THE INEXTRICABLE LINK BETWEEN THE GROWTH EFFECT OF NEXT GENERATION EU FUNDING AND THE NATIONAL INSTITUTIONAL QUALITY: THE ROMANIAN CASE

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Abstract

The European Union's Cohesion Policy has played overtime and still plays a key role in supporting the economic and social development of Romania as in supporting the economic development of any other EU member state. Furthermore, to mitigate existing national economic vulnerabilities at EU level, doubled by the difficult economic consequences created by the COVID-19 pandemic in 2020, additionally to the EU Cohesion Policy funds, the European Commission launched the Next Generation EU program, program focused on financing National Recovery and Resilience Plans (NRRP). The key objective of every member state's NRRP, including Romania's, is to accelerate the recovery process and enhance resilience.

In the context of massive multiannual financial stimulus packages - namely the Cohesion policy funds (2021–2027) and the Recovery and Resilience Facility (2021–2026) - projections pointed toward a robust growth for the Romanian economy. Contrary to expectations, however, our country registered delays in absorbing European funds, particularly in the implementation of the NRRP, primarily caused by limitations in national administrative capacity.

This paper intends to limit itself to analyzing the inextricable link between the economic growth driven by Next Generation EU funding and the limited national administrative capacity. Especially, this paper with its findings intends to highlight the fact that our weak public administration has led to Romania's low capacity to implement the NRRP and that although our country has received countless recommendations from European Commission to reform its administrative system and improve the implementation capacity, it has failed to do so,

Furthermore, this research highlights that for the efficient absorption of European funds in the near future, namely the Security Action for Europe (SAFE) program (2026-2030), it is imperative for Romania to develop a strong public administration characterized by a low level of corruption, a strong rule of law and an effective regulatory framework.

Keywords: *European funds, economic growth, institutional quality.*

1. Introduction

Romania's National Recovery and Resilience Plan (NRRP) represents a goal-oriented program of reforms and investments which purpose is to mitigate the socioeconomic effects of the COVID-19 pandemic and also the energy resources and cost-of-living crises.

Romania's NRRP was approved by the Council on 27 of September 2021[1] and amended on 8 December 2023[2] with amounts to 28.5 billion of euros, amounts that include the Recovery and Resilience Facility (RRF) grants worth 12.1 billion of euros, REPowerEU grants worth 1.4 billion of euros, the transfer of Romania's share of 43.2 million of euros from the Brexit Adjustment Reserve to its NRRP[3] to which is added the RRF loan allocation worth 14.9 billion euros already committed under the initial NRRP version.

The recovery plan is to be implemented by the end of August 2026.

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[1] European Commission, Proposal for a Council, Implementing Decision on the approval of the assessment of the recovery and resilience plan for Romania, Brussels, 27.9.2021 COM(2021) 608 final, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0608.

[2] Council of the European Union, Council implementing Decision amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Romania, Brussels, 5 December 2023, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_15833_2023_INIT.

[3] European Parliament, Briefing, Next Generation EU (NGEU) delivery – How are the Member States doing? Romania's National Recovery and Resilience Plan Latest state of play, September 2025, p.1, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733641.

According to the data from September 2025, provided by the European Parliament, specifically their Interactive Map regarding the stage of implementation for each member state's NRRP, Romania was situated below the EU average of 56,4 %[4].

Findings from the 2025 European Semester (Fig. 1) led the Council to recommend that Romania urgently accelerate the implementation of its NRRP, as 73%[5] of milestones and targets had not yet been achieved. (Fig.2)

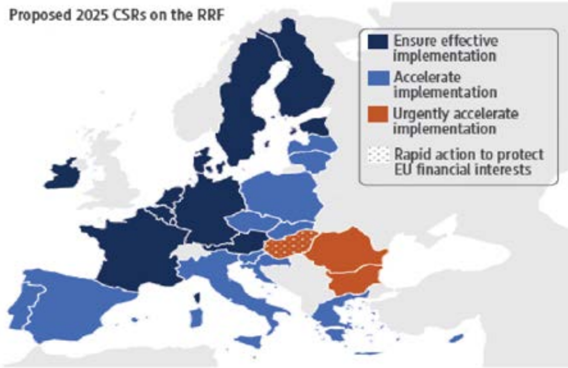

Fig. 1. RRF Milestones and targets still to be achieved by all member states[6]

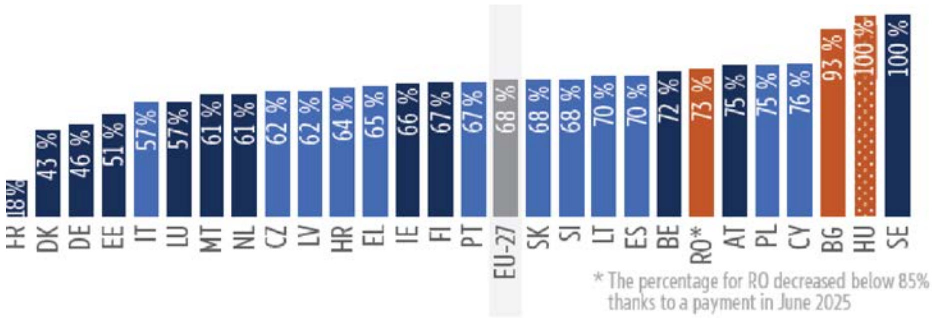

Fig. 2. RRF Milestones and targets still to be achieved by Romania[7]

In September 2025, in response to low absorption rates and the risk of losing RRF funds due to weak administrative capacity, Romania requested a revision and renegotiation of its NRRP. The revision was imperative, primarily because Romania failed to meet assumed targets and milestones, especially regarding state company reforms, justice laws and maturity in project management.

Due to these challenges, Romanian authorities revised their NRRP, and the Council approved the second amendment[8]. According to the new revised NRRP, the RRF funding was reduced to 21.4 billion euros, which includes grants worth 13.5 billion euros[9] and loans worth 7.8 billion euros[10]. The reduction of RRF funding was proportional to the reduction of targets and milestones, which decreased from 518 to 390[11].

The final form of the NRRP, despite the short implementation timeline ending August 31, 2026, provided the Council with assurance that the country would fully benefit from RRF funding. Additionally, the maturity of this revision highlights a targeted focus on strengthening public institutions.

[4] *Ibidem*.

[5] European Parliament, Briefing, Economic outlook quarterly Fragmented trade, untapped potential at home, June 2025, p.4, https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/772889/EPRS_BRI(2025)772889_EN.pdf.

[6] *Ibidem*.

[7] *Ibidem*.

[8] Council of the European Union, Council implementing Decision amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Romania, Brussels, 11 November 2025, https://mfe.gov.ro/wp-content/uploads/2025/11/1ecb1d0b595b344e37fe2cd6916e4bf7.pdf.

[9] *Idem*, p. 12.

[10] *Idem*, p. 13.

[11] *Idem*, pp. 3-5.

According to the data from the Ministry of Investments and European Projects as of March 11, 2026[12], Romania has so far received 10.722 billion of euros representing 37,6 %[13] of the total RRF resources. These includes three payments comprising 6.4 billion of euros[14] in total total grants and 4.3 billion of euros[15] in total loans, plus the pre-financing.

2. Specific Recommendations for Romania. The European Semester

Since the introduction of the European Semester in 2010 as a tool for the European Commission to coordinate economic, budgetary, and social policies, its monitoring role has extended to supervising the structural reforms set out in the National Recovery and Resilience Plans. Accordingly, the Council has continued to adopt Country-Specific Recommendations (CSRs) on an annual basis.

All member states, including our country, were asked to address a substantial set of recommendations received in the 2019-2020 European Semester evaluations through measures included in their NRRPs in order to benefit from RRF funding.

The Council recommended that Romania implement a set of measures to guarantee post-pandemic recovery and support the green and digital transition. In the 2019 and 2020 CSRs, the Council focused its recommendations on the following areas: public finances, taxation, the pension system, health, poverty reduction, education, social inclusion, research, development and innovation (R&D&I), the business environment, the labour market, the green and digital transition, and, not least, public administration and institutional quality.

Focusing solely on the area of public administration, the Council recommended that our country strengthen its efforts to enhance the quality and effectiveness of public institutions and to assure legal certainty[16].

Romania has fully integrated the Council recommendations into its NRRP targets and milestones to be achieved regarding the improvement of administrative capacity in all areas, such as: public governance and decision-making, health, judicial system reforms, and the consolidation of the rule of law.

In the context of the 2025 European Semester, spring package, which noted a major delay in the implementation of the NRRP, caused mainly by weak public institutional quality, the Council recommended that Romania urgently accelerate the implementation of its NRRP. Specifically, the Council advised Romania to “accelerate reforms and investments by tackling procurement delays, ensuring effective governance, and strengthening administrative capacity”[17]. Furthermore, the Council recommended that national and local institutions make considerable efforts to implement simpler rules and expedite administrative procedures.

Regarding the legislative framework, the Council assessed its quality as “questionable” [18] and its “actual use as uncertain”[19]. Finally, the Council recommended that Romania urgently implement NRRP reforms focused on strengthening “the capacity for policy coordination”[20] and increasing “the quality of public consultations”[21], which would help improve economic and social outcomes.

Not at least, to maximize the use of cohesion and RRF funds, the Council advised Romania to improve public administration efficiency and decision-making predictability, ensuring that new legislation does not “undermine legal certainty”[22].

By analyzing the June 2025 Council recommendations to Romania alongside September 2025 data from the European Parliament's Interactive Map (which monitors NRRP implementation stages), we can conclude that the

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[12] Ministerul Investitiilor si Proiectelor Europene, Tablou de Bord PNRR, 11 March 2026, https://mfe.gov.ro/pnrr-dashboard/.

[13] European Parliament, Briefing, Next Generation EU (NGEU) delivery – How are the Member States doing?, Romania's National Recovery and Resilience Plan Latest state of play, September 2025, p.1, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733641.

[14] https://www.europarl.europa.eu/thinktank/infographics/RRF/recovery-resilience-facility/?lang=en#data-map.

[15] *Ibidem*.

[16] European Parliament, Briefing, Next Generation EU (NGEU) delivery – How are the Member States doing?, Romania's National Recovery and Resilience Plan Latest state of play, September 2025, p.2, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733641.

[17] European Commission, Recommendation for a Council recommendation on the economic, social, employment, structural and budgetary policies of Romania, COM(2025) 223 final, Brussels, 04.06.2025, p. 7, https://commission.europa.eu/document/download/ba3d44aa-c5f1-4e86-b437-12c64f6f685d_en?filename=COM_2025_223_1_EN_ACT_part1_v4.pdf.

[18] *Idem*, p. 8.

[19] *Ibidem*.

[20] *Ibidem*.

[21] *Ibidem*.

[22] *Idem*, p. 12.

low absorption rate of RRF funds was largely due to the poor quality of the public institutions responsible for implementation.

Due to weak public governance and project management, an imperative revision of the NRRP in November 2025 was required to successfully benefit from RRF funding and to direct it toward realistic, long-term economic and administrative investments.

More importantly, our current institutional quality is not only responsible for the low rate of RRF funding absorption, but it has also been a persistent constraint on the absorption of all EU funds since the 2007–2013 Multiannual Financial Framework. This key constraint has been repeatedly highlighted by both Romanian and international stakeholders with economic surveillance mandates.

3. Views of Romanian and International stakeholders on the role of institutional quality in the absorption of RRF Funding

The World Bank acknowledged the fact that Romania's NRRP had and still has a great potential to achieve the post-pandemic recovery and to generate economic growth. The Bank stressed that Romania's NRRP measures are suitable for addressing the main critical issues affecting economic growth and development, such as poor infrastructure, social inclusion, health, and labor quality. However, the World Bank also highlighted that Romania's low historical absorption of EU funds remains an important issue, issue caused mainly by "weak institutions and insufficient administrative capacity"[23], which is considered a "key constraint."[24]

The Bank believes that "limited cross-government coordination"[25] and poor alignment between "strategic priorities and investments"[26] continue to hinder Romania's capacity to absorb EU funding and "deliver public services up to EU standards" [27], this is despite the NRRP providing the national government with a medium-term framework for major administrative reforms.

Echoing the views of the World Bank, also the Organization for Economic Cooperation and Development (OECD) stated in its latest survey on Romania's economic growth[28], that the absorption of EU funding is slow, "particularly under the Recovery and Resilience Facility" and this may dampen economic growth.[29]

This low rate of absorption of EU funding - and by extension the RRF funding - is constrained "by weak administrative capacity and low-quality project preparation"[30]. OECD recommends that Romania take immediate measures to strengthen administrative capacity, focusing especially on creating "better coordination across institutions"[31].

Furthermore, the OECD considers that continued progress in increasing the quality of public institutions would help deliver lasting improvements in the absorption of EU funding and in the quality of Eu funds spending[32].

Nevertheless, the National Bank of Romania (BNR)'s latest analysis[33] concluded that NRRP implementation was slow, citing low RRF funding absorption and delayed reforms due to weak administrative capacity in meeting targets and milestones[34]. The Bank notes that Romania's trailing position in the EU is due to three systemic issues: administrative constraints, poor project management, and protracted legislative processes[35].

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[23] World Bank Group, Systematic country diagnostic update, Romania, 2023, p. 14, https://documents1.worldbank.org/curated/en/099134003102323181/pdf/BOSIB0480d508207e0805908b215a1d78b8.pdf.

[24] *Ibidem*.

[25] *Idem*, p. 36.

[26] *Ibidem*.

[27] *Ibidem*.

[28] OECD, OECD Economic Surveys: Romania 2026, OECD Publishing, Paris, 2026, https://doi.org/10.1787/4844067e-en.

[29] *Idem*, p. 10.

[30] *Idem*, p. 59.

[31] *Idem*, p. 35.

[32] *Ibidem*.

[33] Banca Națională a României, Cristina, Anghelescu, Daniel, Dăianu, Tudor, Grosu, David, Orțan, Caiete de studii Nr. 66, Fondurile europene și investițiile publice în România: implicații ale încheierii PNRR asupra creșterii Economice, Februarie 2026, www.consiliulfiscal.ro/Caiet%20de%20studii%20nr.66_2026.pdf.

[34] *Idem*, pp. 13-14.

[35] *Idem*, p. 14.

4. Conclusions

The crisis generated by the COVID-19 pandemic has amplified existing economic vulnerabilities, both at the European Union and national levels.

The effects of this crisis have had also a significant impact on Romania's socio-economic development, highlighting even more clearly the imperative to strengthen our country's resilience in the face of future economic shocks. In this context, the European Commission has launched the program Next Generation EU program, program focused on financing National Recovery and Resilience Plans (NRRP). The key objective of every member state's NRRP, including Romania's, is to accelerate the recovery process and enhance resilience.

As previously noted, the need to bolster national resilience against economic shocks gained further urgency following the outbreak of the war in Ukraine. In this volatile regional climate, RRF funding proved to be invaluable.

Without RRF funding, Romania would completely fail to implement vital investments and reforms for social and economic growth, especially considering the war on its Ukrainian border, its budget deficit and limited administrative capacity[36]. These volatile national and regional difficulties have led to slow progress in implementing the reforms and investments pledged under the NRRP, resulting in delays in submitting payment requests. In this context, Romania was obliged to revise the NRRP in November 2025.

Overall, European funds, including both the RRF funding (2021-2016) and the Cohesion policy funds (2021–2027), helped mitigate the adverse effects of the COVID-19 pandemic and boosted Romania's economic recovery.

However, both Romanian and international stakeholders have concluded in various economic surveys that institutional quality plays a vital role. Specifically, in economies with weak institutions, the impact of European funding is limited, whereas strengthening institutional quality would significantly amplify economic growth.

Echoing the views of the BNR, we conclude that future reforms and investments—taking into consideration the NRRP experience and the upcoming EU funding (Security Action for Europe, SAFE, 2026-2030), must be directed towards improving institutional quality. As economic surveys from European and international stakeholders have repeatedly recommended, our governments must never undermine the interdependence between the level of European funding absorption, public investment, and the dynamics of economic growth.

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[36] *Idem*, p. 37.

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