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REFORMING BUDGETARY ACCOUNTING IN THE REPUBLIC OF MOLDOVA: THEORETICAL AND PRACTICAL IMPLICATIONS

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Abstract: The process of reforming public financial management in the Republic of Moldova has entered a new stage, marked by the introduction of a modern budgetary methodology and the gradual transition of accounting practices. The purpose of this study is to examine the conceptual and practical implications of these changes, focusing on how the new methodology influences accounting systems, transparency, and fiscal sustainability. The subject of analysis is the alignment of Moldova's public sector accounting with international standards and the challenges arising from this transition.

Methodologically, the research combines a review of the legislative framework and policy documents with a comparative analysis of practices applied in other countries undergoing similar reforms. Qualitative assessment and critical reflection were employed to evaluate the coherence of the new budgetary methodology with the principles of transparency, accountability, and efficiency.

The results highlight both achievements and persisting difficulties. On one hand, the new methodology introduces greater clarity in budget planning, fosters more accurate financial reporting, and strengthens decision-making capacity at the institutional level. On the other hand, significant challenges remain, particularly in ensuring adequate professional training for accountants, upgrading information systems, and securing institutional capacity for implementation.

The study concludes that the transition of accounting in the Republic of Moldova represents not only a technical adjustment but also a strategic transformation in the governance of public resources. The author(s) emphasize that successful consolidation of these reforms requires a balance between adopting international best practices and addressing national specificities, ensuring long-term budgetary sustainability.

Keywords: accounting, transition, budgetary methodology, fiscal reform, financial transparency, budgetary sustainability.

JEL Classification: M41

Introduction

Over the past three decades, the Republic of Moldova has undergone a continuous process of institutional and economic transformation. In this context, budgetary accounting has been subject to reform pressures both from within and from outside, particularly due to the need to align with international standards and the requirements imposed by development partners.

Accounting has thus become a strategic instrument not only for monitoring resources but also for underpinning economic and political decision-making. During a transitional period

marked by instability, budget deficits, and structural challenges, the role of budgetary accounting has expanded, contributing to transparency, accountability, and fiscal sustainability.

The purpose of this paper is to thoroughly analyze the theoretical and practical implications of budgetary accounting reform in the Republic of Moldova. The study aims to:

- highlight the conceptual foundations of budgetary accounting;
- analyze the stages and principles of the reform;
- emphasize the results achieved and the challenges encountered;
- provide recommendations for strengthening the process.

This study examines both the theoretical foundations of the reform and its practical implications in the context of the Republic of Moldova. It will address the evolution of budgetary accounting, the objectives of recent reforms, the difficulties encountered during implementation, and the results achieved, in order to offer an overview of this complex process.

The content of the research

After the proclamation of independence in 1991, the Republic of Moldova inherited a Soviet-inspired accounting system, which was highly centralized and rigid. It was based on uniform charts of accounts applied to all public institutions and focused almost exclusively on the formal control of expenditures.

This model was characterized by a strong emphasis on compliance with the financial plan and on reporting the amounts spent, without assessing the results achieved; by the absence of an accrual-based perspective capable of accurately reflecting the state’s assets and liabilities; by reporting based almost exclusively on the cash basis, which hindered the assessment of future commitments; and by a predominantly administrative orientation, designed more to ensure control than to support decision-making or transparency.

This framework was sufficient for a centralized economy, but entirely unsuitable for the transition to a market economy. Without reforms, the public accounting system of the Republic of Moldova risked becoming an obstacle to economic development and European integration.

The reform of budgetary accounting was driven by a combination of internal and external factors, presented in Figure 1.

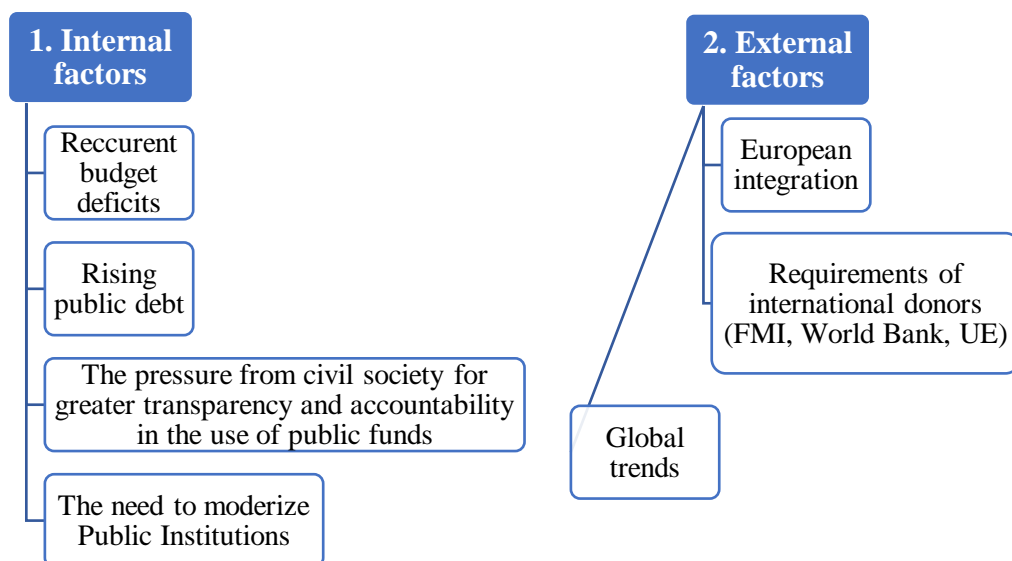


Figure 1. Factors that have driven the reform of budgetary accounting in the Republic of Moldova

Source: developed by the author

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Thus, the reform of budgetary accounting has become not merely a choice but a strategic necessity for the Republic of Moldova. Its evolution can only be understood through a staged analysis that reflects both legislative and institutional transformations as well as the influence of the economic and geopolitical context. In this regard, the process of reforming budgetary accounting can be structured into several distinct stages, each marked by specific objectives and progress toward alignment with international best practices (Government of the Republic of Moldova, 2023; Ministry of Finance of the Republic of Moldova, 2024a, 2024b):

1. *First stage (1995–2005) – Initial adjustments.*

During this period, the focus was on establishing a minimal regulatory framework and introducing more flexible financial management principles. The first legislative amendments were adopted to bring accounting practices closer to international standards. However, the system remained dominated by the cash basis of accounting.

2. *Second stage (2005–2015) – Program-based budgeting.*

The reform of budgetary accounting entered a more advanced phase with the introduction of program-based budgeting, which aims to link budget allocations to the objectives and results of public institutions. This period was marked by the emergence of the first attempts at multiannual reporting, the consolidation of internal control and public audit mechanisms, as well as technical and financial support provided by external donors. These developments contributed to increasing accountability in the management of public resources and to grounding budgetary decisions on more transparent and results-oriented bases.

3. *Third stage (2015–2020) – Harmonization with international standards.*

In this stage, the focus shifted to aligning with IPSAS (International Public Sector Accounting Standards) and creating an institutional framework compatible with European practices. Regulations were introduced regarding accrual-based accounting and commitment reporting, although full implementation remained limited.

4. *Current stage (2020–present) – Digitalization and integration.*

At present, the Republic of Moldova is focusing its efforts on the digitalization of accounting and budgeting processes, the gradual implementation of accrual-based accounting principles, the strengthening of institutional capacity through professional training, and increasing transparency through the online publication of budget execution data. These directions aim both to modernize the public financial system and to enhance accountability and public and international confidence in the management of public resources.

Therefore, the analysis of the stages shows that the reform of budgetary accounting in the Republic of Moldova has followed a gradual path — moving from initial adjustments and program-based budgeting to harmonization with international standards and, at present, to digitalization and integration — which confirms its evolutionary nature and its orientation toward European convergence.

Although the progress achieved over the past decades is undeniable, the reform of budgetary accounting has faced and continues to face numerous obstacles that have slowed down the pace of implementation and affected the uniformity of results:

Limited administrative capacity – a shortage of specialists trained in modern public sector accounting;

Underdeveloped information systems – many processes remain manual, which reduces efficiency and transparency;

Institutional resistance to change – some public authorities continue to maintain traditional practices;

Uneven implementation between central and local levels – there are major discrepancies between ministries and local public authorities in applying the new standards;

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Unstable economic context – financial crises, the pandemic, and the war in the region have affected both the pace of reform and the resources allocated to it.

The reform of budgetary accounting in the Republic of Moldova is not merely a technical adjustment but represents a structural and strategic process aimed at:

increasing transparency in the use of public funds;

- strengthening fiscal accountability;
- facilitating access to international financing;
- improving citizens’ trust in state institutions;
- supporting European integration through the harmonization of accounting standards.

This reform reflects a complex transition driven both by internal needs (budget deficits, corruption, lack of transparency) and by external pressures (European and international conditionalities). The stages undertaken demonstrate a gradual evolution from a rigid system based on formal control to a modern model oriented toward performance, transparency, and fiscal sustainability.

Although difficulties persist, the direction of the reform is clear: the gradual integration of accrual accounting principles and alignment with IPSAS (International Public Sector Accounting Standards) / EPSAS (European Public Sector Accounting Standards), with a strong focus on digitalization and institutional capacity building.

The new budgetary methodology implemented in the Republic of Moldova represents an essential step toward the modernization of the public finance management and budgetary accounting system. It is based on five core principles — transparency, accountability, efficiency, international compatibility, and sustainability — which together create an integrated framework for managing public resources (Ministry of Finance of the Republic of Moldova, 2015,2016).

These principles should not be viewed in isolation but rather in their interdependence. Transparency is impossible to achieve without accountability, efficiency cannot be attained without sustainability, and international compatibility ensures the credibility of the entire process.

1. Transparency – financial information becomes accessible to the public.

Transparency is one of the most important principles of the new budgetary methodology. It requires that information on budget planning, execution, and reporting be accessible to all interested stakeholders — citizens, public institutions, civil society organizations, and international partners. Budget transparency is reflected through a set of essential characteristics that enhance clarity and trust in the management of public finances. These include the periodic publication of approved budgets and execution reports, providing access to data in open formats (open data), which enable independent analyses, as well as the possibility of comparing allocated resources with the results actually achieved.

For the Republic of Moldova, the importance of budget transparency is particularly significant. It helps reduce the risk of corruption and misappropriation of public funds, strengthens citizens’ trust in state institutions, and facilitates democratic oversight of the use of public money. In this way, transparency becomes not only a principle of modern governance but also a fundamental condition for strengthening democracy and ensuring long-term financial sustainability.

Practical example: In many European countries, governments publish monthly budget execution reports online. In the Republic of Moldova, the implementation of similar platforms is a priority for strengthening transparency.

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However, transparency cannot exist without accountability, which ensures compliance with the rules and the proper use of public funds.

2. *Accountability* – clarifying the roles and obligations between the government, ministries, and local authorities.

Accountability refers to the obligation of public institutions to justify how they use financial resources and to take responsibility for the decisions they make.

Budgetary accountability has several dimensions that define how public institutions are held responsible for their decisions and actions. Vertically, accountability is reflected in the relationship between the Government and ministries on one side and the Parliament and citizens on the other, acting as a mechanism of direct democratic control. Horizontally, it is exercised between institutions of equal rank, such as between the Ministry of Finance and sectoral ministries, ensuring coherence and coordination in the decision-making process. At the local level, accountability lies with local public authorities, which must answer to the communities they administer for how they manage resources.

Clarifying institutional roles is essential for a functional budgetary framework. The Government sets fiscal-budgetary policy and strategic directions; the Ministry of Finance coordinates the budget process and sets accounting standards; line ministries implement sectoral programs and report on their execution; and local public authorities manage decentralized resources and are responsible for their efficient use.

The impact of this delineation on public governance is significant: it limits overlapping responsibilities, holds public officials accountable, and strengthens a clear chain of responsibility that starts from the taxpayer and reaches the decision-maker.

Therefore, a reformed budgetary system ensures transparency, fairness, and accountability in the management of public funds, providing society with the guarantee that resources are administered according to legal and ethical principles. Financial accountability is not limited to complying with the regulatory framework but also involves assuming the consequences of budgetary decisions, as well as the ability of institutions to answer to citizens and international partners.

Once consolidated, this accountability creates the natural foundation for the next step — increasing efficiency. Only through a responsible, well-structured, and properly monitored framework can public resources be optimally used and directed toward the state’s strategic priorities.

3. *Efficiency* – directing allocations toward measurable results.

Efficiency means using financial resources in such a way as to generate maximum results at minimum costs. In the context of the new budgetary methodology, this principle is implemented through the introduction of program-based budgeting and the use of performance indicators, which allow the alignment of fund allocations with the strategic objectives and priorities of public institutions. Thus, resources are allocated according to priorities and measurable objectives, funded programs are analyzed from a cost–benefit perspective, and institutional performance is systematically monitored and evaluated.

A concrete example can be seen in the health sector, where efficiency is measured not merely by the amount of spending, but through indicators such as vaccination rates, reduced mortality, or increased access to medical services.

For the Republic of Moldova, applying this principle brings significant benefits: limited resources are used more judiciously, the quality of public services is improved, and the public policy framework becomes results- and impact-oriented.

Therefore, the new budgetary methodology emphasizes measurable results, reducing waste, and the rational use of public funds. Once public institutions succeed in improving the way they manage resources, they become better prepared to operate in a complex and

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interconnected financial environment. This increase in internal efficiency forms the foundation for the next stage - international compatibility. A system that is efficient at the national level can be more easily aligned with international standards and practices, facilitating the integration of the Republic of Moldova into the European economic and financial space.

4. International compatibility – alignment with IPSAS standards.

An essential principle of the new budgetary methodology is compatibility with the International Public Sector Accounting Standards (IPSAS), which provides transparency, comparability, and credibility to the Republic of Moldova’s financial data in relation to other countries. This compatibility is achieved through the adoption of internationally accepted accounting rules and procedures, the presentation of financial statements in a format recognized by donors and investors, and the gradual alignment with EPSAS (European Public Sector Accounting Standards), the standards intended for EU member states and candidate countries.

Applying this principle brings multiple benefits. First, it facilitates access to external sources of financing, including loans, grants, and European Union programs. Second, it increases international partners’ confidence in the country’s financial management. Third, it supports the integration of the Republic of Moldova into the European and global markets by harmonizing accounting practices and reporting on internationally recognized bases. However, implementing this principle involves major challenges, such as the need for significant investment in staff training, the adaptation of IT systems to the new standards, and complex legislative amendments to ensure full alignment with international accounting rules. It should be noted that alignment with international standards offers the Republic of Moldova not only a common reporting framework but also a universal financial language through which transparency and accountability become comparable at the global level. This openness to European and international best practices creates long-term stability and trust.

From this perspective, international compatibility is not an end in itself but a means to establish a forward-looking public management model. Thus, the next strategic challenge of the reform is sustainability.

5. Sustainability – medium- and long-term budget planning.

Sustainability is the principle that ensures budgetary policies aim not only at short-term objectives but also at maintaining fiscal balance in the medium and long term. In this regard, it is implemented through the development of the Medium-Term Budgetary Framework (MTBF), the assessment of the impact of current decisions on future generations, as well as the limitation of budget deficits and public debt growth. Thus, sustainability becomes a key element of the new budgetary methodology, ensuring the stability and continuity of the reform process.

Practical example: An unjustified increase in public sector salaries may bring immediate electoral benefits but generates long-term budgetary imbalances. By applying the principle of sustainability, such decisions must be analyzed from the perspective of their multiannual financial impact.

For the Republic of Moldova, the principle of sustainability is particularly important, as it helps maintain macroeconomic stability, offers greater predictability for investors and external partners, and supports the sustainable and responsible development of public finances [2].

The five fundamental principles of the new budgetary methodology — transparency, accountability, efficiency, international compatibility, and sustainability — shape a modern and integrated framework for public finance management. They transform budgetary accounting from a mere expenditure control mechanism into a genuine strategic instrument of public governance. The consistent implementation of these principles in the Republic of

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Moldova is essential not only for strengthening transparency, accountability, and fiscal stability but also for bringing the national system closer to European and international standards.

The reform of budgetary accounting in the Republic of Moldova, grounded in the principles of transparency, accountability, efficiency, international compatibility, and sustainability, has not been limited to a theoretical or legislative framework. It has produced tangible effects — both positive and negative — that have influenced the way the state plans, manages, and reports its financial resources. Analyzing these practical implications is therefore essential for assessing not only the progress achieved but also the persistent challenges, as well as the broader impact on the economy and society.

The evolution of budgetary accounting reform cannot be evaluated solely through the stages it has gone through and the principles it has proclaimed, but especially through the concrete results it has generated. In the Republic of Moldova, the reforms have produced visible effects on the way public finances are planned, managed, and reported. Among the most important achievements are (Ministry of Finance of the Republic of Moldova, 2024a, 2024b):

1. Increased transparency of budget execution

One of the major achievements of the reform has been the improvement in the level of transparency in presenting and reporting the budget. The Ministry of Finance has started publishing more information on budget planning, quarterly execution, and performance reports, which has enabled more rigorous monitoring.

Transparency does not mean only access to data, but also access to information that is understandable to the public. The online publication of budgets and execution reports, accompanied by explanatory summaries, facilitates citizens’ and civic organizations’ understanding of how public funds are used.

2. Strengthening fiscal discipline

The reform of budgetary accounting has contributed to strengthening fiscal discipline by requiring institutions to comply more strictly with spending limits and to justify any deviations. The introduction of internal control and audit mechanisms has reduced opportunities for misappropriation of funds and limited waste.

In addition, multiannual reporting has improved the Government’s ability to manage the budget deficit and public debt. Medium-term planning allows the anticipation of imbalances and the timely adoption of corrective measures.

3. Possibility to compare Moldova’s data with other countries

The gradual alignment with the International Public Sector Accounting Standards (IPSAS) has created the possibility to compare the Republic of Moldova’s financial statements with those of other transition countries or EU member states. This comparability is essential for analyzing financial performance at the regional level, attracting international funds, and integrating into European and global statistical systems.

4. Gradual integration of performance-based budgeting

Another important outcome is the gradual introduction of program-based and performance-based budgeting, whereby financial allocations are no longer based solely on historical expenditures but on concrete objectives and performance indicators.

Example: In the field of education, the financing of institutions is no longer done only according to the previous year’s expenditures but also based on indicators such as graduation rates, school attendance levels, or results on national assessments.

However, despite these advances, the reform of budgetary accounting still faces multiple challenges that affect the pace and quality of its implementation.

1. Limited institutional capacity – shortage of qualified specialists.

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One of the biggest challenges of the reform is the lack of specialized human resources. Many public institutions — especially at the local level — do not have accountants trained to apply the new rules or familiar with international standards. This shortage causes delays in implementing reforms, incomplete or inaccurate reporting, and resistance to applying new methods due to insufficient knowledge.

2. Insufficient IT systems – lack of full digitalization.

Although there has been progress in digitalization, many public institutions still rely on manual procedures or fragmented IT systems that do not communicate with each other. This creates difficulties in data collection and centralization, additional costs due to multiple reporting requirements, and a higher risk of errors and inconsistencies.

Without full digitalization, the reform of budgetary accounting risks remaining only partially implemented and failing to deliver the expected benefits.

3. Institutional resistance to change.

The implementation of the new budgetary methodology requires a cultural shift in the public sector, which has generated resistance from some officials and decision-makers. This resistance is driven by fear of losing control over resources, a lack of motivation to learn new procedures, and familiarity with the old system, perceived as simpler.

This resistance slows down the pace of the reform and reduces its effectiveness.

4. Differences in implementation between central and local levels.

Another major problem is the uneven implementation of the new rules. At the central level (Government, ministries), the reform is advancing more rapidly due to greater resources and support from international partners. In contrast, many local authorities face difficulties in adopting the new practices.

This discrepancy creates an unbalanced system in which local reports are not fully compatible with national ones, which undermines the consistency of data.

Conclusions

The reform of budgetary accounting in the Republic of Moldova represents an essential process for the modernization of public finance management. It aims to shift from a predominantly cash-based accounting system to one grounded in accrual principles and aligned with modern international standards. The implementation of this process is complex, requiring legislative and institutional adjustments, investments in staff training, and the development of IT infrastructure.

In conclusion, the main practical implications of the budgetary accounting reform in the Republic of Moldova are:

Increased transparency and accountability – the new system offers a clearer picture of the financial position of public institutions, allowing for more rigorous monitoring of expenditures;

Improved decision-making – accounting data becomes more complete and more useful for political and administrative decision-makers;

Modernization of information systems – the reform involves investments in integrated accounting software and their interoperability with other government systems;

Implementation challenges – the process faces difficulties related to institutional resistance, lack of qualified human resources, and transition costs;

Impact on external reporting – a modern budgetary accounting system strengthens the Republic of Moldova’s credibility with international partners, including financial institutions such as the IMF and the World Bank.

The reform of budgetary accounting is an ongoing process, and its long-term success depends on strengthening the professional capacities of public sector accountants, improving the legislative and regulatory framework, expanding digitalization and automation of accounting processes, as well as increasing transparency and public access to financial information. Achieving

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these objectives will enable the Republic of Moldova to develop a modern, efficient, and results-oriented public financial system.

Thus, the reform goes beyond a mere technical change in accounting rules, representing a strategic step toward responsible governance and more efficient management of public resources. Moreover, it constitutes an essential instrument for strengthening democracy, attracting investment, and accelerating the European integration of the Republic of Moldova.

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