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Position Paper

Between Fiscal Simplification and Loss of Competitiveness: What Agriculture, Food Processing and Rural Areas in Moldova Risk

Short-term impact: immediate pressure on liquidity and prices

In the short term, the most visible effect would be the increase in the fiscal cost across the value chain. If certain agricultural products that currently benefit from the reduced VAT rate of 8% are moved to the standard rate of 20%, the difference will be felt either in the final price, in the margin of the producer/processor, or in the pressure exerted by retailers on the purchase price paid to farmers.

For farmers, the immediate pressure will appear through: higher input costs, more expensive investments, more difficult access to agricultural machinery, tighter cash flow, and a higher risk that processors/exporters will transfer the additional costs downward, toward the raw material. For processors, the pressure will fall on working capital: a higher amount of VAT to administer, more expensive stocks, packaging, logistics and testing, and a less competitive final price.

The draft also introduces the possibility of VAT reimbursement when the VAT related to purchases, including imports, exceeds the VAT related to supplies, for transactions starting from 1 January 2027. However, this provision will help only if the reimbursement mechanism is fast, predictable and accessible. If VAT reimbursement remains difficult, the advantage will exist more on paper, while the financing cost will remain with the economic operator.

Medium-term impact: postponed investments and weaker processing

In the medium term, the greatest risks concern investments. The elimination or reduction of facilities for machinery, equipment and inputs may discourage modernization exactly at a time when Moldova needs to move from exporting raw materials to producing goods with added value.

The Moldovan agri-food sector already has a structural problem: the country exports a large volume of raw materials and too few processed products. An analysis published in 2026 shows that, in 2025, exports of agricultural raw materials increased by approximately USD 250 million compared to 2024, while exports of processed food products decreased by almost USD 243 million compared to 2023. This confirms a dangerous trend: the rural economy may return to the model of “selling wheat, sunflower seeds and raw fruit”, instead of developing oils, canned goods, dairy products, packaged products, ingredients, processed food, brands and exports with higher margins.

If fiscal policy makes investment in processing, packaging, storage, sorting, certification and traceability more expensive, Moldova risks losing precisely the segment where jobs, salaries, local taxes and economic resilience are created. Agriculture together with the food industry represents more than 18% of GDP and approximately 45% of Moldova’s exports, which means that the effect is not narrowly sectoral, but macroeconomic.

Long-term impact: degradation of the production base and dependence on imports

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In the long term, the main risk is the degradation of domestic agri-food production. If farmers face higher costs, more difficult access to machinery, expensive credit, fiscal pressure and low farm-gate prices, they will reduce investments in technologies, irrigation, high-performance varieties, storage and quality. The result may be lower productivity, greater post-harvest losses, uneven quality, less processing and greater dependence on imports.

It is important to note that in 2025, according to data cited in the Logos Press analysis, food exports amounted to approximately USD 596 million, while imports amounted to approximately USD 797 million, resulting in a deficit of around USD 201 million. For the first time in the history of the Republic of Moldova, the balance for food/processed products became negative. This is an alarm signal regarding the competitiveness of the national agri-food industry. Under these conditions, any measure that reduces the competitiveness of local processing, discourages investments or increases production costs risks amplifying the trade deficit, increasing dependence on imports and reducing the added value created in the national economy.

This is a much more serious problem than it may seem: the country may export raw materials, but import more and more processed food products, with added value, packaging, branding and commercial margins captured outside the country. The real stake of the 2027 Fiscal Policy is not only the level of VAT. The real stake is whether the Republic of Moldova will continue to produce and process locally or will become increasingly dependent on imports of high added-value food products.

Impact on rural development and the risk of village depopulation

The proposed fiscal changes should not be analysed only from the perspective of budget revenues or administrative simplification. In the case of the agri-food sector, the impact is much broader, because agriculture, food processing, storage, transport, agricultural services and local trade represent the economic foundation of many rural communities.

In the Republic of Moldova, the village cannot be separated from agriculture. In many rural localities, the farm, the peasant household, the local processor, the storage facility, the collection point, the agricultural service provider or the small entrepreneur in the agri-food chain are among the few real sources of income and employment. If these activities become more expensive, less competitive or harder to sustain, the effects will be quickly visible in villages: fewer jobs, lower incomes, fewer local investments and even greater pressure on young people to leave.

The major risk is that, by increasing the fiscal burden on agricultural production and processing, Moldova may accelerate exactly the phenomenon it declaratively tries to fight: the depopulation of villages. Instead of creating opportunities at home, especially in rural areas, we may end up making agricultural and agri-food activity less attractive for young people, entrepreneurs, investors and families who are still trying to remain in their communities.

Comparison with the EU: Member States do not leave their farmers solely to market logic

In the Member States of the European Union, the application of reduced, super-reduced or even zero VAT rates for food products and, in some cases, for agricultural inputs is not a deviation from European rules, but a permitted and commonly used instrument for protecting consumers, supporting sensitive sectors and maintaining the competitiveness of local production.

For example, Germany applies a reduced VAT rate of 7% to goods considered essential, such as bread, fruit, vegetables and meat, precisely to reduce the burden on consumers when purchasing indispensable goods. France applies a reduced rate of 5.5% to many food products intended for human consumption, as well as to certain agricultural products or inputs used in agricultural production, including some products intended for animal feed. Italy applies a super-reduced rate of 4% to certain basic food products. Spain also uses a super-reduced rate of 4% for basic food products. Poland applies a preferential rate of 5% for basic food products and, during periods of inflationary pressure, temporarily applied even a 0% rate for basic foods as a measure to protect the population. Ireland applies a zero-rate regime for certain food products and, under certain conditions, also for agricultural inputs such as fertilizers, animal feed, seeds or plants used in food production.

These examples show that EU Member States do not treat agri-food taxation only as a source of budget revenue, but also as a public policy instrument. Through reduced rates or differentiated fiscal regimes, they aim to maintain food affordability, reduce pressure on producers and consumers, and support sectors of strategic importance for food security and rural development.

Therefore, the Republic of Moldova should not treat the elimination of reduced rates in the agri-food sector as an automatic condition of fiscal Europeanization. On the contrary, approximation to the EU should mean a more careful and differentiated analysis of the impact of each measure on farmers, processors, food prices, investments, rural employment and the competitiveness of Moldovan products.

If the Republic of Moldova applies a 20% rate to agri-food products, it will end up having one of the highest effective VAT rates on food in Europe, at a time when almost all EU Member States, with Denmark as the only exception, use reduced VAT precisely to protect consumers, food security and the competitiveness of local production.

If EU Member States, with stronger economies, better capitalized farmers and access to substantial support through the Common Agricultural Policy, continue to use reduced rates for food and certain agricultural categories, then the Republic of Moldova, being in a much more vulnerable position, must be even more cautious. The elimination of fiscal facilities for the agri-food sector, without clear compensatory measures, risks placing local producers in an even weaker position compared to competitors from the EU.

The major difference is that European farmers do not compete only with a more flexible fiscal system, but also with a massive support system through the Common Agricultural Policy. The European Commission describes direct payments as an instrument for stabilizing incomes, supporting food security and compensating the public services provided by farmers. The CAP includes income support, market measures for difficult situations and rural development.

Therefore, the correct comparison is not: “VAT is also paid in the EU.” The correct comparison is this: in the EU, taxation is only one part of a broader package of support, subsidies, direct payments, market interventions, investment programmes and crisis management mechanisms. Moldova does not yet have access to the same level of support, but risks increasing the fiscal burden in a sector that will increasingly compete directly with better capitalized and better supported European producers.

Market liberalization: an export opportunity, but also a risk for local production

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The revision of the DCFTA between the EU and Moldova entered into force on 4 October 2025 and provides for a reciprocal extension of market access for agricultural products, including the expansion of certain quotas for Moldovan exports, but also the gradual opening of the Moldovan market to certain European products. Access2Markets indicates that Moldova will open quotas for imports from the EU for sensitive products such as pork, poultry, dairy products, sugars and other categories, while the EU will increase access for grapes, apples, cherries and plums from Moldova.

This means that liberalization is not only "Moldova exports more easily to the EU." It also means that "European products will enter the Moldovan market more easily." An EU communication on the modernized agreement expressly states that Moldova agreed to improve access for certain European agricultural exports, including by increasing quotas for pork and poultry and by introducing new quotas for frozen boneless meat, milk and butter.

In this context, if Moldova simultaneously makes local production, mechanization, processing and compliance more expensive, the liberalized market may favour the import of more competitive products rather than the development of local production. The risk is that Moldovan farmers will remain suppliers of cheap raw materials, while store shelves will be increasingly occupied by imported processed products.

Concrete pressure on farmers and processors

For farmers, pressure will come from five directions: higher taxation on supplies, more expensive investments, energy and fuel costs, VAT reimbursement bureaucracy and lower prices imposed by buyers. For processors, pressure will come from the cost of raw materials, packaging, transport, compliance, excise duties for certain beverages and competition from imports. The draft introduces excise duties for non-alcoholic carbonated beverages with added sugar or sweeteners and for energy drinks, with declaration and payment obligations by the 25th day of the following month. The measure may have a public health logic, but for small processors its effect may be an increase in administrative costs and a loss of competitiveness compared to large importers.

For peasant households, the draft raises a separate issue: from 2027, individual enterprises, including peasant/farmer households, will be able to operate in these forms only if they held that status as of 31 December 2026. This may limit the entry of new farmers into the traditional legal form and may push small producers toward more expensive or harder-to-administer forms. In the absence of a clear substitute framework adapted to agriculture, limiting new registrations of peasant/farmer households may become a barrier for young farmers, small producers and rural families who want to start a legal agricultural activity. The independent entrepreneur regime, even if extended to any activity, cannot automatically be considered equivalent to the peasant household, because it is unclear how it will cover the specific elements of agricultural activity: land, lease arrangements, family labour, seasonal workers, investments, machinery, subsidies and the commercialization of own production.

Strategic conclusion

In its current form, the draft risks producing a contradictory effect: on paper, it simplifies the fiscal system, but in practice, it may reduce the competitiveness of domestic agri-food production exactly at the moment when Moldova must prepare for the European market, stricter

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standards and greater competition. The fiscal changes proposed for 2027 may have a significant impact on the agri-food sector in an already fragile context, marked by repeated droughts, a shrinking agricultural labour force, high rural poverty, limited access to finance and the loss of competitiveness of local products. The increase of VAT for agri-food products, the rise in costs for agricultural machinery, fixed assets and inputs, the increase of social security contributions for employees and day labourers, the modification of land tax and the increase of excise duty on diesel risk putting direct pressure on farmers' liquidity, processors' investment capacity and the competitiveness of the entire agri-food chain. In the absence of transition measures and sectoral protection, these changes may discourage farm modernization, local processing, the formalization of seasonal labour and investments in climate resilience, accelerating dependence on imports and the weakening of the rural economy.

Moldova cannot afford to liberalize the market, increase the fiscal cost of local production and fail to provide a compensatory package for investments, processing, cooperatives, diesel, agricultural machinery, irrigation, storage and compliance.

In the absence of a balanced approach, the risk is not only the increase in prices for certain products. The risk is the loss of investments, the reduction of local processing, the increase of food imports, the degradation of agricultural production and the transformation of Moldova into a consumer market for processed products from abroad, while local farmers remain trapped in the export of raw materials with low added value.

The essential question is not how much additional revenue the state budget will collect as a result of this reform. The essential question is whether, in 5–10 years, the Republic of Moldova will produce more added value in its own villages and cities or will import more and more processed food products from abroad. The 2027 Fiscal and Customs Policy must contribute to strengthening the competitiveness of agriculture and the food industry, not to weakening them. Otherwise, the long-term economic and social costs may exceed the short-term fiscal benefits.

Under these conditions, the Civic Movement "Construim Încredere" calls on the Government and the Ministry of Finance to develop an ex-ante analysis dedicated to the agri-food sector, in order to identify the most effective and balanced fiscal measures for this strategic sector. This analysis must provide clear justifications regarding the need to increase VAT, maintain the current rate or, where appropriate, reduce it for certain categories of products, inputs, machinery, services or agri-food activities, depending on market needs, the vulnerability level of local producers and the objective of strengthening competitiveness.

The ex-ante analysis must answer essential questions: which fiscal measures best support local production, agri-food processing, investments, the formalization of economic activity, food affordability for consumers and the ability of Moldovan producers to compete with imported products? At the same time, it must assess the extent to which the proposed fiscal policy helps or, on the contrary, hinders the access of Moldovan agri-food products to external markets.

Such an analysis must compare several fiscal policy options, not only the option of increasing the VAT rate. Among the options analysed should be the maintenance of the reduced rate for certain agri-food products, the application of differentiated rates for basic products, agricultural inputs, machinery and equipment, transition measures for processors and farmers, fast VAT reimbursement mechanisms, facilities for investments in processing, storage, irrigation, energy efficiency, certification and compliance with European standards.

Depending on the results of this analysis, the Government and the Ministry of Finance must adjust the fiscal and customs policy so that it does not disproportionately affect the agri-food sector and does not reduce the competitiveness of domestic products compared to imports or on external markets. VAT increase cannot be treated as an automatic or exclusively budgetary solution if its effects may lead to more expensive local production, postponed investments, reduced processing, increased dependence on imports and the weakening of the rural economy.

Therefore, we request that any changes to the VAT regime and other fiscal measures with an impact on the agri-food sector be adopted only after a transparent ex-ante analysis, consulted with the private sector, professional associations, farmers, processors and independent experts, and that final decisions be adjusted based on the results of this analysis.