

Moldova: an unprecedented financial assistance package from the EU

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On 19 February, the EU Council and the European Parliament reached a preliminary agreement on the Reform and Growth Facility for the Republic of Moldova, the financial pillar of the Moldova Growth Plan (MGP), which was proposed by the European Commission in November 2024. Under this plan, Moldova is set to receive €1.885 billion in aid between 2025 and 2027, including €385 million in non-repayable grants and €1.5 billion in preferential loans. The funds are intended to support Chişinău in implementing reforms linked to EU accession, accelerate the convergence of Moldova's economy with that of the EU, and strengthen its energy independence from Russia. Disbursement will be conditional on the effective implementation of reforms, to which the Moldovan government had previously committed. The first instalments from the MGP – up to 18% of the total funds – are expected to reach the country as early as April.

The largest EU financial assistance package in Moldova's history still requires approval from the EU member states (through the Committee of Permanent Representatives, Coreper) and the European Parliament, but appears to be a mere formality. The MGP is designed to stimulate economic recovery and initiate major investments in social infrastructure, including hospitals and schools. It will also help mitigate the impact of the suspension of US development aid in January. EU funding represents a significant boost for the pro-Western ruling party, the Party of Action and Solidarity (PAS), ahead of parliamentary elections.

Commentary

- **The package presents an opportunity to overcome the economic crisis, which has negatively affected PAS's approval ratings.** This is particularly significant in the run-up to the elections scheduled for September. In 2022, Moldova's GDP contracted by 5.9%, recovering by only 0.7% in 2023. A similarly modest growth rate was recorded in the first three quarters of 2024. Exports have also declined sharply – by 6.5% in 2023 and 12% in 2024. Economic stagnation, combined with a sharp rise in prices – inflation peaked at 35% in October 2022 – has lowered living standards in Moldova. In 2023, the absolute poverty rate (covering individuals with a monthly income of €140–170) rose to 31.6% of the population, up from 24.5% in 2021. Meanwhile, the proportion of residents living in extreme poverty increased from 9.5% to 13.8%.
- **The effective utilisation of such a substantial amount of funds within less than three years presents a major challenge for Moldova's administration.** Its efficiency is limited,

as public institutions suffer from a chronic shortage of personnel. Officials are overwhelmed with tasks related to ongoing EU accession negotiations and the reforms being implemented as part of this process. At the same time, it falls to Chişinău to propose specific projects to the European Commission for financing under the MGP.

- **A significant portion of the funds will be allocated to infrastructure projects**, including road connections and bridges linking Moldova with Romania and Ukraine, as well as the construction of new power lines to enhance the country's capacity to import electricity from the EU. These projects, along with the development of renewable energy and further digitalisation – both of which will also receive funding from the MGP – are intended to enhance Moldova's economic attractiveness and competitiveness. This, in turn, is expected to attract new investment and stimulate economic growth. As early as October 2024, European Commission President Ursula von der Leyen predicted that the MGP could help double Moldova's economy over the next decade.
- **Additional EU funds will help mitigate the impact of the US decision to suspend development aid under USAID as of 24 January.** The agency had been implementing dozens of projects in Moldova, with a total value of approximately \$482 million, making the United States the country's largest state donor. The aid covered the energy sector, support for economic development – including IT and agriculture – as well as key state reforms, such as the vetting process for judicial personnel, which has been ongoing since 2023.