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SUSTAINABILITY OF PUBLIC FINANCES IN THE CONTEXT OF THE REPUBLIC OF MOLDOVA'S EUROPEAN INTEGRATION

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SUMMARY

An important aspect of the Republic of Moldova's economic convergence with the European Union is the sustainability of public finances. A state with candidate status for accession to the European Union must meet multiple conditions, including having the capacity to manage its public revenues and expenditures, priority investments and the risks associated with these processes, in order to maintain budgetary balance. The assessment of fiscal-budgetary sustainability represents the starting point of the process of strengthening the national public finance system with a view to ensuring long-term macroeconomic stability and creating the prerequisites for economic growth. The research analyzes the sustainability of the Republic of Moldova's public finances through indicators describing public revenues and expenditures, relative to the gross domestic product, as well as the recorded budget balance.

Key words: public finance, fiscal sustainability, public expenditure, public revenue, budget deficit, European integration.

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SUSTENABILITATEA FINANȚELOR PUBLICE ÎN CONTEXTUL INTEGRĂRII EUROPENE A REPUBLICII MOLDOVA

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REZUMAT

Un aspect important al convergenței economice a Republicii Moldova cu Uniunea Europeană îl constituie sustenabilitatea finanțelor publice. Un stat cu statut de candidat la aderarea la Uniunea Europeană trebuie să întrunească

multiple condiții, inclusiv să posede capacitatea de a și gestiona veniturile și cheltuielile publice, investițiile prioritare, riscurile asociate cu aceste procese, pentru menținerea echilibrului bugetar. Evaluarea sustenabilității fiscal-bugetare reprezintă punctul de pornire al procesului de consolidare al sistemului finanțelor publice naționale în vederea asigurării stabilității macroeconomice pe termen lung și creării premiselor pentru creștere economică. Cercetarea realizată analizează sustenabilitatea finanțelor publice a Republicii Moldova prin intermediul indicatorilor care descriu veniturile și cheltuielile publice, raportate la produsul intern brut, respectiv a soldului bugetar înregistrat.

Cuvinte-cheie: finanțe publice, sustenabilitate fiscală, cheltuieli publice, venituri publice, deficit bugetar, integrare europeană.

Introduction. The escalation of geopolitical tensions within the contemporary world economy, which generates inflationary pressures, especially in countries that are energy-dependent on international markets, such as the Republic of Moldova, creates multiple challenges for maintaining their budgetary balance.

On the agenda of activities aimed at facilitating the European integration process of the Republic of Moldova, the issue of public finance sustainability is of major priority.

Fiscal policy in most economies of the region is expected to be generally supportive of economic growth in 2026–2028. Fiscal deficits are expected to remain high amid continued pressure on expenditures, including defense spending and temporary economic measures, such as domestic subsidies and price controls, intended to mitigate the impact of rising energy prices [1].

The Republic of Moldova needs ambitious reforms to address structural problems and prudent policies to strengthen resilience and maintain macroeconomic stability. The fiscal deficit is expected to widen to 4,8% of GDP in 2026, with a substantial increase in capital expenditures and some increase in current expenditures [2].

The aim of the research is to assess the evolution of the Republic of Moldova's fiscal-budgetary indicators and to identify their implications for approaching the European economic governance framework. The research uses dynamic and comparative analysis of the indicators for the period 2021–2025, the calculation of shares in GDP and the examination of institutional documents. The approach is descriptive in nature; the observed developments do not, by themselves, allow causal relationships to be established between European integration and fiscal performance. Interpreting the results requires the use of series that are comparable in scope and statistical status.

Results and discussion. Public finance sustainability, also called fiscal-budgetary sustainability, is the ability of a government to cover its current expenditures and to sustain its tax and other related policies over the long term, without endangering its solvency or risking being unable to repay part of its debts or to make part of its promised expenditures [3].

Monitoring budgetary stability is an activity that must be carried out continuously to ensure efficient management of the state's financial resources, intended to prevent macroeconomic imbalances and reduce the impact caused by fiscal risks.

As a candidate country, the Republic of Moldova will have to gradually meet the EU accession criteria. In this regard, sustained efforts are needed to make progress on the path to EU accession and, in particular, it is necessary to fully implement sound public finance governance, as well as to apply much closer cooperation, including in the area of public finance [4].

The European Union's new economic governance framework, which entered into force on 30 April 2024, gives a central role to national medium-term fiscal-structural plans and net expenditure paths. The reference values of 3% of GDP for the deficit and 60% of GDP for debt remain benchmarks of the European framework, but the assessment takes into account the specific features of each state and medium-term debt sustainability [15; 16].

For the Republic of Moldova, these benchmarks provide a direction for institutional convergence. They should not be presented as obligations automatically applicable to a candidate state, nor as sufficient evidence of sustainability. In the authors' interpretation, approaching European practices requires credible multi-annual budget programming, prudent forecasts and aligning investments with available resources. Numerical comparisons with EU benchmarks require harmonizing the definitions of deficit and debt, as well as the institutional scope covered by the data.

In the process of analyzing the sustainability of public finances, it is necessary to determine the dynamics of revenues, public expenditures and the recorded budget balance by comparing them. Relating these indicators to the value of the gross domestic product achieved by the Republic of Moldova over the analyzed period provides a more solid basis for decision-making.

Table 1. Dynamics of the gross domestic product of the Republic of Moldova in 2021-2025

GDP	2021	2022	2023	2024	2025
At current prices, million lei	242078,6	274488,1	303554,0	323932,5	353520,9
Annual change, million lei	+42344,9	+32409,4	+29065,9	+20378,5	+29588,4
In percent, compared to the previous year	+21,20	+13,39	+10,59	+6,71	+9,13

Source: Prepared by the authors based on data provided by the National Bureau of Statistics [5]

From the analysis of the information presented in Table 1, we find that the gross domestic product of the

Republic of Moldova, in 2021-2025, recorded continuous nominal growth, from the level of 242078,6 million lei, recorded in 2021, to 353520,9 million lei in 2025.

The largest increase took place in 2021 – by 42344,9 million lei, or by 21,20% compared to 2020. Even though the annual inflation rate at the end of 2021 was 13,94%, according to the communiqué of the National Bureau of Statistics of the Republic of Moldova "Evolution of consumer prices in the Republic of Moldova in December 2021 and in 2021", a real increase in gross domestic product was recorded this year. The smallest increase in the gross domestic product of the Republic of Moldova during the analyzed period occurred in 2024, compared to 2023, amounting to 20378,5 million lei, or 6,71%.

It should be noted that since gross domestic product is calculated at current prices, the growth reflects both the quantitative change in the volume of economic output and the influence of inflation.

When examining the stability of public finances, it is assumed that, on the one hand, it is necessary to determine the volume and structure of public expenditures and operations, and on the other hand – to ensure that they are covered by resources raised both in the form of revenues (of the state budget, specialized public funds, state-owned enterprises) and borrowings [6].

Table 2. Dynamics of public revenues in the Republic of Moldova in 2021-2025

Public revenues	2021	2022	2023	2024	2025
million lei	77373,0	91505,4	102299,2	110338,5	125602,0
Annual change, million lei	+14723,0	+14132,4	+10793,8	+8039,3	+15263,5
In percent, compared to the previous year	+23,50	+18,26	+11,79	+7,86	+13,83
Public revenues/ GDP, %	31,96	33,34	33,70	34,06	35,53
Annual change in the ratio, %	+0,59	+1,38	+0,36	+0,36	+1,47

Source: Prepared by the authors based on data provided by the National Bureau of Statistics [7]

Public revenues collected by the Republic of Moldova during the analyzed period showed an upward trend, increasing from 77373,0 million lei in 2021 to 125602,0 million lei in 2025. In practice, public revenues increased significantly over these five years.

The largest increase in public revenues took place, as in the case of GDP, in 2021 – by 14723,0 million lei, or by 23,50% compared to 2020. The smallest increase in public revenues of the Republic of Moldova during the analyzed period occurred in 2024, compared to 2023, amounting to 8039,3 million lei, or 7,86%.

Determining the share of the Republic of Moldova's public revenues in GDP also revealed an increase from 31,96% in 2021 to 35,53% in 2025.

To examine the sustainability of public finances, the growth of public revenues must be analyzed in comparison with the evolution of public expenditures.

Table 3. Dynamics of public expenditures in the Republic of Moldova in 2021-2025

Public expenditures	2021	2022	2023	2024	2025
million lei	82013,5	100374,2	117871,1	122962,7	139856,4
Annual change, million lei	+8743,7	+18360,7	+17496,9	+5091,6	+16893,7
In percent, compared to the previous year	11,90	22,39	17,43	4,32	13,74
Public expenditures/GDP, %	33,88	36,57	38,83	37,96	39,56
Annual change in the ratio, %	−2,80	+2,69	+2,26	−0,87	+1,60

Source: Prepared by the authors based on data provided by the National Bureau of Statistics [8]

In 2021–2025, the public expenditures of the Republic of Moldova increased from 82013,5 million lei in 2021 to 139856,4 million lei in 2025. The share of public expenditures in gross domestic product also increased, from 33,88 percentage points to 39,56 percentage points. This increase implies a higher degree of pressure of public expenditures on the national economy in order to ensure the functioning of the public sector.

Regarding the share of public expenditures in GDP, its decrease in 2021 and 2024 is evident. Increases were recorded in the remaining years analyzed. The highest value of the share was 39,56 % in 2025.

Fiscal-budgetary discipline is ensured only by balancing budget revenues and expenditures over economic cycles [9].

The key elements of a sustainable fiscal-budgetary policy are: fiscal balance, by avoiding an excessive budget deficit, and public debt stability, which should be maintained at a level that allows repayment without placing excessive fiscal pressure on future generations, while also ensuring sufficient room for maneuver for state intervention in a crisis situation [10].

Table 4. Dynamics of the Public Budget balance of the Republic of Moldova in 2021-2025

Surplus (+), deficit (-)	2021	2022	2023	2024	2025
million lei	-4640,5	-8868,8	-15571,9	-12624,2	-14254,4
Annual change, million lei	+5979,3	−4228,3	−6703,1	+2947,7	−1630,2
In percent, compared to the previous year	56,30	91,12	75,58	-18,93	12,91
deficit/GDP, %	1,92	3,23	5,13	3,90	4,03
Annual change in the ratio, %	−3,40	+1,31	+1,90	−1,23	+0,13

Source: Prepared by the authors based on data provided by the National Bureau of Statistics [11]

Analyzing the evolution of the Public Budget balance of the Republic of Moldova in 2021–2025, we observe that a deficit was consistently recorded every year, which shows that public revenues were exceeded by public expenditures.

The largest budget deficit, amounting to 15571,9 million lei, was recorded in 2023. The minimum value of the budget deficit during the analyzed period was recorded in 2021, amounting to 4640,5 million lei. The maximum value of the ratio between the budget deficit and gross domestic product was also recorded in 2023, reaching 5,13%. Subsequently, in 2024 this indicator decreased by 1,23 percentage points, and then in 2025 it increased by 0,13%, to the level of 4,03%.

Based on the values in Tables 1–4, the deficit increased from 1,92% of GDP in 2021 to 4,03% in 2025, which represents an increase of 2,11 percentage points. Over the same interval, the share of revenues increased by 3,57 percentage points, and that of expenditures by 5,68 percentage points. It follows that the additional mobilization of revenues did not fully offset the increase in expenditures. These results represent the authors' calculations based on the series used in the article [5; 7; 8; 11].

The continued maintenance of a deficit balance in the process of public finance management has a negative influence on the evolution of public debt. Thus, the public debt trajectory shows a constant increase due to the need to finance budget deficits.

Stabilizing public debt at its sustainable level depends on: the ability of a national economy to generate primary surpluses, the interest rate at which markets lend to the state, depending on the attached risk premium, as well as its own rate of economic growth [12].

Table 5. Dynamics of the public debt of the Republic of Moldova in 2021-2025

Public debt	2021	2022	2023	2024	2025
million lei	81828,3	98480,9	107931,3	125567,0	138535,7
Annual change, million lei	9192,0	16652,6	9450,4	17635,7	12968,7
In percent, compared to the previous year	12,65	20,35	9,60	16,34	10,33
Public debt/GDP, %	33,80	35,88	35,55	38,76	39,19
Annual change in the ratio, %	−2,57	+2,08	−0,33	+3,21	+0,43

Source: Prepared by the authors based on data provided by the Ministry of Finance [13]

Analyzing the evolution of the public debt of the Republic of Moldova in 2021-2025, we find that its level increased from 81828,3 million lei in 2021 to 138535,7 million lei in 2025. Public debt relative to gross domestic product reached 39,19% in 2025. The resulting situation obliges the authorities to carefully manage the pace of borrowing and the degree of solvency of public finances.

IMF Report No. 26/059 of 2026 classifies the risk of external public debt distress as low and the overall risk of public debt distress as moderate. The analysis highlights sensitivity to economic growth shocks, refinancing risks associated with domestic debt maturities and contingent liabilities arising from state-owned enterprises and public-private partnerships [17].

Therefore, the authors propose supplementing the debt/GDP indicator with the share of interest in budget revenues, gross financing needs, the currency composition and the average maturity of the debt. A depreciation of the national currency may increase the lei value of foreign-currency obligations, and the concentration of repayments in the short term may amplify pressure on liquidity. Maintaining a relatively low debt/GDP ratio must be analyzed together with these vulnerabilities, without automatically equating the level of debt with the absence of risks [17].

Adequate fiscal-budgetary consolidation, whose effects can stand the test of time, requires a comprehensive public policy approach that supports macroeconomic stability and mitigates the economy's vulnerabilities to external shocks [14].

The research results indicate that the sustainability of public finances depends on the government's ability to

manage the balance between public revenues and expenditures, namely on the possibilities of collecting public revenues and the ways in which public expenditures are undertaken.

The Reform and Growth Facility for the Republic of Moldova provides a concrete framework for analyzing the link between European integration and public finances. According to the Council of the EU, the package for the period 2025–2027 is worth approximately 1,9 billion euros and provides for up to 385 million euros in grants and 1,5 billion euros in concessional loans. Disbursements are conditional on the implementation of the agreed reforms [18].

In the authors' interpretation, the effect on sustainability depends on how the resources are used: grants can reduce borrowing needs, while loans generate future obligations, including when financial conditions are favorable. It is recommended to select investments through cost–benefit analysis, include subsequent maintenance costs in budget planning and publish outcome indicators. The assessment should track both the absorption of funds and the contribution of projects to productivity and to broadening the tax base.

Conclusions. The Republic of Moldova, with a view to its accession to the European Union, must undertake measures that contribute to strengthening the public finance system. It is necessary to make the process of collecting public revenues more efficient by increasing taxpayer accountability, preventing and combating tax fraud, and optimizing the administrative activities of state institutions in this field.

At the same time, the process of approving public expenditures must be organized on principles of efficiency by promoting productive investments that generate economic effects in the future. These actions will create favorable prerequisites for balancing the public budget of the Republic of Moldova and thereby increasing the sustainability of public finances. However, for a more visible effect, it is also necessary to create the conditions for real growth and development of the national economy.

Consequently, the authors recommend a monitoring framework that links multi-annual fiscal-budgetary objectives with the assessment of debt risks and with the results of investments financed from European sources. Fiscal consolidation must be calibrated so as to reduce vulnerabilities and preserve the capacity to finance productive investments. Increasing the transparency of budget execution and periodically evaluating expenditure programs would allow adjustments to be grounded in verifiable results.

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