# THE IMPACT OF EU FUNDS ON NATIONAL ECONOMIES

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***Abstract:*** *Countries that choose the accession to the EU are beneficiaries of pre-accession funds. We will focus the cases of Romania and Bulgaria since those are closest to us, and we will analyze the pre-accession instruments. We will also analyze the evolution of the economic data of the countries that have benefited from EU funds, and later became members.*

***Key words****: pre-accession funds, GDP per capita, financial assistance, exports.*
***JEL classification****: F 43*

## Introduction

Romania and Bulgaria joined the EU on January 1, 2007. From 1992 to 1999 Romania received funds from the EU in the amount if approximately 1.2 billion euro. Starting with the year 2000 there are three main pre-accession funds: PHARE, ISPA and SAPARD. In the period 2000-2003 Romania received approximately 660 million euro per year thought the three instruments. Poland, another beneficiary of EU funding, in 1990 had a smaller GDP then Ukraine and yet

today Poland's GDP is three times the size of Ukraine's. Republic of Moldova as an aspirating member of the EU can draw conclusions from others experiences.

Material and method. As main data sources, we will use EU statistical and analysis reports, as well as various articles written on the subject.

Results and discussions. We will begin by describing the three main instruments of funding.

The PHARE program has started in 1989 was designed to provide assistance to Poland and Hungary, later it was extended to other countries. From the year 2000 to 2006 the funding for the three instruments was in the amount of 3 billion euro, of which 1.5 billion euro was made available for PHARE, 1 billion for ISPA and 500 million for SAPARD.

"PHARE remains the main instrument of assistance, focusing on two main priorities: institution building (strengthening the administrative and institutional capacity) and investment support (financing of investment to bring firms and infrastructure into line with the European standards). Its role continuously increased, aiming at supporting the preparation for the EU accession, through concrete measures having as objective the fulfillment of the Copenhagen criteria.

PHARE provides structural assistance at the regional level (institution building and investments in Economic and Social Cohesion) and finances measures in the field of cross-border cooperation and nuclear safety. During the period 2000-2003 Romania benefited of more than 1 billion euro PHARE funds allocated through national programs, cross

border cooperation programs, and projects in the field of nuclear safety." [1]

ISPA (Instrument for Structural Policies for Pre-Accession) is second in terms of funding, it focuses on:

- "Rehabilitation of environment infrastructure (upgrading the water supply, sewerage and wastewater treatment systems, management of waste in urban areas);
- Improvement and upgrading the transport infrastructure (modernisation of national roads, rehabilitation and upgrading railway sections, etc.)." [1]

SAPARD (Special Accession Programme for Agriculture and Rural Development) has the objective to establish a Community framework for supporting sustainable and rural development in candidate countries, to solve problems affecting the long term adjustment of the agricultural sector and rural areas, to help implement the Community acquis in matters of the common agricultural policy and related policies. [1] In the table 1 it is represented the amount of funding received as part of pre-accession funds received by twelve countries (Table 1). We can see that Romania and Poland were the main beneficiaries of funding. Romania received almost 19.6% of funding. All countries experienced a period if increased economic growth and modernization in almost all areas, something that can happen in Republic of Moldova.

**Table 1.**

**EU Pre-Accession Financial Assistance, 1990-2006 (€ million)**

| Beneficiary | EC Assistance | Beneficiary | EC Assistance |
|---|---|---|---|
| Bulgaria | 2358.1 | Malta | 57.0 |
| Cyprus | 61.7 | Poland | 3994.1 |
| Czech Republic | 1062.2 | Romania | 3671.6 |
| Estonia | 346.0 | Slovakia | 806.2 |
| Hungary | 1478.9 | Slovenia | 358.4 |
| Latvia | 422.7 | Multi-Beneficiary | 3248.7 |
| Lithuania | 808.5 | TOTAL | 18673.1 |

*Source:* [2]

Tabel 2 analyzes the real GDP per capita evolution. We can see a positive evolution for almost all members, Romania and Bulgaria have registered improvements of 27.78% and 35.71% respectively, well above the average of 4.85%, which is to be expected. Table 2 shows the importance of the pre-accessions funds. The evolution of real GDP per capita proves the result of EU integration brings sustainable results for aspiring members such as Republic of Moldova.

In Romania EU funding concentrates on two large areas: regional policy and agriculture and rural development (Fig.1). The total amount of EU funding in Romania for 2013 was 5.6 billion euros.

**Table 2.**

**Real GDP per capita (€ per inhabitant)**

| Country | 2004 | 2013 | Progress | Rank |
|---|---|---|---|---|
| *EU (27 countries)* | *22200* | *23300* | +4.85% | |
| *Luxembourg* | *62700* | *62400* | *-0.5%* | *1 in EU* |
| Bulgaria | 2800 | 3800 | +35.71% | 12 |
| Cyprus | 18000 | 16400 | -8.9% | 1 |
| Czech Republic | 9600 | 11300 | +17.71% | 4 |
| Estonia | 7600 | 9600 | +26.32% | 5 |
| Hungary | 8400 | 9000 | +7.14% | 7 |
| Latvia | 5200 | 7100 | +36.54% | 10 |
| Lithuania | 5800 | 8500 | +46.55% | 9 |
| Malta | 11900 | 13800 | +15.97% | 3 |
| Poland | 6200 | 8600 | +38.71% | 8 |
| Romania | 3600 | 4600 | +27.78% | 11 |
| Slovakia | 6700 | 9500 | +41.79% | 6 |
| Slovenia | 13800 | 14800 | +7.26% | 2 |

*Source:* [2] "The largest share of the money that Romania receives from the EU budget goes to its regions. The regional policy aims to reduce the economic, social and territorial disparities between Europe's regions. Regional funds invest in a wide range of projects supporting job creation, competitiveness, economic growth, improved quality of life and sustainable development.

Transport and research are top priorities for Romania: the EU is helping build a new motorway between Orăştie and Sibiu, and also financing new laboratories for a Romanian research company." [3]

"The second largest area of EU expenditure in Romania is agriculture and rural development. EU agricultural policy supports farmers and promotes safe and good food, but it also looks after the environment and stimulates rural economies. The agricultural income per worker increased by around 51 % between 2007 and 2012. A young farmer from Cluj is just one example of EU funding in action: he was able to purchase new machinery and equipment, extend his farmland and diversify production." [3]

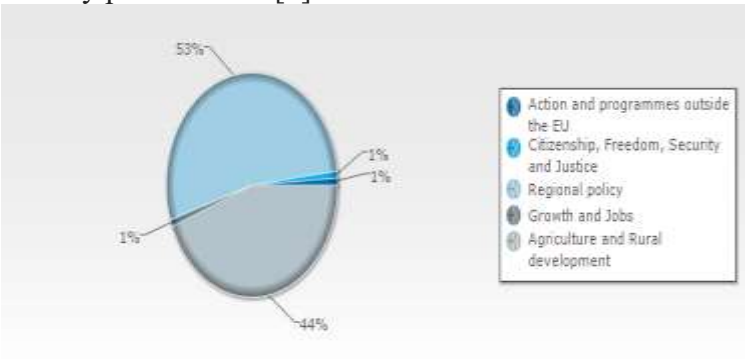


**Figure 1. EU funding in Romania 2013**

*Source:* [3]

Another aspect that we need to look at is evolution of trade, the effects of being part of the single market. In Table 3 there are analyzed the effects on trade (Table 3). In table 3 we notice that almost all countries have become more export dependent, with Slovakia registering 97.6 % exports of good services as % of GDP, in fact all countries (except Cyprus) have higher dependency on exports the EU average.

**Table 3.**

**Exports of goods and services in % of GDP**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bulgaria | 47,4 | 48,5 | 51,9 | 40,5 | 61,2 | 59,5 | 58,2 | 47,5 | 57,4 | 66,5 | 66,7 | 70,2 |
| Cyprus | 51,2 | 47,5 | 48,3 | 48,6 | 48,1 | 48,2 | 45,8 | 40,8 | 42,0 | 43,5 | 43,5 | 45,0 |
| Czech Republic | 57,6 | 59,1 | 63 | 64,4 | 67 | 68,2 | 64,4 | 59 | 66,6 | 72,9 | 78,0 | 78,6 |
| Estonia | 70,9 | 69,1 | 73,0 | 77,7 | 72,7 | 67,1 | 71,0 | 63,8 | 77,5 | 87,3 | 90,2 | 87,7 |
| Hungary | 63,3 | 61,4 | 63,3 | 65,9 | 77,7 | 81,3 | 81,7 | 77,6 | 85,1 | 91,6 | 94,7 | 96,2 |
| Latvia | 41,3 | 42,2 | 44 | 48,2 | 45,1 | 42,5 | 43,1 | 43,9 | 53,6 | 58,8 | 61,6 | 59,7 |
| Lithuania | 52,4 | 50,9 | 51,9 | 57,3 | 58,8 | 53,8 | 59,6 | 54,2 | 67,7 | 77,2 | 83,9 | 86,9 |
| Malta | 81,4 | 77,0 | 76,3 | 74,9 | 88,8 | 92,2 | 91,8 | 81,8 | 90,6 | 97,1 | 102,1 | 93,7 |
| Poland | 28,6 | 33,3 | 37,5 | 37,1 | 40,4 | 40,8 | 39,9 | 39,4 | 42,2 | 45,1 | 46,7 | 47,8 |
| Romania | 35,4 | 34,8 | 35,8 | 33,1 | 32,3 | 29,3 | 30,4 | 30,6 | 35,4 | 40,0 | 40,6 | 42,2 |
| Slovakia | 71,1 | 75,8 | 74,5 | 76,3 | 84,5 | 86,9 | 83,5 | 70,6 | 80,4 | 89,5 | 96,6 | 97,6 |
| Slovenia | 55,1 | 53,8 | 57,8 | 62,2 | 66,5 | 69,5 | 67,9 | 59,4 | 66,8 | 73 | 76,1 | 78,1 |
| | | | | | | | | | | | | |
| EU (28 countries) | 35,2 | 34,5 | 35,7 | 37,1 | 39,5 | 40 | 41,2 | 36,9 | 40,9 | 43,8 | 44,9 | 44,9 |
| Euro area (18 countries) | 36,3 | 35,3 | 36,7 | 38,1 | 40,4 | 41,5 | 42 | 36,9 | 41,3 | 44,3 | 45,9 | 45,9 |

*Source:* [2]

Thus, from the performed analysis, we can formulate the following **conclusions**:

- EU pre-accession funds have positive effect on countries from which Republic of Moldova can benefit;
- Real GDP per capita has increased in countries that have become members of EU;
- Exports of goods and services as % of GDP has increased in most countries, representing a source of profits, as well as a possible source of vulnerability;
- Republic of Moldova should take full advantage of the pre-accession funds to ensure long term sustainable growth.

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