# HOUSING MARKET ILLIQUIDITY AND MORTGAGE DEEPENING IN MOLDOVA: THE ROLE OF SUBSIDIZED CREDIT AND TRANSACTION FORMALIZATION

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**Abstract:** *This paper examines the recent divergence in Moldova between falling real estate transaction volumes and continued mortgage lending growth. In standard housing market frameworks, transaction activity and credit tend to move together. However, recent data point to a different pattern: a sharp drop in market turnover alongside a steady increase in mortgage lending and its share of transactions. The paper seeks to explain this development by focusing on the structural and institutional changes. Rather than indicating a breakdown of conventional housing dynamics, the pattern points to a shift in who can participate in the market and how transactions are financed. Three main factors appear to be driving this change. First, rising housing prices have made it increasingly difficult for households to rely on their own funds. Second, government-supported mortgage programs have expanded access to credit for certain groups of borrowers. Third, the gradual formalization of transactions, particularly through tighter restrictions on cash payments, has raised the barriers to entry for buyers who depend on informal or non-documented sources of funds. Using descriptive evidence, the analysis shows that declining market activity reflects reduced participation rather than falling underlying demand. Mortgage lending continues to expand within a smaller pool of credit-eligible buyers, leading to a higher observed mortgage share. These data indicate that mortgage growth should not be read in isolation as a sign of a strong housing market. More broadly, the Moldovan case highlights how affordability constraints, credit policies, and increasing financial formalization can reshape housing market outcomes in emerging and transition economies.*

**Key words**: *housing market, transaction formalization, subsidized credit, mortgage*

**JEL: O18, R30, R38**

## Introduction

Housing market patterns are generally characterized by a close relationship between transaction activity and credit conditions. (Arestis, 2014) In standard frameworks, periods of strong housing demand are associated with rising transaction volumes, increasing house prices, and expanding mortgage lending, while downturns tend to involve simultaneous declines in turnover and credit growth. This co-movement is well documented in the literature on housing cycles and credit dynamics (La Cava, G., 2016) and reflects the central role of mortgage finance in sustaining housing demand and market liquidity. (Meen, 2000)

Recent developments in Moldova's residential real estate market, however, deviate from this conventional pattern. Data from the National Bank of Moldova indicate that the number of real estate transactions declined significantly in recent quarters, by approximately 20% in Q4, showing a contraction in market turnover. At the same time, both newly issued mortgage loans and the share of transactions financed through mortgages increased markedly, with credit-backed purchases accounting for a growing majority of total sales in 2025. This divergence between falling transaction volumes and rising mortgage intensity appears paradoxical from the perspective of standard housing-market theory. (Guren, 2021)

This paper argues that the paradox does not reflect a broad-based expansion in housing demand, but rather a structural shift in the composition of market participants and financing mechanisms. In effect, Moldova's housing market is becoming smaller in terms of total transactions, yet more dependent on bank-intermediated credit. This transformation is driven by three mutually reinforcing factors.

First, the expansion of government-supported mortgage programs, most notably Prima Casă Plus, has improved access to credit for selected segments of the population, sustaining mortgage demand even as overall market activity weakens. Similar effects of state-backed mortgage schemes on housing credit have been documented in other emerging European economies. (IMF, 2018)

Second, rising housing prices have eroded affordability for cash buyers and lower-income households, contributing to their partial withdrawal from the market. This has increased the relative weight of mortgage-dependent buyers, consistent with broader evidence on the interaction between affordability constraints and access to credit (Biljanovska, 2023).

Third, recent regulatory changes have accelerated the formalization of real estate transactions. In particular, Law No. 34/2024 on cash payments introduced stricter limits on cash transactions and requires high-value real estate purchases to be executed through bank transfers. While designed to enhance financial transparency and reduce the use of undeclared funds, this reform channels transactions into the formal financial system. As a result, buyers unable to comply with these requirements may face greater barriers to participation, potentially reducing market liquidity even as regulatory oversight improves.

Stricter income verification and source-of-funds requirements may also have reshaped financing behavior. Rather than fully excluding liquidity-constrained households, these constraints may encourage substitution toward informal or non-bank financing arrangements, such as family transfers, remittances, or informal borrowing. (Hamouri, 2020) Such mechanisms remain largely unobserved in official mortgage statistics, but they are important for understanding how households adjust to tighter formal requirements.

Taken together, these developments suggest that the Moldovan case does not represent a contradiction between declining market activity and expanding credit. Instead, it reflects a process of credit deepening under conditions of reduced turnover, driven by compositional shifts in demand and institutional changes in how transactions are financed and recorded.

Against this background, the aim of this paper is to examine why mortgage lending has continued to expand despite a decline in residential real estate transactions in Moldova. The study focuses on the role of government-supported mortgage programs, affordability constraints, and regulatory formalization in reshaping both the structure of demand and the financing of housing purchases. By doing so, it contributes to the broader literature on housing and credit cycles by showing how credit deepening can occur alongside contracting market activity, particularly in transition economies where financial development, public policy, and market formalization interact in ways not fully captured by standard housing-market models.

**Institutional Background: Housing Finance and Transaction Formalization in Moldova**

Moldova's residential real estate market has undergone a considerable transformation over the past decade, determined by financial deepening, macroeconomic stabilization, and institutional development. Historically, the market relied heavily on cash transactions, while access to mortgage financing remained limited, and informal practices played a non-negligible role in housing purchases. In recent years, however, bank-intermediated credit has become increasingly important, supported by rising household incomes and targeted policy measures to expand access to housing finance.

More recently, this structure has shifted. Mortgage lending is now more visible in housing finance. Higher household incomes, deeper banking-sector intermediation, and policies to improve access to home ownership support this growth. Government-backed programs like Prima Casă and Prima Casă Plus are important. By partly guaranteeing loans, these schemes reduce bank risk and make borrowing easier for households who might struggle to qualify for standard products. As a result, formal credit has become a key route into the housing market, especially for first-time buyers and middle-income households.

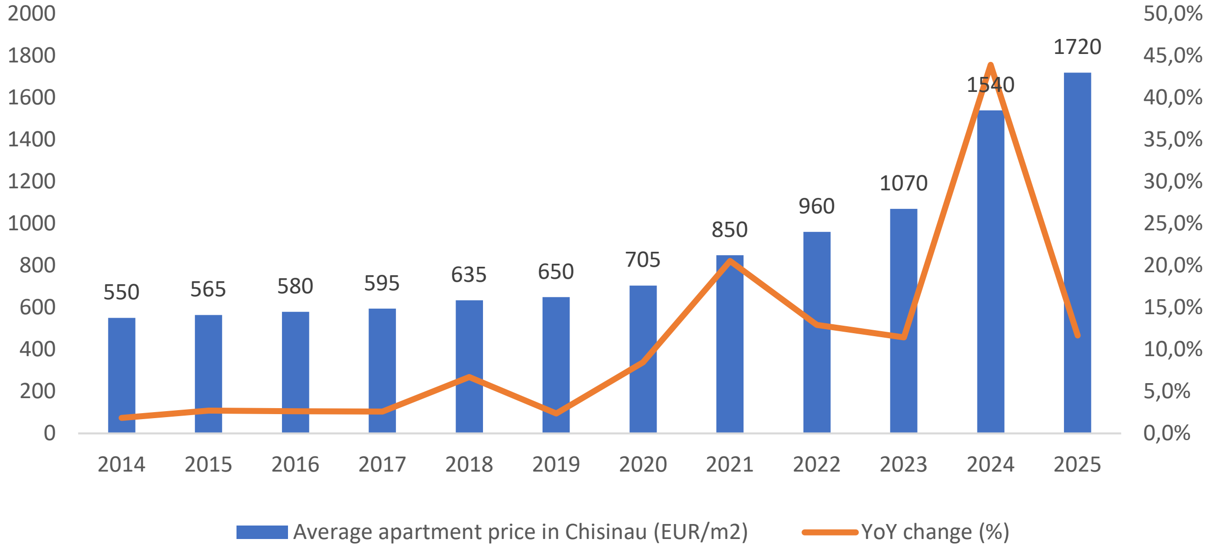


**Figure 1. Average apartment price in Chisinau (EUR/m$^2$)**
*Source: Acces Imobil*

This expansion of credit has changed market participation. Housing purchases are increasingly concentrated among households that can meet formal borrowing requirements. Those who depend on savings or informal income face more barriers to entry. These compositional changes closely match developments in house prices. Average apartment prices in Chișinău have increased over the past fifteen years. The increase followed a two-stage path: relative stagnation after the global financial crisis, then a marked acceleration after 2019. By 2023, prices reached about €1,500 per square meter, signaling significant real appreciation.

Rising prices have weakened affordability, especially for lower- and middle-income households, because property values are increasing faster than incomes. As a result, entering the market costs more for buyers who rely on savings rather than credit. For households with irregular incomes or reduced access to formal financing, this dynamic limits their ability to buy, thereby constraining demand. Importantly, this does not mean underlying housing demand is falling; rather, it reveals a widening gap between desired and effective demand. Preferences for homeownership remain strong, but more households cannot meet the financial conditions needed to participate in the formal housing market.

This progressing interaction between mortgage expansion, rising prices, and affordability pressures provides an important backdrop to understand the divergence between declining transaction volumes and increasing mortgage activity examined in this paper.

The consequences for market structure are direct. As affordability deteriorates, participation becomes increasingly concentrated among households with access to formal credit, either through conventional mortgage products or government-supported schemes, such as Prima Casă Plus. At the same time, the pool of cash-capable buyers contracts, reducing the diversity of financing channels within the market. This means that rising prices do not simply make housing more expensive; they also reshape who can participate in the market and through which financial instruments transactions can take place.

This affordability channel is important because it operates independently of recent regulatory changes. Even in the absence of stricter transaction formalization requirements, rising prices alone would be expected to reduce transaction volumes while increasing the relative share of mortgage-financed purchases. As fewer households are able to purchase property outright, those who remain active in the market are more likely to rely on bank credit. In practice, however, affordability pressures and regulatory formalization reinforce one another. Higher prices exclude liquidity-constrained households, while stricter payment and verification requirements further reduce participation among buyers unable to operate fully within the banking system. The combined effect is a compression of overall market activity alongside a growing reliance on credit-intermediated transactions.

This deterioration in affordability is reflected in several basic indicators. In 2020, the equivalent of 1.7 average monthly salaries was required to purchase one square meter of housing, whereas the current figure is around 2.1 salaries. Similarly, the number of years of average salary needed to purchase a 60-square-meter apartment has increased from 8.7 to 10.3 years. Over the same period, the average apartment price has risen from approximately €45,000 to more than €100,000. These figures point to a substantial increase in the monetary burden linked with homeownership and help explain why market participation has become increasingly dependent on access to formal financing.

Alongside these affordability pressures, Moldova has implemented reforms to increase disclosure and traceability of financial flows in real estate transactions. A central element of this process has been the gradual shift away from cash-based transactions toward bank-mediated payments. Historically, a significant share of real estate transactions, particularly in the secondary market, was settled in cash. While this allowed transactions to take place outside the full scope of formal financial intermediation, it also limited authorities' ability to verify the origin of funds, monitor transaction values, and enforce compliance.

The move toward bank-mediated payments, therefore, represents an important institutional change. On the one hand, it improves transparency, strengthens oversight, and supports the formalization of the housing market. On the other hand, it raises the participation threshold by requiring buyers to operate within the formal financial sector. This formalization dynamic interacts directly with affordability constraints. As prices rise, the need for credit or large documented financial resources increases, while restrictions on cash transactions reduce the feasibility of alternative financing modes. The result is not only a more transparent market but also a reconfiguration of market access in favor of buyers who can meet formal financial requirements.

A key regulatory inflection point in this process was the enactment of Law No. 34/2024, which sets strict limits on the use of cash in high-value transactions, including real estate purchases. Transactions above specified thresholds must now be executed through bank accounts or other traceable instruments, effectively eliminating cash settlement for most property transactions. While the law intends to increase financial transparency and align Moldova with international regulatory standards, it also has direct effects on market participation.

By requiring bank intermediation, real estate transactions become subject to standard controls such as identity verification and source-of-funds checks. For buyers whose financial capacity depends on informal income, remittances, undocumented savings, or family-based support, these requirements may create a binding constraint. In this sense, the law functions not only as a restriction on cash payments but also as a screening mechanism. It creates a wedge between the ability to afford a property in economic terms and the ability to demonstrate that capacity within the formal financial system.

The combined effect of affordability pressures and transaction formalization is therefore a shift in the composition of housing demand. These forces do not necessarily reduce underlying demand for housing; rather, they constrain the ability of certain households to convert that demand into formal market participation. As cash-dependent and informally financed buyers are progressively excluded or discouraged, market activity becomes increasingly concentrated among households able to access mortgage credit and comply with formal requirements.

This helps explain how total transaction volumes can decline while the share of bank-intermediated transactions increases. A smaller number of households may be completing purchases, but those who remain active are more likely to rely on mortgages or other traceable financing channels. At the same time, some households may adapt by shifting toward alternative financing arrangements, such as family transfers, remittances, or informal borrowing, that can be routed through the banking system without appearing in mortgage statistics. Although these mechanisms are not directly observable in aggregate data, they may partially mitigate the decline in effective demand and add to the complexity of the interpretation of official credit indicators.

Taken together, these dynamics point to a reallocation of market participation rather than a uniform contraction in housing demand. Transactions are increasingly concentrated among credit-eligible, formally compliant households, while other potential buyers face growing barriers to entry. This provides the conceptual basis for the divergence between declining transaction volumes and rising mortgage intensity, as analyzed in the following section.

**Empirical Evidence: Transaction Contraction and Rising Mortgage Intensity**

The contraction in Moldova's residential real estate market becomes strongly apparent when examined dynamically. The number of apartments sold declined from 4,647 in Q4 2024 to 999 in Q4 2025, a nearly 80 percent reduction in a single year. This shows a substantial compression in transaction volume, far exceeding what would be expected from standard cyclical fluctuations.

Importantly, this decline did not coincide with a price correction. As discussed in Section 2.2, apartment prices in Chișinău continued to increase over the same period, ruling out the conventional demand-driven adjustment in which falling transaction volumes are accompanied by declining prices. Instead, the coexistence of lower turnover and sustained price appreciation suggests a contraction in the pool of households able to participate in the market. The constraint, therefore, appears to lie not in underlying housing demand itself, but in potential buyers' ability to convert that demand into formal transactions.

This interpretation is consistent with the institutional and affordability mechanisms outlined earlier. Rising prices have priced out lower-income households and weakened the position of cash buyers, while formalization requirements, particularly those associated with Law No. 34/2024, have raised participation thresholds for households relying on informal, undocumented, or non-bank sources of funds. The observed decline in transaction volume should therefore be understood as a reduction in effective market participation rather than a generalized collapse in housing demand. This distinction is central to the analysis, as it provides the empirical basis for the coexistence of declining turnover and rising mortgage intensity.

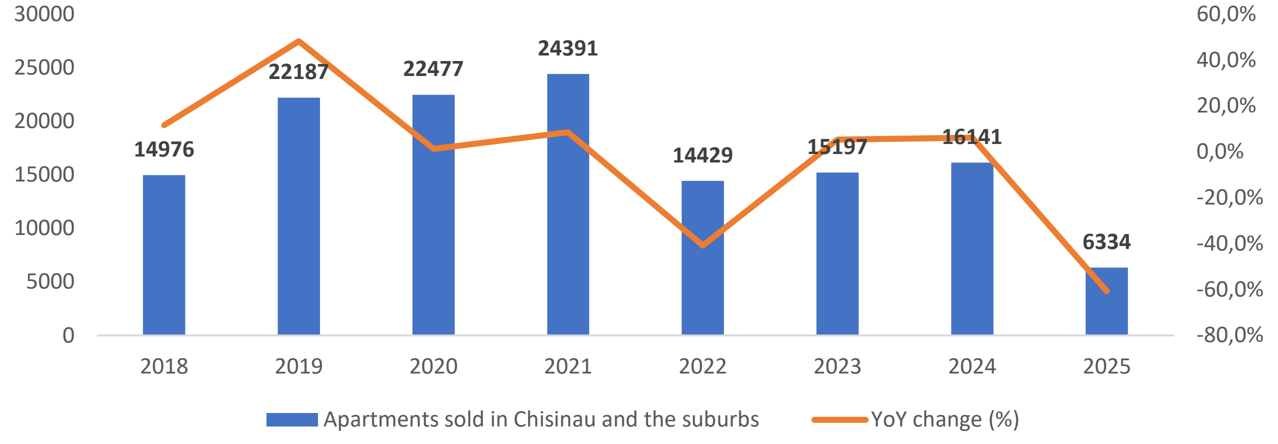


**Figure 2. Apartments sold in Chisinau and the suburbs**

*Source: IPCBI, ASP*

The divergence between transaction volumes and mortgage intensity can be accounted for by the interaction of two policy channels. On the one hand, Prima Casă Plus expands the pool of mortgage-eligible buyers by supporting access to formal credit. On the other hand, Law No. 34/2024 constrains participation by cash-dependent buyers by requiring greater fund-tracing and shifting high-value transactions into the banking system. These two mechanisms do not operate in isolation. Together, they reallocate market participation away from cash-reliant or informally financed households and toward buyers who can access bank credit and comply with formal verification requirements.

As a result, total transaction volumes may decline even as mortgage-financed activity is comparatively preserved. The rising share of mortgage-backed purchases is therefore not necessarily evidence of a broad-based expansion in residential demand. Rather, it shows a compositional shift in who remains able to transact and through which financing channels transactions are completed. Within this scheme, the so-called "mortgage paradox" is not a contradiction of standard housing-market dynamics, but a predictable outcome of institutional change. Declining turnover and rising mortgage penetration can coexist when market formalization and affordability pressures narrow the buyer base while increasing the relative importance of bank-intermediated transactions.

This interpretation is reinforced by developments in mortgage lending. In contrast to the contraction in transaction volumes, housing credit has expanded markedly. As shown in Table 2, the stock of outstanding mortgage loans increased from 14.9 billion MDL in 2023 to 26 billion MDL in 2025, signaling a substantial acceleration in credit growth. Over the same period, the share of mortgages in total loans rose from 27 percent to 31 percent, confirming the growing importance of housing credit within the banking sector.

**Table 1. Mortgage market indicators**

| Indicator | 2023 | 2024 | 2025 |
|---|---|---|---|
| Share of mortgages in total loans | 27% | 29% | 31% |
| Outstanding mortgage loans (bn MDL) | 14.9 | 18.4 | 26 |

*Source: NBM*

These figures point to continued financial deepening despite weakening real estate market activity. In standard housing-market frameworks, mortgage lending typically moves in line with transaction volumes: when market activity weakens, demand for new housing credit would also be expected to slow. The Moldovan case deviates from this pattern. Credit continues to expand even as the number of transactions contracts.

This variation is best perceived through the compositional lens developed above. The expansion of mortgage credit does not necessarily imply that aggregate housing demand is strengthening. Instead, it reflects the rising reliance of a narrower group of active buyers on bank-intermediated financing. As participation becomes increasingly concentrated among credit-eligible households, mortgage lending can continue to grow even while overall market turnover declines. In other words, the market becomes smaller in terms of transaction count but more credit-intensive in its financing structure.

Price changes across market segments further support this interpretation. As shown in Table 3, price growth has been broad-based across both old and new apartments. Between 2023 and Q1 2025, prices for old apartments increased from €880 to €1,324 per square meter, while prices for new apartments rose from €1,295 to €1,906 per square meter. This represents increases of approximately 50 percent and 47 percent, respectively.

**Table 2. Price evolution by segment, EUR**

| Segment | 2023 | Q1 2025 | Change |
|---|---|---|---|
| Old apartments | 880 | 1324 | ~50% |
| New apartments | 1295 | 13906 | ~47% |

*Source: Acces Imobil*

The similarity of price increases across segments suggests that the rise in housing prices is not merely the result of a shift in transactions toward higher-quality or newly built properties. Instead, it reflects generalized upward pressure across the residential market. This distinction is important to understand the decline in transaction volumes. If rising average prices were driven mainly by compositional changes in the types of properties being sold, the implications for affordability would be more limited. However, broad-based price growth reveals a wider deterioration in affordability across the market.

These dynamics reinforce the mechanisms discussed in Section 2. As housing becomes less affordable across both old and new apartment segments, participation increasingly depends on access to formal credit. Cash-dependent buyers and households with irregular or undocumented income are progressively disadvantaged, while credit-eligible households remain better positioned to complete transactions. This simultaneously contributes to lower transaction volumes and to greater reliance on mortgage financing among those who remain active in the market. The result is a more segmented, credit-intensive housing market, in which declining turnover and rising mortgage penetration are not opposing trends but rather interconnected outcomes of the same structural transformation.

## Conclusions

This paper examined the divergence between declining real estate transaction volumes and expanding mortgage lending in Moldova. The evidence points to a process of credit deepening under declining market turnover, driven not by a broad-based strengthening of housing demand, but by a structural transformation in market participation and financing.

Three mutually reinforcing forces underpin this shift: deteriorating affordability, which reduces the ability of households to purchase using their own funds; the expansion of subsidized mortgage programs, which sustains access to credit for eligible borrowers; and the formalization of transactions, particularly through Law No. 34/2024, which raises participation thresholds for buyers reliant on informal or non-documented sources of funds. As a result, overall market activity contracts while transactions become increasingly concentrated among credit-eligible households, leading to a higher observed share of mortgage-financed purchases.

These outcomes show that rising mortgage lending should not be interpreted in isolation as an indicator of a strong or expanding housing market. Instead, it may reflect compositional shifts driven by institutional and regulatory changes. Whereas policies promoting credit access and fiscal transparency improve market stability, they can also affect liquidity and access by excluding certain categories of buyers.

At the same time, the analysis is subject to important limitations. First, it is primarily descriptive and does not establish causal relationships between institutional changes and noted market outcomes. While the patterns documented are consistent with the proposed mechanisms, a formal identification strategy would be required to isolate causal effects. Second, the use of aggregate data limits the ability to capture informal or indirect financing mechanisms, such as family transfers, remittances, or private loans. These channels may play an important role in enabling transactions that comply with formal payment requirements without appearing in mortgage statistics. Consequently, the observed increase in mortgage intensity should be understood as a rise in formal, bank-intermediated financing, rather than a complete representation of all funding sources.

More broadly, the Moldovan case shows the need for considering not only the volume of housing transactions, but their composition and financing structure as well. In transition and emerging economies, the interaction among credit policy, affordability constraints, and market formalization can yield outcomes that depart from standard housing market dynamics. Perceiving these interactions is fundamental to correctly interpreting market signals and designing effective policy interventions.

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