Fiscal Council of Romania

Note on the absorption of European funds

Introduction

For Romania, European funds represent an exceptional financial resource for economic and social development, in terms of investment strategy and sustainability of public finances. It is of vital importance that Romania takes full advantage of this historic opportunity, benefiting from nearly €80 billion in allocations from the European Union (EU): €31 billion from Structural and Cohesion Funds (SCF) and approximately €20 billion from the Common Agricultural Policy, allocated under the EU's Multiannual Financial Framework (MFF) for the 2021-2027 period. In addition, Romania will receive €12.1 billion in grants (+€1.4 billion in grants from REPowerEU) and €14.9 billion in loans through the Recovery and Resilience Facility (RRF), the most significant financial instrument within the NextGenerationEU (NGEU) program.

European funds represent the only strong counter-cyclical force capable of counteracting the contractionary effects of fiscal consolidation and adverse shocks in the international arena. The absorption of these funds can greatly support the Romanian economy by enabling it to become more robust and competitive through reforms and investments, while also taking into account the state of public finances and external balance vulnerabilities in an extremely unfavorable international context.

Given the challenging path of fiscal consolidation, agreed upon with the European Commission (EC) under the Excessive Deficit Procedure, and the pressures exerted by the international environment on the country's economic and financial stability, accelerating the absorption of these funds is a national priority.

Documents from the Fiscal Council (FC) have highlighted significant delays in the absorption of European funds and the risks arising from this situation[1].

Absorption of Structural and Cohesion Funds from the 2021-2027 MFF

The absorption of non-reimbursable SCF from the 2021-2027 Multiannual Financial Framework constitutes a top national priority in the short, medium, and long term. It represents an essential financial resource for the sustainable development of the economy, generating a series of positive and multiplier effects, such as reducing regional disparities, poverty, and social exclusion, facilitating the green and digital transition, developing a sustainable transport network and infrastructure investments, promoting business

[1] See, for example, the Fiscal Council's Opinion on the State Budget Law for 2025, the Social Security Budget Law for 2025 and the 2025-2027 Fiscal Strategy, section 6: Absorption of European funds.

competitiveness, enhancing research and innovation capacity, fostering entrepreneurship and local communities, improving the quality of the education and healthcare systems, as well as upgrading water and waste management systems, among others.

It is essential for Romania to attract as much of the Structural and Cohesion Funds allocated under the 2021-2027 MFF as possible, with total allocations amounting to €31 billion. This should be achieved by leveraging the experience from the previous financial cycle, during which (under the n+3 rule) a nearly 100% absorption rate was successfully attained[2].

As of the end of December 2024, according to data from the Ministry of Finance (MF) presented in Table 1, the actual absorption rate[3] of SCF from the 2021-2027 MFF (excluding SCF advances) was only 2.00%[4]!

Table 1. Absorption of SCF from the 2021-2027 MFF

mil. EURO

2021-2027 MFF	2021-2027 Program	2021-2023 Execution (31.12.2023)	Estimates 2024	2024 Execution (31.12.2024)	2021-2024 Execution (31.12.2024)
SCF of which:	30,917.29	768.48	3,151.26	1,656.15	2,424.62
Advances from SCF	1,806.39	768.48	1,037.91	1,037.91	1,806.39
Reimbursements from SCF	29,110.90	0.00	2,113.35	618.24	618.24

Source: Evolution of financial flows between Romania and EU (Net Financial Balance), 31.12.2024, MF.

This situation should put the Romanian authorities on high alert. It is crucial to identify the underlying causes, primarily related to weak administrative capacity and insufficient institutional mobilization, in order to implement actions at both central and local levels to swiftly initiate the use of Structural and Cohesion Funds and achieve the highest possible absorption rate. Otherwise, as government officials have warned, there is a real risk of decommitment of €5.2 billion from the SCF[5].

In the current domestic and international context, marked by major economic, social, political, and geopolitical tensions, the absorption of SCF can play a significant role in supporting macroeconomic correction, the fiscal consolidation process in line with the schedule set out in the National Medium-Term Fiscal-Structural Plan (MTP), the implementation of structural reforms and investment programs, counteracting the slowdown in economic growth, mitigating internal and external financial imbalances, maintaining the country's credit rating

[2] https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/

[3] The actual absorption rate represents the ratio between reimbursements from the Structural and Cohesion Funds received from the European Commission and the total allocated funds. SCF advances, even if partially or fully used (as shown in Table 1), represent expenditures that are yet to be (or may not be) validated by the EC and therefore cannot be considered in the calculation of the actual absorption rate.

[4] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN_2024_12_31.pdf

[5] https://www.startupcafe.ro/fonduri-europene/absorbtie-fonduri-europene-termen-mica-arata-bine-cerere-plata-pnrr-ministru-bolos

at investment grade level, and, consequently, supporting the financing needs of the budget deficit and the refinancing of public debt at reasonable costs.

National Recovery and Resilience Plan (NRRP)

Through the NextGeneration EU plan, including the RRF, Romania was allocated €12.1 billion in grants and €14.9 billion in loans, along with an additional €1.4 billion in grants from REPowerEU, bringing the total RRF allocation to €28.5 billion.

The implementation of the reforms and investment measures outlined in the NRRP is facing major challenges and significant delays, given that all milestones and targets, including the related payment requests, must be completed by August 2026. Any failure to meet these requirements will result in funding losses or even the return of funds.

As of December 2024, under the RRF, Romania had received €4.1 billion in pre-financing (€2.14 billion in grants and €1.94 billion in loans) and had managed to obtain EC approval for only two payment requests totalling €5.3 billion (€3.6 billion in grants and €1.7 billion in loans).

The third payment request, amounting to €2 billion (excluding pre-financing), was submitted not until December 2023 and had received preliminary approval from the EC in October 2024. However, as of January 2025, the Economic and Financial Committee (EFC) had yet to issue its opinion[6]. Notably, since some milestones, particularly those related to state-owned enterprise governance, were deemed unfulfilled or only partially fulfilled, this situation is expected to result in a partial suspension of payments, estimated at around €1.1 billion, until the official decision from the EC is communicated.

Table 2. **Absorption of funds allocated through NRRP**

mil. EURO

NextGenerationEU Recovery and Resilience Facility – RRF	2021-2026 Program	2023 Execution (31.12.2023)	Estimates 2024	2024 Execution (31.12.2024)	2021-2024 Execution (31.12.2024)
Grants*	13,566	5,492	3,649	288**	5,780
Loans*	14,942	3,630	…	…	3,630
Total*	28,508	9,122	…	…	9,410

*including pre-financing ** REPowerEU pre-financing
Source: RRF Scoreboard, European Commission, FC calculations.

As shown in the data presented in Table 2, by the end of December 2024, apart from a €288 million pre-financing related to REPowerEU, no payments had been recorded from the RRF, compared to the €3.6 billion initially planned by the Ministry of Finance for 2024.

For the entire 2021-2024 period, based on the NRRP fund execution report as of December 31, 2024, amounting to €8.3 billion, and excluding the €1.1 billion related to Payment Request

[6]https://ec.europa.eu/commission/presscorner/detail/ro/ip_24_5242?mc_cid=a3ec0e699e&mc_eid=607bd7d763

No. 3, which had not been validated by the EC, but including pre-financing, assuming its full utilization and validation, the absorption rate of NRRP funds stood at only 29% of the total €28.5 billion allocation[7].

This low level of achievements over a four-year period, compared to the deadline for completing all NRRP milestones and targets (by the end of December 2024, only 14% had been met[8]), makes it unlikely that the delays can be recovered in just a year and a half. This scenario suggests the loss of significant EU funds and the failure to implement key reforms and investment programs that could have helped keep Romania on a path of sustainable development by accelerating the green and digital transition, restructuring the economy, modernizing infrastructure, and enhancing competitiveness, all of which would have also supported the fiscal consolidation process. This situation is even more concerning given the significant deterioration of the international environment.

Data from the Ministry of Investments and European Projects (MIEP) on the timeline for competitive and non-competitive calls under the NRRP indicate the launch of calls totalling approximately €19.8 billion[9]. Additionally, MIEP data on the top 100 contracted projects under the NRRP, as of September 25, 2024, show a cumulative value of around €15.1 billion[10]. These figures, along with other data, indicate that, despite the low actual absorption rate, the total value of signed NRRP contracts exceeds €40 billion, including contributions from national funds. Given the significant delays in NRRP implementation, there is high uncertainty regarding the financing of already contracted projects. Completing these projects with national funds poses a major risk of deviating from the budget deficit adjustment path that Romania has committed to.

At the same time, disruptions in the entire financial flow calendar of the NRRP expose Romania to further risks of payment suspensions and sanctions, directly and indirectly affecting the absorption rate of allocated funds, both in grants and loans. The negative effects will also impact reform and investment programs, as well as Romania’s macroeconomic and fiscal stability, the cost of financing internal and external imbalances, and the constraints imposed by the new EU economic and fiscal governance framework and the Excessive Deficit Procedure.

At the Interministerial Coordination Committee meeting on NRRP, held on February 12, 2025, with the participation of European Commission representatives, the Romanian Government faced severe criticism from the EC for its delays in implementing the NRRP, with a warning that Romania risks losing €10 billion from the European funds allocated under the NRRP[11]. In this context, officials from the Ministry of Investments and European Projects discussed with EC representatives a revision of the NRRP, targeting four key objectives: shifting projects with a

[7] According to the Fiscal Council’s calculations, out of the €4.1 billion in pre-financing, the amounts validated by the EC for the first three payment requests amounted to at most €1.4 billion. If the remaining €2.7 billion in pre-financing not yet validated by the EC is deducted from the €8.3 billion in NRRP fund execution as of December 31, 2024, the actual absorption rate of these funds would fall below 20%.

[8] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html?lang=en

[9] https://mfe.gov.ro/wp-content/uploads/2023/10/c8c4f4c9e85ecdb40aef8d352d3bd1b1.xlsx

[10] https://mfe.gov.ro/wp-content/uploads/2024/10/b5cdbd808d7f9973463f49782956f28a.xlsx

[11] https://hotnews.ro/romania-risca-sa-piarda-10-miliarde-de-euro-din-pnrr-critici-dure-aduse-guvernului-de-catre-delegatia-comisiei-europene-1901517

steady implementation pace from the loan component to the grant component; enhancing the efficiency of fund utilization by prioritizing projects related to energy efficiency and digitalization; rescheduling implementation deadlines for investments toward the end of the NRRP period (August 31, 2026); revising the targets where there are clear risks of non-implementation.

Conclusions

- In the current domestic and international context, marked by major economic, social, political, and geopolitical tensions, the absorption of European funds from the 2021-2027 MFF and the NRRP is proving to be of vital importance for Romania.
- Regarding the 2021-2027 MFF, due primarily to administrative incapacity and poor governance, as of December 2024, the actual absorption rate of Structural and Cohesion Funds (excluding advances) was extremely low, at only 2%.
- If urgent measures are not taken to unblock the absorption of European funds, there is a real risk of decommitment of €5.2 billion from the €31 billion allocated from the SCF.
- Significant delays in the implementation of the NRRP have been observed. Given that the NRRP will conclude in August 2026, there is a major risk that Romania's absorption rate will be far below the allocated €28.5 billion, with any shortfall translating into financial losses or even the return of funds.
- Given the significant commitments made through launched calls and contracted projects under the NRRP, there is a growing risk that part of the committed expenditures may no longer be financed from European funds but instead from national sources, which would have major implications for the fiscal consolidation process.
- Disruptions in the entire financial flow calendar of the NRRP expose Romania to further risks of payment suspensions and sanctions, with both direct and collateral effects on the absorption rate of allocated funds, as well as a potential deviation from the committed path of budget deficit reduction.
- Authorities must act swiftly and decisively to unblock the absorption of European funds.

This note was approved by the Chairman of the Fiscal Council, in accordance with the provisions of Article 56, paragraph (2), letter d) of Law No. 69/2010, as republished, following its adoption by the members of the Fiscal Council through a vote in the meeting held on February 21, 2025.

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Chairman of the Fiscal Council

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