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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME OF THE REPUBLIC OF MOLDOVA (2025-2027)

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

The economic recovery which began in the second half of 2023 came to a halt in 2024, with GDP growth of 0.1%. Stronger private consumption, supported by low inflation and a nearly 10% increase in real wages, has been the key driver of growth during the first half of 2024, along with a moderate rebound in investment. However, net exports remained a drag on growth, weighing on the recovery particularly, in the second half of the year, primarily due to a drop in net re-exports of minerals to Ukraine, a decline in agricultural exports due to the summer drought and continued imports growth. The Economic Reform Programme (ERP) projects a slow but strengthening economic recovery until 2027 with real GDP growth of 3% in 2025, gradually increasing to 3.7% in 2027. The baseline scenario relies on continued growth of private consumption as real wages continue to strengthen, and the recovery of agricultural exports. In addition, the outlook suggests a growing contribution of investments to growth. Following a successful disinflation period, inflation averaged 3.9% in the first half of 2024 but rebounded again in the second half of the year on account of higher food prices - partly attributed to the drought in summer 2024 - and an increase in energy prices. Average annual inflation is expected to remain above the central bank's target range in 2025 but to decline towards the end of the year.

The baseline scenario does neither take account of the forthcoming Growth Plan nor the energy price increase in January 2025. The ERP, however, outlines three alternative macroeconomic scenarios, considering the risk of an electricity price shock of varying degree in 2025 due to potential disruptions in Russian gas supply to the Transnistrian region, thus incorporating downside risks into the overall outlook. At the same time, there is potential for a better-than-expected outcome if the benefits of the Growth Plan are fully realised. On balance, the most recent energy crisis, which began in January 2025, has already led to a sharp rise in electricity prices, suggesting that at least for this year, the baseline scenario faces significant challenges in the short term. There is a risk that GDP growth will fall to below 2% for the year, although additional financial assistance through the Growth Plan and the recently announced EU energy support package could help mitigate the economic impact.

The ERP envisages a gradual reduction of public deficit to 3.2% of GDP until 2027 alongside an increase in public investments to support the recovery. Revenues in 2024 increased more strongly than expected while both current and capital expenditures were under-executed. The fiscal deficit in 2024 is estimated at 3.9% of GDP, an improvement of more than 1 pp. compared to 2023. Until 2027, the share of revenues is projected to slightly decline due to lower excise duties and reduced grants from international donors, while VAT revenue is expected to rise slightly. The share of public expenditure is set to decrease more strongly with spending on wages, goods, and social benefits to grow slower than nominal GDP while capital investments as share of GDP is set to increase modestly. The public debt ratio is expected to remain relatively low although elevated compared to the pre-energy crisis situation in 2023. By the end of 2024, the debt ratio had increased to 38.5% of GDP and is projected to further increase in 2025, before stabilising around 40% of GDP in 2026 and 2027. The fiscal path does not take account of the increase in expenditures, especially a significant increase in public investments, through the funds of the forthcoming Growth Plan nor the increase of energy price compensations for households and companies starting in January 2024.

The main challenges facing Moldova include the following:

- **Fiscal policy plans presented in the ERP are supportive to an adjustment towards prudent medium-term fiscal positions, but the composition of the plans is such that growth-enhancing expenditures remain low. However, the plans do not consider the recent energy price crisis, nor the upcoming Growth Plan.** Moldova faces a range of significant macroeconomic risks, including those related to Russia's war of aggression against Ukraine and shocks related to energy price hikes that have recently materialised. Public investments are projected to remain low, as they do not yet include the expected impetus from the Growth Plan – the latter's effect on public investments will depend on both the allocation to such projects and addressing the under-execution of existing and future projects. The additional financial resources provided through the Growth Plan are an opportunity to implement key structural reforms and increase growth-enhancing expenditures that would support the country's convergence to EU income levels. The ongoing public investment reform ('the single project pipeline') has helped to streamline the appraisal process and could be extended to cover all investment projects included in the annual budget. Additionally, there is still a limited capacity to execute public investments, while new requirements e.g. on environment assessments of all investments are being added. The Growth Plan may provide the opportunity to address such challenges by strengthening administrative capacity or providing of technical assistance, for Moldova to be able to fully reap its benefits. There is also scope to improve macroeconomic and fiscal forecasting to ensure better planning and more consistent policymaking.

- **Given the limited fiscal space, there is scope for strengthening the current efforts to broaden the revenue base and increase the efficiency of public expenditure.** The authorities are committed to continue and to better target measures to improve tax compliance while phasing out tax expenditures to broaden the tax base, despite plans to introduce new tax expenditures in 2025. To increase the efficiency of limited fiscal resources, the government has conducted a health spending review while a review of social protection is ongoing. However, a framework to guide the implementation of the results of those and future spending reviews is missing. Access-to-finance programmes are expected to be expanded over the coming years, although the review, agreed in the 2024 Joint Policy Guidance, to assess the effectiveness and efficiency of the existing programmes has not yet been conducted. Lastly, the government's efforts to advance on the reform of state-owned enterprises (SOEs), particularly related to the implementation of the SOE triage exercise - that identified which SOEs to retain, restructure, or privatise - and improving corporate governance has been slow while fiscal risks related to SOEs, incl. from on-lending, remain relatively high.

The policy guidance jointly adopted at the Economic and Financial Dialogue of 14 May 2024 has been partially implemented.

- Substantial progress was made to reduce the fiscal deficit. In 2024, the fiscal deficit declined to 3.9% of GDP, compared to 5.2% of GDP in 2023 on account of stronger revenue collection, lower capital expenditures and the phase out of support measures to mitigate the impact of the previous energy price hikes on households. The government also took steps to partially mitigate fiscal risks related to energy price

increases, notably through an earmarked buffer in the 2025 budget. The single project pipeline was applied to all new investment projects included in the 2025 budget while most projects remained under evaluation when the budget was adopted. To improve fiscal policy and analysis, the ERP includes, for the first time, an estimate of the cyclically adjusted structural balance.

- Partial progress was made on broadening the tax base and improving tax compliance, notably through a programme increasing the number of tax inspections and improving the exchange between tax services and taxpayers. Similar progress was achieved in spending reviews. The health sector spending review was published at the end of 2024 with 1 out of 6 identified efficiency measures fully and 2 partially implemented so far with further steps remaining unclear. The social protection spending review is ongoing. No progress was made on reviewing the efficiency of existing access-to-finance programmes and limited progress was made on the implementation of the reform of state-owned enterprises in 2024.

- Substantial progress was made in the area of monetary policy. The central bank has carefully monitored the evolution of price dynamics and reacted appropriately by raising rates in response to the renewed inflationary pressures towards the end of 2024. Partial implementation was achieved to ensure central bank independence. The authorities took steps to enhance central bank independence through legislative amendments in July 2024 and additional amendments to the central bank law, including on strengthening the dismissal and appointment procedures, were submitted to Parliament in December 2024 but are yet to be adopted. Lastly, the National Bank of Moldova has made substantial efforts to harmonise the regulatory and supervisory landscape between the banking and the non-bank financial sector.

2. ECONOMIC OUTLOOK AND RISKS

The economic recovery which began in the second half of 2023 came to a halt in 2024, with GDP growth of 0.1%[1]. Stronger private consumption, supported by low inflation and a nearly 10% increase in real wages, has been the key driver of growth during the first half of the year, along with a moderate rebound in investment. Net exports remained, however, a drag on growth, on account of a decrease in exports amidst strong import growth, particularly during H2. Exports of goods dropped by 12.2% compared to 2023 reflecting weak demand from key import partners, a decline in minerals exports to Ukraine and lower agricultural exports due to the summer drought. Rising exports of services partially offset the decline in goods exports and were primarily driven by the ICT sector. Imports increased by 4.5%, boosted by strong domestic demand. Labour force participation resumed a marginally increasing trend during the first three quarters of 2024 but dropped to 42.5% end of 2024, the lowest rate in the last two years. Looser monetary policy enabled by disinflation has also supported consumer

[1] Macroeconomic and fiscal estimates and forecasts covering the period 2024-2027 have been taken from the ERPs themselves; if available, preliminary macroeconomic and fiscal out-turn data for 2024 have been taken from the relevant national sources (Statistical Office, Ministry of Finance, Central Bank).

lending and investment. The period of disinflation came to a halt mid-2024 with inflation rebounding to 9.1% in January 2025 (up from a trough of 3.3% in May 2024) because of rising food prices and a renewed energy crisis. In February 2025, inflation eased to 8.6%, primarily due to in-bill support to households that cushions the impact of electricity price spikes. Despite this slowdown, the inflation rate remained above the National Bank of Moldova's target range of 5% ± 1.5%.

The ERP outlines a slow but strengthening economic recovery until 2027 with real GDP growth of 3% in 2025, increasing to 3.3% in 2026 and 3.7% in 2027. Compared to the previous year, the ERP revises GDP growth down by 1 pp in 2025 and by 0.9 pps. in 2026. Signs of recovery initially anticipated in the agricultural and industrial sectors failed to materialize in 2024. Additional factors for the downward revision include the weaker than expected impact of looser monetary policy, while positive labour market developments only recovered slowly after a drop at the end of 2023. The outlook relies in large part on robust private consumption which is subject to significant downside risks related to inflationary pressures and ongoing outward migration. Private consumption is projected to increase by 3% in 2025 before accelerating to 3.7% in 2027, driven by rising real wages and accommodative monetary policy supporting consumer loan growth. The baseline scenario does not take account of the recent tightening of monetary policy.

Investment growth is forecast to average around 3.5% of GDP in the coming years and is mainly driven by public investments in transport and energy infrastructure. A strong increase in investments will hinge on the government's capacity to address the persistent under-execution of public investments and the war in Ukraine which has a strong impact on the investment sentiment. In addition, private investments are set to be supported further by the continuation of the zero-tax rate on undistributed SME profits and measures to support access to finance. The economic downturn in the second half of 2024 was driven primarily by a significant drop in net exports and is expected to have lingering effects into early 2025. Net exports are likely to remain a drag on growth also in the medium term as import growth is set to continue outpacing export as private consumption strengthens and challenges to agricultural export are expected to persist. The ERP's baseline scenario did not consider the decline in agricultural output in the second half of 2024 and forecasts the industrial sector and the agricultural sector's expansion to positively contribute to economic growth in 2025. In general, the agricultural sector experiences substantial volatility related to climate conditions, significantly increasing uncertainty about its outlook. The ERP does not provide any projections for 2026 and 2027. Potential growth is estimated to average a low 1.8% between 2025 and 2027, resulting in positive output gaps in 2026 and 2027.

The baseline scenario presented in the ERP became outdated at the time of the submission of the ERP and is overly optimistic, following the economic downturn in the second half of 2024 and the renewed energy crisis that materialised at the beginning of January 2025. The energy crisis was triggered by a halt in Russian gas supplies to the Transnistrian region, which provided electricity below the market price to the right-bank territory of Moldova while not paying for the gas. It led to an increase in electricity prices of 65% to 75%, which was quickly followed by announcements of significant additional financial assistance from the EU, which is likely to cover the short-term additional financing needs and to mitigate the negative impact through energy price compensation for households, companies and public buildings. In addition, gas tariffs increased by 27% from November 2024 due to higher international gas prices. However,

the ERP includes three alternative macroeconomic scenarios that consider the risk of an electricity price shock. This shock would increase inflation, reduce private consumption and increase production costs, particularly affecting the competitiveness of export-oriented companies. Three levels of electricity price increases are considered: a 20% rise would lower average annual growth by 0.16 pps., a 50% increase by 0.23 pps. while a 100% rise would lead to growth that is 1.7 pps. lower than the baseline scenario. None of the scenarios considers the sizable EU support of EUR 250 million announced in February 2025 to mitigate the impact. Considering the actual increase in electricity prices, the impact may be between the second and third scenario, but it will be mitigated by the rapid support provided by the EU. The impact is expected to peak in 2025 and diminish over time, with only marginal effects in 2027. The ERP does not present more detailed quantitative estimates on the impact of the crisis on the supply or demand side components, nor does it reflect the three different scenarios in the fiscal framework.

The ERP does not incorporate the forthcoming Growth Plan, which is expected to allocate substantial financial resources for growth-enhancing reforms and investments, in order for it to deliver the targeted boost to GDP of 5%. Its impact on growth will depend on the effective implementation of structural reforms and the execution of investments. However, the ERP does not provide estimates of the potential growth effects stemming from the structural reforms and investments contained in the Growth Plan as the Reform Agenda was not adopted at the time of the submission of the ERP. Nor does it indicate when the expected increase of GDP by 5% should be reached.

Labour market developments further worsened towards the end of 2024. The employment rate declined by 1.7 pps. year-on-year to 40.9% in the fourth quarter of 2024, driven mainly by a decrease in rural employment, and mostly in industry and agriculture. The labour force participation rate exhibited a similar decline by 2.2 pps. down to 42.5% compared to the fourth quarter of 2023. Unemployment decreased by 1 pps. y-o-y to 3.9% supported by measures to reduce unemployment rates such as vocational training support or boosting start-up subsidies. The simultaneous decline in both unemployment and employment is likely explained by vocational training initiatives and persistently high emigration rates.

Table 1:

Moldova - comparison of macroeconomic developments and forecasts

	2023		2024		2025		2026		2027	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	0.7	**0.7**	2.6	**2.5**	3.8	**3.0**	4.2	**3.3**	n.a.	**3.7**
Contributions:										
- final domestic demand	-1.0	**-1.1**	3.4	**2.5**	3.6	**3.3**	3.8	**3.8**	n.a.	**3.9**
- change in inventories	-4.0	**-3.9**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	n.a.	**0.0**
- external balance of goods and services	5.8	**5.8**	-0.8	**0.0**	0.2	**-0.3**	0.4	**-0.5**	n.a.	**-0.2**
Employment (% change)	2.8	**n.a.**	1.5	**n.a.**	1.4	**n.a.**	1.4	**n.a.**	n.a.	**n.a.**
Unemployment rate (%)	4.6	**4.7**	4.3	**n.a.**	4.0	**n.a.**	3.8	**n.a.**	n.a.	**n.a.**
GDP deflator (% change)	8.7	**11.7**	7.6	**4.1**	6.5	**5.5**	6.1	**5.9**	n.a.	**5.3**
CPI inflation (% change)	13.4	**10.3**	4.7	**4.4**	4.8	**7.1**	5.0	**5.3**	n.a.	**4.5**
Current account balance (% of GDP)	-11.4	**-0.6**	-10.4	**n.a.**	-9.0	**n.a.**	-8.0	**n.a.**	n.a.	**n.a.**
General government balance (% of GDP)	-5.2	**-5.2**	-4.5	**-4.4**	-3.4	**-4.0**	-3.0	**-3.5**	n.a.	**-3.2**
Government gross debt (% of GDP)	35.7	**35.2**	36.8	**39.3**	36.5	**39.3**	35.7	**40.1**	n.a.	**40.0**

Sources: Economic Reform Programme (ERP) 2025, Commission Autumn 2024 forecast.

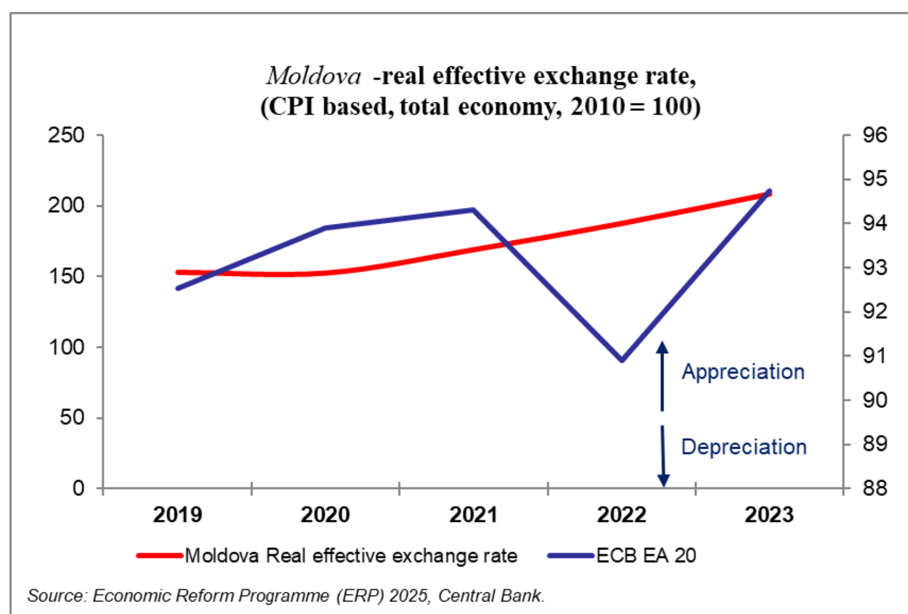
Following a successful disinflation that ensued after the first energy price shock in the winter of 2022/2023, inflation rebounded again in the second half of 2024 and reached 8.6% in February 2025. The average annual inflation rate returned to the target range, easing from 13.4% in 2023 to 4.7% in 2024. In the early months of 2024, inflation continued to decline on the back of lower food and regulated prices. However, inflationary pressures intensified from June 2024 on account of higher international and domestic food prices - partly attributed to the drought in summer 2024 - and an increase in gas tariffs by 27% from November 2024 due to higher international gas prices. In May 2024, the National Bank of Moldova paused its policy rate cuts, maintaining a base rate of 3.6% while continuing the monetary policy easing cycle by lowering the foreign-exchange and MDL reserve requirements to 22% and 31% respectively by January 2025 - the latter returning to pre-crisis levels. This was in part to address a contraction in private consumption during the second half of 2024 due to a decline in remittances.

In response to rising inflation, the NBM shifted to monetary tightening beginning of 2025, with two subsequent increases of the base rate up to 6.5% (as of 5 February 2025). The ERP expects annual inflation to remain within the 5% ± 1.5 % target range with upside risks from local and international food prices, higher excise taxes with the start of 2025 and 2026 as well as other adjustments of regulated prices. The latest NBM inflation report, which was published in February 2025 and therefore takes account of the actual energy and food price increases, however, projects annual inflation to exceed the target range in 2025 averaging 7.3% before easing to 4.7% in 2026. In 2024, the NBM carried out several foreign-exchange interventions to mitigate exchange rate volatility, particularly towards the end of 2024. While the local foreign-exchange market remained close to equilibrium during the first three quarters, a surge in foreign-exchange demand from importers, primarily in the energy sector, intensified depreciation pressures in the fourth quarter of 2024 which again relaxed beginning of 2025.

The ERP does not present projections for the current account balance but developments in 2024 show a significant widening of the current account deficit. Moldova's current account balance continues to be structural affected by its heavy reliance on volatile agricultural exports and vulnerability to imported energy price fluctuations. By the end of September 2024, the current account deficit expanded to 15.4% of GDP, up from 11.5% in 2023, reflecting falling exports to Ukraine (mostly minerals) and a sharp drop of agricultural exports which is expected to persist into 2025. Remittances continued to play a significant role but fell by nearly 2.5 pps. in the third quarter of 2024 compared to the third quarter of 2023, to 8.9 of GDP. Similarly, foreign direct investment (FDI) inflows as a share of GDP declined during the first three quarters of 2024. The widening current account deficit has been primarily financed by net inflows of currency and deposits, as well as external loans. The European Commission 2024 Autumn Forecast projects the current account deficit to remain elevated but gradually narrow until 2027, supported by stronger exports, particularly in the ICT services sector. The switch from electricity supply by MGRS in the Transnistrian region to imports from Romania is expected to adversely affect the current account balance through 2025. Remittances as a share of GDP, while remaining high in international comparison, are projected to decline gradually despite continued out-migration, primarily because of increasing family reunification abroad. Moldova's net international investment position stood at -32.4% of GDP in the third quarter of 2024, a slight improvement compared to the end of 2023, primarily driven by increased net foreign assets of the deposit-taking corporations and reduced liabilities from other sectors. Gross foreign-exchange reserves

continued to build up reaching over 6 months of import coverage and 200% of the IMF ARA metric end of 2023.

The ERP suggests that the decline in price and cost competitiveness of recent years has slowed down in 2024, but an elevated real effective exchange rate (REER) is likely to weigh on the economy and limit competitiveness until 2026. The deceleration in the REER's appreciation in 2024 was primarily driven by slowing inflation. The leu's appreciation against major trading partner currencies, in particular, the Ukrainian hryvna, the Russian ruble and the Romanian leu, was partially offset by Moldova's lower inflation relative to that of its partners in 2024. This led to an appreciation of the REER by 2.1% in 2024. Both public sector wages and minimum wages further increased in 2024 while real wages increased by 9% in 2024 compared to 2023; this could exert upward pressure on the country's export prices in the absence of proportional productivity gains.



Source: Economic Reform Programme (ERP) 2025, Central Bank.

The mainly foreign-owned banking sector remains stable as capital adequacy, liquidity, and profitability remained strong in 2024. As of September 2024, capitalisation stood at 26.9%, slightly down from 30% at the start of the year, primarily due to increased lending activity. The liquidity coverage ratio averaged around 290%, well above the levels of the period before the Russian full-scale invasion of Ukraine in 2022, and significantly exceeding the 100% regulatory threshold. This is partly driven by remaining legacies from the aftermath of the bank fraud case in 2014. One bank, for instance, still holds additional sizeable capital and liquidity buffers against potential losses from litigation. Although the upward trend in profitability of recent years stalled in 2024, largely due to a decline in interest income, profitability remained strong, with a return on equity of 14.6% and a return on assets of 2.4%, supported by lower impairments and provisions. The ERP does not provide quantified forecasts for the financial sector but outlines a list of legal initiatives to support financial stability and intermediation while aligning Moldova's legal framework to the *EU acquis*, e.g. related to AML/CFT, payment services or sustainable finance. In addition, the government is committed to undertake a review of the bank liquidation framework in 2025 which has proven to be insufficient in the aftermath of the banking fraud of 2014. Since 6 March 2025, Moldova is included in the geographical scope of the Single Euro Payments Area (SEPA) payment schemes.

Lending to households and businesses improved strongly in 2024, supported by looser monetary policy, but remains relatively low. According to the IMF, credit to the economy accounts for 25.6% of GDP in 2024. Credit growth reached pre-crisis levels with 16.1%, mostly in retail and real estate, while deposit growth, largely in domestic currency, slowed down significantly after a peak in 2023. The significant expansion of real estate lending supported by the Prima Casă PLUS programme fuelled rising property prices particularly in major cities, a trend further exacerbated by supply constraints suggesting heightened credit risks. The loan-to-deposit ratio rose by 3.6 percentage points, driven by looser monetary policy and, to some extent, the expansion of investment support programmes. It remains, however, below pre-crisis levels. While financial intermediation is relatively dominated by banks, lending by non-bank financial institution continues to grow albeit at slower rates than in recent years, partly because of new requirements on responsible lending. The non-performing loan (NPL) ratio has steadily declined from its peak of 18.4% in 2017 to 4.15% in December 2024. The government continued to support access to finance for businesses through different programmes, incl. interest rate subsidies and various guarantee programmes which share the risks between the government and banks.

On 2 January 2025, the NBM switched to using euro from US dollars as the reference currency for the official exchange rate of the Moldovan leu reflecting the increasing role of the euro in external trade, remittances and FDI flows. According to a 2023 study from the German Economic Team (providing economic expertise to the Government of the Republic of Moldova), a switch in the reference currency from the US dollar to the euro would lead to savings in annual transaction costs to the economy of USD 11.7 million. Additionally, the switch is expected to significantly reduce volatility in the interbank market.

Table 2:
Moldova - financial sector indicators

	2020	2021	2022	2023	2024
Total assets of the banking system (EUR million)	5245.1	5666.9	6601.5	7833.7	8837.6
Foreign ownership of banking system (%)	70.3	88.9	88.9	86.6	86.6
Credit growth (%, change)	13.0	23.5	9.3	3.7	26.5
Deposit growth (%, change)	16.5	13.1	5.4	19.9	13.4
Loan-to-deposit ratio (end of period)	57.3	62.6	64.9	56.1	62.6
Financial soundness indicators (%, end of period)					
- non-performing loans to total loans	7.4	6.1	6.4	5.6	4.2
- regulatory capital to risk-weighted assets	27.3	25.9	29.3	29.9	26.3
- liquid assets to total assets	50.7	48.5	49.6	54.1	47.7*
- return on equity	8.7	12.3	17.0	16.2	14.8
- foreign exchange loans to total loans	30.5	26.5	30.5	25.8	21.7

*Sources: Economic Reform Programme (ERP) 2024 and 2025, National Bank of Moldova. *NBM Estimation*

3. PUBLIC FINANCE

The budget deficit in 2024 narrowed to 3.9% of GDP in 2024 according to latest projections on account of stronger revenue collection, lower capital expenditure and the phase out of support measures to mitigate the impact of high energy prices on households. Revenues turned out slightly higher than expected by 0.4% despite subdued

nominal growth. Compared to 2023, tax revenues were 8.7% higher in 2024 primarily driven by higher direct tax revenue, supported by an increase of real wages by almost 10% y-o-y in the third quarter of 2024, and thus an expansion of the personal income tax base. In addition, higher levels of private consumption boosted excise duties mainly from higher imports of vehicles and tobacco products as well as VAT. In contrast, corporate income tax revenue declined in 2024, largely due to the introduction of a zero-tax rate on SMEs' reinvested profits, which has been in effect from 2023 and will remain applicable in 2025. The impact of this policy only materialised in 2024. In addition, the decline of GDP during H2 2024 had a negative impact on tax revenue. There was also a decline in customs revenues, likely a result of the reduction of administrative fees thanks to the new customs code that entered into force on 1 January 2024.

Similar to 2023, both current and capital expenditure were under-executed compared to the amended 2024 budget. Despite a 4.3 % increase in total expenditures compared to 2023 driven primarily by a higher wage bill and, to a lesser extent, increased spending on goods and services overall execution of the state budget remained below plans at 97% primarily due to low execution levels of investments. Expenses related to the wage bill rose due to an increase of the minimum wage by 25% and salary increases for employees in academia, the education and health sector by 10-15%. The phase out and better targeting of energy support measures led to a decline in overall social support as a share of GDP. Interest payments declined due to reduced cost of foreign-debt servicing. Capital expenditure fell by 12.7% y-o-y and remained below initial plans. By the end of 2024, 93.4% of planned public investment projects had been implemented, with approximately 80% financed externally. However, execution rates in sectors outside the road sector were significantly lower.

The ERP for 2025–2027 aims to support the ongoing economic recovery primarily through higher public investments while ensuring a gradual decrease in the headline deficit until 2027. Over the programme period, the public revenue ratio is projected to decline by 0.8 pps. of GDP, reaching 33.5% of GDP in 2027. This decrease is largely driven by a reduction in excise duties as share of GDP and a significant drop in inflows of grants from international donors, which reflects lack of commitments made with a sufficient certainty (and the non-inclusion of the Growth Plan in the ERP). Meanwhile, VAT—the largest component of tax revenue—is expected to rise by 0.3% of GDP, while other revenue sources are anticipated to grow in line with nominal output. The ratio of public expenditure to GDP is set to decline more quickly, decreasing by 1.9 pps. by 2027, as wages and salaries, expenditure on goods and services as well as social benefits are projected to grow less than nominal output. Capital expenditures are set to increase by 0.4% of GDP. The projected decline in both revenues and expenditures as a share of GDP does not take into account the forthcoming Growth Plan, which is expected to generate additional resources for financing current and capital expenditures. These investments are likely to stimulate economic growth, creating second-round effects that enhance revenue collection. Similar to last year's ERP, the programme provides for a gradual decrease of the fiscal deficit to 3.2% by 2027 (a similar level compared to the 2024 ERP). The headline deficit is set to fall by 0.3 pps. of GDP in 2025 compared to 2024 and is to further decline by 0.6 pps. in 2026 and 0.3 pps. of GDP in 2027. The stable cyclically adjusted balance in 2026, alongside a small positive output gap, suggests a broadly neutral fiscal stance.

Table 3:

Moldova - composition of the budgetary adjustment (% of GDP)

	2023	2024	2025	2026	2027	Change: 2024-27
Revenues	34.0	34.1	34.2	33.6	33.5	-0.6
- Taxes and social security contributions	30.6	31.8	32.3	31.7	31.8	-0.1
- Other (residual)	3.4	2.3	1.9	1.9	1.7	-0.5
Expenditure	39.2	38.0	38.3	37.1	36.7	-1.3
- Primary expenditure	37.4	37.2	36.9	35.7	35.3	-1.9
of which:						0.0
Gross fixed capital formation	1.4	1.1	1.1	1.2	1.2	0.1
Consumption	:	:	:	:	:	:
Transfers & subsidies	16.5	15.8	14.8	14.3	14.0	-1.7
Other (residual)	19.6	20.4	21.1	20.2	20.0	-0.4
- Interest payments	1.8	1.4	1.4	1.4	1.4	0.0
Budget balance	-5.2	-3.9	-4.0	-3.5	-3.2	0.7
Cyclically adjusted	-4.2	-3.6	-3.6	-3.6	-3.9	-0.4
Primary balance	-3.4	-2.9	2.7	2.1	1.8	4.7
- Cyclically adjusted	-2.4	-2.1	-2.3	-2.2	-2.5	-0.4
Gross debt level	35.2	37.9	39.3	40.1	40.0	2.1

Sources: Economic Reform Programme (ERP) 2025, Commission calculations.

The 2025 budget projects a headline deficit of 4.1% of GDP while maintaining growth-enhancing and social support measures. The Parliament adopted the state budget for 2025 on 26 December 2024, envisaging a fiscal deficit of 4.1 % of GDP. The authorities expect real GDP growth of 3% while inflation is projected to be 4.6%. The budget expects revenues to grow by 8.7% but to decline as share of GDP by 0.1 pps. while total expenditure is set to increase by 7.7% and decline by 0.3 pps. as share of GDP compared to the 2024 budget.

The ERP projects nominal tax revenue growth of about 9% driven by the continued economic recovery, improved tax and customs administration, and a broader tax base. The ERP only provides quantitative estimates for a few minor revenue measures (each of them worth less than 0.01% of GDP) but overall plans do not suggest major steps forward to broaden the revenue base. It lists several revenue-reducing measures. In order to support the development of the nascent capital market dominated by government and financial sector bonds and investment in renewable energy, the 2025 budget introduces a zero-tax rate on capital gains from central and local government bonds and an income tax exemption for renewable energy. Additionally, new tax expenditures will be introduced for early childhood educational expenses for children to support female employment. The zero tax for SME's undistributed profits will remain in place for 2025 and continue to have a fiscal impact until 2026. On the other hand, revenue-enhancing measures include a comprehensive VAT reform to align to the EU *aquis*, incl. elimination of VAT tax reliefs declared as State aid. In addition, the scope of fixed assets benefitting from VAT exemption has been narrowed, and from 1 January 2025 standard VAT for services in the field of science and innovation and for work facilities for persons with disabilities was introduced., Furthermore, municipalities are allowed to increase property taxes on neglected land by up to 300% and tax expenditures related to ferrous metal waste activities will be removed. In addition, the list of goods on which excises are applied will be expanded, also including sweet beverages and liquid tobacco. In order to improve tax compliance, a programme introduced in 2024 will continue with tax

inspections while the focus is expected to shift towards more preventive measures which have proven to be more effective in recent years. However, a reform to modernise the approach is not yet developed. In addition, the state tax service continues to provide guidelines on the exchange with taxpayers and officially announces upcoming inspections. As share of GDP, different revenue categories are set to remain stable. Grants are expected to reach their lowest level in recent years at 0.4% of GDP in 2025, down from 0.8% in 2024 and 1.8% in 2023. At the time of writing the ERP, compared to previous years, few grant disbursements were confirmed. The ERP, however, emphasises that this figure is likely to be revised upward following the adoption of the forthcoming Growth Plan. In addition, the European Commission announced an energy support package on 4 February 2025, incl. a total of EUR 130 million of grants during the first four months of 2025 (0.7% of GDP).

Expenditure measures in the 2025 budget are largely a continuation of the 2024 budget and include business support and social protection measures as well as public salaries increase. The budget provides for an increase in public salaries, incl. for teachers by 10% and medical staff by 15%. The minimum wage will rise by 10% as set out by law. Social benefits are also set to increase, primarily driven by the growing need for energy price compensation, higher minimum pensions, and an increased childbirth allowance. Free school meals for all public schools will be introduced starting with the new school year in September 2025. Despite these plans, current expenditure is set to decrease by 0.5% of GDP primarily due to a decline in subsidies to different entities. Public investments are set to remain constant as a ratio to GDP and will support transport and energy infrastructure projects, with a smaller contribution to environmental protection initiatives. The largest share of expenditures is dedicated to social protection followed by education and healthcare. Spending on economic affairs is set to remain relatively low at 3.3% of GDP (EU average: 6% of GDP in 2022). The costs emerging from the energy crisis are not accounted for in the 2025 budget except for a small buffer of 0.17% of GDP earmarked to cover additional electricity costs of a price increase of 50% compared to December 2024. According to latest estimates, the number of households eligible for some type of energy compensation almost doubled compared to last winter. Since 2024, energy compensation payments have been provided in cash rather than through in-bill reductions. However, the newly introduced mechanism for supporting electricity payments is applied directly to bills. A supplementary budget is expected to be adopted after the winter to account for the updated inflation outlook, a significant increase in energy compensation payments and support received by the EU, Member States and other bilateral donors. While the latter is sufficient to meet current financing needs for energy price compensation, it remains uncertain when this support will be phased out or redesigned to better target those in need and prepare a gradual convergence to market prices.

Box 1: The budget for year t

The government approved the draft 2025 budget on 4 December, which was then adopted by the Moldovan Parliament on 26 December 2024. According to the annual budget calendar, the government is supposed to present the draft budget by 15 October and the Parliament should adopt by 1 December. The budget targets a fiscal deficit of 4.1% of GDP and a primary deficit of 2.7% of GDP.

The budget provides for a 10 to 15% public salary increase for teachers, medical staff and

other staff with expert knowledge, an increase of the minimum pension and an increase of the one-off allowance for childbirth. It also includes a small buffer for costs related to the electricity price increase, but it does not include the broader costs of the current energy crisis.

Total revenue is expected to decrease slightly to 34.2% of GDP, mostly due to a projected decline in international grants, excises and property taxes. Total expenditure is projected to fall to 38.3% of GDP driven in part by lower subsidies and social benefits as a share of GDP.

In 2026 and 2027, the ERP projects revenues to reach on average 33.5% of GDP and expenditures 35.5% of GDP - an increase from the previous ERP and the Medium-Term Budgetary Framework. The increase of revenues reflects higher tax collection while the higher expenditure is driven by the need to increase social projection and support for business as well as public salaries. Higher tax revenues reflect a more dynamic projection of wages relative to GDP and measures to align excise duties on tobacco products to the *EU acquis.* A review of the social security system is expected to ensure long-term sustainability by reducing the current social fund deficit, particularly in light of demographic challenges. Expenditure measures include largely social protection measures, a public salary increase and support for SMEs and the agricultural sector. Public investments are projected to reach 1.2% of GDP in 2027 up from 1.1% in 2024.

The public debt ratio is expected to remain relatively low but elevated compared to 2023. By end of 2024, the debt ratio is expected to increase by around 3 pps from end-2023 to 38.5% of GDP, primarily due to the primary balance and a sizeable stock-flow adjustment. Unlike the previous year, the ERP no longer anticipates a reduction in public debt. Instead, the debt ratio is projected to rise to 39.3% of GDP in 2025, before stabilizing around 40% of GDP in 2026 and 2027. The increase is set to be driven primarily by the primary deficit and higher interest rate payments as a result of rising borrowing cost. This impact is largely offset by nominal GDP growth, while stock-flow adjustment continues to have a relatively large impact on the debt trajectory. However, the ERP does not provide details on the specific stock-flow adjustments. Current projections rely primarily on domestic issuances, with authorities planning to revise the figures once the schedule and disbursement amounts for the upcoming Growth Plan are determined.

Moldova's government debt remains largely denominated in foreign currency suggesting high risks related to exchange rate fluctuations. Following a modest increase in domestic financing in 2023, the share of external debt rose again, reaching 61.5% by the third quarter of 2024. The longer average maturity and concessionality of external debt remains a mitigating factor. 90% of external debt is extended by multilateral creditors, incl. the IMF and the EU. The government acknowledges that the high reliance on external debt increases the country's vulnerability to exchange rate risks and has set a target to increase the share of local currency-denominated debt to at least 35% in 2025 which was met already, while capping exposure to any single foreign currency at a maximum of 50%. Domestic debt remains dominated by short -term T-bills of up to 1 year suggesting potential risks of roll-over of short-term debt. After the first successful issuance in 2023, the government issued two more 10-year domestic bonds in July and December 2024. Interest rates for domestic debt (T-bills and T-bonds) rose by 1.8 pps. year-on-year, reaching 7% in January 2025. The government seeks to further

deepen the domestic market and expand access to long term domestic financing. As part of these efforts, the government launched an initiative to support retail investors' access to the capital market in 2024.

Moldova
Composition of changes in the debt ratio (% of GDP)

	2023	**2024**	**2025**	**2026**	**2027**
Gross debt ratio [1]	35.2	39.3	39.3	40.1	40.0
Change in the ratio	0.3	4.0	0.0	0.8	0.0
Contributions [2]:					
1. Primary balance	**3.4**	**2.9**	**2.7**	**2.1**	**1.8**
2. 'Snowball effect'	**-1.2**	**-0.7**	**-1.7**	**-1.8**	**-1.9**
Of which:					
Interest expenditure	1.8	1.4	1.4	1.4	1.4
Growth effect	-0.2	-0.8	-1.1	-1.2	-1.4
Inflation effect	-2.8	-1.3	-2.0	-2.1	-1.9
3. Stock-flow adjustment	**-1.9**	**1.8**	**-1.0**	**0.6**	**0.0**

[1] End of period.
[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).
The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.
Source: Economic Reform Programme (ERP) 2025, Commission calculations.

Key risks remain closely linked to Moldova's energy situation and related geopolitical risks. As of 1 January 2025, the Transnistrian region is cut-off from Russian gas supply which it had benefitted from without paying for it. This has major social and economic implications for the region but also leads to electricity price hikes on right bank Moldova. Until the end of December 2024, Moldova's right bank received nearly 80% of its electricity consumption at below-market prices from MGRES, a power plant in the Transnistrian region that operated using de facto free Russian gas. To ensure a stable electricity supply to the right bank, Moldova increased electricity imports from Romania while also increasing domestic production, particularly through renewable energy and thermal power plants. As a result, electricity prices surged by up to 65 - 75% in January. The 2025 budget includes a buffer for a 50% price increase. In the coming months, risks related to high energy prices and potential shortages remain as thermal power will be shut down after the heating season and the electricity line for Romanian imports via Ukraine faces potential Russian attacks. In addition, Moldova currently benefits from unused allocations of electricity from Ukraine, which may end once Ukraine restores infrastructure and raises its electricity consumption. The EU, Member States and other bilateral donors have already announced short term support while long-term energy security heavily relies on energy market reforms and a close integration in the EU market. Similarly, a potential deteriorating situation in the Transnistrian region may increase the need for the right bank to provide assistance.

Moldova's economy also remains significantly impacted by Russia's war against Ukraine and climate-related risks. Business and investment sentiment are closely tied to developments in Ukraine, while Russia's aggression also presents direct economic and security challenges for Moldova. Additionally, Moldova's economy and export potential remain highly dependent on agriculture, making it particularly vulnerable to climate

change. According to the UN, average annual losses related to extreme weather events account for 2% of GDP mainly due to losses in agriculture disproportionately impacting poor and vulnerable communities. Going forward, the World Bank estimates annual GDP losses of over 2.8 percent by 2050 in the absence of adequate adaptation measures including through major crop losses and a decline in labour productivity.

The ERP lacks a comprehensive fiscal risk overview and sensitivity analysis but addresses risks related to state-owned enterprises (SOEs), contingent liabilities, and a shrinking working population. The government's contingent liabilities include guarantees provided through the 'Prima Casă PLUS' programme, which supports real estate transactions through loan guarantees amounting to 0.5% of GDP. In 2025, the amount of guaranteed loans is expected to reach almost 1.2% of GDP though the ERP does not present a risk analysis related to contingent liabilities. In addition, the government provides credit guarantees covering 11% of SME loans equivalent to 0.43% of GDP in outstanding loans in 2023. In order to mitigate fiscal risks from SOEs, the government has initiated a reform in 2022. The ERP provides for enhanced financial monitoring of SOEs, incl. regular stress testing for the 12 biggest SOEs and commits to improving corporate governance. It does not present estimates of fiscal risks stemming from SOEs, especially for those to be restructured and liquidated as a result of the triage exercise and risks related to on-lending to several SOEs. Before its accession to the EU, Moldova must classify publicly controlled non-market producers within the general government sector, which is expected to affect public debt levels. However, no analysis of this impact has been conducted to date. Lastly, the ERP identifies demographic trends as major risk due to population ageing and high emigration rates among young people, leading to a rising dependency ratio and increasing pressure on the social security and healthcare systems. The share of the population aged 65 and over is projected to rise from 17.4% in 2023 to 26.3% by 2040, with those 80+ doubling from 14.2% to 27.5%. The dependency ratio, defined as the number of persons under 15 and over 64 per 100 working-age individuals (15-64), is projected to increase from 67.9 to between 76.8 and 79.2 by 2040. The ERP does, however, not quantify the potential risks to public finances.

Moldova has a high share of spending on education and social protection, while spending on economic affairs is relatively low. Over the past five years, the share of total spending allocated to social protection has been rising, while expenditures on economic-related activities have gradually declined. Educational spending remains relatively high with 6.1% of GDP in 2024 (EU: 4.7% of GDP in 2022) while outcomes remain well below the OECD average according to the latest PISA results. A spending review conducted in 2018/2019 did not result in significant savings. In order to support fiscal consolidation, the ERP projects a nearly 2 pps. decline in overall spending to 36.7% of GDP by 2027 with efficiency gains in social protection through better targeting (down 1.3 pps. to 13.6% of GDP) and unspecified savings in education (down nearly 1 pp). Meanwhile, environmental protection spending is set to increase slightly. After a further decline in 2025, expenditures for economic affairs are set to increase to 3.8% of GDP reaching 2023 levels (EU: 6% of GDP in 2022).

The ERP includes several fiscal policy measures aimed at enhancing public sector efficiency and ensuring the sustainability of public finances. It provides for a public salary reform to improve incentives and career progression while increasing the wage bill by 5-10%. A health sector spending review aiming at savings of up to 2.2% by moving towards prevention measures has been finalised. So far, one out of six efficiency

measures has been fully implemented, while two others have been partially implemented, incl. the reorganisation of the National Centre for Emergency Medical Assistance and the revision of financial mechanisms for primary healthcare services. This has resulted in savings of around MDL 150 million to date – half of the identified potential savings. In addition, a spending review for social protection was initiated in March 2024 with a view to reducing the deficit of the social security budget which currently stands at 12% of social-related expenditures. However, the ERP does not specify a timeline for the implementation of the results. In general, there is no legal or institutional framework guiding the implementation of spending reviews' results. Discussions between the Ministry of Finance and the State Chancellery are planned to identify avenues for improving the implementation of spending reviews.

On the revenue side, the ERP outlines several efforts to broaden the tax base and improve tax and customs collections but does not provide any quantitative estimates. Annual tax expenditure reviews have been institutionalised with the latest focussing on the cost-benefit analysis and foregone revenues of all expenditures introduced in 2023. The report is expected to be finalised by the end of the first quarter of 2025 with a view to identifying the least efficient and effective tax expenditures. The ERP neither presents the results of this or previous analyses nor outlines their implementation. Under the current IMF programme, Moldova committed to phase out tax expenditures starting in January 2026 with the objective of generating at least MDL 900 million (0.3% of GDP) in additional annual revenues. At the same time, the ERP provides for the introduction of new tax expenditures to support early childhood education. The ERP also highlights the continued implementation of the public finance management strategy 2023 – 2030 but does not describe any measures taken in 2024.

The numerical fiscal rule of 2.5% of GDP (without grants) is not respected with the escape clause in place longer than the permitted period. The escape clause has remained activated since 2020 with several crises hitting the country's economy and the current energy crisis creating another exceptional situation endangering national security. According to the law on public finance and fiscal responsibility, the escape clause can only be activated for three years. In 2025, the fiscal deficit is projected to deviate from the rule with 4.1% before gradually declining in 2026 and 2027. The budget deficit is expected to return within the prescribed limit under the derogation clause (i.e. when excluding investment projects financed through external support).

Moldova continues preparatory work to set up a fiscal council. The 2017 feasibility report assessing various options for its creation was updated in December 2024 to reflect recent amendments to Directive 2011/85/EU, as introduced by Article 8 of Directive 2024/1265/EU regarding the requirements for Member States' budgetary frameworks and the establishment of independent fiscal institutions. In line with these developments, the ERP outlines preparations for setting up a fiscal council based on examples from selected eastern European countries. At its initial stage, the fiscal council would focus on key tasks such as ensuring that macroeconomic projections substantiate revenue forecasts, assessing budget implementation, and conducting cost estimations for major legislative changes. However, the ERP does not specify a timeline for the implementation of these initial steps.

4. MAIN MACRO-RELEVANT STRUCTURAL CHALLENGES[2]

In October 2024, the Commission proposed a Growth Plan for Moldova with the aim of supporting the region's economic convergence and accelerating the accession process. The plan includes enhanced access to the EU single market for Moldova and a Reform and Growth Facility (EUR 385 million in grants, EUR 1.5 billion in loans) to be disbursed in 2025-2027 as budget support and investments subject to the implementation of reforms that are to be set out in a Reform Agenda prepared by Moldova and positively assessed by the Commission. The Reform and Growth Facility is therefore an important tool to increase reform implementation to boost economic growth and convergence and the necessary investments. In this context, with a view to ensuring an integrated surveillance of Moldova's economy, this chapter briefly outlines the main structural challenges facing the country.

The authorities remain committed to macroeconomic stability and reforms. Despite multiple crises since 2020, Moldova's macroeconomic policy mix has been effective, with monetary policy helping to bring inflation back to the 5% ± 1.5% target in 2024. The current account deficit remains high due to a large trade deficit driven by energy imports and low-value-added exports, while net FDI remains very low amid weak investor confidence. Though public debt is relatively low, large fiscal deficits and liquidity management challenges persist, with external debt largely financed by concessional donor support.

Despite significant measures to increase the quality of education, shortage of skilled labour remains a key issue while labour market participation remains low. The main reasons for low labour market participation include informal employment, (seasonal) work abroad, the relevance of remittances, a mismatch between the skill level of the workforce and what employers require, and a high level of home childcare preventing female employment. Moldova has a relatively high education spending accounting for 6.1% of GDP in 2024, exceeding the EU average (see also above) but learning outcomes do not match labour market needs. The ongoing Vocational Education and Training (VET) reform and digital skills agenda are partly addressing this. Moldova's State Labour Inspectorate launched reforms in 2022 to reduce informal employment, with the 2024–2025 programme targeting a decline from 22.9% in 2021 to 19% by 2026. Key measures include more inspections, improved risk analysis, and better governance, alongside a 60% wage increase for inspectors. Early results show some progress: by September 2024, 1,665 undeclared workers were identified, with 1,230 legalised—up from just 12 per year previously. However, this figure remains very low relative to the substantial size of the informal economy[3]. In addition, measures to improve childcare provision and flexible

[2] This part of the assessment template is applicable to the Western Balkan countries and to Moldova, for which DG ECFIN is to provide a short assessment of macro-relevant structural reforms, consistent with the Reform Agenda priorities (where those priorities are available for Moldova). For Türkiye and Georgia, DG NEAR is in charge of this part of the ERP assessment which may be more detailed and may be based on last year's template.

[3] According to World Economics (2024), which uses an average of the latest estimates from economists around the world, Moldova's informal economy represents about 37.1% of GDP. Any estimations need to be taken with caution given the variety of methodological approaches.

working arrangements helped to increase female employment through it still lags behind male employment.

Public investments (about 1% of GDP in 2024) declined and remain insufficient to meet the country's substantial infrastructure needs. Moldova continues to struggle to implement public investment projects, particularly projects from external sources. By end of October 2024, only 65% of externally funded projects planned for the first ten months of 2024 have been implemented. Important progress was made in implementing a new public investment management system (the 'single project pipeline') which aims to improve the planning and execution of public investment with ten new projects of the 2025 budget identified through the new framework compared to two in the 2024 budget. The large majority of public investments projects covered by the 2025 budget, however, are ongoing ones. Despite some improvements in road infrastructure and connectivity with neighbouring countries and significant advancements in the energy infrastructure, investment needs in energy security, climate resilience, trade and transport infrastructure remain acute, also calling for mobilisation of private capital.

State-owned enterprises (SOEs) and enterprises with partial state ownership continue to play a significant role in the economy. Their combined assets represent about one fifth of Moldova's GDP. Although their number has declined by around 20% since 2019 largely due to liquidation and restructuring, productivity levels remain well below those in private companies. One third of activities by SOEs continue to be in competitive sectors such as transport services or manufacturing. In July 2024, the government approved a merger between the main SOE responsible for managing road construction and private road maintenance companies further undermining the playing field for private companies in the road sector. Moldova has made some progress on its SOE Reform Agenda though the most important steps are still to come. The Public Property Agency completed a screening of 238 SOEs classified according to whether they will be privatised, restructured, liquidated or kept in public ownership, but little progress has been made in implementing those decisions. Laws governing improvements in the selection procedures for members of the boards of SOEs and audits and a new corporate governance code were adopted, though implementation lags behind. To further strengthen market institutions and create a level playing field for private companies, the government has implemented important reforms to strengthen competition and the State aid framework.

Foreign direct investment (FDI) remains low, while industry and exports continue to be dominated by low value-added production. FDI inflows averaged around 2% of GDP during the first three quarters of 2024, reflecting a declining trend. To attract investment and support industrialization, the government has introduced several support programmes, though their impact remains uncertain amid political instability and the ongoing effects of Russia's war against Ukraine. Corruption and weak rule of law further hinder the business environment and FDI, despite some progress in recent years. While the industrial sector is still dominated by agri-food products, beverages, and textiles, the growing share of pharmaceuticals and machinery suggests a potential shift toward higher value-added production.

5. Consistency of the Reform Agenda with the ERP's macro-fiscal framework (for partners that prepare a Reform Agenda)

The ERP does not elaborate on the links between the Reform Agenda and the macroeconomic and fiscal frameworks because the Reform Agenda has not yet been adopted at the time of the submission of the ERP.

Instead, the ERP describes the main objectives of the Growth Plan and identifies three main reform areas aimed at achieving a 5% medium-term GDP growth target. First, investment in infrastructure and energy are set to help modernise transport networks, improve energy efficiency, and transition to renewable energy. The objective is to reach 7% of GDP in public investment by 2027. Second, the Growth Plan is expected to improve the business environment and foster innovation, notably through reforms aimed at reducing regulatory barriers, improve digitalisation and enhance SMEs' access to finance. This has been identified as main driver of competitiveness and increased access to international markets. Lastly, human capital development—through education, healthcare, and vocational training—are expected to help address the skills gap and increase employment to 45% by 2027. In 2024, the employment rate stood at 43.9%.

Box 2: Moldova Growth Plan and Reform Agenda

The Commission in its Communication on the Moldova Growth Plan of October 2024 set out a New Growth Plan for Moldova based on three pillars: (1) Accelerating socio-economic and fundamental reforms, through the support of a dedicated Reform Agenda closely interlinked with Moldova's EU accession process; (2) Enhancing access to the EU single market, based on the opportunities offered by the Deep and Comprehensive Free Trade Area and participation in EU programmes and policies, subject to Moldova's alignment with the relevant EU single market rules and (3) Increasing financial assistance to support the implementation of socio-economic and fundamental reforms, and contribute to triggering investments, through a dedicated Reform and Growth Facility for Moldova with disbursements conditional on reform progress.

The entry into force of the Regulation establishing the Reform and Growth Facility for Moldova on 22 March 2025 provides the country with financing worth EUR 2.02 billion for the 2025-2027 period including EUR 135 million in provisioning. The Facility aims to invest in Moldova, accelerate its socio-economic reforms, strengthen its resilience, and advance its EU integration. The implementation of the Facility will build on the Reform Agenda, a coherent and prioritised set of targeted reforms prepared by Moldova. The Reform Agenda provides a framework for boosting inclusive sustainable socio-economic growth, clearly articulated and aligned with Union accession requirements and the fundamentals of the enlargement process.

Moldova has set an overall strategic goal and seven specific objectives to its Reform Agenda. The overall strategic goal is to "contribute to a significant acceleration of Moldova's economic growth, a broader inclusion of all social groups and geographic areas in the economic processes, and further consolidation of Moldova's economic resilience through closer economic, investment, and trade ties with the EU." Under this strategic goal, the Reform Agenda has seven specific objectives that correspond with its seven policy areas: 1) Improving the private sector development; 2) Enhancing systemic economic resilience by strengthening connectivity and digital infrastructure; 3) Strengthening the economic governance; 4) Fostering social capital development; 5) Enhancing environmental sustainability and advancing green transition; 6) Further consolidating energy security and efficiency; and 7) Progressing on fundamentals of the EU accession process. The reforms under these seven objectives are designed so that they contribute to the overall objectives of the Facility by transforming Moldova into a competitive economy, with transparent and effective governance, modernised infrastructure, and a robust legal framework aligned with EU acquis. This work will be further supported by implementing the relevant sectoral strategies, notably on public administration reform and public financial management.

ANNEX 1: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED IN THE PREVIOUS YEAR

Every year since 2015, the Economic and Financial Dialogue between the EU and enlargement partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2024 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and the Western Balkans Partners, Türkiye, Georgia, Republic of Moldova and Ukraine at ministerial level on 14 May 2024.

Overall: Partial implementation (52.5%)	
2024 policy guidance (PG)	**Summary assessment**
PG 1: Gradually reduce the fiscal deficit as the economic recovery takes hold, while building fiscal buffers to mitigate risks to the public finances; to that end, prepare an analysis on the fiscal impact of a possible interruption of natural gas supply used for electricity generation.	There was **substantial implementation** of PG 1: **1) Full implementation**: in 2024, the fiscal deficit was reduced to 3.9% of GDP, compared to 5.2% of GDP in 2023, and was lower than the expected fiscal deficit outlined in the 2024 ERP. This was thanks to higher-than-expected revenues and an under-execution of expenditure. While this helped to advance fiscal consolidation, there was no significant increase in growth-enhancing spending. In October 2024, an action plan for the preparation of the 2024-2025 heating season was adopted. It considers two scenarios: one in which Russian gas deliveries from 1 January 2025 remain at the same level as the previous year, and another involving a complete cut-off of gas supplies to the TN region. The plan includes measures to secure alternative supplies of gas and electricity but does not include a fiscal impact analysis. It was prepared later, in the context of the preparation of the 2025 budget, which considered electricity price increases of 20%, 50% and 100%. Based on this analysis, Moldova decided to include an earmarked buffer of MDL 600 million (0.2% of GDP) in the 2025 budget to cover additional costs from a 50% increase in electricity prices. However, this did not account for needs arising from potential business compensation, or urgent infrastructure improvements. This in addition to a price increase of 75% instead of 50% led to an unexpected financing gap at the beginning of 2025, which will need to be covered by short-term external support.
Increase public investment as planned in the ERP, while applying the new single project pipeline framework covering all investment projects	**2) Limited implementation:** Public investments fell by 22% in 2024 compared to 2023. Going forward,

regardless of financing source.	capital investments are projected to slightly increase but from a lower base: capital investments will be lower by 33.9% in 2025 and by 34.8% in 2026 than projected in the last year's ERP. This is mainly driven by a downward revision of externally funded projects and considering limited implementation capacities. In 2024, 32 new projects were screened for the inclusion in the single project pipeline. Of these, 14 were deemed eligible, 11 remain under assessment, and 7 require revision. A total of 10 new projects from the pipeline were included in the 2025 budget with 2 having completed the appraisal procedure and 8 being still under evaluation. This accounts for 7.2% of total public investments in the 2025 budget where the majority of projects are ongoing ones and have been selected before the full implementation of the single project pipeline. The regulatory framework setting out the single project pipeline was amended to include an environmental impact assessment for each project. The authorities consider that there is sufficient capacity to conduct this assessment. In addition, the single project pipeline framework was extended to externally funded projects
Improve the capacity to produce macroeconomic and fiscal forecasts, in particular of the cyclically adjusted fiscal balance	**3) Substantial implementation**: Both the Ministry of Economic Development (MoEDD) and the Ministry of Finance improved their macroeconomic and fiscal forecasting capacities which helped to enhance the quality of this year's ERP. The MoEDD oversees producing macroeconomic forecasts. The Ministry benefited from several capacity building initiatives throughout 2024 to improve the forecasting, notably through the development of a macroeconomic forecasting model used for the baseline scenario, a macrostructural model that was used to forecast alternative scenarios in the ERP, using an applied general equilibrium model and on assessing price/cost competitiveness. In addition, the Ministry of Finance developed for the first time the cyclically adjusted fiscal and structural balance benefiting from EU financed technical support.
PG 2: Continue to broaden the tax base and improve tax compliance in line with the Public Finance Management Strategy 2023-2030.	There was **partial implementation** of PG 2: **1) Partial implementation:** Several tax benefits and tax expenditures have been abolished in 2024, incl. a 7% tax rate for economic activities related to ferrous and non-ferrous metal economic activities. In addition, the scope of fixed assets benefiting from VAT exemption has been narrowed, and from 1 January 2025 standard VAT for services in the field of science and innovation and for work facilities for persons with disabilities was introduced. However, the ERP foresees the introduction of new tax expenditures for 2025. To enhance tax compliance, a 2024 program targeted five high-risk sectors, including transport, construction, and wholesale. This initiative improved

	compliance rates and boosted revenues by reducing the prevalence of envelope salaries.
Finalise and publish the ongoing spending review of the health sector and undertake further reviews in the most significant areas of expenditure such as social protection.	**2) Partial implementation:** the spending review for the health sector was completed and published in 2024 with the aim of moving towards preventive measures instead of treatment. It concludes that through various measures annual savings of max MDL 304.3 million (2.2% of total health expenditures), incl. up to 11% in selected programmes could be reached. In the 2025 budget, health expenditures account for 5.6% of GDP (EU 7.7% of GDP in 2022). So far, one out of six efficiency measures were fully and two partially implemented, notably the reorganisation of the National Centre for Emergency Medical Assistance and the revision of financial mechanisms for primary healthcare services. This has resulted in savings of MDL 150 million to date. Beyond those measures, there is no clear implementation plan for reforms to healthcare spendings. A spending review for social protection was initiated in March 2024 with a view to reducing the deficit of the social security budget revenues. The following aspects are being assessed: existing exemptions from social security contributions, family and child protection and social protection in exceptional cases and for certain population groups. The ERP does not specify a timeline for its completion or implementation of the results.
Review the main programmes supporting businesses' access to bank finance such as the '373 interest subsidy programme', the Fund for Entrepreneurship and Economic Growth Investments and the 'Credit Guarantee Facility' with a view to improving their effectiveness in addressing the bottlenecks to provision of credit and assessing their potential to support the implementation of Environmental, Social and Governance (ESG) principles.	**3) No implementation**: No dedicated review of the access to finance programmes with respect to efficiency and fiscal impact was conducted.
Take steps to implement the results of the state-owned enterprise 'triage' exercise and ensure the implementation of recent governance reforms related to the professionalisation of boards and the establishment of audit committees at state-owned enterprises.	**4) Limited implementation:** In November 2024, a strategy for all the SOEs at the central government level was developed, which includes a framework for monitoring financial performance and mitigating related fiscal risks and a plan to rationalise the number of SOEs that are in non-strategic sectors or are loss making. However, no further steps were taken to implement the results of the triage exercise. In addition, the implementation of the governance reform remains very slow.
PG 3: Ensure a sufficiently tight monetary policy stance as long as necessary to anchor inflation expectations at levels consistent with price	There was **substantial implementation** of PG 3: **1) Substantial implementation**: The central bank has carefully monitored the evolution of price dynamics. It reacted appropriately by raising rates beginning of

stability, underpinned by a thorough assessment of potential second-round effects and developing an inflation expectations survey.	2025 in response to the renewed inflationary pressures towards the end of 2024 as a result of the energy crisis and rising food prices, which drove inflation above the target band. It developed and published an inflation expectations survey, although further work is planned to improve the reliability of the results.
Ensure the independence of the central bank, including the personal independence of decisionmakers.	**2) Partial implementation:** The authorities took steps to enhance central bank independence through legislative amendments implemented in July 2024, granting the central bank operational control over its assets, defining more explicitly the financial stability and macroprudential policy mandate, and eliminating inappropriate supervisory deadlines. Additional amendments to the central bank law, including strengthening the dismissal and appointment procedures and reforming its governance and decision-making structure were submitted to Parliament in December 2024. Swift approval of these reforms is essential to further strengthen the central bank's independence.
Enhance risk-based supervision in line with best international and European practices, including by further strengthening the reporting framework across the banking system, harmonising the regulatory and supervisory landscape between the banking and the non-bank financial sector, and improving data collection to enable a comprehensive assessment of financial sector risks.	**3) Substantial implementation:** The central bank has strengthened its risk-based supervision by enhancing the reporting framework for non-bank lending institutions and consolidating their loan data with the banking sector, providing a more systemic view of financial risks. Further efforts to enhance financial stability include the NBM's approval of the Bank Resolution Law in December 2024; and ongoing reforms by the Bank Deposit Guarantee Fund of Moldova (FGDSB) to align the Deposit Guarantee Scheme with the EU Directive. Additionally, amendments to secondary legislation on non-bank lending institutions are underway to improve transparency, governance and shareholder eligibility in the non-banking sector. To further harmonise regulatory standards across financial institutions, the central bank has launched a review of responsible lending practices and conducts regular risk assessments through Bank Lending and Systemic Risk Surveys, incorporating emerging risks such as environmental factors.

ANNEX 2: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Economic Reform Programme (ERP) 2025-2027 was endorsed by the Inter-ministerial Committee for Strategic Planning, chaired by the prime minister, on 15 January 2025 and submitted to the European Commission on 17 January 2025.

As agreed in advance with the European Commission, the ERP consists of the macro-fiscal framework only. The structural reform plan will be covered by the forthcoming Reform Agenda to be adopted in the context of the Growth Plan. The macro-fiscal framework is missing a number of elements including a forecast of the external sector and labour market, long-term fiscal projections, a sensitivity analysis and the assumptions on the external environment.

Inter-ministerial coordination

- ✓ The Prime Minister designated the Ministry of Finance as the national ERP coordinator. The Finance Ministry worked closely with the Ministry of Economic Development and Digitalisation, the Ministry of Labour and Social Protection, the National Bank of Moldova and the National Bureau of Statistics in the preparation of the ERP. The document was also shared with experts from the EU-funded technical assistance project team at the Ministry of Finance for their input. However, preparations for the development of the ERP started only in late November 2024 as there was no dedicated team or coordinator appointed to lead the exercise. This posed challenges to ensuring the timely and comprehensive preparation of this year's ERP. Going forward, the Minister of Finance confirmed the plan to establish a permanent coordination mechanism and appoint a senior public official to lead the exercise.

Stakeholder consultation

- ✓ The draft ERP was sent to a leading independent Moldovan think tank for comments and suggestions. The very short preparation time for the ERP did not allow for a public consultation.

Macro framework

- ✓ The programme presents a clear and concise picture of past economic developments, though it is limited by a lack of available data for example in the presentation of current account developments. The presented framework is largely coherent and consistent, and it provides alternative macroeconomic scenarios though lacks comprehensive information of the GDP components. In addition, it lacks a forecast for the external sector as well as the labour market.

Fiscal framework

- ✓ The major policy documents underpinning the fiscal framework are listed, though the link between the fiscal framework and specific priorities is not made explicit. The programme contains references to obligations under the EU-Moldova Association Agreement and the alignment to the *EU acquis*, though it does not yet make reference to recommendations from the enlargement report published in November 2024 or key government strategies such as the public financial management strategy or the national strategy for economic development. Key revenue and expenditure

measures are generally not costed. Budget implementation for 2024 is presented up to the end of October 2024, the latest available data at the time of drafting. Moldova's fiscal reporting does not follow ESA 2010 standards, and therefore does not meet the Commission's fiscal notification requirements. This is particularly critical in the context of the measurement and plans related to public investments.