

CONSEQUENCES OF THE CRISES ON THE BUDGETARY-FISCAL INDICATORS IN THE REPUBLIC OF MOLDOVA

UDC: 338.124.4:336.02(478)

DOI: <https://doi.org/10.53486/mfsne2025.19>

Andrei PETROIA

Associate professor,

Dr., Academy of Economic Studies of Moldova,

Department of Finances and Insurances,

ORCID ID: 0000-0003-1674-0700

e-mail: apetroia@ase.md

Abstract: Effective management of budgetary and fiscal indicators is a cornerstone of economic stability and sustainable development. These indicators – public revenues, expenditures, budget deficits, and public debt – reflect a nation's financial health and its capacity to withstand economic shocks. In the case of the Republic of Moldova, a small, landlocked country in Eastern Europe, their importance is magnified by structural vulnerabilities and a complex geopolitical context. Since gaining independence in 1991, Moldova has undergone a challenging transition to a market economy, marked by a series of crises that have profoundly shaped its fiscal framework.

Budgetary and fiscal indicators form the foundation of macroeconomic governance, influencing external credibility, investor confidence, and overall economic stability. In Moldova's context, sound fiscal management is critical to mitigating dependence on agricultural exports, addressing high migration levels, and managing the significant role of remittances in the national economy. Moreover, these indicators reflect the government's capacity to sustain essential public services and reduce social inequalities, particularly during periods of economic turbulence.

This study seeks to analyze the evolution of Moldova's budgetary and fiscal indicators under the impact of major economic crises in the post-Soviet era. Its main objectives are: (1) to identify key crises that have influenced the country's fiscal environment; (2) to examine their effects on revenues, expenditures, fiscal deficits, and public debt; and (3) to evaluate government responses and their effectiveness in addressing fiscal challenges. The analysis covers both historical and contemporary crises, including the post-Soviet transition, the 2008–2009 global financial crisis, the 2014 banking crisis, the COVID-19 pandemic, and the economic spillovers of the ongoing war in Ukraine.

Applying a mixed-methods approach, the study integrates qualitative and quantitative analyses based on official data from the Ministry of Finance, the National Bank of Moldova, and international institutions such as the IMF and the World Bank, complemented by secondary sources including academic studies, policy reports, and media analyses. The findings provide an integrated perspective on Moldova's fiscal resilience and contribute to the formulation of practical recommendations aimed at strengthening governmental capacity for fiscal crisis management and long-term economic stability.

Key words: fiscal management; economic crises; public finance; Moldova; budgetary indicators; fiscal resilience.

JEL CLASSIFICATION: E2, H30, H50, H60, O23, P27.

INTRODUCTION

Effective management of fiscal-budgetary indicators is crucial for ensuring economic stability and fostering sustainable development. These indicators, such as public revenues, expenditures, deficits, and debt levels, provide a clear picture of a nation's financial health and its capacity to withstand economic shocks. For the Republic of Moldova, a small landlocked country in Eastern Europe, this importance is amplified by its unique geographical, political, and economic challenges. Since gaining independence from the Soviet Union in 1991, Moldova has navigated a complex transition to a market economy, facing numerous crises that have profoundly shaped its fiscal landscape.

Fiscal-budgetary indicators are the backbone of macroeconomic policy and governance. They influence a country's creditworthiness, investor confidence, and overall economic stability. For Moldova, fiscal management plays a pivotal role in addressing structural vulnerabilities, such as a reliance on agricultural exports, high levels of migration, and a significant dependence on

remittances. Furthermore, these indicators reflect the government's ability to maintain vital public services and address social inequalities, especially during periods of economic turbulence.

In the context of Moldova, where economic shocks have frequently disrupted fiscal stability, understanding these indicators is crucial. They highlight the country's resilience to crises and its capacity to implement effective recovery policies, ensuring long-term growth and stability.

This case study aims to examine the evolution of Moldova's budgetary-fiscal indicators under the influence of economic crises. The primary objectives are:

- To identify the main crises that have affected Moldova's fiscal landscape since independence.
- To analyze the impact of these crises on key fiscal indicators such as revenue, expenditure, fiscal deficit, and public debt.
- To evaluate how governments respond to fiscal challenges and how effective these responses are.

The study covers both past and recent crises, including the post-Soviet transition, the global financial crisis of 2008–2009, the 2014 banking crisis, the COVID-19 pandemic, and the economic consequences linked to the ongoing war in Ukraine. The analysis is placed within Moldova's wider economic and geopolitical setting, with a focus on how these events have influenced fiscal policy and the country's overall economic development.

The research is based on a combination of qualitative and quantitative methods, allowing for a well-rounded examination of the subject. It draws on historical and current data related to Moldova's fiscal indicators to trace key trends and evaluate the effects of various crises. The main sources of information include official data from the Ministry of Finance, the National Bank of Moldova, as well as international institutions such as the IMF and the World Bank. In addition, academic publications, policy analyses, and media materials are used to support the interpretation of the results.

Such an approach makes it possible to reflect the complexity of the challenges faced by Moldova as a small developing country operating in a volatile geopolitical environment. By combining theoretical perspectives with empirical data, the study seeks to contribute to discussions on fiscal resilience and crisis management, while also offering practical insights for decision-makers and other relevant stakeholders.

THE IMPACT OF ECONOMIC CRISES ON FISCAL INDICATORS. POST SOVIETIC CRISIS

The Republic of Moldova faced immense challenges during its transition from a centrally planned economy to a market-oriented system following the dissolution of the Soviet Union in 1991. As a small, agriculture-dependent nation with limited industrialization and high reliance on Soviet-era trade networks, the shift to independence came with profound economic disruptions. The transition period reshaped Moldova's fiscal landscape, influenced macroeconomic stability, and had lasting social and economic implications.

The collapse of the Soviet Union severed Moldova's economic ties with its traditional trade partners, causing a significant contraction in economic output. Between 1991 and 1999, Moldova's GDP shrank by over 60%, reflecting one of the sharpest declines among former Soviet republics (*World Bank, 2000*). This contraction was driven by the collapse of state-owned enterprises, declining agricultural productivity, and the sudden loss of centralized subsidies.

The sharp reduction in economic activity had a direct impact on government revenues:

1. *Shrinking Tax Base*: The closure of inefficient, state-owned factories and businesses drastically reduced the corporate tax contributions that had sustained public finances during the Soviet era.
2. *Weakened Trade Revenues*: Exports, particularly agricultural products, fell sharply as traditional markets in Russia and other Soviet successor states contracted. Customs duties, which had been a significant revenue source, declined in tandem.
3. *Erosion of Social Contributions*: High unemployment levels and stagnant wages meant reduced social insurance contributions, placing additional strain on Moldova's budget.

Moldova's decision to transition to a market economy necessitated the liberalization of prices and the removal of state subsidies. These reforms led to hyperinflation, which peaked at over 1,000% in the early 1990s, eroding household savings and the real value of government revenues (*IMF, 1995*). Inflation was exacerbated by currency instability following the introduction of the Moldovan leu in 1993.

The sharp depreciation of the leu against major currencies increased the cost of imports and made debt servicing more expensive, further complicating fiscal planning. In this volatile environment, maintaining budgetary discipline became a significant challenge, with real-term declines in government spending on social programs and public services.

Moldova's fiscal position deteriorated rapidly during the transition period, with the fiscal deficit averaging 8% of GDP annually in the mid-1990s (*World Bank, 2000*). This widening deficit was the result of:

1. *Increased Expenditures*: The government was forced to expand social safety nets, including unemployment benefits and pensions, to cushion the impact of economic shocks on households.

2. *Declining Revenues*: With tax collections falling and trade revenues dwindling, the government relied heavily on external borrowing to finance its budget shortfalls.

3. *Public Debt Accumulation*: By the end of the 1990s, public debt had ballooned to unsustainable levels, limiting Moldova's ability to invest in critical infrastructure and development.

Moldova relied heavily on international financial institutions such as the International Monetary Fund (IMF) and the World Bank for financial assistance during its transition. These organizations provided loans and grants to stabilize the economy but imposed conditions requiring fiscal austerity, privatization, and structural reforms. While these measures aimed to restore fiscal stability, they often led to cuts in public spending, exacerbating social inequalities and fuelling public dissatisfaction.

GLOBAL FINANCIAL CRISIS 2008 – 2009

The global financial crisis of 2008–2009 had a significant impact on Moldova, revealing structural weaknesses in both its fiscal framework and the broader economy. As a small and open economy with a strong dependence on external trade and remittance inflows, the country proved highly sensitive to external shocks. The crisis affected key fiscal and budgetary indicators, placing considerable pressure on public finances and requiring a prompt policy response.

In 2009, Moldova's GDP declined by 6%, interrupting a period of sustained growth and marking the most severe downturn since independence. This contraction was largely driven by external factors.

Exports fell by 22%, highlighting the country's reliance on external markets, particularly the European Union and Russia. Demand for agricultural products – one of Moldova's main export categories – weakened, while global prices declined, further deepening the drop in export

At the same time, *remittances*, which represented a major source of household income and amounted to around 30% of GDP in 2008, decreased by 18% in 2009. This reduction had a direct effect on domestic consumption, which is a key contributor to value-added tax (VAT) revenues.

1. Tax Revenues:

The crisis also had notable consequences for fiscal revenues. Tax collections declined, reflecting the broader economic slowdown.

In particular, revenues from VAT dropped sharply as domestic demand weakened. This was especially important given that, prior to the crisis, VAT accounted for more than 40% of total tax revenues (*IMF, 2011*). The decrease in VAT receipts mirrored lower household spending and reduced economic activity across several sectors.

Corporate Income Tax: With businesses grappling with reduced demand and profitability, corporate income tax contributions fell significantly. Many companies faced liquidity challenges, further reducing their taxable income base.

2. Customs Revenue:

Moldova's trade dynamics suffered from both declining exports and reduced imports. Lower import volumes led to a reduction in customs duties, a critical revenue source. As trade partners implemented protectionist measures and global demand waned, Moldova's customs revenue fell by over 15% compared to 2008 levels (*IMF, 2011*).

The agricultural sector, heavily reliant on imported inputs, faced cost pressures from currency depreciation, further dampening trade-related revenues.

3. Social contributions

Unemployment increased as businesses downsized, reducing contributions to social insurance funds. This exacerbated fiscal pressures, as the government simultaneously faced higher demands for social benefits.

The crisis exposed significant structural vulnerabilities within Moldova's fiscal and economic systems, underscoring the need for comprehensive reforms.

1. Dependence on External Revenues:

- Moldova's tax system was heavily reliant on indirect taxes, such as VAT and customs duties, which are highly sensitive to economic downturns. The crisis revealed the fragility of this revenue structure and the need to diversify the tax base.

2. Inefficiencies in Tax Collection:

- The informal economy, estimated to account for 30–40% of GDP, remained largely untaxed. This issue became more pronounced during the crisis, as informal activities increased while formal business activity contracted (*World Bank, 2010*).

3. Debt Accumulation:

- To cover revenue shortfalls, the government resorted to increased borrowing, both domestically and externally. Public debt rose from 18.5% of GDP in 2008 to 25.8% in 2009, creating long-term fiscal sustainability challenges (*IMF, 2011*).

BANKING CRISIS 2014

The 2014 banking crisis in Moldova was one of the most significant economic shocks in the country's modern history. Often referred to as "the theft of the century," this crisis exposed systemic vulnerabilities in the nation's governance, regulatory, and fiscal frameworks. The fraudulent activities in three major banks – Banca de Economii, Banca Socială, and Unibank – resulted in loans amounting to approximately \$1 billion, or 12% of GDP (*USAID, 2016*). These activities severely undermined trust in the financial sector and had profound implications for Moldova's fiscal indicators.

The government's decision to intervene in the 2014 banking crisis through a bailout of the insolvent banks – Banca de Economii, Banca Socială, and Unibank – had profound implications for Moldova's public debt. To stabilize the banking sector, the government issued bonds worth approximately \$1 billion to cover the financial shortfall caused by fraudulent loans. This intervention resulted in a sharp increase in public debt, which surged from 33.7% of GDP in 2014 to 50.2% in 2016 (*World Bank, 2018*).

The issuance of bonds effectively transferred the financial burden to the public sector, creating long-term challenges for debt sustainability. The sharp rise in public debt raised concerns about the government's capacity to preserve fiscal discipline while at the same time meeting other economic and social priorities. Debt servicing costs, including interest payments, began to take up an increasing share of the state budget, thereby limiting resources available for public investment and essential services. In addition, the growing debt burden made the country more exposed to external shocks, particularly because a considerable share of the debt was denominated in foreign currency, increasing sensitivity to exchange rate fluctuations.

Following the crisis, the fiscal deficit widened markedly as government spending increased – largely due to the bank rescue measures – while revenues declined at the same time. In 2015, the deficit reached 3.2% of GDP, compared to 1.8% in the previous year, illustrating the pressure on

public finances. (*USAID, 2016*) The fiscal cost of the intervention included both immediate expenditures to stabilize the banking system and longer-term obligations related to servicing the issued bonds.

The broader economic slowdown further contributed to the deterioration of the fiscal balance. Lower business activity and weaker household consumption resulted in reduced tax revenues, which form the basis of budget revenues. In response, the government had to reallocate funds, often at the expense of development projects and social programmes, postponing important investments in infrastructure, education, and healthcare.

The post-crisis economic instability also affected the country's capacity to generate fiscal revenues. Declines in business activity and consumption translated into lower tax collection, particularly in the case of value-added tax (VAT) and corporate income tax. (*World Bank, 2018*) As these sources represent a significant share of budget revenues, their reduction further constrained the government's fiscal position.

VAT, which is heavily reliant on consumer spending, suffered as inflation and economic uncertainty reduced household expenditures. Similarly, corporate income taxes declined due to decreased profitability in the private sector, which faced tighter credit conditions and a loss of market confidence (*National Bank of Moldova, 2016*). The reduction in these revenues underscored the fragility of Moldova's tax system, which lacked the breadth and resilience to withstand such a significant economic shock.

Efforts to address the decline in tax revenue included initiatives to improve tax compliance and broaden the tax base. However, these measures faced significant challenges, including the prevalence of informal economic activities and limited administrative capacity within the tax authorities (*USAID, 2016*). The decline in revenues further highlighted the need for comprehensive fiscal reforms to build a more robust and diversified revenue system capable of supporting Moldova's long-term development goals.

COVID – 19 PANDEMICS

The COVID-19 pandemic had a profound impact on Moldova's fiscal framework, revealing structural vulnerabilities in its public finances. As the pandemic triggered a global economic slowdown, Moldova's fiscal and budgetary indicators reflected the economic strain, driven by reduced revenues, increased expenditures, and growing public debt. Below is an analysis of the pandemic's effects through the lens of budgetary and fiscal performance.

Moldova's economy contracted by 7.2% in 2020, marking its sharpest decline since the 2009 global financial crisis. This contraction was fueled by reduced domestic economic activity, global trade disruptions, and a severe drought that impacted agricultural output – a sector critical to the country's revenue base (*World Bank, 2020*).

The economic slowdown caused significant declines in revenue collections:

- *Tax Revenues:* VAT revenues, which heavily rely on consumer spending, fell due to reduced consumption during lockdowns and the economic slowdown. Corporate income tax collections also declined as businesses reported lower profits or faced losses.
- *Customs Revenues:* Trade activity contracted sharply, with both imports and exports declining, leading to lower customs duty collections—a key revenue source for Moldova.

Overall, fiscal revenues fell by approximately 9% compared to pre-pandemic forecasts, further constraining the government's ability to fund its growing expenditures.

To address the immediate social and economic challenges posed by the pandemic, Moldova significantly increased public expenditures, which included:

- *Healthcare Spending:* Emergency funding was allocated to support hospitals, procure medical supplies, and implement pandemic response measures.
- *Social Assistance:* The government introduced and expanded social protection programs, such as unemployment benefits and direct financial support for vulnerable households.

These measures, combined with declining revenues, resulted in a sharp increase in the fiscal deficit, which widened to 5.1% of GDP in 2020, up from 1.4% in 2019 (*IMF, 2021*). This was the highest fiscal deficit recorded in over a decade, reflecting the strain of pandemic-related expenditures.

To finance the growing fiscal deficit, Moldova resorted to increased borrowing, leading to a rise in public debt:

- Public debt as a percentage of GDP increased from 27.6% in 2019 to 35.2% in 2020. While still below the critical threshold for debt sustainability, this rapid rise raised concerns about the country's fiscal stability in the medium term (*World Bank, 2020*).

The pandemic created additional fiscal pressures through its effects on inflation and currency stability:

- *Inflation*: While inflation remained relatively subdued at 3.8% in 2020 due to weak domestic demand, food price volatility caused by supply chain disruptions led to localized inflationary spikes (*National Bank of Moldova, 2021*).

- *Exchange Rate Depreciation*: The Moldovan leu depreciated against major currencies in early 2020, increasing the cost of servicing foreign-denominated debt and adding to fiscal pressures.

EVOLUTION OF FISCAL-BUDGETARY INDICATORS IN THE REPUBLIC OF MOLDOVA. GOVERNMENT EXPENDITURES: PRIORITIES AND ADJUSTMENTS

Moldova's fiscal policy has undergone significant shifts to address the pressing needs during different crises. During the transition from the Soviet Union in 1991, the country faced a steep economic decline, necessitating substantial reallocation of resources to maintain essential public services. The government prioritized social protection and agricultural subsidies due to the economy's reliance on rural livelihoods. Legal frameworks, such as the Law on Local Public Finance (Law No. 397/2003, Article 7), established mechanisms for equitable fiscal transfers, enabling local governments to sustain basic service delivery.

The 2008 global financial crisis marked a different challenge. Reduced remittances and limited export revenues pressured the government to consolidate fiscal expenditures. Capital investment projects were curtailed, and spending was directed towards social sectors, ensuring basic welfare amidst economic contraction. The Medium-Term Expenditure Framework emphasized expenditure rationalization to maintain fiscal discipline.

In the aftermath of the 2014 banking crisis, public expenditures had to be reoriented to cover substantial losses in the financial sector. Approximately 13% of GDP was allocated to stabilize the banking sector, which increased pressures on other budgetary allocations. The Law on Public Debt and State Guarantees (Law No. 419/2006, Articles 12-13) provided the legislative basis for such state interventions, yet the burden limited investments in infrastructure and healthcare.

The COVID-19 pandemic in 2020 exacerbated fiscal pressures as revenues declined sharply, and expenditures surged to finance healthcare and social protection programs. Under Government Decision No. 386/2020, funds were reallocated for pandemic relief efforts, such as medical supplies and direct financial aid to vulnerable groups. Despite these measures, reliance on external borrowing increased, straining fiscal sustainability.

FISCAL DEFICITS AND PUBLIC DEBT DYNAMICS

The collapse of the Soviet Union in 1991 left Moldova grappling with severe economic and structural challenges, highlighting the broader difficulties of crisis management and economic resilience. As a newly independent state, Moldova faced the urgent task of establishing a fiscal system while navigating a collapsing economy. The country's small industrial base and heavy reliance on agricultural exports created structural fiscal imbalances that hindered sustainable development. Post-1995 trends indicate that government expenditures as a share of GDP peaked at over 45% during the mid-1990s, reflecting efforts to stabilize essential public services, transition to a market economy, and address widespread rural poverty. Public debt increased significantly during this period due to

reliance on external borrowing to finance critical imports, budget support, and government expenditures. According to the Law on State Debt (Law No. 181/2014, Article 4), fiscal policy was constrained by the dual need to stabilize the national currency and manage foreign debt obligations. This period underscored the inefficiencies inherent in building fiscal institutions from scratch, exacerbated by the lack of a robust industrial base and overdependence on agricultural exports, which made achieving fiscal sustainability particularly challenging.

The 2008 global financial crisis exposed Moldova's vulnerabilities to external shocks, particularly its dependence on remittances and exports. As remittance flows declined, household incomes contracted, leading to reduced domestic consumption and economic growth. In response, government expenditures rose to 45.3% of GDP in 2008, as shown in, reflecting efforts to cushion the social and economic impacts of the crisis. Spending priorities during this period included social transfers, public sector wages, and support for small and medium enterprises. Public debt, which had fallen to 18.44% of GDP in 2008, began to increase as the economic downturn led to growing fiscal deficits financed through borrowing. As a result, central government debt rose to 27.63% of GDP by 2009. Despite the pressures associated with the crisis, the relatively solid fiscal position prior to 2008 allowed the government to introduce countercyclical measures without facing immediate risks to debt sustainability. However, the gains achieved in stabilizing public debt were largely undermined by the banking crisis of 2014.

The 2014 banking crisis marked a turning point in Moldova's fiscal trajectory and was largely driven by fraud within the financial sector. The cost of rescuing the banking system—estimated at more than 13% of GDP—placed a heavy burden on public finances. Public debt increased significantly, from 23.24% of GDP in 2013 to over 30% by 2016, and approached 40% of GDP by the end of the crisis period. This sharp rise exposed underlying weaknesses in regulatory oversight and fiscal transparency, which contributed to the country's vulnerability to financial shocks.

During this period, overall government spending remained broadly stable, at around 33–35% of GDP. At the same time, its structure changed noticeably, with capital expenditures reduced in order to accommodate the costs associated with stabilizing the financial sector. The crisis had not only immediate fiscal consequences but also longer-term effects on public confidence and the investment environment. It underscored the importance of stronger institutions and more prudent fiscal management in limiting the impact of similar shocks in the future. International financial institutions played an important role by providing both financial support and technical assistance aimed at restoring stability in the banking sector, rebuilding fiscal credibility, and improving governance within the financial system.

The COVID-19 pandemic in 2020 presented unprecedented fiscal challenges for Moldova, resulting in a sharp surge in both fiscal deficits and public debt. Government expenditures increased significantly, rising from 31.53% of GDP in 2019 to 36.69% in 2020. This increase was driven by healthcare spending, social protection programs, and economic relief measures aimed at mitigating the immediate impact of the pandemic on vulnerable populations and ensuring the continuity of essential services. The fiscal deficit ballooned to approximately 9% of GDP, highlighting the scale of the government's response. The pandemic also led to a significant rise in public debt, which grew from 27.51% of GDP in 2019 to 33.96% in 2020. By 2022, central government debt had risen further to 34.52% of GDP, reflecting the reliance on external borrowing to finance pandemic-related expenditures. International financial institutions, such as the IMF and the World Bank, provided critical support during this period through concessional loans and grants, bolstering Moldova's fiscal capacity. This external assistance was vital in addressing immediate financing needs but underscored Moldova's structural dependency on international aid during crises. The pandemic exposed the weaknesses in Moldova's fiscal system, particularly its limited capacity to generate domestic revenues. While the increased spending prioritized urgent relief measures, the elevated levels of public debt have posed significant risks to fiscal sustainability. Moving forward, addressing these structural weaknesses and diversifying fiscal revenues will be critical to reducing dependency on external aid and ensuring long-term economic stability.

The trends underscore the cyclical nature of Moldova's fiscal deficits and public debt dynamics, highlighting the tensions between addressing immediate needs during crises and ensuring long-term fiscal sustainability. Government expenditures as a share of GDP have fluctuated significantly during periods of crisis, reflecting the prioritization of social and economic stabilization measures. Concurrently, public debt levels have exhibited a general upward trend, particularly during the 2014 banking crisis and the COVID-19 pandemic. These patterns emphasize the critical need for maintaining fiscal buffers and implementing structural reforms to enhance resilience against future shocks. International financial institutions have played a crucial role in stabilizing Moldova's economy during crises, providing indispensable support through concessional loans and grants. However, this reliance on external assistance has also contributed to the growing burden of public debt, further complicating fiscal consolidation efforts. The lessons from Moldova's recurring crises underline the importance of sound fiscal management, improved governance, and economic diversification. Institutional reforms are essential to reducing vulnerability to external shocks and fostering sustainable economic growth, enabling Moldova to balance the demands of crisis response with long-term fiscal health.

GOVERNMENT RESPONSES TO CRISES. FISCAL POLICY ADJUSTMENTS

The collapse of the Soviet Union in 1991 left Moldova with a nascent fiscal system, an economic contraction exceeding 50%, and widespread poverty. Fiscal policy during this period focused on establishing the foundational structures for revenue generation and expenditure management. Government expenditures exceeded 45% of GDP during the mid-1990s, reflecting the state's commitment to stabilizing public services, social protection, and transitioning to a market economy. Public debt rose sharply as Moldova relied on external borrowing to finance critical imports and social programs. As outlined in the Law on Local Public Finance (Law No. 397/2003, Article 7), fiscal adjustments aimed to ensure equitable resource allocation to local governments, addressing disparities while managing scarce resources. However, inefficiencies in the nascent fiscal framework and the overreliance on agriculture and remittances constrained Moldova's capacity to achieve fiscal sustainability.

The 2008 global financial crisis highlighted Moldova's vulnerability to external shocks, including declining remittances and reduced export revenues. The government adopted countercyclical fiscal measures to mitigate the crisis's impact. Government expenditures peaked at 45.3% of GDP in 2008, prioritizing social transfers, public sector wages, and support for small and medium enterprises. Public debt, which had declined to 18.44% of GDP by 2008, began to rise as fiscal deficits were financed through external borrowing. By 2009, debt reached 27.63% of GDP. Policies guided by the State Debt and Guarantees Law (Law No. 419/2006, Article 12) emphasized maintaining fiscal discipline while diversifying the export base and ensuring social safety nets. Moldova's pre-crisis fiscal prudence enabled the government to respond effectively, demonstrating the importance of fiscal buffers.

The 2014 banking crisis, a result of fraudulent activities within Moldova's financial sector, caused a profound fiscal shock. The government was forced to issue guarantees amounting to over 13% of GDP to stabilize the banking system, raising public debt from 23.24% of GDP in 2013 to over 30% by 2016. Government expenditures remained stable at approximately 33%-35% of GDP, but the composition shifted, with capital investments curtailed to accommodate financial stabilization costs. This crisis revealed systemic weaknesses in financial governance and regulatory oversight. Efforts to rebuild trust in the financial sector were supported by international institutions, which provided technical and financial assistance. The Law on Public Finances and Budgetary Responsibilities (Law No. 181/2014) played a pivotal role in ensuring fiscal accountability during the recovery process. However, the long-term consequences of this crisis, including increased public debt and diminished investor confidence, underscored the need for comprehensive institutional reforms.

The COVID-19 pandemic posed unprecedented challenges to Moldova's fiscal policy. Government expenditures surged from 31.53% of GDP in 2019 to 36.69% in 2020, driven by increased spending on healthcare, social protection, and economic relief measures. The fiscal deficit widened to 9% of GDP, while public debt rose from 27.51% of GDP in 2019 to 33.96% in 2020. By 2022, public debt had further increased to 34.52% of GDP. International financial institutions, including the IMF and World Bank, provided concessional loans and grants to support Moldova's pandemic response. Under Government Decision No. 386/2020, funds were reallocated for emergency health measures and financial aid to vulnerable groups. However, the pandemic exposed structural weaknesses in Moldova's fiscal framework, including limited domestic revenue generation and heavy reliance on external aid. The long-term sustainability of Moldova's fiscal policies remains a pressing concern, as elevated debt levels constrain future investment capacity.

CRISIS MITIGATION PROGRAMS AND THEIR EFFECTIVENESS

Following the collapse of the Soviet Union in 1991, Moldova faced a severe economic contraction, skyrocketing unemployment, and widespread poverty. The government implemented several foundational programs to mitigate the effects of this transition. Key among these were fiscal decentralization measures under the Law on Local Public Finance (Law No. 397/2003), which aimed to ensure equitable resource distribution and empower local authorities to address regional disparities. Additionally, subsidies for agriculture and energy sectors were introduced to stabilize critical industries during the transition to a market economy. These programs had mixed effectiveness. While fiscal decentralization helped maintain basic public services in rural areas, inefficiencies in resource allocation and weak institutional capacities limited their impact. Heavy reliance on external borrowing for program financing exacerbated public debt levels, creating long-term vulnerabilities. Nonetheless, the programs laid the groundwork for Moldova's fiscal system and marked an essential step in its economic transformation.

The global financial crisis of 2008 revealed Moldova's strong reliance on remittances and exports, which led to a sharp decline in household incomes and a slowdown in economic growth. In response, the government introduced countercyclical fiscal measures, increasing spending on social protection and providing support to small and medium-sized enterprises. Government expenditures reached 45.3% of GDP in 2008, reflecting the scale of these interventions. At the same time, the legal framework for managing rising fiscal risks was ensured by the State Debt and Guarantees Law (Law No. 419/2006), as public debt increased to 27.63% of GDP by 2009. These measures helped stabilize household consumption and maintain the provision of essential social services. However, their scope remained limited due to structural constraints, particularly the narrow domestic revenue base. The crisis underscored the importance of maintaining fiscal buffers, as relatively low debt levels prior to the crisis enabled the government to act without undermining fiscal sustainability.

The 2014 banking crisis, widely known as the "Trillion Theft," marked a critical point in Moldova's fiscal development. Large-scale fraud in the financial sector required substantial government intervention, including guarantees equivalent to around 13% of GDP to support the banking system. The response combined direct financial support, regulatory changes, and assistance from international financial institutions. While these measures succeeded in stabilizing the banking sector in the short term, their longer-term consequences proved more challenging. Public debt increased significantly, exceeding 30% of GDP by 2016, and investor confidence weakened. The Law on Public Finances and Budgetary Responsibility (Law No. 181/2014) contributed to improving transparency and accountability in fiscal management after the crisis. At the same time, the limited recovery of misappropriated assets and the slow pace of institutional reforms pointed to the need for stronger governance mechanisms to reduce the risk of similar crises in the future.

The COVID-19 pandemic in 2020 presented unprecedented challenges, necessitating a rapid and comprehensive response. Moldova's crisis mitigation programs focused on healthcare spending, social protection, and economic relief measures. Under Government Decision No. 386/2020, funds

were reallocated to finance medical supplies, direct financial aid for vulnerable populations, and support for businesses affected by lockdowns. Government expenditures surged to 36.69% of GDP in 2020, while public debt rose from 27.51% to 33.96% of GDP. The effectiveness of these programs was evident in the mitigation of immediate health and economic impacts. However, the reliance on external borrowing to finance these measures highlighted Moldova's structural weaknesses, including its limited domestic revenue base. Concessional loans from the IMF and World Bank were critical in supporting the fiscal response, but they also increased public debt, raising concerns about long-term fiscal sustainability. The pandemic underscored the importance of investing in healthcare infrastructure and diversifying economic activities to enhance resilience against future shocks.

LONG-TERM REFORMS TO ENHANCE FISCAL RESILIENCE

Moldova's economic history is marked by repeated crises, ranging from the post-Soviet transition to the 2008 global financial crisis, the 2014 banking scandal, and the 2020 COVID-19 pandemic. These events have underscored systemic vulnerabilities in fiscal governance, economic structure, and public debt management. Long-term fiscal resilience requires comprehensive reforms aimed at strengthening governance, ensuring sustainable debt levels, diversifying the economy, and enhancing social protection mechanisms.

I. Strengthening Fiscal Governance and Transparency

Fiscal governance is a cornerstone of economic resilience. Moldova's challenges, particularly during the 2014 banking crisis, revealed critical gaps in transparency and oversight. The fraudulent disappearance of funds amounting to 13% of GDP highlighted systemic governance failures that amplified public debt and eroded public trust.

Key Strategies:

1. *Enhanced Financial Oversight:* Strengthening the regulatory framework to prevent systemic fraud is imperative. Legislative measures like the Law on Public Finances and Budgetary Responsibilities (Law No. 181/2014) provide a basis for accountability but require stricter enforcement. Enhancing the independence of oversight institutions, such as the central bank, can bolster financial stability.

2. *Digital Transformation in Fiscal Management:* Adopting digital tools to track public expenditures, manage budgets, and monitor debt in real-time can improve fiscal transparency. Programs modelled on international best practices, such as open government initiatives, can reduce inefficiencies and increase public trust.

3. *Capacity Building:* Investing in training programs for fiscal managers and regulators can enhance their ability to adapt to global standards in financial governance.

II. Building Fiscal Buffers and Ensuring Debt Sustainability

Moldova's recurring crises have revealed its vulnerability to fiscal shocks due to limited reserves and rising public debt levels. The public debt surged significantly during the 2014 and 2020 crises, emphasizing the need for proactive debt management strategies.

Recommendations for Fiscal Buffers:

1. *Creation of a Sovereign Wealth Fund:* Allocating a portion of surplus revenues, particularly during periods of economic growth, to a sovereign wealth fund can provide financial reserves for future crises. This approach, recommended in the Strategic National Development Plan "Moldova 2030", is crucial for mitigating the effects of external shocks.

2. *Institutionalizing Fiscal Rules:* Implementing legally binding fiscal rules, as outlined in the State Debt and Guarantees Law (Law No. 419/2006), can limit deficits and control debt accumulation. Flexible frameworks allowing temporary rule suspensions during crises can ensure both discipline and adaptability.

3. *Strengthening Domestic Revenue Mobilization*: Modernizing tax administration, reducing informal economic activity, and broadening the tax base are essential to ensuring steady revenue streams. Policies should focus on addressing tax evasion and improving compliance through technological interventions.

III. Diversifying the Economy to Reduce Vulnerabilities

Moldova's economic dependence on agriculture and remittances has left it particularly susceptible to external shocks. Economic diversification is vital for reducing these vulnerabilities and fostering resilience.

Proposed Actions:

1. *Sectoral Development*: Promoting growth in high-potential industries such as technology, manufacturing, and renewable energy can reduce reliance on agriculture and remittances. According to the **Moldova 2020 Report**, targeted investments in these sectors can accelerate growth and improve economic stability.

2. *Infrastructure Modernization*: Investments in transport, energy, and digital infrastructure can boost connectivity, attract foreign direct investment, and enhance competitiveness. Public-private partnerships can be leveraged to finance large-scale projects efficiently.

3. *Support for SMEs and Innovation*: Expanding access to finance for small and medium enterprises (SMEs), particularly in innovative industries, can foster entrepreneurship. Establishing innovation hubs and offering tax incentives for startups can drive economic diversification.

IV. Enhancing Social Protection Mechanisms

Economic crises in Moldova have disproportionately impacted vulnerable populations, exposing the limitations of existing social safety nets. Strengthening social protection is critical to building fiscal and societal resilience.

Strategies for Social Inclusion:

1. *Comprehensive Social Safety Nets*: Expanding the coverage and efficiency of programs targeting low-income households can mitigate the impact of future crises. Performance-based budgeting, as outlined in the National Development Strategy, can ensure resources are allocated effectively.

2. *Integration of Labor Market Policies*: Supporting workforce reskilling and creating employment opportunities in emerging sectors can reduce economic inequalities. Partnerships with international organizations can facilitate training programs aligned with labour market demands.

3. *Sustainable Healthcare Financing*: The COVID-19 pandemic highlighted the importance of a robust healthcare system. Investments in healthcare infrastructure and equitable access to medical services can ensure resilience against health-related shocks.

V. Strengthening International Partnerships and Institutional Capacity

Moldova's reliance on international financial institutions for crisis financing underscores the importance of strategic external partnerships. While concessional loans have supported Moldova during crises, excessive dependence on external aid risks long-term fiscal sovereignty.

Key Reforms:

1. *Optimizing External Assistance*: Aligning external financing with strategic national goals can maximize its impact while minimizing risks. For example, concessional loans from the IMF and World Bank should prioritize high-impact investments in infrastructure and human capital.

2. *Regional Economic Cooperation*: Collaborating with neighbouring countries on trade agreements and infrastructure projects can enhance economic resilience. Initiatives such as regional energy connectivity can reduce Moldova's dependency on external energy sources.

3. *Institutional Strengthening*: Enhancing the capacity of public institutions to design and implement reforms effectively is critical. This includes improving inter-agency coordination and ensuring accountability in reform execution.

CONCLUSIONS

Moldova's fiscal history is marked by a series of crises that have profoundly shaped its economic landscape, fiscal policies, and institutional frameworks. From the post-Soviet transition to the global financial crisis of 2008–2009, the 2014 banking scandal, and the COVID-19 pandemic, each crisis has highlighted systemic vulnerabilities while offering critical lessons for enhancing fiscal resilience and sustainability. These experiences underscore the interconnectedness of fiscal governance, economic diversification, and social protection mechanisms in ensuring long-term stability.

The post-Soviet transition was characterized by a deep economic downturn, accompanied by a sharp decline in government revenues and growing fiscal imbalances. Efforts to maintain basic public services helped shape an emerging fiscal system, but the economy's heavy reliance on agriculture and remittances exposed underlying structural weaknesses. This period also demonstrated the importance of establishing a solid legal basis, including legislation on local public finance, to support fiscal decentralization and ensure a more balanced allocation of resources.

The global financial crisis of 2008 further highlighted Moldova's exposure to external shocks, particularly through its dependence on remittance inflows and external trade. Although countercyclical fiscal measures helped ease some of the social and economic pressures, the crisis pointed to the need for stronger fiscal buffers and a more diversified revenue base. In a similar vein, the 2014 banking crisis brought to light serious shortcomings in governance and transparency, leading to a substantial increase in public debt and a decline in public confidence. Its longer-term effects emphasized the need for more effective regulation and stronger institutions to safeguard financial stability.

The COVID-19 pandemic posed a different type of challenge, exposing the country's limited capacity to respond to large-scale economic disruptions. A sharp increase in public spending, combined with declining revenues, resulted in record fiscal deficits and a further rise in public debt. While external financial assistance played a crucial role in mitigating the immediate impact, it also highlighted the extent of Moldova's reliance on external support and the need to strengthen domestic revenue generation and diversify the economy.

Taken together, these crises reveal several recurring issues: the vulnerability of the fiscal system, persistent gaps in governance and transparency, and the importance of cooperation with international partners. Addressing these challenges requires a comprehensive reform agenda aimed at reducing structural weaknesses. Key priorities include improving fiscal governance through stronger oversight, advancing digitalization, and building institutional capacity. At the same time, efforts to diversify the economy – particularly by supporting sectors with high growth potential, such as technology and renewable energy – are essential. Investments in infrastructure, support for small and medium-sized enterprises, and the promotion of innovation can further enhance economic resilience and competitiveness.

In addition to economic reforms, social protection mechanisms must be strengthened to mitigate the disproportionate impact of crises on vulnerable populations. Expanding social safety nets, integrating labor market policies, and ensuring sustainable healthcare financing will not only enhance social equity but also contribute to long-term economic stability.

Looking forward, Moldova must balance the demands of crisis response with the imperative of fiscal sustainability. Building fiscal buffers, institutionalizing fiscal rules, and optimizing external assistance are critical steps toward ensuring resilience against future shocks. While international financial institutions will remain key partners, Moldova must prioritize reducing its dependency on external aid through strategic domestic reforms.

In conclusion, Moldova's fiscal trajectory underscores the importance of sound fiscal management, economic diversification, and institutional resilience. By addressing its structural weaknesses and leveraging opportunities for reform, Moldova can navigate future challenges more

effectively and lay the foundation for sustainable development and economic stability. These efforts, combined with strengthened international cooperation and governance reforms, will enable Moldova to achieve fiscal sustainability and foster a resilient, inclusive economy.

BIBLIOGRAPHY

Laws

- 1.1. Government of Moldova. (1996). *Law No. 847/1996 on the budget system and budgetary process*. Official Gazette of the Republic of Moldova, 62-63/678, May 24, 1996.
- 1.2. Government of Moldova. (1997). Fiscal Code No. 1163/1997. Official Gazette of the Republic of Moldova, 62-63/678, May 24, 1997.
- 1.3. Government of Moldova. (2003). Law on local public finance (Law No. 397 of 16 October 2003). Chişinău: Government of Moldova.
- 1.4. Government of Moldova. (2006). Law on state debt and guarantees (Law No. 419 of 22 December 2006). Chişinău: Government of Moldova.
- 1.5. Government of Moldova. (2014). Law on public finances and budgetary responsibilities (Law No. 181 of 25 July 2014). Chişinău: Government of Moldova.
- 1.6. Government of Moldova. (2020). Decision on COVID-19 response measures (Government Decision No. 386 of 17 June 2020). Chişinău: Government of Moldova.
- 1.7. Government of Moldova. (2005). Poverty reduction strategy paper. Chişinău: Ministry of Finance.
- 1.8. Ministry of Economy and Infrastructure. (2018). Strategic national development plan: Economic resilience and infrastructure development. Chişinău: Ministry of Economy and Infrastructure.
- 1.9. Government of Moldova. (2018). Hotărârea Guvernului Republicii Moldova: Priorităţi politice sectoriale 2019–2021 (Hotărârea No. 350 of 18 April 2018). Chişinău: Government of Moldova.
- 1.10. Government of Moldova. (2007). Hotărârea Guvernului Republicii Moldova: Documente politice publice (Hotărârea No. 33 of 11 January 2007). Chişinău: Government of Moldova.
- 1.11. Government of Moldova. (2006). Hotărârea Guvernului Republicii Moldova: CCTM – Controlul cheltuielilor publice (Hotărârea No. 82 of 24 January 2006). Chişinău: Government of Moldova.
- 1.12. Government of Moldova. (2018). Sustainable development strategy: National development strategy (NDS) Moldova 2030. Chişinău: Government of Moldova.

2. Internet resources

- 2.1. International Monetary Fund (IMF). (2023). General government net lending/borrowing (% of GDP), Moldova. Accessed November 20, 2024, https://www.imf.org/external/datamapper/GGXCNL_G01_GDP_PT@FM/MD
- 2.2. World Bank. (2023). *Central government debt, total (% of GDP) – Moldova*. Accessed November 20, 2024, <https://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS?locations=MD>
- 2.3. World Bank. (2023). *Tax Revenue (% of GDP)*. Retrieved from data.worldbank.org.
- 2.4. Macrotrends. (n.d.). *Moldova GDP growth rate 2008-2009*. Retrieved <https://www.macrotrends.net>
- 2.5. ElgarOnline. (2009). *External demand shocks and Moldova's fiscal crisis*. Retrieved <https://www.elgaronline.com>
- 2.6. USAID. (2016). *Moldova Banking Crisis: Assessment and Policy Recommendations*. Retrieved from https://pdf.usaid.gov/pdf_docs/PA00TGXW.pdf
- 2.7. Open Society Foundations. (2009). *Moldova and the Global Financial Crisis: Impacts and Policy Responses*. Retrieved from <https://www.opensocietyfoundations.org>

- 2.8. International Monetary Fund (IMF). (2023). General government net lending/borrowing (% of GDP), Moldova. Accessed November 20, 2024, https://www.imf.org/external/datamapper/GGXCNL_G01_GDP_PT@FM/MD
- 2.9. World Bank. (2023). *Central government debt, total (% of GDP) – Moldova*. Accessed November 20, 2024, <https://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS?locations=MD>

3. Reports

- 3.1. National Bank of Moldova. (2016). *Annual Report 2016*. Chisinau: National Bank of Moldova.
- 3.2. IMF. (2016). *Moldova: Fiscal Stability and Revenue Challenges*. Washington, DC: International Monetary Fund.
- 3.3. OECD. (2017). *Revenue Statistics in Eastern Europe and Central Asia*. Paris: OECD Publishing.
- 3.4. International Monetary Fund. (2011). *Republic of Moldova: IMF Stand-By Arrangement Review*. Washington, DC: IMF.
- 3.5. World Bank. (2010). *Poverty and Policy in Moldova: Transition and Challenges*. Washington, DC: World Bank.
- Ministry of Economy and Infrastructure. (2020). *Moldova 2030: Towards a resilient and inclusive future*. Chişinău: Ministry of Economy and Infrastructure