References to

Research and Innovation


Romania
Introduction

This document is a compilation of the Research and Innovation (R&I) references extracted from the European Semester Country Report 2016. It offers a quick overview of the analysis done by the European Commission on the reforms undertaken by the country in research and innovation and the progress made towards the Europe 2020 target on R&D.

References to research and innovation

[2.1. External balance and competitiveness, p. 22]

Insufficient investment in R&D, the unfavourable business environment and the limited number of highly qualified workers are some of the factors contributing to the low share of high-tech exports. The importance of high-tech products has been decreasing since 2011, when it reached a peak at 10 % of exports (Graph 2.1.21). Romania lags considerably behind other EU Member States in the resources it invests in research and development (see section 2.3). Insufficient funding and a fragmented institutional setting affect public policies for innovation and R&D. Underdeveloped basic transport infrastructure, unfavourable business environment, an unstable regulatory framework, inefficient public administration and the scarcity of highly qualified workers play a significant role in this context (see sections 3.1 and 3.2).

[2.3. Medium-term risks of imbalances, p. 32, 40-41]

Increasing investment is paramount to raising potential output to counterbalance the fiscal expansion and generate sustainable non-inflationary growth in the medium term\(^1\). Enhancing public investment, especially in infrastructure, inter alia by increasing EU funds absorption, improving total factor productivity by investing in research and innovation, and increasing energy efficiency are decisive for boosting potential growth, which would bring about a more balanced economic expansion.

[…] Despite these positive developments, numerous barriers to investment are still present and are restraining potential growth (see Box 1.1 and section 3.1). Research and innovation activities are hampered by insufficient funding, weak public-private collaboration and fragmented institutional setting\(^2\). The process of restructuring of state-owned enterprises is ongoing, but the limited efficiency of such enterprises has hindered the development of infrastructure (see section 3.1). Regulated energy prices and related domestic supply obligations limit investment incentives. All these factors suppress potential growth.

R&D and innovation expenditure is low and inefficient. R&D intensity has been continuously falling since 2011, reaching 0.38 % of GDP in 2014. This is the lowest level in the EU and far away from the Europe2020 target of 2 %. Public R&D expenditure fell to 0.22 % of GDP in 2014, placing Romania last in the EU. Structural funds in the 2007-2013 period of EU funding accounted for merely 20 % of public R&D expenditure. For the 2014-2020 programming period only 15 % of the funds available to Romania are allocated to R&D. A more positive development is the higher allocation of

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\(^1\) For additional measures and structural reforms which could boost potential growth see sections 3.1, 3.2 and 3.3.

Business investment in R&D is still under-developed in spite of new incentives. Romania has one of the lowest values of business R&D expenditure in the EU (0.16% of GDP in 2014, 27th in the EU). Low business sophistication and the overall low quality of the science base3 hamper Romania’s capacity to attract business R&D investment and to foster public-private cooperation in research and innovation. In recent years, technology start-ups have gained ground around some entrepreneurial hubs in ICT, but the phenomenon remains limited. Tax incentives for R&D expenditures were adopted in 2010 with the aim to provide incentives for increasing business investment in R&D, but they are not yet operational. The adoption in 2014 of a law on inventions by employees is also expected to encourage multinationals to locate more of their R&D activities in Romania and to invest in innovation activities with a higher added value to the economy.

[...]  

Access to credit for SMEs is difficult and support for knowledge-based start-ups and product development is still at an early stage. A Business Angels Law was adopted in 2015 and support for other new forms of financing is being exploited. The creation of two investment funds is envisaged — one with opening and seed capital for entrepreneurs with innovative ideas and one with venture and growth capital for innovative start-ups. The success of all these measures will depend on the development and maintenance of solid innovation governance, combined with a coordinated and integrated perspective of the research, development and innovation system in a context of a smart specialisation approach, and supported by resource stability and predictability and better public-private partnership.

3 The low quality of the Romanian science base is evidenced by the share of Romanian scientific publications among the 10% of the most-cited worldwide publications, where Romania ranks 25th among all EU Member States.