product Market Regulation database.

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Starting and running a business in Romania remains more burdensome than in top-performing OECD countries, despite continued efforts to streamline and simplify procedures. Entrepreneurs must engage with multiple institutions – such as the National Trade Register Office (NTRO), the tax authority, and, in most cases, a notary and a certified digital certificate provider – and limited liability companies (LLCs) often require additional local approvals for business start-ups (OECD, 2025^[61]). The NTRO's role as a one-stop shop and the digitalisation of registration have significantly facilitated business registration. However, while the Trade Register Law sets a deadline, the absence of a legally defined maximum processing time for all procedures related to starting a business contributes to uncertainty and potential delays. Business Ready indicators confirm this: while the regulatory framework for starting a business has improved, operational efficiency – particularly in terms of time and cost – still leaves room for enhancement (World Bank, 2024^[62]).

While business registration has become more streamlined and digital, Romania's business licensing system remains highly fragmented and administratively burdensome, posing significant challenges for entrepreneurs. Licensing requirements are dispersed across multiple legal instruments and institutions, leading to inconsistencies in procedures and information. The lack of a unified platform forces businesses to consult various sources, often with unclear sequencing and incomplete guidance (OECD, 2026^[63]). Any economic activity requires a functioning authorisation that is issued by local authorities, which often impose additional requirements to business (Romania Competition Council, 2023^[64]). In addition, licensing approval times remain lengthy and many permits require periodic renewal, adding to the overall administrative burden (OECD, 2025^[61]).

To start addressing these challenges, the government passed a *Single Industrial Licensing* (SIL) system (Law no. 98/2023), establishing standardised SIL processes based on risk categories (including a zero-licensing regime for low-risk activities), introducing clear tacit approval ("silence is consent"), adopting the once-only principle, and mandating license-sharing among public institutions (OECD, 2022^[65]). The law also established the Office of Industrial Licensing (OLI) as the coordinating body for the establishment and issuance of the streamlined industrial licensing procedures. The single point of contact is expected to be operational by the end of the first quarter 2026. These reforms could lay the groundwork for extending simplified licensing to the commerce and service sectors through a comprehensive business licensing framework (OECD, 2026^[63]).

As in other OECD countries, some barriers to entry exist in Romania's service sectors, particularly in professional services (Figure 4.22). Romania is particularly more restrictive in terms of exclusive rights and regulatory requirements for notaries, accountants, architects and engineers compared to the OECD average (OECD, 2022^[37]). Entry into retail services – especially in the sale of clothing and food and beverages – also remains relatively regulated (OECD, 2025^[61]). Romania should reassess the necessity and proportionality of these barriers to strengthen competition in the service sectors.

Entry into network industries in Romania is relatively open compared to many OECD countries, especially in telecommunications, where barriers are very low. Regulatory requirements in energy and electricity are broadly in line with the OECD average, and the transport sector also shows relatively low entry barriers. As of July 2025, Romania liberalised inter-county land passenger transport, ending long-standing restrictions. Under the new framework, the Romanian Road Authority issues route licenses with clearer rules on scheduling, vehicle standards, and reserve capacity. This reform opens the market to more operators, aiming to improve service quality and encourage investment in modern fleets.

4.4.2. Strengthening the functioning of the insolvency framework

An effective insolvency framework is essential for supporting competitiveness and economic dynamism. It enables the timely exit of non-viable firms and the restructuring of viable but distressed businesses, thereby facilitating the reallocation of resources toward more productive uses (André and Demmou, 2022^[66]). In well-functioning systems, insolvency procedures help preserve value, protect creditors' rights, and support entrepreneurship by reducing the costs and uncertainties associated with business failure. In Romania, however, the insolvency framework remains suboptimal, despite some progress, with several structural inefficiencies (OECD, 2022^[37]; National Bank of Romania, 2023^[67]). Many firms remain in insolvency proceedings for long periods, often without resolution (Coutinho, Kappeler and Turrini, 2023^[68]), and a significant number re-enter insolvency multiple times. Restructuring procedures are rarely used, and when they are, they tend to occur too late to be effective.

According to the OECD insolvency indicator, Romania performs below the OECD average in terms of insolvency efficiency, particularly in areas such as early warning and pre-insolvency rulings, use of restructuring, the degree of court involvement and the predictability of outcomes (André and Demmou, 2022^[66]). These weaknesses contribute to a high prevalence of zombie firms – companies that are unable to cover debt servicing costs from current earnings over an extended period – and firms with zero or negative equity (National Bank of Romania, 2023^[67]). Data from the NBR underscores the scale of the issue. As of 2024,

approximately one-third of Romanian NFC had equity levels below the regulatory threshold (National Bank of Romania, 2025^[32]), and a significant share – between 22% and 25% (depending on the definition used) in terms of the number of companies – met the criteria for being classified as zombie firms in 2022 (National Bank of Romania, 2023^[67]). These firms continue to operate despite persistent financial distress, often due to weak enforcement mechanisms and limited incentives for timely restructuring or exit. Possible tax optimisation strategies also play a role (National Bank of Romania, 2023^[67]). The legislative package adopted in September 2025 establishes clearer communication between the NTRO and the National Agency for Fiscal Administration to facilitate the identification of such companies and the initiation of dissolution procedures.

Romania has made some progress in strengthening its preventive insolvency framework with the transposition of the 2019 EU Directive (Directive 2019/1023) into national law in June 2022 (Costea, 2022^[69]). The reform introduced early warning tools, including free access to financial and legal advisory services and alerts from public authorities when signs of financial distress arise. These tools are non-binding and confidential, aiming to encourage timely intervention without fear of stigma or legal consequences. The reform also introduced two main out-of-court pre-insolvency procedures (Tirnoveanua and Iorgulescu, 2024^[70]). Public data on early warning tools is limited, but use of pre-insolvency procedures appears to have risen in 2024 (Tirnoveanua and Iorgulescu, 2024^[70]).

Despite progress on preventive mechanisms, challenges persist regarding the low uptake and lengthy duration of restructuring procedures, as well as the limited availability of tailored proceedings for SMEs (World Bank, 2024^[62]). Enhancing the efficiency of insolvency processes – such as by streamlining court procedures and expanding the use of digital tools – should also remain a priority. Romania has also strengthened its approach to repeated insolvency filings through the transposition of the 2019 EU Directive. The new rules introduce “cooling-off” periods, limiting access to preventive restructuring within 12 months and judicial reorganisation within 5 years. Inspired by the French Commercial Code, these measures aim to prevent misuse of repeated filings. Further steps could include enhanced court scrutiny of viability, as well as shorter timelines and stricter creditor oversight for repeat cases.

4.4.3. Fostering competition and business growth

Romania’s competition policy framework is generally sound, with the Romanian Competition Council (RCC) playing an effective role in enforcing antitrust legislation, overseeing merger control, and addressing anti-competitive conduct. Though long considered relatively well-resourced in OECD comparison (OECD, 2022^[37]), the RCC has seen a decline of about 10% in its case handlers between 2022 and 2024, with potential implications for caseload and enforcement capacity. At the same time, enforcement activity has intensified in recent years, particularly in sectors such as ICT, cement, and pharmaceuticals, alongside increased scrutiny of public procurement practices (Government of Romania, 2025^[71]). Romania relies heavily on settlements to resolve competition cases, which on the one hand eases the burden on the judicial system and helps alleviate congestion that may otherwise contribute to longer ruling times, but on the other hand may also weaken deterrence, as firms anticipate reduced sanctions for infringements. As competition law continues to evolve with growing economic and technical complexity, ongoing training and capacity-building remain essential for businesses, authorities, and the judiciary alike.

Challenges to competitive neutrality persist in Romania’s government markets (OECD, 2025^[72]). Public procurement, which has an important size of around 11% of GDP in Romania, remains a key area where legal provisions are fundamentally sound, but implementation falls short (OECD, 2025^[72]). Competition is limited, as shown by a high share of single-bid procedures (45%, compared to the EU average of 38%) and of negotiated procedures without prior publication (23%, versus the EU average of 6%) (European Commission, 2025^[30]). Barriers include excessively rigid or complex rules and selection criteria, non-standardised documents, financial and technical constraints, and corruption risks – all of which disproportionately affect SMEs and new entrants (OECD, 2025^[72]). Frequent past legal changes – although the legal procurement framework has shown more stability since mid-2024 – and limited procurement capacity further undermine efficiency.

Despite reform efforts, perceptions of corruption and limited access to bidding opportunities remain widespread (European Commission, 2025^[30]; World Bank, 2024^[62]).

Further improvements in the efficiency and accessibility of public procurement are necessary, as outlined in Romania's *Public Procurement National Strategy 2023-2027*. Key priorities include enhancing the predictability of procurement calls, providing clearer technical guidance and realistic selection criteria to companies, allowing sufficient time for bid preparation and standardising documents. A more proactive engagement with markets, including training for SMEs, could also help to support their participation in public tenders. Additionally, continuing to strengthen capacity within contracting authorities is also essential (OECD, 2025^[72]).

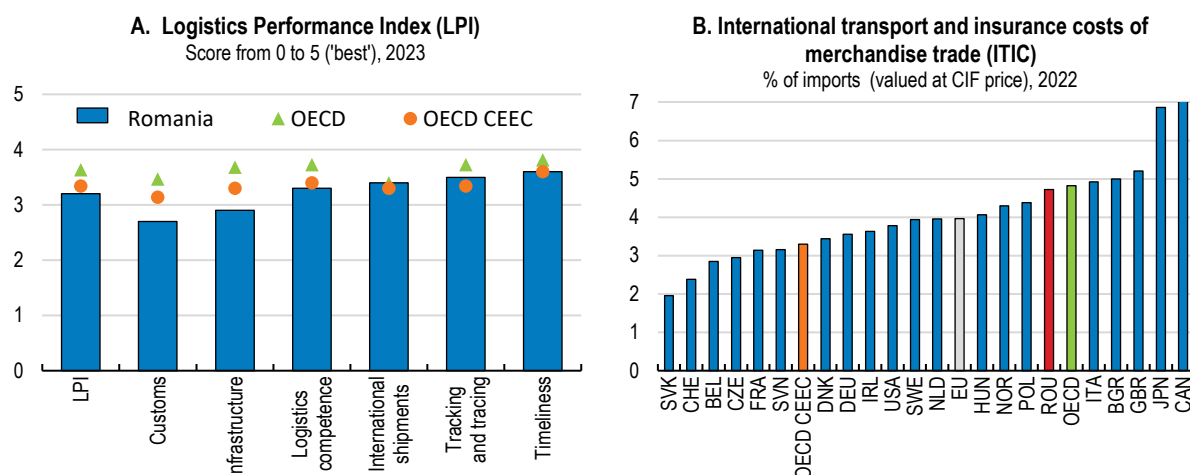
Table 4.2. Past OECD recommendations and actions taken on the business environment

Recommendations in past Surveys (2022 and 2024)	Actions taken since the previous Survey
Continue easing regulatory burdens on firms through streamlined licensing procedures, enhancing the use of online services.	Romanian authorities are currently implementing a reform to merge the licensing requirements in industry into a "one-stop" online platform (see main text). In the meantime, licensing requirements remain fragmented.
Reduce the number of restrictions in some professional services such as lawyers and engineers.	Some action taken. Mandatory minimum fees were replaced by non-binding recommendations for lawyers and architects and abolished for veterinarians, while enforcement actions targeted fee-setting practices by several professional bodies.
Strengthen the insolvency regime to facilitate debt restructuring, notably by introducing out-of-court mechanisms. Introduce early warning tools by transposing the related EU Directive.	Romania transposed the 2019 EU directive in June 2022, strengthening its preventive insolvency framework with early warning tools and two out-of-court pre-insolvency procedures (see main text).
Reduce court involvement in insolvency proceedings, except where it is absolutely necessary.	Despite preventive measures, insolvency remains court-driven, with sometimes lengthy procedures and uneven regional court capacity.
Continue reforms to improve the efficiency of public procurement to ensure cost-effective use of public resources.	E-procurement has been strengthened, but little progress has been made in reducing single-bid tenders and negotiated procedures without competition.
Continue to curtail use of emergency decrees and follow through on commitments to systematise policy impact assessments.	The use of emergency decrees persists and policy impact assessments are not yet systematically applied.
Ensure reinforced SOE corporate governance rules are properly implemented and monitored.	Romania has undertaken SOE reforms aligned with NRRP commitments (Reform 9) and OECD recommendations (OECD, 2023 ^[73]). GEO 109/2011 was amended by Law 187/2023, alongside updates to secondary legislation on board selection and performance indicators. Further reforms announced in July 2025 include full public disclosure, and performance-based oversight.

Source: OECD (2022^[37]; 2024^[29]).

4.5. Fostering transport infrastructure development

Infrastructure is a key driver of productivity and competitiveness (André and Gal, 2024^[46]). Efficient transport infrastructure lowers logistics costs, broadens market access, and boosts labour mobility. Quality infrastructure also facilitates linkages between foreign firms and the domestic economy (André and Gal, 2024^[46]). Despite recent progress and significant EU-funded efforts, Romania still records below-average infrastructure performance and show significant gaps in transport infrastructure. Romania's below-average infrastructure performance contributes to weak logistics outcomes and results in comparatively higher cross-border logistic costs, as reflected in the International Transport and Insurance Costs of Merchandise Trade (ITIC) (Fiallos, Liberatore and Cassimon, 2024^[74]) (Figure 4.23, Panel A&B).

Figure 4.23. Romania's logistics performance is below the OECD average

Note: OECD and OECD CEEC are non-weighted averages. OECD CEEC covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia. Panel B: ITIC measures transport and insurance cost across borders as percentage of the CIF value of imports (CIF/FOB margins). While ITIC does not capture domestic logistics costs, it shows cross-border logistics efficiency and cost pressure.

Source: World Bank Logistic Performance Index database; OECD International Transport and Insurance Costs of merchandise trade (ITIC) database.

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4.5.1. Improving the road network and road pricing

Romania's road network has seen notable improvements in recent years, particularly through its integration into the Trans-European Transport Network (TEN-T). As of the end of 2025, Romania's motorway (and expressway) network reached a total length of 1 418 km (Romanian Motorway Info, 2025^[75]). This marks a significant increase from previous years, with 199 km of new motorways and expressways opened in 2024 and 146 km in 2025, compared to an annual average increase of 54 km between 2007-2023. Further extensions are under way or planned. However, significant challenges remain in terms of low connectivity, quality, and implementation speed (see also OECD (2022^[37])).

While Romania has made progress, it still has one of the lowest motorway densities in the EU, with only two international connections to neighbouring Hungary. Many national roads remain in poor condition, contributing to slow travel times and elevated accident rates, especially in the eastern and southern parts of the country. Maintenance of road infrastructure also remains a significant challenge, with funding often lacking for both the maintenance of newly constructed and the upkeep of existing roads. Continued investment, improved project management, and a stronger focus on maintenance and long-term financing are essential to accelerate progress and ensure that road infrastructure supports Romania's competitiveness.

Road transport is also the dominant freight mode in Romania, accounting for about 46% of total freight transport (compared to 20% of rail freight transport, 19% inland waterway freight transport, and 13% of maritime transport in 2024). This reflects the country's strong reliance on trucks for both domestic and international logistics. Compared to other freight modes, road transport is significantly less environmentally friendly, contributing more heavily to greenhouse gas emissions and air pollution. While road use is not entirely free – both passenger cars and heavy goods vehicles must purchase an electronic vignette to access national roads and motorways – the current pricing model has a limited effectiveness and emissions have strongly increased in the transport sector (see Chapter 3). Vignette costs are based on vehicle type, weight, number of axles, and validity period, rather than distance travelled such as in other EU countries like France, Italy or Spain, offering little incentive to reduce road usage or shift to more environmentally friendly modes. Moreover, the revenues generated are generally low and insufficient to cover long-term maintenance needs.

Romania is currently rolling out *TolIRO*, a new electronic toll system for heavy goods vehicles with distance- and emissions-based charges, aligned with the EU Eurovignette Directive. *TolIRO* was initially scheduled for

January 2026, but its implementation was postponed to July 2026. Similar systems in Germany and Hungary have proven effective in funding infrastructure and promoting more efficient, low-emission freight transport. Romania should fully implement *TollRO*. On top, the *2024 Survey* proposed the introduction of a differentiated, performance-based tolling system for passenger vehicles and light commercial vehicles not covered by *TollRO*, based on Global Navigation Satellite System (GNSS) technology (OECD, 2024^[29]). Revenues from both systems should be directly linked to road maintenance and infrastructure investment to ensure long-term financing and infrastructure quality.

Romania could further improve the efficiency of its road maintenance by adopting performance-based maintenance contracts, in which the government pays a fixed periodic fee based on the road meeting predefined quality standards, rather than reimbursing contractors according to the volume or frequency of maintenance activities (World Bank, 2023^[76]). This model has proven effective in several OECD countries, such as New Zealand or Canada. Maintaining an updated database of national roads and their status would help identify needs and priorities, following the example of the Road Register in Estonia. Currently, the National Company for Road Infrastructure Administration uses internal project tracking systems, but these lack the integration, transparency, and analytical capabilities found in international best practices.

4.5.2. Promoting alternative transport modes and infrastructure management

Romania should more actively promote low-emission transport modes. Romania's extensive rail network, a low-emission alternative to roads, suffers from decades of underinvestment and outdated infrastructure, leading to declining passenger traffic and underused freight potential (see also OECD (2024^[29])). Despite current EU-funded efforts to modernise and electrify the network, progress has been slow due to administrative inefficiencies, fragmented planning, and institutional capacity constraints. The NRRP allocates EUR 3.5 billion for rail upgrades, but delays threaten completion before the August 2026 deadline, risking missed economic and environmental benefits of shifting transport from road to rail. EU-funded rail projects should be accorded higher strategic priority within the national reform agenda, given their potential to advance sustainable transport. To shift more transport from road to rail, Romania needs a more balanced pricing strategy, improved rail service, and a better rail connectivity within the European transport network. Further investment in low-emission public transport infrastructure in and around cities is also essential to ease congestion, enhance urban connectivity, and advance climate objectives (see Chapter 3).

Romania's intermodal and logistics infrastructure also remains underdeveloped compared to other countries, limiting the efficiency of multimodal freight transport. Few terminals support seamless road, rail, and maritime integration. The Port of Constanța, Romania's main seaport, serves as a major logistics node along the Danube-Black Sea corridor and benefits from established road and rail connections. However, the lack of intermodal facilities and integrated transport corridors constrains its full potential for regional and international trade. Targeted investment in intermodal terminals, supported by EU funds, would reduce logistics costs, improve modal shifts, and strengthen the role of Constanța as a regional transport hub. In this context, Romania should fully implement the *Transport Programme 2021-2027*, which seeks to close infrastructure gaps, enhance multimodal integration, and support the shift toward sustainable mobility (Ministry of Investments and European Projects, 2021^[77]).

Table 4.3. Past OECD recommendations and actions taken on transport infrastructure

Recommendations in past Surveys (2022 and 2024)	Actions taken since the previous Survey
Speed up the absorption of EU Funds, in particular, on the rail infrastructure to facilitate the green transition.	The absorption of EU funds – particularly those from the RRF – remains behind schedule, especially regarding rail projects.
Ensure that investment projects are effectively implemented according to the long-term infrastructure strategy, while avoiding frequent changes in the legislation.	The implementation of infrastructure projects has accelerated, but delays and cost overruns remain common.
Enhance the capacity of project designing within public entities, notably by drawing more on external expertise.	No major action taken.

Source: OECD (2022^[37]; 2024^[29])

Romania's infrastructure benefits from substantial EU and national funds, yet persistent administrative challenges continue to undermine the economic returns of these investments (see also Chapter 1). Delays in project approvals, cost overruns, legal disputes, and bureaucratic bottlenecks reduce the efficiency of infrastructure planning and limit the absorption of available EU funds. To strengthen infrastructure governance and maximise the impact of EU funding, Romania would benefit from more streamlined administrative procedures and enhanced local capacity to plan and implement projects effectively. Key priorities include improving planning efficiency and preparedness, accelerating digitalisation in fund management, and ensuring timely fulfilment of EU milestones – particularly under the NRRP. Given Romania's tight domestic fiscal space, maximising absorption of EU funds and leveraging financing from multilateral banks remains a top priority. With RRF support ending in 2026, exploring alternative financing sources such as public-private partnerships (PPPs) could also help sustain investment momentum, diversify funding, and leverage private sector expertise. The introduction of official PPP guidelines in late 2024 and the July 2025 initiative to build a PPP portfolio mark positive steps in this direction.

4.6. Further strengthening the anti-corruption framework

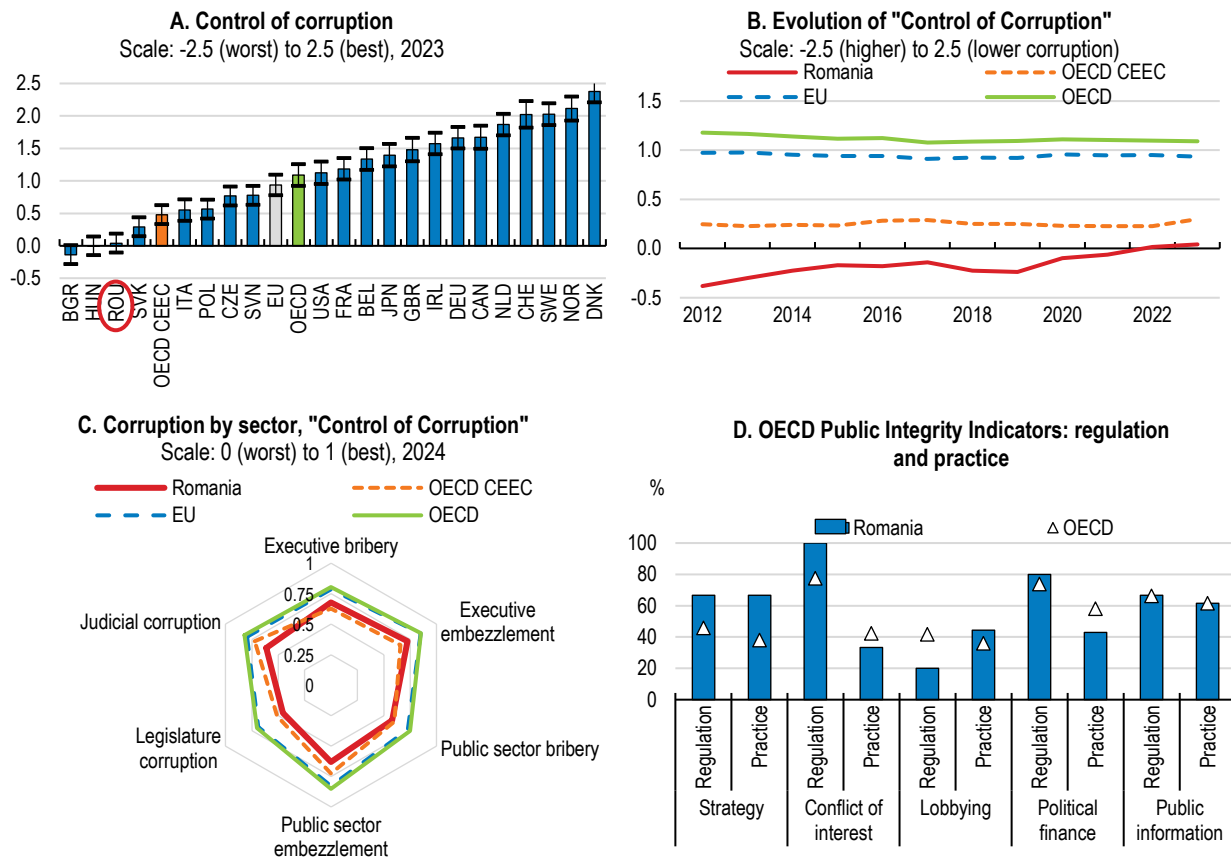
If left unchecked, corruption can result in wasteful or inefficient public spending, an uncompetitive business environment and ineffective policymaking. Perceptions of corruption remain high in Romania, with 75% of respondents to a 2025 Eurobarometer survey viewing it as “widespread” (European Commission, 2025^[78]), slightly above the EU average. While few report personally witnessing or experiencing corruption, 60% said they are personally affected by corruption in their daily lives (European Commission, 2025^[78]). This suggests that in Romania as in other countries, corruption has grown more complex than the traditional notion of everyday bribery. Political parties, elected officials, healthcare, police and customs are perceived as the most impacted institutions (European Commission, 2025^[78]).

Romania has taken significant steps to combat corruption over the last years, and 39% of Romanians view government efforts to combat corruption as effective, putting it above the EU average (European Commission, 2025^[78]). The OECD Public Integrity Indicators (PIIs) show that Romania's anti-corruption and integrity system is largely aligned with OECD standards and, in several areas, performs above the OECD average (Figure 4.24). The country has strong legal frameworks for managing conflicts of interest and ensuring integrity in the financing of political parties and election campaigns. Romania also has a strong legal framework for whistleblower protection transposing EU Directive 2019/1937, although challenges for whistleblower protection remain in practice (OECD, 2023^[79]; OECD, 2024^[80]). As part of its OECD accession process, Romania became a Party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 2023 and continues to make progress on combatting foreign bribery, although there is still room to improve practical application (OECD, 2024^[80]). A recent amendment of Law no. 319/2024 strengthened protections for whistleblowers reporting foreign bribery.

Romania has also recently strengthened its framework for managing integrity risks in pre- and post-public employment, including for high-risk officials. As part of the OECD accession process, a new law (Law no. 189/2025) has been adopted in November 2025 to address several gaps previously identified by the OECD (OECD, 2025^[81]). If effectively implemented and enforced, this new law – which expands the scope of at-risk officials, activities and behaviours covered – should help reduce economic distortions arising from “revolving door” between the public and private sectors.

Romania's *National Anti-Corruption Strategy* (NACS) for 2021-2025 outlines government objectives for improving the anti-corruption framework. While the strategy fulfils most standard OECD criteria, strategic planning could be further improved by grounding the strategy in a formal assessment of national corruption risks (OECD, 2025^[82]). Nonetheless substantial progress has been made toward achieving the objectives in the NACS, as outlined in the strategy's monitoring reports (Ministry of Justice, 2025^[83]).

Figure 4.24. Corruption perception remains high in Romania, but signs of progress are evident



Note: Panel A shows the point estimate and the margin of error. Panel C shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project. OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia. Source: Panels A & B: World Bank, Worldwide Governance Indicators; Panel C: Varieties of Democracy Project, V-Dem Dataset v12; Panel D: OECD Public Integrity Indicators database (data extracted on 17 July 2025).

StatLink <https://stat.link/t5yw98>

Despite the strong legal framework, Romania faces practical challenges in preventing and managing conflicts of interests. Effective management of conflicts of interest fosters fair competition and transparent decision-making, reducing the risk of favouritism or regulatory capture. The National Integrity Agency (ANI), responsible for verifying the content of asset and interest declarations, uses innovative tools for doing so (OECD, 2025^[82]) but remains understaffed, delaying detection. To improve early detection, ANI has implemented a new IT tool that helps detect red flags in official's declarations. While this can improve effectiveness, the system could be further strengthened by applying a risk-based approach, prioritising verification based on the sensitivity of an official's position. Beyond oversight, building the capacity of public institutions and officials to proactively manage conflicts on their own – such as through voluntary recusal from decisions where a conflict of interest exists – would strengthen the system over time.

As reflected in citizen perceptions, corruption and integrity risks in the health sector remain particularly acute. These range from overt bribery to favouritism in human resource management, procurement and budget control that contribute to inefficiency and wasteful spending (OECD, 2023^[79]). The NACS for 2021-2025 included a specific focus on the health sector, as well as the education sector and SOEs. Conflicts of interest remain common in the health sector, and further capacity-building and sector-specific guidance could be effective tools in reducing the vulnerability of the health sector to corruption. It's encouraging that the Ministry of Health's 2023-2030 strategy includes stronger conflict-of-interest management as a key objective.

A 2025 Constitutional Court ruling also declared key provisions of Law no. 176/2010 on conflict-of-interest management unconstitutional, including the publication of asset declarations of civil servants, citing privacy

concerns. Information on assets and interests for at least some categories of public officials are published in around two-thirds of OECD countries (OECD, 2025^[81]). Amendments to Law no. 176/2010, aimed at implementing the Constitutional Court's decision, are currently under preparation and are expected to be submitted to the legislature in the second half of 2026. It is important that the publication of asset and interest declarations is proportionate to the decision-making power and risk exposure of public officials, maintaining a balance between transparency, integrity and the protection of fundamental rights.

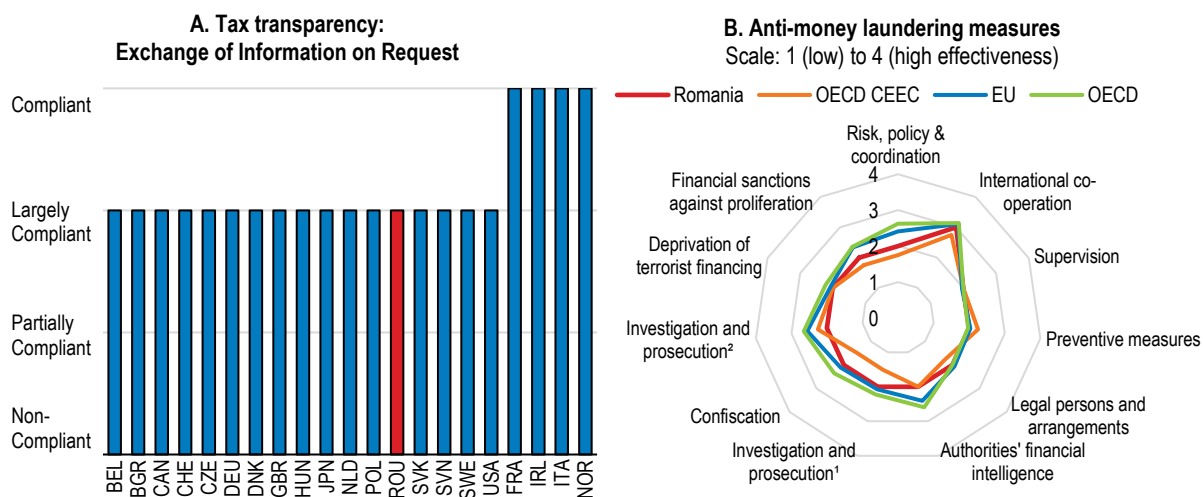
Romania would also benefit from greater transparency in policymaking. Significant progress has been made, driven also by the OECD accession process, to tighten lobbying rules. Notably, registration in the RUTI register became mandatory as of April 2025 and has been extended to cover all members of parliament in October 2025. It remains important that the new lobbying framework will be enforced in practice. A robust framework for responsible and transparent lobbying is essential to safeguard policymaking from undue influence by narrow private interests. Lobbying in Romania is especially concerning given the high rate at which laws are adopted through fast-tracked procedures, used in 26% of laws (or 43% including Government Emergency Ordinances) (OECD, 2025^[84]). Such practices limit stakeholder's ability to provide input on legislation that affects them, and contributes to legislative instability, creating uncertainty for investors and discouraging long-term decisions. Restrictions on the misuse of emergency and shortened parliamentary procedures have started to be applied through methodological rules approved by the government in 2022. However, the proportion of draft normative acts adopted through Government Emergency Ordinances remained high in 2024, with only a slight decrease observed by October 2025 compared to the same period in 2024, and legislative unpredictability continues to remain a concern for investors and businesses (European Commission, 2025^[85]).

When it comes to enforcement of criminal anti-corruption statutes, the National Anti-Corruption Directorate (DNA) has a strong track-record of successful prosecution of corruption cases (OECD, 2024^[80]), and 51% of Romanians believe there are enough successful prosecutions to deter people from corruption – the second highest rate of all EU countries (European Commission, 2025^[78]). While the DNA has faced some issues with resource shortages, it does not appear to have substantially impacted its ability to combat foreign bribery thus far (OECD, 2024^[80]). The average length of criminal corruption cases in Romania remains only slightly above the EU average (European Commission, 2025^[86]), indicating that the courts are generally able to ensure accountability for corruption within a reasonable timeframe.

Effective enforcement also relies on judges and prosecutors themselves acting with integrity. Romania has taken steps to strengthen integrity and independence in the judiciary more broadly. In 2022 Romania passed three revised “justice laws”, which aimed to bring the judicial system closer in line with international standards (OECD, 2024^[80]; European Commission, 2025^[85]). While Romania's efforts to promote judicial and prosecutorial integrity are strong compared to the OECD average, there is still scope for further improvement. At the end of 2025, concerns were publicly raised regarding judicial and prosecutorial independence as well as the handling of corruption cases. This prompted the authorities to establish a working group to evaluate and review the concerns and relevant legislation. Romania could enhance its framework by extending merit-based selection procedures to the promotion of judges and prosecutors for all managerial positions and by ensuring sufficient safeguards for the appointment and dismissal of judges and prosecutors in managerial positions.

Money laundering remains also an issue in Romania, driven by various criminal activities, including tax evasion, fraud, and the misuse of EU funds (Figure 4.25). According to the Council of Europe's MONEYVAL report, Romania is only “partially compliant” with 15 of the 40 Financial Action Task Force (FATF) recommendations and remains under enhanced follow-up procedures (Council of Europe, 2025^[87]). Although Law No. 129/2019 provides a broad legal basis for prosecution, MONEYVAL notes that only limited progress has been made in addressing technical compliance deficiencies. Areas needing improvement include targeted financial sanctions, virtual asset regulation, and statistical tracking.

Figure 4.25. Anti-money laundering



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing. OECD CEEC is a non-weighted average and covers Czechia, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink  <https://stat.link/y1xfgh>

Table 4.4. Main findings and recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Building domestic firm innovative capabilities	
Weak business R&D constrains local SMEs from innovating and creating value.	Enhance access to information on public R&D tax incentives and grants, and consider making R&D tax credits refundable for SMEs. Introduce an 'innovation criteria' to the <i>Start-up Nation</i> programme.
The public R&D landscape is fragmented, lacks performance orientation, and is underfunded.	Consolidate the public research landscape, improve coordination and oversight, and increase public funds using performance-based criteria.
Digital adoption is slow, preventing businesses from accessing international markets and establishing links with foreign firms.	Create an online platform that serves as a single point of access for all digital information and funding mechanisms. Strengthen digital and managerial training programmes for businesses.
Bank-based financial intermediation and capital markets remain underdeveloped, while alternative non-bank financial instruments are limited, constraining both access to and demand for financing.	Strengthen SMEs' financial literacy and financial reporting through targeted training and mentorship programmes. Further develop the Alternative Stock Exchange (AeRO) market and facilitate transitions from the AeRO to the main market.
Promoting human capital and skills	
Educational attainment and learning outcomes remain below OECD averages, while education resources are stretched.	Strengthen teacher training, modernise curricula and invest in school infrastructure in disadvantaged areas, as planned by the education reform.
Romania is pursuing ambitious education reforms, though effective implementation and overall progress is difficult to assess.	Strengthen governance capacity to drive and implement reform and improve comprehensive evaluation to better track progress.
Dropout rates in vocational education (VET) are very high.	Strengthen systematic collaboration with industry bodies in the design and delivery of dual VET programmes.
The system offers limited pathways into other education tracks.	Improve pathways from VET to higher education.
Tertiary education participation is rising from a low base, but access remains unequal.	Provide more scholarships on social ground better targeting students with financial needs and continue targeted outreach and counselling for disadvantaged groups.
Adult learning remains underutilised, with rural, low-qualified, and unemployed individuals largely excluded.	Enhance tax incentives for employer-led training and provide public training vouchers for disadvantaged groups.
Training programmes exhibit significant variability in quality.	Continue improving training quality and relevance.
Improving the business environment	
Despite progress, business licencing remains cumbersome, with timelines that are unclear and lengthy. A Single Industrial Licence law is establishing a simplified framework for industrial activities.	Establish clear procedures and timelines for business licensing and enhance transparency and online access to all licensing requirements. Implement the streamlined single industrial licensing procedure.
An inefficient insolvency framework leads to prolonged proceedings, significant backlogs, and limited restructuring outcomes. In some cases, insolvency is used as a tool for tax optimisation.	Enhance the efficiency of court procedures and digital tools for insolvency, and implement better information-sharing with the tax authority to prevent misuse for tax optimisation.
Public procurement has a solid legal basis but is impeded by limited access, lack of standardisation, and frequent legal changes. Low procurement capacity undermines efficiency.	Improve predictability, clarity, and standardisation in procurement. Engage markets proactively and strengthen procurement capacity and legislative stability.
Fostering infrastructure development and good governance	
Significant gaps in transport infrastructure persist. Poor project planning and execution lead to delays and cost overruns. EU funds absorption for infrastructure projects has faced major delays.	Streamline administrative procedures and local capacity to plan and implement infrastructure projects. Ensure strong absorption of EU funds for infrastructure investment through better planning and oversight.
Maintenance of infrastructure remains insufficient.	Maintain an updated database of the status of national roads and consider adopting performance-based maintenance contracts.
Freight transport relies heavily on roads, yet contributes only slightly to road usage costs.	Implement the electronic tolling system (TollRO) to apply distance- and emissions-based charges for heavy goods vehicles, with revenues directly to road maintenance and investment.
Romania also faces a shortage of intermodal facilities, limiting more efficient freight logistics.	Shift more freight to rail by improving connectivity, speed, and interoperability.
Romania has made progress on ambitious integrity reforms, including recently strengthening its frameworks for lobbying and pre- and post-public employment. Effective implementation of integrity measures remains a challenge.	Strengthen capacity of institutions and officials with integrity roles to support effective implementation, including of the newly reformed lobbying and pre- and post-public employment frameworks.
While Romania has taken steps to strengthen integrity and independence of judges and prosecutors, challenges remain.	Ensure sufficient safeguards for the appointment and dismissal of prosecutors and judges in managerial positions.

Supporting foreign-domestic firm linkages

Foreign affiliates operating in Romania play a vital role in the economy, but linkages with local suppliers could be further strengthened.

Further develop the scope of Romania's Investment Promotion Agency to promote linkages between foreign investors and domestic firms and establish a government-supported local supplier database.

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Romania has achieved impressive income and productivity convergence with OECD levels. Substantial EU funding continues to support investment and bolster long term growth. However, high inflation has eroded price competitiveness while significant fiscal deficits have raised concerns about debt sustainability. To achieve a more balanced growth, Romania needs to pursue fiscal consolidation by improving spending efficiency and broadening the tax base. Labour market participation remains low among low skilled youth, women, and older workers. Addressing these gaps calls for better education outcomes, more affordable childcare, and improved health to support longer working lives. Romania is also highly exposed to climate related risks. Adaptation efforts should accelerate, including better risk disclosure, stronger flood defences and broader insurance coverage. Finally, Romania has made strong progress in global trade integration. To deepen technology and knowledge spillovers and move further up the value chain, it will need to strengthen innovation, digital adoption, education quality, and business dynamism.

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