Is Romania Flirting with Conditions that Lead to the Middle Income Trap?

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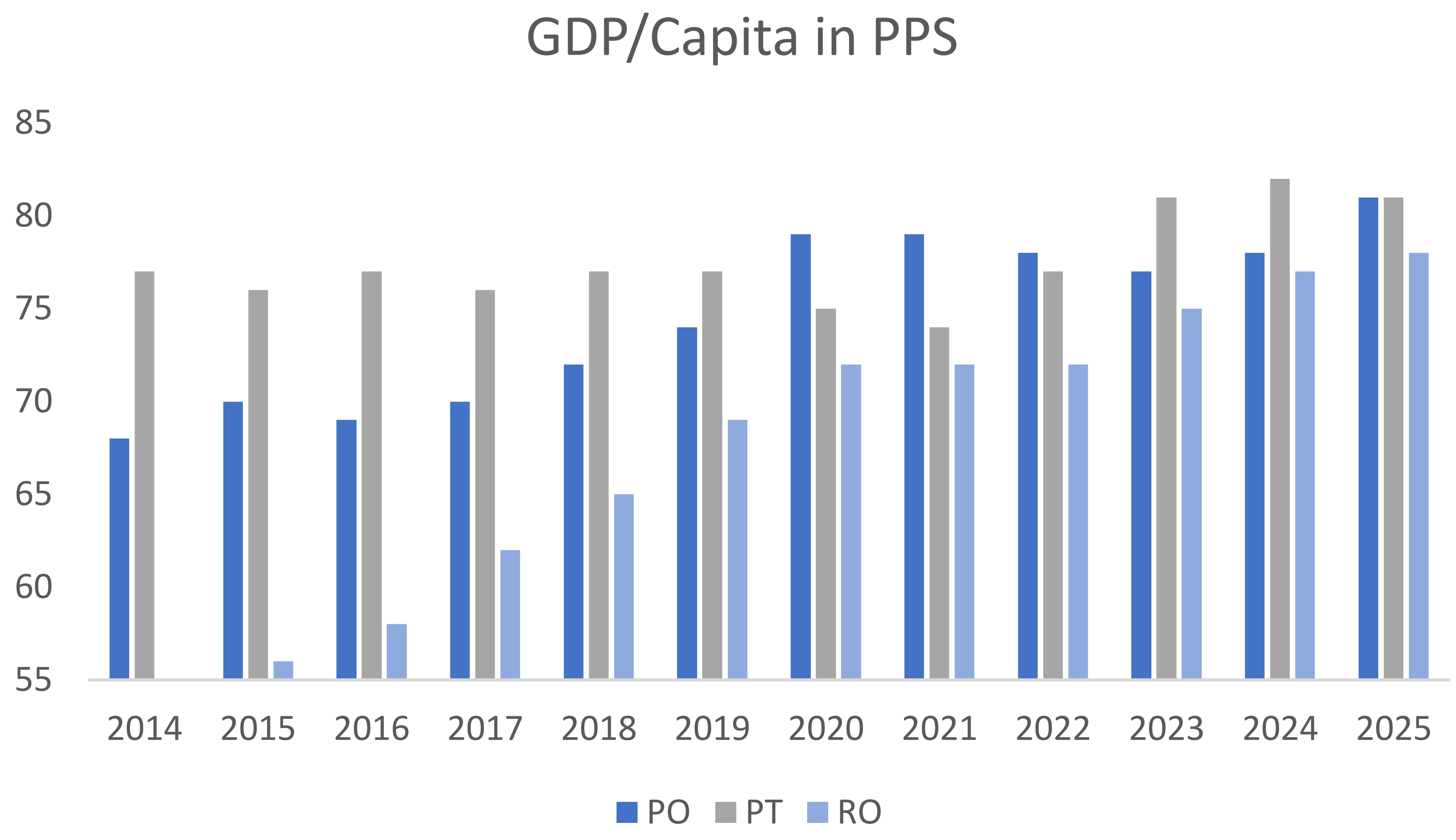
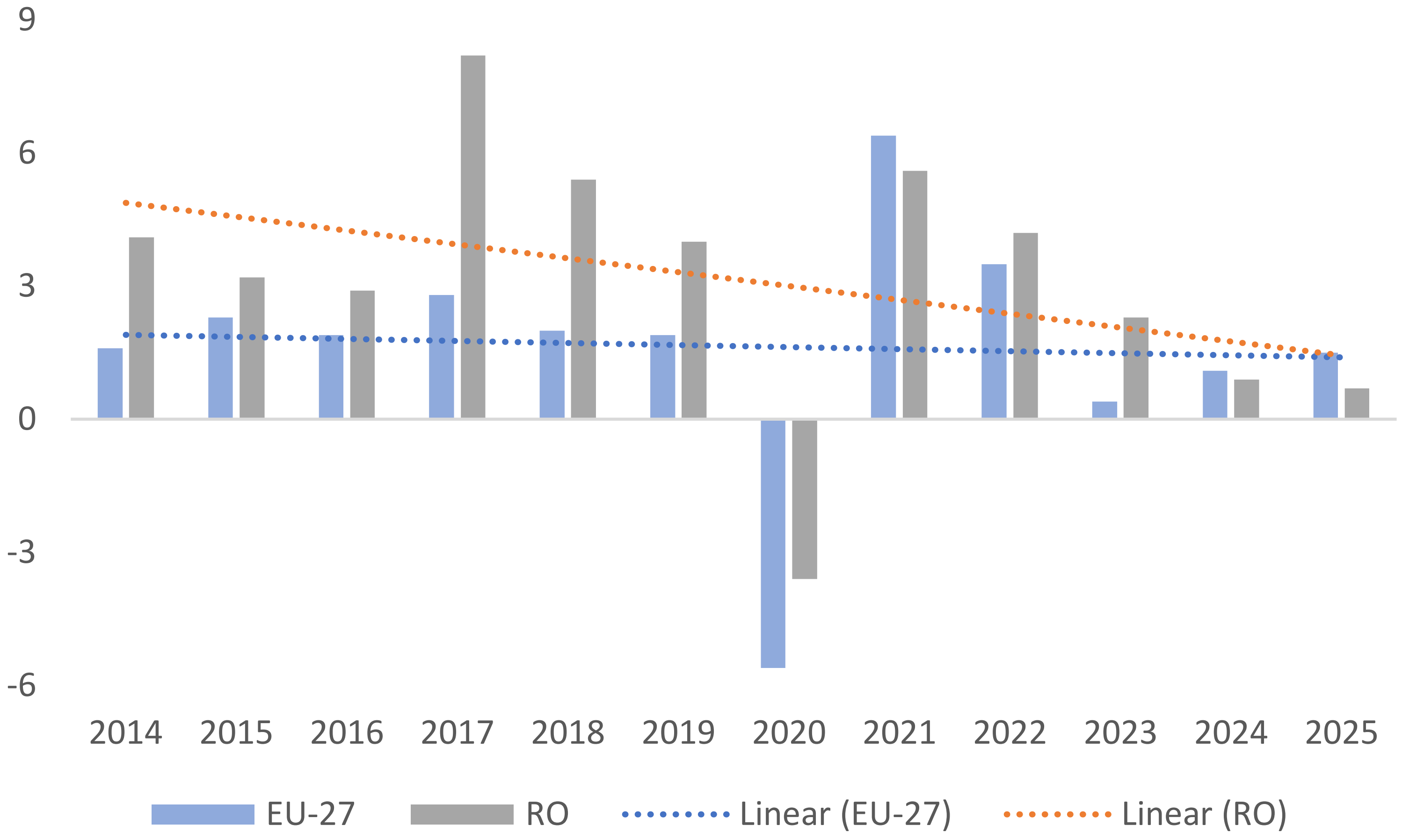
Structural Reforms Needed for Romania to Break the MIT Barrier



- Rapid convergence followed by stagnation or even regression
- Falling population shows a brighter picture
- Growth model that got RO here — wage-led consumption, remittance flows, EU transfers, cheap labour attracting FDI in auto and light manufacturing — is running out of road
- A structural change in the way economic policies are implemented is needed – institutional change & structural development

Source: Eurostat, PPS – Purchasing Power Standards

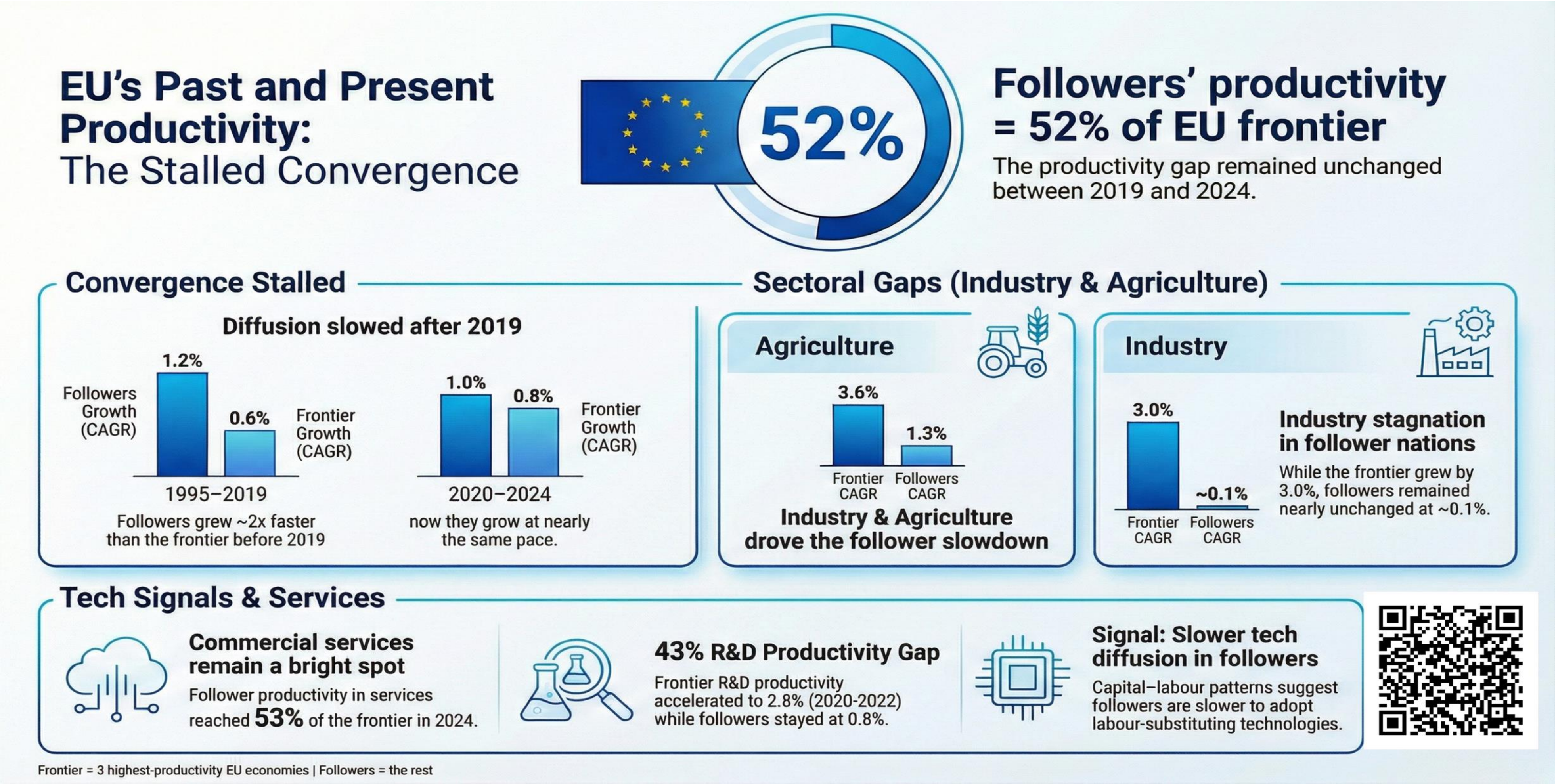
GDP Growth, EU-27 and Romania – Is the Gap Closing?



- RO's GDP growth trending downwards. This has occurred in a period where EU-related funds have been plentiful
- Partially it reinforces a trend observed across other Eastern European countries after the pandemic
- Structural reforms that enables growth are required. A change in the mindset (RRF funds for policies that should have been enacted domestically vs funds for capital formation)

Source: Eurostat

Trends May Be Regional but Domestically Designed Solutions Make a Difference



Reflection Points

- Warning signs for MIT on several fronts:
  - Wage growth has outpaced productivity for years, eroding the cost advantage
  - R&D spending is among the lowest in the EU (under 0.5% of GDP, 4x lower than target)
  - Education system is losing quality (PISA scores, brain drain of young graduates)
  - The state's administrative capacity to design and implement sound, long-term growth enhancing policies is weak

- Lasting economic growth is an outcome of sound economic policies

- Encourage a proper debate on Romania’s future potential development path

- Globally there are turbulent times – change in the world order. This offers an opportunity - with a good strategy the economy could emerge as a winner. Enabled by a change in the policymakers’ mindset