European Institute of Romania

LESSONS FROM ROMANIA'S EU ACCESSION FOR TODAY'S CANDIDATE STATES

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Lessons from Romania's EU Accession for Today's Candidate States[1]

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***Abstract**: Romania's EU accession in 2007, after a decade of externally anchored reform, offers an instructive case for today's enlargement candidates. This paper examines the pre-accession period's reform achievements and their limits, the post-accession reversal driven by moral hazard and political economy, and sectoral outcomes across energy, information technology, public administration, and judicial reform. It then situates Romania's macro-structural trajectory — consumption-led convergence, twin deficits, and a narrowing fiscal corridor — within the broader convergence debate. Five lessons emerge for current candidates: conditionality is powerful but time-limited; fiscal institutions matter more than fiscal targets; absorption capacity is a binding constraint that must be built pre-accession; post-accession boom-bust dynamics are predictable and require a pre-emptive policy; and honest political narratives about the benefits and costs of reforms are a precondition for durable change.*

***Keywords**: Romania, accession, Cooperation and Verification Mechanism*

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1. Introduction: Why the New Member State Experience Matters

The European Union's enlargement process is often described in the language of checklists — chapters opened and provisionally closed, benchmarks met, directives transposed, acquis chapters screened. This framing is not wrong, but it is incomplete. Accession is less an administrative procedure and more an attempt to compress into a decade or less the institutional transformation that Western European states built over generations: independent judiciaries, professional civil services, functioning tax administrations, competitive market structures, regulatory agencies capable of enforcing rules against powerful incumbents, and a political culture in which the rule of law is a lived practice rather than a constitutional ornament.

The distinction that matters, and that the enlargement literature has increasingly recognised, is between reform as conditionality compliance and reform as deep institutional and structural change. The first produces laws on the books, agencies on the organigram, and satisfactory paragraphs in Commission progress reports. The second produces states that function. The two are related, but not identical, and the gap between them is where the most consequential lessons of the post-2004 enlargement experience reside.

Romania is among the most instructive cases for understanding that gap. This is precisely because the gap has been so wide and so persistent. Romania's starting conditions were uniquely unfavourable among the 2004–2007 accession cohort. Among the Central and Eastern European candidates alone, Romania had practised late Stalinism in its most extreme form until the very end: Ceaușescu's regime combined totalitarian political control with an autarkic economic model that had, by the late 1980s, repaid the country's external debt at the cost of devastating living standards. The revolution of December 1989 removed the dictator, but did not remove the structures[2]. Where Poland, Hungary, and Czechoslovakia moved rapidly toward market economies through shock therapy — liberalising prices, privatising state enterprises, opening to foreign investment, and accepting the short-term social costs of rapid adjustment — Romania chose a gradualist path that was, in practice, an evasive one.

The governments of the 1990s pursued partial reform: enough liberalisation to attract some foreign engagement, enough privatisation to satisfy international creditors, but not enough of either to break the economic and political power of the structures inherited from the old

[2] Ceaușescu's forced repayment of external debt during the 1980s, financed by suppressing domestic consumption and exporting output at all costs, left Romania in 1989 with a depleted capital stock, a distorted industrial structure skewed towards heavy industry, and uniquely adverse starting conditions among the 2004–2007 cohort (Dăianu, 1984; 1994a).

regime. State-owned enterprises were restructured slowly or not at all. The banking system remained dominated by state-owned banks haemorrhaging losses through directed lending. By the time Romania began serious accession negotiations in the early 2000s, it was starting from a position that was structurally weaker — in institutional depth, in market economy maturity, in civil society capacity, and in the quality of democratic governance — than any of the 2004 entrants had been at a comparable stage. The Cooperation and Verification Mechanism (CVM), imposed at accession in 2007[3] as a monitoring mechanism for judicial reform and anti-corruption, expressed the Commission's acknowledgement of Romania's unfinished institutional business and represented the Commission's terms under which Romania was nevertheless allowed to join the Union. What followed — eighteen years of convergence, crisis, reform, reversal, and renewed reform — constitutes a granular available record of what happens when a country with deep structural deficits joins the EU's institutional framework. The lessons are not always comfortable, but they are illuminating for the next wave of candidates.

2. The Pre-Accession Period: Reform Under External Anchor

2.1 The Political Economy of Conditionality

The main objectives of the early Romanian reform program were: 1. introducing market forces into the economy, notably by liberalizing prices, trade and the exchange system, and interest rates, and allowing these forces to guide economic decision making; 2. transferring ownership to the private sector; and 3. reducing the Government's role in the economy.

Price liberalisation proceeded in three rounds over 1990–1991, each accompanied by devaluation, with controls retained on a small set of basic goods. The state monopoly on foreign trade was abolished from early 1990, and the fiscal system was rebuilt — a value-added tax (VAT) replaced the turnover tax in 1993, and a general income tax replaced the profit and wage taxes in 1994 — with extensive foreign technical assistance. Implementation, however, was hampered by a shortage of trained staff and by acute difficulty collecting profit taxes from state-owned enterprises. As in many other areas, the legislative effort moved faster than the institutional changes needed to support it.

Financial-sector reform followed a similar pattern. A two-tier banking structure was created in 1990, and a new banking law and central bank statutes in 1991 gave the National

[3] To Bulgaria too.

Bank of Romania (NBR) full authority over monetary policy with currency stability as its sole objective. But restructuring was slowed by the absence of a market-based financial culture, scarce expertise, thin branch networks, and slow change in the mentality of the banking and business communities. The institutional transformation took place in difficult macroeconomic conditions characterised by high inflation, large swing in growth rates, and the build-up of twin deficits. The initial stabilization efforts after 1989 were undermined by the failure to impose a hard budget constraint on large loss-making enterprises: in particular, initiatives were taken to clear payment arrears by multilateral compensation operations accompanied by an injection of credit. Thus, arrears were, in a sense, validated ex post; arrears illustrated a *structural strain* in the economy and the inability of many state-owned companies to adapt to the new structure of relative prices (Dăianu, 1994b). Moreover, interest rates in the economy remained, until late 1993, steeply negative in real terms. This resulted in very large transfers of a quasi-fiscal nature through the banking system to the least efficient parts of state-owned industry and agriculture. As a result, by late 1993, the failure to tackle the problem of the largest state-owned enterprises had indirectly brought the economy to the verge of hyperinflation.

2.2 Institutional and Legal Transposition

Romania was the first country from Central and Easter Europe to have contractual relations with the EC: a Generalised System of Preferences Agreement in 1974, and an Agreement on Industrial Products in 1980. Romania's diplomatic relations with the EC date from 1990. Following Romania's return to democracy, a Trade and Cooperation Agreement was signed in 1991. This was superseded by the entry into force of the Europe Agreement in February 1995, the trade provisions of which had already come into force in May 1993 under an Interim Agreement. Romania officially applied for EU membership in 1995 and the government adopted a detailed strategy for the adoption of *the acquis*. In 1997, according to the European Commission's opinion, Romania was not ready to start negotiations because Romania would face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term; Romania had neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. Therefore, high uncertainty surrounded Romania's ability to assume the obligations of membership in the medium term. In addition, European Commission assessed that considerable efforts were needed in the areas of environment, transport, employment and social affairs, justice and home affairs as well as agriculture. More generally, substantial administrative reform was indispensable for Romania to have the structures to apply and enforce the *acquis* effectively.

The accession negotiations were launched in February 2000. There were 31 negotiation chapters with varying degrees of difficulties in terms of reform needed to be implemented. Up to end of 2002 all chapters were opened. The most difficult chapters were closed in the second half of 2004.

Justice and home affairs chapter required independent courts and a functioning legal system, strong actions against high-level corruption and modern border control, Romanian becoming an EU external border. Romania had to reform the judiciary, create anti-corruption institutions and strengthen police and border security. In Agriculture Romania had to set up agencies to distribute EU farm subsidies, improve food safety and veterinary standards, restructure inefficient agricultural system. The fulfilment of requirement needed huge administrative capacity and funding since Romania had a large rural population and many small farms. In Competition policy, many Romanian industries were state-owned, and inefficient, and EU rules prohibit unfair state aid to companies. Romania had to privatise or restructure state-owned enterprises, eliminate illegal subsidies, and create a functioning competition authority. The implementation was politically sensitive because it led to job losses and factory closures. Environment was a sensitive chapter due to serious pollution problems, which required significant investment for building wastewater treatment plants, protection of the air quality, and development of waste management systems.

Romania negotiated a transition period (extra time after joining). Regional policy required the creation of institutions to absorb EU funds in a transparent manner to avoid frauds, and design regional development strategies. Energy reform required the modernisation of energy infrastructure, the closure of unsafe facilities and improvement of efficiency. Romania had to align energy prices with the market, improve nuclear and energy safety standards, increase competition in energy sector. The pace of accession negotiations and adjustment was extraordinary (Table 1).

Table 1 *The sequencing of EU accession negotiation by chapters*

Chapter	Opening date	Closing date	Duration* (quarters)
Free movement of goods	H1 2002	H1 2003	6
Free movement of persons	H1 2002	H2 2003	8
Freedom to provide services	H1 2002	H2 2004	12
Free movement of capital	H1 2001	H1 2003	10
Company Law	H1 2001	H2 2001	4

Competition policy	H2 2000	H2 2004	18
Agriculture	H2 2002	H1 2004	8
Fisheries	H1 2001	H2 2001	4
Transport policy	H1 2001	H2 2003	12
Taxation	H2 2001	H1 2003	8
Economic and Monetary Union	H1 2002	H1 2002	2
Statistics	H2 2000	H2 2000	2
Social Policy and Employment	H2 2001	H1 2002	4
Energy	H1 2002	H1 2004	10
Industrial Policy	H2 2002	H2 2002	2
Small and Medium Enterprises	H1 2000	H1 2000	2
Science and Research	H1 2000	H1 2000	2
Education and Training	H1 2000	H1 2000	2
Telecommunication and IT	H2 2000	H2 2002	10
Culture and Audiovisual	H2 2000	H2 2002	10
Regional Policy	H1 2002	H2 2004	12
Environment	H1 2002	H2 2004	12
Consumer and Health protection	H2 2001	H2 2001	2
Justice and Home affairs	H1 2002	H2 2004	12
Custom Union	H1 2001	H2 2002	8
External relations	H1 2000	H1 2000	2
Common foreign and security policy	H1 2000	H1 2000	2
Financial control	H1 2002	H2 2003	8
Financial and budgetary Provisions	H2 2002	H1 2004	8
Institutions	H1 2002	H1 2002	2

Source:1/ https://cse.uaic.ro/Evenimente/arhiva/2005aprilBrosura_DRUM.pdf
"Drum către Europa" [The Road to Europe] (25 April 2005) — a commemorative brochure produced jointly by the Institutia Prefectului Județului Iași [Iași County Prefect Institution] and the Centre for European Studies, "Alexandru Ioan Cuza" University, Iași, titled "Pas istoric pe calea extinderii UE" [A historic step on the road to EU enlargement]. This document contains EU-presidency-by-presidency breakdown of chapter openings/closings used for most of the table, completed with information from
2/https://www.mae.ro/node/1543 Romanian Ministry of Foreign Affairs (MFA) — page titled "Evoluția negocierilor de aderare la UE" [Evolution of EU accession negotiations].
*Computed under the hypothesis that the chapter was open at the beginning of the semester and concluded by the end of the semester.

Chapter Financial and budgetary Provisions determined how much Romania contributes and receives from the EU budget and required strong systems to manage and control EU funds without fraud and mismanagement. Romania had to create systems for collecting and transferring Romania's contribution to the EU budget, strengthen public financial management and budgetary transparency, establish audit and control institutions (strengthened role for Court of Accounts), introduce anti-fraud mechanisms compatible with EU bodies (such as European

Anti-fraud Office--OLAF). Romania had to prove that it could properly manage billions of euros in EU funds without corruption and errors. Chapter Institutions defined how Romania fit into EU institutions and required administrative and political readiness at the highest level. The key arrangements were the allocation of Romania's seats in the EU institutions (European Parliament, Council of EU, European Commission), preparation of Romanian administration to participate in the EU decision making, training civil servants in the EU law and procedures, creation and coordination of structures for EU affairs within the government.

2.3 Macroeconomic Stabilization and the Fiscal Anchor

In 2003 a stand-by arrangement with the IMF was successfully completed for the first time, after six interrupted arrangements that were conducted since 1991. The agreement was launched in October 2001 and was extended until October 2003. The main achievements under the program were disinflation, robust growth, and the maintenance of budget deficit on track. Delays were experienced in adjusting energy prices for higher costs and, as a result, the current account deficit widened. The anticipated accession to the EU, the large yield differential between lei and foreign currency-denominated assets (given the increasing credibility of the NBR's exchange rate management) and the gradual liberalisation of the capital account by end 2004 attracted capital inflows which, through the appreciation of the currency, fuelled a persistent domestic spending boom, mirrored by an unsustainably high current account deficit and the boom was increasingly spilling over into underlying inflation pressures (Table 2).

Table 2 Main macroeconomic indicators, 1999-2007

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP growth, y-o-y	-0.4	2.5	5.2	5.7	2.3	10.4	4.7	8.0	7.2
GDP, bn EUR	33.8	40.5	45.1	48.7	51.1	60.4	79.2	97.2	127.6
GDP/capita, thou EUR	1.5	1.8	2.0	2.2	2.4	2.8	3.7	4.6	6.1
Exports, bn EUR	8.0	11.3	12.7	14.7	15.6	18.9	19.4	24.0	31.5
Imports, bn EUR	9.2	13.1	16.0	17.4	19.6	24.3	27.6	35.8	49.5
Net exports, bn EUR	-1.2	-1.9	-3.3	-2.8	-4.0	-5.3	-8.2	-11.8	-18.0
External debt, bn EUR	8.8	11.3	13.5	14.1	15.3	18.4	26.1	33.3	47.7

External debt, % GDP	25.9	27.9	30.0	29.0	29.8	30.5	33.0	34.2	37.4
General gov deficit, cash terms, % GDP	-1.8	-4.0	-3.2	-2.5	-2.3	-1.1	-0.8	-0.6	-2.3
General gov deficit, ESA terms, % GDP	-4.4	-4.6	-3.5	-1.9	-1.4	-1.1	-0.8	-2.1	-2.8
Current account deficit, % GDP	-3.7	-3.7	-5.5	-3.3	-6.0	-7.4	-8.7	-10.5	-13.2
Annual average CPI, %	45.8	45.7	34.5	22.5	1.3	11.9	9.0	6.6	4.8

Source: Annual Report of NBR, 1998-2004, NBR, INSSE, IMF Staff Report 2009, Eurostat

The NBR faced a difficult policy trade-off between tightening monetary policy, aimed at resuming disinflation, and preserving external competitiveness, as higher domestic interest rates could exacerbate capital inflows and put further pressure on the appreciation of exchange rate. The liberalisation of capital account followed a gradual, risk-controlled sequence, order consistent with international best practices and requirements for joining EU (Free movement of capital chapter). Long-term capital flows were liberalised first (1997-2000), encouraging foreign direct investments, which were seen as sound and stable source of capital, and also intermediating fostering technology access and job creation. Then, a gradual opening of portfolio flows and external borrowing was allowed in 2001-2003. The riskiest flows of short-term capital and money market instruments were liberalised last, such that the complete capital account liberalisation was reached only in 2026 with Romania adopting the EU principle of free movement of capital.

2.4 The Limits of Pre-Accession Reform and Transition Periods

The short time from the opening of negotiations and accession meant that, of course, not all required reforms could have been completed under each chapter. Hence, Romania negotiated transition periods (extra time after joining the EU), mainly in areas where full compliance was too complicated or technically difficult to achieve before 2007. In Energy, for example, some 3-11 years were requested for the compliance in waste management, water quality, air pollution and industrial emissions. In agriculture, Romania requested a gradual introduction of the EU direct payments to farmers (over 10 years), time needed to modernize farms and food safety. Within Free movement of workers, some EU countries (Germany and Austria) restricted Romania's nationals right to work for a period of 7 years after the country's

EU accession in 2007. In Energy, Romania requested 5 years to liberalise energy prices, modernize infrastructure, and improve environmental standards in energy production. In the Competition chapter, Romania requested transitional arrangements (until around 2009-2011) for restructuring state-owned industries and phasing out state aid.

3. The Accession Moment and the Post-Accession Reversal

The first four years of Romania's membership confirmed that the accession to the EU had, overall, positive effects on the economy (Lungu, 2011). Although the pace of structural reforms had slowed down after the 2007 Accession year, they picked up again after the global financial crisis that erupted in 2008. Households' wealth and purchasing power increased post-Accession, despite the drop observed in the two years following the global financial crisis. Thereafter, Romania's competitiveness improved gradually, but the growth model it pursued – focused on consumption – made it more dependent on external financing and vulnerable to shocks.

3.1 The CVM as a *Sui Generis* Instrument

The Cooperation and Verification Mechanism (CVM), an EU monitoring system, was introduced at accession in 2007 because for Romania (and Bulgaria), the Justice chapter was considered not fully completed. Romania had to ensure independent and efficient judiciary, create and maintain strong anti-corruption institutions, investigate and sanction high level corruption cases. European Commission issued annual reports in which it evaluated the progress and gave recommendations until 2023. It was a compromise solution to not jeopardise the accession in 2007 (three years after the other former planned economies joined the EU) but to keep the pressure for these crucial reforms. The outcome indicators show genuine if uneven progress over the CVM's lifetime. Romania's score on Transparency International's Corruption Perceptions Index improved from the high 30s in the late 2000s to the mid-40s by the early 2020s, and its percentile rank on the World Bank's control-of-corruption and rule-of-law governance indicators rose materially during the years when the anti-corruption agency (DNA) was most active, before stalling after 2017. That the chapter took until 2023 to close reflects precisely this fragility: the Commission needed evidence that the gains were irreversible rather than dependent on a single institution or political cycle, and the 2017–2019 attempts to weaken the judicial framework showed how quickly progress could be put at risk.

3.2 The Post-Accession Moral Hazard Problem - Political Economy Reasserts Itself

The global financial crisis that erupted in 2008 meant for Romania a classic sudden stop of capital inflows and the inability to finance the balance of payments (Table 3). As a result, Romania entered into a two-year, deep recession. In this context, during 2009-2013, Romania negotiated two $24 million Stand-by arrangements with IMF and simultaneously benefited from the EU and other international financial institutions' coordinated support[4]. The deficit of the general government budget exceeded well the 3 % of GDP Maastricht ceiling in 2009, and Romania entered into the Excessive deficit Procedure until 2013. Thus, the monitoring of the macro stabilisation program was dual, that of IMF combined with that of European Commission.

The banking sector has weathered the crisis well, remaining well-capitalized and liquid. Romania was among the few countries in EU where no public funding was necessary to support the banking system during the financial crisis. An important role was played by the agreement signed in March 2009 in Vienna between the National Bank of Romania (NBR) and the parent banks of the main newly established credit institutions with foreign shareholders present in Romania, an agreement supported by the IMF. Within this gentlemen's agreement, which paved the way for similar agreements concluded by other countries in the region, the new banks committed not to reduce their exposure to Romania during the operation of the standby agreement and to increase their capitalization in a proactive manner in accordance with the requirements formulated by the NBR. These commitments were respected, with the capital increases resulting from additional flows from parent banks in 2009 totalling 249.3 million euros, of which 173.2 million euros came from the parent banks that were signatories of the Vienna agreement. Under these conditions, the capitalization, solvency, and liquidity indicators of the banks remained at levels in line with prudential requirements, without the need for financial support from the state. Growth returned in 2010 though at levels less than desired for a dynamic convergence with the EU. (Table 3).

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[4] The 24-months IMF Stand-by arrangement approved in May 2009 was €12.9 billion worth. The Stand-By arrangement was combined with other multilateral financial support to fill the country's 2009-2010 financing gap. The total international financial support package amounted to €19.9 billion (about US$26.4 billion), with the European Union providing €5 billion (or about US6.6 billion), the World Bank €1 billion (or about US$1.3 billion), and the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the International Finance Corporation (IFC) a combined €1 billion (or about US$1.3 billion). Another 24 months precautionary Stand-by arrangement was approved in Mar 2011 in an amount of around € 3.5bn, and was completed with precautionary support from the European Union of €1.4 billion and a loan from the World Bank of €0.4 billion. The total value of external financing from the international financial institutions (IMF, EU and the World Bank) in 2009-2011 amounted to about €30 billion (NBR, 2011), equivalent to about 7.9% of 2025 GDP.

Table 3 Main macroeconomic indicators, 2008-2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP growth, y-o-y	9.3	-5.5	-3.9	4.5	1.9	0.3	4.1	3.2	2.9
GDP, bn EUR	146.6	125.2	128.3	138.5	139.3	142.9	150.5	160.3	167.5
GDP/capita, thou EUR	7.1	6.2	6.3	6.9	6.9	7.2	7.6	8.1	8.5
Exports, bn EUR	38.3	32.6	40.6	48.8	49.8	57.5	62.4	66.3	71.0
Imports, bn EUR	57.4	40.6	49.1	56.9	57.0	58.8	63.1	67.6	72.8
Net exports, bn EUR	-19.1	-8.1	-8.6	-8.1	-7.2	-1.3	-0.6	-1.3	-1.8
External debt, bn EUR	57.8	66.1	74.6	79.7	79.1	80.2	75.9	72.9	72.3
External debt, %GDP	39.4	52.8	58.2	57.5	56.8	56.1	50.4	45.5	43.2
Public debt, % GDP	13.2	23.0	30.2	34.0	37.0	37.6	39.2	37.8	37.3
General gov deficit, cash terms,% GDP	-2.1	-6.5	-5.2	-3.0	-1.1	-2.5	-1.9	-1.4	-1.5
General gov deficit, ESA terms,%GDP	-5.4	-9.5	-7.1	-5.6	-3.8	-2.3	-1,2	-0.5	-2.5
Current account deficit,% GDP	-11.2	-4.3	-4.5	-4.5	-4.3	-0.8	-0.5	-1.2	-2.5
Annual average CPI, %	7.9	5.6	6.1	5.8	3.3	4.0	1.1	-0.6	-1.5

Source: NBR, INSSE, Eurostat.

2014-2017 was a pretty good period of economic performance for Romania after 1989, with robust growth, low inflation, and contained twin deficits. Importantly, it was a period under the twin IMF and EU monitoring under a $24 million precautionary Stand-by agreement

approved in Sep 2013[5]. The main objective of the economic program was boosting potential growth through structural reforms, since deficiencies in key economic areas weighed heavily on economic growth. The aim was to improve the efficiency of the public sector by reducing bureaucratic barriers and increasing the absorption of the EU structural funds to boost capital spending and improve the country's infrastructure. The new program also aimed at deep-rooted reforms in the energy and transport sectors, including pricing reforms, improved regulation, and the restructuring and privatization of energy and transport state-owned enterprises. IMF and EU precautionary support intended to reassure private markets and provide a cushion against future shocks, should they materialize.

Within the EU Macroeconomic Imbalance procedure (MIP)[6] European Commission (2017) assessed Romania's performance as follows: No progress was made in ensuring that the national fiscal framework is implemented, and there was limited progress in strengthening tax compliance and collection. There was some progress in ensuring that legislative initiatives do not undermine legal certainty and do not put at risk financial stability. Substantial progress was made in strengthening the National Employment Agency's services and limited progress was made in minimum wage setting. Some progress was made in tackling early school leaving and increasing the provision of quality education, including for Roma population, while this still needs to deliver results on the ground. No progress was made on equalising the pensionable age for men and women. Some progress was made in curbing informal payments in the healthcare system and there was limited progress in increasing the availability of outpatient care. There was some progress in simplifying administrative procedures for businesses and the public and limited progress in strengthening the independence and transparency of human resources management in the public administration. There was substantial progress in strengthening the corporate governance of state-owned enterprises. Some progress was made in improving access to integrated services in rural areas and fostering economic diversification, and some progress was made with the transport master plan, which was adopted in September 2016. Finally, limited progress was made in prioritising public investment.

[5] The loan, amounting to approximately 2 billion euros, was granted for a period of two years, without the Romanian state utilizing the respective facility.

[6] MIP was adopted in December 2011 as part of a broader package of economic reforms called the Six Pack which strengthened EU economic governance in response to the 2008 Global Financial Crisis and the subsequent Eurozone debt problems. The EU tracks a set of economic indicators for each country, if thresholds are exceeded it signals potential imbalances. For the countries showing risks the EC performs un-debt reviews to assess how severe the imbalances are and issues policy recommendations.

3.3 The Fiscal Trajectory: A Structural Problem Unresolved

Romania's fiscal position is not the product of a single crisis or a temporary shock. It is the cumulative result of structural choices — some inherited from the transition era, others made deliberately during periods of strong growth — that have left the state chronically under-resourced relative to its obligations. Among EU member states, Romania occupies a singular and unenviable position: the lowest tax revenue-to-GDP ratio in the Union, paired with spending commitments that have grown faster than the revenue base designed to fund them. The result is a structural deficit that persists across the business cycle, one that no single consolidation package has yet managed to close.

The Tax Revenue Problem: Europe's Thinnest Fiscal Base

Romania's general government tax revenues have consistently hovered around 27–28% of GDP — roughly ten percentage points below the EU average and five to seven points below regional peers such as Poland, Hungary, or the Czech Republic (see Dăianu *et al.,* 2011). This is not primarily a tax rate problem. Headline VAT and CIT rates are broadly comparable to those elsewhere in Central and Eastern Europe. The gap is driven by tax revenue collection inefficiency, informality, and a narrow tax base riddled with numerous exemptions.

The VAT gap, defined as the difference between theoretical and actual VAT receipts, has historically been among the largest in the EU[7], reflecting both administrative weakness at the National Agency for Fiscal Administration (ANAF), the government's revenue administration, and the sheer scale of the informal economy. More recent efforts at digitisation (e-Invoice, SAF-T, e-Transport) have begun to narrow this gap, but the gains remain incremental against the scale of the structural shortfall. Social contributions, which were reorganised in 2018 to shift the burden nominally onto employees, did not generate additional fiscal space, they simply reshuffled the same inadequate base.

However, the deeper issue is political. Romania has never built a durable consensus for a tax burden commensurate with a modern European welfare state. Every government since accession has promised to keep taxes low while expanding public services and transfers. The arithmetic does not work, and it has never worked. The structural tax revenue gap is the single most important fact in Romanian fiscal policy conundrum.

The Expenditure Ratchet: post 2007

If the tax revenue side reflects chronic under-collection, the expenditure trajectory, especially after 2016, reflects deliberate political choices that dramatically widened the

[7] Over 30%, Mind the Gap report of EU 2025.

structural deficit during what should have been a period of fiscal consolidation and buffer-building. The governments of 2016–2019 implemented a series of large, permanent spending increases. Public sector wages were raised by 20–25% in aggregate terms through successive rounds of the unified pay law, with certain categories such as healthcare, education, public order, seeing increases well above that average. These were not one-off bonuses but permanent increases to the wage bill, a rigid expenditure category that is politically almost impossible to reverse. Simultaneously, Pension Law 127/2019 legislated a 40% increase in the pension point, to be phased in through 2021. The pension system already consumed the largest single share of public expenditure, and the new law if it was implemented in full, would have pushed pension spending above 10% of GDP, a level incompatible with any plausible revenue trajectory. Successive governments have deferred or diluted the full implementation, but the political and legal overhang remains: the law stayed on the books, court challenges have been filed, and pensioner expectations have been set. The fiscal impact was immediate and severe. Romania's headline deficit widened from 0.6% of GDP in 2015 to 4.4% in 2019, just before the pandemic-related shock. The structural deficit, adjusted for the cycle, was already above 4% of GDP by end-2019. Romania entered the COVID crisis with no fiscal buffers, no stabilisation fund, and one of the weakest fiscal positions in the EU.

The Excessive Deficit Procedure and the Consolidation Challenge

Romania has been under the EU's Excessive Deficit Procedure since 2020, one of the longest-running EDP cases in the current cycle. The Excessive Deficit Procedure is the EU's corrective arm for member states whose deficits breach the 3%-of-GDP ceiling: it obliges the government to follow a Commission-agreed adjustment path, exposes it to closer surveillance and, ultimately, to financial sanctions and possible suspension of access to certain EU funds if it fails to comply. Exiting the procedure restores fiscal credibility, lowers borrowing costs, and removes the conditionality overhang on EU transfers — which is why returning to compliance is more than a box-ticking exercise. The European Commission's successive recommendations have called for structural adjustment of the fiscal balance by approximately 0.7–0.9 percentage points of GDP per year. Although this pace was technically feasible, it has never been sustained by any Romanian government for more than a single budget cycle.

The fiscal consolidation efforts since 2021 have been real, but insufficient. The governments introduced a set of significant revenue measures, i.e., increasing excises and dividend taxes, normalizing the construction sector tax, introducing a minimum turnover taxes for large firms, and tightening of micro-enterprise threshold. These measures have resulted in an increase in revenue-to-GDP ratio by roughly 1–1.5 percentage points of GDP over the period

2021-25. But these have been partially offset by continued spending pressures: energy price cap subsidies of 2022–2023, election-year pension increases, and the persistent growth of the public sector wage bill. In 2024 the fiscal deficit climbed to a stunning level of 8.7% of GDP (9.3% of GDP in ESA terms), the highest in the EU.

The fiscal consolidation path agreed with the Commission under the new EU economic governance framework requires Romania to bring the deficit below 3% of GDP by 2031, with annual structural adjustment milestones. Crucially, the challenge is *not* technical. Both the Commission and the IMF have outlined adjustment paths. The challenge involves political commitment and responsibility. Every consolidation measure has an organized and powerful constituency that opposes it, and Romania's fragmented coalition politics makes sustained, multi-year fiscal discipline exceptionally difficult. The track record is a warning: every previous consolidation episode (2010–2012 and 2015–2016) was followed by a reversal.

Debt Sustainability: A Narrowing Corridor

Romania's public debt, at close to 60% of GDP in 2025, does not constitute a crisis, yet. It remains around the 60% of the GDP and within the Maastricht threshold, which is also below the levels in Southern EU member states. But this static picture obscures a more concerning dynamic.

First, the trajectory is steep and worrisome. Public debt-to-GDP ratio has roughly quadrupled between 2008 and 2025 and has been rising continuously since 2019. Under baseline assumptions, primary deficits of 2–3% of GDP, nominal GDP growth of 6–7%, and average borrowing costs in the 5–6% range, debt continues to rise through the projection horizon, remaining on a non-sustainable path. The debt-stabilising primary balance is positive and non-trivial, meaning Romania needs to run a primary surplus to stop debt from growing as a share of GDP. It has not run a primary surplus in over a decade.

Second, the interest rate–growth rate differential (r–g), which is driving debt dynamics, has turned less favourable. During the era of low interest rates of 2015–2021, Romania benefited from a strongly negative r–g, meaning that it could run moderate primary deficits without debt accumulation. That window has closed. NBR's policy rate, while expected to ease from its 2023–2024 peak, will not return to the near-zero levels of the previous cycle. As a result, Romanian sovereign yields currently carry a significant spread over the German bunds, which reflect both fiscal risk and the country's sovereign rating, which all three major agencies hold at the lowest investment-grade notch with a negative outlook (S&P and Fitch at BBB-, Moody's at Baa3). Moreover, the average cost of the debt stock is repricing upward as older, cheaper issuances mature.

Third, the composition of financing has shifted. Romania has become increasingly dependent on Eurobond issuance, which introduces the risk of currency mismatch (in March 2026, 48% of public debt was in foreign currency denominated, 10% in USD and 38% in EUR). While the peg-like stability of the RON against the euro mitigates this risk in normal times, it creates a feedback loop under stress: any significant depreciation would mechanically increase the debt ratio, tighten financial conditions, and potentially trigger rating downgrades which, in turn, would raise borrowing costs.

The resulting picture is not one of imminent crisis, but of a narrowing corridor of policy options. Each year of delayed consolidation raises the eventual adjustment required. Each external shock, be it an oil price spike, a slowdown in the EU funds absorption, or a deterioration in the global risk environment uses up the remaining fiscal space. Romania is not Greece in 2010, but nor is it Poland[8] or the Czech Republic, countries that used the post-accession growth period to rebuild fiscal buffers and fiscal resilience that Romania chose not to.

The key question is whether Romania can execute a credible, sustained, medium-term fiscal adjustment over the next five years — in a political environment that has never delivered one. And what would it take.

Joining the euro area, which gets more of a geopolitical salience nowadays, asks for low deficits, which should ensure debt sustainability.

Table 4 Main macroeconomic indicators, 2017-2025

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real GDP growth, y-o-y	8.2	5.4	4.0	-3.6	5.6	4.2	2.3	0.9	0.7
GDP, bn EUR	186.4	204.8	223.3	219.8	241.0	280.8	321.6	353.7	378.9
GDP/capita, thou EUR	9.5	10.5	11.5	11.4	12.6	14.7	16.9	18.6	19.9
Exports, bn EUR	78.9	85.6	90.1	81.3	98.1	122.2	126.2	125.9	134.3
Imports, bn EUR	83.5	92.8	99.6	91.0	111.8	141.6	141.9	147.2	154.6
Net exports, bn EUR	-4.6	-7.2	-9.5	-9.7	-13.7	-19.4	-15.7	-21.2	-20.2

[8] Poland is likely to run a fiscal deficit of 7% of GDP in 2026 as defense expenditure amounts to almost 5% of GDP. However, Poland has a negligible current account imbalance.

External debt, bn EUR	73.8	73.8	77.5	95.4	101.5	110.0	135.6	154.0	176.2
External debt, %GDP	39.6	36.0	34.7	43.4	42.1	39.2	42.2	43.5	46.5
Public debt, % GDP	35.1	34.5	35.1	46.7	48.5	47.5	48.8	54.8	57.0
General gov deficit, cash terms,% GDP	-2.8	-2.8	-4.5	-9.5	-6.7	-5.8	-5.6	-8.7	-7.6
General gov deficit, ESA terms, % GDP	-2.5	-2.8	-4.4	-9.3	-7.2	-6.5	-6.6	-9.3	-7.9
Current account deficit,% GDP	-3.2	-4.6	-4.9	-5.1	-7.2	-9.6	-6.7	-8.2	-8.0
Annual average CPI, %	1.3	4.6	3.8	2.6	5.0	13.7	10.5	5.6	7.3

Source: NBR, INSSE, Eurostat

4. Sectoral Deep-Dives: Where Reform Succeeded and Where It Stalled

4.1 Energy: A Strategic Asset Underleveraged

Romania possesses what should be, by any rational accounting, one of the strongest energy positions in the European Union. It is one of only a handful of member states with a genuinely diversified generation mix: nuclear, hydro, gas, coal, wind, and a rapidly growing solar fleet, and one of the very few with meaningful domestic hydrocarbon production. It has Black Sea gas reserves estimated at 100 billion cubic metres[9]. It operates two CANadian Deuterium Uranium (CANDU) reactors at Cernavodă that provide roughly 20% of the national electricity output with near-zero marginal carbon cost (IEA, 2023). Its hydroelectric fleet, consolidated under Hidroelectrica, constitutes 6.3 GW of installed capacity across 182 plants, a baseload-capable, dispatchable renewable asset of a kind that most EU member states would regard as a strategic treasure[10].

And yet, for all this endowment, Romania has consistently failed to translate resource wealth into either energy security or competitive pricing for its industrial base. The story of the

[9] OMV Petrom, 2023 FID Presentation.
[10] Hidroelectrica IPO Prospectus, June 2023.

Romanian energy policy, before and after EU accession, is a story of institutional incapacity layered over structural advantage.

Neptun Deep: A Decade of Institutional Failure

The saga of Neptun Deep is the single most instructive case study in Romania's inability to convert natural resource endowment into economic value. The concession agreement for the Neptun Deep block was signed in 2000. Exploration began in 2008 when OMV Petrom and ExxonMobil formed their joint venture. A second drilling campaign in 2014–2015 discovered the Pelican South field. By 2016, the partners had invested over €1.5 billion in exploration and appraisal activities, confirming recoverable reserves of approximately 100 bcm — enough to cover Romania's entire domestic gas consumption for roughly a decade! At that point, the project should have moved rapidly toward a final investment decision (FID). What followed instead was seven years of legislative uncertainty, regulatory instability, and political interference that delayed FID until June 2023, a full eleven years after discovery. The Offshore Law (Law 256/2018) was drafted, amended, contested, and rewritten multiple times. Its original provisions included a punitive windfall tax regime, mandatory domestic sales quotas (initially 50%, later reduced to 40%), local content requirements, and a fine of 10% of annual turnover for non-compliance with trading restrictions[11]. These provisions were layered on top of the cap on domestically produced natural gas imposed by Emergency Ordinance OUG 114/2018, creating a fiscal and regulatory environment in which the expected return on a €4 billion deep-water development was simply insufficient to justify the risk.

The amended Offshore Law, finally passed in May 2022 under the pressure of the Ukraine war and Europe's acute gas supply crisis, removed the most onerous provisions: the price threshold for windfall taxation was nearly doubled, the investment deduction cap was eliminated, the mandatory domestic sales quota was removed, and a fiscal stability clause was introduced, guaranteeing that the royalty and tax regime would not change for the duration of the petroleum agreements[12]. The FID followed thirteen months later with first gas expected in 2027.

The Oxford Institute for Energy Studies, in its assessment of the FID, noted diplomatically that "Romania's record on legislative and regulatory stability is not good", a judgement that would find little disagreement among anyone who has attempted to deploy capital in the sector (Oxford Institute for Energy Studies, 2023).

[11] Energy Industry Review, May 2022; Volciuc-Ionescu, Energy: Oil & Gas in Romania, 2023
[12] Energy Industry Review, May 2022.

Closing that gap requires not necessarily more resources – although these are needed as well, but more institutional capacity, more regulatory stability, and a political class willing to treat energy policy as a long-term strategic commitment rather than a source of short-term rents and populist gestures.

4.2 The IT Sector: Organic Success Outside the Reform Framework

In 2001, Romania introduced income tax exemption for IT employees as a measure to grow the tech sector and keep skilled workers in the country. Since then, the sector developed continuously. The share of value added created in Computer programming, consultancy, and information service activities increased from 1.1% in 2001 to 5.6% in 2024, lower than in Bulgaria (6.1%), but higher than in Czech Republic (4.6%), Hungary (3.4%), and Poland (3,3%). The employment in the sector, however, grew slower, from 0.2% in 2002 to 1.2% in 2023, less than half the share in the countries in the region (2.9% in Bulgaria, 2.5% in Czech Republic and Hungary, and 2.7% in Poland). The low level of digitisation in the rest of the economy is a drag on the sector's development.

However, *Romania's information technology sector is the closest thing the country has to a post-accession success*. An industry that barely existed in 2000 had reached €20 billion in turnover by 2022, contributing approximately 7% of GDP directly and an estimated 14.2% when indirect and induced effects are included[13]! ICT service exports reached $11 billion in 2024 (World Bank, Development Indicators). Romania has roughly 200,000 software developers, ranking sixth globally in certified IT specialists per capita, ahead of the United States and Russia (N-iX, Software Development in Romania, 2024). The sector is the highest-paying in the Romanian economy. It has produced genuine globally competitive firms: UiPath, which at its 2021 IPO peak was valued at over $35 billion, remains the most valuable enterprise software company to emerge from Central and Eastern Europe; Bitdefender is a top-tier global cybersecurity firm; and a dense ecosystem of mid-sized outsourcing and product companies has taken root in Bucharest, Cluj-Napoca, Iași, and Timișoara.

None of this was the product of a national industrial strategy. It was the product of three factors, namely: a communist-era legacy of strong education in sciences, a single well-designed tax intervention, and the gravitational pull of foreign demand. They interacted in a policy environment that did not actively undermine the conditions for private sector growth. The

[13] ANIS, Software and ICT Services in Romania, 2024.

starting point was human capital. Romania's communist-era education system produced a large number of engineers, mathematicians, and computer scientists. This was an inheritance, not a policy choice. The 2001 initiative of tax exemption was a policy that worked. The exemption eliminated the personal income tax (then a progressive system with a top marginal rate of 40%) for programmers holding eligible bachelor's degrees and working for firms classified under software development NACE codes. The policy was, by the standards of Romanian governance, unusual in almost every respect. It was targeted — applying only to qualified programmers in certified firms, not to an entire sector, simple, a straightforward salary tax exemption, administratively easy to implement and monitor. It remained in effect, with expansions, for over two decades.

The tax exemption was necessary, but not sufficient to effect transformational change. What transformed the Romanian IT sector from a pool of retained talent into a globally competitive industry was the demand side: the massive wave of IT outsourcing and offshoring from Western Europe and the United States that accelerated through the 2000s and intensified after the 2008 financial crisis. The accession to the EU has facilitated this remarkable change. The share of IT services in total exported services increased from 15% in 2010 to 26% in 2025. Out of the whole surplus of the trade balance with services 57% was generated by the IT services in 2025 up from 27% in 2010. The major international technology companies such as Microsoft, Oracle, Amazon, Google, Adobe, IBM, and Accenture all established significant engineering and development centres in Romania, initially for cost-arbitrage outsourcing, but increasingly for genuinely high-value product development work. By 2015, the labour productivity of Romania's IT and information services sector, measured as value added per hour worked in purchasing power parity terms, was the third-highest in the EU, behind only Ireland and Luxembourg (van der Marel *et al.*, 2020, cited in Manelici and Pantea, 2021). This is a remarkable statistic. It means that Romanian IT workers were not merely cheap in international terms — they were, by output metrics, among the most productive in Europe.

EU accession in 2007 was clearly an accelerant. It provided the stable and favourable legal framework, including the freedom of services, mutual recognition, General Data Protection Regulation (GDPR) alignment, that made it straightforward for EU clients to contract Romanian IT firms without the regulatory friction that applies to offshore providers

outside the Single Market. The accession effect was real, but it amplified an existing trajectory rather than creating one[14].

What the IT Story Teaches about the Role of the State and Policy Credibility

The Romanian IT sector's trajectory offers three lessons that extend well beyond the technology industry. The first is about the role of the state. The IT sector did *not* need an industrial strategy, a state-owned champion, a national development bank, or a master plan. It needed one well-designed, surgically targeted, sustained incentive that mattered, i.e., the tax exemption, and then it needed the state to not interfere. The second lesson is about what the state failed to build. The IT sector succeeded *despite* chronic underinvestment in the public goods that should underpin a knowledge economy: education funding, research infrastructure, broadband in rural areas, the quality of public universities. Romania ranks near the bottom of the EU on the Digital Economy and Society Index (DESI). Public spending on education hovers around 3.2% of GDP, well below the EU average. The IT sector compensated for these deficiencies by operating largely outside the public system, training workers on the job, building private infrastructure, plugging into global knowledge networks rather than domestic ones. The third lesson is about policy credibility. The IT exemption worked in part because it was sustained for over two decades, allowing firms and workers to make long-term decisions based on a stable and credible incentive structure.

4.3 Public Administration and Absorption Capacity Deficit

Romania has consistently drawn down less than its planned allocation from the EU resources. At the roots of this failure are the human capital deficit in the civil service, the politicization of public appointments, and the gap between national strategies and implementation capacity (OECD survey).

Structural Cohesion funds and National Recovery and Resilience Funds

Romania has been allocated €87-88bn from European Regional Development Fund, European Social Fund and Cohesion Fund since joining EU (€19.2bn in 2007-2013, €24bn in 2014-2020, and €44-45bn in 2021-2027) For the period 2021-2026 another €29bn was allocated for National Recovery and Resilience plan. The absorption process was characterised each time by a very slow start and acceleration in the last years. Agricultural funds form a partial exception to this record. Across the 2007–2013, 2014–2020, and 2021–2027 envelopes, direct payments

[14] In January 2025, the Romanian government abolished the IT income tax exemption as part of a broader fiscal consolidation package.

under the European Agricultural Guarantee Fund (EAGF) have been absorbed almost in full, and rural-development funding under the European Agricultural Fund for Rural Development (EAFRD) at rates of roughly 85–95% — markedly better than the cohesion record, largely because direct payments are formula-based and require little project-level administrative capacity.

Romania has been, across every programming period since accession, among the worst performers in the Union at drawing down the money it has been allocated. The absorption problem has been less a technical malfunction and more a symptom of a deeper structural failure: the chronic weakness of Romania's public administration, the politicisation of its civil service, and the persistent gap between the strategies the state produces and its ability to implement them. More details are discussed in Lungu, 2013.

For the current 2021–2027 cohesion policy cycle, Romania has been allocated approximately €31 billion. By mid-2025, however, actual absorption stood at approximately €5.3 billion, representing a 17% rate. The National Recovery and Resilience Plan (PNRR), a separate instrument, was originally valued at €29.2 billion (grants and loans), subsequently revised downward to €21.4 billion after negotiations that eliminated investments at risk of non-implementation. By end-2025, Romania had received €10.77 billion from the PNRR, but roughly half of the entire revised budget, with almost €10 billion planned to be absorbed by the August 2026 deadline, with a disproportionate large number of milestones and targets still outstanding. A NBR working paper estimated that the PNRR contributed a cumulative 1.2 percentage points to GDP during 2022–2024[15], and could add a further percentage point in 2026 if fully absorbed — a strong assumption that the authors themselves flagged.

The pattern is the same: Romania's use of the EU funds consistently starts late, absorbs slowly, extends deadlines, retroactively reclassifies expenditures, and ultimately draws down less than its allocation. Effectiveness, moreover, is a separate question from absorption: even where funds were drawn down, a significant share went to fragmented, low-value projects — basic municipal works retroactively reclassified as eligible, or investments selected for absorbability rather than economic return — so that the growth and productivity impact of the money spent fell well short of what the headline allocations implied. The absorption deficit is, at its core, a public administration deficit. EU funds management requires a specific set of institutional capabilities: the capacity to design programmes that align national priorities with EU eligibility criteria; to prepare, evaluate, and approve project applications at scale; to manage

[15] Anghelescu et.al (2025)

procurement in compliance with EU directives; to monitor implementation and verify expenditures; to handle audit requirements and respond to Commission queries; and to do all of this with continuity across political cycles. Romania's public administration has been consistently weak across every one of these dimensions.

The human capital problem is foundational. Romania's civil service has historically offered salaries that are uncompetitive with the private sector for the skilled professionals such as project managers, procurement specialists, financial controllers, engineers, that EU funds management requires. This connects to the deeper structural problem: politicisation, civil service in Romania continues to be intensely politicised. The consequence for EU funds absorption is direct, each change of government brings a reshuffle of senior and mid-level officials in ministries and managing authorities.

Romania does not lack strategies. It has produced, across successive governments, national development strategies, sectoral strategies, digitalisation strategies, public administration modernisation strategies, and anti-corruption strategies. However, it is the implementation stage that lacks force. The gap between what Romania commits to on paper and what its administrative machinery can deliver on the ground is the defining feature of the country's relationship with EU institutions.

The absorption problem also has a geographical dimension that compounds regional inequality rather than correcting it. Romania's more developed regions, Bucharest-Ilfov and the western counties with stronger administrative traditions and denser networks of consultancies, universities, and NGOs capable of preparing competitive applications, tend to absorb disproportionately more than the poorer southern and eastern regions where the development need is greatest. EU cohesion policy is designed to reduce territorial disparities. In Romania, the administrative capacity gap between regions means that the funds intended to reduce inequality are partially captured by the places that need them least.

What the Absorption Capacity Reveals about State Capacity

Romania's chronic underperformance in EU funds absorption is not, ultimately, about EU funds. It is more about state capacity, i.e., the ability of the public administration to plan, execute, and sustain complex projects across political cycles. The same institutional weaknesses that produce low absorption rates also produce delayed infrastructure projects, inefficient public procurement, poor-quality public services, and the implementation gaps that plague every sector from healthcare to transport to environmental protection.

The EU funds problem merely makes the state capacity deficit visible and quantifiable in a way that other governance failures do not. The lesson for the broader accession and post-

accession reform agenda is sobering. The EU can provide money, conditionality, technical assistance, and monitoring frameworks. What it cannot provide, and what Romania has consistently failed to build for itself, is a *professional, depoliticised, technically capable civil service with the institutional continuity to manage complex programmes across electoral cycles*. Until that foundational problem is addressed, every other reform commitment, namely fiscal consolidation, judicial independence, energy transition, digital transformation would likely run into the same implementation bottleneck. In practice Romania's challenge is not a shortage of strategies or resources but rather a shortage of the state capacity needed to turn the first into the second.

4.4 Judicial Reform and the Rule of Law

The judicial reform and the fight against corruption have been two domains of Romania's post-accession reform agenda that were most politically contested and internationally scrutinised, revealing some of the limits of external conditionality. For sixteen years, from accession in January 2007 to the formal closure of the Cooperation and Verification Mechanism (CVM) in September 2023, Romania operated under a unique monitoring regime that had no precedent in EU enlargement history and that, by the time it ended, had generated more questions about the efficacy of external oversight than it answered.

The CVM was established precisely because Romania's judiciary was, at the moment of accession, not ready. The European Commission's own assessment acknowledged as much: Romania joined the EU with benchmarks still unmet in judicial independence, institutional transparency, and anti-corruption capacity[16]. The mechanism was designed as a "transitional measure" — a phrase that implied a short bridge between accession and compliance. It became instead a sixteen-year saga that tracked not a linear path of reform but a cycle of advance, backlash, and partial recovery that exposed the fundamental tension between EU-level rule-of-law architecture and expectations and domestically rooted patterns of institutional capture.

The centrepiece of Romania's anti-corruption architecture was the National Anti-Corruption Directorate (DNA), established in 2002 and given expanded powers in 2005 as part of the pre-accession reform package. The DNA became one of the most aggressive anti-corruption prosecution services in Europe, with hundreds of indictments annually, including sitting and former prime ministers, cabinet ministers, members of parliament, mayors, judges, and senior business figures.

[16] European Commission, CVM Decision 2006/928/EC.

The DNA's effectiveness created its own political antibodies. As a consequence, between 2017 and 2019, this triggered one of the most sustained assaults on judicial independence in any EU member state since Hungary's constitutional transformation under Viktor Orbán and, unlike Hungary's methodical legal engineering, Romania's counter-reforms were carried out through a chaotic mix of emergency ordinances, late-night legislative sessions, and institutional sabotage.

The European Commission's response escalated in parallel. The November 2018 CVM report added eight new recommendations on top of the twelve issued in January 2017, explicitly citing the backsliding of the 2017–2019 period. In May 2019, the Commission publicly stated that Romania was approaching the threshold for Article 7 proceedings, which is the EU's most severe sanction for rule-of-law violations (Council of Europe Anti-Corruption Digest). The Venice Commission issued multiple opinions criticising the justice law amendments. The European Parliament passed resolutions expressing concern.

None of this prevented the counter-reforms from being adopted. The CVM had no enforcement mechanism. It could name, shame, and recommend but it could not compel.

The cycle broke not because external monitoring succeeded, but because domestic politics intervened.

The Romanian judicial reform saga offers three lessons for the broader question of how the EU promotes the rule of law in its member states.

The first is that external monitoring can catalyse reform but cannot substitute for domestic political will. The CVM provided a framework and a set of benchmarks that gave Romanian reformers — particularly within the judiciary and civil society — a reference point and a source of legitimacy. Without the CVM, the DNA's work would have lacked the international scaffolding that made it politically survivable for as long as it lasted. But when a determined domestic majority chose to dismantle anti-corruption infrastructure, the CVM had no tools to prevent it. The mechanism's power was persuasive, not coercive, and persuasion fails when the audience has no incentive to be persuaded.

The second lesson is about the limits of formal compliance. Romania met all CVM benchmarks. The laws were amended. The institutions were restructured. The boxes were checked. But formal compliance and substantive change are not the same thing. A judiciary can have the right laws on paper and the wrong culture in practice. The CVM, by its design, measured legal and institutional outputs, i.e. legislation passed, agencies established, procedures adopted, rather than outcomes: whether corruption was actually decreasing, whether citizens experienced the justice system as fair, whether political influence over judicial

decisions was genuinely diminishing. The gap between those two measurements is where Romania's rule-of-law problem lives. But this gap is not simply a Romanian phenomenon; reforms meet stiff resistance, networks of vested interests.

The third lesson is the most uncomfortable for the EU itself. The Commission's decision not to use the CVM mechanism for future accession candidates, opting instead to require that new members meet all rule-of-law standards before accession rather than after, is an implicit admission that the Romanian (and Bulgarian) experiment failed on its own terms. The CVM was supposed to demonstrate that post-accession monitoring could ensure convergence. What it demonstrated instead is that once accession leverage is spent, the EU's capacity to drive domestic institutional reform narrows dramatically. The Article 7 threat was invoked discursively but never formally triggered. The Schengen accession delay — Romania's partial admission came only in 2024, seventeen years after EU accession — served as a de facto sanction but was not formally linked to CVM compliance. The result was a monitoring regime that lasted long enough to become normalised, but never became powerful enough to be decisive.

5. The Macro-Structural Trap: Growth Without Convergence Quality

Romania's post-accession economic trajectory is, by the headline numbers, one of the most impressive convergence stories in the European Union. GDP per capita in purchasing power standards rose from approximately 26% of the EU average in 2000 to 41% at the time of accession in 2007, and reached 78% by 2024 — a pace of convergence exceeded among the 2004–2007 accession cohort only by the Baltic states and, from a higher starting point, Poland. However, there are large regional disparities. The Bucharest-Ilfov region, measured separately, reached 187.7% of the EU average in 2024, above Budapest and Vienna. At NUT2 levels the GDP per capita in current prices varied between 2.4 times and 0.6 times the national average GDP per capita in 2024. The regional disparities are persistent. Nevertheless, overall, all these are real gains. They represent a tripling of living standards in purchasing power terms within a single generation. But the convergence narrative, taken at face value, obscures as much as it reveals because the growth model that produced these numbers has structural characteristics that are increasingly difficult to sustain.

Consumption-Led, Remittance-Supported: The Growth Model

Romania's convergence has been driven overwhelmingly by private consumption. The pattern is visible across the entire post-accession period but became particularly pronounced after 2016, when demand was deliberately stimulated through large public wage and pension increases. Private consumption growth consistently outpaced GDP growth, and the gap widened during every expansionary phase.

This consumption orientation has been supported — and partially enabled — by one of the EU's largest diaspora remittance flows. Romania had, by 2024, one of the highest shares of emigrants among EU member states: approximately 4.6 million people, or 24% of the population, living abroad. Remittances have historically averaged approximately 3% of GDP, peaking at 4.5% in 2008 before declining to around 2.5% in 2024. Between 2004 and 2016, the average annual remittance inflow was approximately €3.5 billion[17]. These flows, overwhelmingly from within Europe, with 70% originating from EU member states by 2024, have supported household consumption, reduced poverty, and narrowed rural-urban income inequality, but they have also embedded a dependency on labour export as a development model.

The demographic cost of this model is now becoming binding. Romania's resident population fell below 19 million in January 2025, down from approximately 22.4 million in 2002. The working-age population stood at 8.3 million in 2024, a figure that is declining structurally and that no plausible immigration policy can fully offset. Romania has become a country that imports low-skilled labour from South and Southeast Asia (work permit quotas reached 130,000 applications in 2024) while exporting its own skilled and semi-skilled workers to Western Europe. This is a labour market equilibrium that is functional in the short term but corrosive over the medium term.

The Twin Deficit: Symptom, Not Cause

Romania's twin deficit, the simultaneous presence of large fiscal and current account deficits, is the most visible macroeconomic expression of the consumption-led growth model's structural imbalance. The relationship between the two deficits is not coincidental. It is important to understand the twin deficit as a symptom rather than a cause. The underlying driver is a growth model in which domestic demand which has been fuelled by fiscal expansion, wage growth, and remittances, persistently exceeds domestic productive capacity, with the excess

[17] World Bank, Romania Systematic Country Diagnostic, Migration Background Note, 2018.

demand leaking into imports. A country that consumed less and invested more would, mechanically, run a smaller current account deficit.

The Fiscal Council of Romania has examined the twin deficit relationship formally, noting that the Ricardian equivalence hypothesis, under which private agents would offset fiscal expansion through increased saving, is "heroic" in the Romanian context, and that in practice the fiscal deficit and the current account deficit are "more or less twins" [18].

The Infrastructure Gap: A Binding Constraint

If the twin deficit reveals what Romania has been spending on (consumption), the infrastructure gap reveals what it has not been spending on (investment). Romania's public investment component, despite rising in recent years, has been partly driven by EU funds. For instance, the motorway network had roughly 113 kilometres of motorway at the end of the 1990s and around 1,050 kilometres by 2024 — a real expansion, but one that still leaves it with the least developed motorway network of any large EU member state relative to its territory, well behind comparators such as Poland, which started from a similar position and now has far denser road and expressway coverage.

The infrastructure deficit extends well beyond roads. Rail infrastructure has, in fact, deteriorated since accession — average commercial speeds on Romanian railways are among the lowest in the EU, and the rail freight modal share has declined as the network has aged. Water and wastewater infrastructure in rural areas remains far below EU standards. Broadband penetration, while strong in urban areas (Romania has some of the fastest and cheapest internet in the EU, thanks to early private investment), drops sharply in rural counties. Healthcare infrastructure — hospital beds per capita, diagnostic equipment availability, emergency response capacity — lags well behind the EU average.

Each of these gaps represents a constraint on potential output. A country cannot sustainably grow faster than the rate permitted by its infrastructure, its human capital, and its institutional capacity to allocate resources efficiently. Romania's headline convergence numbers — the rise from 26% to 78% of the EU average — have been achieved partly by exploiting slack (surplus labour, underutilised capacity inherited from the communist era), and partly by channelling growth through consumption rather than through the investment in productive capacity that would sustain convergence over the longer term.

[18] Fiscal Council of Romania, "The Twin Deficit Syndrome — The Case of Romania", 2025.

Running Out of Runway

The convergence model that Romania has followed since 2000, consumption-driven demand growth, supported by remittances, FDI in manufacturing and services, a wage-cost advantage, and EU transfer payments, has been effective, but is now encountering its structural limits from multiple directions simultaneously.

The demographic dividend has reversed. Romania's working-age population is shrinking, emigration continues, and the wage-cost advantage that attracted FDI and outsourcing contracts is eroding as nominal wages converge toward regional peers. Romania's low-wage, low-tax competitive model is unsustainable as income levels rise. A country at 78% of the EU average cannot offer the same cost proposition as one at 40%. Moreover, the country has to deal with a low labour market participation. Romania consistently ranks among the top positions in the negative ranking, alongside Mediterranean countries with traditional family models in terms of employment rate. There is an employment gap of 18 percentage points which constitutes a central vulnerability[19]. This gap generates an estimated economic cost of 1.6% of GDP, consisting of uncollected wage income, unpaid social contributions, and budgetary costs for supporting inactive people. Romania also has the highest NEET (young not in education, work or training) rate in EU, which jeopardize the growth potential.

The fiscal space has (almost) been exhausted and there is also the large shadow economy element, which needs to be dealt with. According to Schneider and Asllani (2022) Romania's shadow economy is among the highest in the EU despite trending down from 33.6% of GDP in 2003 to around 29% during the Covid crisis (Fig. 1). The decline reflects successive tax and labour-market reforms and large-scale emigration, while the principal drivers, unusually for the EU, are high self-employment together with indirect taxes, low tax morale and unemployment (Fig. 2).

[19] This gap generates an estimated economic cost of 1.6% of GDP, consisting of uncollected wage income, unpaid social contributions, and budgetary costs for supporting inactive people. Romania also has the highest NEET (young not in education, work or training) rate in EU, which jeopardize the growth potential

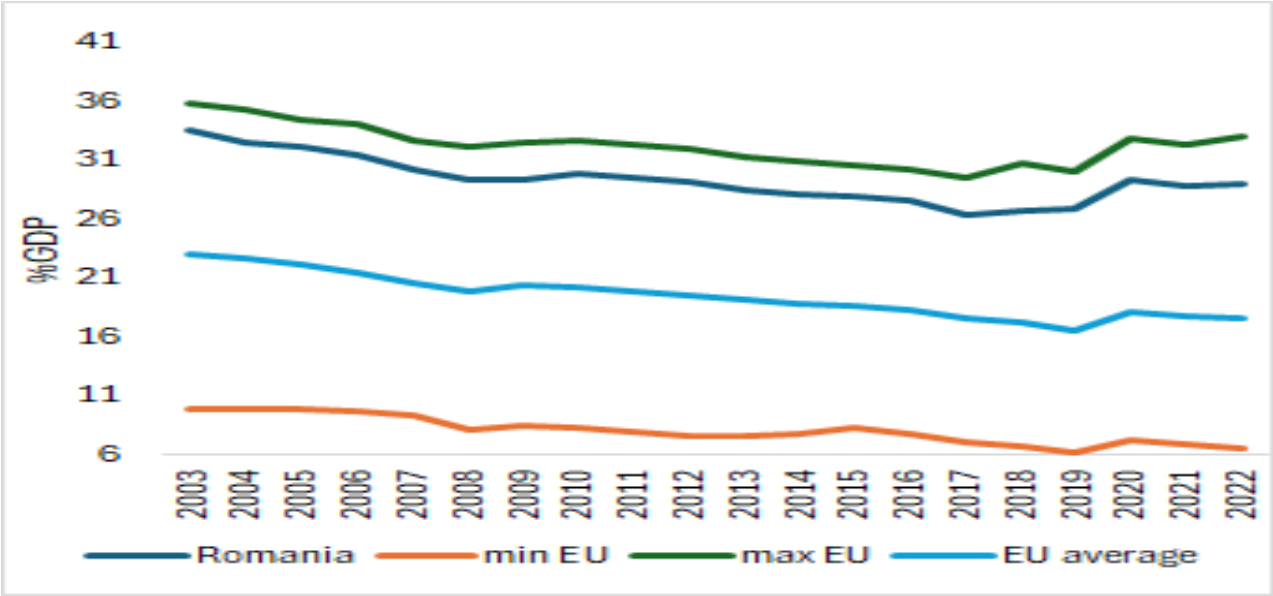


Figure 1 The shadow economy Romania vs. EU

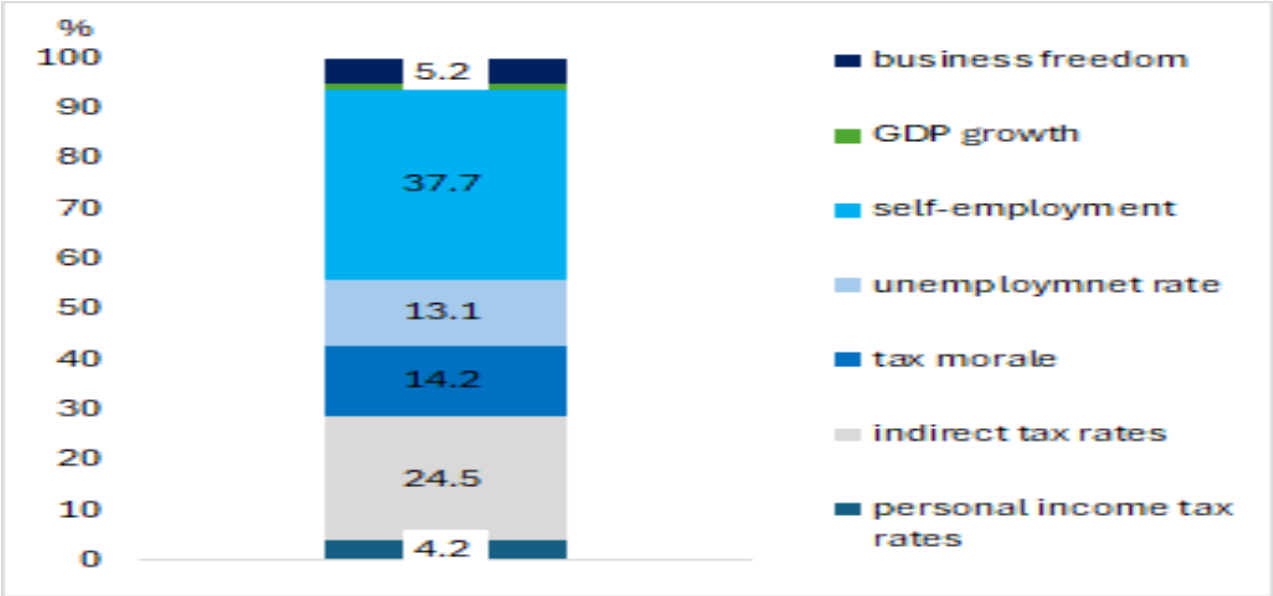


Figure 2 Average relative impact of shadow economy determinants in Romania, 1999-2017

Source: Schneider, Friedrich and Alban Asllani, 2022.

Taxation of the Informal Economy in the EU, European Parliament, Brussels Fiscal consolidation has been taking place during a difficult period and rising defence expenditure complicates the whole process. At the same time, there is an imperative of higher tax revenues. The large shadow economy must be brought into the light.

The external environment has tightened. Higher global interest rates have increased the cost of financing Romania's twin deficits. The NBR's managed float of the leu, which has

provided exchange rate stability faces increasing pressure as the current account deficit persists at 7–8% of GDP. S&P revised Romania's outlook to negative; Fitch maintains a BBB- rating with negative outlook. A downgrade to non-investment grade — not the baseline scenario, but no longer implausible unless fiscal consolidation continues — would trigger forced selling by institutional investors, sharply raising borrowing costs.

And the investment gap remains unaddressed. The PNRR and cohesion funds represent a significant opportunity — potentially €50 billion in combined EU funding over the current cycle — but Romania's absorption capacity, as documented elsewhere in this analysis, remains structurally weak.

The fundamental challenge is that Romania's convergence to date has been real in income terms but incomplete in structural terms. A country can raise consumption levels toward the EU average through wage growth, fiscal transfers, and remittances — and Romania has done exactly that. But sustainable convergence — the kind that closes the gap permanently and builds resilience against shocks — requires a parallel convergence in productive capacity: infrastructure, institutions, human capital, innovation systems, and the state capacity to maintain a stable, predictable policy environment that allows long-term investment decisions to be made. The debt dynamics sharpen the point. Romania entered the post-accession period with public debt below 15% of GDP, a genuine advantage; by 2025 it had risen towards 55%, still under the Maastricht ceiling but on a fast-rising trajectory driven by persistent primary deficits and rising interest costs. With the lowest revenue-to-GDP ratio in the Union and borrowing costs that climb with every step towards a sub-investment-grade rating, the arithmetic is unforgiving: debt that looks moderate today can compound quickly once growth slows and the interest-growth differential turns adverse.

6. Extracting Lessons for Candidate States. Romania as Mirror and Warning

Romania is, in many respects, a remarkable convergence success. But it is also a story of incomplete institutional transformation, where the gap between formal compliance and deep reform – and results -- remains the central challenge nearly two decades after accession. For today's candidate states, especially the current frontrunner, Montenegro, Romania offers a most revealing possible mirror: this is what accession actually may look like, in the context of weak institutional and state and absorptive capacity and headwinds from politics and capture--with

all its gains, costs, and unfinished business. Below there are several lessons that may be useful for future EU accession countries.

6.1 The Western Balkans, Republic of Moldova, and Ukraine: What's Similar, What's Different

There are elements from Romania's accession story from which the next generation of candidate countries could learn. However, it is worth noticing that, nowadays, these countries operate in a fundamentally different geopolitical environment. The Western Balkans — Montenegro, Albania, Serbia, North Macedonia, Bosnia and Herzegovina, and Kosovo — have been in various stages of the accession process for over a decade, some for nearly two. Republic of Moldova and Ukraine received candidate status in June 2022[20], in the immediate wake of Russia's full-scale invasion of Ukraine, in a decision that was explicitly geopolitical rather than a reward for reforms. The question of what Romania's experience can teach these countries is inseparable from the question of whether the conditions under which they are joining are comparable at all. The picture across these candidates is fluid and could look materially different within a year, so the observations below are necessarily provisional. At present, Montenegro stands as the clear frontrunner: a small economy whose accession would barely register against the Union's absorption capacity, and the country furthest advanced in opening and closing negotiating chapters. Importantly, the process formally remains governed by the "Regatta" principle, under which each candidate advances on its own merits rather than as part of a bloc, even as various package arrangements are debated in parallel.

The most important difference between Romania's accession and the current enlargement wave is the driving logic. Romania joined the EU in 2007 under a framework in which enlargement was understood primarily as a normative project — the extension of the EU's legal order, democratic standards, and market economy principles to post-communist states that had demonstrated sufficient commitment to reform. The accession criteria were demanding. The process was slow. Romania and Bulgaria were delayed by two years relative to the 2004 cohort specifically because the Commission judged that rule-of-law and anti-corruption reforms were incomplete — and even after accession, the CVM was imposed as an unprecedented monitoring mechanism to address residual deficiencies.

The current enlargement wave is driven by a fundamentally different calculus. Russia's war against Ukraine has transformed enlargement from a long-term normative aspiration into a

[20] Commission recommends and European Council grants Ukraine and Republic of Moldova candidate status.

near-term security imperative. The European Council's June 2022 decision to grant candidate status to Ukraine and Republic of Moldova was taken under wartime conditions, with a speed that would have been inconceivable under the pre-2022 enlargement framework. The Commission's 2025 Enlargement Package frames the process explicitly: "the accession of new Member States is increasingly within reach," and the momentum is described as the fastest in fifteen years (European Commission, Enlargement Package, November 2025).

This shift creates a genuine dilemma. If accession is "strategic" — if the primary motivation is to anchor Ukraine, Republic of Moldova, and the Western Balkans within the EU's security architecture before Russian influence, American disengagement, or internal political reversals can pull them away — then the cost-benefit calculus of conditionality changes. The EU's leverage over candidate countries derives from the credibility of its conditions: the belief that membership is genuinely contingent on reform, and that the Commission will not lower standards for geopolitical convenience. Romania's experience demonstrated both the power and the limits of this leverage. Pre-accession conditionality drove genuine reforms in judicial independence, market liberalisation, and institutional capacity. Post-accession, once the leverage was spent, reform momentum slowed or reversed in multiple domains — from civil service politicisation to the 2017–2019 judicial counter-reforms.

The risk for the current candidates is that security-driven enlargement weakens conditionality before accession rather than after it. As the European Council on Foreign Relations noted, geopolitically motivated enlargement could constitute another "big bang" expansion, and the compressed timelines under discussion. As of late 2025, and subject to revision as the process evolves, the indicative objectives under discussion envisaged closing negotiations around 2026 for Montenegro — the current frontrunner — and towards the end of the decade for Republic of Moldova and Ukraine, though these dates remain political aspirations rather than firm commitments and may well shift. This raises legitimate questions about whether the depth of institutional transformation can match the speed of the political calendar. The LSE's assessment was direct: "accession cannot be accelerated to the point where conditionality becomes rhetorical"[21].

There is, however, a crucial respect in which the current candidates can be judged as against Romania's starting position, and that may ease the formal accession process. All of the Western Balkan countries, Republic of Moldova, and Ukraine are functioning, although

[21] LSE European Politics blog, March 2026. Spyrakou, Vera. "The politics of belonging – why enlargement is now a strategic priority for the EU." LSE European Politics and Policy (EUROPP) blog, https://blogs.lse.ac.uk/europpblog/2026/03/04/eu-enlargement-strategic-priority-democratic-reform.

imperfect, market economies. They have been operating under market conditions for decades. Their legal systems have been progressively aligned with European norms through stabilisation and association agreements, deep and comprehensive free trade agreements (in the case of Ukraine and Republic of Moldova), and years of technical assistance and approximation work. The *acquis communautaire*, which is the body of EU law that candidate countries must transpose, is not landing on *terra nullius*. This matters. When Romania began its accession negotiations in 2000, the country was still in the early stages of building market institutions.

Ukraine: Qualitatively Different

Ukraine's accession candidacy is, however, qualitatively different from anything in the EU's enlargement history — including Romania's — and the Romanian experience offers only limited guidance for the challenges it presents. The scale is the first distinction. Ukraine's population of approximately 37 million (pre-war resident population) would make it the EU's fifth-largest member state. Its agricultural sector, among the world's largest exporters of grain, sunflower oil, and other commodities, is of a scale that would fundamentally reshape the Common Agricultural Policy and its budget. The second distinction is the war. Ukraine is negotiating accession while fighting an existential conflict. The third distinction is uncertainty. It is not clear that Ukraine will be put on a fast track. Centre for European Policy Studies CEPS observed that while Montenegro, Albania, and Republic of Moldova (Montenegro, especially) are small enough for the EU "absorption capacity" to barely register as an issue, "Ukraine is the odd one out, its sheer size and wartime realities make its accession politically heavier and a likely trigger for vetoes from more than just the familiar holdout" (CEPS, November 2025).

Republic of Moldova: Small, Vulnerable, and Coupled

Republic of Moldova deserves separate attention precisely because it risks being overlooked — subsumed in the Ukraine narrative or treated as an afterthought to the Western Balkan process. With a population of approximately 2.5 million (excluding Transnistria), an economy smaller than that of a mid-sized Romanian county, and a democratic government under continuous Russian hybrid pressure, Republic of Moldova represents the clearest case for the security logic of enlargement. Its accession would impose negligible costs on the EU budget. Its alignment with the acquis, while incomplete, is advancing rapidly under the €1.9 billion Republic of Moldova Growth Plan. The Commission's 2025 assessment concluded that the Republic Moldova has met the conditions to open negotiation clusters on fundamentals, external relations, and the internal market. The problem is procedural: Republic of Moldova's accession process has been coupled with Ukraine's through the EU's "package approach,"

meaning that Hungary's veto on Ukraine has also stalled Republic of Moldova, even though Budapest supports Republic of Moldova's path without preconditions.

6.2 Lesson 1: Conditionality Works, But Only While It Lasts

The external anchor is powerful, but time-limited. Reforms that are not embedded in domestic political constituencies and institutional routines will not survive the post-accession period. Candidate states should build reform ownership, not just compliance structures. Political commitment is essential. And this may require active, sustained domestic policy front – not just technical and institutional reforms -- against vested interests that block the reform process; how this is to be done is a major question and a challenge in each country's setting. The EU conditionality is the most powerful external reform driver available to European states, but it has an expiry date. Before accession, the prospect of membership compelled Romanian governments of every political colour to adopt reforms — in competition policy, banking regulation, judicial organisation, environmental standards, public procurement — that no purely domestic political coalition would have delivered on its own timetable or at the same scale and depth. The acquis provided the content; the membership prize provided the incentive; the Commission's annual progress reports provided the accountability mechanism. The system worked. Romania in 2007 was, by every institutional metric, a more functional state than Romania in 2000.

But conditionality is a depreciating asset. Its power derives from the gap between where a country is and where it wants to be — and that gap closes to zero at the moment of accession. Every reform adopted under external pressure but without domestic ownership becomes, on the day of membership, a reform that a domestic political majority can reverse, dilute, or hollow out. Romania's post-accession trajectory demonstrated this with uncomfortable clarity: the civil service re-politicised, the judicial counter-reforms of 2017–2019 dismantled anti-corruption infrastructure, fiscal commitments were abandoned the moment electoral incentives pointed elsewhere, and the CVM proved unable to prevent backsliding it could only document.

The implication for candidate states is that *the accession process must be understood not as an exercise in compliance but as an exercise in institution-building*. Romania complied extensively. It built institutions less successfully. The judicial reforms of the pre-accession period were reversed because they threatened powerful interests without creating equivalently powerful defenders.

The lesson is not that conditionality should be abandoned but that candidate states and the Commission alike should judge the quality of reforms not by whether they satisfy a

benchmark on paper but by whether they have generated the domestic political ownership that will sustain them after the external anchor is withdrawn. Building that ownership requires investing in the demand side of reform: professional associations, independent media, civil society watchdogs, business coalitions, and judicial cultures that internalise European standards as their own rather than as impositions to be tolerated until the monitoring stops.

Romania's experience shows that where such ownership existed, in the IT sector, in parts of the judiciary, in the energy regulator's gradual professionalisation, reforms proved durable. Where it did not, such as in fiscal policy, in the civil service, in the political class's relationship with the rule of law, the post-accession period brought reversion to pre-accession patterns with remarkable speed. Political commitment at the top is essential, but it is not sufficient. What matters is whether the reform has roots deep enough to survive the next election, the next coalition reshuffle, and the next government that decides Brussels is no longer watching.

6.3 Lesson 2: Fiscal Institutions Matter More Than Fiscal Targets

Romania's experience shows that hitting nominal targets (deficit ceilings, debt thresholds) without building the underlying fiscal architecture, i.e. independent fiscal councils with real authority, medium-term budgetary frameworks, tax administration capacity, and a "culture of stability" among major stakeholders (policy makers) produces fragile outcomes. The lesson for candidates: invest in fiscal plumbing, not just fiscal numbers.

Romania sometimes met its nominal fiscal targets. The deficit was brought below 3% of GDP in 2015. Public debt remained comfortably within the Maastricht threshold throughout the post-accession period. The Fiscal Compact was ratified, a medium-term budgetary framework was formally adopted, and a Fiscal Council was established with a constitutional mandate to provide independent oversight. By the letter of EU fiscal governance, Romania was compliant. By the substance of fiscal sustainability, it was building a crisis. The structural deficit was never closed. The revenue base, the lowest tax revenue-to-GDP ratio in the Union, has started to be broadened only recently, namely in 2025. The medium-term budgetary framework existed on paper but was overridden annually by supplementary budgets, emergency ordinances, and election-year spending commitments that bore no relationship to the multi-year projections they were supposed to implement. The Fiscal Council issued warnings that were sound but were politically ignored.

The lesson is that fiscal targets without fiscal institutions are shallow and ineffective constraint on fiscal profligacy. A deficit ceiling that can be breached without consequence is

not a constraint. A medium-term budgetary framework that is rewritten every October in a supplementary budget is not a framework — it is a forecast that the government itself does not believe in. What produces durable fiscal discipline is not the number on the page but the architecture around it: a tax administration (ANAF) with the technical capacity and political independence to collect the revenues the budget assumes; a budgetary process in which multi-year expenditure ceilings are legislated with super-majority requirements that make reversal politically costly; and a public investment framework that distinguishes between capital spending with genuine economic returns versus current spending disguised as investment for Eurostat classification purposes. Romania had some of these elements in form. It had almost none of them in substance.

Moreover, after the 2008 financial crisis, Romania passed a law on Budgetary and Fiscal Stability whose aim was to prevent future fiscal slippages - which generated large budget deficits in the first place. Subsequently, the law was violated several times with no accountability by government officials.

For candidate states, the implication is concrete: invest in fiscal plumbing before accession, not after. Build a tax administration that can close the VAT gap and enforce compliance across the informal economy. Give the fiscal council real teeth — the power to trigger automatic correction mechanisms, to require parliamentary votes on deviations, to impose comply-or-explain obligations that carry political cost. Legislate expenditure ceilings that bind across electoral cycles, not just within them. Embed the medium-term budgetary framework in law with sufficient procedural rigidity that overriding it requires an explicit, visible political choice rather than a quiet supplementary budget adopted in December. Romania's experience demonstrates, with a clarity that should be impossible to ignore, that a country can meet every nominal fiscal target the EU sets and still arrive, fifteen years after accession, at the worst fiscal position in the Union — because the targets were met without building the institutions that would make meeting them a permanent condition rather than a temporary achievement.

6.4 Lesson 3: Absorption Capacity of EU money Is a Binding Constraint

Romania was allocated approximately €50 billion across its first two post-accession programming periods, sums that, fully deployed, would have transformed more the country's infrastructure, human capital, and institutional capacity. What was missing, in every cycle, was the institutional machinery to convert allocations into implemented investments at the pace the programming frameworks demanded: project managers who could prepare bankable

applications, procurement specialists who could run EU-compliant tenders, financial controllers who could certify expenditures, and continuity of personnel across political cycles so that institutional knowledge was not lost every time a government changed.

The lesson for candidate states is that *absorption capacity is not a problem to be solved after accession*. Rather it is a precondition that must be built before it. Every year of delayed capacity-building after membership translates directly into billions of euros of foregone investment, possibly widening the gap between the country and its EU peers rather than closing it. This means investing, now, in the unglamorous infrastructure of public administration: training cohorts of project managers and procurement officers to EU standards; establishing managing authorities with professional staff on merit-based contracts that survive changes of government; building the audit and financial control systems that the Commission requires before it will release funds; and creating a pipeline of pre-prepared, technically sound projects so that when the programming period opens, implementation can begin immediately rather than after the two-to-three-year lag that has characterised every Romanian cycle. Romania's experience demonstrates that EU membership provides access to transformative resources but does not provide the capacity to use them. That capacity is built domestically, slowly, through years of institutional investment that no candidate state can afford to defer because the programming clock starts ticking on the day of accession, whether the institutions are ready or not.

There is a further risk that *Romania's experience illustrates namely the development of a structural dependency on EU transfers that substitutes for, rather than complements, domestic resource mobilisation*. This creates a double vulnerability: it lets governments postpone the politically difficult work of raising domestic revenue — reinforcing Romania's chronic under-collection — and it makes the investment cycle hostage to the EU programming calendar, so that a missed milestone or dispute with Brussels can halt programmes the country cannot fund from its own resources. Candidate states should therefore treat European funds as a catalyst for domestic investment capacity, not a permanent substitute for it, since transfers are finite and conditional on a reform compliance no government can guarantee across electoral cycles.

6.5 Lesson 4: Beware the Post-Accession Boom-Bust

Romania's 2007–2009 experience is as close to a textbook case of post-accession macroeconomic overheating as the EU enlargement record provides. In the two years following membership, Romania experienced a surge of capital inflows, foreign direct investment,

portfolio flows, and cross-border bank lending, that interacted with already-loose fiscal policy and rapid credit growth to produce an economy running well above potential. GDP grew by 6.3% in 2007 and 7.3% in 2008. The current account deficit ballooned to over 12% of GDP. Private credit expanded at annual rates exceeding 50%, overwhelmingly denominated in euros and Swiss francs and channelled disproportionately into real estate and consumption rather than productive investment. Asset prices, particularly urban property, detached from fundamentals. The boom was unsustainable. When the global financial crisis hit in late 2008, the reversal was brutal: GDP contracted by 5.5% in 2009, capital flows reversed, the banking system tightened credit sharply, and Romania was forced into a €20 billion multilateral stabilisation programme led by the IMF, the EU, and the World Bank. The fiscal adjustment required, public wage cuts of 25%, VAT increases, pension freezes, imposed severe social costs and poisoned the politics of fiscal responsibility for a generation.

The mechanism is not unique to Romania. Variants played out in the Baltics, Bulgaria, and to a lesser extent in the 2004 accession cohort but it is predictable enough that candidate states have to be prepared. EU accession triggers a confidence shock: sovereign risk premia compress, credit ratings improve, cross-border lending accelerates as Western European banks expand into a newly integrated market, and FDI surges as firms' position for single-market access. All of this is desirable in principle but dangerous in practice if the receiving economy lacks or underutilizes the counter-cyclical fiscal and macroprudential frameworks to prevent the inflow from becoming an overheating impulse. The prescription is straightforward even if the politics are difficult: candidate states should enter the EU with fiscal positions strong enough to run surpluses during the initial boom years, building the buffers that will be needed when the cycle turns — as it inevitably will. They should have macroprudential tools in place to manage credit growth, particularly in foreign-currency lending. And they should resist the political temptation to treat the accession-driven revenue windfall as permanent income, because the lesson of Romania's 2007–2009 cycle is that the boom feels structural while it lasts and reveals itself as cyclical only when it is too late.

The countries that managed the post-accession surge best — Poland, with its flexible exchange rate and conservative fiscal stance; the Czech Republic, with its deeper institutional buffers — are the best practice models. Romania, with its repeated delays and reversals of fiscal consolidation, loose credit conditions, and few stabilisation reserves, is a warning. Euro area accession is not possible unless deficits are low on a durable basis, which should ensure debt sustainability. Romania has still a considerable way to go in this respect.

6.6 Lesson 5: The Political Economy of Reform Requires Evidence-Based. Honest Narratives

Romania's political class sold EU accession to the population as a destination that would deliver prosperity, modernity, and European living standards as a natural consequence of membership. The narrative was never that accession would require sustained, painful adjustment: the restructuring of uncompetitive industries, the closure of subsidised enterprises, the professionalization of a civil service accustomed to patronage, the acceptance of regulatory constraints that would raise costs for politically connected incumbents, and the fiscal discipline needed to build buffers rather than distribute windfalls. When the costs materialised, first in the pre-accession restructuring of mining and heavy industry, then in the brutal 2010–2012 austerity programme, the political backlash was predictable and severe. The populist cycle, promise, disillusion, backlash, fiscal damage, is not a failure of the electorate. It is a failure of the political leaders who chose a false but comfortable narrative over an honest one.

Candidate states face the same temptation, and the geopolitical context of the current enlargement wave makes it more acute, not less. When accession is framed as a security imperative, as it is for Ukraine, Republic of Moldova, and increasingly the Western Balkans, the political incentive is to present membership as a rescue rather than a reform programme, to emphasise what Europe will provide rather than what the country must build for itself. This framing wins referendums and sustains pro-European majorities in the short term, but it creates the conditions for precisely the kind of disillusionment that Romania experienced: the moment when European membership has been achieved, costs become visible, and a political entrepreneur discovers that running against "Brussels" is electorally profitable.

The alternative is harder but more durable: a leadership willing to state the trade-offs honestly, namely that convergence is a generational project, that EU funds require matching domestic effort, that some industries will shrink and some costs will rise, and that the purpose of reform is to build a state capable of delivering for its own citizens rather than to satisfy Brussels. Romania's experience shows, with two decades of evidence, that countries which avoid this "cost of correction" framing do not avoid the costs; they defer them and pay them later, with interest, in social division, institutional damage, and reform fatigue. Social cohesion is not a luxury to be addressed once the economic programme is complete — it is the precondition for sustaining it, and it requires that the public be told the truth about what the European path demands before they are asked to walk it.

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