

Improving Regional Gaps in Romania through the Absorption of European Funds

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doi: 10.25019/STR/2024.042

Abstract

European funds are an essential element for starting businesses and creating jobs at the national level. These free subsidies can be a starting point for modernizing the national economy and a real lever in Romania's economic repositioning on the map of Europe. However, Romania's modernization implies increased attention to the business environment. The specialized literature, from the point of view of community absorption, seems to be divided into two camps, of authors who report that community funds have a positive impact on regional development but also in the camp of those who are skeptical about European funds, considering their impact, at the macroeconomic level, as inductive in nature, with difficulty in measuring the economic effects generated. This research analyzes a sample of private businesses to examine the impact of free monetary flows from the European Union, with the following research question: "Do community funds, injected in the private sector, bring microeconomic and macroeconomic benefits?" The research results show a positive trend in the studied indicators, linked to the absorption of European funds. The central and local public administration, universities in Romania, and the private sector capitalize on European funds. Our opinion reinforces the positive impact of community subsidies on the country's economic environment, with the caveat that the private sector must be well informed and supported; in this regard, universities in Romania can make a considerable contribution in this direction. The paper emphasizes aspects related to community financial absorption, focusing not only on the quantitative component of absorption but also on the qualitative strategy of inoculating funds through infrastructure creation and investments, generating jobs, goods, and services, increasing purchasing power, and triggering a valid economic circuit.

Keywords

Qualitative Absorption; Quantitative Absorption; Real Economy; Capital Flows; European Funds; Economic Indicators.

Introduction

The statement of the Minister of Foreign Affairs, Robert Schuman (1950), regarding the construction of the European Union is impressive: "World peace cannot be ensured

without making creative efforts proportionate to the dangers that threaten it." The European Union has practically tried to transform a painful reality, demonstrated by the two world wars, into one that is beneficial (almost) to all the citizens of this continent. The attempt to build a European single market is not an easy one, but a gradual one, in which the representatives of each state must enter into a fair competition. This competition will upgrade this continent, aiming to become a strong "bloc" from an economic, social, and environmental perspective, a reference for the other continents.

Romania's economic thinking must be in tune with that of the European Union, namely, aiming for a global market whose performance is driven by direct and fair competition among its regions. This competition brings significant benefits for European citizens, from innovations to compliance with environmental requirements, from price stability and economic well-being to civic actions and the eradication of modern diseases. These major benefits can only be achieved through fair competition, and how can there be fair competition if all regions have a monopoly on specific markets for goods and services. Hence, the key issue is to reduce the gaps between European regions. Basically, we consider it impossible to align the European regions on economic, social, and environmental grounds, but the desire for "improvement" persists.

The paper focuses on the analysis of performance indicators in the private sector, beneficiary of community subsidies, within five counties in Romania, the purpose being to identify a possible link between economic growth and the absorption of European funds.

Literature review

Bostan, Moroşan, Hapenciuc, and Stanciu (2022), in the paper *Are Structural Funds a Real Solution for Regional Development in the European Union?*, which monitors several SMEs on specific indicators, offer the following conclusion: "We can clearly state that EU funds have a positive impact on economic development, but it is a conditional one. The paper supports studies that have argued in favor of conditional effects, in which the conditioned factors are the efficiency of the institutional absorption system" (Bostan et al., 2022).

Many European economists, as well as in our country, place Romania as a "developing" country; many questions revolve around the fundamental one: *Will Romania become a country with well-being for its citizens, like those in Western Europe?* An example would be Ireland, which "holds the story of a successful evolution from the moment of accession to the European Union, which has withdrawn its future in the hierarchy of developed countries" (Coman & Coman, 2010).

Press release no. 21/20 January 2023, *Purchasing power in Romania, compared to the member states of the European Union, in 2021*, reinforces the fact that our country does not really sit at the "table" of Western Europe, the conclusion being: "Romania together with five other member states (Poland, Portugal, Hungary, Latvia, Croatia) record values of the GDP volume index per capita, calculated based on PPC, which is in the range of 70%-80%, compared to the European Union average".

"In fact, inflows in the nature of capital transfers from the EU, as well as foreign direct investments, are aimed at strengthening a country's economy. The role of foreign direct investments has been. It is of particular importance, at the macroeconomic level, as they actively contribute to covering the current account deficit and balancing the external balance of payments" (Costache, 2012). Our assessment is the same: economic thinking must undoubtedly be long-term. Obviously, the economy is finding a new twist almost immediately, but it would be good to offer long-term economic reasoning.

Hapenciuc, Stanciu, Moroşan, and Arionesei (2014) conducted research in Suceava County that measured the multiplier effect of funds allocated at the microeconomic level, noting that "the specialized literature presents simple quantitative approaches that process macroeconomic indicators." Also, in the aforementioned paper, the researchers conclude that the economic impact of the Sapard program "has strengthened a system of institutions and work procedures." However, the resulting economic and social effects involve "variability and are difficult to measure, being inductive in nature." This is also our opinion that of interest should also be the existence of monitoring in territorial profile, microeconomic monitoring, and, more precisely, *monitoring at the level of UAT (commune, city, municipality)*: number of companies, turnover, salaries, profit, number of employees, and community funds absorbed by the business environment. We do not deny the fact that there is no monitoring, but it seems to be "mixed"; we only suggest that it be carried out in another form. The economic map of UAT "X," with all the indicators mentioned above, should be a "click away." Here, we refer to the ease of monitoring.

As for the absorption of community subsidies, with inductive effects on the social and economic level, we say that the process is two-way: on the one hand, a free financial absorption propagates social and economic impacts in society; on the other hand, the social and economic aspects (more or less intense) in society can create a strong absorption of funds. Society needs expertise, qualified people, and educated people. Things are very well connected, and the researchers have made the following point very clear: "The inability to provide basic education is capable of seriously jeopardizing a country's efforts to reduce poverty" (Corbu, Hapenciuc, & Cozorici, 2020).

Community subsidies are analyzed in the literature from several angles regarding several indicators. Moroşan, Hapenciuc, and Stanciu (2015) address economic indicators, such as labor productivity and labor, concluding that EU funds represent "a visible effect on employment, but no effect on labor productivity."

The literature also describes other "bright" aspects of the absorption process. "Romania has adopted and continues to adopt measures to streamline the absorption of funds, measures have been taken to improve and accelerate the use of EU funds, the amount of financing available to beneficiaries has increased to reduce the co-financing pressure, and advance payments have been accelerated" (Cace, Cace, & Nicolăescu, 2011).

Another aspect is captured in the literature, namely that: "an important effect of the grant is the transfer of technology (implementation of the latest technologies)" (Moroşan, Hapenciuc, & Condratov, 2015). Technology is the one that has created an up-date of the type of business, as well as of the way of doing business, the one that has

taken economies to another level, the holders of technological innovation becoming the ones who can control the markets. Moroşan et al. (2015) consider that: "The effects of community financial absorption are not felt in the case of medium and large enterprises in the North-East of Romania," although we consider that there is still a beneficial influence, difficult to quantify.

Enachi and Enachi (2020) consider "the research-development-innovation interrelationship, which has proven to be crucial for increasing economic competitiveness." And since extraordinary innovation in Romania is achieved within universities, we believe their role is important in all aspects of combining innovation, economic growth, and community absorption.

The European world, and not only, is increasingly "linked" and globalized, and one of the objectives pursued at the European level is to develop existing technology and implement it, "the winners being the world's economies that incorporate AI technology" (Stratila, Chele, & Podaru, 2024). A significant proportion of European funds is directed towards digitizing the European regions' business environment and institutional environment.

Methodology

The philosophical considerations in the construction of the work were aimed, from an epistemological point of view, *at the quantitative approach* by collecting and processing data from the websites of the National Institute of Statistics, the Ministry of Finance, and from the website of the European Structural and Investment Funds, followed by the empirical analysis of the indicators. The research focuses on an analysis of a series of data from the annual financial statements, with a focus on the indicators: employees, turnover, net profit, total assets. In parallel, the value of the absorbed European funds, their type as well as the absorption period were analyzed. Other indicators analyzed nationally were the number of active enterprises, GDP, and the number of employed persons.

The research question around which this analysis and the research conclusions are based is: *"Do community funds, inoculated in the private sector, bring microeconomic and macroeconomic benefits?"* To answer the research question, we turned our attention, in the first stage, to the community absorption indicators in all Romanian counties, thus obtaining a national image and a hierarchy of counties in terms of indicators. In the present work, observation and examination were used as classic research tools; at the same time, the specialized literature was documented, with emphasis on scientific articles.

Results and discussion

The implementation of European funds in Romania has become easier through the accumulated expertise and the support offered by institutions in this direction, an important role being played by digitization, but also by continuous monitoring of this phenomenon.

In the first part of the research, we focused on the absorption of European funds at the county level in Romania to identify the counties that have best capitalized on this development opportunity. By the number of contracted projects, Cluj County is at the top of the ranking, with 799; at the other end is Ialomita County, with only 140. To capture the "power" of each county in terms of the absorption of European funds, we also looked at the contracted value. Cluj County ranked 2nd, with Bucharest in 1st place, at a budget value of 3351.58 million EUR. Practically, the value of the budget in Bucharest represents 11.66% of the total budget, at the national level, followed by the counties of Cluj and Prahova, which have a percentage of 5.28% and 5.10%.

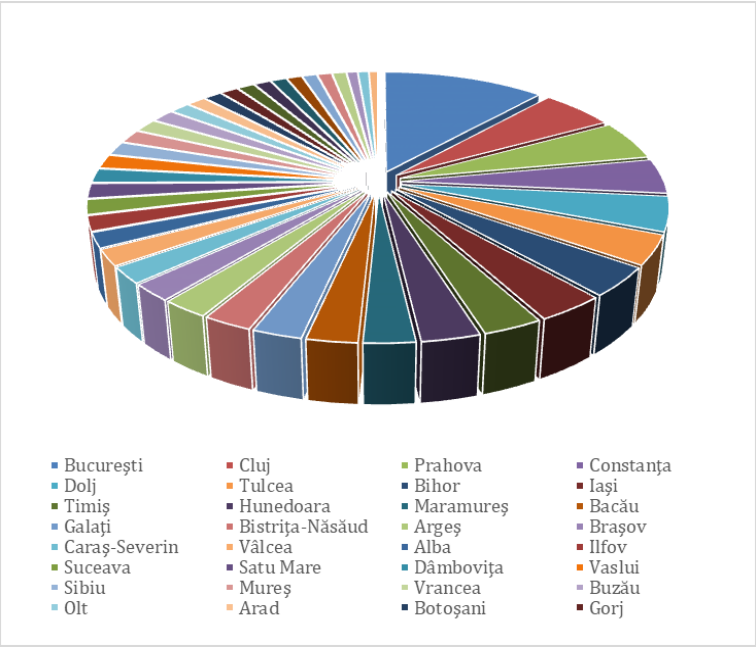


Figure 1. Share of the value of EU funds per county in total contracted budget
(authors' processing from the database of www.fonduri-ue.ro)

We chose to analyze the leading counties, in terms of the absorption of European funds, one county in the middle of the ranking, and one at the end of the ranking, from the point of view of statistical indicators on their economic performance, to identify a possible link between the economic performance and the absorption of European funds.

The first indicator considered was the number of *active companies*, thus assuming a possible increase influenced by the absorption of EU funds.

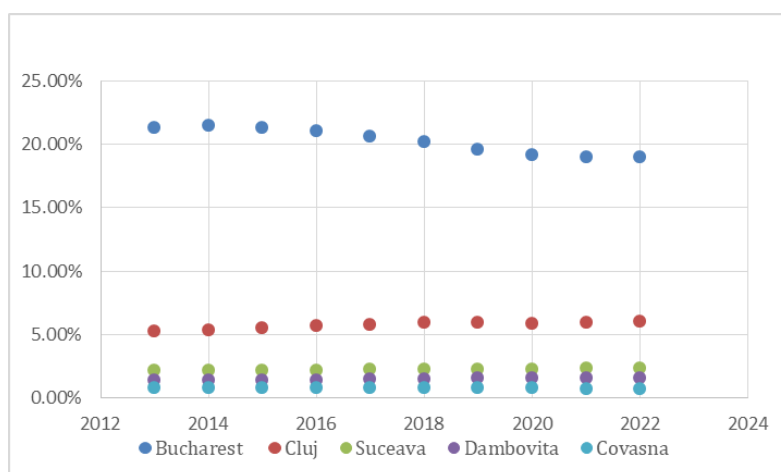


Figure 2. Share of the number of active enterprises by counties, in total active enterprises in Romania, period 2013 - 2022

(authors' processing from the database of National Institute of Statistics)

In 3 of the 5 analyzed counties (Cluj, Suceava, Dâmbovița), between 2013 and 2022, the number of enterprises increased steadily, while in the county that accessed the least European funds, the number of enterprises did not increase. However, even a decrease, in 2013, having a share in the total number of active enterprises in Romania of 0.78%, decreasing to 0.69% share in 2022. Cluj County, at the top of the ranking regarding the absorption of European funds, not only maintained its share but even increased, starting from a 5.23% share to a 5.98% share in 2022, of the number of active enterprises in total active enterprises in Romania. This evolution suggests a possible link between the indicators (number of active enterprises and absorption of European funds).

Another indicator that we considered necessary in the economic analysis of the counties is *the GDP*. It is a macroeconomic indicator used internationally, reflecting the economic power of a state, region, or country. The national GDP grew steadily between 2014 and 2021, with the lowest growth in 2020, during the pandemic, at 0.28%, compared to the average annual increase of 8.31%. The county that exceeded the yearly average of GDP growth at the national level is Cluj County, which presented a yearly GDP growth of 10.73% in 2017, reaching the maximum annual increase of 21.16%. It is certainly not just a coincidence that the leading place in the ranking of this indicator is the leading place in the ranking of the absorption of European funds, presented above.

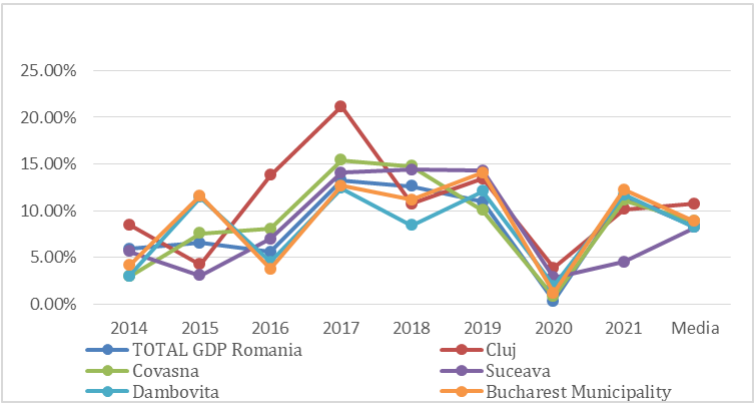


Figure 3. Annual percentage growth of GDP in Romania, by counties, 2014-2021
(authors' processing from the database of the National Institute of Statistics)

The last indicator analyzed is that of *the number of employees*, which is a strong indicator, the lack of jobs being a strongly debated problem nationally and internationally. At the national level, between 2014 and 2021, the number of employed people and employees increased, on average, annually by 86.5 thousand people, 2020 being the only year with a decrease due to the COVID-19 pandemic. In Bucharest and Cluj, the number of employed persons and employees increases annually by 12.8 and 9 thousand employees, the two counties representing 25.2% of the national increase in the number of employed persons and employees. At the opposite pole is Covasna County, with an average annual growth of only 0.3 thousand people, representing only 0.34% of the national development. The weak activity in Covasna County, in terms of the absorption of European funds, is reflected in a low GDP and a small number of employees.

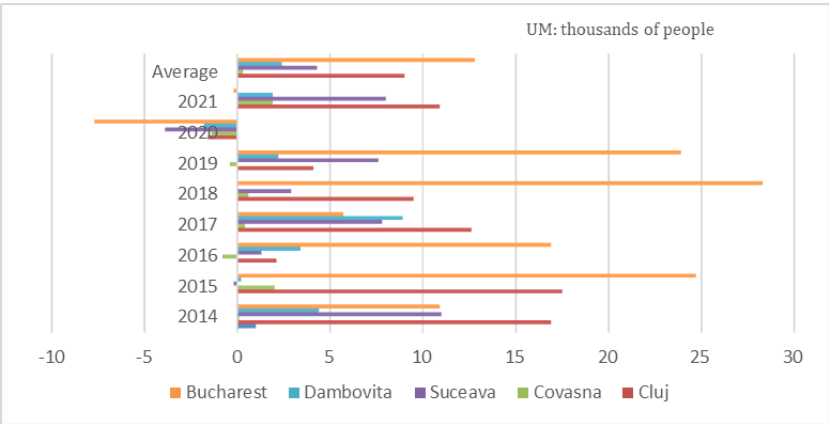


Figure 4. Employed population and employees, by counties, 2014-2021
(authors' processing from the database of the National Institute of Statistics)

Following the analysis, we can see a similarity between the data on the absorption of European funds and the three analyzed economic indicators: the strongest counties in terms of GDP, number of enterprises, and employees are also those that accessed a large share of European funds: Cluj and Bucharest. On the other hand, Covasna

recorded very small increases, Dambovița medium to small, and Suceava medium to large, proportionally between the analyzed indicators. We believe that the absorption of European funds is reflected in macroeconomic indicators, helping sustainable development, an aspect that can be easily observed in the analyzed counties.

For an analysis at the microeconomic level, we randomly selected 10 companies from 3 counties previously analyzed: Bucharest, Cluj, from the first positions of the ranking regarding the analyzed economic indicators, the absorption of European funds, and Suceava County, which is in the top 10 counties regarding the number of EU funds projects, ranking on the 21st position in terms of absorbed value.

The table below highlights 10 companies in Bucharest that have accessed European funds through various programs, thus tracking their evolution and the possible influence on the absorption of funds.

Table 1. Performance indicators of 10 units in Bucharest (authors' processing from the database of www.mfinante.gov.ro and www.fonduri-ue.ro)

Unit	Indicators	2023	2022	2021	2020	2019	Absorption of EU funds	
MEDICAL OPINION SRL (28563993)	Turnover	2480888	3262451	3259159	170347	128500	PO EU Fund	POIM Cohesion 27.02- 31.10.23
	Net Profit	1406771	2732087	2885997	84650	17475		
	Total assets	11496838	8473026	3017212	225206	662059	Period	31.10.23
	Employees	2	4	2	2	3	Value	1585072
TOTAL GROUP DISPLAY (15948840)	Turnover	27430266	24783554	26149686	22996741	22188402	PO EU Fund	POIM Cohesion 27.03- 31.03.23
	Net Profit	2279716	1143703	3950814	4424739	2842353		
	Total assets	28660446	26978009	31313797	23780999	20381288	Period	31.03.23
	Employees	104	109	111	120	120	Value	1889213
CAMPUS FACILITIES SRL (33905693)	Turnover	22364177	17900498	10289404	10959148	15966067	PO EU Fund	POCU Social European 01.11.20- 31.10.22
	Net Profit	3390370	4043945	-195997	-2310000	1609043		
	Total assets	77424913	80359196	82923357	80491657	81853538	Period	31.10.22
	Employees	34	30	22	25	27	Value	4643959
BUSINESSVIEW SOFTWARE SRL (2229072)	Turnover	980635	1604808	1541550	1388249	687602	PO EU Fund	POC FEDR 02.08.17- 31.10.19
	Net Profit	50050	23397	27919	20477	111411		
	Total assets	577195	376988	1056436	2392633	3748349	Period	31.10.19
	Employees	1	1	1	1	7	Value	3693173
ORTHOZONE (29596336)	Turnover	3604931	2444533	615806	628792	558094	PO EU Fund	POC FEDR 30.03- 31.12.23
	Net Profit	148513	103793	468279	538511	389854		
	Total assets	2449599	1788289	1044542	562049	416632	Period	31.12.23
	Employees	9	7	1	1	1	Value	884264

ZITEC (15496736)	Turnover	144182646	123390120	87811067	51782908	33046652	PO EU Fund	POC FEDR 01.06.17- 31.05.19
	Net Profit	5620836	9821633	8170243	1666719	717719	Period	
	Total assets	47223707	40978068	41181189	25660355	19428981	Value	4373641
	Employees	327	325	233	179	167		
AGNES ITARA (24905180)	Turnover	1515357	1393794	1874652	2288927	1097297	PO EU Fund	POR FEDR 01.01- 31.12.23
	Net Profit	902107	237484	468569	992082	207977	Period	
	Total assets	2371405	568188	871274	1244890	669072	Value	1126583
	Employees	1	3	3	3	4		
CERTSIGN SA (18288250)	Turnover	102344752	76470322	67352044	61560546	58132604	PO EU Fund	POC FEDR 14.10.21- 31.12.23
	Net Profit	13169798	6383762	5297537	4123030	2828871	Period	
	Total assets	77154205	62754020	51484751	36696974	35079835	Value	7741747
	Employees	292	278	257	241	231		
INDACO SYSTEMS SRL (6410158)	Turnover	13222350	11362773	11975897	10622843	10704404	PO EU Fund	POIM Cohesion 15.03.23- 31.12.23
	Net Profit	2704222	4227980	4068834	2085454	3629893	Period	
	Total assets	31703808	39442544	30842375	21883911	17725108	Value	10019765
	Employees	49	53	54	55	51		
ROBERT BOSCH SRL (5541546)	Turnover	815095263 4	701435858 1	48098042 55	39224232 30	37085473 04	PO EU Fund	POCU Social European
	Net Profit	19200777 3	18952808 0	11506294 0	58273083 9	11793153 9	Period	04.06.18- 04.01.21
	Total assets	34497154 39	38493789 02	33801358 82	25293577 48	22988808 21	Value	2118187
	Employees	5875	5219	4545	3954	3608		

All 10 companies analyzed show a favorable evolution of performance indicators, showing significant increases in terms of the number of employees, turnover, or net profit.

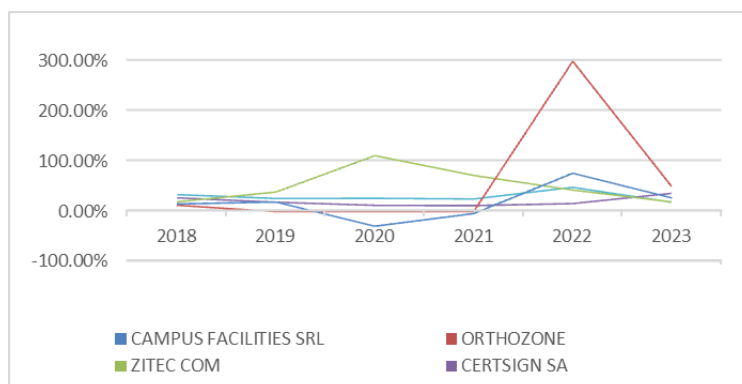


Figure 5. Annual percentage increase in the turnover of enterprises in Bucharest
(authors' processing from the database of the Public Finance Ministry)

In Figure 5, the upward trend of turnover can be observed; this indicator also reaches annual increases of 109.02%, an average being between 15.19% and 58%. This aspect shows that even at the microeconomic level, the evolution of the performance indicators is favorable, reinforcing the conclusion of a link between the absorbed European funds and a company's performance.

The second county analyzed at the microeconomic level is *Cluj County*, where 10 enterprises were selected, following the same indicators and the same structure presented in Table 1 for Bucharest. Of the 10 companies analyzed, unlike in Bucharest, 3 suspended or significantly reduced their activities. The three companies absorbed European funds in 2017-2020, a period during which they carried out their activities, after which they became inactive. These 3 cases show an important aspect to consider in the development of a business: the absorption of European funds cannot guarantee a company's "success." However, there are several "happy" cases in which companies have developed, resorting to such financing. Six of the 10 companies analyzed showed significant increases in the total assets accounting ratio. Although not a direct performance indicator, "Total assets" is a crucial indicator for understanding an entity's overall financial position, providing information about its ability to cover its liabilities as well as its size.

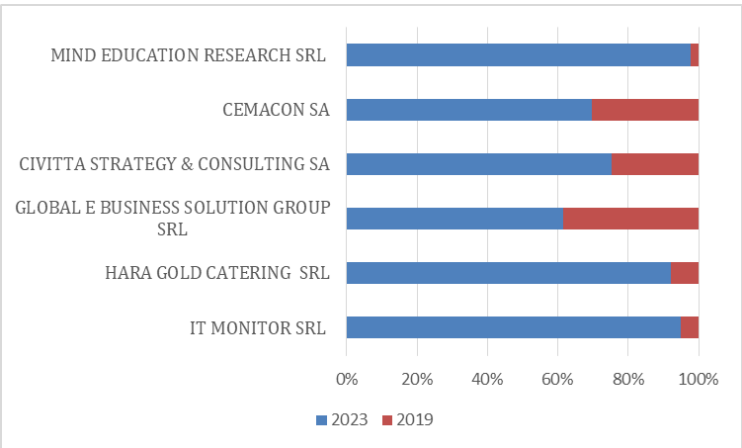


Figure 6. Comparison of total assets in enterprises, years 2019/2023, in Cluj
(authors' processing from the database of the Public Finance Ministry)

The increase in assets at the six companies analyzed, compared to 2023 compared to 2019, was on average 13.8 times, with one of the companies even increasing by 45.5 times, thus resulting in an impressive increase in assets and their size, the European funds absorbed in this period also contributed to this evolution.

The last county analyzed at the microeconomic level is Suceava County, also included in the structure of Table 1, where we noticed that most of the analyzed units present favorable evolutions in performance indicators, among which six units have constant annual increases in the number of employees.

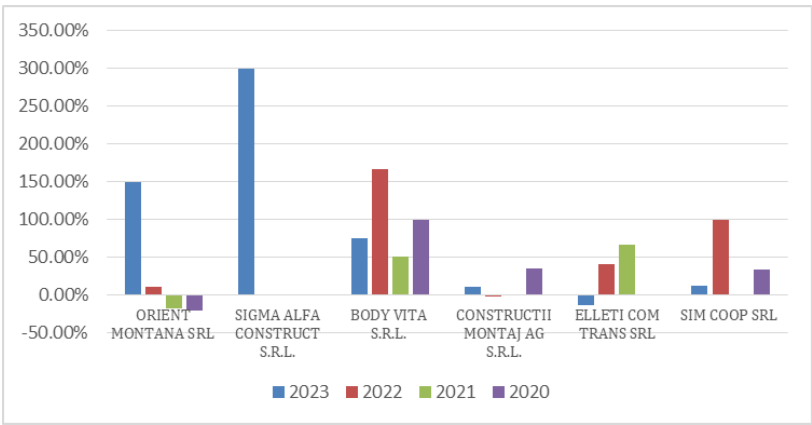


Figure 7. Annual percentage increases in the number of employees, at unit level, period 2020-2023, in Suceava county
(authors' processing from the database of the Public Finance Ministry)

The number of employees at the six companies shows annual increases, on average, of 45.59%, with some reaching 300% in 2023 compared to 2022. The favorable increases in the performance indicators are in the same "tone" as the absorption rate of European funds, leading us to conclude that the absorption of European funds has a beneficial influence on the evolution of economic indicators.

From another economic perspective, Romania's monetary flows with the European Union are significant, showing a net financial balance that visualizes the total amounts received from the EU, the amounts paid to the EU, and the remaining balance. Not only the financial inflows are important, but what we are left with is also important.

Table 2. Net financial balance as of 31.03.2024 (www.mfinante.gov.ro)

Balance of flows	2007-2022 execution at 31.12.2023	Estimates 2024	2024 execution at 31.03.2024	2007-2024 execution at 31.03.2024
I. Amounts received from the EU budget (a+b+c)	92,105.91	15,186.74	3,362.31	95,468.22
II. Amounts paid to the EU budget	29,589.28	3,238.30	738.21	30,327.49
III. Balance of flows = I - II	62,516.63	11,948.44	2,624.10	65,140.72

According to Table 2, presented above, the figure of 65140.72 million euros represents the net financial flow from the European Union. The total amounts received from the EU are 95488.22 million lei, while Romania paid 30327.49 lei to the EU budget. The 16 years of European existence have brought Romania financial flows worth about 65 billion euros, somewhere around 4 billion euros/year. Given that Romania's average GDP was 148 billion euros between 2007 and 2021 (data available from INS), we can say that annual European subsidies accounted for between 2% and 3% of GDP. This annual percentage of about 2.5%, high for some analysts and low for others, must be carefully capitalized.

Romania's GDP shows an upward trend in the period 2007-2021, and community subsidies also show an upward trend, but paradoxically, Romania's public debt is increasing, and European reports rank our country in the bottom positions in terms of poverty indicators. The report on government public debt, prepared by the General Directorate of Treasury and Public Debt within the Ministry of Finance, presents the following situation: "Government public debt, as of December 31, 2023, accounted for 49.5% of GDP".

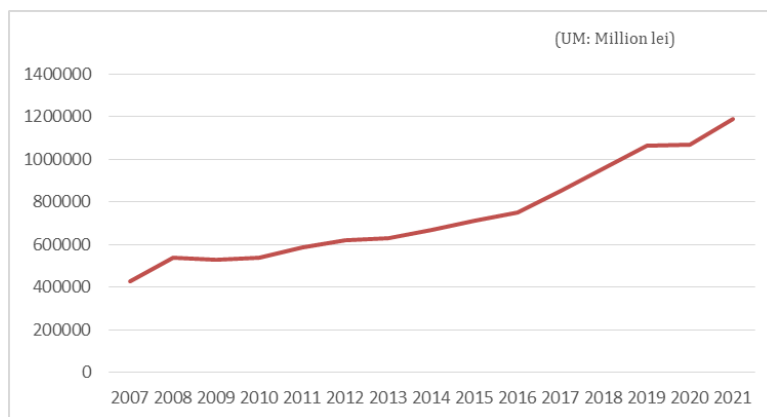


Figure 8. GDP value at the national level
(authors' processing from the database of National Institute of Statistics)

We recommend an interaction between decision-makers in the political arena and specialists in higher education with an economic profile, because we believe that in both camps there are specialists with a valence for long-term economic development. However, neither side, taken separately, has had the power to capitalize on the Romanian potential.

Conclusions

Regional economic differences have existed, exist, and will always exist. The economic imbalances between European regions and the very large differences, at least from an economic point of view, have deepened and persisted over time, depending on the decision-makers involved, their ambitions, patriotism, vision, and expertise. We consider that only the political-academic "symbiote" is the key to the success of sustainable economic development. Romanian universities have proven their expertise in attracting and managing European funds in the field of education, in higher education, so local authorities should turn their attention to them, asking for their support and support in the projects developed for the region, a collaboration that could be regulated, even by legislation.

The European subsidies, inoculated through the structural instruments, have a general objective: sustainable economic development in which all European citizens have the same living conditions and economic well-being. A strong region is composed of strong businesses, and a strong business is built on substantial resources. A powerful resource, from an economic point of view, is financing. Contemporary financing, a powerful instrument, a modern instrument offered by the banking market for a fee, is

doubled by free European funding. The analysis of the sample of extracted companies shows a positive trend in the researched indicators, indicating a positive influence of financial subsidies on the economic environment. Even if not all the analyzed units showed increases, we conclude that there are significant improvements in the researched indicators.

We consider that the topic addressed is current, as the European funds are an instrument of economic growth that drives the economy (as measured by the macroeconomic indicator GDP). However, it is necessary that these subsidies also represent an instrument of economic development. The case of Romania is relevant; economic development implies an improvement in the quality of life, social welfare, and technical progress, but also in job-creating investments.

The results of the work complement the studies that supported the idea of a positive impact of absorption. However, they also join the specialized works that outline the idea of a conditional effect. From a macro perspective, the inoculation of European funds generates a beneficial economic environment, which is reflected in a positive evolution of the economic indicator GDP in the analyzed period. However, government debt accounts for an overwhelming 49.5% of GDP, suggesting a consumption-oriented economy.

As limitations of the research and future research directions, we can declare that the researched sample, even if it contains units with large figures for the analyzed indicators, is quite small. Future research will address large samples as well as samples drawn from several funding programs. We also consider it interesting to research the perception of community subsidies among students, graduates, businessmen, and potential businessmen, but also among salaried staff within the local public administration, research carried out within one or more administrative-territorial units.

The absorption of European funds must focus on two priority axes: on the one hand, "quality of absorption," and on the other, "quantity of absorption." The quality of absorption must be emphasized in capital transfers from the EU. Current transfers, as cash flows received from the EU, include money flows that do not generate asset formation (with an investment role). Subsidies must be directed towards investments; investments can create jobs, and, from close to close, we can build that economic circuit worthy of appreciation in Western Europe. The important thing is to absorb, but more importantly, to see what we have built in the end. The European funds that create investments and jobs are the ones that "vascularize" the economy.

The improvement of the regional gaps in Romania, through the absorption of EU funds, aims, from our point of view, to focus on the economically "dehydrated" areas, the example in the case of the analysis being the counties of Covasna, Ialomita, and Mehedinti, ranked in the last places, in the absorption of European funds. Reinforcing the research carried out, these countries also have the worst economic performance.

Economic history has shown, over thousands of years, that there is an "economic summer" and an "economic winter" due to microeconomic interactions that generate a strong macroeconomic effect. From the perspective of community funds, the strong

regions will be the ones that will correctly capitalize on these subsidies, being predictable with the inevitable future "economic winters."

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