

TAX SUSTAINABILITY AND EUROPEAN INTEGRATION: CHALLENGES FOR THE REPUBLIC OF MOLDOVA

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Abstract: *In the context of the European integration process, the Republic of Moldova is facing a number of major economic challenges, and fiscal sustainability is a central issue. The persistent budget deficit and the accelerated growth of public debt constitute significant obstacles to the consolidation of the economy and alignment with European Union standards. This paper analyzes the impact of European integration on the fiscal policy of the Republic of Moldova, highlighting the main challenges in the management of the deficit and public debt, the efficiency of revenue collection and the use of European funds. It also discusses the lessons learned from the experiences of other Central and Eastern European countries that have implemented fiscal reforms to meet the economic criteria of the European Union. In conclusion, the paper proposes solutions for improving fiscal sustainability and the management of budgetary resources in the Republic of Moldova, in the context of European integration.*

Keywords: *fiscal sustainability, European integration, budget deficit, public debt, fiscal reforms, Republic of Moldova, European funds, fiscal efficiency, fiscal consolidation.*

JEL Classification: *H62, F15, O57.*

INTRODUCTION

The process of integration of the Republic of Moldova into the European Union represents an essential step for strengthening the rule of law, economic development and modernization of institutions. A central element in this process is the achievement of a high level of fiscal sustainability, essential for alignment with the economic standards of the European Union. Currently, the Republic of Moldova is facing multiple fiscal and economic challenges, and maintaining a budget deficit below 3% of GDP is a fundamental condition for meeting the economic convergence criteria established by the European Union. Difficulties in managing the budget deficit, increasing public debt and inefficient collection of tax revenues endanger the country's financial stability and the capacity to implement a sustainable economic framework. Fiscal sustainability in the Republic of Moldova is thus becoming a major concern for the national authorities, being closely linked to the economic and fiscal reforms necessary for integration into the European Union. Thus, the objective of this paper is to analyze the main fiscal challenges facing the Republic of Moldova, to identify solutions to improve fiscal sustainability, and to assess the impact of European funds on the country's economic stability.

FISCAL SUSTAINABILITY CHALLENGES IN THE REPUBLIC OF MOLDOVA: BUDGET DEFICIT AND PUBLIC DEBT

One of the biggest challenges for the Republic of Moldova in the context of European integration is maintaining a controlled budget deficit. According to the European Union economic convergence criteria, a member state must maintain the budget deficit below 3% of GDP, which ensures macroeconomic stability favorable to economic development. However, the Republic of Moldova has been faced with a persistent fiscal deficit, which exceeds this threshold, deepening dependence on external loans and exerting pressure on the state's financial resources.

The fiscal deficit is based on a number of structural and cyclical factors, including high public spending, especially in areas such as social protection, health and education, but also insufficient collection of tax revenues. In this regard, the authorities must implement fiscal consolidation measures, which include both reducing public spending and increasing tax revenues by combating tax evasion and improving tax administration.

Another key factor affecting the fiscal sustainability of the Republic of Moldova is the growth of public debt. In the recent period, the country's public debt has registered an upward trend, reaching a level that puts pressure on the national budget. Public debt service, mainly through interest payments, reduces the availability of financial resources for productive investments and for improving public services. In this context, efficient public debt management becomes crucial for maintaining a stable fiscal balance and avoiding long-term macroeconomic risks. To ensure public debt sustainability, the Republic of Moldova needs to adopt a prudent borrowing policy, renegotiate the repayment terms of existing loans, and attract low-cost external financing. The government also needs to prioritize infrastructure and economic development projects that can generate additional revenues to the budget, thus contributing to reducing the debt burden.

Another important aspect undermining fiscal sustainability in the Republic of Moldova is the inefficient collection of tax revenues. Widespread tax evasion and poor administration of the tax system have led to low tax compliance, which contributes significantly to the budget deficit. According to estimates, the Republic of Moldova loses considerable amounts of money annually due to tax evasion, which limits the government's ability to finance public projects and support economic stability. In this regard, the Republic of Moldova needs to implement tax reforms that increase the efficiency of revenue collection and reduce the level of tax evasion. Digitalizing tax processes, simplifying tax payment procedures, and improving the transparency of tax administration are essential measures to increase tax compliance. In addition, the authorities need to strengthen control over economic sectors vulnerable to evasion, such as agriculture, trade, and the informal sector. The Republic of Moldova faces a persistent budget deficit, often exceeding the 3% of GDP threshold, which highlights the country's economic difficulties in complying with the European Union's economic criteria. According to official data, Moldova's budget deficit was 4.7% of GDP in 2022, and public debt reached 33% of GDP, which exceeds the limits set by the European Union (Eurostat, 2023). This situation represents a major economic vulnerability, given that the continuously growing public debt may affect the country's ability to finance its development projects and may impose additional costs related to debt refinancing.

The main causes of the high public deficit and debt are:

1. Expansionary fiscal policies: Increased public spending, especially in the areas of pensions, public sector wages and subsidies, which have not been matched by sufficient growth in tax revenues.
2. Low efficiency in tax revenue collection: Tax evasion and corruption continue to undermine available budgetary resources, which hinders the reduction of the budget deficit and the stabilization of public debt.

Table 1. Evolution of the budget deficit and public debt in the Republic of Moldova (2010-2022)

Year	Budget deficit, % of GDP	Public debt, % of GDP
2010	5,3%	14,5%
2015	3,8%	23,2%
2020	4,9%	29,6%
2022	4,7%	33,0%

Source: Prepared by the author based on data presented by the World Bank, Eurostat (2023)

Thus, the Republic of Moldova must adopt rigorous fiscal measures to reduce the budget deficit and stabilize public debt. These measures include better allocation of budgetary resources, reforming the pension and wage system, and reducing unproductive public spending.

EFFICIENCY OF TAX REVENUE COLLECTION

The efficiency of tax revenue collection is one of the most significant challenges facing the Republic of Moldova in the context of its European integration process and the consolidation of fiscal sustainability. According to available data, the Republic of Moldova collected approximately 18.5% of GDP in tax revenues in 2022, a considerably lower percentage compared to the European Union average, where this indicator is around 40% of GDP (IMF, 2023). This significant difference highlights the persistent challenges faced by the tax administration in the Republic of Moldova, which not only fails to collect enough to support public spending, but is also in a vulnerable position to economic risks, which makes it difficult to meet European Union requirements.

In particular, the problem of inefficient tax revenue collection in the Republic of Moldova is generated by a combination of structural and institutional factors that affect the ability of the tax administration to implement effective tax policies. Among them, tax evasion, excessive bureaucracy and lack of appropriate tax education are the most relevant causes.

One of the most important obstacles to the efficient collection of tax revenues in the Republic of Moldova is widespread tax evasion. This is manifested by the non-payment of taxes and duties by various economic entities and individuals, due to both ignorance and avoidance of tax obligations. According to recent studies, tax evasion in Moldova is significantly higher than in many European Union countries. Factors contributing to this phenomenon include mainly informal economic activities and the unregulated sector, which are present in the business of many small and medium-sized firms, but also in tax avoidance behaviors practiced by certain large companies. These are based on strategies of manipulating accounting balance sheets and recording lower than real income.

Another significant factor is the presence of a large agricultural sector, which is traditionally less regulated and more difficult to control in terms of tax collection. Tax evasion can also be exacerbated by the lack of effective control and sanctioning mechanisms for those who violate tax regulations, which has led to low citizen trust in tax authorities. Thus, combating tax evasion is a priority for the tax authorities of the Republic of Moldova, which need to adopt more effective prevention and sanctioning strategies.

Another significant factor contributing to the inefficiency of tax revenue collection in the Republic of Moldova is administrative bureaucracy. The country's tax system is often characterized by excessive complexity, with procedures and regulations that prove difficult to understand and implement, both for taxpayers and tax authorities. In addition, the complexity of tax regulations leads to a large volume of documentation required for filing tax returns, and this process is often inefficient in terms of time and resources. Thus, these bureaucratic procedures can discourage taxpayers from fulfilling their tax obligations correctly and on time.

In many cases, taxes are collected manually and financial information is processed with a low degree of automation, which contributes to errors and delays in the collection process. This type of inefficient administrative system increases the risk of tax non-compliance and reduces transparency, having a direct impact on the tax revenues collected by the government.

Another significant factor affecting the efficiency of tax revenue collection is the lack of tax education among citizens and businesses. Many of them are not fully aware of their tax obligations, and sometimes even completely ignore the procedures for filing tax returns or do not fully understand the tax implications of their economic activities. According to some research, a large part of the citizens of the Republic of Moldova are not familiar with the existing tax regulations and do not understand the importance of their contributions to the national budget. The lack of a continuous and effective educational program on tax issues is a major problem in this regard.

In addition, there is a general reluctance towards tax authorities and the tax system, fueled by a history of inefficiency and a high degree of corruption in previous tax administrations. This contributes to a passive attitude towards tax obligations, which makes the revenue collection system inefficient and suffers from a high degree of tax evasion.

Table 2. Comparison of tax revenue collection efficiency in Moldova and the EU (2022)

Locality	Tax revenues, % of total GDP
Republic of Moldova	18,5%
European Union (media)	40%

Source: Prepared by the author based on data presented by the IMF (2023)

To address these challenges, the Republic of Moldova needs to implement a series of measures aimed at improving the efficiency of tax revenue collection. These measures need to be integrated into a comprehensive strategy that aims to reform the tax administration, improve tax education and reduce administrative bureaucracy. One of the first necessary measures is to modernize the tax administration, with the aim of making it more efficient and transparent. This process should include digitizing tax processes, simplifying tax return filing procedures and implementing a more efficient tax collection system. It also needs to introduce computerized mechanisms for tracking tax payments, which would reduce the risks of tax evasion and facilitate voluntary compliance by taxpayers.

To combat tax evasion, authorities need to strengthen tax controls and impose stricter penalties for tax violations. In addition, more effective tax audit programs should be developed to quickly identify and correct tax irregularities. It is important for tax authorities to improve their capacity to monitor the informal sector and gradually integrate these economic activities into the formal economy.

Educating citizens and businesses about their tax obligations is essential to increasing tax compliance. Information and training campaigns can play an important role in improving taxpayers' understanding and acceptance of tax obligations. Tax education should also be an integral part of the educational curriculum to ensure that new generations understand the importance of their contribution to the public budget.

Improving the efficiency of tax revenue collection is a fundamental objective for the Republic of Moldova, with direct implications for fiscal sustainability and the European integration process. By reforming the tax administration, combating tax evasion and promoting tax education, the Republic of Moldova can build a fairer and more efficient tax system that supports financial stability and contributes to achieving the objectives of economic development and European integration.

THE IMPACT OF EUROPEAN FUNDS ON FISCAL SUSTAINABILITY

The European Union (EU) plays a significant role in supporting the economy of the Republic of Moldova, in particular through the Structural and Cohesion Funds, which are essential for the development of key sectors of the economy and for improving the country's infrastructure. These funds are intended to support projects in infrastructure, education, health, environmental protection and other areas that contribute to the economic and social development of the Republic of Moldova, having a direct impact on long-term fiscal sustainability. In the context of economic and political integration into the European Union, access to these funds is an important tool through which the Republic of Moldova can build a more robust and resilient economy, capable of facing internal and external challenges.

According to the European Commission, during the period 2014-2020, the Republic of Moldova benefited from approximately 1.2 billion euros through various European assistance mechanisms, including the European Regional Development Fund and the European Social Fund, for the implementation of infrastructure and economic development projects. These funds were used to modernize transport infrastructure, expand water and sewage networks, improve access to education and health, and develop energy infrastructure. During this period, the Republic of Moldova received 348 million euros for infrastructure projects alone, which allowed for the modernization of national roads and the development of renewable energy networks. Also, approximately 460 million euros were allocated to improve education and access to health services, especially in rural areas (European Commission, 2023).

Table 3. Use of European Funds in Moldova (2014-2020)

The sector	share
Infrastructure	45%
Education	25%
Health	20%
Others (agriculture, environment, etc.)	10%

Source: Prepared by the author based on data presented by the European Commission in the Annual Reports on the Use of European Funds

European funds are an important tool for supporting the European integration process of the Republic of Moldova. These funds can be used to finance infrastructure, economic and social development projects that support economic growth and reduce regional disparities. However, for these funds to have a significant impact on fiscal sustainability, efficient and transparent management measures must be implemented. In this regard, the Republic of Moldova needs to improve the capacity of the institutions responsible for managing European funds and ensure their implementation in accordance with European standards. Excessive dependence on external funds must also be avoided, and the authorities must adopt policies that favor the mobilization of domestic resources.

The experiences of the Central and Eastern European countries that joined the European Union in 2004-2007 offer valuable lessons for the Republic of Moldova. These states have implemented significant fiscal and economic reforms to meet the economic convergence criteria, and their success can serve as a guide for our country.

The fiscal reforms implemented by Poland, Romania and Hungary have had a positive impact on fiscal sustainability, contributing to increasing the efficiency of revenue collection and reducing the budget deficit. The lessons learned from these experiences can also be applied in the context of the Republic of Moldova, which needs to adopt a set of coherent measures to improve fiscal performance.

To ensure fiscal sustainability, the Republic of Moldova needs to adopt a series of rigorous economic and fiscal measures that will contribute to reducing the budget deficit, effectively managing public debt and increasing the efficiency of tax revenue collection.

Reforma sistemului fiscal este esențială pentru a asigura sustenabilitatea fiscală pe termen lung. This should include simplifying tax legislation, adapting it to European standards and creating a more transparent and fairer system. Progressive forms of taxation should also be encouraged and tax policies that support investment and private sector development should be implemented.

An efficient tax administration is crucial for implementing tax reforms and increasing tax revenues. The digitalisation of the tax collection system and the implementation of computerised solutions will reduce administration costs and facilitate voluntary compliance by taxpayers. In addition, continuous training of tax staff and strengthening control over tax evasion are necessary.

To reduce tax evasion, the Republic of Moldova needs to adopt policies that encourage entrepreneurship and support the transition of the informal sector to the formal economy. Simplifying administrative procedures and providing tax incentives for small and medium-sized enterprises will contribute to increasing tax revenues and stimulating sustainable economic growth. Fiscal sustainability is an essential condition for the European integration of the Republic of Moldova.

CONCLUSIONS

In view of the economic and fiscal challenges facing the Republic of Moldova, it is imperative that national authorities adopt rigorous fiscal reforms that support not only fiscal sustainability but also long-term European integration. The implementation of well-designed fiscal reform measures can significantly contribute to increasing the efficiency of revenue collection and improving the country's economic performance. In this regard, fiscal authorities should focus their efforts on optimizing the tax structure, reducing tax evasion and combating tax fraud, which are essential aspects for strengthening a transparent and efficient fiscal system.

An important first step in this process is to review the tax revenue collection system, with the aim of improving tax compliance. To this end, the Republic of Moldova needs to invest in modernizing the tax administrative infrastructure, implementing advanced technologies for tax monitoring and collection. The use of efficient electronic platforms, which allow for the filing of tax returns and payment of taxes in a fast and transparent manner, will reduce bureaucracy and facilitate access to the tax system for citizens and economic agents. In addition, expanding tax education and continuously informing taxpayers about their tax rights and obligations can increase the level of tax compliance, contributing to more efficient revenue collection.

In parallel, the Republic of Moldova needs to adopt a coherent set of fiscal policies that support the diversification of domestic revenue sources. This includes reviewing tax regimes for certain economic sectors, stimulating investment in strategic industries, and attracting foreign capital. Reforms should aim both at improving taxation of income and profits, and at implementing green taxes that respond to global challenges related to climate change. These measures would contribute not only to domestic fiscal stability, but also to the integration of the Republic of Moldova into a broader European framework that emphasizes the development of a green and sustainable economy.

Another pillar of fiscal sustainability is the efficient use of European funds. The Republic of Moldova benefits from important resources from the European Union, which can support infrastructure, education, health and environmental projects. However, in order to maximize their impact on economic development, it is essential that the Moldovan authorities ensure transparent and efficient management of these funds. A solid mechanism for monitoring and evaluating projects financed from European funds will contribute to increasing transparency and reduce the risks of corruption or their improper use. It is also necessary for the Republic of Moldova to avoid excessive dependence on external funds, while investing in the development of a robust internal fiscal system that can support national projects in the long term.

The implementation of these fiscal reform measures and the efficient use of European funds will contribute to increasing the competitiveness of the Republic of Moldova's economy and will strengthen fiscal stability. This process will not only facilitate the fulfillment of the economic requirements of the European Union, but will also support the sustainable integration of the country into European economic and political structures. Thus, by consolidating an efficient, transparent and sustainable fiscal system, the Republic of Moldova will be able to achieve its development and European integration objectives, while providing a stable framework for attracting foreign investment and stimulating long-term economic growth.

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