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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

THE REPUBLIC OF MOLDOVA
(2026-2028)

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

Following economic stagnation in 2024, real GDP reached 2.4% in 2025 and became increasingly broad-based towards the end of the year. While, initially, growth was mainly driven by a recovery of agricultural output following the 2024 drought, and construction, the outturn during the last quarter was marked by a strong pick up of the IT sector and manufacturing. Domestic demand has been strong, underpinned by policy measures stimulating investment and access to finance as well as looser financing conditions in general. Broad-based energy support measures have helped to mitigate the impact of higher energy prices on household consumption. The Economic Reform Programme (ERP) projects growth to gradually strengthen to 3.6% by 2028 with investment remaining the key growth driver. The outlook reflects the impact of the EU Reform and Growth Facility (the Growth Plan). Net exports are expected to remain a drag on growth, due to Moldova's high import intensity and the fact that there has been only a gradual increase in exports. The outlook is subject to significant uncertainty, including the government's capacity to absorb the Growth Plan, Russia's ongoing war against neighbouring Ukraine, the impact of the war in the Middle East, particularly on energy and fertiliser prices, and the effects of climate change, particularly on agriculture[1]. After rising sharply to 9.1% at the beginning of 2025, inflation declined over the course of the year on account of lower food and energy prices and returned to its target range in January reaching 5.1% in February 2025 in the absence of a renewed energy price crisis at the beginning of 2026. Monetary policy tightening in early 2025 was followed by a gradual easing cycle as inflationary pressures subsided.

The ERP projects the deficit to widen in 2026 to 5.7% of GDP before gradually narrowing to 4.2% of GDP in 2028, although public debt is set to continue growing. The 2025 fiscal deficit reached 4% of GDP, lower than the 5% of GDP plan, but somewhat higher than the 2024 outturn (3.9% of GDP). Despite the 1.6% of GDP support from the EU Growth Plan in 2025, capital spending as share of GDP fell short of the planned level and increased by less than 0.1 percentage points (pps) compared to 2024, while the bulk of the funds was channelled to social benefits and subsidies. On a no-policy-change basis, revenues are set to remain broadly constant as a share of GDP. The ERP factors in capital spending and other expenditure funded from the Growth Plan which leads to a significant increase in expenditure compared to last year's ERP from 2025. In the absence of major policy measures, total expenditure as a share of GDP is expected to decrease by around 0.9 pps of GDP between 2025 and 2028 as the share of social transfers, expenditure on goods and services and the wage bill decrease, provided that the moderate growth rates projected in the ERP for these items materialise, partly offset by a rise in capital spending and higher interest expenditure. The medium-term outlook strongly hinges on the government's capacity to significantly increase public investment. It does not capture the quantitative impact of several major planned measures, including a comprehensive tax reform, a public salary reform, and the effects of the inclusion of extra-budgetary public institutions in the general government sector. These are presented in the ERP, but they are not sufficiently detailed to be included in the projections. The debt ratio remained stable at 38.1% of GDP in 2025. Due to the sizeable fiscal deficits, public debt is set to increase to 46% of GDP by 2028, and while still relatively low, it is subject to several risks related to foreign exchange developments and contingent liabilities stemming from government guarantees.

The main challenges facing Moldova include the following:

[1] The assessment is based on the ERP submitted on 27 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

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- **With fiscal deficits expected to remain elevated over the medium term, the public debt-to-GDP ratio is projected to rise, calling for prudent fiscal management, further revenue mobilisation and prioritisation of high-quality expenditure.** The budgetary outlook in the ERP presents a strong shift towards capital spending on the back of the implementation of the Growth Plan. However, the spending targets are subject to risks in view of low execution rates in recent years which are hindered by limited capacities for the preparation and implementation of projects. On the revenue side, the large number of tax expenditures contributes to the complexity and low transparency of the tax system, with potential adverse distributional implications. The upcoming tax reform is an opportunity to address the existing weaknesses linked to a narrow tax base, limited incentives for joining formal employment and the high tax compliance burden.
- **In light of limited fiscal space, there is scope to increase the efficiency and effectiveness of public spending, mitigate fiscal risks and improve cash and debt management.** The process of undertaking spending reviews encountered significant challenges in recent years. The recently adopted regulation linking the results to the budget process could help to increase the implementation of their results, assuming the methodology is agreed in a timely manner and carefully followed in the future. In addition, Moldova allocates significant resources on programmes supporting access to finance. While these programmes deliver results, when assessed jointly with the generous tax support available to small and medium-sized (SMEs), they represent a significant cost for public finances and their overall effectiveness has not yet been assessed. Potential fiscal risks stem from highly indebted state-owned enterprises as well as from rising age-related spending on pension or healthcare in the context of a declining working-age population, while a comprehensive assessment of these fiscal risks is still lacking. Given rising interest expenditure largely driven by short-term domestic issuances, there is scope to further develop the government securities market, including by improving auction discipline and broadening the investor base.

The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial. In 2025, the fiscal deficit remained above Moldova's fiscal rule but below the 5% target, mainly due to under-execution of spending, while public debt rose only slightly supported by a favourable growth-interest differential. Despite substantial support from the EU Growth Plan, capital spending increased only marginally. Limited progress was made to broaden the tax base with an overall limited reduction in the number of tax expenditures. Progress on increasing spending efficiency was partial as the completed healthcare and social policy spending reviews were not endorsed and no review of access-to-finance programmes was conducted. However, steps were taken to institutionalise the spending review process. Progress on SOE reform remains limited. The adoption of the amendments to the central bank law aimed to improve governance and decision-making structures has passed the first reading in parliament on 27 November 2025. The Parliament intends to adopt the law at the beginning of April following consultation with the IMF and the European Commission. Good progress was made on increasing forecasting capacities, and the authorities took first steps towards aligning the classification of public entities, notably SOEs, with the ESA 2010 standards. Monetary policy contributed to bringing inflation back to the central bank's inflation target range. The policy guidance is complementary to the IMF programme that expired in October 2025, with two reviews being missed. The Moldovan authorities requested a new non-financing IMF programme at the beginning of 2026.

2. ECONOMIC OUTLOOK AND RISKS

Following economic stagnation in 2024, growth resumed in 2025, with output expanding by 2.4% and broadening in the last quarter following an initial boost by a good harvest and construction. On

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the supply side, growth was primarily driven by the recovery of agriculture and construction, while the IT sector and manufacturing, including the important food processing sector, picked up only in the last quarter. On the demand side, the recovery was driven primarily by strong private investment growth supported by favourable financing conditions and investment promotion programmes. In addition, broad-based energy compensation payments mitigated the impact of higher energy prices on household demand. Net exports continued to weigh on growth, as export volumes recovered only modestly while imports continued to surge. Export performance was constrained by weak agricultural exports in the first half of the year, partly reflecting the impact of last year's drought, while the strong harvest in 2025 supported a rebound from the third quarter of the year. At the same time, re-exports of minerals continued to decline, while IT services exports recorded strong growth, providing a significant offset. Imports, by contrast, rose by 12.2%, driven by strong domestic demand and a marked increase in electricity imports from the EU following the cut-off of Russian gas to the Transnistrian region, which used to be the main supplier of electricity to the right bank.[2]

The ERP projects real GDP growth to strengthen to 3.6% in 2028, on the back of implementation of the Reform Agenda and Growth Plan-related investments between 2026 and 2028. The large increase in public investment is expected to be accompanied by sustained but slowing growth in private investments, supported by a sizeable inflow of foreign direct investment and government support while certain fiscal incentives such as the zero- income tax on reinvested profits by SMEs are set to be phased out in 2027. Public investment is projected to grow at an average rate of around 40%. Private consumption is projected to grow by about 2.2% annually and public consumption by an average of 1.8% until 2028. Net exports are expected to remain a drag on growth until 2028, though with a diminishing negative contribution. Exports are projected to grow strongly, with an average real growth of about 8.2% exceeding the average rate since 2020, supported by an agricultural recovery, greater resilience of the agricultural sector, diversified exports, and better infrastructure. Imports of goods and services are projected to grow at high rates of about 8%, driven by strong demand and investment, though with some moderation over time. The outlook does not yet account for the stronger than expected outturn in 2025. Overall, it is based on a 70% implementation rate of the Reform Agenda and Growth-Plan-related investments. Taking into account the Growth Plan, the outlook now relies on significantly stronger investment growth compared to last year's ERP which expected growth to be primarily consumption-driven.

The ERP outlines two alternative macroeconomic scenarios, pessimistic and optimistic, with a different pace of reform implementation, disbursements of EU financial support and execution of public investment funded from the Growth Plan. The optimistic scenario assumes full implementation of the Reform Agenda, full disbursement of financial support, and full execution of the planned Growth Plan-related investment of 18.7% of GDP, alongside higher private investment. Real GDP growth is projected to rise from 3.3% in 2026 to 3.8% in 2027 and 4.3% in 2028. Investment is expected to grow by 16% annually in 2026-2028, remaining the main driver of growth. Private consumption is projected to increase by 2.5% per year, supported by higher real household incomes, improved financing conditions, and stable inflation. Exports are forecast to grow by about 10.5% annually backed by policies broadening the export base and supporting higher value-added exports, while imports are expected to rise by 9% mainly due to higher investments, leading to a continued negative contribution of net exports. In the pessimistic scenario, with only 30% implementation of the Reform Agenda and planned investments growth would be limited to 1.9% in 2026, 2.5% in 2027, and 2.8% in 2028. Investment, however, would remain the main growth driver,

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

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expanding by 8% annually, while private consumption would grow by less than 2% per year. Exports are projected to increase by 6% and imports by 6.5% by 2028. Slower import growth, partly due to lower investment, is expected to reduce the negative contribution of net exports, while ongoing structural challenges will continue to constrain export growth.

The baseline scenario appears broadly plausible, although it does not yet account for the impact of the recent war in the Middle East, notably through Moldova's high exposure to imported energy price shocks. Both the ERP and the Commission Autumn Forecast expect domestic demand to remain the main driver of growth, although the composition differs. The ERP forecasts stronger investment growth, with private consumption anticipated to decelerate after 2025 while the Commission expects consumption growth to gradually strengthen, driven by continued real wage growth. In addition, the ERP assumes a higher implementation of Growth Plan's investments, including those under the Neighbourhood Investment Platform (NIP) while private investment is supported by the recent one-year extension of the zero-income tax on reinvested profits made by SMEs until 2027. Both the baseline and optimistic scenarios strongly rely on sustained reform implementation, while all scenarios assume a higher execution rate for public investments. The assumptions in the optimistic and baseline scenario regarding Growth-Plan-related investments, including under the Neighbourhood Investment Platform, would require a significant policy effort, especially in the short run, in light of the very low execution of NIP investments in 2025. Lastly, the outlook is subject to significant uncertainty, including the government's capacity to absorb the Growth Plan, Russia's ongoing war against neighbouring Ukraine, the effects of climate change, particularly on agriculture and the impact of the war in the Middle East.

Following a downturn in the labour market in 2024, both labour force participation and employment gradually improved during 2025, in line with the economic recovery. Over the period covered by the ERP, employment is expected to grow at an average rate of around 0.7%, supported by rising labour demand and active labour market measures. Public sector employment is projected to expand slightly faster, at about 0.9% annually, driven by increasing labour demand for EU integration-related public policy. Unemployment is expected to remain low at about 3.5%, while real wages and labour productivity are projected to increase steadily. The projected increase in labour productivity appears overly optimistic, especially given that sustained high emigration is forecast to result in an average annual population decline of 1.7% between 2025 and 2028.

Table 1:

Moldova - comparison of macroeconomic developments and forecasts

	2024		2025		2026		2027		2028	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	0.1	**0.1**	1.6	**1.8**	2.6	**2.4**	3.7	**3.3**	n.a.	**3.6**
Contributions:										
- final domestic demand	3.2	**3.2**	5.9	**7.2**	6.2	**6.2**	6.7	**5.9**	n.a.	**5.8**
- change in inventories	1.7	**1.7**	0.0	**1.8**	0.0	**-0.8**	0.0	**0.0**	n.a.	**0.0**
- external balance of goods and services	-4.8	**-4.8**	-4.3	**-7.3**	-3.6	**-3.0**	-3.0	**-2.6**	n.a.	**-2.2**
Employment (% change)	-3.7	**-3.7**	1.0	**2.8**	1.3	**0.6**	2.0	**0.8**	n.a.	**0.8**
Unemployment rate (%)	-17.5	**3.9**	-1.0	**3.6**	-3.0	**3.6**	-4.0	**3.5**	n.a.	**3.4**
GDP deflator (% change)	6.6	**6.6**	7.4	**6.6**	7.0	**4.9**	6.7	**4.3**	n.a.	**4.4**
CPI inflation (% change)	4.7	**4.7**	7.3	**7.7**	4.7	**4.3**	5.0	**4.5**	n.a.	**5.0**
Current account balance (% of GDP)	-16.6	**-16.6**	-19.5	**-20.0**	-20.7	**-19.9**	-20.3	**-19.8**	n.a.	**-19.6**
General government balance (% of GDP)	-3.9	**-3.9**	-3.6	**-5.0**	-4.4	**-5.7**	-5.5	**-5.5**	n.a.	**-4.2**
Government gross debt (% of GDP)	38.8	**38.1**	37.8	**37.2**	39.2	**41.8**	41.0	**45.3**	n.a.	**46.0**

Sources: Economic Reform Programme (ERP) 2026, Commission Autumn 2025 forecast.

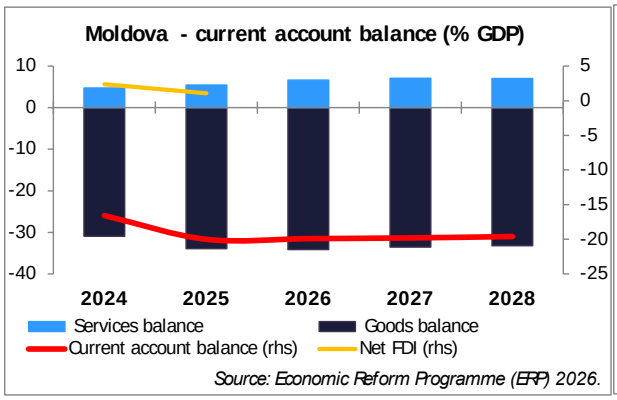
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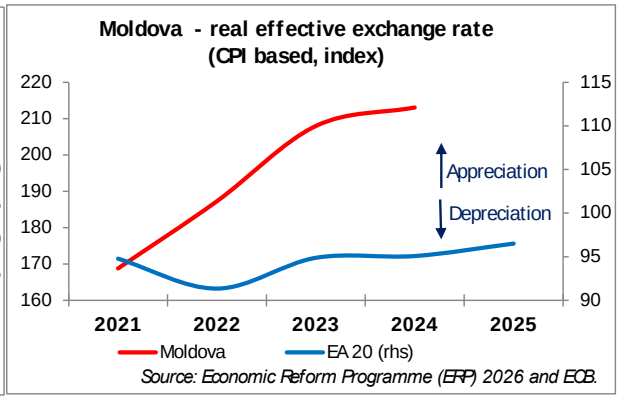
Inflation in 2025 remained above the central bank's target range of 5%±1.5pp. Following a peak at the beginning of 2025, inflation declined over the course of the year and reached 5.1% in February 2026. Inflation peaked at 9.1% in January 2025 due to a sharp increase in electricity prices following the cut-off of Russian gas to the Transnistrian region. Lower energy and declining food prices, supported by a better harvest and increased domestic electricity production contributed to inflation stabilising at around 7% from September 2025. By the end of 2025, inflation remained above the central bank's target range of 5% ±1.5 pp at 7% as lower food price inflation has been offset by higher transport prices and rental price pressures but declined in January 2026 to 4.8% the lowest level since July 2024 on the back of favourable base effects. The decline at the beginning of 2026 was mainly supported by a decrease in non-food prices, in particular fuel and lubricants as well as lower electricity prices, while prices for food products continued to increase.

Inflation is projected to remain within the central bank's target range from 2026. The ERP projects inflation to decline through the first half of 2026, from 7.7% in 2025 to 4.3%, before stabilising through 2027. Downward pressures stem from declining international oil prices through Q1 2026 and favourable base effects. In addition, the ERP projects persistently negative aggregate demand due to restrictive real monetary conditions to have a deflationary impact despite a demand-driven and strengthening growth outlook. However, inflationary risks remain elevated in view of the uncertainties related to the agricultural output, energy and agricultural input price' increases particularly due to the war in the Middle East, and the fiscal stimulus provided by the Growth Plan. The ERP considers that the currency will be somewhat overvalued in real terms until mid-2026, contributing to tighter monetary conditions, but this overvaluation is expected to unwind over time.

Monetary policy tightening at the beginning of 2025 was followed by a gradual easing cycle as inflationary pressures subsided. In response to inflationary pressures at the beginning of 2025, the central bank raised its key policy rate to 6.5% in February 2025. As inflationary dynamics subsequently stabilised and aggregate demand remained disinflationary, the central bank shifted to a more accommodative stance from August, gradually reducing the policy rate to 5% by December. Furthermore, the National Bank of Moldova (NBM) continued to gradually reduce the required reserves ratio, to 18% for domestic currency, and to 26% for foreign currency in February 2026. Although inflation has returned to its target range of 5 ± 1.5%, inflationary risks remain elevated, driven by uncertainties, particularly related to recent energy price increases as a consequence of the war in the Middle East. There is scope to further improve the NBM's analytical capacity, particularly related to the inflation expectations survey that is regularly being conducted, however, given the limited number of participants, the results are being used only for informative purposes.

External competitiveness and current account





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The current account deficit reached 19.4% of GDP during the first three quarters of 2025, the highest in the last 16 years, reflecting a strong deterioration in the trade balance, mainly on account of a surge in imports due to strong demand as well as a sharp increase in electricity imports after Russian gas to the Transnistrian region, the right bank's main electricity supplier, was cut off[3]. The larger goods deficit was partly offset by a services surplus, mainly from strong but slowing IT services exports. Remittances continued to play a significant role in the economy, although their share of GDP declined further to 7.6% in the third quarter of 2025. In 2025, the leu depreciated by 2.4% against the euro amid a widening trade deficit and higher import-driven foreign exchange demand, particularly for energy. Against this backdrop, in 2025 the NBM intervened with net foreign exchange sales of EUR 154.5 million to smoothen excessive exchange rate volatility and mitigate risks to external stability.

For the first time, the ERP includes a projection for the current account balance, which is expected to remain strongly negative, improving only marginally from 20% of GDP in 2025 to 19.6% in 2028. The projections appear broadly realistic, forecasting a persistently high current account deficit as import growth continues to outpace exports, with the services surplus only partially offsetting the deficit. Imports are expected to rise mainly on the back of investment-led demand, while risks to agricultural exports remain elevated. The ERP acknowledges that Moldova's current account balance continues to be structurally affected with high risks related to low agricultural exports and high imported energy prices, contributing to ongoing external imbalances. Reforms and investments under the Reform and Growth Facility are expected to increase export competitiveness over the medium term, supporting export growth and helping to reduce external imbalances. Primary income is expected to remain stable as a share of GDP, while secondary income is projected to decline slightly due to lower international grants.

The widening current account deficit has been primarily financed by net inflows of currency and deposits, trade credits and advances as well as concessional long-term loans from multilateral and bilateral donors. Foreign direct investment (FDI) inflows remained subdued, amounting to 2.5% of GDP during the first three quarters of 2025. Although FDI inflows improved slightly from 2024, they were dominated by reinvested earnings. The ERP does not forecast the capital and financial account. Official reserves reached EUR 5.1 billion in Q3 2025, equivalent to six months of projected imports, similar to last year, and remaining well above the recommended range of 100-150% of the IMF's reserve adequacy metric. Moldova's Net International Investment Position has become slightly more negative since the end of 2024 to -38.1% of GDP in 2025.

Lending to households and businesses improved strongly in 2025, supported by favourable financing conditions and broad investment promotion policies. Credit to the private sector grew by 26.1% in 2025 compared to 2024 and reached 28.2% of GDP compared to 25.5% of GDP in 2024, driven mainly by consumer loans and real estate financing. The loan-to-deposit ratio rose by nearly 10 pps to 72.2% in 2025, the highest since the start of the COVID-19 pandemic. Going forward, the ERP projects credit growth to slow to 7.2% in 2026 and 9.5% in 2027, with a decline in newly granted mortgage loans, reflecting elevated real estate prices fuelled by higher demand under the Prima Casă PLUS programme, expected to weigh on overall credit growth. Potential risks related to loans under the Prima Casă PLUS programme, which are not subject to macroprudential requirements on responsible lending warrant closer monitoring. Consumer loans are projected to remain the main growth driver, supported by continued real wage growth. While banks dominate financial intermediation, non-bank lending continued to grow, reaching 5.2% of GDP by the end of Q3 2025, up by 0.4 pps from 2024.

[3] Unrecorded cash remittances increase the complexity of aligning external flow and stock statistics.

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The mainly foreign-owned banking sector remained stable as it is supported by well-capitalised, liquid, and profitable banks, while the non-performing loans ratio continued to decline. As at 30 September 2025, the capitalisation ratio stood at 25.2%, down from 26.3% in 2024 due to a significant increase in lending (affecting the risk-weighted assets in the denominator of the ratio). The liquidity-coverage ratio averaged around 270%, well above both pre-2022 levels and the 100% regulatory minimum reflecting low levels of financial intermediation and financial market depth. Profitability remained strong, with return on equity rising by 1 pp. to 15.6% and return on assets by 0.1 pp. to 2.5%, mainly driven by higher interest income. Although the capital adequacy ratio declined by 1.1 pp. to 25.2% amid increased lending and risk exposure, it remains high and is considered to be supporting the banking sector's resilience. Non-performing loans (NPL) (calculated based on the national prudential definition) declined from 4.2% in 2024 to 4.1% in 2025[4], while mortgage NPLs increased from 1.4% at the end of 2024 to 4.6% by November 2025. The central bank's 2025 November sensitivity analysis and stress tests found no signs of systemic risk accumulation and confirmed banks' adequate shock-absorption capacity. The banking sector remains concentrated, with the five largest banks holding almost 90% of total assets.

Table 2:
Moldova - financial sector indicators

	2021	2022	2023	2024	2025*
Total assets of the banking system (EUR million)	5 666.9	6 601.5	7 833.7	8 837.6	9 610.4
Foreign ownership of banking system (%)	88.6	88.9	88.9	70.3	86.2
Credit growth (%, change)	23.5	9.3	3.7	26.5	26.1**
Deposit growth (%, change)	13.1	5.4	19.9	13.4	9.3***
Loan-to-deposit ratio (end of period)	62.6	64.9	56.1	62.6	72.2
Financial soundness indicators (%, end of period)					
- non-performing loans to total loans	6.1	6.4	5.6	4.2	4.1
- regulatory capital to risk-weighted assets	25.9	29.3	29.9	26.3	23.3
- liquid assets to total assets	48.5	49.6	54.5	48.1	41.1*
- return on equity	12.3	17.0	16.2	14.8	16.9
- foreign exchange loans to total loans	26.5	30.5	25.8	21.7	19.8

*data is presented at the situation of 31 December 2025.
**26.1% represents banking credit growth in EUR, and 29.0% – in MDL.
*** 9.3% represents banking deposit growth in EUR, and 11.9% – in MDL.
Sources: Economic Reform Programme (ERP) 2024 and 2025, National Bank of Moldova

3. PUBLIC FINANCE

The 2025 fiscal deficit amounted to 4% of GDP, lower than the 5% of GDP target and broadly unchanged from the previous year's outturn, mainly due to a persistent under-execution of expenditure. At the same time, overall revenue rose by 1.3 pps of GDP compared to 2024, in line with the planned targets. The budget was revised three times in 2025 to account for the additional EU grant support of about 1% of GDP to mitigate the impact of the energy price increase at the beginning of the year as well as the disbursements under the Growth Plan amounting to 1.6% of GDP. These revisions, when assessed jointly, brought about additional planned spending of 2% of GDP, of which about 0.5% of GDP was for capital spending, mainly for road and rural infrastructure. Current spending included higher social benefits, notably

[4] Under the International Financial Reporting Standards (Stage 3), as at 30 September 2025, NPLs had fallen to 1.6% down by 0.5 pps. since 2024.

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the untargeted in-bill electricity support and one-off transfers, subsidies to SMEs and farmers, higher public sector wages, and environmental projects.

Both current and capital expenditure were under-executed compared to plans in the supplementary budget while revenues slightly exceeded expectations thanks to the stronger than expected economic recovery. Personnel expenditure increased by more than 13%, driven by an increase in the minimum wage, the increase of reference values for public salaries, and higher salaries for teachers and medical professionals as well as the delayed payment of 2024 bonuses in 2025. In addition, grants and subsidies, particularly to agricultural producers and for spending on road maintenance, rose significantly by 30%, while social benefits increased by 15.2%, reflecting annual indexation, energy support payments as well as temporary support measures for specific groups. At the same time, execution of capital spending fell short by about 0.3 pps of GDP reaching 3.3% of GDP, up less than 0.1 pp of GDP compared to 2024, largely due to delays in foreign-financed investment projects. Capital investment rose from 1% to 1.2% of GDP mainly due to improved execution of local projects[5]. Tax revenue growth was supported by a 14.8% increase in the yield of the personal income tax, reflecting the recovery of the labour market and rising real wages. Similarly, health and social contributions increased by 13%. VAT collection increased by 12% benefiting from robust domestic demand and strong import growth, while non-tax revenues rose by more than 24.6%, notably due to higher receipts from dividends, fees and sanctions, while grants increased by a total of 80% due to the high EU energy support. The ERP does not provide an overall quantitative estimate of fiscal measures introduced in 2025. The nature of the measures and the reported quantitative impacts suggest that the introduction of new deductions and expenditures has been partly offset by measures increasing revenue collection.

Table 3:

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

	2024	2025	2026	2027	2028	Change: 2025-28
Revenues	34.1	35.4	35.3	35.3	35.3	-0.1
- Taxes and social security contributions	31.6	32.3	33.1	33.4	33.6	1.3
- Other (residual)	2.5	3.1	2.2	1.9	1.7	-1.4
Expenditure	38.0	40.4	41.0	40.8	39.5	-0.9
- Primary expenditure	36.6	39.2	39.3	39.1	37.8	-1.4
of which:						0.0
Gross fixed capital formation	1.0	1.0	1.4	2.0	1.8	0.8
Consumption	:	:	:	:	:	:
Transfers & subsidies	15.6	16.2	15.2	14.9	14.5	-1.7
Other (residual)	20.0	22.0	22.7	22.2	21.5	-0.5
- Interest payments	1.4	1.3	1.7	1.7	1.6	0.3
Budget balance	-3.9	-5.0	-5.7	-5.5	-4.2	0.8
Cyclically adjusted	-3.2	-4.4	-5.3	-5.4	-4.7	-0.3
Primary balance	-2.5	-3.8	-4.1	-3.8	-2.5	1.3
- Cyclically adjusted	-1.8	-3.2	-3.7	-3.8	-2.8	0.4
Gross debt level	38.1	37.2	41.8	45.3	46.0	8.8

Sources: Economic Reform Programme (ERP) 2026, Commission calculations.

[5] Capital investments fall under Code 391 in the National Public Budget. This is defined as expenditure aimed at reconstruction, expansion, restoration of existing fixed assets and creation of new fixed assets. Compared to the broader concept of capital spending it does not include maintenance, repairs or increase in the value.

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The ERP's medium-term fiscal strategy projects the deficit to widen further to 5.7% of GDP in 2026, driven mainly by higher capital spending, before gradually narrowing to 4.2% of GDP by 2028, though the ambitious capital spending plans will require significant implementation effort. The decline in the fiscal deficit towards the end of period covered by the ERP is supported by expenditure growing slower than nominal GDP growth and improved revenue collection. Interest expenditures are expected to rise by 0.3% of GDP over the period, while the primary balance is set to improve. The ERP expects fiscal policy to remain expansionary in 2026, with both the cyclically adjusted and structural balances deteriorating. The stance turns broadly neutral in 2027 and contractionary in 2028, as expenditure is set to grow below the growth rate of potential output. By 2028, social transfers are projected to decline by 1.4 pps of GDP, subsidies by 0.3 pps, and goods and services, and personnel expenses by 1 pp of GDP while capital investment rises by 0.8 pps of GDP. The outlook for primary expenditure as a share of GDP is projected to be significantly higher than both last year's ERP forecast and the pre-Growth Plan expenditure level in 2024, reflecting additional Growth Plan spending of around 7% of GDP. Overall revenues remain broadly stable as a share of GDP with shifts in the composition supported by the economic recovery and sustained real wage growth. Taxes are set to increase by 0.6 pps of GDP and social contributions by 0.7 pps. This is expected to be offset by a decline in other revenues of 1.4 pps, mainly on account of lower grants by international partners. In 2026, fiscal measures are expected to have a marginally negative impact on revenue collection, while the ERP does not provide the quantitative impact of medium-term measures explained qualitatively in the document, notably of the tax reform, public salary reform and inclusion of extra-budgetary public institutions in the general government sector. Compared with last year's ERP, the deficit will be over 2 pps higher in 2026–2027, largely due to additional Growth Plan-related spending, which will partly be offset by higher revenues supported by the economic recovery and positive labour market developments. This year's programme strongly hinges on the government's capacity to significantly increase execution rates of initial investment plans.

The 2026 budget targets a fiscal deficit of 5.7% of GDP, accommodating higher capital spending supported by the Growth Plan. The budget was adopted on 29 December 2025, later than the envisaged budgetary timeline.

BOX 1: THE BUDGET FOR 2026

The government approved the draft 2026 state budget on 4 December 2025, which was then adopted on 29 December. According to the annual budget calendar, the government is supposed to present the draft budget by 15 October, and the Parliament should adopt it by 1 December. The national public budget targets a fiscal deficit of 5.7% of GDP and a primary deficit of 3.8% of GDP.

The ERP includes information about several revenue measures for 2026 but does not provide their quantitative fiscal impact. This includes an increase in the VAT registration threshold for businesses, expanded deductibility of employer expenses for rural tourism and holiday vouchers, new personal income tax (PIT) expenditures for education and training, VAT exemptions and reduced rates for imports of medical devices and afforestation services, and revised eligibility criteria for farmers under the VAT refund scheme as well as revised and simplified excise and customs procedures.

The budget also provides for additional Growth Plan- related current and capital spending and several public salary measures. However, it does not yet include the additional costs required for the comprehensive public salary reform with some first steps expected to come into effect in September.

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Table: Quantitative impact of selected 2026 measures presented in the ERP

Temporary/permanent Revenue measures*	Temporary/permanent Expenditure measures**
• One-year extension of zero income tax on SME's reinvested profits (-0.45% of GDP)	• Temporary and permanent public salary measures (0.5% of GDP)

* Estimated impact on general government revenues.

** Estimated impact on general government expenditure.

Source: ERP

Revenues in 2026 are projected to be 35.4% of GDP, remaining broadly unchanged as a share of GDP compared with 2025, while increasing by about 6.3% in nominal terms. Revenue growth is mainly driven by higher tax and social and health-insurance contribution receipts, reflecting the strengthening of real growth, and increased employment. This is offset by a sharp decline of grants, down by 50% to 0.6% of GDP, reflecting the exceptionally high budget support of EUR 190 million received from the EU energy support package in 2025. The revenue outlook for 2026 accounts for mostly permanent measures that appear to narrow the tax base rather than broaden it. Key measures include a one-year extension of the zero income tax on SME's reinvested profits at an estimated cost of 0.45% of GDP, and an increase in the VAT-registration threshold for businesses from MDL 1.2 million to MDL 1.7 million (~ EUR 60000 - 85000). Additional measures include expanded deductibility of employer expenses, new PIT expenditures for education and training, VAT exemptions and reduced rates for medical devices imports and afforestation services, and revised eligibility criteria for farmers under the VAT-refund scheme. These measures are only partly offset by the postponement of VAT on car imports while maintaining the current excise regime (with an overall revenue-enhancing impact of around 0.6% of GDP) as well as efforts to strengthen tax and customs administration, for which the ERP does not provide quantitative revenue estimates. Nor does the ERP provide additional information or the quantitative impact of the newly introduced simplified tax regime for freelancers (with a 15% flat tax rate covering both the income tax and health and social security contributions).

Expenditure in 2026 is projected to be 41.1% of GDP, up by 1.7% of GDP compared with 2025, corresponding to a 10.8% nominal increase. This expansion is driven primarily by a strong increase of capital spending and, to a lesser extent, higher current expenditure. Capital expenditure is set to rise to 4.3% of GDP, an increase of 1 pp, with capital investments growing by almost 25%. Current expenditure is expected to increase more moderately, by about 0.6 pps compared to 2026, reaching 36.8% of GDP, broadly in line with last year's initial plans. The budget includes several salary policies, including higher reference values, an increase of the minimum wage, the adjustment of staff limits and one-off payments for unused leave accounting for an additional 0.5% of GDP. Interest expenditure is set to increase by 0.4% of GDP, reflecting higher debt levels and a greater reliance on domestic borrowing, mainly for liquidity management. By contrast, subsidies decline slightly as a share of GDP. Social benefits decline by almost 0.8 pps mainly reflecting the phase-out of the in-bill electricity compensation payments introduced in 2025 while targeted support for gas and heating remains in place for the 2025/26 heating season. Growth-Plan-related

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expenditure is set to amount to about 1.5% of GDP, with roughly 0.6% of GDP corresponding to capital spending, including NIP investment, while around 0.9% of GDP is allocated to current expenditure supporting the implementation of the Reform Agenda.

In 2027 and 2028, the ERP projects the fiscal position to gradually improve towards the end of the programme horizon, while allocating the largest share of Growth Plan spending to the same years. This adjustment will take place against broadly stable revenues, projected to be around 35.3% of GDP in 2027 and 2028. The stable revenue ratio masks notable compositional changes, with a decline in other revenues of about 0.5 pps of GDP largely offset by higher social contributions of 0.4 pps of GDP and increased indirect and direct taxes, supported by the economic recovery, sustained import growth and favourable labour market developments. On the expenditure side, total spending is projected to decline by about 1.5 pps of GDP, from 41.0% of GDP in 2026 to 39.5% in 2028. This reflects a decline in social transfers of around 0.6 pps of GDP and a decline in goods and services and personnel expenditure of around 1 pp. of GDP, partly offset by a further increase in capital investment of about 0.4 pps of GDP. The medium-term outlook does not yet incorporate the quantitative impact of several major planned measures, including a comprehensive tax reform, a public salary reform, and the effects of higher reporting requirements for public institutions, including on the revenues of partially state-financed institutions.

The expenditure composition and overall fiscal trajectory are closely linked to the implementation of the EU Growth Plan. Around two thirds of total Growth Plan-related spending, amounting to about 7% of GDP, is projected to be executed in 2027 and 2028, with an increasing allocation to capital expenditure, reaching 1.6% of GDP in 2028 and accounting for almost half of total Growth Plan-related spending. Current expenditure will peak in 2027, in line with the implementation of the Reform Agenda. Overall, the ERP aims to allocate the main share of the projected Growth Plan-related spending to capital expenditure (around 63%) and the remainder to current expenditure required to ensure the full implementation of the Reform Agenda.

The fiscal deficits are largely funded by external concessional debt and domestic short-term borrowing. As of 30 September 2025, general government debt consisted of 62.2% external debt and 37.8% domestic debt. Short-term government debt accounts for 33.6% of the total, implying that around one third of the debt stock will mature within one year, while long-term debt constitutes the remaining 66.4%. Multilateral creditors dominate the composition of external state debt (89.6%), led by the IMF (29.0%), IDA (18.4%), EU (15.8%), and EIB (10.1%), with all other multilateral lenders accounting for shares below 10%.

The general government debt ratio reached 38.1% of GDP in 2025 and is set to increase to 46% of GDP by 2028, reflecting sizeable budget deficits. The trajectory appears broadly plausible. Gross financing needs are expected to rise and will be covered through a mix of domestic securities issuance and external financing, including continued EU and other support by International Financial Institutions. No Eurobond issuance is currently envisaged. Rollover risks remain manageable but warrant monitoring given the high reliance on external financing and short-term domestic financing, potentially tighter global financial conditions and the limited depth of the domestic investor base. The exchange-rate risk remains elevated due to the high share (62.2%) of foreign-currency-denominated debt, although mitigated by long maturities and concessional terms, while interest-rate risk is contained. The debt management strategy, anchored in the Medium-Term Public Debt Management Programme, maintains prudent risk limits and financing operations remain broadly aligned with declared objectives.

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BOX 2: DEBT DYNAMICS

Moldova

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

	2024	2025	2026	2027	2028
Gross debt ratio [1]	38.1	38.1	41.8	45.3	46.0
Change in the ratio	3.2	0.0	3.6	3.5	0.7
Contributions [2]:					
1. Primary balance	**2.5**	**2.8**	**4.0**	**3.8**	**2.5**
2. 'Snowball effect'	**1.1**	**-1.9**	**-0.9**	**-1.3**	**-1.7**
Of which:					
Interest expenditure	1.4	1.2	1.7	1.7	1.6
Growth effect	0.0	-0.6	-0.8	-1.3	-1.5
Inflation effect	-0.3	-2.5	-1.8	-1.7	-1.8
3. Stock-flow adjustment	**1.5**	**-0.9**	**0.5**	**0.9**	**-0.1**

[1] End of period.

[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).
The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

Source: Economic Reform Programme (ERP) 2026, Commission calculations.

The general government debt ratio is projected to increase by almost 8 pps. to 46% of GDP by 2028, reflecting sizeable budget deficits. The increasing budget deficit is offset by a favourable snowball effect as well as stock-flow adjustments explained by exchange-rate developments and some marginal privatisation proceeds.

Current projections rely on increased external borrowing through the EU Reform and Growth Facility as well as continued domestic mostly short-term borrowing.

While debt is set to remain relatively low, Moldova's fiscal outlook is subject to risks, notably exchange-rate risks, contingent liabilities and fiscal risks related to indebted SOEs. Contingent liabilities stem from the Prima Casă PLUS programme, which supports real-estate transactions through loan guarantees (1.4% of GDP, up from 0.5% in 2024) and guarantees for an EBRD loan to Energocom (2.2% of GDP). The ERP expects only a portion to be drawn. Additional vulnerabilities arise from SOEs. The annual fiscal-risk analysis accompanying the annual state-budget proposal identifies two heavily indebted companies (the State Railway company and Moldelectrica with joint debt amounting to 1.1% of GDP) and several SOEs with worsening financial and operational indicators. Before its accession to the EU, Moldova is expected classify publicly controlled non-market producers within the general government sector with potential fiscal implications. Lastly, longer-term pressures come from worsening demographic trends, including declining birth rates and continued emigration, with a projected population decline of 1.7% by 2028. However, the ERP lacks comprehensive estimates for age-related public expenditures.

The ERP projects a small shift in expenditure composition from education and social protection towards growth-enhancing spending on economic affairs and general public services. Spending on economic affairs is projected to peak at 5.3% of GDP in 2027 before declining to 4.7% in 2028, still more than 1 pp. of GDP above its 2024 level. Spending on general-public services is set to increase by around 1.2 pps of GDP over 2025–2028, likely reflecting the implementation of the Reform Agenda as well as increased spending required in the context of EU integration. In contrast, spending on social protection is projected to fall by about 1.5 pps of GDP, and education expenditure to decline by around 1 pp of GDP, albeit remaining still relatively high at 5.4% of GDP (EU average: 4.7% of GDP) while outcomes remain well below the OECD average according to the latest PISA results.

In order to increase spending efficiency, two spending reviews have been conducted since 2022, but the lack of endorsement has limited their implementation. The 2023 health-spending review was not endorsed, but partial implementation resulted in savings of around MDL 150 million by early 2025. The 2024 social-protection review was also not endorsed. However, savings were achieved under the RESTART reform,

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including a 65% reduction in beneficiaries alongside improved service quality and better targeting of gas- and heating-support payments. A further increase in social security contributions helped to lower the social security contribution fund deficit from 1.8% of GDP in 2023 to 1.2% in 2025. Going forward, the deficit is estimated at 1% in 2026, further supported by ongoing efforts to formalise employment and to raise employment through active labour market policies. In addition, the largely untargeted in-bill electricity support introduced in 2025 was phased out from 1 January 2026. Currently, a road spending review is ongoing conducted by the Ministry of Infrastructure and supported by the World Bank. In December 2025, Law No 181/2014 on public finances and fiscal responsibility was amended to institutionalise spending reviews notably by integrating them into the annual budget and medium-term budgetary framework (MTBF) process and defining clear responsibilities. In addition, the methodology for spending reviews is currently being developed.

On the revenue side, the ERP sets out intentions to broaden the tax base and simplify the tax system but does not provide details or the estimated fiscal impact. A 2023-2025 tax expenditure review is to be finalised by Q1 2026, following a first review in 2022. A new freelance regime has also been adopted, with its fiscal impact yet to be assessed. The ERP does not provide information on progress in improving tax compliance. Looking ahead, a fiscal package is planned for June 2026 and a comprehensive tax reform for 2027 to support broadening the tax base and competitiveness, but concrete measures and the fiscal impact are yet to be specified.

The escape clause for Moldova's fiscal rule continues to be in place for longer than permitted, thereby weakening the rule's credibility and its effectiveness as a fiscal anchor. The 2.5% of GDP fiscal rule (excluding grants) is not respected, with the escape clause having been active since 2020. The fiscal deficit is projected to be 5.7% in 2026 and to remain above the rule through 2028, mainly due to EU Growth-Plan spending, which is not covered by the escape clause; compliance would therefore require significant cuts or revenue measures, considered by the ERP as neither feasible nor supportive of recovery.

Preparations to establish a Fiscal Council are advancing. In 2025, the Ministry of Finance, with technical support from the Netherlands, published an assessment recommending the creation of an Independent Fiscal Institution (IFI) that focuses on assessing of macroeconomic projections, monitoring budget execution, and ensuring consistency with fiscal targets. Amendments to Law No. 181/2014 are planned by the end-of 2026 to provide the legal basis for the creation of an IFI, with secondary legislation in line with the EU Directive 2011/85/EU, EU Regulation 2024/1263 and EU Regulation 2024/1263 as well as institutional capacity building to follow by the end of 2027.

Substantial progress has been made in forecasting and in alignment with ESA 2010, but medium-term fiscal planning still lacks analytical depth and institutional capacity. Forecast coverage in the ERP has improved, including the cyclically adjusted balance, current account and labour market projections. However, forecasts are not subject to regular independent *ex post* evaluation. The 2026–2028 MTBF was not approved in 2025 and, while MTBFs, generally, present three-year macro-fiscal projections, it lacks a detailed policy impact assessment, long-term debt sustainability analysis, and a breakdown by main revenue and expenditure items. An inter-ministerial working group was established in early 2026 to align national government finance statistics with ESA 2010 standards, including the identification of entities to be classified within general government.

BOX 3: SENSITIVITY ANALYSIS

The ERP presents the dynamics of key fiscal indicators in 2026-2028 under two scenarios: baseline and pessimistic, in line with the scenarios presented in the macroeconomic outlook and accounting for

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different levels of the Growth Plan implementation. It does not provide the key fiscal indicators for the optimistic scenario.

The two scenarios are based on different economic growth assumptions for each year. In particular, the real GDP growth rates that underpin the pessimistic scenarios are by 0.5-0.8 pps lower than the baseline growth scenario and are characterised by a lower level of implementation of the Reform Agenda, hence, lower levels of EU financial assistance and implementation of investment projects at around 30% of planned levels. Compared to the baseline, budget revenues are projected to be 0.3-1.5 pps of GDP lower, while total expenditure would decline by 0.4-0.7 pps of GDP, mainly reflecting a significant reduction in capital spending. The budget deficit is projected to narrow by around 0.4-0.7 pps of GDP, while remaining at a relatively high level. If this scenario materialises, the ERP highlights the need for a prudent and flexible fiscal policy focused on increasing the level of public investment, protection of essential social expenditure, and strengthened revenue collection amid elevated external risks.

4. ADDRESSING STRUCTURAL CHALLENGES – THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK

Following the Commission's adoption of a Growth Plan for Moldova in October 2024 to support the country's economic convergence and accelerating the accession process, the Reform and Growth Facility for Moldova entered into force on 22 March 2025, and Moldova adopted the Reform Agenda on 7 May 2025**.** The plan includes enhanced access to the EU single market for Moldova and a Reform and Growth Facility (EUR 385 million in grants, EUR 1.5 billion in loans). The funds are expected to be disbursed in 2025-2027 as budget support and investments are conditional on the implementation of reforms that are to be set out in a Reform Agenda prepared by Moldova and positively assessed by the Commission. Under the Reform and Growth Facility, the European Commission disbursed EUR 18.9 million to Moldova in September 2025 and EUR 270 million in pre-financing in July 2025. The Commission approved the disbursement after having assessed that Moldova has fulfilled four reform indicators tied to the bi-annual payment schedule under the Reform and Growth Facility. Key achievements include the development of open and competitive electricity and gas markets, as well as measures to guarantee energy security. In March 2026, the second tranche of EUR 189 million was disbursed (of which EUR 16 million in grants), following the fulfillment of 24 reform steps, and with two energy-related steps delayed.

This chapter summarises the country's key structural challenges, while providing an overview of how the Reform and Growth Facility addresses those and shapes the macroeconomic and fiscal outlook.

Volatile GDP growth in recent years and a widening current account deficit highlight that Moldova's economy remains vulnerable to external shocks, largely due to its weak export base, a high dependence on agriculture, combined with limited preparedness for climate change. Moldova's income per capita is just under a third of that of the EU, having increased by more than 10 pps over the previous decade, although the crises in recent years have slowed the pace of convergence. Persistent structural weaknesses, and geopolitical factors, continue to be an obstacle for domestic and foreign investments and productivity gains across sectors. The Reform and Growth Facility is an important tool to support the acceleration of high-quality reforms tackling key structural challenges, increase much needed investments and boost economic growth.

A large informal economy and slow progress on the reform of state-owned enterprises weigh on the quality of the business environment. The state's influence in some economic sectors remains high through a dominance of SOEs that hinder a level playing field. SOEs, including those with partial state ownership, continue to dominate some competitive sectors in Moldova's economy, including transport and manufacturing. While the number of SOEs has declined by around 20% since 2019, primarily due to

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liquidation and restructuring efforts, their productivity remains significantly lower than that of private sector firms. At the same time, progress on implementing the reform of the sector remains limited. Moldova committed to prepare for the privatisation of several SOEs and advance on the governance reform under the Reform Agenda. Regarding the fight against informality, the reform of the State Labour Inspectorate has already yielded some positive results, including through steps under the Reform Agenda, with a significantly higher number of inspections and successful cases of formalised employment. In 2025, the number of inspections increased from 80 in 2021 to 10000 with a formalisation rate of 90%. Furthermore, Moldova has advanced the implementation of the programme to combat undeclared work by launching an online platform that allows individuals to anonymously and formally report suspected cases of undeclared work.

Shortages of skilled labour continue to constrain competitiveness while the government has taken steps to improve the quality of education and to expand vocational training. Low labour market participation reflects, among other things limited female employment, and seasonal work abroad as well as a possible under recording of high levels of informal employment. At the same time, unemployment remains well below that recorded in other candidate and potential candidate countries. According to the 2024 World Bank Enterprise Survey, nearly 35% of firms cite an inadequately educated workforce as a major constraint, above the 25% regional average. Nonetheless, the share of employers rating graduates as well-prepared rose from 28% in 2021 to 36% in 2024. To address skill gaps, the authorities have expanded dual vocational educational training (VET) that yield better labour market outcomes than traditional VET and have promoted the internationalisation of higher education. Under the Reform Agenda, the government further committed to improve the quality of education, expand active labour market policies and increase childcare to boost labour market participation and bridge the skills gap.

Investment needs, notably in quality infrastructure, remain substantial despite significant efforts to improve energy security, particularly through infrastructure investments and domestic renewable-energy production. Energy security is being strengthened by developing new cross-border infrastructure to expand electricity imports from Romania and by scaling up generation of renewable energy in Moldova. In spring 2025, renewables covered around 36% of electricity consumption, while during the summer months they were even able to meet total demand for short periods. The Reform Agenda seeks to enhance energy security by reducing reliance on energy imports, diversifying energy suppliers and supply routes, as well as improving energy efficiency measures. Transport and other infrastructure remain underdeveloped and highly vulnerable to climate shocks. The sizeable support received from the Growth Plan in 2025 (1.6% of GDP) prioritised different policy areas, such as subsidies and social transfer, while a more significant increase in capital spending is expected only in 2026 and beyond using additional funding to increase investments in infrastructure and energy security. Moldova committed to further improve public investment management.

FDI remains low, while industry and exports continue to be dominated by low-value-added production. FDI remained subdued, amounting to 2.5% of GDP during the first three quarters. Although FDI inflows improved slightly from 2024, the amount of fresh investments coming into Moldova is limited as much of the FDI was accounted for by reinvested earnings from existing investors. The Reform Agenda provides for several FDI-promotion activities while supporting reforms to improve the business environment, e.g. through deregulation efforts.

While the ERP includes an assessment of the key reforms and investments under the Growth Plan, the total impact on the macroeconomic scenario is not identified separately from the baseline projection without the Plan. The growth impact of structural reforms is presented separately for reforms of private sector development, education and the labour market and improved infrastructure. Based on existing literature, the growth impact of the reforms is assessed through expected contributions to investment, productivity, labour market participation, or resilience to climate shocks over the period of the programme. The results of the assessment are implicitly reflected in the ERP's macroeconomic and budgetary outlook**.** While the ERP does not include an explicit analysis of the Growth Plan's fiscal impact, it

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outlines an outlook for Growth-Plan-related spending, which is incorporated into the medium-term fiscal framework and is expected to widen the fiscal deficit, primarily due to higher capital expenditure. The revenue impact is captured indirectly through the macroeconomic projections embedded in the baseline scenario.

Firstly, reforms to support private sector development, aimed at increasing competitiveness and integration into global value chains are projected to contribute up to 0.8 pps to growth in the long term. The reforms aim at increasing effectiveness of and expanding access to finance programmes under the SME Agency ODA, and are projected to generate between 8 to 18% of new business loans, contributing 0.1 to 0.3 pps to GDP growth. Similarly, the introduction of an EU-aligned state-aid scheme to provide support to large companies is expected to raise the investment ratio by 2.7 pps, adding 0.3 to 0.5 pps to growth.

Secondly, reforms that help address the skills mismatch and increase labour market participation are estimated to contribute to growth notably through raising female employment. Increasing the number of students in dual-vocational education programmes and the creation of 5000 additional childcare places are expected to raise female employment by 1.1 pps. and overall labour participation by 0.3 pps. by 2027 compared to 2024.

Thirdly, reforms aimed at strengthening infrastructure are expected to increase public investment by 14% annually between 2026 and 2028. Policies to enhance connectivity, particularly in telecommunications and digital infrastructure, are projected to provide a modest short-term boost to GDP growth of 0.01 to 0.02 pps., with more substantial effects materialising in the long run. Improvements in public investment management, supported by the public investment reform, are expected to raise public investment by an annual average of 14% until 2028. Finally, measures promoting the green transition and increased energy supply are projected to add 0.1 to 0.2 pps. to GDP growth by 2028, with significantly stronger positive effects anticipated in the long run.

In addition, higher public investment is projected to have a significant short-term impact on growth. The assessment presented in the ERP appears to only capture the direct effects of investments in the year of the implementation of the project, i.e. without assessing the potential long-term productivity gains and crowding-in of private investment.

According to estimates, the successful execution of these projects is expected to raise GDP growth on average by 0.7 pps in 2026-2028, assuming 70% implementation under the baseline scenario. The estimate rises to 1.1-1.2 pps in the optimistic scenario of full implementation of funds. The estimates take account of high import leakage on investments. Investments in transport are projected to make the largest contribution (about 0.3 pps), followed by the environment, energy, and regional development sectors (around 0.1 pp). The effectiveness of investment projects will largely depend on Moldova's ability to prepare, plan, manage, and utilise them efficiently.

Overall, the assessment indicates that the Growth Plan's initial investment efforts provide measurable short-term contributions to GDP across these sectors, while structural reforms, if effectively implemented, are expected to lay the foundation for medium- and long-term gains in productivity, employment, and resilience. The fiscal impulse stemming from both capital and current Growth Plan related expenditure is projected to be 1.5% of GDP in 2026, 2.3% in 2027, and 2.1% in 2028. The assumptions underlying Growth Plan spending appear broadly realistic and reflect an appropriate level of resources to ensure the effective implementation of the Reform Agenda and, hence, securing financial support through the Growth Plan. An additional sensitivity analysis examines a pessimistic scenario in which only 30% of the Growth Plan is implemented. This analysis assesses the implications for both expenditure and revenue and concludes that lower spending would dampen GDP growth, ultimately resulting in weaker revenue performance.

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Growth Plan spending, % of GDP	**2025**	**2026**	**2027**	**2028**
Current expenditure	0.2%	0.9%	1.0%	0.5%
Capital expenditure	0.7%	0.6%	1.3%	1.6%
Total	0.9%	1.5%	2.3%	2.1%

ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2025

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

The following table presents the Commission's assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and the Regional Partners at ministerial level on 13 May 2025.

2025 policy guidance (58.3%) [6]	**Summary assessment**

[6] For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes. This is available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country- assessments_en.

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PG 1: Pursue fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while increasing public investments to boost the growth potential, notably through the Growth Plan while applying the new single project pipeline to all new investment projects.	There was **partial implementation** of PG 1: 1) **Partial implementation**: in 2025, the fiscal deficit reached 4% of GDP, broadly in line with the 2024 outturn of 3.9% of GDP and lower than the 5% target in 2025 set out in the third supplementary budget. The result below the target mainly reflects the under-execution of capital expenditure as well as lower current expenditure. The additional grant and Growth Plan financial assistance brought about additional planned spending of 2% of GDP, of which only about 0.5% of GDP for capital spending, mainly for road and rural infrastructure. Current spending included higher social benefits, notably the untargeted in-bill electricity support and one-off transfers, subsidies to SMEs and farmers, higher public sector wages, and environmental projects. The debt-to-GDP ratio is projected to remain stable at 38.1%, supported by a favourable snowball effect and a negative stock-flow adjustment explained by the debt-reducing effect of exchange rate appreciation and marginal privatisation proceeds. Moldova's medium-term fiscal strategy, as outlined in the ERP, projects the deficit to widen further to 5.7% of GDP in 2026, driven mainly by higher capital spending supported by the Growth Plan funds, before gradually narrowing to 4.2% of GDP by 2028. Capital investment, in the narrow definition used by Moldova, increased from 1% to 1.2% of GDP. At the same time, the broader capital spending increased by less than 0.1 pp. of GDP compared to 2024 and fell short of the plan, reaching 3.3% of GDP against a projected 3.6% in the supplementary budget. This implies that the sizeable financial support from the Growth Plan (1.6% of GDP) did not lead to a substantial increase in investments or broader capital spending in 2025. The 2025 budget included 14 investment projects assessed as 'eligible' by the single project pipeline. In addition, 5 projects assessed as still 'under appraisal' were included. In the 2026 budget, 3 'eligible' and 26 projects considered still 'under appraisal' were included. Under the Regulation on

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Mitigate risks to the public finances and to that end, prepare an analysis on the fiscal impact of including major publicly controlled non-market producers in the general government sector. Further strengthen the capacity to produce macroeconomic and fiscal forecasts, particularly in the areas of the labour market and the external sector.	Public Capital Investments 684, only projects above MDL 200 million (~ EUR 10 million) deemed 'eligible' should be included in the budget to ensure transparency as well as full and timely execution. This now also includes projects financed by specialised funds, including the Road and Regional Development Fund). 2) **Limited implementation:** in the context of reclassifying the public sector and aligning to ESA 2010, a working group under the National Bureau of Statistics was established in January 2026 with representatives from the Ministry of Economy, the Ministry of Finance and the central bank. The National Bureau of Statistics has begun compiling a list of institutions to be considered part of general government. In this context, a market/non-market test is planned to identify non-market producers among existing SOEs to be included in the general government sector. An analysis assessing the potential fiscal risk of including major publicly controlled non-market producers in the general government sector has not yet been prepared. 3) **Full implementation:** the ERP now includes a forecast of the cyclically adjusted fiscal balance, as well as a projection of the current account balance as part of the balance of payments and the labour market forecast over the programme's horizon. In addition, in the context of financial sector developments, the ERP provides for the first time a forecast for credit growth in 2026 and 2027. Going forward, Moldova needs to further develop tools and capacities to prepare a debt sustainability analysis.
PG 2: Continue to broaden the tax base through phasing out of tax expenditures and increasing tax compliance in line with the Public Finance Management Strategy 2023–2030.	There was **limited implementation** of PG 2: 1) **Limited implementation**: although some tax expenditures were phased out in 2025, new expenditures were introduced in 2025, resulting in an overall limited reduction in the number of tax expenditures or corresponding revenue gains. Furthermore, additional tax expenditures for PIT and CIT were introduced in 2026 and the zero-

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	income tax on SME's reinvested profits was extended by another year until the end of 2026. In addition, a new freelance regime entered into force in 2026, with its fiscal impact yet to be assessed. The ERP does not provide information on progress in improving tax compliance.
Continue the implementation of the results of the health sector's spending review, complete and publish the review of social protection and start implementing its results and review all Entrepreneurship Agency (ODA)'s programmes supporting businesses' access to finance with a view to improving their efficiency and effectiveness.	2) **Partial implementation**: the 2023 health spending review was not endorsed, but partial implementation generated savings of around MDL 150 million by beginning of 2025. The 2024 social protection review was also not endorsed, though savings were achieved under the RESTART reform, including a 65% reduction in beneficiaries, improved service quality, and better targeting of energy support; higher social security contributions brought about by the economic recovery and formalisation efforts reduced the social security fund deficit from 1.8% of GDP in 2023 to 1.2% in 2025 (and an estimated 1% in 2026). Untargeted in-bill electricity support introduced in 2025 was phased out from 1 January 2026. Amendments to the Law on Public Finances and Fiscal Responsibility (No 181/2014) in December 2025 institutionalised spending reviews within the annual budget and MTBF process, with a methodology currently under development. No dedicated review was conducted of the ODA's existing access to finance programmes with respect to efficiency and fiscal impact.
Implement the results of the state-owned enterprise 'triage' exercise based on the recently approved programme and implement recent governance reforms related to the professionalisation of boards and the publication of annual audit reports of state-owned enterprises.	3) **Limited implementation:** regarding the implementation of the triage exercise, 3 out of 55 enterprises that are classified to be restructured, have been reorganised into public institutions. Investment profiles for 5 SOEs are currently being developed, 2 profiles are in preparation and 3 are selecting valuation companies. None of the 10 SOEs to be liquidated by December 2026 have been liquidated yet due to liabilities exceeding assets, with the complex process ongoing in coordination with relevant stakeholders. The selection of independent board members was completed for the boards of five entities. The 2024

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	financial statements and audit reports were published on the website of the Public Property Agency
PG 3: Ensure a sufficiently tight monetary policy stance to bring inflation back to the target band. underpinned by a thorough assessment of potential second-round effects and improve the reliability of the results of the inflation expectations survey.	There was **substantial implementation** of PG 3 1) **Substantial implementation**: the central bank has carefully monitored the evolution of price dynamics. It reacted appropriately beginning of 2025 in response to inflationary pressures due to rising energy prices. The inflation expectations survey is conducted regularly, and its results are published on the central bank's website. However, given the limited number of participants, the results are being used only for informative purposes.
Continue to strengthen central bank independence, notably through strengthening the dismissal and appointment procedures and reforming its governance and decision-making structure by adopting the respective amendments to the central bank law	2) **Substantial implementation:** the adoption of the amendments to the central bank law aimed at improving governance and decision-making structures has passed the first reading in parliament on 27 November 2025. The Parliament intends to adopt the law at the beginning of April following consultation with the IMF and the European Commission. The central bank law will be further discussed in the context of the closing benchmarks under Chapter 17 to ensure full alignment with the EU acquis.
Complete the review of responsible lending practices and implement its results.	3) **Full implementation:** the review was completed. Based on the review, the Executive Board of the National Bank of Moldova adopted Decision No. 60 on 12 March 2026 approving the Regulation on responsible consumer lending, applicable to both banking and non-banking financial institutions. The new regulation will enter into force 3 months from the date of publication in the Official Gazette of the Republic of Moldova and will replace the current responsible lending framework applicable to banks and non-bank credit organisations.

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