

I. COUNTRY REFORM PROGRESS

The country is recovering from the adverse spillovers from Russia's war in Ukraine and energy price shocks, with growth expected to be 2.6 percent in 2024. Inflation has also significantly declined and the annual inflation rate in 2024 is expected to be around 4.6 percent. The recovery in economic activity has helped bolster tax revenue and lower the fiscal deficit, expected to be 4.4 percent of GDP in 2024. Strengthening tax revenue and efficiency in spending remain important to maintain sufficient fiscal space to respond to economic challenges that may arise from geopolitical risks.

In FY25, Moldova's reform progress includes comprehensive reviews of tax expenditures (TEs) supported by FAD, which provided models and staff training for the authorities to update TEs analysis. To address the constrained fiscal space, inefficient preferential tax measures were identified for elimination based on cost-benefit analysis. Building on this capacity development (CD), the authorities are planning to streamline tax expenditures starting in January 2026. The State Tax Service (STS) also advanced its tax administration by enhancing taxpayer education, adopting international standards like the Base Erosion and Profit Shifting (BEPS) framework, and further developing the compliance risk management (CRM) program. For the remainder of FY25, efforts will focus on revising VAT legislation and improving tax rules applicable to multinational enterprises, and addressing challenges in risk-based audits and data management.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: FAD has been supporting a comprehensive review and quantification of Moldova's TEs, producing relevant models, and training staff on these models. The authorities now have the tools and training needed to update TEs and to cost policy proposals. Further, the framework for cost-benefit analysis of tax expenditures was built to support the authorities in identification of inefficient tax expenditures. Based on this analysis, the authorities are planning to streamline the inefficient preferential tax regimes starting in January 2026. In addition, CD was delivered on international tax issues related to Moldova's recent membership in the Inclusive Framework of BEPS.

Next Steps: For the remainder of FY25, FAD's focus is on assisting the authorities in revising the legal tax framework, in particular the VAT legislation, to align it with EU tax *acquis*, and enhancing the design of international tax rules, including the ones related to the EU's anti-avoidance directive (ATAD).

RM II : Revenue Module II – Revenue Administration

Key Progress in FY25: The STS made notable progress in modernizing, including enhanced educational efforts to assist taxpayers in understanding their obligations; adoption of international standards like the BEPS framework to address tax avoidance; developing the CRM program— although it currently drives a small percentage of audit activities; implementation of good practices such as segregation of duties and integrity measures like annual asset declarations; etc. Plans are also in place to re-establish the large

taxpayer office (LTO) to focus on complex tax risks, including high wealth individuals and multinational corporations; and secure and implement modern IT systems.

Next Steps: Several challenges remain. Follow up assistance will focus on strengthening risk-based audits, re-establishing the LTO, and improving IT systems for better data management and performance measurement.

III. LOGICAL FRAMEWORK

Country – Moldova		
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 0
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	2 partially achieved	The authorities have finalized a comprehensive review and are prepared to phase out some tax expenditures (to increase revenue by 0.2 percent of GDP). This is in line with meeting the IMF structural benchmark—“Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis”—due by the end of December 2024. Further, a time path to implement a new VAT designed to comply with the EU acquis is developed and agreed upon.
Improved distributional fairness across taxpayers due to amended tax rates or base	2 partially achieved	Capacity-building efforts have enhanced the authorities' ability to conduct a comprehensive review and analyze the distributional consequences of tax policy.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	2 Partially Achieved	The STS has made significant progress in strengthening tax CRM through various initiatives. It has adopted a risk-based approach, prioritizing high-risk taxpayers and sectors to enhance audit efficiency. Capacity-building efforts for STS staff, including training in risk assessment, have improved compliance effectiveness. The introduction of advanced data analytics tools allows the tax authority to analyze taxpayer data and identify non-compliance patterns strategically. Enhanced information sharing between government agencies supports comprehensive risk

		assessment. Moldova has developed tailored compliance strategies for different taxpayer segments and collaborated with international partners for technical assistance. Additionally, public awareness campaigns have been launched to encourage voluntary compliance among citizens. But this is all work in progress.
Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 2
Outcome	Rating	Narrative
The integrity of the taxpayer base and ledger is strengthened	3 Mostly Achieved	The STS has implemented several measures to enhance the integrity of the taxpayer register. Key initiatives include the digitalization of the register for real-time updates, regular data validation through cross-checking with various sources, and strengthened registration procedures to prevent fraud. The STS also has improved communication with taxpayers to ensure they understand their responsibilities for maintaining accurate information. Periodic audits and compliance checks are conducted to monitor the register's integrity, alongside collaboration with other government agencies for better data sharing.
Audit and other verification programs more effectively ensure accuracy of reporting	2 Partially Achieved	The evaluation of the audit program was completed with recommendations for improvement made in several areas, such as the need for a more flexible legal framework, a stronger focus on risk-based audits, and addressing significant staff vacancies. Overall, while the STS has made progress in modernizing its audit tax program, there are still several areas that require improvement to achieve optimal results.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External climate/conditions		
RM I: Risk that external events and influences create a more challenging environment for implementation of reforms.	Low	Program design and execution allows for sufficient flexibility to adjust activities in the course of adverse events.
RM I: Resurgence of pandemic or other global crises hinders CD delivery and changes CD priorities.	Low	Build on significant progress achieved with remote delivery of CD in Moldova.
RM II: Impact of COVID-19 in the delivery of the planned CD activities	Medium	Activities can be delivered remotely

Description	Rating	Mitigation Measures
Political Support		
RM I: Political instability may slow down and even stop implementation of reforms.	Low	Focus on strategic advice and hands-on capacity building to have a more permanent impact. Close collaboration with the EUR area department team and the authorities.
RM II: Lack of political support	Low	Not necessary
Management and Technical Staff Support and Commitment		
RM I: Threats from political influences on the MOF management commitment for modernization of tax system.	Low	Support MOF management with strategic advice and political narrative on the need for modernization of the tax reform.
RM II: Project has been formally requested by the STS who have identified the specific CD need	Low	Not necessary
Resource Adequacy		
RM I: MOF and STS lack sufficient human and institutional capacity to evaluate, formulate and promote effective tax policy reforms.	Low	Provide CD to develop staff technical skills and set tax reform priorities.
RM II: Insufficient allocation of STS staff	Medium	Continuous conversation with the STS for early detection of potential risk of insufficient allocation
Other Risks		
RM I: N/A	Low	N/A
RM II: No other risks foreseen	Low	Not necessary

V. PROJECT MANAGERS CONTACT INFORMATION

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