

# The Impact of EU Funds on Romanian Public Finances

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# Agenda

- Romania's EU funds absorption in the current fiscal exercise
- Implications of the EU funds on Romania's budget over the 2014-2020 period
- Impact of EU funds on Romania's economic growth and employment
- Concluding remarks and policy implications

# Features of the EU Funds Absorption Process in the Current Fiscal Exercise

- By far the weakest performance among EU countries.  
Absorption rate was 16.5% vs. EU-average of 33.4%  
(including claims at end 2011 to be paid in 2012!)
- Romania is, however, a net beneficiary so far attracting a net EUR 6.7 Bn. over 2007-2011 period, an average of 1% of GDP/year (vs. a potential 4%!).
- A series of OPs funding (pre)suspended at the moment due to procedural irregularities.
- Ineffective mechanisms & weak administrative capacity

# Romania's Contributions to the EU Budget, 2007 -2013\* Period

Mill EUR, current prices

	2007	2008	2009	2010	2011	2012*	2013*
<b>VAT-based own resource</b>	162.1	168.5	156.6	124.1	145.3	148.6	149.6
<b>GNI-based own resource</b>	681.7	741.1	901.8	859.2	965.1	974.1	1,005.1
<b>Total national contribution</b>	930.3	1,017.7	1,218	1,042.2	1,170.3	1,185.2	1,218.8
<b>Total own resources, EUR Mill</b>	1,089.4	1,217.6	1,342.3	1,143.1	1,291.3	1,323.8	1,357.7
<b>Total own resources, as % of GDP</b>	0.87	0.87	1.13	0.92	0.95	0.94	0.90

Source: Author's calculations with data from various EC reports, Romanian Ministry of Finance and NBR

# Romania's EU Payments and the Net Balance, 2007 – 2013 Period

Mill EUR, current prices

		2007	2008	2009	2010	2011 <sup>e</sup>	2012 <sup>*</sup>	2013 <sup>*</sup>
<b>Pre-Acc. Funds</b>		789.1	744.8	618.9	277.8	201.7	0	0
<b>Structural &amp; Cohesion</b>		451	684.8	965.2	566.8	579.7	1,669.3	2,948.9
<b>CAP Payments,</b>	<i>of which:</i>	6.9	1,620.7	2,098.9	2087	2,749.0	2,812.0	2,628.0
	EAGF	6.9	474	596.2	670.8	1,720.0	1,605.0	1,241.0
	EAFRD & EFF		1,146.7	1,502.7	1,401.6	771.8	905.3	1,040.3
<b>Total EU Payments</b>		1,602.4	2,666.2	2,951.2	2,317.4	3,273.2	4,179.5	5,230.1
<b>Net EU Payments</b>	Mill. EUR	513.0	1,448.6	1,608.9	1,174.3	1,981.9	2,855.7	3,872.5
	% of GDP	0.4	1.0	1.4	0.9	1.5	2.0	2.6

# Romania's EU Absorption Rate by OPs - end March 2012

	Total Allocation, 2007-2013, EUR Bn.	Absorption rate (inc. pre-financing), % of total allocation	Cumulative attracted funds (inc. prefinancing), EUR Bn.	Certified absorption rate, % of total allocation	End Mar 12	End Oct 12
<b>OP Regional</b>	3.8	27.8	1.04	11.7	21.1	
<b>OP Technical Assistance</b>	0.2	14.4	0.02	9.8	16.5	
<b>OP Enhancing Administrative Capacity</b>	0.2	13.4	0.03	9.1	18.6	
<b>SOP Enhancing Competitiveness</b>	2.7	17	0.43	6.4	6.8	
<b>SOP Transport</b>	4.6	7	0.32	6.1	6.5	
<b>SOP Human Resources Development</b>	3.7	28.9	1.00	5.5	7.7	
<b>SOP Environment</b>	4.5	12.7	0.57	3.4	6.1	
<b>Total</b>	<b>19.7</b>	<b>17.8</b>	<b>3.42</b>	<b>6.6</b>	<b>9.7</b>	

Source: EC and Ministry of Romanian Affairs

# Why Is the EU Funds Absorption Rate So Low?

- Poor strategic planning and uncorrelated objectives
- Insufficient administrative capacity
- Limited expertise capacity at central and local administration
- Limited accountability of public procurement agencies in the tendering process
- Co-financing constraints

# Why Is the EU Funds Absorption Rate So Low? (Cont'd)

- Lack of project experience of both management authorities and beneficiaries
- Long periods of time for project evaluation, selection and contracting processes
- Project evaluation and prioritisation
- A relatively poor level of qualification from the part of the consultants involved in preparing projects.
- Funds misallocation and procedural irregularities



# EU Funds Implications on the Budget for the 2014-2020 Fiscal Exercise

- Freeze vs. increase of the EU budget. Nominal vs. real terms
- Need to be correlated with sectorial strategic objectives!
- EU-related inflows could top 4% of GDP: first and second round effects. Estimation on the net budgetary effect subject to demand impact, source of funding, timing, etc.

# Main Factors Influencing the Budgetary Costs

- Distinction between projected and committed flow of funds
- Co-financing. Who is the beneficiary?
- Estimating the net budgetary effect of EU funds: national contributions towards the EU budget; advance EU payments to farmers; co-financing vs. direct EU payments

# Scenarios Selection

	<b>Freeze in the EU Budget</b>	<b>Increase in the EU Budget</b>	<b>High GDP Growth</b>	<b>Low GDP Growth</b>	<b>Maximum EU co- financing rates</b>	<b>Increased EU co- financing rates</b>
<b>Scenario 1</b>	x			x	x	
<b>Scenario 2</b>	x			x		x
<b>Scenario 3</b>	x		x		x	
<b>Scenario 4</b>	x		x			x
<b>Scenario 5</b>		x		x	x	
<b>Scenario 6</b>		x		x		x
<b>Scenario 7</b>		x	x		x	
<b>Scenario 8</b>		x	x			x

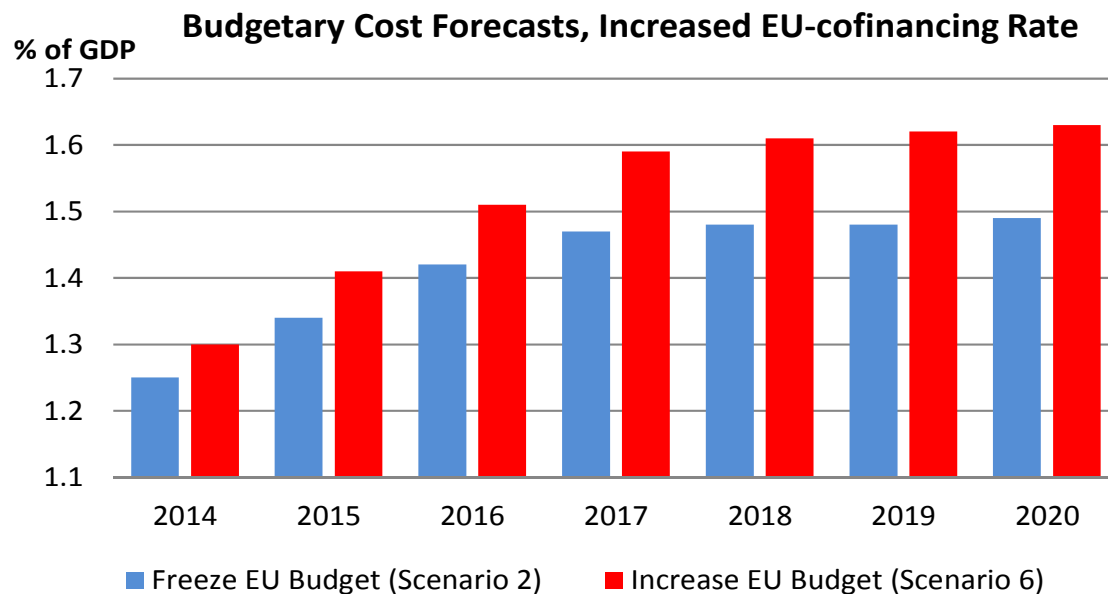
# Scenario 6 EU Budget Increase, Low GDP Growth, Lower EU Co-financing Rate

		2014	2015	2016	2017	2018	2019	2020
<b>GDP</b>	Bn EUR	161.8	171.7	182.1	193.2	204.9	217.4	230.6
<b>Contribution to the EU</b>	Bn EUR	1.5	1.6	1.7	1.8	1.9	2.1	2.2
<b>Cohesion Funds Contribution</b>	Bn EUR	0.47	0.69	0.93	1.15	1.26	1.37	1.48
<b>EAFRD contribution</b>	Bn EUR	0.09	0.09	0.09	0.09	0.09	0.09	0.09
<b>Budgetary Cost, Cohesion &amp; EAFRD only</b>	Bn EUR	0.56	0.78	1.02	1.24	1.35	1.46	1.57
	As % of GDP	0.35	0.46	0.56	0.64	0.66	0.67	0.68
<b>Overall budgetary cost, including EU contribution</b>	Bn EUR	2.10	2.41	2.75	3.07	3.30	3.52	3.76
	As % of GDP	1.30	1.41	1.51	1.59	1.61	1.62	1.63

# Summary of the Main Results

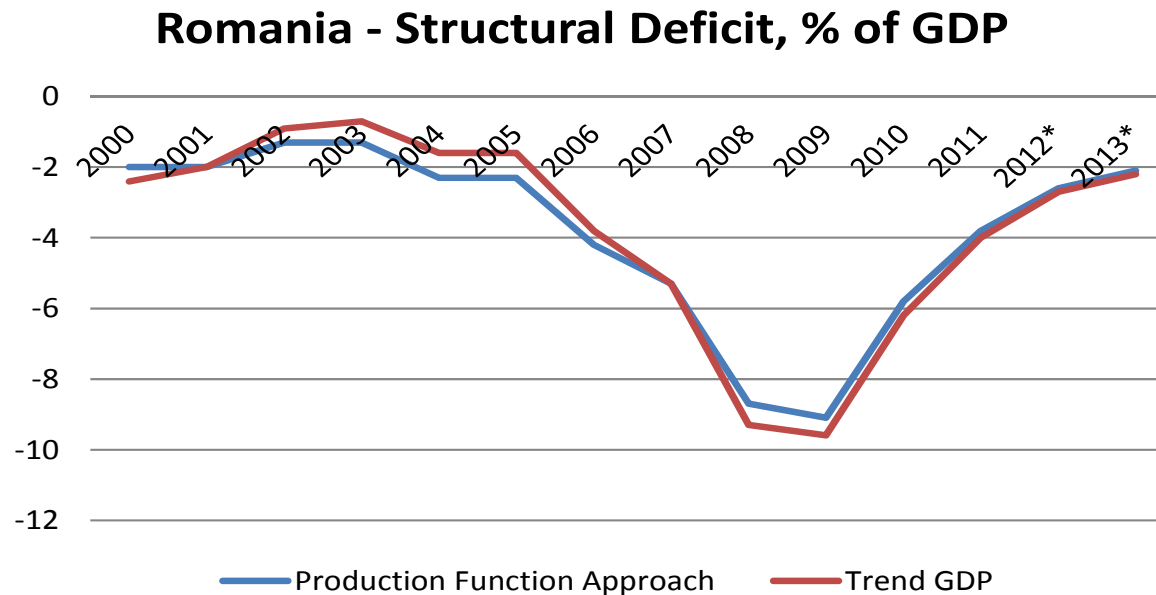
		2014	2015	2016	2017	2018	2019	2020	Cum. 2014- 2020*
<b>Scenario 1</b>	Bn. EUR	1.82	2.01	2.20	2.39	2.53	2.69	2.85	16.49
	As % of GDP	1.13	1.17	1.21	1.23	1.24	1.24	1.24	8.46
<b>Scenario 2</b>	Bn. EUR	2.02	2.29	2.59	2.85	3.03	3.23	3.43	19.44
	As % of GDP	1.25	1.34	1.42	1.47	1.48	1.48	1.49	9.93
<b>Scenario 3</b>	Bn. EUR	1.85	2.05	2.27	2.48	2.65	2.83	3.03	17.16
	As % of GDP	1.12	1.16	1.20	1.22	1.22	1.22	1.22	8.36
<b>Scenario 4</b>	Bn. EUR	2.05	2.34	2.66	2.94	3.15	3.37	3.61	20.12
	As % of GDP	1.24	1.33	1.40	1.45	1.45	1.45	1.45	9.77
<b>Scenario 5</b>	Bn. EUR	1.86	2.07	2.29	2.50	2.67	2.84	3.02	17.25
	As % of GDP	1.15	1.20	1.26	1.29	1.30	1.31	1.31	8.82
<b>Scenario 6</b>	Bn. EUR	2.10	2.41	2.75	3.07	3.30	3.52	3.76	20.91
	As % of GDP	1.30	1.41	1.51	1.59	1.61	1.62	1.63	10.67
<b>Scenario 7</b>	Bn. EUR	1.89	2.12	2.36	2.59	2.78	2.98	3.20	17.92
	As % of GDP	1.15	1.20	1.24	1.28	1.28	1.28	1.28	8.71
<b>Scenario 8</b>	Bn. EUR	2.13	2.46	2.82	3.16	3.41	3.67	3.94	21.59
	As % of GDP	1.29	1.39	1.49	1.56	1.57	1.58	1.58	10.46

# An Increase in the EU Budget Would Bring About Additional Budgetary Costs



- Annual budgetary costs could go above 1.6% of GDP if the EU budget is passed in its proposed form.
- An increase in the EU budget would raise annual domestic budgetary costs by between 0.1- 0.2% of GDP.

# An Increase In EU Budget Would Have Implications for the Structural Deficit



- Fiscal Pact expected to enter into force in 2013 - ceiling of 0.5% of GDP for the structural deficit
- Could this level be maintained on a *permanent basis*?

# Estimated GDP Effects of the EU Funds for the period 2007-2012/Q1

	Cumulative attracted funds <sup>a</sup> , 2007- 2012/Q1 EUR Bn.	GDP			GDP
		Direct	Indirect	Induced	Total
		EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.
<b>OP Regional</b>	<b>1.04</b>	718	270	530	1518
<b>OP Technical Assistance</b>	<b>0.02</b>	17	3	23	42
<b>OP Enhancing Admin. Capacity</b>	<b>0.03</b>	25	4	26	55
<b>SOP Enhancing Competitiveness</b>	<b>0.43</b>	344	69	172	585
<b>SOP Transport</b>	<b>0.32</b>	221	83	163	467
<b>SOP HR Development</b>	<b>1</b>	830	140	870	1840
<b>SOP Environment</b>	<b>0.57</b>	385	154	447	986
<b>Total</b>	<b>3.42</b>	2539	723	2232	5494



# Summary of GDP and Employment Effects

GDP				Employment	
Cumulative, 2007-2012/Q1		Yearly Avg.		Cumulative, 2007-2012/Q1	Yearly Avg.
Bn EUR	% of GDP.	Bn EUR	% of GDP	Thous.	Thous.
3.4 – 5.5	0.5 – 0.8	0.65 – 1.05	0.5 – 0.8	100 - 185	19 - 35

- GDP effects are not far from estimates observed in other New Member States (between 0.5% of GDP in CE countries 1% of GDP in the Baltics).
- Overall, GDP and employment effects in Romanian economy were modest due to the low absorption rate.

# Concluding Remarks and Policy Implications

- Romania's negotiating position for the 2014-2020 fiscal exercise.
- Can it be successfully defined? Net beneficiary; negotiating strategy vs. very poor track record of EU funds absorption; budgetary austerity in the EU
- An increase in the EU budget would lead to a raise in Romania's financial commitments. Would the budgetary cost exceed the benefits for the overall economy?

# Concluding Remarks and Policy Implications (Cont'd)

➤ The absorption capacity **must** improve substantially – and very fast! (Fiscal Pact/ Lisbon 2020 Agenda)

➤ Two main constraints: skilled human capital & flawed architectural design of EU funds absorption mechanism.

Can a race against time be won?

➤ Root causes are systemic – government spending categories, state-owned enterprises.

# Concluding Remarks and Policy Implications (Cont'd)

- Increasing the absorption rate is a necessary but not sufficient condition: efficiency also matters.
- As a negotiating strategy better focus on funds optimisation across operational programmes, on the existing budget - to avoid past mistakes.
- Without a political consensus across parties progress likely to be slow and uneven.

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**The pdf version of the analysis is also available on  
[www.laurianlungu.com](http://www.laurianlungu.com)**

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