

## SUSTAINABILITY OF PUBLIC FINANCES IN THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF ECONOMIC RESILIENCE

**Ph.D., Coordinator Researcher, Viorica POPA**

National Institute for Economic Research, ASEM, Republic of Moldova,  
E-mail: popa.viorica@ase.md

***Abstract:** This study investigates the sustainability of public finances in the Republic of Moldova through the lens of economic resilience, with a focus on the interplay between fiscal policy, institutional capacity, and macroeconomic stability. Drawing on theories of fiscal sustainability and resilience economics, the paper employs a mixed-methods approach, combining quantitative analysis of fiscal indicators (e.g., debt-to-GDP ratio, primary balance, and tax effort) with a qualitative assessment of institutional reforms and policy responses. The analysis is based on national budgetary data, IMF and World Bank reports, and recent academic literature. Findings reveal that while Moldova has achieved relative fiscal consolidation in recent years, its public finances remain vulnerable to external shocks and domestic structural weaknesses, including limited revenue diversification and high dependence on external financing. The paper argues that enhancing fiscal resilience requires a coherent framework that integrates counter-cyclical fiscal policies, institutional strengthening, and long-term investment in economic diversification. The research contributes to the broader discourse on fiscal sustainability in small, open, and transition economies. The article was developed within the framework of Subprogram 030101 „Strengthening the resilience, competitiveness, and sustainability of the economy of the Republic of Moldova in the context of the accession process to the European Union”, institutional funding.*

***Keywords:** fiscal sustainability, economic resilience, public finance, fiscal policy, macroeconomic stability.*

***JEL Classification:** E62, H62, H63.*

### 1. Introduction

In recent years, the Republic of Moldova has faced significant challenges in ensuring the sustainability of public finances amid regional and global economic crises. Nevertheless, the authorities have implemented measures to balance the budget and control public debt.

The sustainability of public finances is not merely a situational concern. It affects intergenerational equity and reflects principles that apply at all times to all governments, regardless of their current level of indebtedness. Keeping public debt under control and maintaining the capacity to issue debt securities when necessary are essential for the proper functioning of the economy.

The sustainability of public finances has become an increasingly critical issue for developing and transition economies, particularly in the face of recurrent global and regional shocks. For the Republic of Moldova, a small open economy in Eastern Europe undergoing a prolonged transition toward market-oriented structures, fiscal sustainability is not only a matter of budgetary discipline but also a key determinant of long-term economic resilience. The country's economic landscape is shaped by limited natural resources, a narrow tax base, significant migration-driven remittance inflows, and high exposure to external economic and geopolitical pressures. These factors place Moldova in a vulnerable position, amplifying the importance of robust fiscal frameworks capable of absorbing shocks and supporting sustainable growth.

Over the past two decades, Moldova has undertaken a series of fiscal and structural reforms aimed at consolidating public finances, improving revenue collection, and enhancing expenditure efficiency. Despite these efforts, challenges persist. Public debt, while relatively moderate by international standards, remains sensitive to external borrowing conditions and

currency fluctuations. The budgetary system continues to experience cyclical deficits, compounded by limited capacity for domestic revenue mobilization and persistent dependence on donor support. Furthermore, institutional weaknesses and governance challenges have, at times, undermined the credibility and effectiveness of fiscal policy.

The research contributes to the academic discourse by combining empirical analysis with a theoretical framework rooted in fiscal sustainability and resilience economics. In doing so, it offers a comprehensive assessment of Moldova's fiscal position and outlines pathways toward a more stable and resilient public finance system.

## **2. Literature Review**

The sustainability of public finances has been a central theme in macroeconomic literature, particularly in the context of fiscal policy's role in ensuring long-term economic stability and resilience. According to Perotti, Roberto & Strauch, Rolf & von Hagen, Jürgen, 1997, fiscal sustainability implies the government's ability to maintain current fiscal policies without resorting to excessive borrowing or default over the long term.

In the context of emerging and transition economies, sustainability is often constrained by institutional capacity, external vulnerability, and structural inefficiencies. Baldacci, Gupta, and Mulas-Granados (2009) highlight that in low-income and developing countries, fiscal sustainability is closely linked to governance, the quality of public expenditure, and debt management practices. Similarly, Cottarelli (2011) emphasizes the need for fiscal frameworks that combine counter-cyclical flexibility with credible long-term consolidation strategies.

The concept of economic resilience—defined as the ability of an economy to absorb, recover from, and adapt to shocks—has gained prominence following the 2008 global financial crisis and, more recently, the COVID-19 pandemic. Briguglio et al. (2009) distinguish between intrinsic resilience (related to economic structure and diversification) and policy-induced resilience (based on governance, fiscal prudence, and social protection mechanisms). For countries like Moldova, which face structural vulnerabilities such as a heavy reliance on remittances and external aid, economic resilience is deeply tied to the sustainability and flexibility of fiscal policy.

Several studies have examined fiscal sustainability in the post-Soviet and Central and Eastern European (CEE) contexts. For example, Tapsoba (2012) and Ghosh et al. (2013) analyze fiscal rules and sustainability metrics in transitional economies, pointing to the importance of expenditure control and revenue mobilization. In Moldova's case, studies by the IMF (2019) and World Bank (2021) underline persistent vulnerabilities including limited tax capacity, inefficient public investment, and dependence on concessional financing.

However, there remains a gap in the literature regarding the integration of fiscal sustainability with economic resilience in Moldova specifically. Most existing analyses treat these issues separately, often emphasizing short-term fiscal indicators over systemic vulnerabilities and long-term adaptive capacity. This paper seeks to fill this gap by offering a comprehensive assessment that connects fiscal discipline, institutional effectiveness, and macroeconomic resilience in the Moldovan context.

## **3. Research methodology**

This study adopts a mixed-methods approach, combining quantitative analysis of fiscal and macroeconomic indicators with qualitative assessment of institutional and policy frameworks. The methodology is structured around three core components: empirical

evaluation of fiscal sustainability, assessment of economic resilience indicators, and contextual analysis of policy and governance structures in the Republic of Moldova.

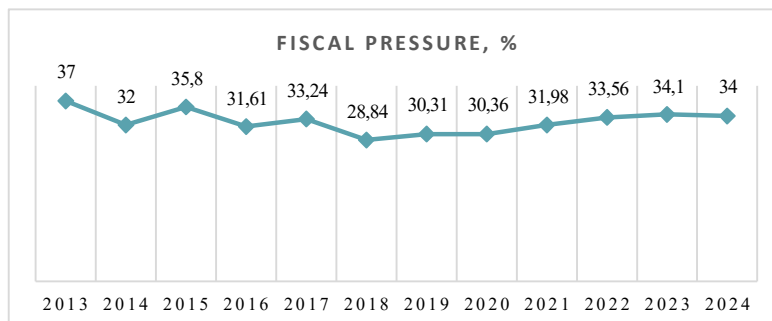
To estimate fiscal sustainability thresholds, the study draws on the fiscal reaction function approach (Bohn, 1998), which tests whether the government adjusts its primary balance in response to changes in debt levels. Stationarity tests and regression models are applied to evaluate the long-term relationship between public debt and fiscal effort.

The combined methodological approach provides a comprehensive view of Moldova's fiscal sustainability, considering not only numerical thresholds but also the institutional, political, and structural context that underpins economic resilience.

#### 4. Research results

In the last five years, the public debt balance has doubled. By the end of 2023, it amounted to 107.9 billion lei, which represents approximately 36% of GDP (+2.1 percentage points compared to the previous year). Therefore, as of December 31, 2023, the share of the state debt service relative to state budget revenues (excluding grants) remains within sustainable limits, accounting for 8.9%, below the 10.0% threshold established in the Program. This currently does not pose additional risks to the country's macroeconomic stability. However, attention must be paid to the current and potential level of public debt, as a high level of public debt may jeopardize fiscal and budgetary sustainability, regardless of long-term expenditures related to population aging. For the current year, the Republic of Moldova is within the risk and sustainability parameters (the maximum being 43% for state debt). In the first quarter of 2024, the debt-to-GDP ratio stands at 32%.

As stated above, ensuring the sustainability of public finances in recent years illustrates the principles of governance, regardless of the current level of indebtedness. Therefore, it is essential to keep public debt under control for the proper functioning of the economy.



**Figure 1. Dynamic fiscal pressures, %**

*Source: Prepared by the author based on data from the Ministry of Finance.*

Fiscal pressure in the Republic of Moldova represents the ratio between total tax revenues collected by the state and Gross Domestic Product (GDP), expressed as a percentage. This is an important indicator reflecting how much citizens and businesses contribute to the public budget through taxes and levies. Fiscal pressure in Moldova has ranged between 28% and 34% of GDP in recent years. Compared to the European average (which can exceed 40% in some countries), fiscal pressure in Moldova is moderate. The

economy of the Republic of Moldova faces high informality, with many taxpayers failing to declare their actual income. The low efficiency of tax collection results in fiscal losses and tax evasion. Disproportionate tax burden – small and medium-sized enterprises (SMEs) may be more affected than large companies.

The analysis of the dynamics of fiscal pressure is essential to understand how a state finances its activities and to assess the impact on economic growth and citizens' well-being. A moderate and equitable level of fiscal pressure can contribute to sustainable development, while an excessively high level can have negative effects on the economy.

In many European Union (EU) countries, fiscal pressure tends to be higher compared to other regions, reflecting the robust public sector, social benefits, and extensive public services available to citizens.

Nordic countries (Sweden, Denmark, Finland, Norway): These countries exhibit some of the highest fiscal pressures in the world, often exceeding 40% of GDP. This high level is primarily due to comprehensive welfare systems, universal healthcare, and generous pension schemes. The Nordic model is characterized by high taxes in exchange for extensive public goods and services.

Germany, France, and the Netherlands: These economies typically have fiscal pressures ranging from 40% to 45% of GDP. High fiscal pressure is linked to strong social security systems, subsidies, public health, and educational services. These countries also have relatively high tax rates for individuals and corporations.

The fiscal pressure in these countries - Southern Europe (Italy, Spain, Greece), tends to be lower compared to the Nordic region, but still significant. It generally ranges from 30% to 40%. Economic challenges, including high public debt and unemployment rates, have put pressure on tax systems to generate sufficient revenue while managing austerity measures.

In 2024, revenues of the national public budget registered an increase of 7.9% compared to the revenues accumulated in the same period of 2023. By the end of 2024, the public debt balance amounted to 125,567 million MDL, representing approximately 38.8% of GDP (+3.1 percentage points compared to the previous year).

Therefore, as of December 31, 2024, the share of state debt service relative to state budget revenues (excluding grants) remains within sustainable limits, accounting for 6.7%, below the 10% ceiling established in the Program. This currently does not pose additional risks to the country's macroeconomic stability. However, attention must be paid to the current and potential level of public debt, as a high level of public debt may jeopardize fiscal and budgetary sustainability, regardless of long-term expenditures related to population aging.

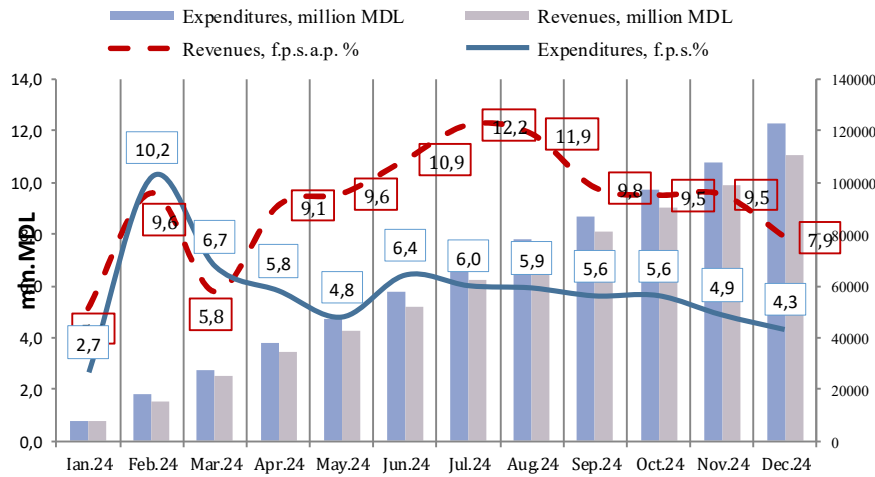


Figure 2.

**Growth Rate of Monthly Revenues and Expenditures of the National Public Budget, million MDL, %**

Source: Prepared by the author based on data from the Ministry of Finance.

In 2024, the revenues of the National Public Budget (NPB) amounted to 110,338.5 million MDL, an increase of 8,039.3 million MDL or 7.9% in nominal terms compared to the same period in 2023. The increase in public budget revenues in 2024 was driven by taxes and fees, which totaled 68,481.3 million MDL, reflecting an increase of 8.7%. Received grants amounted to 2,592.3 million MDL, a decrease of 51.5% or 2,754.7 million MDL compared to the previous year.

Therefore, contributions and insurance premiums saw an increase of 16%, totaling 33,561.2 million MDL, while other revenue categories also registered a 16% increase, amounting to 5,700.7 million MDL compared to the same period in 2023.

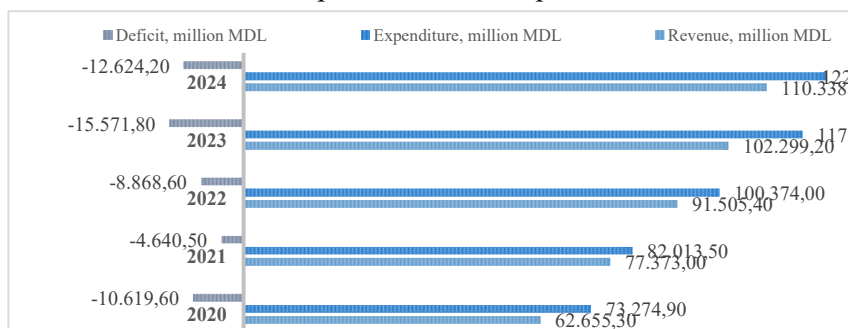


Figure 3. Growth rate of annual revenues and expenditures of the national public budget, million MDL, %

Source: Prepared by the author based on data from the Ministry of Finance.

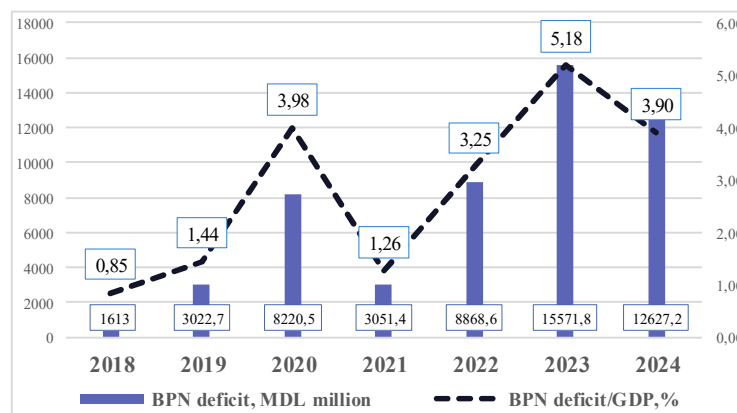
Therefore, in 2024, out of the total revenues of the National Public Budget, state budget revenues accounted for 43%, revenues from the state social insurance budget accounted for 43%, revenues from the mandatory health insurance funds accounted for 10%, and revenues from local budgets accounted for 19%. The total revenues of the state budget amounted to 66,632 million MDL, including: general and collected revenues – 61,098.9

million MDL, grants – 2,395.1 million MDL, transfers received within the NPB – 18.8 million MDL, and other revenues – 3,119.2 million MDL. Compared to the same period in 2023, total revenues of the state budget increased by 3.7%, as a result of an 8% increase in general and collected revenues.

In 2024, expenditures from the National Public Budget (NPB) were primarily driven by the dynamics of social spending, which recorded an increase of 7% compared to the previous year. The share of total expenditures in the National Public Budget during the first half of 2024 amounted to 57,706.9 million MDL, representing an increase of 6.4% compared to the same period in 2023. In the first semester of 2024, the largest share of financing was allocated to the social sector:

- Social protection with a share of 38.2% – 47,007.8 million MDL;
- Education with a share of 16% – 19,630.7 million MDL;
- Healthcare with a share of 14.7% – 18,077.2 million MDL;
- General government services with a share of 9% – 11,114 million MDL;
- Economic sector services with a share of 9.2% – 11,300.9 million MDL.

Overall, social public expenditures amounted to approximately 68,327.9 million MDL by December 31, 2024, representing about 53% (an increase of 1.2 percentage points compared to the previous year) of the total public expenditures executed during this period. The budget deficit decreased by 19% in 2024 compared to the previous year. As of December 31, 2024, the execution of the National Public Budget showed a deficit of 12,627.2 million MDL, a decrease of 2,944.6 million MDL compared to the same period in the previous year. The budget deficit as a percentage of GDP was 3.90% in 2024, 1.28 percentage points lower than in 2023.

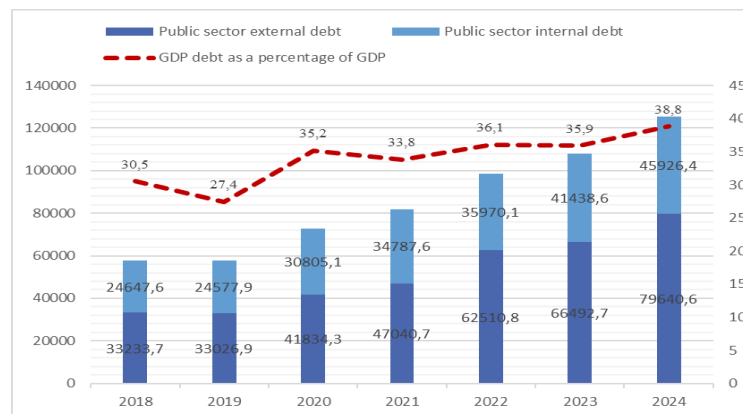


**Figure 4. Public Finance Deficit, million MDL**

Source: Prepared by the author based on data from the Ministry of Finance.

In 2024, there was an increase in the share of public sector debt in GDP (38.8%), with a 3.1 percentage point rise compared to the end of 2023. As of December 31, 2024, the public sector debt balance amounted to 125,567 million MDL, representing a 15.9% increase compared to the end of 2023. This increase led to a rise in the balance of domestic public debt to 45,926.4 million MDL and external debt to 79,640.6 million MDL. According to the forecasted GDP data for 2024, the share of public sector debt in GDP as of December 31, 2024, was 38.8%, marking an increase of 3.1 percentage points compared to the end of 2023.

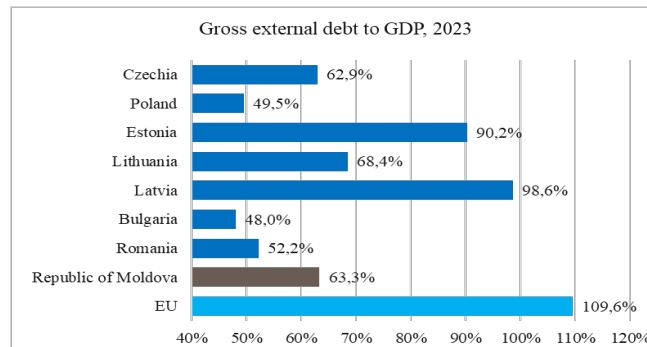
However, the increase in the public sector debt balance at the end of 2024 compared to the end of 2023 is driven by the increase in the state debt balance by a nominal value of 17,390.9 million MDL and the balance of direct local government debt by 44.9 million MDL. Therefore, the balance of the National Bank of Moldova's debt decreased to 157.6 million MDL, and the balance of direct debt of public sector enterprises recorded a decrease to 67.1 million MDL.



**Figure 5. Public Sector Debt, billion MDL, %**

*Source: Prepared by the author based on data from the Ministry of Finance.*

As of December 31, 2024, the share of state debt at nominal value in GDP was 37.5%, reflecting an increase of 3.2 percentage points compared to 2023. The change in the balance of external state debt is due to positive net external financing amounting to 674 million USD and the negative fluctuation in the exchange rate of the US dollar against other currencies, amounting to 179.9 million USD. At the same time, the increase in the balance of domestic state debt was primarily driven by positive net domestic financing of government securities issued in the primary market during the reference period. As a share of GDP, as of December 31, 2024, external state debt accounted for 23.9%, increasing by 2.7 percentage points compared to December 31, 2023.



**Figure 6. Gross external debt to GDP 2023, %**

*Source: Prepared by the author based on data from the Ministry of Finance.*

As a result of the aforementioned, it can be stated that ensuring the sustainability of public finances in recent years illustrates the principles of governance, regardless of the current level of indebtedness. Therefore, it is essential to keep public debt under control for the smooth functioning of the economy. Thus, throughout 2024, the Ministry of Finance focused on securing funding for the budget deficit, utilizing both internal and external sources. This approach influenced the increase in public sector debt; however, it remained within economically sustainable limits. This process reflects the strategy adopted to maintain fiscal balance, considering the need to respond to economic pressures and support public investment development, without exceeding thresholds that could compromise long-term macroeconomic stability.

## 5. Conclusions

In conclusion, the sustainability of public finances in the Republic of Moldova in recent years has been largely shaped by the economic resilience efforts amid both regional and global crises. Despite the rising public debt, the government has managed to implement measures that ensure fiscal stability and control over public expenditure, maintaining the balance between the growing debt and the economy's capacity to support it.

The increase in public sector debt in 2024, although significant, has remained within economically sustainable limits. The government's ability to secure both internal and external financing for the budget deficit, along with the prudent management of public debt, has been crucial for maintaining macroeconomic stability. The government's focus on social spending, particularly in sectors such as social protection, education, and healthcare, has contributed to the economic and social resilience of the country.

Nevertheless, it is essential to closely monitor the dynamics of public debt, as continued growth in debt levels, especially if not accompanied by corresponding economic growth, may pose risks to fiscal sustainability in the long run. The government must continue to balance fiscal expansion with prudent debt management to avoid compromising future economic stability.

Ultimately, ensuring the sustainability of public finances is not only a matter of managing the budget deficit and debt levels but also of implementing sound governance principles that support long-term economic growth and stability. The challenges ahead will require a continued commitment to fiscal discipline, careful planning, and responsive policies to mitigate risks and promote sustainable economic development.

**Acknowledgements:** *This study was developed within the framework of Subprogram 030101 „Strengthening the resilience, competitiveness, and sustainability of the economy of the Republic of Moldova in the context of the accession process to the European Union”, institutional funding.*

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