

# FINANCIAL RISK MANAGEMENT IN THE FISCAL POLICY OF THE REPUBLIC OF MOLDOVA: CHALLENGES AND DIRECTIONS FOR TRANSFORMATION

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## Abstract

Financial risk management is increasingly central to fiscal policy in volatile and highly open economies. This paper assesses the fiscal risk management system of the Republic of Moldova using a SWOT framework complemented by a TOWS strategy matrix (SO, ST, WO, WT). The analysis relies on institutional and regulatory documents and selected international assessments to map strengths, weaknesses and external pressures affecting fiscal sustainability. The findings indicate four practical directions: embedding risk assessment in budget planning, strengthening analytical capacity for scenario and sensitivity work, expanding digital fiscal monitoring tools, and formalising cooperation with international partners. The paper concludes that these steps can improve the coherence of fiscal risk governance and support Moldova's fiscal sustainability agenda in the context of EU-related commitments.

**Keywords:** fiscal sustainability, strategic risk assessment, fiscal governance, public finance management, macroeconomic vulnerability

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## 1. Introduction

In recent years, the concept of public finance sustainability has undergone profound transformations, driven by the increasing volatility of the macroeconomic environment, persistent uncertainties in global markets and the increasing pressures on national budgets. In this context, the management of financial risks in the field of budgetary and fiscal relations is gaining strategic importance, especially in transition

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economies, where constraints related to financial resources, human capital and technological infrastructure increase the exposure of the system to external economic and geopolitical shocks.

In the Republic of Moldova, financial risks in the field of budgetary and fiscal relations are addressed fragmentarily and without a clear methodological integration into the budgetary reform processes. Although relevant strategic initiatives have been launched, such as the Public Finance Management Strategy for the period 2023-2030, the existing approaches are still predominantly oriented towards short-term budgetary balancing, without the consistent integration of tools for identifying, assessing and monitoring structural financial risks. The dimension of financial risks in budgetary-fiscal relations is in a gradual process of consolidation, reflecting both the internal pace of reforms and the influence of commitments undertaken in the context of the European path of the Republic of Moldova and the framework of cooperation with international partners. All this highlights the high vulnerability of the budgetary-fiscal system to internal socio-economic and political instability and regional volatility.

The system of budgetary-fiscal relations involves a variety of factors that influence the efficiency of financial risk management, and their identification and systematisation are a necessary step, both from a theoretical and applied perspective. For this purpose, the use of structured analytical tools becomes justified, and the SWOT analysis provides an adequate framework for assessing the current situation and outlining strategic directions of intervention. Applying this approach in the context of public finances of the Republic of Moldova allows for the identification of unobserved institutional reserves, points of vulnerability and their correlation with external trends – both in relation to exogenous factors, such as the requirements formulated by international financial institutions, and to the structural volatility of public revenues collected.

The purpose of the research is to apply the SWOT analysis to the financial risk management system in the field of budgetary and fiscal relations in the Republic of Moldova, with the objective of substantiating a typology of strategic options (TOWS model) aimed at strengthening fiscal sustainability. The study examines both the internal dimensions of the institutional and regulatory framework, as well as relevant external influences on the quality of the decision-making process in matters of fiscal risk. The paper specifically examines the potential for adapting international good practices –

including the standards of the IMF Fiscal Transparency Code, Public Expenditure and Financial Accountability (PEFA) approaches and fiscal resilience testing tools – to the administrative and economic specificities of the Republic of Moldova.

This paper contributes to a better understanding of financial risk management in the fiscal policy of the Republic of Moldova by proposing an integrated analytical perspective that combines documentary evidence, institutional analysis and the SWOT–TOWS framework. On this basis, the study not only identifies the main structural vulnerabilities and institutional constraints affecting fiscal risk governance, but also formulates strategic directions adapted to the national budgetary and financial context. At the same time, the analysis places these directions within the broader process of administrative modernisation and European integration, emphasising the role of institutional coordination, procedural consistency and the gradual alignment with relevant international practices.

## **2. Research methodology**

The methodology used in this paper combines qualitative analysis with strategic analysis tools, with the aim of assessing how financial risk management mechanisms can be adapted to the institutional specifics of the Republic of Moldova. The basic tool of the analysis is the application of the SWOT method (Strengths, Weaknesses, Opportunities, Threats), which allows the identification and interpretation of internal and external factors with an impact on the functioning of the risk management system in the field of budgetary and fiscal policy.

To structure the conclusions resulting from the SWOT analysis, the TOWS strategic matrix (Wehrich, 1982) was applied, this method being frequently applied to correlate the internal elements of the system (strengths and weaknesses) with the exogenous factors (opportunities and threats). This method contributes not only to a coherent and systemic assessment of the current state but also to the substantiation of strategic action directions at the institutional and normative level.

The analysis is based on the study of reference, theoretical and analytical literature, covering institutional economics, fiscal risk theory, public finance management and international experience in fiscal sustainability. The empirical research includes relevant sources and

documents, which include institutional reports and public data on the budgetary and fiscal policy of the Republic of Moldova, strategic documents, in particular the Public Finance Management Strategy for the period 2023-2030 and the Law on Public Finance (2014, as amended) and reports of international organizations - PEFA Moldova Assessment (2022), IMF Article IV Consultation Report (IMF, 2023), as well as methodological recommendations from the IMF Fiscal Transparency Code (IMF, 2019) and the PEFA Supplementary Framework for Fiscal Risks. Similarly, the fiscal resilience testing practices applied by the IMF to assess the sensitivity of the fiscal system to macroeconomic and institutional shocks were analysed.

The structure of the analysis aims to correlate the theoretical framework with the institutional particularities of the Republic of Moldova in the field of financial risk management. In this context, the possibilities of adapting international financial risk management instruments to the institutional and functional framework of the Ministry of Finance of the Republic of Moldova, the Court of Accounts and local public administration authorities are examined, with an emphasis on their compatibility with existing norms, processes and institutional capacities.

Thus, the methodological framework used combines qualitative analysis of documentary sources with strategic SWOT analysis, theoretically based on the works of Weihrich (1982) and Dyson (2004). The SWOT method is considered representative and based on consistent data and information sources, which support decision-makers in formulating financial strategies and public policies.

The selection of data for the SWOT analysis was carried out through a systematic process of information triangulation, based on the information base mentioned above. Within this methodology, the SWOT analysis was used as a synthesis tool to integrate the results from multiple sources, and the TOWS matrix allowed the correlation between internal and external factors in order to formulate strategic directions for strengthening the financial risk management system. Therefore, this approach provides an integrated and comparable picture of fiscal risks, based on official sources, scientific literature and validated empirical observations.

The analytical procedure draws on documentary and empirical material relevant to fiscal risk governance in the Republic of Moldova. The analysis integrates strategic documents, legal acts, macro-fiscal reports and methodological frameworks applied by national authorities

and international organizations, with particular attention to the institutional, regulatory and operational aspects that influence the public sector's capacity to identify, assess, monitor and respond to fiscal risks.

The distinction between internal and external factors followed their relevance for the functioning of fiscal risk governance. Internal factors were examined in relation to institutional capacity, administrative coordination and analytical consistency, which made it possible to distinguish between strengths and weaknesses within the existing fiscal risk management framework. External factors were considered in light of the broader fiscal and institutional environment, allowing the identification of opportunities associated with reform support, access to expertise and methodological transfer, as well as threats related to volatility, uncertainty and external pressures on public finances.

On this basis, the TOWS matrix supported the formulation of strategic options derived from the interaction between the factors retained in the SWOT analysis. SO strategies reflect situations in which existing institutional resources may be used to take advantage of favourable external developments, while ST strategies highlight the role of internal strengths in limiting the effects of external pressures. WO strategies point to the possibility of reducing internal weaknesses through external support, standards or reform opportunities, whereas WT strategies express a more defensive orientation, aimed at reducing the combined effect of structural weaknesses and adverse external conditions. Only those strategic directions for which a clear analytical connection could be identified between the relevant SWOT factors were retained in the final matrix.

### **3. Theoretical and contextual considerations**

In the literature, financial risk management and fiscal sustainability are treated as essential dimensions of fiscal policy, analysed at both the conceptual and applied levels. Reference studies emphasise the role of these policies in maintaining macroeconomic stability and reducing institutional vulnerabilities, especially in transition economies.

From a theoretical perspective, the analysis of fiscal and budgetary policy requires an integrated view of public finance mechanisms, fiscal sustainability and institutional vulnerability. In the

literature, fiscal policy is examined through budgetary balance, the capacity to absorb shocks, the containment of contingent liabilities and the continuity of public finance functions over time. This broader perspective supports the connection between fiscal policy design and the logic of financial risk management.

Studies on fiscal sustainability and public finance governance underline the importance of coherent institutions, transparent procedures and anticipatory risk assessment (Dinga, 2016; Criclivaia & Brumă, 2015; Câmpeanu et al., 2012). Fiscal sustainability is understood in terms of long-term consistency between public revenues, expenditures and financing capacity (Dinga, 2016), while fiscal risk is shaped by both internal and external determinants, which calls for a multidimensional analytical approach (Criclivaia & Brumă, 2015). At the same time, the functioning of budgetary-fiscal mechanisms needs to be examined in relation to institutional and macroeconomic constraints (Câmpeanu et al., 2012).

From an applied perspective, recent research points to the need to strengthen risk control and internal monitoring mechanisms. Risk management and internal control can be understood as organizational functions that support the administration of public finances (Cara, 2023). Taken together, these contributions support the use of a SWOT-based assessment in the present study, as this approach connects the theoretical discussion on fiscal sustainability with the practical diagnosis of institutional strengths, weaknesses, opportunities and threats.

In this context, the analysis of budgetary-fiscal relations in the Republic of Moldova from the perspective of financial risks highlights three interdependent factors that influence the coherence and efficiency of the management process.

The first factor highlights the increasing dependence on external financing, which determines a heightened exposure to risks generated by the instability of international lending conditions and variations in donor policies.

Another important factor concerns the fragmented nature of risk identification and response tools, in the context of the existence of strategic documents such as the Public Finance Management Strategy for the period 2023–2030, which are not accompanied by clearly defined institutional mechanisms.

Likewise, the amplification of pressures on budgetary-fiscal relations associated with the instability of budgetary priorities,

inflationary developments and the formulation of spending policies unsupported by appropriate risk analyses will be taken into account.

At the same time, international recommendations – including the IMF Fiscal Transparency Code (IMF, 2019) and the PEFA framework – highlight the importance of periodically assessing financial risks and integrating them into the institutional framework of the budget planning process.

#### **4. Research results**

##### **Analysis of budgetary-fiscal relations from the perspective of financial risks**

The SWOT framework was developed based on the analytical procedure outlined above, focusing on factors that emerged repeatedly and proved relevant to fiscal risk governance in the Republic of Moldova. The resulting configuration reflects the interaction between internal institutional features and the broader environment in which fiscal policy is formulated and implemented. The selected factors, therefore, capture recurring patterns identified across strategic, regulatory and macro-fiscal sources.

Their differentiation followed two main considerations: functional relevance for fiscal risk management and strategic significance for future policy adaptation. Institutional infrastructure, legal provisions and accumulated experience in fiscal administration were considered strengths insofar as they supported coordination and continuity in risk governance. Fragmented procedures, limited analytical integration, and insufficient standardisation were considered weaknesses because they reduced the coherence of the existing framework.

The external environment was assessed from the same analytical perspective. International methodological standards, technical assistance and digital modernisation trends were considered opportunities, as they create favourable conditions for improving fiscal risk management capacities. Macroeconomic volatility, dependence on external financing and regional instability were considered threats because they increase fiscal exposure and affect the predictability of the decision-making environment. This distinction supports the transition from SWOT diagnosis to the formulation of TOWS-based strategic options.

The SWOT analysis shows that the current framework of financial risk management in the fiscal policy of the Republic of Moldova combines certain institutional strengths with a number of persistent structural vulnerabilities. The existence of a basic legal framework, accumulated experience in fiscal administration and the use of strategic planning instruments provide a starting point for more coordinated action. At the same time, this framework remains affected by fragmented procedures, limited methodological integration and the weak incorporation of fiscal risk assessment into routine budgetary processes.

The main weaknesses identified by the analysis are linked to the institutional architecture of fiscal risk governance. Responsibilities for identifying, assessing and monitoring fiscal risks remain distributed across several public bodies, without a sufficiently standardised basis for coordination, comparability of assessments and aggregation of results. This situation affects the continuity of information flows, reduces the visibility of interdependent risks and limits the capacity for preventive response. In this context, institutional fragmentation, weak analytical standardisation, and limited procedural integration appear to be central weaknesses of the existing system.

The external environment also plays an important role in shaping fiscal risk management. Access to international expertise, technical assistance and contemporary standards of fiscal transparency creates favourable conditions for institutional learning and gradual reform. At the same time, regional instability, macroeconomic uncertainty and the sensitivity of public finances to external financing conditions increase exposure to adverse shocks. From this perspective, reform support and methodological transfer emerge as relevant opportunities, whereas volatility, uncertainty and externally driven fiscal pressures define the main threats.

In this complex dynamic, characterised by external influences with varied effects on institutional capacity, the interaction between the internal features of the system and external factors was the basis for the application of the TOWS strategic matrix. This approach allowed the structuring of four strategic directions for financial risk management in the field of budgetary-fiscal relations of the Republic of Moldova.

Starting from the structure of the four strategic directions identified using the TOWS matrix, the article further analyses the content of each group, relating it both to the institutional peculiarities of

the Republic of Moldova and to the requirements of the international framework of good practices in public finance.

The results of the SWOT analysis reflect the current state of the financial risk management system in the field of budgetary and fiscal relations in Moldova, including its institutional structure, regulatory framework, digital infrastructure and external dependencies. It highlights both the internal characteristics (strengths and weaknesses) and the impact of the external environment (opportunities and threats), which have a determining effect on the sustainability of fiscal policy. In order to provide a synthetic presentation and facilitate the interpretation of the results, the main findings are systematised in Table 1.

**Table 1**

**SWOT analysis of the financial risk management system in the fiscal policy of the Republic of Moldova**

Strengths	Opportunities
<ul style="list-style-type: none"> <li>• Fiscal regulation, budget discipline</li> <li>• Public finance strategy, sustainability</li> <li>• Electronic budget execution systems</li> <li>• International partnerships for fiscal reforms</li> <li>• Public fiscal indicators and transparency</li> </ul>	<ul style="list-style-type: none"> <li>• International standardisation, fiscal transparency</li> <li>• Institutionalisation of fiscal risk analysis</li> <li>• IT infrastructure, digital solutions</li> <li>• Technical assistance to international partners</li> <li>• Civic interest in budgetary transparency</li> </ul>
Weaknesses	Threats
<ul style="list-style-type: none"> <li>• Lack of an independent fiscal body for risk assessment</li> <li>• Incomplete framework for assessing fiscal risks in budget planning</li> <li>• Insufficient transparency on contingent liabilities and government guarantees</li> <li>• Limited inter-institutional coordination in managing fiscal risks</li> <li>• Low analytical capacity and insufficient digital integration in scenario modelling</li> </ul>	<ul style="list-style-type: none"> <li>• Slow pace of reform implementation, associated with political instability and governance fragmentation</li> <li>• Increasing social obligations and fiscal guidelines with an impact on budgetary sustainability</li> <li>• Significant exposure to external financing from highly volatile sources</li> <li>• Geopolitical instability and energy risks with the potential to affect budgetary balances</li> <li>• Structural skills deficit in fiscal and digital analysis</li> </ul>

*Source: developed by the author based on Dinga (201), Criclivaia & Brumă (2015) Cara (2023), the Public Finance Management Strategy 2023–2030, the Law on Public Finance and Budgetary-Fiscal Responsibility, PEFA assessment materials, and relevant IMF and Ministry of Finance documents used in the analysis.*

The factors summarized in Table 1 also support the formulation of TOWS-based strategic options. Their combination allows the analysis to move from diagnosis to strategic interpretation by relating

internal strengths and weaknesses to external opportunities and threats. In this context, SO strategies highlight the use of existing institutional resources in connection with favourable external developments, while ST strategies show how internal strengths may help limit the effects of external pressures. WO strategies indicate the possibility of addressing internal weaknesses through external support, reform opportunities and methodological transfer, whereas WT strategies reflect a defensive orientation focused on reducing fiscal exposure in a context of institutional fragility and external instability.

Thus, the analysis reveals the existence of a fiscal regulatory framework that incorporates budgetary discipline mechanisms, including the establishment of limits for the budget deficit and public debt. The national public finance management strategy provides explicit directions for strengthening fiscal sustainability. The implementation of electronic systems for budget execution and treasury accounting increases the transparency and traceability of public financial operations. The Republic of Moldova's collaboration with the European Union and international financial institutions (IMF and other international partners) contributes to promoting structural reforms and strengthening institutional capacity, by harmonizing the economic and fiscal framework with international and European standards. At the same time, the publication of fiscal indicators on specialized official platforms increases transparency and access to relevant information, facilitating the assessment and monitoring of public finance performance.

The strengths identified above and presented in Table 1 can be capitalized on by exploiting the opportunities offered by the international context and domestic developments, which can contribute to strengthening the sustainability and resilience of the financial risk management system. In this regard, the process of harmonization with European Union practices creates premises for the implementation of international standards, such as the IMF Fiscal Transparency Code and the PEFA methodology. Collaboration with international partners ensures access to technical and methodological assistance, supporting the strengthening of institutional capacities. Therefore, the development of IT infrastructure and digital solutions facilitates the automation of the processes of analysis and monitoring of fiscal indicators. There is also the possibility of institutionalizing risk analysis by creating a fiscal council or by introducing specialized scenario modelling platforms. The increased interest of civil society and the

media in budgetary transparency and the efficiency of public spending contributes to increasing the accountability of the authorities in managing public finances.

Although the identified strengths and opportunities provide favourable premises for strengthening the sustainability of fiscal policy, the analysis also reveals the existence of weaknesses that reflect structural and functional limitations of the system. Highlighting them is essential for understanding the internal constraints that may diminish the capacity to capitalize on existing advantages and the potential offered by the external context. Therefore, the analysis highlighted the absence of an independent fiscal council to fulfil the role of assessing fiscal forecasts and risks. Fiscal risk assessment procedures are insufficiently institutionalized within the medium-term budgetary planning process. Transparency regarding contingent liabilities, government guarantees and quasi-fiscal risks – especially in the public sector and at the subnational governance level – remains limited. There is also a low level of inter-institutional coordination in forecasting and risk management, as well as limited analytical resources within the Ministry of Finance, associated with a low degree of digital integration in scenario modelling processes.

The identification of weaknesses provides a comprehensive perspective on the internal limitations of the system. In addition to this assessment, the analysis highlights the presence of external threats that, by their characteristics and magnitude, may accentuate existing vulnerabilities and negatively influence the capacity to effectively manage financial risks in the field of budgetary and fiscal relations. In this context, the analysis reveals a significant exposure of the budget to external financing, including sources with a high degree of volatility, such as grants and loans.

The unstable geopolitical context in the region, marked by the conflict in Ukraine and the associated energy risks, generates pressures on budgetary balances and on the predictability of public revenues and expenditures. The increase in social obligations, together with fiscal measures that affect budgetary sustainability, amplifies the risks to the balance of public finances. At the same time, there is an increasing deficit of skills in the field of fiscal analysis and digital analysis, which may limit the institutional capacity to manage risks. At the same time, the slow pace of reform implementation, associated with institutional and organisational constraints, may diminish the efficiency of the process of modernising the fiscal system.

Matrix of fiscal risk management strategies in the Republic of Moldova

Thus, we can conclude that the fiscal risk management system in the system of budgetary and fiscal relations in the Republic of Moldova is characterised by several discrepancies: between the regulatory framework and institutional practices, between strategic objectives and available resources, as well as between the requirements of international partners and internal administrative constraints. In order to formulate potential directions for institutional and procedural renewal, a strategic typological approach based on the TOWS matrix methodology was applied. This tool provides not only a systematic representation of the current situation, but also the possibility of identifying combinations of strengths, weaknesses, opportunities and threats, which can form the basis for formulating viable transformation strategies (see Figure 1).

**Figure 1**  
Typology of strategies according to the TOWS matrix

		External factors	
		Opportunities (O)	Threats (T)
Internal factors	Strengths (S)	SO – Leveraging strengths to exploit external opportunities	ST – Using strengths to reduce the impact of external threats
	Weaknesses (W)	WO – Using opportunities to overcome weaknesses	WT – Reducing internal vulnerabilities and external risks

*Source: developed by the author*

The matrix highlights correlations between internal and external factors, providing a coherent framework for formulating financial risk management strategies in budgetary and fiscal relations. Its content reflects the adaptation of the TOWS approach to the specifics of the

Republic of Moldova and compliance with international standards in the field of public finance, facilitating the identification of viable strategic options.

The formulated strategies are structured into four categories, which allowed the identification of reform directions of both proactive and compensatory nature.

**1) SO strategies: Strengthening capacities by developing opportunities**

The Republic of Moldova has a set of internal capacities that can be used to deepen financial risk management mechanisms in the field of budgetary and fiscal relations. A central element is the existence of a medium- and long-term strategic document – *the Public Finance Management Strategy for the period 2023–2030*, approved by the Ministry of Finance, which provides for strengthening budgetary transparency, integrating digital solutions and improving fiscal accountability mechanisms. Also, operational information platforms (budget.gov.md, <https://mtender.md/>, [trez.mf.gov.md](https://trez.mf.gov.md)) ensure public access to the main parameters of the budgetary process, representing a solid technological basis for the analysis and operational monitoring of budget execution.

In this context, opportunities are emerging for the implementation of modern international standards for financial risk management in the field of budgetary and fiscal relations, in particular in line with *the Fiscal Transparency Code* (IMF, 2019) and the *Fiscal Risk Assessment Tool (FRAT)* (IMF, 2022). A major issue is the adaptation of these standards to the current stage of development of the medium-term budgetary planning system (MTEF), within which elements of scenario analysis and assessment of macroeconomic assumptions are already integrated.

Given the combination of the aforementioned factors, the following institutional transformation directions can be considered proactive budgetary surveillance strategies that aim to integrate the following institutional transformation directions:

- Strengthening the regulatory framework regarding the integration of financial risk analysis in the field of budgetary and fiscal relations in budgetary planning documents, including forecasts, budgetary frameworks and explanatory notes to budget projects;

- Expand the functionality of electronic platforms by developing additional modules to provide information on probabilistic scenarios, shocks and budget sensitivity analyses;
- Develop internal methodologies for assessing and monitoring financial risks in the field of budgetary and fiscal relations, taking into account the recommendations of international organizations and adapting successful practices from the region, in particular in terms of integrating risk analysis into multi-annual budgetary planning, institutionalizing the functions of independent fiscal councils and using digital platforms for budgetary transparency (e.g. Estonia, Latvia, Lithuania, Poland, Romania);
- Strengthen cooperation with international donors (IMF, EU4PFM, World Bank) to support institutional development, digitalisation of processes and capacity building of human resources.

These strategic milestones represent an opportunity to strengthen institutional capacity by leveraging existing resources, without requiring fundamental changes to the organisational architecture. At the same time, the presence of external threats – such as macroeconomic instability, fiscal pressure and geopolitical risks – requires the analysis of adaptation strategies aimed at reducing the vulnerability of the system. These elements will be detailed in the next section, dedicated to ST strategies, presented below.

## **2) ST strategies: Managing threats by leveraging existing institutional tools**

The analysis of the external environment of the fiscal-budgetary policy constitutes a systematic approach to assess the economic, social, geopolitical and institutional factors outside the national fiscal framework, which are likely to directly or indirectly influence its formulation, implementation and sustainability. In the case of the Republic of Moldova, this analysis reveals the existence of a significant set of exogenous threats that exert pressure on the balance of public finances. These include macroeconomic volatility generated by regional crises – including the military conflict in Ukraine and the instability of energy supply – as well as internal factors, such as inflationary pressures, the increase in socially sensitive spending and the possible erosion of budgetary discipline in the context of political cycles. These risks are recorded in the conclusions of the IMF Article IV consultation (IMF, 2023) and in the PEFA Moldova report (PEFA,

2022), which highlight the insufficiency of the strengthened mechanisms for analysing the fiscal impact of emergency spending.

At the same time, the availability of functional digital tools – such as the Trezor.md platform, electronic public procurement systems and budget execution reporting mechanisms – together with the institutional experience gained in managing crisis situations during the COVID-19 pandemic, creates premises for developing strategies to counter external threats by adapting and capitalizing on existing solutions, without the need to establish additional structures. In this regard, within the ST approach, the following strategic directions of action can be advanced, which would have as a benchmark the strengthening of internal capacities to mitigate external risks and increase budgetary and fiscal resilience. In this case, it is important:

- Applying budgetary-fiscal stress tests according to the FRAT methodology (IMF, 2022), which is based on the development of probabilistic scenarios, modelling the budget's sensitivity to macroeconomic shocks and assessing the risks associated with state-owned enterprises, the banking sector and contingent liabilities;
- Strengthen public reporting on financial risks in the field of budgetary and fiscal relations and measures to mitigate them, including by introducing specific subsections in the explanatory notes to the budget and CFMTE, in accordance with the Fiscal Transparency Code (IMF, 2019);
- Establish standards for communicating fiscal risks to civil society, academia and other stakeholders, aimed at reducing the likelihood of pressure on decisions in the field of budgetary and fiscal relations in times of volatility and economic recession. PEFA Moldova (PEFA, 2022) emphasises the need to strengthen transparency and citizen participation in the budget debate process.

These measures can form the basis of the mechanism for adapting budgetary and fiscal policy to external risks, aimed at capitalising on existing instruments and integrating them into a coherent strategic management framework. At the same time, certain institutional limitations – such as reduced staff capacity and fragmentation of analytical functions – may require recourse to external support, which justifies the inclusion of WO strategies in the analysis process.

### **3) WO strategies: strengthening institutional capacities through external assistance mechanisms**

Despite a well-defined regulatory framework and a functioning digital infrastructure, the financial risk management system in the field of budgetary and fiscal relations in the Republic of Moldova continues to present significant vulnerabilities generated by a number of internal constraints. These vulnerabilities include the absence of a specialized analytical structure within the Ministry of Finance responsible for the integrated monitoring and assessment of financial risks in the field of budgetary and fiscal relations, insufficient integration of the risk-based approach into the budget planning process, the predominantly formal nature of medium-term planning, and limited institutional capacity in critical areas such as modelling, forecasting, and simulation of crisis scenarios. The findings are documented in the PEFA Moldova Assessment (PEFA, 2022) and in the conclusions of the International Monetary Fund's Article IV consultation (IMF, 2023) and indicate the need for targeted external support aimed at strengthening institutional capacities and operationalising mechanisms for advanced fiscal risk analysis.

At the same time, Moldova has ample opportunities for institutional strengthening by attracting international assistance, both in the form of technical expertise and through donor support programs (EU4PFM and IMF capacity-building initiatives). Access to methodologies, practices and digital solutions tested in the EU and Eastern Partnership countries allows not only to compensate for existing deficiencies, but also to adapt the risk management system to international standards.

In this context, the following directions of action can be identified within the WO strategies:

- Establishing an independent budgetary-fiscal council, with a mandate to assess the credibility of budgetary forecasts and to prepare public reports on financial risks in the field of budgetary and fiscal relations. Such a practice is established in most European Union member states and corresponds to the recommendations of the International Monetary Fund on strengthening the transparency and sustainability of budgetary-fiscal policy.
- Adopting a unified methodology for identifying and classifying financial risks in the field of budgetary and fiscal relations, covering areas such as state-owned enterprises, the banking sector, climate

and demographic risks. The implementation of this direction can be achieved through the assistance of international organisations, taking as benchmarks the IMF Fiscal Transparency Code (IMF, 2019).

- Develop and integrate methodologies for estimating contingent liabilities into the medium-term budgetary framework. The practice of including these risks in the explanatory notes to the budget is already applied in some countries in the region and could be adapted to the context of the Republic of Moldova.
- Strengthen institutional capacity by developing human resources skills, including through international training programs, internships and experience exchanges. This measure would allow for the reduction of institutional constraints in the fields of scenario analysis, economic modelling, and the advanced use of digital data processing tools.
- Creating an integrated technical architecture for a digital register of financial risks in the field of budgetary and fiscal relations, allowing their classification by levels of government (central, local), by economic sectors and according to their probabilistic characteristics.

The implementation of these directions involves correlating national reforms with the priorities of the international agenda and preparing for large-scale institutional adjustments. At the same time, external risks generated by economic and political instabilities can amplify the effects of internal vulnerabilities, which requires the adoption of governance strategies adapted to the conditions of double vulnerability, specific to the WT framework.

#### **4) WT Strategies: Mitigating Systemic Vulnerabilities and Building Resilience**

The limited institutional capacity in the field of macro-fiscal analysis and risk management, the low level of inter-institutional coordination and the absence of a consolidated regulatory framework for identifying and monitoring fiscal risks are structural factors of the vulnerability of fiscal policy. These internal shortcomings are amplified by external risks, such as the volatility of the geopolitical context, dependence on external financing and unforeseen budgetary pressures generated by additional social commitments or exceptional expenditures.

The PEFA Moldova reports (PEFA, 2022) highlight the low level of integration of fiscal risk assessment into the budget preparation process and the absence of institutionalised procedures for responding to crisis scenarios. In the same vein, the International Monetary Fund's Article IV Consultation Report (IMF, 2023) signals the vulnerability of the budgetary planning framework to macroeconomic shocks and volatility of fiscal revenues.

In order to counter these challenges, it is necessary to adopt a set of defensive strategies aimed at reducing exposure to risks and maintaining an adequate level of institutional control over budgetary and fiscal processes:

- Institutionalising financial risk analysis procedures in the field of budgetary and fiscal relations by including them in the normative acts of the Ministry of Finance, with the explicit definition of the periodicity, methodology and related responsibilities. Such an approach would reduce fragmentation in existing practices and ensure systematic, coherent monitoring of risks.
- Create a centralised risk management mechanism within the Ministry of Finance, with responsibilities for data collection, aggregation and reporting, as well as for developing methodological standards applicable to all agencies and territorial entities, in order to standardise and compare information.
- Establish restrictive fiscal rules to limit extra-budgetary initiatives by amending the Public Finance Law and introducing clear provisions on the sources of coverage of additional liabilities.
- Establish a phased crisis response framework, applicable to events with a high probability of fiscal impact (e.g. increases in energy prices, significant fluctuations in revenues, massive budgetary obligations generated by court decisions), to ensure rapid and coordinated reactions.
- Implementation of *ex ante* assessment of the budgetary-fiscal impact for all legislative or administrative initiatives with an effect on the budget, as a preventive tool for maintaining the sustainability of public finances.
- Expansion of the digitalisation of budgetary processes by including scenario analyses and stress tests in existing and future IT platforms (trez.mf.gov.md, MTEF modules), reducing dependence on manual interventions in crises.

The implementation of WT strategies does not require extensive structural transformations, but the strategic orientation of existing institutional resources and the consolidation of political commitment. By coherently applying these measures, the resilience of the system can be strengthened in contexts marked by constraints and uncertainties, while creating the premises for the development of a sustainable architecture for long-term fiscal risk management.

## **5. Conclusions**

The analysis shows that financial risk management in the fiscal policy of the Republic of Moldova operates in a framework marked by both institutional preconditions for improvement and structural constraints that continue to affect policy coherence. The SWOT diagnosis points to the presence of a basic legal and strategic foundation, accumulated administrative experience and a growing openness to methodological modernisation. At the same time, the system continues to face fragmented coordination, insufficient standardisation of risk assessment procedures and the limited integration of fiscal risk analysis into routine budgetary decision-making.

The use of the TOWS matrix allowed the identification of four categories of strategic options. SO strategies highlight the relevance of existing institutional assets in relation to reform opportunities and external support. ST strategies emphasise the role of current strengths in limiting vulnerability to macroeconomic and regional instability. WO strategies show that several structural weaknesses may be addressed through the selective use of international standards, digital instruments and technical assistance. WT strategies point to the need for defensive measures where institutional fragility and adverse external conditions lead to higher fiscal exposure.

The study suggests that stronger fiscal sustainability in the Republic of Moldova requires a more coherent use of existing institutional resources, clearer procedural integration and a closer connection between fiscal risk assessment and policy formulation. In this perspective, the article offers a diagnostic framework together with a set of analytically grounded strategic directions that may support the gradual consolidation of fiscal risk governance in the broader context of administrative modernisation and European integration.

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