

EVOLUTION OF BUDGETARY-FISCAL POLICY IN THE REPUBLIC OF MOLDOVA AT THE CURRENT STAGE

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Abstract: In the Republic of Moldova, public finance management (PFM) is subject to continuous reforms. Reforms are necessary to improve PFM, especially given that resource allocation must be in line with the national goals in the context of the Republic of Moldova's EU candidate status. The vision of reforms is reflected in the policy document Strategy for Public Finance Management 2023-2030. The Memorandum on Economic and Financial Policies signed with the International Monetary Fund in 2023 also provides for a series of reforms of budget-fiscal policy to strengthen revenues mobilization, improve budget quality and budget transparency, efficiency of expenditure related to economic growth etc. Moldova has already implemented the foundations of a modern budget and has made good progress in line with the recommendations of international organizations on budgetary governance. The most important reforms were the introduction of new budget legislation, a medium-term budget framework, performance budgeting, and the piloting of gender-responsive budgeting.

This paper examines some aspects of the evolution of budgetary-fiscal policy in the Republic of Moldova, with particular attention to the budgetary process. Based on this analysis, the recommendations focus on ways to strengthen the institutional and policy framework, improve the quality of the methods and tools available for decision-making throughout the budget process, and the quality of the budget management system.

Keywords: public finance management, reforms, budgetary-fiscal policy, budgetary governance, gender budgeting

JEL Classification: H61, G18

1 Introduction

The policy of the Government of the Republic of Moldova is focused on measures to restore economy, economic growth, and maintain and support the sustainable development framework. Consolidation of public finances will be achieved through the effective distribution of public money according to clearly defined priorities and increased accountability for the use of public funds, through best

practices to improve the quality of public spending and prevent waste of public funds.

At the same time, the process of European integration is a priority in the medium and long term. Increasing the level of preparation for accession to the European Union (EU) and aligning national legislation with EU *acquis* will impact all areas of socio-economic development.

These processes occur against the backdrop of risks that could negatively impact the macrofiscal picture. During 2024 and in the medium term, the prevailing risks are escalation of global geopolitical tensions, prices for energy resources and other products, supply chains, lack of external demand etc. The conflict in Ukraine, which continues into 2024, affects the security of the region, putting additional pressure on the Government and population in the context of uncertainty over energy and raw materials prices (Ministry of Finance, 2024). Recession and negative shocks in the economies of the Republic of Moldova's main trading partners could negatively affect exports, remittances, industrial activity and increase uncertainty about the global economic outlook. Domestically, unfavorable climatic conditions and a decline in agricultural production, worsening imbalances at the macroeconomic level, especially the labor shortage in the labor market, contribute to the vulnerability of the national economy during 2024 and beyond.

The purpose of the research is to analyze the evolution of budget-fiscal policy in the Republic of Moldova at the present stage, examining the main elements and processes of budget-fiscal policy with an emphasis on gender equality. The aim is to identify elements of the gender dimension in the national policy documents of the Ministry of Finance. The component of the **performance programs** of the Medium-Term Budgetary Framework (MTBF) documents, as well as other budgetary-fiscal policy documents, were analyzed through the lens of gender integration.

The basic aspects of budgetary-fiscal policy analysis led to the consideration of priorities, measures, actions established by the government (at the central and/or regional/local level) in order to collect revenues and meet the needs of the population and legal entities. In the same vein, such an analysis will include the institutions responsible for carrying out these activities, performance indicators, and the resources required to implement these activities.

Since the development of budget drafts is carried out on the basis of policy documents such as the Development Strategy of Public Finance Management (2023-2030), the State Debt Management Program (2024-2026), the National Development Strategy "European Moldova", the comprehensive approach also takes into account the set of priorities specified in the above documents in order to extract the relevant aspects of the budgetary-fiscal policies.

2 General Overview of Fiscal-Budgetary Policy in the Republic of Moldova

Experts believe that the Republic of Moldova has a comprehensive legal framework regarding public finance management and budgetary-fiscal governance. The legal framework was improved with the adoption of the Law on Public Finances and Budgetary-Fiscal Responsibility in 2014 and currently provides an adequate platform for public finance management (Ministry of Finance, n.d.b).

In the Republic of Moldova, public finance management (PFM) is subject to continuous reforms. Considering the objective of European integration, our country strives to comply with the requirements and best practices of the European Union in various areas, including public finance management. The vision of reforms in this area is reflected in the policy document Development Strategy of Public Finance Management for 2023-2030 (approved by Government Decision No. 71 of 22.02.2023). Following the expiration of the previous strategy (2013-2020), the current one has

incorporated the lessons learned from the previous strategy. The Memorandum on Economic and Financial Policies signed with the International Monetary Fund in 2023 also envisages a number of budgetary-fiscal policy reforms to strengthen revenue mobilization, improve budget quality and budget transparency, and optimize growth-related spending etc.

In the context of our country's participation in the annual economic and financial analysis exercise for EU candidate countries, the Economic Reform Program (2024-2026) was approved. The document aims to prepare Moldova for future participation in the coordination and governance of EU economic policy. The document also proposes strengthening structural reforms to support macroeconomic stability, improve competitiveness and foster inclusive growth and job creation. (Ministry of Finance, n.d.c)

The budgetary-fiscal policy is also developed in accordance with other convergent policies and ensures the achievement of the goals adopted in the Activity Program of the Government, restricted by the possibilities of the medium-term budgetary framework (MTBF). The current medium-term budgetary framework (2025-2027) reflects the Government's budgetary-fiscal policies, including debt and expenditure, for a three-year period and is based on the national policy documents: the Government Activity Program "Prosperous, Safe, European Moldova", the National Development Strategy "European Moldova 2030", the National Action Plan for the Accession of the Republic of Moldova to the European Union for 2024-2027, the Association Agreement between the Republic of Moldova and the European Union, the Republic of Moldova – European Union Association Agenda (2021-2027), the National Development Plan for 2025-2027, as well as the commitments to development partners. [1] This linkage highlights the close correlation between the set of planning documents, MTBF and the sectoral strategies of the national policy framework (Figure 1). Budgetary and fiscal policy documents go through the same life cycle as planning and public policy documents, in accordance with the provisions of the legal framework, especially Government Decision no. 386/2020 on planning, elaboration, approval, implementation, monitoring and evaluation of public policy documents.



Figure 1 The role of budget-fiscal policy in the planning process

Source: own work of the authors

At the level of budget development and preparation, the legal framework provides medium-term budget planning and annual budget preparation are carried out in a single process in accordance with the budget calendar specified in Article 47 of the Law on Public Finances and Budgetary-Fiscal Responsibility. Detailed technical steps for developing the medium-term budgetary framework and the annual budget, including the responsibilities of the Ministry of Finance, are provided in the Methodological Set for the Development, Approval and Amendment of the Budget (approved by the Order of the Minister of Finance no. 124 of 21.12.2023), as well as in the annual Budget Circular (Ministry of Finance, n.d.a). The medium-term state debt management program is drawn up simultaneously with the MTBF.

Addressing the issue of gender equality in the public finance system. A sensitive aspect of the reform agenda, which is being actively promoted in our country with the support of development partners, is the integration of gender into public policy, including public finance management. It is recognized that gender-responsive public finance management can address specific gender needs and reduce gender gaps across sectors, as there is a direct link between the use of public funds and the quality of people's lives, as well as the impact of factors affecting access to public resources based on gender, age, disability, ethnicity.

Given the focus of public finance on program budgeting (*bugetarea pe programe*), gender-responsive budgeting concerns not only the funding of gender equality initiatives, but also includes the analysis of fiscal policies and budget decisions to understand their intended and unintended impacts on gender equality in order to design and implement more effective policies (Government Decision no. 71, 2023). In our country budget development does not take into account gender discrepancies. The guidelines issued by the Ministry of Finance and the budget circular do not provide sufficient information on the impact of budget policy on gender equality or guidance on how to it can be achieved. The budget documentation does not include details of policy priorities or budget measures aimed at gender equality, or an analysis of the impact of budget policies on gender equality (Government Decision no. 71, 2023).

2.1 Budgetary-Fiscal Governance

Promoting sustainable and prudent budgetary fiscal policies is the goal of budgetary-fiscal governance. Budgetary-fiscal governance is a set of guidelines and procedures that determine how budgetary-fiscal policy is planned, approved, implemented and monitored. The basic element of budgetary-fiscal governance is the medium-term budgetary framework, together with national budgetary-fiscal rules and the independent budgetary-fiscal institutions (Ministry of Finance, n.d.a). Considering that the implementation of budgetary-fiscal policy in a given year has implications for subsequent periods, it is necessary to establish a sound budgetary framework in the medium term.

The medium-term budgetary framework. Every year the Ministry of Finances publishes a medium-term budgetary framework, which is based on reliable forecasts over a three-year period. The legal and administrative procedures of MTBF in Moldova are robust enabling a disciplined budget formation process. In particular, the adoption of Law no. 181/2014 reinforced the MTBF process introduced in Moldova in 2002 by establishing clear requirements for the structure and milestones for both the MTBF and the annual budget (Ministry of Finance, n.d.a).

There is a need to ensure that the MTBF serves as an effective instrument for *linking policy to budget* and for strengthening compliance with rules and regulations. At the same time, the analysis contained in the MTBF only concerns the impact on policies over a three-year horizon. There is currently no assessment of the impact of existing policies on the long-term sustainability of public finances in Moldova. In the longer term, there may be a need to further strengthen the link between policy and budget in the MTBF; and develop the capacity to assess the impact of existing policies on the long-term sustainability of public finances in Moldova in order to feed this analysis in the design and implementation of economic policies (Ministry of Finance, n.d.a).

According to national planning documents, the main objective of the Government is to strengthen the budgetary-fiscal position and the management of public finances. In the context of current challenges, in order to address economic problems and boost sustainable development of the country, the Government focuses on promoting macroeconomic policies oriented towards stability and reforms that

promote economic growth. Among the main goals of budget policy over the past decade are those that have a social focus: 1) strengthening social assistance programs and adopting policies that guarantee social protection and social security for those in need; 2) the implementation of a clear social protection policy that will support vulnerable segments of society and encourage employment, guaranteeing the sustainability and effective management of these expenditures (Ministry of Finance, n.d.).

3 Priorities of Expenditure Policy by Sectors and Budget Programs

Budgets are prepared and reports are presented on the basis of performance-oriented programs in accordance with the performance principle (Law no. 181, 2014). The dynamics of public expenditures for the period 2022-2027 and projected allocations by key sectors are presented in Figure 2.

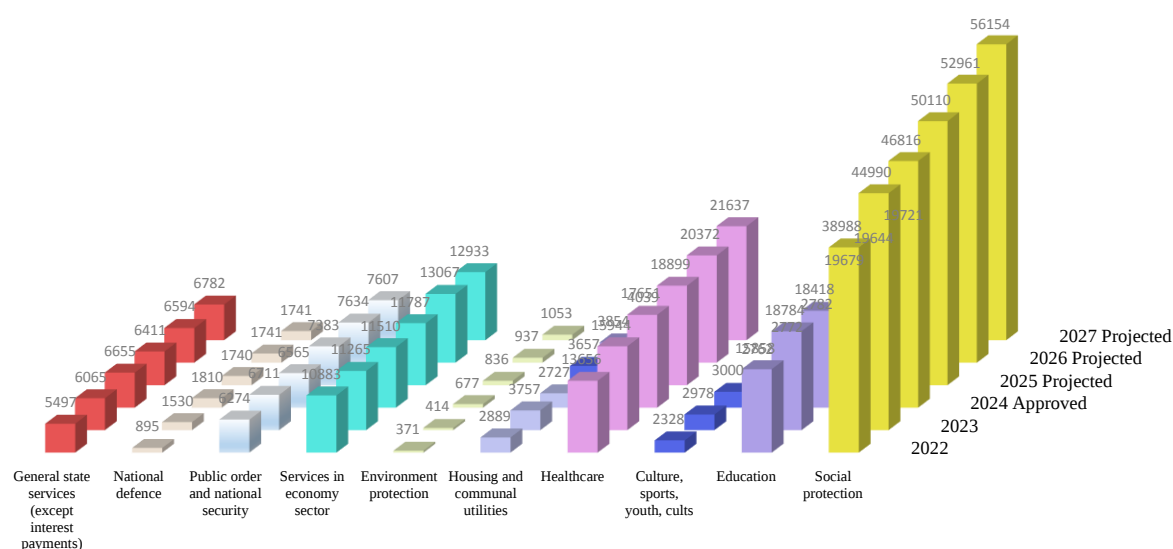


Figure 2 Budget expenditure for 2022-2027, million lei

Source: own work based on data from the Ministry of Finance

Social protection expenditure accounts for the largest share of expenditure in the national public budget for 2022-2027 (interest payments excluded). The share of these expenditure in 2025-2027 will amount to an average of 39.8%. The growth of this category of public expenditure is determined by the annual indexation of social payments and the growth in the number of recipients of social payments. Next come health care expenditures, which are expected to increase due to healthcare expenditures from the Compulsory Health Insurance Fund and the development of the material and technical base of medical institutions.

Estimates for 2025-2026 show that budget expenditures will increase by 1.9 percentage points in 2025 and 1.4 percentage points in 2026 as a percentage of GDP. Thus, growth is projected in the areas of social protection, education, public order and national security both in nominal values and as a share of GDP, with expenditures being adjusted as a result of the implementation of wage policy measures (Ministry of Finance, n.d.).

3.1 Government Social Protection Program and its Objectives

The social protection sector remains a priority in the Government Activity Program and the National Development Strategy. For the period 2025-2027, the Government Activity Program proposes to reform the social assistance system by reviewing and reforming social assistance benefits in order to increase participation in the labor market. The procedure of establishing and administering social support payments and packages will be improved to ensure more efficient and fair distribution. The National Development Strategy aims to achieve a strong and inclusive social protection system by providing quality and relevant social assistance services, strengthening the sustainability of the social insurance system and ensuring a child protection system that responds promptly and effectively to the needs of every child.

At the same time, the social protection sector is gender sensitive as it differentiates between the needs of women and men. Goals, priorities, indicators with a focus on the gender dimension can be defined in the MTBF. In general terms, the objectives of the social protection sector for 2023-2027 in the Government Activity Program are presented in Table 1.

Table 1 Objectives of the social protection sector

	MTBF 2023-2025	MTBF 2024-2026	MTBF 2025-2027
Government activity program	- Improve the quality of life by promoting comprehensive policies to ensure sustainable, equitable and socially responsible social protection that adequately supports the population. - Modernization of the functioning of the labor market, promotion of development-oriented policies, strengthening equal opportunities for women and men, including youth, as well as equal remuneration for work of equal value	- Design and implement development-oriented productivity growth strategies and policies that support productive employment, decent work, fair working conditions and access to the labor market for all, strengthening equal opportunities for women and men, including youth, older persons and persons with disabilities. - Ensure a sustainable increase in pensions, benefits and allowances	- Reformed social assistance system by reviewing and reforming social welfare benefits to increase labor market participation. The way social support payments/packages are established and administered will be improved to ensure a more efficient and equitable distribution
National Development Strategy	A robust and inclusive social protection system achieved through: - provision of a range of quality and appropriate social assistance services; - strengthening the sustainability of the social insurance system; - ensuring a child protection system that responds promptly and effectively to the needs of each child		

Source: own work based on data from MTBF

Comparative evolution of priorities in the social protection sector in 2023-2027 is presented in the following table.

Table 2 Priorities of the social protection sector

Social Protection	MTBF 2023-2025	MTBF 2024-2026	MTBF 2025-2027
Sector priorities	-	Promoting equality between women and	Preventing and combating violence

		men, reducing gender inequality in the labor market and in wages	against women and domestic violence Promoting and ensuring equality between women and men in the Republic of Moldova
Key performance indicators	Gender equality aspects integrated into sectoral policies	Integrating aspects of gender equality, prevention and combating violence against women and domestic violence into sectoral policies	-

Source: own work based on data from MTBF

In the coming period (2025-2027), preventing and combating violence against women and domestic violence, as well as promoting and ensuring equality between women and men, continue to be priorities for the social protection sector. Particular attention is paid to the indicator on the integration of dimensions of gender equality, prevention and combating violence against women and domestic violence into sectoral policies.

The MTBF provides for the allocation of resources for subprogram 9006 "Family and child protection" and subprogram 9013 "Ensuring equal opportunities for women and men". The share of total subprogram 9013 allocations by sector represents the values in Table 3.

Table 3 Share of total allocations of subprogram 9013 by sector (2021-2027), thousand lei

Subprogram	2021 executed	2022 executed	2023 executed	2024 approved	2025	2026	2027
9006 „Family and child protection”	3 141 115,0	3 479 057,0	4 272 019,9	4 887 158,5	5 283 606	5 634 940,8	6 012 429,7
Total share by sector	10,63%	8,92%	9,45%	10,48%	10,5%	10,6%	10,7%
9013 „Ensuring equal opportunities for women and men”	53,4	18,2	21,5	14,6	14,6	14,6	14,6
Total share by sector	0,00018%	0,00004%	0,00004%	0,00003%	0,00003%	0,00002%	0,00002%
Total per sector	29.525.500,0	38 988 420,0	44 990 300,0	46 612 565,3	50 109 741,3	52 961 002,4	56 153 592,3

Source: own work based on data from MTBF

The main activities and medium-term expenditures of subprogram 9006 "Family and child protection" for 2023-2027 are presented in Table 4.

Table 4 Activities of subprogram 9006 and medium-term expenditures, thousand lei

Activities	MTBF 2023-2025			MTBF 2024-2026			MTBF 2025-2027		
	2023	2024	2025	2024	2025	2026	2025	2026	2027
Maternity benefits	811 258,3	859 629,3	977 131,5	842 072,3	929 647,7	1 023 542,1	913 654,7	1 004 106,7	1 100 500,9
One-time allowance for the birth of a child	382 551,4	495 406,2	573 198,2	414 658,7	437 450,8	459 310,0	664 840,3	697 053,1	734 456,0
Child care allowance	2 804 851,9	3 012 784,9	3 213 650,2	3 029 100,5	3 252 564,9	3 492 155,6	3 105 668,9	3 329 339,2	3 567 706,8
Paternity allowance	32 191,1	35 538,9	38 722,8	34 262,7	37 826,0	41.646,4	44 292,9	48 678,1	53 351,1
Free helpline for victims of domestic violence and violence against women	873,6	873,6	873,6	873,6	873,6	873,6	873,6	873,6	873,6

Source: own work based on data from MTBF

The main activities and medium-term expenditures of subprogram 9013 "Ensuring equal opportunities for women and men" are reflected in Table 5.

**Table 5 Activities of subprogram 9013 and medium-term expenditures,
thousand lei**

Activities	MTBF 2023-2025			MTBF 2024-2026			MTBF 2025-2027		
	2023	2024	2025	2024	2025	2026	2025	2026	2027
Providing support for the activity of joint information and service bureau	53,4	53,4	53,4	33,4	33,4	33,4	14,6	14,6	14,6
Total for subprogram 9013	53,4	53,4	53,4	33,4	33,4	33,4	14,6	14,6	14,6

Source: own work based on data from MTBF

Government Decision no. 661 of 30.08.2013 approved the framework regulation on the organization and operation of the Joint Information and Services Bureau, which establishes a unified mechanism for providing information and services to the population, as well as the procedure for receiving requests from applicants and providing services by addressing the service providers within the Bureau (Government Decision no. 661, 2013). The Bureau provides services to people in urban and rural areas, including women and vulnerable groups. The MTBF 2023-2025 also includes two gender-sensitive performance indicators: the number of recipients of information and services, and the share of the recipients of information and services provided by the mobile teams out of the total number of recipients of information and services.

Conclusion

Understanding the evolution of fiscal-budgetary policy and governance is layered with complexity. While the existing legal framework requires some reforms to strengthen overall budgetary-fiscal discipline, reform is also needed to improve the management of public finances, especially in the context of Moldova's EU candidate status.

International experience shows that there is no single or universal way to address this issue; instead, each country must create its own budgetary-fiscal governance and framework, taking into account its unique political context and available resources. This would be particularly relevant in our case, given the generally limited understanding of the specifics of the budgetary-fiscal sector and the lack of informed and evidence-based debate on the development and implementation of public policy.

Empirical evidence suggests that developing gender-responsive budgetary-fiscal policy needs to take into account country-specific features, including human and financial capacities, political traditions and history of gender discrepancies. They should serve as a basic principle for testing the applicability of such a gender approach in the country's budgetary-fiscal policies.

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