

The Transnistrian Region in 2026: Structural Crisis, Economic Convergence and Prospects for Reintegration



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Editor

Friedrich-Ebert-Stiftung e.V.
Chisinau (Moldova) office
111 Bucuresti St.
Chisinau, MD-2012
Republic of Moldova

Responsible

Felix Hett
E-mail: fes.moldova@fes.de
Tel. +373 [22] 855830
moldova.fes.de

Graphic design

Angela Ivanesi

Front page design

Dragoş Popa

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Authors:
Igor Munteanu
Veaceslav Ioniță
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Chisinau, 2026

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List of abbreviations

BRP – Bureau for Reintegration Policies of the Republic of Moldova

CIS – Commonwealth of Independent States

DCFTA – Deep and Comprehensive Free Trade Area

EAEU – Eurasian Economic Union

EU – European Union

GDP – Gross Domestic Product

HoReCa – Hotel, restaurant and catering sector

ICM – International Civilian Mission

IDIS 'Viitorul' – 'Viitorul' Institute for Development and Social Initiatives

kWh – kilowatt-hour

MDL – Moldovan leu

MGRES – Kuchurgan Thermal Power Station (Moldavskaia GRES)

MMZ – Moldovan Metallurgical Plant in Rybnitsa

MSSR – Moldavian Soviet Socialist Republic

NBM – National Bank of Moldova

NBS – National Bureau of Statistics of the Republic of Moldova

OSCE – Organization for Security and Co-operation in Europe

OSW – Warsaw Centre for Eastern Studies (Ośrodek Studiów Wschodnich)

PMR – 'Transnistrian Moldovan Republic' (self-proclaimed entity, not recognised internationally)

PRB – Transnistrian Republican Bank (the de facto central bank of the Transnistrian region)

RAO UES – United Energy Systems of Russia (PAO «ЕЭС России»)

RM – Republic of Moldova

SWIFT – Society for Worldwide Interbank Financial Telecommunication (the international interbank financial messaging system)

USA – United States of America

USD – US dollar

VAT – value added tax

Executive Summary

The year 2026 marks a significant shift in the approach to the Transnistrian issue. Following a prolonged period during which the settlement process focused primarily on political negotiations and the management of the status quo, the authorities of the Republic of Moldova have begun to accord a greater role to economic, fiscal and institutional instruments within their direct remit. The Convergence Fund, established in 2026, aims to gradually harmonise the regimes applicable to VAT and excise duties, phase out certain tax concessions, and use the resources collected to finance economic and social development projects on the left bank of the Dniester. This mechanism reflects a shift towards an approach based on functional integration and the gradual extension of common rules, without requiring the immediate resolution of the region's political status.

Convergence between the two banks does not, however, start from scratch. Businesses in the region already use certificates of origin, customs procedures and the financial infrastructure of the Republic of Moldova to access external markets. The right-bank market has become one of the main destinations for goods produced in the region, whilst the European Union is the main destination for its external exports. Labour mobility and the use of services on the right bank, in turn, contribute to economic and social convergence. The aim of public policy is therefore not to create integration from scratch, but to formalise and consolidate an existing process in a gradual, fair and predictable manner.

The region's economy is not merely experiencing a cyclical crisis but is undergoing a structural transformation. The model based on access to energy on preferential terms, the administrative maintenance of the exchange rate and support for energy-intensive enterprises is losing its ability to generate revenue and ensure social stability. In 2025, according to the study's estimates, the region's GDP contracted by approximately 19.4 per cent, whilst industrial output fell by around 20 per cent – one of the most severe contractions in the past 15 years. Exports and sales to the right bank fell by over 50 per cent, mainly as a result of declining activity in the energy and metallurgical sectors.

The economic decline is accompanied by a deterioration in household incomes and a widening gap with the right bank. The lack of effective foreign exchange reserves, the administrative pegging of the Transnistrian rouble and dependence on exporters' foreign-currency earnings increase the risk of disorderly currency, fiscal and social adjustments. The region's economy has become increasingly dependent on access to the right-bank market, the banking system of the Republic of Moldova and the trade opportunities arising from the Republic of Moldova's

relationship with the European Union. These dependencies demonstrate that the region lacks genuine economic autonomy, despite maintaining separate financial and administrative institutions.

The demographic crisis further limits the prospects for recovery. The region's registered population has fallen from approximately 731,000 in 1990 to around 460,000 in 2025, representing a decline of over 37 per cent. The population actually residing in the region is estimated at around 295,000, whilst the number of those who have left the region is estimated at around 165,000. Migration is compounded by persistent negative natural population growth: over the past 25 years, the excess of deaths over births has resulted in an estimated cumulative population loss of approximately 76,600. These developments are reducing the available labour force, domestic consumption, the tax base and the capacity of social systems to function sustainably.

The structure of the region's economy remains rigid and concentrated in a small number of sectors and systemically important enterprises. The energy and metallurgical sectors together account for over 60 per cent of industrial output, and the functioning of the entire socio-economic system depends to a large extent on MGRES and MMZ. Any shock affecting these enterprises is rapidly transmitted to exports, local suppliers, budget revenues, employment and consumption. Agriculture, the food industry, light industry and services do not yet have the scale, capitalisation or infrastructure necessary to offset the decline in heavy industry.

The energy and financial support provided by the Russian Federation has been essential to sustaining the region's economic model but has not led to sustainable development. Access to natural gas on preferential terms has enabled energy-intensive enterprises to operate, kept tariffs low and covered a significant portion of the budget deficit. In 2026, approximately 40 per cent of planned budgetary expenditure is covered by revenue from gas sales. This mechanism has temporarily mitigated the effects of the decline but has delayed the modernisation and diversification of the economy, as well as the development of competitiveness based on productivity, innovation and investment.

The region's budget reflects the same vulnerabilities. Own-source revenue covers only part of planned expenditure, and the deficit is financed through debt accumulation and mechanisms that lack sufficient transparency. Expenditure is dominated by rigid components, such as pensions, wages and social security expenditure, leaving little scope for public investment. The budget thus functions primarily as a tool for maintaining current

services and managing economic survival, rather than as an instrument for development.

At the same time, trade integration between the two banks is already well advanced. In 2025, approximately 77 per cent of the region's external exports were directed to the European Union market, while over 86 per cent of sales outside the region, including those to the right bank, depended on customs procedures, certificates of origin and the legal framework administered by the Republic of Moldova. The right bank accounts for approximately half of the goods traded outside the region and represents an important source of liquidity for the Transnistrian economy. However, this integration remains fragile, constrained by difficulties related to financial transfers, product certification, logistics infrastructure, access to information, recognition of documents and administrative barriers within the region.

Reintegration scenarios

The study analyses four scenarios, which should not be interpreted as entirely separate options. Maintaining the status quo or a policy of tacit accommodation entails the continuation of political, legal and economic ambiguity and the selective acceptance of the benefits of cooperation, without substantial institutional reforms. This scenario does not represent a state of equilibrium, as economic, demographic and fiscal deterioration continues and the costs of delay increase over time. An accelerated crisis may result from a combination of energy, industrial and fiscal shocks, the suspension of operations by systemically important enterprises, or the poorly prepared implementation of fiscal and customs reforms. Such a crisis would generate high social and fiscal costs, unemployment, accelerated migration and pressure on public services, forcing the Republic of Moldova and its external partners to intervene as a matter of urgency.

Gradual economic reintegration involves the planned and phased extension of the Republic of Moldova's fiscal, customs, financial and legal framework to the region, without requiring the immediate resolution of its political status. Full political and institutional reintegration involves the region's integration into the constitutional order of the Republic of Moldova, the gradual transfer of administrative, judicial and security powers, and the establishment of transitional mechanisms to ensure the continuity of public services and the protection of the population's rights. A comparative assessment shows that gradual economic reintegration represents the most feasible path towards transition, whilst full political and institutional reintegration represents a possible final outcome. The two scenarios may constitute successive stages of the same process. The real public policy choice is therefore not between maintaining the status quo and immediate reintegration, but between a planned adjustment and an adjustment imposed by crisis.

Priority areas for public policy

The process must begin in those areas where convergence is already well advanced: the formalisation of trade relations, the

simplification of procedures, the integration of exporting enterprises, and improved access to the markets of the Republic of Moldova and the European Union. Companies benefiting from trade agreements and documents issued by the constitutional authorities must comply with the relevant reporting, traceability and regulatory requirements. Enterprises focused exclusively on the regional market should be encouraged to integrate through simplified procedures, access to finance, legal protection, guarantee mechanisms and development programmes.

Tax harmonisation must be implemented gradually and in line with the capacity of the population, businesses and institutions to absorb the changes. The study proposes an indicative time-frame of four to ten years and recommends that the additional tax burden should not increase by more than approximately 1 per cent of the region's GDP per year. The introduction of VAT must be preceded by the establishment of registers, the digitalisation of tax administration and taxpayer training, whilst VAT collection may be temporarily capped at 3–5 per cent of the region's GDP during the initial phase. Excise duties can be harmonised over a period of up to ten years, whilst the reform of social security contributions can begin with indicative rates of 18 per cent for social insurance and 2 per cent for health insurance. These parameters should serve as benchmarks for designing the transition and be adjusted according to income levels, productivity and administrative capacity.

Tax and customs harmonisation must be accompanied by the gradual integration of the financial and banking system, broader access to bank accounts and credit, the conditional recognition of documents and contracts, the protection of property rights, and credible dispute-resolution mechanisms. In the social sphere, measures are needed to ensure the recognition of contribution periods, the portability of pensions and benefits, expanded access to health insurance, and compensation for individuals and businesses affected by the transition.

The Convergence Fund should serve as the main financial instrument of the process, supporting infrastructure, small and medium-sized enterprises, digitalisation, skills development and the protection of vulnerable groups. Its credibility will depend on publicly available eligibility criteria, transparent procedures, effective access for communities and businesses, and independent monitoring of the use of resources. Technical coordination could be ensured through a Permanent Platform for Economic Convergence, bringing together public institutions, the business community, local communities and relevant experts.

Convergence must not be reduced to the introduction of taxes or the formal extension of the Republic of Moldova's jurisdiction. Every new obligation must be accompanied by tangible benefits, including access to finance, public services, legal protection, markets and development programmes. A process that is too slow would prolong economic deterioration and dependence on external resources, whilst one that is too rapid could cause economic and social disruption. Only clear sequencing, supported by compensatory measures and transparent conditionalities, can transform existing economic integration into a gradual and sustainable process of institutional reintegration.

Research methodology

This study is a comprehensive analysis of the districts in eastern Moldova, including the Transnistrian region, and aims to examine sustainable scenarios for resolving the protracted conflict and for the region's gradual integration into the constitutional framework of the Republic of Moldova.

The research included a detailed analysis of trade between the two banks of the Dniester and the region's foreign trade, including exports to the European Union market. The mechanisms that could contribute to the expansion, streamlining and formalisation of economic convergence were examined, as well as the adjustments required to meet the requirements applicable in the European market. The authors analysed statistical data on the structure of the region's economy, the role of large enterprises, dependence on external markets, inter-enterprise relations and other systemic vulnerabilities currently affecting the region's economy. The tax regime applied on the left bank of the Dniester and its differences from the tax system of the Republic of Moldova were also examined, with a view to possible harmonisation.

The research also included information gathered through discussions, semi-structured interviews and direct consultations with representatives of the business community in the Transnistrian region, community leaders and individuals involved in various economic activities. These discussions aimed to identify the barriers affecting business operations, informal coping mechanisms and solutions that could be relevant for strengthening economic convergence policies. Consultations with residents and entrepreneurs in the region also enabled the collection of views on the social and economic risks associated with tax convergence. This information was used to assess the practical implications of potential fiscal and administrative harmonisation.

The authors analysed existing differences in the tax burden borne by the business sector and examined possible scenarios for adapting the region's economy to VAT, excise duties, cus-

toms duties and other tax and administrative requirements. The analysis sought to identify a transition model that would limit anti-competitive practices and rent-seeking mechanisms without imposing disproportionate costs on businesses and the population. Despite the difficulties in collecting statistical data, caused by the opacity of calculation methodologies, the sporadic publication of information and the limited comparability of data, the study confirms the existence of significant economic and trade interdependence between the two banks of the Dniester.

The research drew on information gathered from three focus groups held between 2024 and 2026, as well as in-depth interviews conducted in 2026 with individuals who were well informed about the situation in the region. Each focus group was typically attended by between 7 and 15 people, selected on the basis of geographical location, sector of activity and business size. The organisation of the research activities was affected by the reluctance of some potential participants and their fear of being identified or exposed in relation to the de facto structures in the region. For reasons of security and confidentiality, all focus groups and interviews were held at the IDIS offices in Chisinau.

Another significant limitation of the research was the restricted access to data and statistics collected by the de facto authorities in the Transnistrian region, as well as the lack of indicators equivalent to those published by the National Bureau of Statistics.¹ The most recent publicly available statistical yearbook for the region dates from 2020. Data covering the last five years were collected and interpreted by IDIS experts on the basis of fragmentary information published irregularly on the websites of certain bodies in Tiraspol, including the so-called Ministry of Economy and the region's customs service. Where possible, the collection, analysis and interpretation of the data were carried out in accordance with the methodology used by the National Bureau of Statistics of the Republic of Moldova.

¹ The most recent statistical yearbook on the economy of Transnistria, published in Tiraspol, dates from 2020. It is worth noting that the first statistical yearbook did not appear until 2003, covering statistical periods from 1998 onwards. The lack of relevant data for analysing the Transnistrian economy for the period up to 1998 is compensated for by the author's estimates, based on alternative studies and research, including data on agricultural output and CISR reports from the period 1994–2001.

Chapter I.

Key Macroeconomic Indicators of the Transnistrian Region

General data and characteristics of the region

The economy of the Transnistrian region has developed over time as an industrialised, regionally integrated cluster, with a rate of industrialisation four times higher than on the right bank of the Dniester, intensive agriculture supported by irrigation systems and local processing of produce, heavy industry—including metallurgy and machine building—thermoelectric power stations and arms factories. According to statistical data from that period, the level of urbanisation on the left bank of the Dniester was twice as high as on the right bank. Between 1990 and 1992, the standard of living in Transnistria was 15–20 per cent lower than the average recorded in the Moldavian SSR. Since 1992, the Transnistrian region has been at the centre of clashes of political and economic interests, involving complex relations with the patron state, the Russian Federation, divergent interests amongst local industrial and economic elites, as well as a limited framework of relations with the Republic of Moldova, whose sovereignty over the region is contested by the Tiraspol administration due to its pro-Russian orientation.

Over the past 35 years, the region has benefited from an annual system of subsidies provided by the Russian Federation, the cumulative value of which is estimated at tens of billions of USD. Over 70 per cent of the federal subsidies were provided in the form of natural gas supplies, worth over US\$11 billion. Including interest and penalties calculated on the basis of decisions by the St Petersburg Arbitration Court, the debts exceed USD15 billion.² Since 2008, over 150,000 pensioners in Transnistria have sporadically received financial assistance for their pensions, known as ‘Putin’s pension’. The total amount has risen to over 260 million Transnistrian roubles, equivalent to approximately USD 27 million at the 2010 exchange rate.³ At present, data on the financial assistance provided by Russia to the elderly population in Transnistria are not available and, therefore, cannot be used to calculate the population’s actual income.

The annual external assistance provided to Transnistria has created a distinct zone of economic comfort and privileges:⁴ 1) industry has benefited from access to cheap energy;⁴ 2) the population has paid preferential rates for utility services, including

natural gas and electricity; 3) the region’s budget has benefited from additional revenue from the sale of energy, including from electricity generation and the sale of natural gas at subsidised prices. This mechanism has allowed for the maintenance of a tax system that is far more lenient than that in place on the right bank.

By way of comparison, the tax burden on businesses and the population on the left bank of the Dniester accounts for approximately 20 per cent of GDP, whilst on the right bank this figure exceeds 30 per cent. The significant support provided by the Russian Federation has included the supply of natural gas, for which the Transnistrian authorities have not paid. The funds collected from the population and the business sector for energy consumption constitute the main financial source used to cover the budget deficit. On average, approximately 40 per cent of the region’s total budgetary expenditure is covered annually from this source, which is listed in budgetary documents under a classified heading.

In this way, the authorities have enjoyed a wide margin of discretion in supplying energy at preferential prices to the population and the business sector, creating considerable advantages for companies in the region. Furthermore, the resources accumulated by the authorities in Tiraspol have helped to create the appearance of economic prosperity through social policies and benefits for the elderly, humanitarian aid, social and infrastructure projects, study grants, favourable loans for small and medium-sized enterprises, as well as conversion programmes for companies affiliated with the military-industrial complex. This mechanism has functioned as a veritable rent-seeking system between the patron state and the authorities in Tiraspol.

For many years, this system channelled direct benefits to the population and companies in the region in exchange for geopolitical loyalty. This relationship was reflected in the adoption of laws modelled on those of the Russian Federation, in the alignment of educational programmes, in the privatisation of key enterprises for the benefit of influential oligarchs, and in the implementation of technological conversions that contributed to their integration into the Russian military-industrial complex.

² The contract concerning the supply of natural gas by Gazprom to the Republic of Moldova, via SA ‘Moldovagaz’, contains a clause regarding the resolution of disputes through referral to the Arbitration Court in St Petersburg. Interest on obligations not paid on time continues to accrue and, in turn, constitutes a form of subsidy for the regime on the left bank of the Dniester, given that the financial obligation to repay is left to the discretion of the beneficiary.

³ IPN, 26 February 2010, ‘Transnistrian authorities distribute humanitarian financial aid provided by Russia’. Source: https://www.old.ipn.md/ro/autoritate-transnistrene-au-repartizat-ajutorul-umanitar-financiar-care-urmeaz-7965_980883.html

⁴ In 2024, Transnistria’s debts exceeded USD10 billion. ‘The secessionist enclave is drowning in debt! Tiraspol’s gas debts have reached USD10 billion’, 30 January 2024. <https://bani.md/enclava-secesionista-se-ingroapa-in-datorii-creantele-tiraspolului-pentru-gaz-au-ajuns-la-10-miliarde-de-dolari/>

In 2025, the tax burden borne by taxpayers was 1.7 times lower than on the right bank of the Dniester. Whilst public budget revenue on the right bank accounts for approximately 51 per cent of GDP, on the left bank of the Dniester the same indicator stands at 20.4 per cent of the region's GDP. In 2021, the difference between the values of this indicator on the two banks was twofold. The region's tax system does not include VAT, although discussions on the need to introduce this tax have been ongoing since 2016.

Despite the benefits enjoyed by the inhabitants of the Transnistrian region for three decades, the region's economy is in a state of collapse, with a rapid deterioration in key economic indicators.

This study analyses these macroeconomic indicators, the trends evident in the economy and the processes that have recently unfolded in the Transnistrian region, in order to highlight the factors that have led to the deterioration of the economic and social situation, despite the significant external support the region has received annually. At the same time, the study examines how these developments have been influenced by the lack of international recognition, the fragility of external markets and the changing regional context.

Economic dynamics and the reversal of the historical advantage

Analysing the developments of the Transnistrian economy between 1990–2025, there can be identified several distinct phases.

The first stage, spanning the years 1990 to 2000, coincided with the collapse of the centralised Soviet system and the adaptation of former industrial entities to the market economy. The region broadly underwent the same processes as the economy on the right bank, except that, in the first two years following its separation from the Republic of Moldova, the region's economy operated on the basis of the illusion of possible economic autonomy, modelled on the 'besieged fortress' concept. This was followed by a much more severe economic contraction. Compared with 1990, industrial output fell approximately threefold, and agricultural output approximately fifteenfold. Agricultural output in the region continued to decline until 2005, after which, having reached its lowest point, it showed some recovery. However, by 2025, it accounted for only 13 per cent of the real volume of agricultural output in 1990. The Transnistrian economy has thus undergone profound structural changes. Per capita industrial output in the region reached a level comparable to that on the right bank, whereas in 1990 it had been three times higher. Most macroeconomic indicators were severely affected by changes in

ownership structures, the collapse of the centralised economic system and market volatility.

The second period, spanning the years 2001 to 2015, coincided with political changes in Tiraspol, the succession of the Smirnov–Şevciuc administrations and the acceleration of the region's economic adaptation to the regional context. Transnistria capitalised on the opportunities offered by its orientation towards international markets, particularly the Romanian market, as well as by its systematic reconnection to the consumer market on the right bank. Within a relatively short period, the region came to trade approximately 40 per cent of its total exports on the right bank. Industrial production recorded relative growth, agriculture gradually recovered, and household incomes – including wages and pensions – saw a solid recovery, outpacing the rate of economic growth on the right bank. During this period, these incomes exceeded those of the population on the right bank by approximately 40 per cent.

The third period, spanning the years 2016 to 2026, was marked by several significant changes in domestic and external economic developments. Transnistria experienced two successive contractions in the region's gross domestic product, culminating in the decline of 2025. Since 2016, the Central Bank of Transnistria (PRB) has been operating with virtually no foreign exchange reserves, maintaining the exchange rate through administrative measures imposed on economic agents, who are obliged to sell a portion of their foreign currency receipts to support the rate set by the PRB. Also, in 2016, the Tiraspol administration decided to peg the Transnistrian rouble to the USD, setting a fixed exchange rate of 16 Transnistrian roubles to one US dollar. The measure was presented as a means of 'protecting the population', but at the same time functioned as a form of indirect taxation on exporting companies. During the same period, Tiraspol requested that Chisinau accept payment for Transnistrian goods in USD, a request which was rejected by the Moldovan authorities. At the same time, the Republic of Moldova's energy system underwent a significant transformation, with the authorities beginning to reduce their dependence on electricity produced by MGRES.⁵

Electricity sales were a key feature of the Transnistrian economic model. The natural gas received by the local company 'Tiraspoltransgaz', via the Moldovan-Russian company 'Moldovagaz', was made available to the Tiraspol administration, which could decide whether to use it for the region's own consumption or to sell it on. Part of the gas was sold to the Cuciurgan Power Station (MGRES), which was privatised in 2001–2002 by RAO UES. The revenue generated from the production and sale of electricity supplemented the region's budget, without being used to pay in full for the natural gas received.⁶ Since 2021, the Government of the Republic of Moldova has accelerated the process of diversifying energy

⁵ In 2021, the Moldovan Thermal Power Station in Cuciurgan (MGRES) generated 5.2 TWh of electricity, of which nearly 3.5 TWh was supplied primarily to meet demand on the right bank of the Dniester. The Republic of Moldova regularly pays for the electricity supplied, which accounts for 25 per cent of the region's total exports. Source: Statistical Yearbook of the Left Bank of the Dniester Statistical Service (2003–2020), p. 105, 'Electricity Balance' section.

⁶ V. Parlicov, S. Tofilat, T. Şoitu, 'The energy sector in the Republic of Moldova is held hostage by impunity and rent-seeking arrangements. Conclusions and recommendations, 2007', IDIS Viitorul. Link: <http://www.viitorul.org/ro/content/sectorul-energetic-%C3%AEn-republica-moldova-este-ostaticul-impunit%C4%83%C8%9Bii-%C8%99i-%C3%AEn%C8%9Belegerilor-rentiere>

Indicator	Right Bank of the Dniester, 2025	Left Bank of the Dniester, 2025	Right Bank/Left Bank Ratio, 2025
GDP per capita (current population), thousand USD (nominal)	8.5	4.0	2.1
Real GDP growth, estimate	+2.7%	-19.4%	-
Average annual GDP growth since 2010	+2.6%	-1.0%	-
Per capita industrial output, thousand lei (in brackets: 2024)	37.9 (35.5)	48.1 (59.1)	0.8 (0.6)
Average monthly wage, thousand lei	15.5	7.7	2.0
Real growth in wage earnings in 2025	+4.1%	-8.0%	-
Average monthly pension, thousand lei	4.2	1.9	2.2
Real pension growth in 2025	+2.5%	-8.9%	-

Source: authors' estimates based on data from the NBS and from the statistical service on the left bank of the Dniester

sources and reducing dependence on electricity produced by MGRES, which has gradually diminished one of the Transnistrian budget's major sources of revenue. Moldova's shift towards alternative energy sources coincided, between 2016 and 2026, with major turbulence in external markets for Transnistria's metallurgical, energy and electrical engineering products. The cumulative effect of these shocks has led to a sharp decline in the region's export potential and agro-industrial production.

Currently, the region's nominal GDP per capita is approximately 2.1 times lower than the equivalent figure on the right bank. In 2025, GDP per capita stood at approximately USD 4,000 in Transnistria, compared with USD 8,500 on the right bank of the Dniester. The official average monthly wage in Transnistria stood at approximately 7,700 lei in 2025, which was half that on the right bank, where the average wage across the economy was approximately 15,500 lei. The deterioration in the economic situation, characterised by budgetary austerity and a high rate of inflation, had a significant impact on the incomes of the elderly population. The average pension fell by approximately 8.9 per cent in real terms in 2025, reaching around 1,900 lei and thus being approximately 2.2 times lower than the average pension on the right bank, estimated at 4,200 lei. These developments point to a widening of wage and income gaps in most sectors of the region's economy.

The deterioration in economic indicators and the widening of the disparities between the two banks have contributed to the intensification of a phenomenon that gained momentum during the third phase, spanning the years 2016 to 2026:

internal migration from the left bank to the right bank. According to the latest data from the 2024 NBS census, approximately 10,000 residents from the left bank of the Dniester live permanently in settlements on the right bank. Based on qualitative research carried out by IDIS Viitorul between 2024 and 2026, it is estimated that a further 15,000 people commute daily or weekly to the right bank to carry out various professional activities.

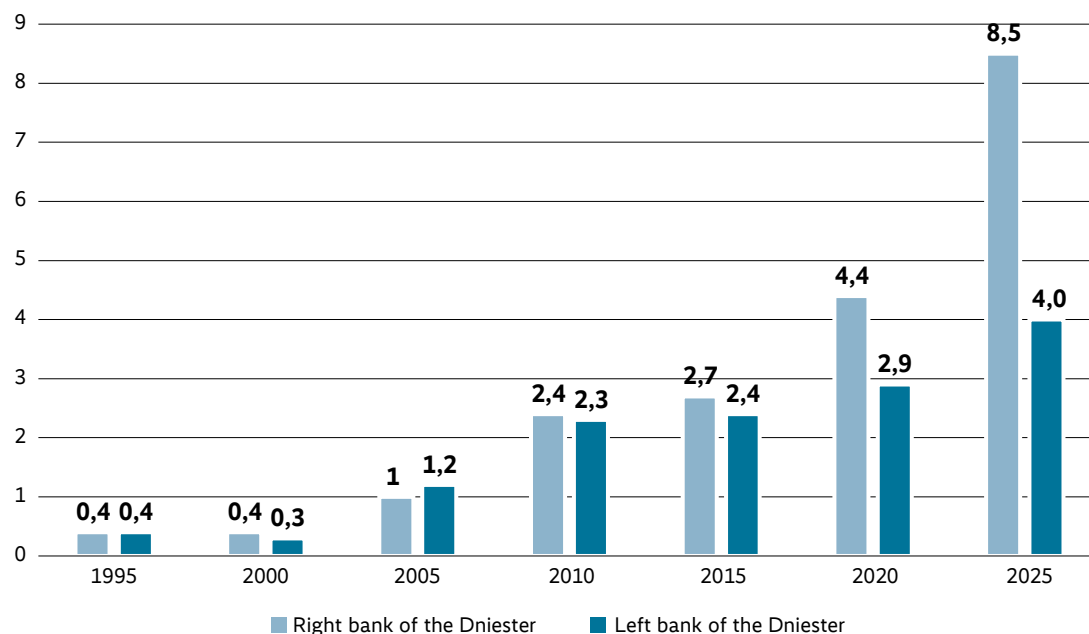
According to the authors' estimates, around 25,000 people domiciled or resident in the Transnistrian region earn a combined annual income of over USD 240 million on the right bank, typically being employed in activities specific to the HoReCa sector in Chisinau and other localities. The estimates are based on a model for calculating real wage earnings in the sectors where residents of the Transnistrian region are employed. The income earned by these people on the right bank exceeds the nominal value of the region's exports, which stood at USD 224 million in 2025.⁷ Although the two figures are not directly comparable from an economic perspective, their comparison highlights the growing importance of income earned on the right bank for the region's population.

This trend may also explain the decision by the authorities in Tiraspol to increase the capacity of the checkpoints, with a view to facilitating labour mobility between the two banks. The dependence of residents on the left bank of the Dniester on employment opportunities in Chisinau and other towns on the right bank contributes to the perception of a higher standard of living on the right bank and influences the Transnistrian population's perceptions of quality of life and of the economic model they consider preferable.

⁷ Total sales for the region in 2025 amounted to USD 436 million, of which USD 224 million were exports, whilst USD 212 million represented sales of Transnistrian products on the right bank, which the Republic of Moldova considers to be 'domestic sales' rather than 'exports'.

GDP per capita on the two banks of the Dniester, USD thousand

Figure 1



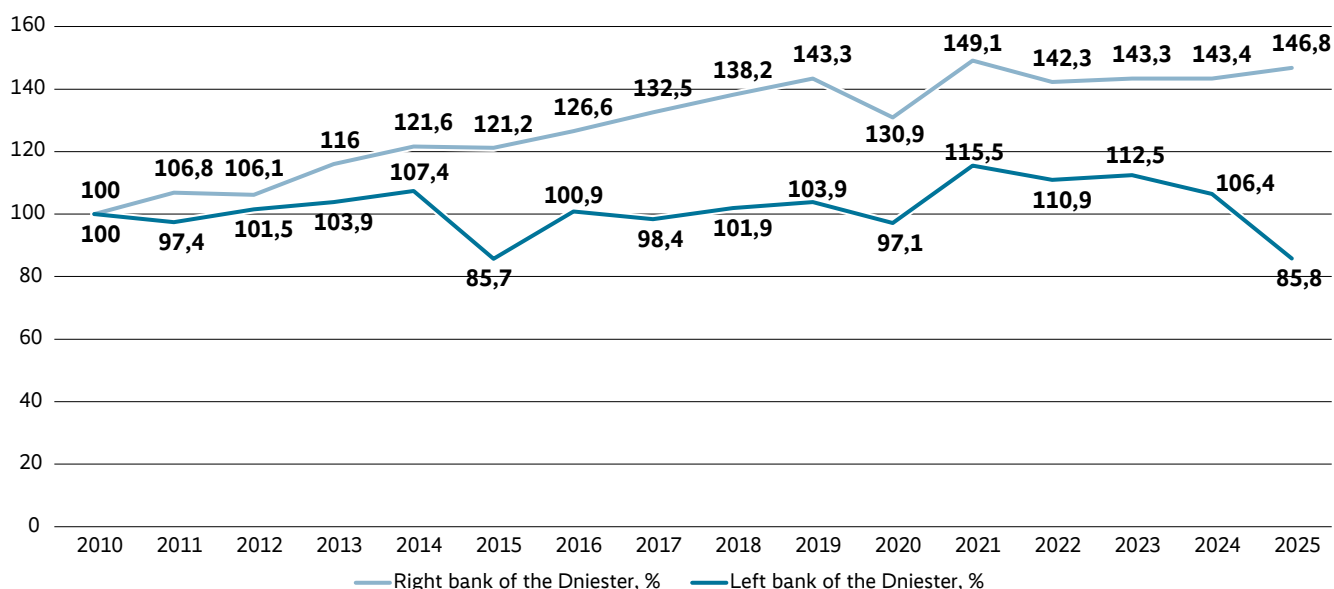
Source: authors' estimates based on data from the NBS and from the statistical service on the left bank of the Dniester

Long-term analysis confirms this trend. Since 2010, the economy on the right bank has recorded an average annual growth rate of 2.6–2.9 per cent, whilst Transnistria's GDP has fallen by an average of 1.0 per cent annually, with its current level being lower than that of 2010. By 2025, the contrast had become

critical: the economy on the right bank of the Dniester recorded growth of 2.7 per cent, compared with an estimated contraction of 19.4 per cent in Transnistria. This difference indicates not merely a cyclical fluctuation, but a systemic and profound deterioration in the region's economic capacity.

GDP trends on the two banks of the Dniester, index relative to 2010

Figure 2



Source: authors' estimates based on data from the NBS and from the statistical service on the left bank of the Dniester

The sharp decline in the Transnistrian economy has affected people's incomes. The cost of living has risen, whilst wage earnings have stagnated or fallen. In 2025, the average monthly wage in the Transnistrian region stood at approximately 7,700 lei, compared with the official average wage of 15,500 lei in the Republic of Moldova, representing a twofold gap in favour of the right bank. Real household incomes followed a similar trend. Whilst wage incomes on the right bank rose by 4.1 per cent in 2025, on the left bank they fell by 8.0 per cent.

The situation regarding household incomes is even more critical when it comes to pensions: 1,900 lei in the region, compared with 4,200 lei on the right bank. In 2025, pensions fell by 8.9 per cent in real terms in the Transnistrian region, whilst on the right bank they rose by 2.5 per cent. This divergence is due not only to income levels, but also to their trajectory and the economic model. Whilst incomes on the right bank continue to rise, even if they do not fully meet the population's expectations, the incomes of residents on the left bank of the Dniester continue to erode, partly due to high inflation, as analysed below.

“Our economy (that of Transnistria, ed.) is undergoing an unprecedented decline. Since the crisis of 2025, the situation has become much more difficult. The region's main enterprises are operating at reduced capacity (MMZ). Employees are leaving Tirotex, the district heating networks and other enterprises in Tiraspol in droves. Several companies are reducing their workforce and increasing the wages of those who remain.”

(Focus group, 21 May 2026)

Underlying the sharp economic decline in the eastern districts is deep-seated stagnation and a crisis in the traditional model of industrialisation. With the exception of a few large enterprises, which are kept in operation thanks to access to cheap energy and tax incentives, the rest of the private companies face major financial and economic risks. In particular, those enterprises that have developed sustainable relationships in European Union markets and adapted to the conditions of regional competition have managed to survive. An active industrial core is thus maintained, although statistical data indicate that the process of deindustrialisation is accelerating.

“MMZ is operating to some extent, but not as a driver of economic recovery, but rather as a model of survival and adaptation. Other key enterprises are largely in a state of maintenance, renovation or preparation for sale.” Overall, the views expressed during the

focus group suggest that the region no longer has an industry capable of sustaining economic growth, but rather industrial assets perceived as resources that can be utilised or sold, depending on the existence of demand.

(Focus group, 21 May 2026)

The decline of Transnistria's large industrial enterprises is profound. Dependent on high energy consumption and stable external markets, they have been sustained primarily through the efforts of the authorities in Tiraspol to preserve the traditional model of large-scale industrial production, without sufficient adaptation to the requirements of economic efficiency and technological progress. The restructuring of large enterprises generally took place only following a change of ownership, and such cases were relatively rare, partly due to the uncertainty surrounding the region's political status. Shortly after the announcement of large-scale modernisation projects, the managers appointed to run the enterprises often reverted to artificially maintaining low-paid jobs and slowing down investment. These practices encouraged labour outflow and contributed to the persistent shortage of skilled staff.

The main lesson is that the mechanical propping up of large enterprises does not automatically translate into increased economic prosperity as long as the macroeconomic model fails to adapt to efficiency requirements, and outdated technologies and a chronic lack of investment prevent the region from catching up with international standards and markets. This combination of factors highlights the shortcomings of a rigid, centrally planned economy in which change is resisted and genuine adjustments are postponed. One of the main vulnerabilities of the region's economic model is the lack of investment in development and production, particularly foreign direct investment.

The uncertain status of an 'unrecognised enclave' and the uncertainties surrounding the region's future generate instability and a high level of investment risk. Industrial development cannot be financed exclusively from external sources, and domestic resources are insufficient. Furthermore, investment is constrained by the interventions of the Tiraspol administration, whose decisions affect enterprises' financial planning and impose restrictive measures, such as the mandatory sale of a portion of exporters' foreign exchange earnings to maintain the exchange rate and the channelling of these funds towards priorities set by the authorities. These mechanisms encourage discretionary practices and clientelism, contributing to economic concentration and increasing oligarchic control over competitive sectors.

During the focus group held on 21 May 2026, respondents confirmed that the region's economy is not merely experiencing a cyclical crisis, but a phase of structural decline. Participants did not describe an economy recovering from an industrial shock, but one that has been operating at a reduced level

of performance for some time. This finding is important for understanding the perceptions of those directly affected by the crisis. Unlike a cyclical crisis, in which businesses temporarily reduce production but retain their capacity to recover, a structural crisis involves the gradual loss of labour, markets, capital and confidence. Among the most common obstacles to the development of the business environment, respondents cited limited access to credit – partly due to the underdeveloped nature of the banking system – as well as limited access to external markets.

“The only loan I managed to get was from a microfinance company in Chişinău.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

Larger companies highlighted the need to establish loan guarantee mechanisms, as well as access to modern financing and investment development tools. A producer in the agri-food industry emphasised that modernising existing equipment could enable production to increase up to three-fold. In the agricultural sector, entrepreneurs highlighted the need to modernise agricultural machinery, irrigation systems and processing equipment. Representatives of the Transnistrian business community claim that opening bank accounts in the Republic of Moldova is very difficult, even when businesses hold the documents required by law.

“Everyone tells me that because of internal policy, I cannot open an account, even though the law allows them to do so.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

Entrepreneurs also reported obstacles to making bank transfers and informal refusals to process international payments.

“Ukrainians won’t accept money if they see it comes from the PMR.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

Some participants reported cases in which their personal accounts had been frozen in connection with income from lawful economic activities.

“They froze my account because I sold a car with neutral number plates.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

These findings suggest the existence of practical difficulties in the process of financial integration, which go beyond the strictly regulatory framework and undermine the private sector’s confidence in formal economic mechanisms.

At the same time, small business owners are exposed to the risk of double taxation, given the lack of clear tax compensation mechanisms.

“I already pay taxes there (Tiraspol), but the authorities here are asking me to pay again.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

Entrepreneurs also highlighted difficulties regarding the application of VAT, environmental taxes and the additional costs generated by administrative procedures.

“We pay for recycling, but nobody comes to collect the packaging.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

In the case of agricultural exporters and small producers, issues were highlighted regarding the application of VAT at internal customs posts, the lack of simplified procedures and difficulties relating to the recognition of certain forms of economic organisation.

At present, Transnistria largely lacks projects for the modernisation and re-engineering of enterprises, with the exception of some companies belonging to the *Sheriff Group*. The region’s economy is not generating new productive capacity, and foreign investors are deterred by instability and the limited prospects of recovering their investments in the event of disputes. This situation limits sustainable development and planned investment in new production capacity. Economic operators are struggling to adapt to the erosion of the material and technical base, facing a chronic labour shortage and turbulence in traditional markets. Consequently, the gaps with neighbouring economies continue to widen.

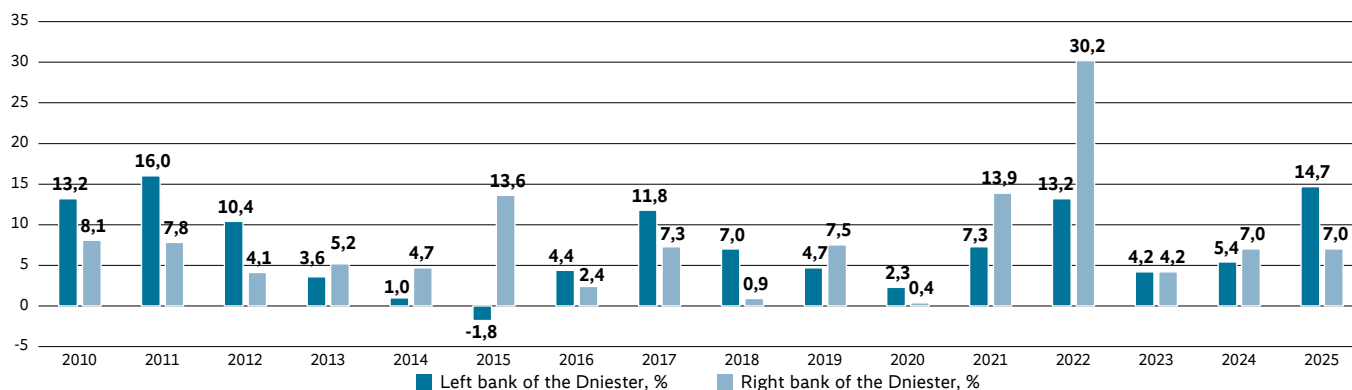
For several years, Tiraspol has systematically benefited from cheap energy resources, which have enabled it to maintain preferential social policies. To support these policies, the authorities in Tiraspol have systematically intervened in the economy, seeking to keep inflation under control and avoid social upheaval. Thus, in 2022, against the backdrop of the energy crisis facing the Republic of Moldova, inflation on the right bank reached approximately 30 per cent, whilst on the left bank of the Dniester it was kept at 13.2 per cent through administrative price-setting and control of the energy distribution and generation system. By 2025, this mechanism, which had appeared

effective in the short term, was no longer functioning with the same efficacy. Whilst inflation on the right bank had fallen to around 7 per cent, on the left bank of the Dniester it had risen to 14.7 per cent, even though the Tiraspol

administration's interventions continued to focus on capping energy and utility tariffs and on administratively maintaining the exchange rate between the Transnistrian rouble and the US dollar.

Inflation trends on the two banks of the Dniester

Figure 3



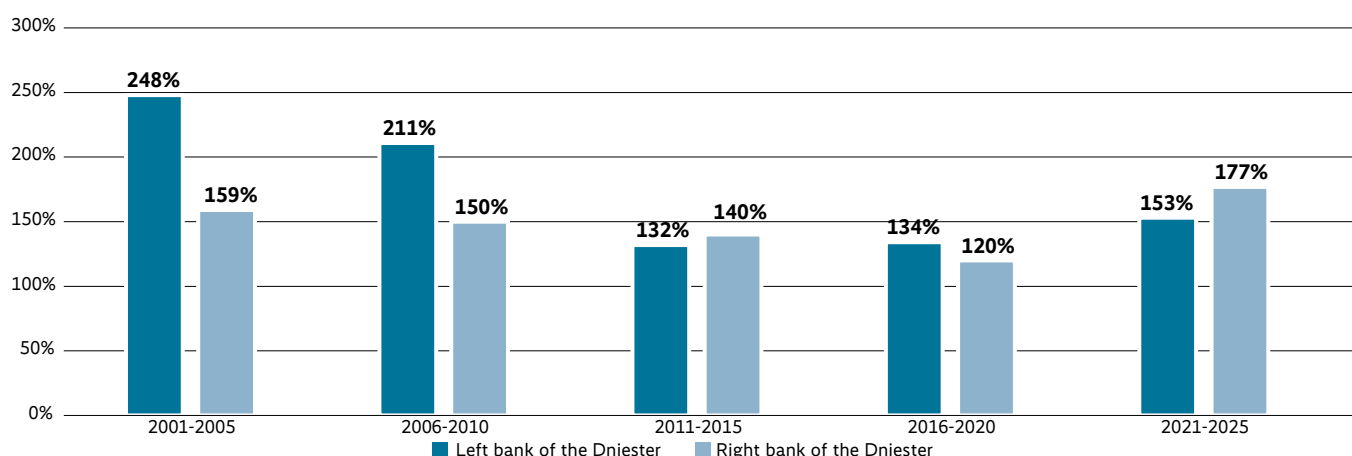
Source: authors' estimates based on data from the NBS and from the statistical service on the left bank of the Dniester

The authorities in Tiraspol define their primary role as the need to 'protect' the population from economic shocks; however, this approach undermines economic stability in the medium and long term. Although administrative interventions may yield certain short-term benefits, maintaining them over the long term undermines the sustainability of the economic model.

A comparative analysis of cumulative price increases over the last 25 years confirms this trend. Whilst on the right bank the consumer price index rose 6.7-fold, on the left bank it rose 11.1-fold. Inflation has remained at higher levels on the left bank than on the right bank, with the population exposed to successive inflationary shocks and seasonal price rises, against a backdrop of persistent internal imbalances, including between rural and urban areas.

Cumulative price increases over the past five years

Figure 4

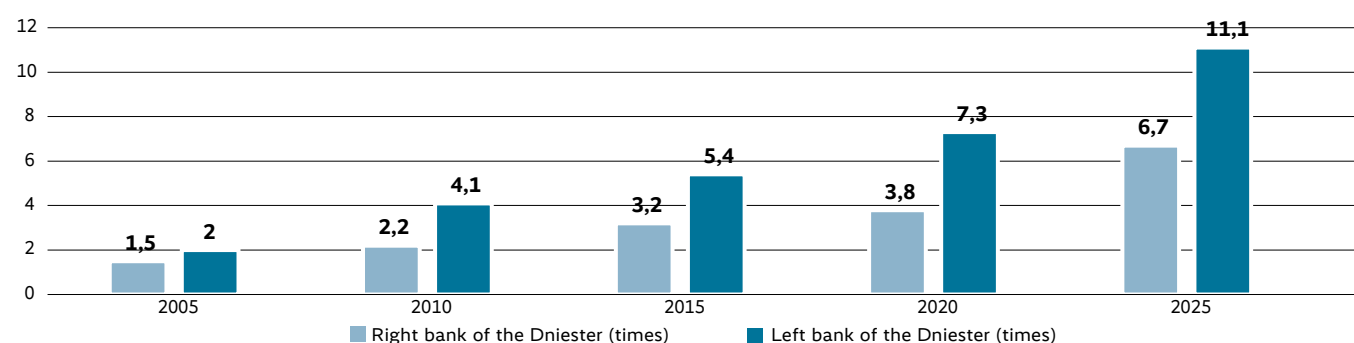


Source: authors' estimates based on data from the NBS and from the statistical service on the left bank of the Dniester

The exchange rate is administratively controlled and used as a stabilisation tool. However, this policy has negative effects, including a shortage of hard currency, the development of parallel markets and a reduction in exporters' competitiveness. Rather than correcting imbalances, these mechanisms mask them and delay the necessary adjustments. A significant

proportion of the region's budget revenue comes from the energy sector. The region's economic model is based on structural dependence on external energy resources, particularly natural gas supplied on preferential terms. This 'energy subsidy' is one of the main pillars underpinning the functioning of the Transnistrian economy.

Trends in prices for goods and services on the two banks of the Dniester, relative to 2001



Source: authors' estimates based on data from the NBS and from the statistical service on the left bank of the Dniester

In 2025, the Transnistrian economy benefited from natural gas estimated at approximately USD 454 million.⁸ These indirect capital injections, presented in Tiraspol as 'donations' from the Russian Federation, account for approximately 200 per cent of the region's export value, estimated at 7.3 billion Transnistrian roubles. By way of comparison, the region's budget revenue for 2026 amounts to 3.9 billion Transnistrian roubles. If the natural gas received from abroad had been sold at market price, the region's budget expenditure would have reached approximately 11 billion Transnistrian roubles, 4.7 billion more than the current level. For 2026, Tiraspol has adopted a budget with expenditure totalling 6.5 billion Transnistrian roubles, 800 million less than in 2024. The budget is smaller even against the backdrop of a cumulative inflation rate of 21 per cent over the period 2024–2025. The region's current budget entails a reduction in wages and pensions in real terms, as well as the suspension of a significant number of previously planned investments. The policies pursued by the Tiraspol administration are geared towards avoiding social protests, maintaining the population's loyalty to its political project, supplying energy at reduced prices, and preserving the rentier system applied to favoured enterprises, which constitutes one of the regime's political foundations.⁹

The effects of this model are manifold. On the one hand, it allows for the artificial propping up of energy-intensive industries, the generation of budget revenue through the redistribution of energy at preferential prices, and the maintenance of low domestic costs. On the other hand, the Transnistrian economy's actual capacity for self-financing remains extremely limited. The survival policies of the Tiraspol administration are underpinned by several interdependent factors: the Russian Federation provides, directly or indirectly, energy subsidies to maintain its influence in the region, whilst Chisinau purchases goods produced in

the region, which account for approximately 40 per cent of the region's total sales. Without this external support and access to the market on the right bank, it would be difficult to maintain a balanced budget, and the payment of wages and pensions would be severely affected. This dependence renders the region's economy a vulnerable system, exposed to external decisions and lacking any real autonomy.

The exchange rate and the reserves of the Transnistrian Republican Bank

Transnistria controls its financial and banking system and the foreign exchange market through a central bank, the PRB ('Приднестровский республиканский банк'). Its functions broadly mirror those of a national bank: supervising financial flows, authorising banking institutions and intervening in the foreign exchange market during times of crisis. However, the PRB's role is specific to a region that is not internationally recognised, as the institution has been operating without any actual foreign exchange reserves since 2016.¹⁰ The currency crisis worsened in 2017, against the backdrop of a drastic reduction in exports by the main industrial enterprises, from USD 715 million in 2016 to USD 530 million in 2017.

The authorities in Tiraspol used the foreign exchange reserves managed by the PRB¹¹ to maintain the exchange rate and limit inflation, social upheaval and budgetary bottlenecks. According to the authors' estimates, in 2016 the net foreign exchange position turned negative for the first time, falling below the threshold of –USD 92.6 million. In the absence of sufficient foreign exchange reserves, the region's authorities introduced restrictive administrative measures, including the obligation for economic

⁸ PMR's foreign trade by main countries and groups of countries for January–December 2025. Monthly report by the Left Bank Customs Service on the region's foreign trade, by main countries and groups of countries, for the period January–December 2025..

⁹ Industrial enterprises on the left bank of the Dniester benefit from energy costs (electricity and natural gas) that are 3–5 times lower than those of enterprises on the right bank of the Dniester, which creates conditions for unfair competition and risks of a chain of bankruptcies. The lack of appropriate measures and investigations into possible anti-competitive practices has contributed to several high-profile bankruptcies in the Republic of Moldova.

¹⁰ Annual reports of the Bank on the left bank of the Dniester, 2008–2020. Note: Reports currently available from public sources cover only the period 2015–2020; for the period 2008–2014, reports from the authors' own archives were used.

¹¹ The region's foreign exchange reserves reached an all-time high of USD81.3 million in absolute terms, or 7.3 per cent of the region's GDP, in 2012. By 2015, they had fallen to USD 19.8 million. In 2016, foreign exchange reserves turned negative. Subsequently, between 2018 and 2020, the authorities managed to replenish them using revenue from economic agents; however, in 2020, the volume of reserves remained negative, with the exact amount unknown.

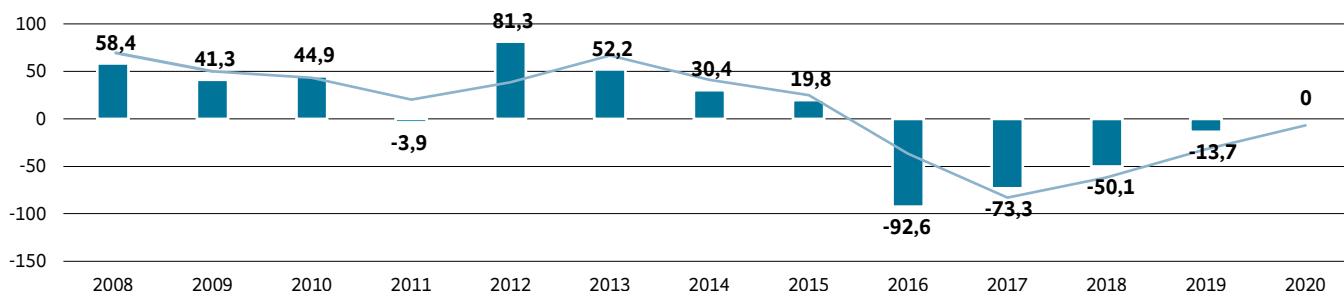
agents to sell a portion of their foreign currency receipts to the Central Bank. These resources could then be used for interventions in the foreign exchange market. Thus, the economic intervention mechanism was gradually replaced by an administrative one, based on imposing obligations on economic agents.

The region's foreign exchange reserves reached an all-time high of USD 81.3 million in 2012, representing 7.3 per cent of the region's GDP. By comparison, the foreign exchange reserves of the National Bank of Moldova accounted for

approximately 28.9 per cent of the Republic of Moldova's GDP in the same year, representing a share roughly four times larger than that managed by the PRB. At a time when Tiraspol was practically depleting its reserves, the NBM held over USD 2.2 billion, equivalent to approximately 27.3 per cent of GDP. These reserves enabled the NBM to cushion any shocks on the foreign exchange market and to counteract financial crises. In contrast, Tiraspol was forced to intervene administratively, compelling economic agents to sell part of their foreign exchange earnings to the PRB.

Foreign exchange reserves on the left bank of the Dniester, 2008–2020

Figure 6



Source: Annual reports of the Bank of the Left Bank of the Dniester, Report of the Transnistrian Republican Bank for 2008–2020. Note: The reports currently available to the public cover only the period 2015–2020; for the period 2008–2014, reports from the authors' own archives were used.

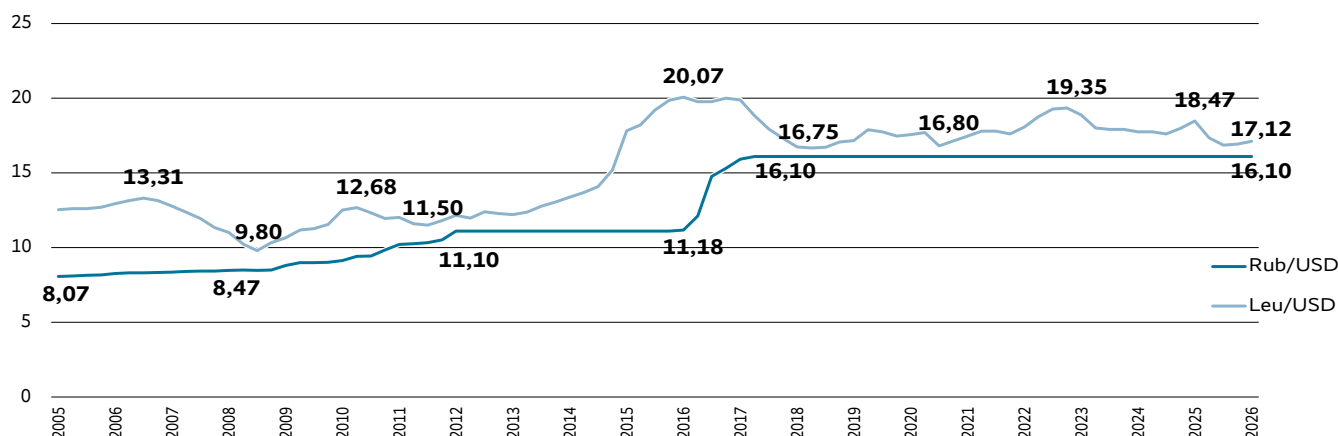
Since 2016, the Central Bank in Tiraspol has ceased to publish complete data on foreign exchange reserves. Up until 2020, only partial information was published, indicating a reduction in the negative foreign exchange position and enabling the authors to estimate a deficit of USD 92.6 million for 2016. However, the current state of the banking system is difficult to assess, as data for the period after 2020 are not publicly available.

At present, the exchange rate between the US dollar and the Transnistrian rouble is not determined solely by the relationship between currency supply and demand, but is maintained through administrative obligations and sanctions imposed in the

event of non-compliance. An analysis of exchange rate trends on both sides of the river highlights the differences in approach between the NBM and the PRB. Whilst the Moldovan leu has experienced annual and seasonal fluctuations, the Transnistrian rouble has been maintained at a fixed exchange rate, even during periods when economic conditions would have justified an adjustment. Following the currency crisis of 2015–2016, when the Transnistrian rouble's exchange rate rose from 11.1 to 16.1 roubles per US dollar, Tiraspol decided to set a fixed exchange rate against the US dollar, rather than against the Russian rouble. The decision was driven primarily by economic, rather than geopolitical, considerations.

Exchange rate trends of the Transnistrian rouble and the Moldovan leu against the USD, 2005–2026

Figure 7



Source: National Bank of Moldova (NBM), average official exchange rates; Transnistrian Republican Bank (PRB)

The year 2026 marks the tenth consecutive year in which the Transnistrian rouble has been maintained at the same exchange rate, set administratively by the authorities in Tiraspol. Maintaining the exchange rate aims to protect the population from social shocks, but it is placing increasing pressure on economic agents. During the period in which these regulations have been in force, prices in Transnistria have risen by approximately 75 per cent, whilst the exchange rate has remained constant. This development has contributed to the relative increase in the cost of goods produced in the region and has created a major vulnerability for local exporters.

Two key sectors of the region's economy – energy and metallurgy – are partially shielded from the effects of this system through access to cheap energy, which enables them to remain relatively competitive on international markets. However, rising costs and the maintenance of a fixed exchange rate have severely affected the agricultural sector, contributing to a decline in production. Through the obligation to sell a portion of foreign exchange earnings at the rate set by the authorities, the business community has become the main source of funding for policies aimed at controlling inflation and preventing social unrest.

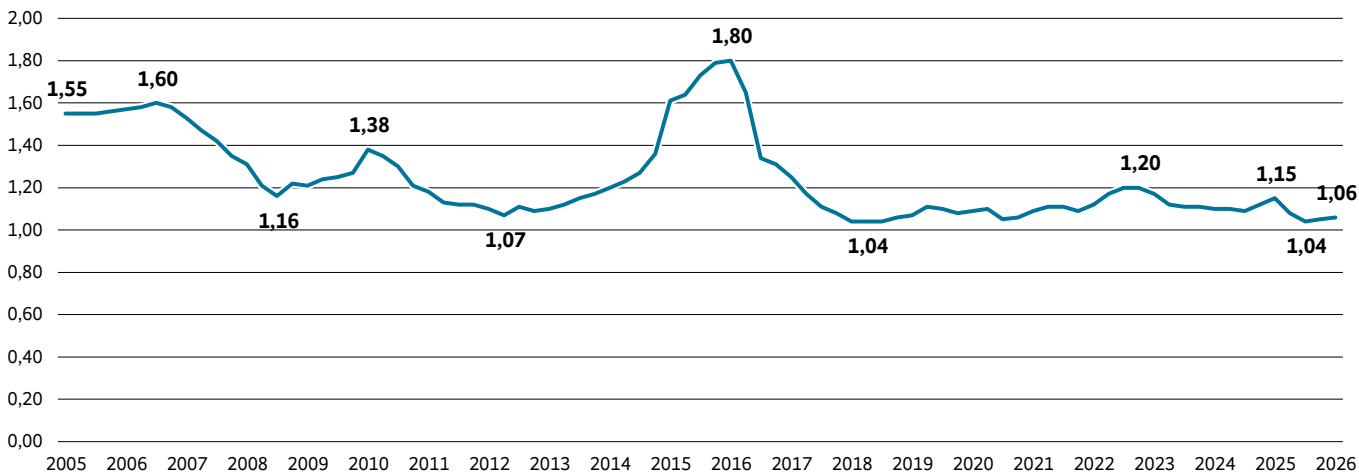
The flow of Transnistrian goods to the right bank provides a stabilising factor for the region's economy during periods of

economic shock. At the same time, this creates a structural dependence of Transnistrian producers on the market on the right bank of the Dniester. Trade relations between the two banks are conducted in Moldovan lei. Despite repeated requests from Tiraspol to allow transactions in foreign currency, the authorities of the Republic of Moldova have maintained the requirement for payments to be made in Moldovan lei, in accordance with national legislation. A clarification of terminology is also required: from the perspective of the Tiraspol administration, sales to the right bank are considered 'exports', whilst the Moldovan authorities record them as domestic trade transactions.

Between 2025 and 2026, the Transnistrian rouble depreciated by approximately 11 per cent against the Moldovan lei, as a result of the lei's appreciation against the US dollar. The rouble's depreciation against the lei enhances the competitive advantage of Transnistrian goods on the market on the right bank. This trend is also reflected in the positive trade balance between the two banks, with the Transnistrian region selling more goods than it buys, even though the Republic of Moldova no longer purchases electricity from MGRES. The positive trade balance, the accumulation of Moldovan lei and the need to maintain the exchange rate of the Transnistrian rouble explain Tiraspol's insistence that trade between the two banks of the Dniester be conducted in USD.

Exchange rate trends of the Moldovan lei against the Transnistrian rouble, 2005–2026, lei per rouble

Figure 8



Source: National Bank of Moldova, average official exchange rates; Transnistrian Republican Bank

The experience of the financial and banking system on the left bank of the Dniester indicates that it is being artificially propped up, with negative effects on economic growth. The PRB's lack of foreign exchange reserves, its vulnerability to fluctuations in exports and its dependence on the policies of the Republic of Moldova increase the likelihood of further exchange rate adjustments. The longer these are postponed, the greater the potential costs for economic agents and the population may become. Between 2015 and 2016, the region's foreign trade fell by 26 per cent, equivalent to a decline of approximately USD 185 million, driven mainly by a fall in metal

exports, a sector that accounts for around one-third of the region's industry.

The economic crisis coincided with a political crisis, which culminated in a change of leadership from Shevchuk to Krasnoselsky and the implementation of populist measures in the run-up to the elections. In 2016, the crisis directly affected exchange rate stability and household incomes. The PRB's interventions led to the depletion of accumulated foreign exchange reserves, and between 2015 and 2019 the Transnistrian rouble depreciated from 11.1 to 16.1 roubles per US dollar. The experience of the

2011–2015 period culminated in a severe shock in 2016, which contributed to a reduction in household incomes, a widening of the gap in living standards between the two banks of the Dniester, a decline in GDP and a fall in the competitiveness of Transnistrian products on neighbouring markets. These developments were exacerbated by the PRB's administrative interventions in the economy.

The system of artificially maintaining the exchange rate through administrative interventions is one of the main vulnerabilities of the Transnistrian economy. The list of vulnerabilities, however, is more extensive.

The region's economic model is based on:

- 1. Free or heavily subsidised access to natural gas.** This enables the accumulation of guaranteed resources in the region's budget. In 2026, approximately 2.6 billion Transnistrian roubles out of a total of 6.5 billion roubles in budget expenditure – or 40 per cent – came from revenue generated by the sale of gas. The authorities in Tiraspol sell the gas they receive without covering the full costs, at nominal prices to businesses and the general public. This enables energy-intensive enterprises to export their products at competitive prices to European markets. In exchange for these advantages, businesses agree to have a portion of their foreign currency earnings withheld to 'maintain the exchange rate' and ensure 'stability in the region'.
- 2. The dependence of foreign trade on authorisations and documents issued by the authorities of the Republic of Moldova.** In the case of strategic enterprises, such as the Râbnița Metallurgical Plant, operations and exports depend on environmental authorisations issued by the competent institutions of the Republic of Moldova. In the case of MGRES, access to external markets is essential. Without access to the market on the right bank, the economic model underpinning the operation of the enterprise¹² would be seriously affected. According to available data, out of a total production of 5.2 billion kWh, local consumption accounts for approximately 1.9 billion kWh, whilst sales outside the region account for approximately 3.2 billion kWh.
- 3. Dependence on the European Union market.** The European market is the main destination for Transnistrian products. Access to this market requires compliance with the technical requirements and standards set out in EU regulations; consequently, the continuation of exports depends on the willingness of enterprises and the administration in Tiraspol to comply with these requirements. In 2025, approximately 77 per cent of the region's external exports, to-

talling USD 225 million, were directed towards the EU market. The left bank is thus, paradoxically, more dependent on the European market than the right bank. Transnistrian exports benefit from the agreements concluded by the Republic of Moldova and the preferential trade arrangements offered through Chisinau. Consequently, isolating or blocking these agreements would run counter to the interests of the region's business community.

The region's banking system consists of five commercial banks and a central bank. Agroprombank is the largest bank in the region, with assets of 2,147.65 million Transnistrian roubles, equivalent to approximately EUR 144.72 million. Between 2014 and 2017, the banks in Transnistria underwent a process of consolidation. Tirotex Bank and Agroprombank merged under the name Agroprombank, and in 2017 Eximbank, Ippotechnii Bank and Tiraspolstroibank merged under the name Eximbank. Sberbank and Bendersotzbank also operate in the region.

Since 2012, Transnistrian banks' access to transactions with banking institutions in the European Union has been significantly restricted, leading to the use of alternative systems for international payments, such as TKB Business, a system with functions similar to those offered by SWIFT. This was used in particular by Agroprombank, Eximbank and Sberbank. Following the inclusion of Transcapitalbank on the US sanctions list, this method of conducting external interbank payments was also affected. Transnistrian banks are authorised and supervised by the de facto institutions in the region, but their licences are not recognised by the National Bank of Moldova (NBM) or by regulatory authorities in other countries. Consequently, they are not subject to the NBM's requirements regarding transaction transparency, customer identification and the reporting of suspicious transactions to the authorities of the Republic of Moldova.

The maintenance of a financial and banking system that is not internationally recognised forces Transnistrian economic agents to use banks on the right bank to conduct their external economic activities. Banks in the region mainly offer domestic services and have limited capacity to support import and export activities. The dependence on the banks of the Republic of Moldova and on the trade facilities offered to the region by the European Union indicates that the region's economy functions, in practice, as a partially integrated system dependent on the economic framework of the Republic of Moldova.

Conclusion

What the analysed indicators describe, on the whole, is not a cyclical crisis, but a change in the nature of the region's economy. From an externally subsidised system that managed to generate certain relative advantages, the Transnistrian economy has transformed into a system that is gradually depleting its

¹² The Kuchurgan Thermal Power Station (MGRES) was privatised in 2002 by RAO EES, without the consent of the government in Chișinău. Nevertheless, the Republic of Moldova has consistently purchased electricity from MGRES, which was able to sell approximately two-thirds of the total volume of energy generated at Cuciurgan, as the volume required for local consumption in Transnistria was significantly lower than the volumes needed for operational purposes.

reserves, its working population and its production capacity in order to maintain the appearance of stability. The fixed exchange rate, administrative price controls and preferential energy support temporarily mitigate the effects of the decline, but do not eliminate the underlying structural imbalances.

This decline is manifested in a lack of effective foreign exchange reserves, a fall in competitiveness, a reduction in investment, the deterioration of the industrial base and the erosion of household incomes. At the same time, the region's economy is becoming increasingly dependent on access to the market on the right bank, on the banking system of the Republic of Moldova and on the trade opportunities offered by the Republic of Moldova's relationship with the European Union. These dependencies show that the region lacks genuine economic autonomy, even though it maintains separate financial and administrative institutions. From this perspective, the relevant question for decision-makers is no longer whether the current model can be

preserved, but how much longer it can absorb shocks without triggering a disorderly adjustment. Postponing reforms may maintain apparent stability in the short term, but it increases the economic and social costs of a future adjustment, including the risk of a currency crisis, a budgetary contraction and the inability of the region's administration to honour its social obligations.

This chapter thus establishes one of the central premises of the study: any reintegration policy must be assessed not in relation to the region's presumed stability, but in relation to the costs of a deterioration that is already taking place. The reintegration process must begin with monetary and financial stabilisation, the protection of people's incomes, and the gradual integration of sectors already linked to markets on the right bank and within the European Union. At the same time, measures that could simultaneously trigger a currency, budgetary and social crisis must be avoided.

Chapter II.

Social Developments in the Region

The demographic crisis and accelerated depopulation in the Transnistrian region

The authorities on the left bank of the Dniester do not publish statistical data on the resident population, an indicator calculated annually by the National Bureau of Statistics for the right bank since 2014. The estimates used in this study are based on data from the censuses conducted in 1989, 2004 and 2014, and in 2015 in the Transnistrian region, on the intensity of migration recorded up to 2015, and on an extrapolation of the migration rate for the left bank, based on the pattern observed on the right bank of the Dniester. Based on the data available for the period between 2004 and 2014, the migration rate on the left bank of the Dniester is estimated at 14.4 per cent, which is higher than that recorded on the right bank, at 11.4 per cent. The estimation model assumed that this trend continued during the period 2014–2026, with an intensification over the last three years. These estimates were presented in several specialist studies carried out by IDIS Viitorul and published between 2021 and 2025.¹³

The region is facing a demographic crisis of unprecedented scale during the period analysed. On the one hand, there is a high rate of emigration driven by economic factors, compounded by an increase in internal migration from the left bank to the right bank. On the other hand, the region is experiencing negative natural growth, with the number of deaths consistently exceeding the number of births. Since 1990, the region's total registered population has fallen from approximately 731,000 to 460,000 inhabitants in 2025,¹⁴ representing a decline of over 37 per cent over a period of 35 years. This decline is not linear, but reflects the cumulative effect of migration and natural decline.

The situation is even more serious when it comes to the population actually present in the region. Whilst in 1995 the officially registered population in the region was estimated at 684,000 people, by 2025 the population actually present in the region is estimated at approximately 295,000. This means that less than two-thirds of the registered population are actually present in the region. The difference is mainly

explained by mass migration, with the number of people who have left the country estimated at around 165,000. This trend indicates a severe decline in human resources and an erosion of the social structures that underpin the region's economy.

According to respondents, depopulation and migration significantly limit the region's prospects for economic recovery.

“The best have left. Only those with no other options remain.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

Entrepreneurs perceive migration not only as a social phenomenon, but also as one of the main economic constraints. Participants in the focus group discussions noted the reduction in the available labour force and the decline in domestic consumption.

“Every year we lose 800–900 people, who tend not to return to the same jobs.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

It is also worth noting the discrepancy between the data on the region's population reported by the National Bureau of Statistics and those published by the authorities in Tiraspol for the year 1990. According to NBS data, in 1990, approximately 685,000 people lived on the left bank of the Dniester, whilst the authorities in Tiraspol reported a population of 731,000 inhabitants. One possible explanation for this discrepancy is that the statistics from the Tiraspol administration included military personnel from the 14th Army contingent, members of other paramilitary groups involved in the events of 1990–1992, and personnel seconded to the region to carry out military missions. The NBS data, by contrast, were based on the

¹³ Economic Analyses (23 July 2021), Population of the Republic of Moldova, 'Natural Change and Migration'; Economic Analyses (15 July 2022), 'Population and Migration in the Republic of Moldova'; Economic Analyses (16 June 2023), 'Population of the Republic of Moldova'; Economic Analyses (28 June 2024), 'The Population of the Republic of Moldova'; Economic Analyses (20 June 2025), 'The Population of the Republic of Moldova'. Source: www.viitorul.org

¹⁴ 'Labour Migration of the Transnistrian Population: Problems and Trends' Alla N. Ostavnaya, Republic of Moldova, Transnistria, Tiraspol, Transnistrian State University named after T.G. Shevchenko, Institute of History and Public Administration, Department of Sociology; Senior Lecturer, Research Fellow at the 'Sociology' Research Laboratory / MOLDOSCOPIE, 2015, No. 3 (LXX) 107.

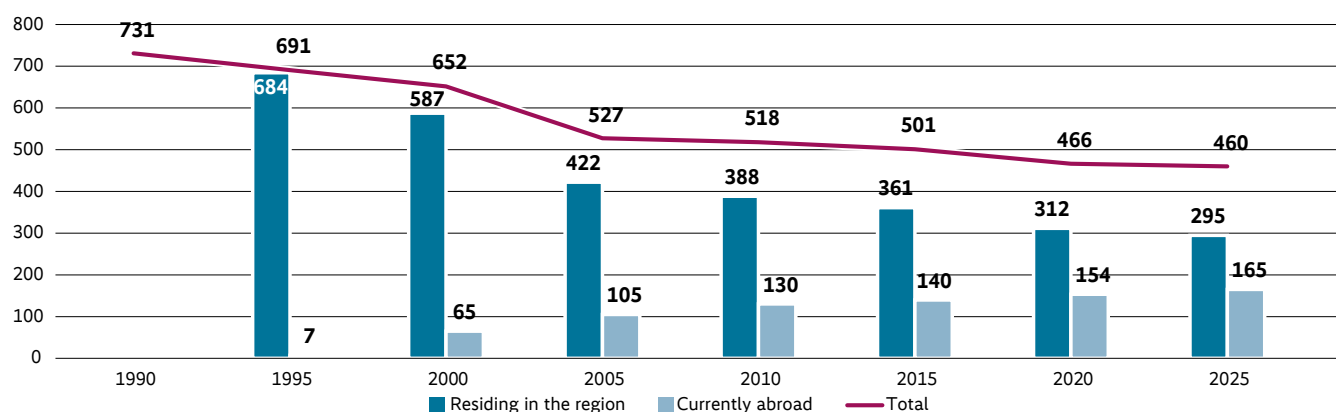
results of the 1989 census, in which these categories were not included.

The difference between the two statistical sources is approximately 46,000 people, and the composition and legal status of this group cannot be established with certainty on the basis of

the available data. After 1992, the region faced a large wave of permanent emigration. This may explain the reduction in the population to approximately 651,000 people in 1995, representing a decline of around 5.5 per cent. The first wave was predominantly permanent in nature, in contrast to temporary and circular economic migration, which intensified in subsequent phases.

Population on the left bank of the Dniester, thousand persons

Figure 9



Source: statistical yearbook of the statistical service on the left bank of the Dniester, 2003-2020

After 1995, temporary migration driven by economic factors intensified in the Transnistrian region. At the same time, the region began to experience negative natural population growth, at a faster rate and to a greater extent than on the right bank. Higher wages and economic opportunities available in Chisinau and other towns on the right bank have encouraged internal migration among the inhabitants of the Transnistrian region.

“Everyone sees on a daily basis the increase in circular migration from the left bank to the right bank, particularly towards Chisinau. For some time now, wages of 7,000–10,000 Transnistrian roubles have been unable to compete with the wages on offer on the right bank, where you can find wages two or three times higher. This is driving the trend of families moving across the Dniester. And in terms of the range of goods on offer, shops on the right bank are more generous in terms of both price and quality. It is true that prices are lower in Transnistria, but everything here is controlled by Sheriff. Those who work in Chisinau every day buy food and consumer goods for others as well. You could say that an older trend, in which the left bank was more attractive for trade and consumer goods, has been reversed.”

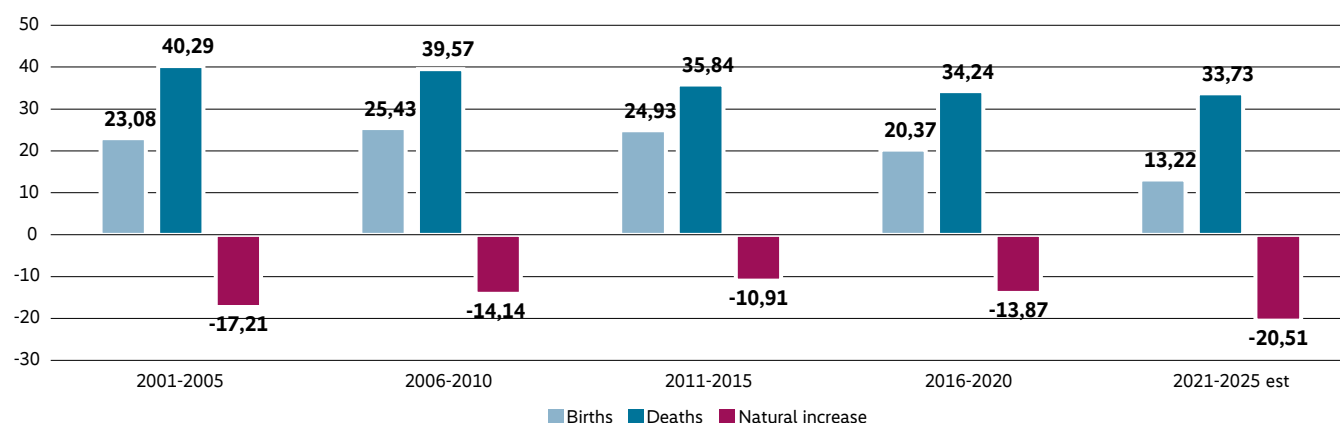
(Focus group, 21 May 2026)

The imbalance between birth and death rates

In addition to migration, depopulation is exacerbated by a significant natural population decline. Over the last 25 years, the cumulative population loss resulting from the difference between the number of births and deaths has been approximately 76,600 people. Recent data indicate an acceleration of this phenomenon. For the period 2021–2025, the natural population decline is estimated at 20,510 people, driven by the low number of births (13,220) compared with the high number of deaths (33,730).

Migration flows are difficult to capture in official statistics. One reason for this is the often unregistered nature of migration. People who leave do not always declare a change of residence; they may consider their absence to be temporary, or they may lack the necessary documents for employment in their destination countries. Furthermore, as documents issued in Tiraspol are not internationally recognised, those who emigrate use documents issued by the authorities of the Republic of Moldova, the Russian Federation, Ukraine, Bulgaria or other states. The demographic changes that have taken place over the last 36 years are also a politically sensitive issue. For this reason, studies, reports and investigations on migration are viewed with reluctance by the authorities in Tiraspol, and their production or publication is often restricted.

Several international projects aimed at assessing the perceptions of returnees, their attitudes prior to departure, the main migration destinations and the volume of remittances have been suspended by the region’s administration. The estimates presented in the study are based on research and reports published by experts and academic centres on the left bank of the



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020. For the period 2021-2025, the authors' estimates were calculated on the basis of the annual reports of the Statistics Bureau on the left bank of the Dniester.

Dniester, supplemented by the extrapolation of data collected by the National Bureau of Statistics.

The data indicate a profound deterioration in the demographic structure of the Transnistrian region. The proportion of young people is declining at an accelerated rate, whilst the number and proportion of older people continue to rise. Over the last five years, both banks of the Dniester have experienced population decline in as a result of negative natural change estimated at 4.4 per cent. Consequently, the capacity for demographic renewal is increasingly limited. From an economic perspective, this trend diminishes the potential for labour force replacement and increases pressure on the social protection system.

Labour migration: an adjustment mechanism and a factor in decline

Migration is the main mechanism for adjusting economic imbalances in the region. In the absence of sufficient opportunities locally, the working-age population, particularly young and skilled people, is drawn to jobs available on the right bank or abroad, primarily in European Union countries. This pattern of economic migration also explains the interest among the region's inhabitants in obtaining Moldovan identity documents and passports.

As at 31 December 2025, the Public Services Agency's records showed approximately 357,000 citizens of the Republic of Moldova with their domicile or residence in the Transnistrian region. They accounted for approximately 78 per cent of the region's total registered population, estimated at 460,000 people. People who have not obtained Moldovan identity documents may include those who do not intend to travel abroad, do not have an immediate need for such documents, or face administrative and

financial difficulties in the process of obtaining them.

The scale of external migration is, proportionally, more pronounced on the left bank of the Dniester than on the right bank. In 2025, approximately 165,000 people out of the region's total registered population of 460,000 were engaged in various forms of external migration. Added to this are approximately 5.4 per cent of the population who commute regularly to work in towns on the right bank of the Dniester. By comparison, according to updated data from the National Bureau of Statistics, approximately 31.6 per cent of the population on the right bank were migrants in 2025.¹⁵

The effects of accelerated migration on the region's economy are mixed. On the one hand, migration generates remittances and supports consumption among households remaining in the region. On the other hand, the labour market faces an acute shortage of workers, with consequences for economic activity and demographic balance. In the long term, the effects of mass migration are predominantly negative. The region is losing human capital and has fewer and fewer taxpayers to support the budget and the social security system. Even though the initial waves of migration may act as a temporary mechanism for adaptation during periods of crisis, the continuation of this process exacerbates underdevelopment and limits the prospects for economic recovery.

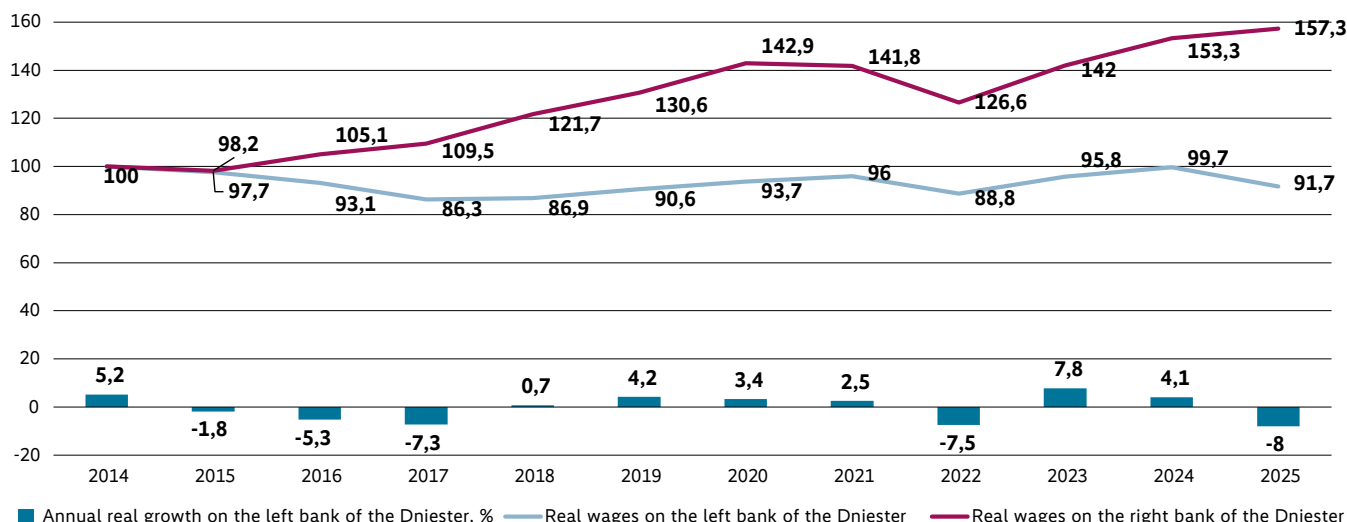
Wage earnings: structural divergence and loss of competitiveness

Statistical data indicate an accelerated deterioration in living standards on the left bank of the Dniester. Until 2011, wages in Transnistria were comparable to those on the right bank. Between 2011 and 2016, wage income on the left bank of the

¹⁵ NBS, 'Report on the population with usual residence in the Republic of Moldova', 2014-2025. NBS, 'Report on international migration by age group, region and sex', 2014-2023.

Real wage income growth on the left and right banks of the Dniester, 2014–2025

Figure 11



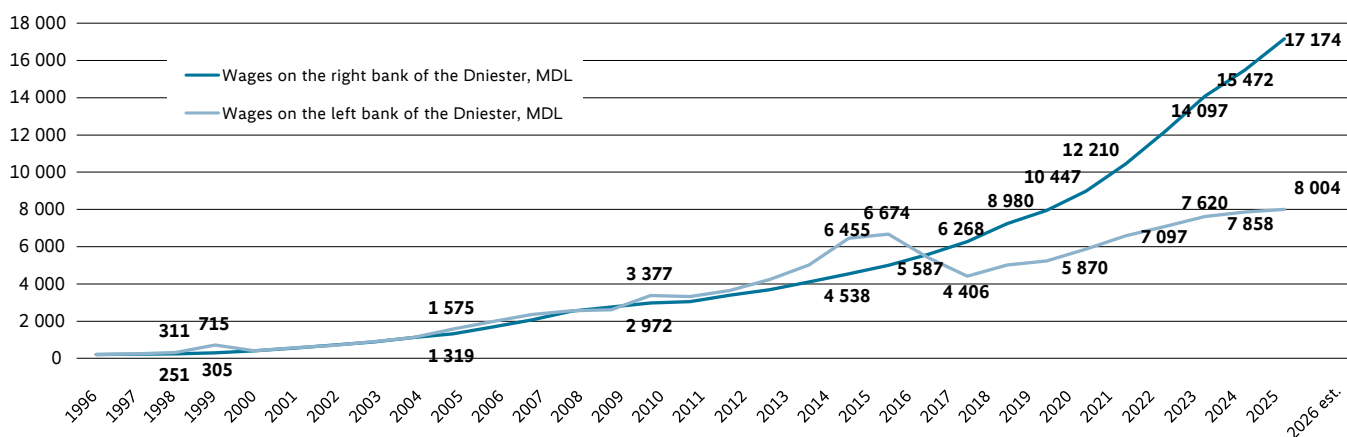
Source: authors' estimates based on data from the National Bureau of Statistics of the Republic of Moldova (wage earnings series); the National Bank of Moldova (average annual MDL/USD exchange rate); and the statistical service on the left bank of the Dniester — press releases on wages for 2017–2022 and the statistical yearbook, editions 2003–2020; central bank in Tiraspol

Dniester grew at a faster rate, with the average wage reaching approximately 6,700 lei in 2016, compared with 5,600 lei on the right bank. This temporary advantage was influenced by the depreciation of the Moldovan leu in 2015 and the maintenance of exchange rate stability in Transnistria.

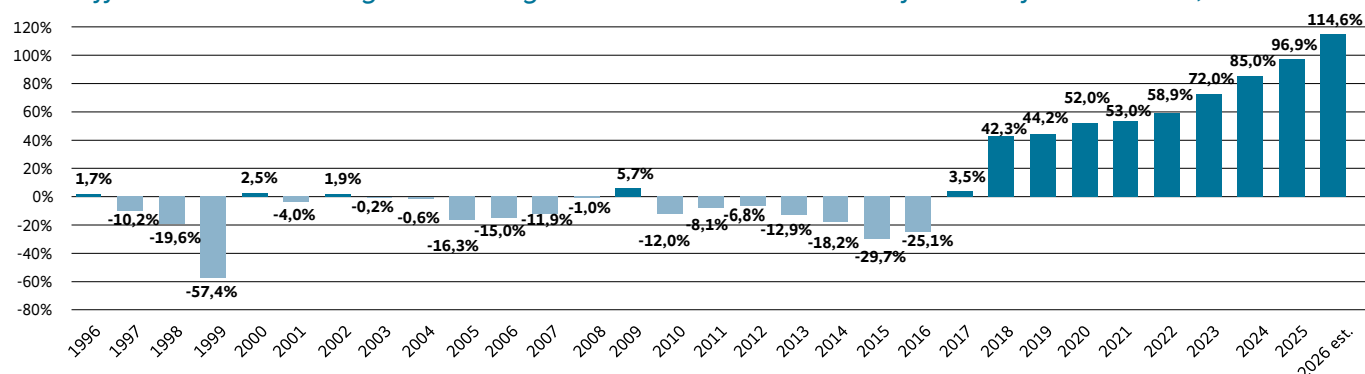
From 2016 onwards, the region was hit by a severe economic and currency crisis, which led to a significant depreciation of the Transnistrian rouble. Since 2017, the region's economic decline has begun to have an increasingly severe impact on wage earnings.

Average monthly wage on the two banks of the Dniester, MDL

Figure 12



The difference between wages on the right bank and those on the left bank of the Dniester, %



Source: Ibidem

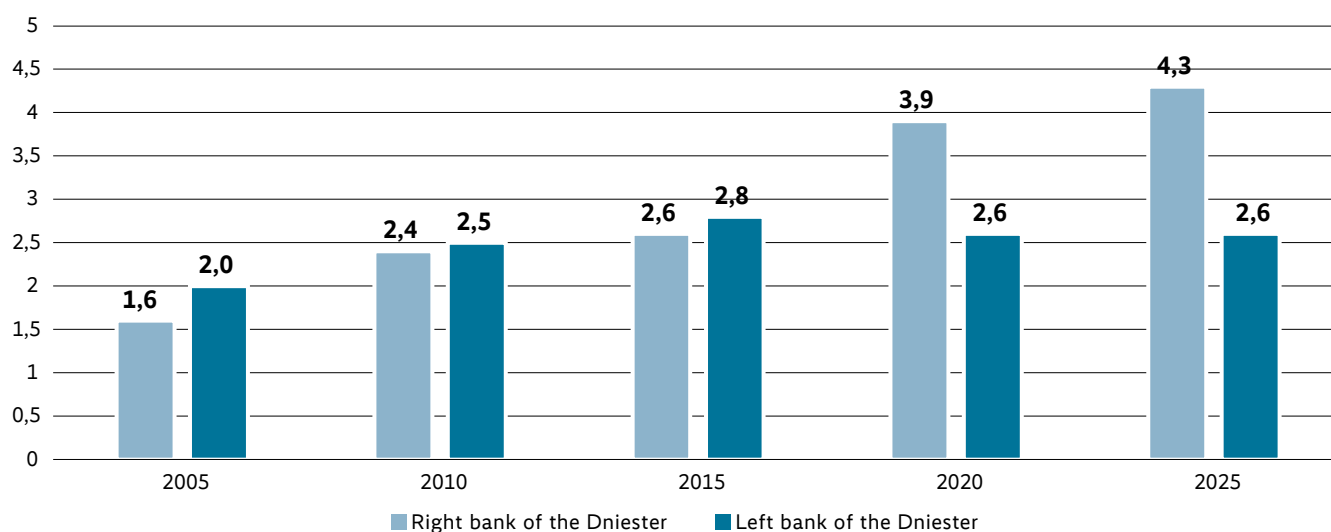
Converted into Moldovan lei, the average wage in Transnistria stood at approximately 4.4 thousand lei in 2018, compared with 6.3 thousand lei on the right bank. These differences became more pronounced in subsequent years and indicate an increasingly marked divergence between the two banks of the Dniester. In 2025, the average monthly wage on the right bank was approximately 15.5 thousand lei, whilst in Transnistria it was estimated at 7.9 thousand lei, equivalent to approximately 7,280 Transnistrian roubles or USD 452.

Real wage earnings of the population on both banks of the

Dniester rose steadily until 2015, against a backdrop of relatively low and stable inflation, which was kept below the rate of nominal wage growth. Until 2005, real wages in Transnistria grew faster than on the right bank. By 2015, the cumulative growth rates had become comparable: the real wage on the right bank was 2.6 times higher than in 2001, whilst that in Transnistria was 2.8 times higher. After 2016, real incomes on the right bank grew at a faster rate, with a period of slow-down between 2022 and 2024 linked to the energy crisis. In Transnistria, recent years have been marked by a sharp decline in real incomes.

Real growth in wage earnings relative to 2001

Figure 13



Source: Ibidem

Compared with 2001, real wages on the right bank have increased by approximately 4.3 times, whilst real wages on the left bank of the Dniester have increased by approximately 2.6 times. The trend in the Transnistrian region has been supported, amongst other things, by the maintenance of preferential access to energy resources. These differences reflect the region's dependence on an energy-intensive economic model, its low competitiveness and the limited capacity of its economy to generate stable real incomes for the population. Consequently, the welfare gap between the two banks not only persists but is widening.

The pension system: from an advantage to a critical vulnerability

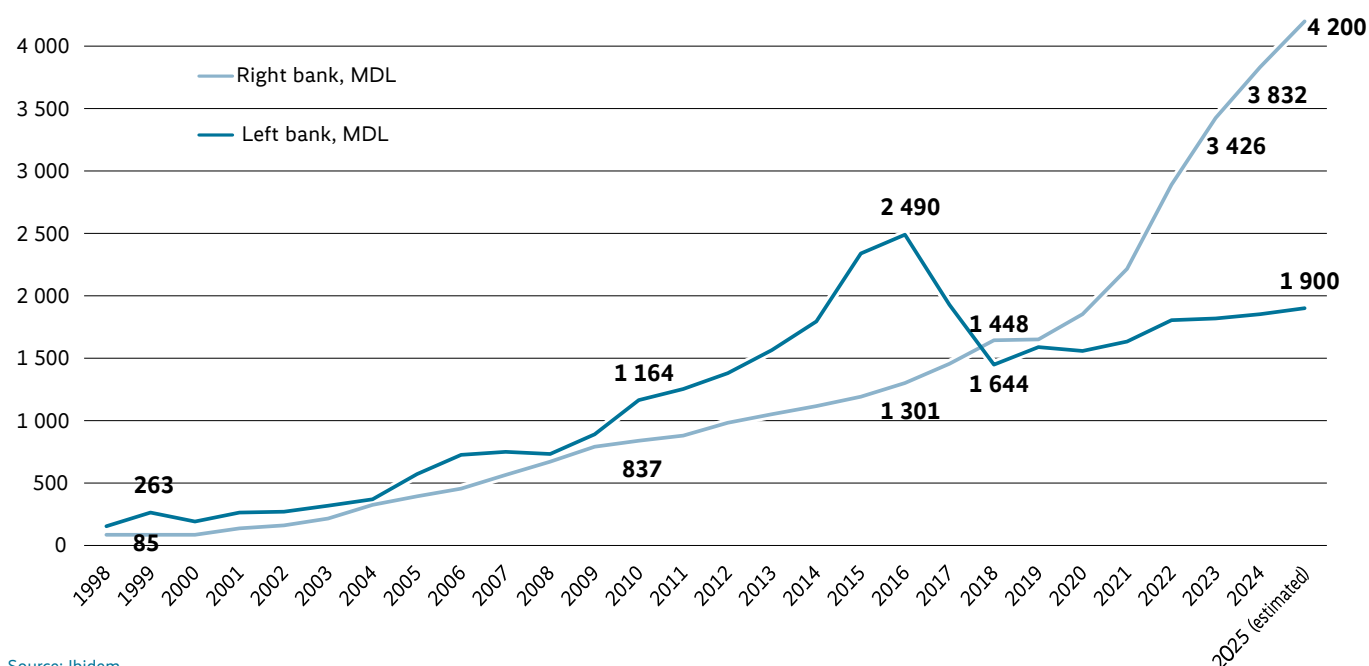
The old-age pension insurance system on the left bank of the Dniester differs from that applied in the Republic of Moldova. In Transnistria, there is no separate fund dedicated exclusively to the payment of pensions, but rather a single fund from which social benefits and medical services are financed. Consequently, the authorities in Tiraspol use a funding mechanism that differs from the social insurance system on the right bank.

The Republic of Moldova's system is based on the principle of solidarity and is funded mainly by social insurance contributions paid by employers. In Transnistria, pensions are funded through a single social tax ('единый социальный налог'). The standard rate paid by employers is approximately 17 per cent, with differentiated rates ranging from 3 per cent to 25 per cent for certain categories of activity. Under the Social Tax Act, as in force on 3 March 2026, the tax is paid by the employer, and the applicable rate varies depending on the sector of activity.

In 2026, expenditure from Transnistria's Single Social Fund was approved at approximately 2.24 billion Transnistrian roubles, equivalent to 11.8 per cent of the region's GDP. Of this amount, approximately 1.54 billion roubles is earmarked for the payment of old-age pensions, representing 8.1 per cent of GDP. In the Republic of Moldova, the social security and health insurance budgets for 2026 together account for approximately 18.7 per cent of GDP. Relative to gross domestic product, the share of resources allocated to social security and health insurance on the right bank is thus approximately 60 per cent higher than the corresponding share of the Transnistrian Single Social Fund.

Figure 14

Average monthly pension on the two banks of the Dniester, 1998–2025, MDL/ month



Source: Ibidem

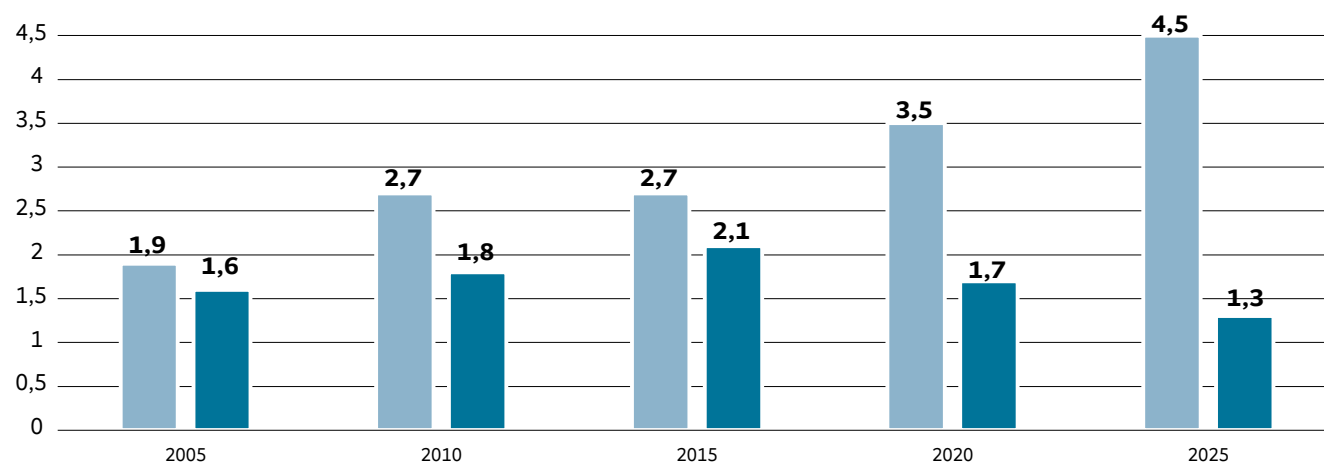
The trend in old-age pensions illustrates one of the most pronounced social reversals in the region. Whilst in 1999 pensions on the left bank of the Dniester were approximately three times higher than those on the right bank, the situation has now been completely reversed. The region's pension system faces a permanent shortfall in resources. In 2025, the average pension on the left bank of the Dniester was estimated at around 1,900 lei, equivalent to 1,760 Transnistrian roubles, whilst the average pension on the right bank was around 4,200 lei. Pensions in Transnistria fell sharply after 2016 and have not since returned to their previous trajectory.

An analysis of trends in real terms highlights this divergence

even more clearly. Compared with 2001, pensions on the right bank have increased approximately 4.5-fold in real terms, whilst on the left bank of the Dniester they have increased only 1.3-fold. Real pensions in Transnistria showed a relatively favourable trend until 2015, comparable to some extent with that on the right bank. After 2015, they declined steadily as a result of inflation and the lack of sufficient nominal increases. Against the backdrop of a shrinking export base for the region's economy, the resources available to fund social expenditure have also been affected. This trend points to an almost complete stagnation in pensioners' purchasing power and exacerbates social vulnerability and the risk of poverty amongst the elderly population.

Figure 15

Real growth in pension income relative to 2001



Source: for the right bank of the Dniester — the National Bureau of Statistics of the Republic of Moldova (Statistical Yearbook, editions 2004–2024, and data on pensioners and the average monthly pension, 2015–2026) and the National Bank of Moldova (average annual MDL/USD exchange rate). For the left bank of the Dniester — the statistical service (press releases on wages, 2017–2022, and the statistical yearbook, editions 2003–2020) and the central bank in Tiraspol.

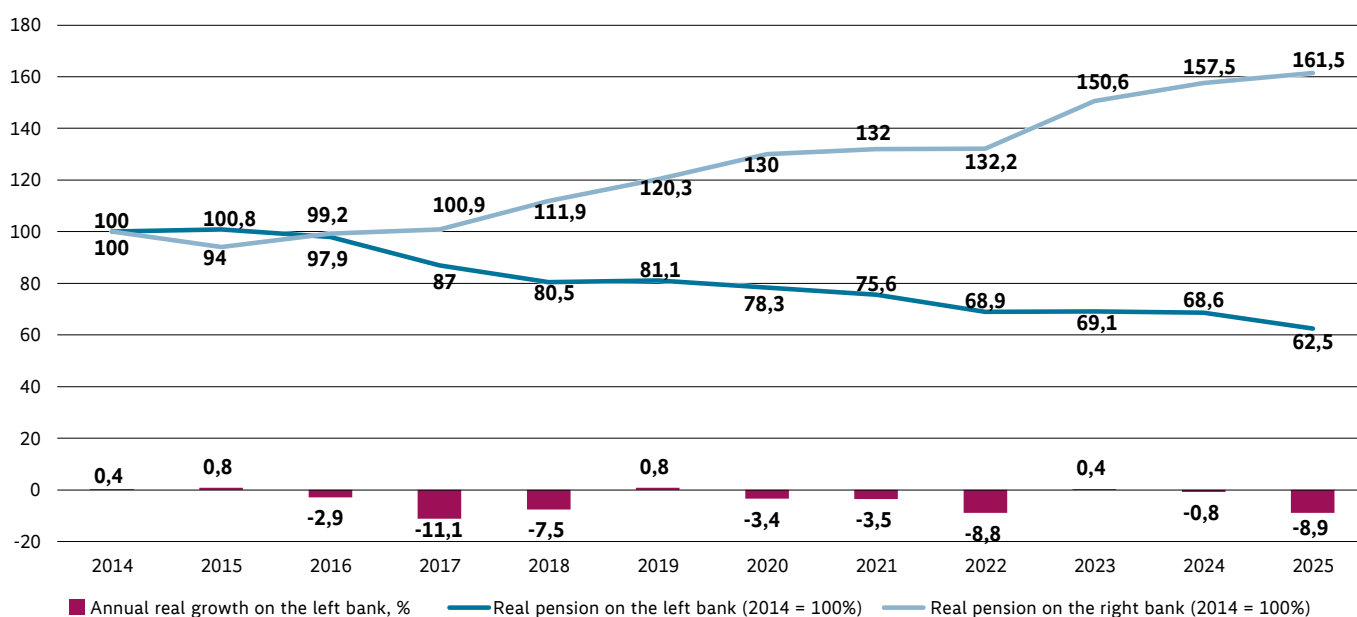
The region on the left bank of the Dniester – structural contraction

An analysis of social developments points to a process of structural contraction, driven by the interplay between economic decline and demographic changes. The main trends are accelerated depopulation, mass migration of the working-age population, a marked natural decline, widening

income gaps and the deterioration of the social protection system. These processes do not evolve in isolation, but feed into one another. Migration reduces the working-age population and the number of taxpayers, which limits the resources available for the social protection system. At the same time, low income levels and the deterioration of social protection encourage further emigration, contributing to a vicious circle of decline.

Figure 16

Annual real growth in pensions on both banks of the Dniester



Source: Ibidem

In the absence of major structural changes, social developments will continue to reflect and exacerbate economic imbalances. In the long term, this dynamic poses major risks to the region's social sustainability and its ability to ensure the functioning of institutions and the provision of basic public services.

Conclusions

The social dimension is not merely an ancillary element of economic analysis, but one of its fundamental constraints. Demographic decline limits the prospects for domestic recovery, whilst the vulnerability of household incomes sets the pace at which any economic or institutional adjustment can be achieved. Depopulation, natural population decline and an ageing population reduce the labour force pool and increase pressure on the social protection system.

In the short term, migration acts as a mechanism for adapting to the lack of economic opportunities in the region. Incomes earned abroad or on the right bank support household consumption and mitigate some of the effects of economic decline. In the long term, however, this same process reduces human capital, the number of taxpayers and the capacity of

the region's economy to recover using its own resources. The region is losing, in particular, its young, active and skilled population – precisely the group on which the modernisation of the economy and the functioning of public institutions depend.

The income gap between the two banks reinforces this trend. Wages and pensions on the left bank of the Dniester have lost the relative advantage they previously enjoyed, and their purchasing power has stagnated or declined. The widening gap with the right bank is fuelling labour migration and contributing to the growing perception that opportunities for development and social security lie outside the region. At the same time, the shrinking working-age population is narrowing the funding base for the social protection system, making it increasingly difficult to sustain pensions, benefits and public services.

These processes form a vicious circle. Economic decline reduces incomes and employment opportunities, which in turn drives migration. Migration reduces the labour force, domestic consumption and the number of taxpayers, further limiting the ability of the economy and the social protection system to recover. In the absence of structural changes,

demographic decline and the deterioration of social conditions will feed into one another, affecting, among other things, the region's administration's ability to ensure the functioning of institutions and the provision of basic services.

The chapter thus shows that time is working against both sides. The prolongation of the current situation reduces the human resources needed for successful reintegration and increases the social costs of any future intervention. A region with an increasingly smaller, older and more dependent population will have a reduced capacity to adapt to economic and institutional changes.

This gives rise to a key principle for the design of reintegration policies. The social component cannot be treated as a secondary cost of economic harmonisation, but rather as a factor that determines whether the process is politically, economically and socially sustainable. Any adjustment must take into account the population's capacity to cope with change, the need to protect real incomes and the preservation of human capital. In the absence of such an approach, measures designed to stabilise the economy could accelerate migration and exacerbate the very vulnerabilities they are intended to address.

Chapter III.

The Socio-Economic Situation and Economic Structure of the Region

The agro-industrial sector of the region on the left bank of the Dniester

In 1990, Transnistria's rate of industrialisation was approximately three times higher than in the rest of the Republic of Moldova, relative to population size. Between 2010 and 2024, industry consistently accounted for approximately 80 per cent of the region's cumulative industrial and agricultural output. Thus, in 2021, industry generated 16.6 billion Transnistrian roubles out of a cumulative total of 21.2 billion, and in 2024, approximately 15.9 billion out of a total of 20.5 billion roubles.

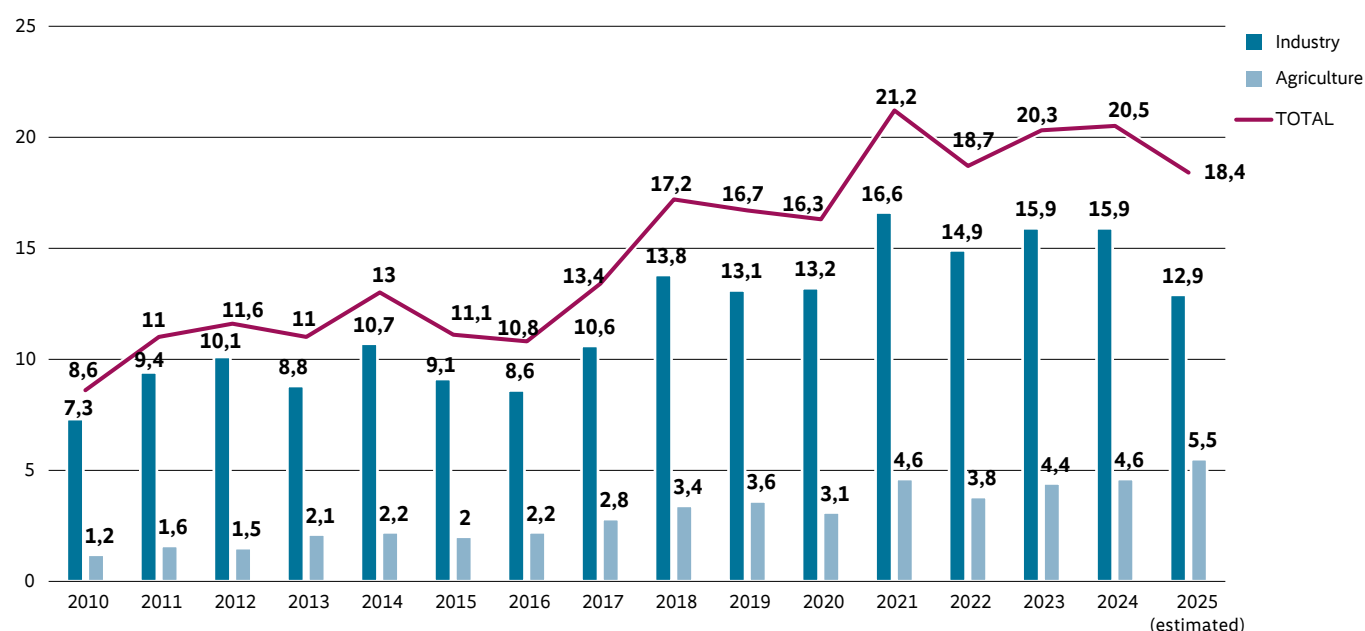
The region's industry has remained dependent on the Soviet model of organisation and operation. This dependence is driven, firstly, by access to cheap energy and high energy consumption; secondly, by the concentration of a significant share of production in two main enterprises; and, thirdly, by

dependence on access to natural gas and neighbouring markets. These vulnerabilities have led to repeated crises in the region's economy and have contributed to the persistence of inherited structural imbalances.

Looking back, one of the main vulnerabilities of the Transnistrian economy was its long-standing access to cheap energy resources, provided for geopolitical reasons. This advantage reduced the incentive to reform industry and develop alternative sectors. The authorities in Tiraspol have avoided adapting to economic changes in the region, preferring to maintain the advantages offered by the existing model. Trends in industrial and agricultural output show that, for over a decade, industry has dominated the region's economic structure. The analysis of total industrial output also includes available data on the activity of small enterprises and non-industrial organisations.

Industrial and agricultural output on the left bank of the Dniester, billion Transnistrian roubles

Figure 17



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol

The decline in industrial output in recent years, particularly in 2025, coupled with a relative recovery in agricultural output, has led to an increase in the share of agriculture from approximately 15–20 per cent to 29.9 per cent of the combined value of industrial and agricultural output.

Paradoxically, the energy crisis and restricted access to external markets have thus contributed to a certain diversification of the region's economic structure, without this having resulted from a deliberate policy on the part of the Tiraspol administration.

Against the backdrop of the energy crisis and the reduction in activity at major industrial enterprises, particularly MMZ and MGRES, industrial output fell to approximately 13 billion Transnistrian roubles, compared with 16.6 billion in 2021 and 15.9 billion in 2024. At the same time, agricultural output rose to approximately 5.5 billion roubles, marking an increase of around 20 per cent.

Consequently, industry’s share of the combined value of industrial and agricultural output fell to around 65–67 per cent, compared with levels of around 80 per cent recorded in previous years. This change does not reflect a deliberate process of modernisation or diversification, but rather the effects of the severe contraction of enterprises dependent on cheap energy. Agriculture has become relatively more important not because of

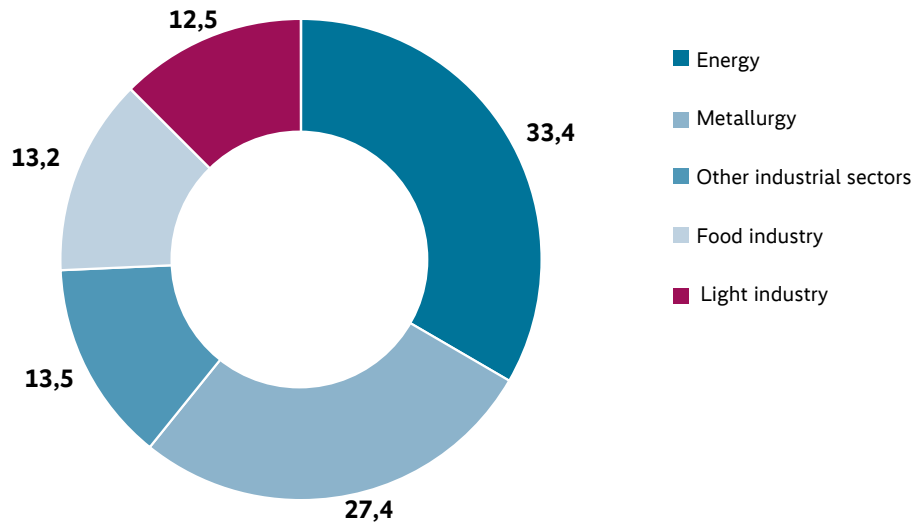
accelerated technological transformation, but as a result of the decline in the industrial sector.

The structure and dynamics of industrial development in the region

An analysis of the structure of industrial production shows that two sectors continue to dominate the region’s economy: energy, accounting for 33.4 per cent of total industrial output, and metallurgy, accounting for 27.4 per cent. Together, these sectors account for over 60 per cent of the region’s industrial output. The Transnistrian economy is therefore not only heavily industrialised, but also has a rigid, energy-intensive structure that is highly vulnerable to energy shocks.

Figure 18

Structure of industry on the left bank of the Dniester



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol

Transnistria’s economy can be broadly characterised as a mono-industrial economy, underpinned by a few large, systemically important enterprises that are dependent on cheap energy. The competitiveness of these enterprises is largely maintained through indirect subsidies for energy costs.

The relatively more stable sectors are those geared towards domestic consumption and the generation of added value within the region’s economy; however, these account for a considerably smaller share. The food industry accounts for 13.2 per cent of industrial output, light industry for 12.5 per cent, and other industrial sectors for approximately 13.5 per cent. This structure confirms the existence of a major imbalance. The economy produces relatively high output in heavy industry sectors, but generates few diversified jobs and has limited flexibility and adaptability.

After peaking at 21.2 billion Transnistrian roubles in 2021, the cumulative value of industrial and agricultural output entered a period of stagnation, followed by an accelerated decline. It stood at 18.7 billion roubles in 2022, 20.3 billion in 2023, 20.5 billion in

2024 and approximately 18.4 billion roubles in 2025. The decline of approximately 10.2 per cent in a single year is almost entirely attributable to the contraction of the industrial sector.

The economic model, based predominantly on energy and metallurgy, is extremely vulnerable to external shocks, as it depends on access to cheap energy and the maintenance of economic mechanisms that are difficult to sustain in the long term. The high share of these two sectors explains the region’s critical dependence on natural gas supplied on preferential terms. Their competitiveness stems not primarily from productivity, innovation or technological investment, but from access to energy resources at very low cost.

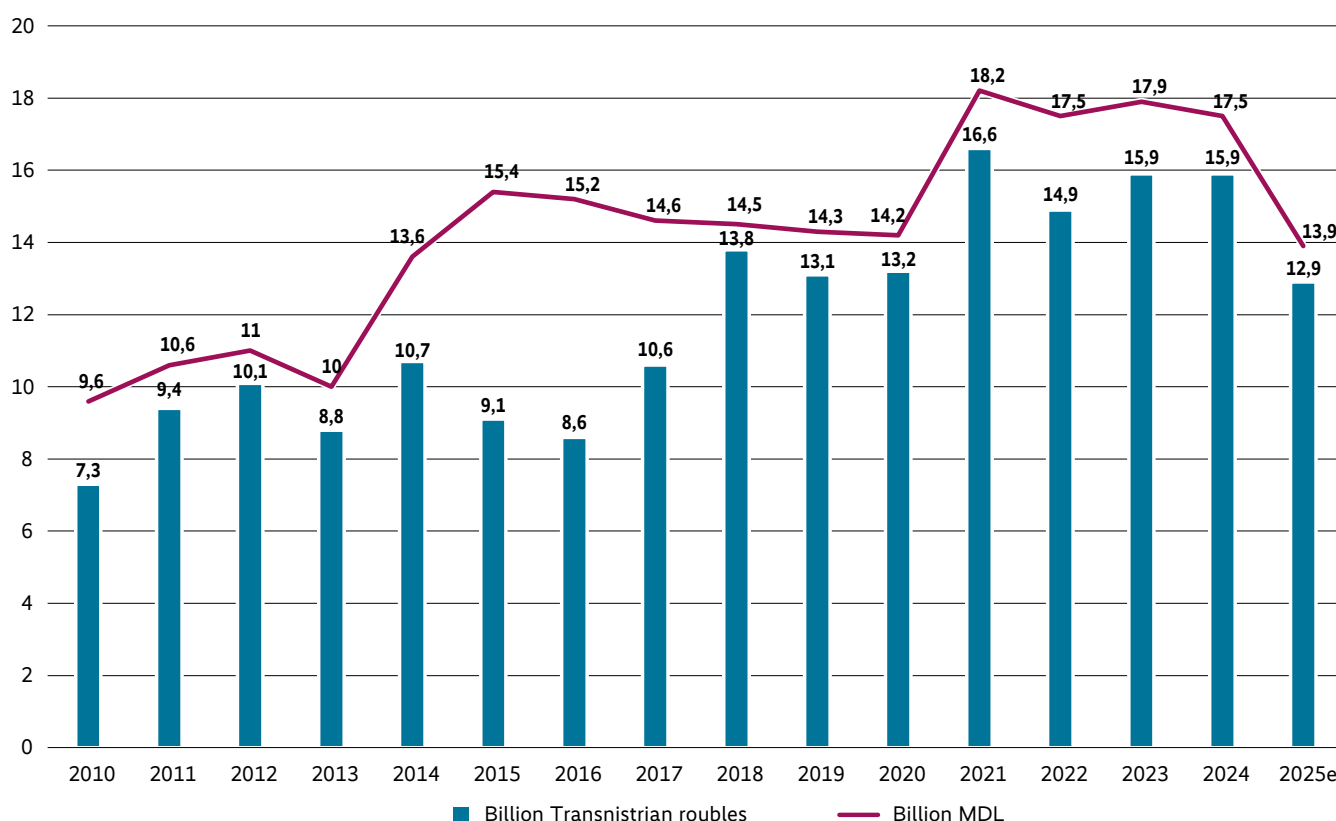
Energy subsidies have enabled the model to retain a certain degree of functionality, but have delayed investment in technology, diversification of production and the modernisation of work processes. These subsidies have helped to maintain a significant part of Soviet-style industry, which has generated revenue for the region’s budget whilst benefiting from reduced

domestic energy tariffs. From an economic perspective, however, this mechanism has created structural dependence rather than genuine competitiveness. When energy costs rise unpredictably or access to natural gas becomes unstable, energy-intensive industries rapidly lose their economic viability. Cheap energy was therefore not merely an advantage, but also the main pitfall of the region's economic model.

Data on industrial production confirm that the region's economy entered a phase of severe contraction in 2025. The volume of industrial production fell to approximately 13 billion Transnistrian roubles, equivalent to around 12.9 billion lei, compared with 17.9 billion lei in 2023 and 17.5 billion in 2024.

Industrial production on the left bank of the Dniester

Figure 19



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol

This decline is not merely a cyclical correction, but a severe industrial contraction, foreshadowed by the structural vulnerabilities of the region's economy. In 2025, industrial output fell by approximately 20 per cent, marking one of the most severe contractions of the past 15 years. Comparable declines were recorded in 2013 (17.7 per cent) and in 2022 (20.5 per cent).

The contraction in 2025 is thus comparable to the most severe previous industrial crises and indicates that the region's economic model has reached a critical juncture. Maintaining a development model based on stopgap measures and energy advantages no longer allows for a return to sustainable economic growth.

Investors' reluctance to allocate resources to changing the

direction of the economy's development is well known within the business community. A representative of a business association in Transnistria stated:

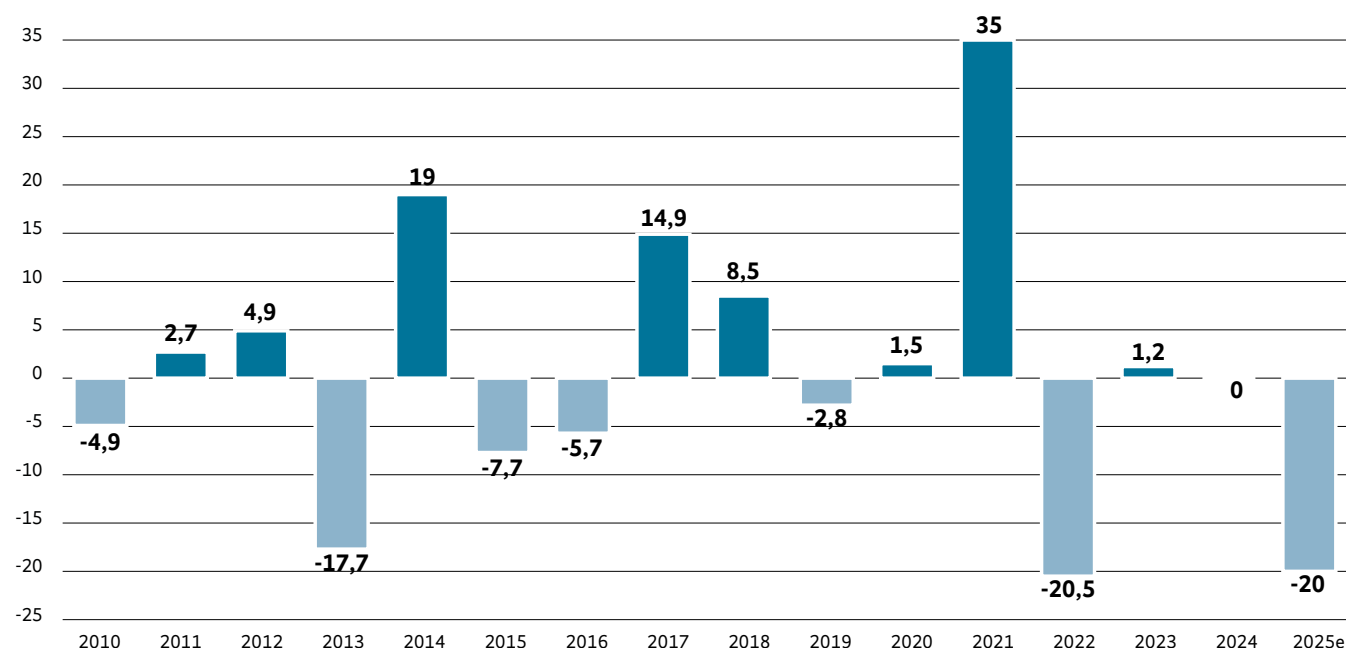
"The business situation here is stagnant. We are working less because people are afraid to stand up for their rights."

(Focus group, IDIS Viitorul, 24 December 2025)

This finding suggests the existence of indirect economic costs arising from a lack of predictability and a low level of trust in institutional mechanisms.

Figure 20

Industrial production index on the left bank of the Dniester



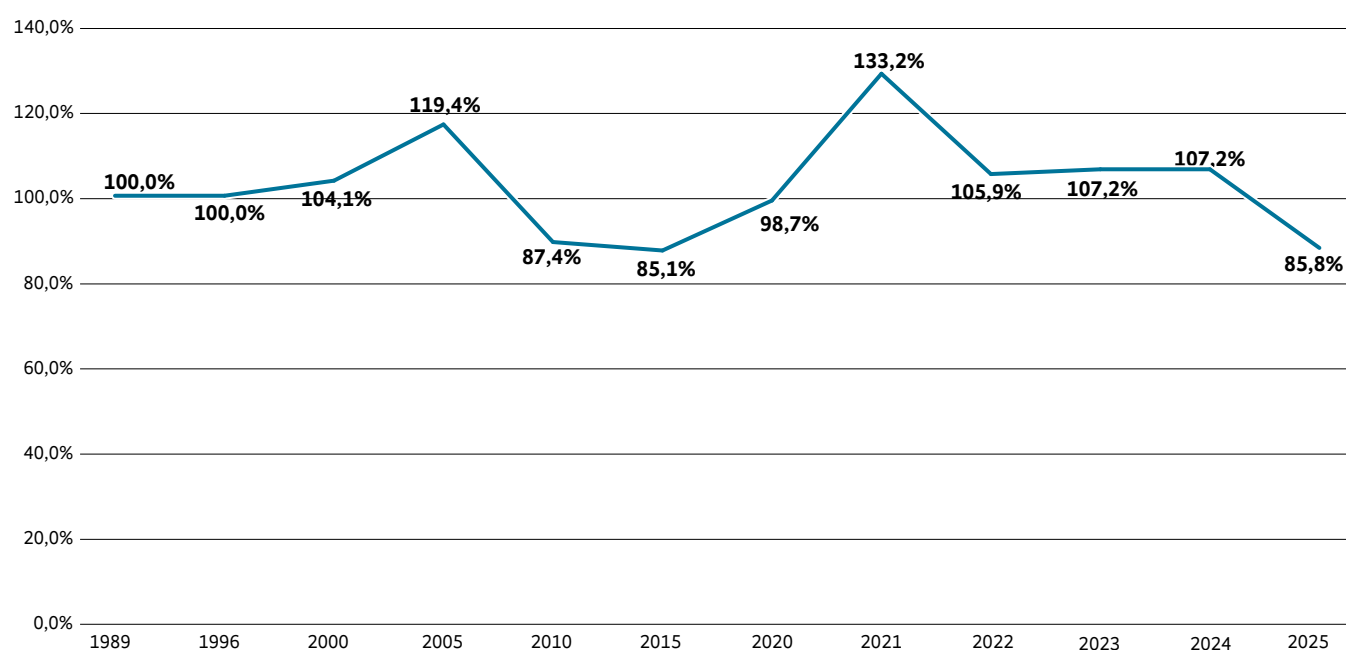
Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol

A comparison with historical potential highlights the gravity of the current situation. By 2025, the region's industrial output had fallen to approximately 85.8 per cent of the level recorded in 1989. Industry had been sustained for over three decades through access to cheap energy and by directing a

significant portion of production towards the Russian market. The available data suggest that even these injections of resources are no longer sufficient to maintain production levels. Between 2022 and 2025, industrial production fell by almost half.

Figure 21

Industrial production on the left bank of the Dniester relative to 1989 (100%)



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol

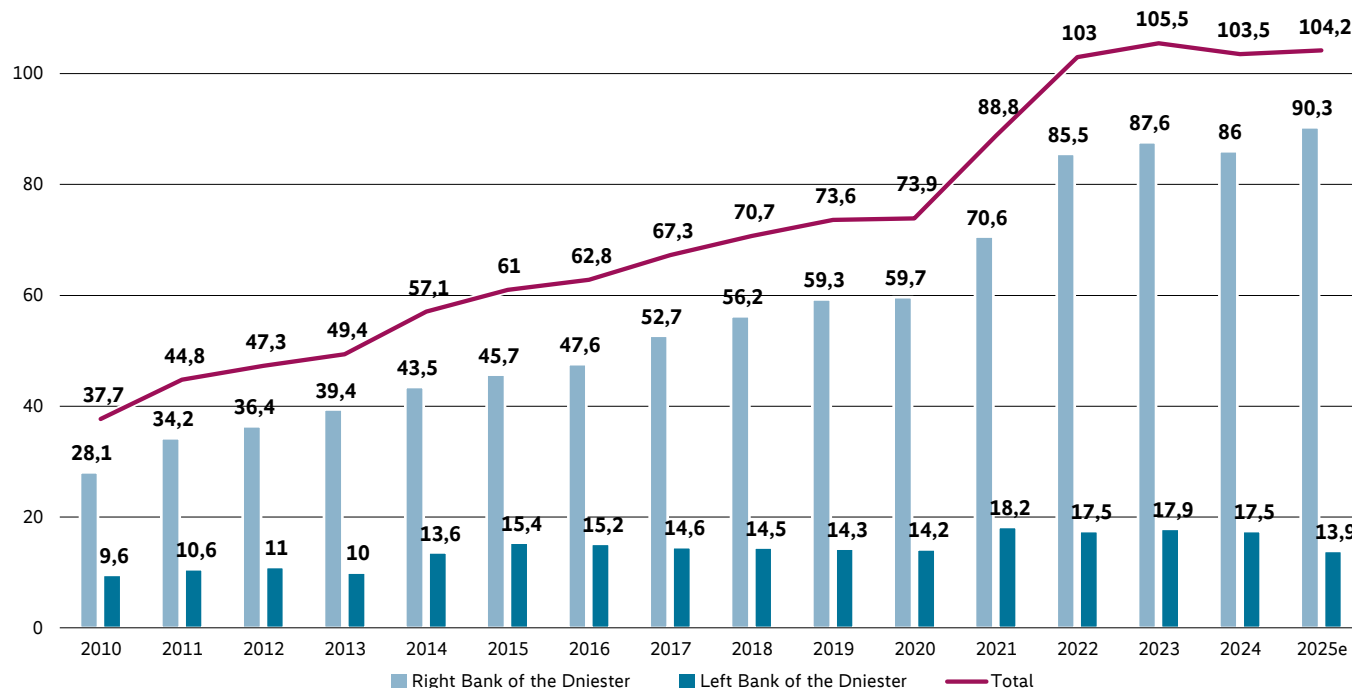
Comparative analysis of industrial development on the two banks of the Dniester

A comparative analysis of industrial output reveals a

profound divergence between the two banks of the Dniester. Whilst the difference in 2010 was significant but still manageable, by 2025 it had developed into a major economic gap.

Industrial production on the two banks of the Dniester, billion MDL

Figure 22



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol

In 2010, industrial goods worth 28.1 billion lei were produced on the right bank, and on the left bank, approximately 9.6 billion lei. The ratio was approximately 2.9 to 1 in favour of the right bank. In 2025, industrial output on the right bank is estimated at 90.3 billion lei, whilst on the left bank it has fallen to approximately 13.9 billion lei. In 2010, industry on the left bank of the Dniester accounted for approximately 25.5 per cent of the combined industrial output on both banks. This share was already significantly lower than in 1989, when Transnistrian industry accounted for approximately 40 per cent of the industrial output of the Moldovan SSR.

By 2025, the share of industry on the left bank of the Dniester had fallen to a historic low of approximately 13.4 per cent. For the first time since the post-war industrialisation process, per capita industrial output figures on both banks had converged considerably.¹⁶ Under these circumstances, the functioning of the region's industry depends to a large extent on the viability of two key enterprises: the Moldovan Power Plant in Cuciurgan (MFRES) and the Rîbnița Metallurgical Plant (MMZ).

These enterprises fulfil a threefold role in the region's

economy. They are among the most important employers, generate a significant proportion of exports and contribute substantially to budget revenue, both through direct taxes and through the natural gas trading mechanisms administered by the regional authorities. However, this industrial concentration creates a major vulnerability for the region's entire economy. When two companies dominate industrial production, exports and budget revenue, the functioning of the entire economy becomes dependent on their performance and their management model. Any shock affecting these enterprises is rapidly transmitted to the entire socio-economic system, the region's budget and the population's standard of living.

Between 1996 and 2000, per capita industrial output on the left bank of the Dniester was approximately 3.2 times higher than on the right bank, amounting to approximately USD 874 per capita, compared with USD 274 on the right bank. The region's industry subsequently experienced fluctuations, reaching a peak of approximately USD3,360 per capita in 2021. During the same period, industry on the right bank grew at a faster rate. Although it did not benefit from the same energy subsidies and was subject to a higher tax burden, it gradually

¹⁶ Industry on the left bank of the Dniester was considerably more developed than that on the right bank. Between 1996 and 2000, industrial output per capita was 3.2 times higher. By 2025, this advantage had narrowed to just 1.3 times, representing the smallest gap during the period analysed.

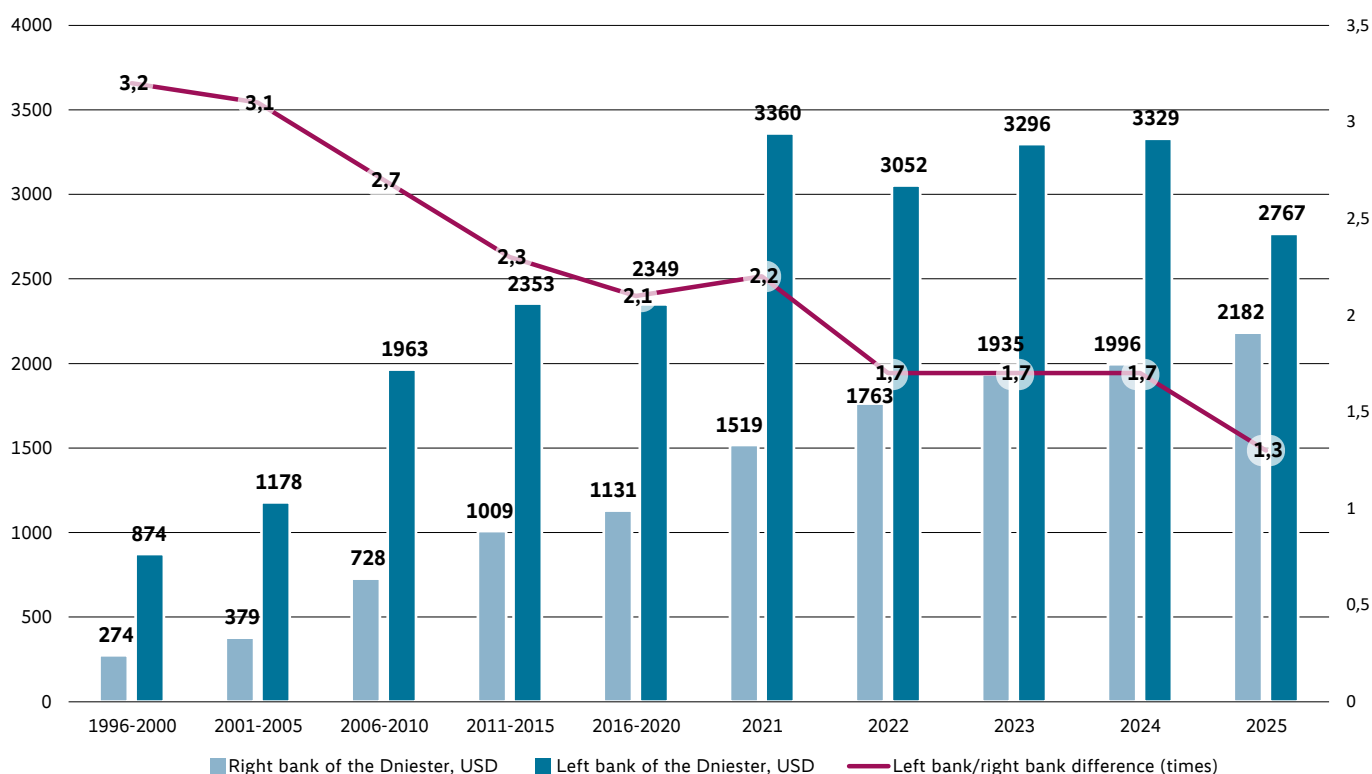
narrowed the historical gap. In 2021, per capita industrial output on the right bank reached approximately USD 1,519, with the gap relative to the left bank narrowing to 2.2 times.

From 2022 onwards, changes in the regional context directly affected the accumulated structural vulnerabilities of Transnistrian industry. Transnistrian industry entered a period of stagnation and decline, whilst industry on the right bank, although affected by rising energy prices, continued to grow in

nominal terms. In 2025, per capita industrial output on the left bank of the Dniester fell to approximately USD 2,767, whilst on the right bank it rose to USD 2,182. The gap thus narrowed to approximately 1.3 times. Over the last 35 years, the left bank of the Dniester has almost entirely eroded its historical industrial advantage over the right bank, which reinforces the argument regarding the unsustainability of an economic model affected by political uncertainties and stopgap measures.

Industrial output per capita, USD

Figure 23



Source: for the left bank of the Dniester, the statistical yearbooks of the statistical service on the left bank, editions 2003–2020; for the right bank, the National Bureau of Statistics of the Republic of Moldova, Statistical Yearbook, editions 2004–2024, and the series on the value of industrial output by type of activity, 2014–2024. Per capita calculations are based on resident population data. Currency conversion was carried out using exchange rates published by the National Bank of Moldova and the central bank in Tiraspol.

This vulnerability is exacerbated by these enterprises' direct dependence on access to cheap energy. The region's economy is characterised not only by excessive concentration but also by the predominance of an energy-intensive and unsustainable model. Both enterprises are influenced by political and administrative decisions concerning the supply of natural gas, the issuing of operating licences, the regulation of exports and the purchase of energy produced by MGRES. In contrast to the dominant share of heavy industry, agriculture, services, transport, telecommunications and domestic trade have remained insufficiently developed to offset the effects of recent industrial and energy shocks.

Trends in agricultural production in the region

Although agriculture continues to play an important role in providing employment and ensuring local food security, statistical

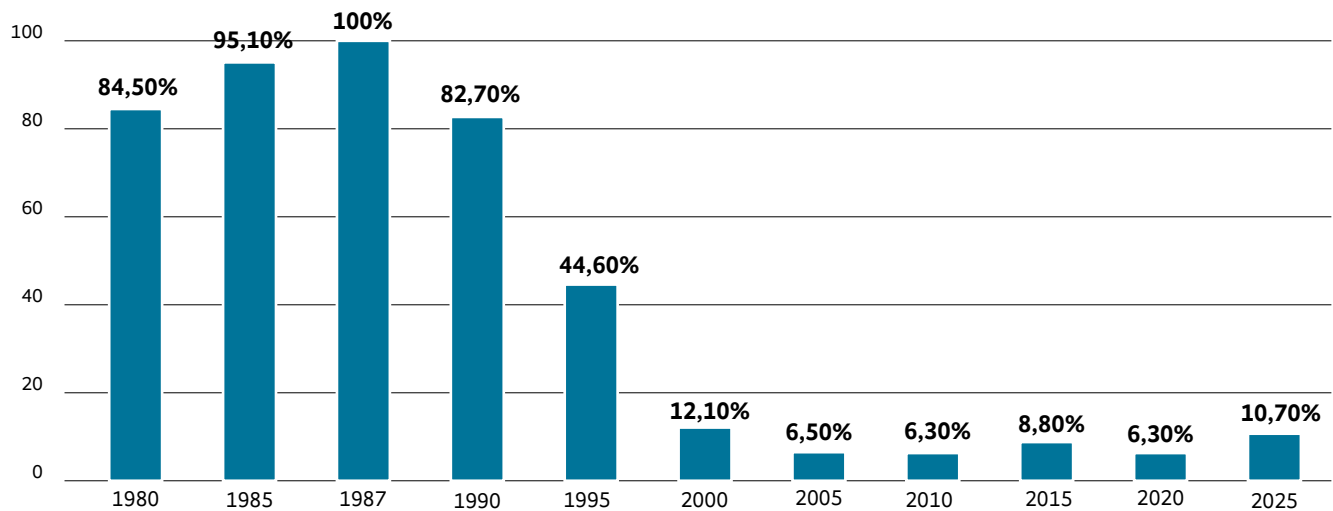
data show that the region has lost most of the agricultural potential inherited from the Soviet era. Compared with the peak recorded in 1987, the real value of current agricultural production stands at approximately 10.7 per cent of that level.

By 1995, agricultural output had fallen to 44.6 per cent of its 1987 level. The decline continued after 2000, with agricultural output reaching a low of 6.3 per cent of its historical peak. Among the factors contributing to this trend were the prioritisation of industry, the channelling of capital investment towards industrial enterprises, and the concentration of energy subsidies in energy-intensive sectors, to the detriment of investment in the modernisation of agriculture.

The data indicate that the region's agriculture has undergone not merely an economic adjustment, but a profound process of disorganisation and erosion of productive capacity. The sector has shifted from intensive production methods, supported

Agricultural production on the left bank of the Dniester relative to the historical peak in 1987 (100%).

Figure 24



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol. Estimates of industrial production for 2025 are the authors' own calculations.

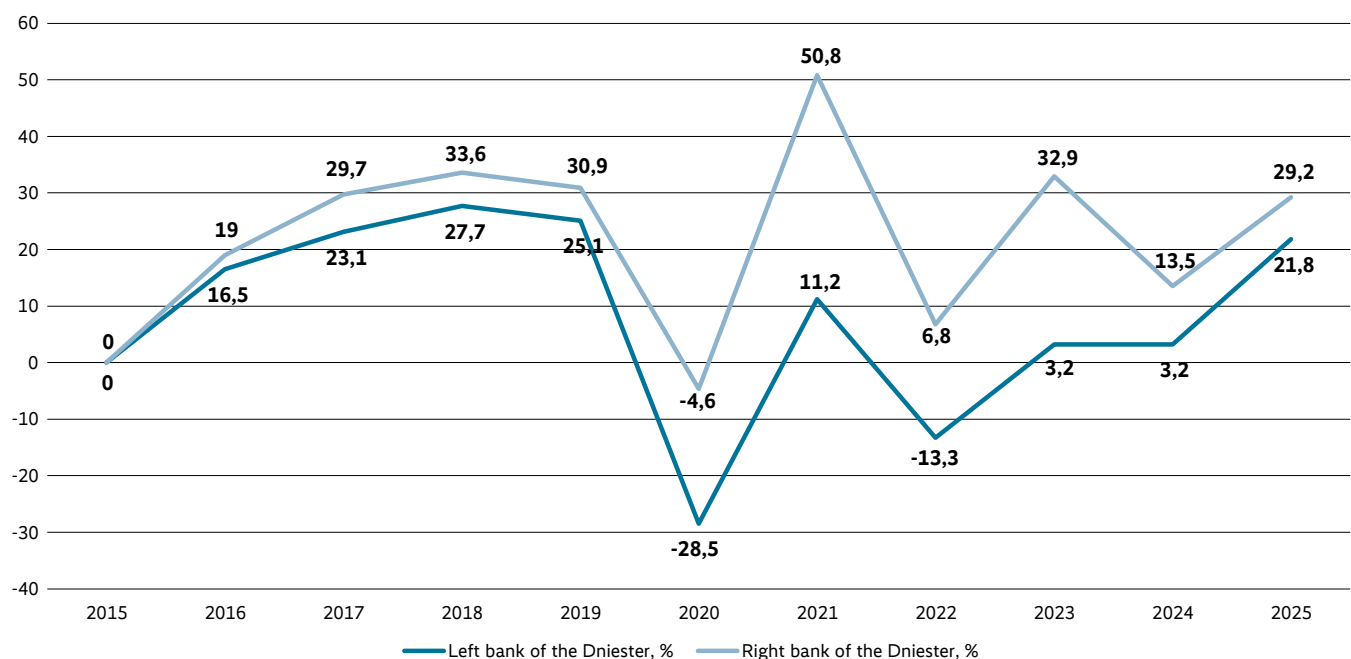
by extensive irrigation systems, to a model heavily dependent on climatic conditions. Transnistrian agricultural output currently stands at approximately one-tenth of the peak level recorded in 1987. The trend in agricultural production over the last ten years shows that the sector remains highly volatile and vulnerable to climatic shocks and economic uncertainties regarding access to markets.

Between 2016 and 2019, agricultural output was 16.5 per cent and 27.7 per cent higher, respectively, than in 2015. In

2020, however, the sector contracted by 28.5 per cent, a much steeper decline than the 4.6 per cent contraction on the right bank. In 2021, there was a recovery of 11.2 per cent, but the region's agriculture remained unstable. In 2022, a further contraction of 13.3 per cent was recorded, and during the period 2023–2024 growth rates remained low. For 2025, agricultural output is estimated to be 21.8 per cent higher than in 2015. However, this figure remains lower than the 29.2 per cent growth recorded on the right bank compared with the same reference year.

Trends in overall agricultural production on the two banks of the Dniester over the last ten years

Figure 25



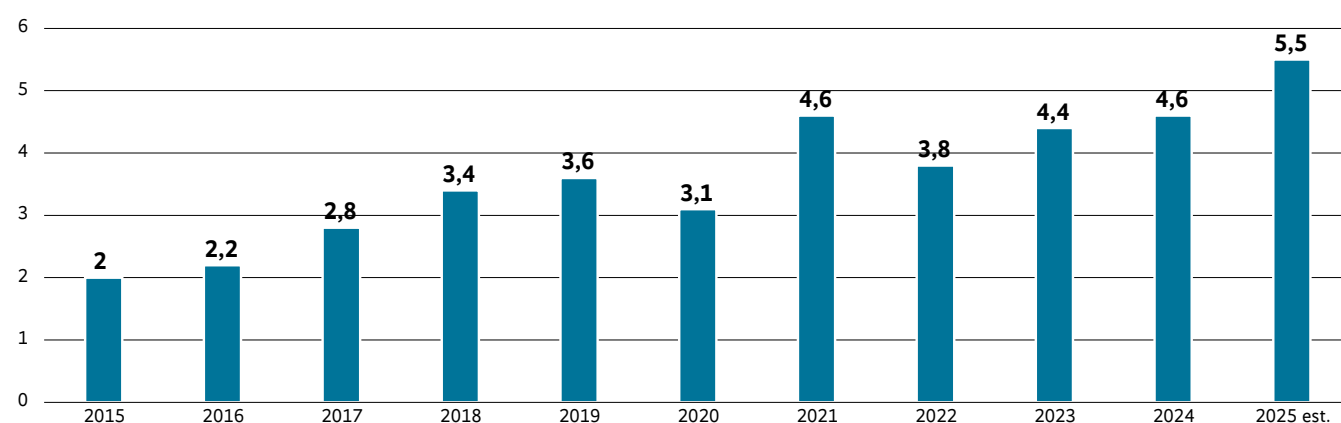
Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development in Tiraspol. Estimates of agricultural production for 2025 are the authors' own calculations.

Transnistrian agriculture is characterised by a high level of volatility. This trend points to a weakened agricultural structure that is insufficiently modernised, dependent on external factors and poorly capitalised. In contrast to the right bank, where the agricultural sector has benefited from investment and broader access to the European Union market, including as a result of the implementation of the Deep and Comprehensive Free Trade Area (DCFTA), agriculture in the Transnistrian region continues to rely heavily on infrastructure inherited from the Soviet era, amidst low levels of investment and limited access to modern technologies.

There are certain exceptions, including private investment by companies within the Sheriff Group, but these have not fundamentally altered the structure of the region's agriculture. Current trends confirm the persistence of structural vulnerabilities with long-term effects. In nominal terms, agricultural output rose from approximately 2 billion Transnistrian roubles in 2015 to 5.5 billion in 2025. However, this increase must be interpreted with caution, as its real value has been eroded by inflation and the depreciation of the Transnistrian rouble.

Total agricultural output on the left bank of the Dniester, billion Transnistrian roubles

Figure 26



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003–2020; data from the so-called Ministry of Economic Development in Tiraspol. Estimates of agricultural production for 2025 are the authors' own calculations.

A comparative analysis of housing construction on the two banks of the Dniester

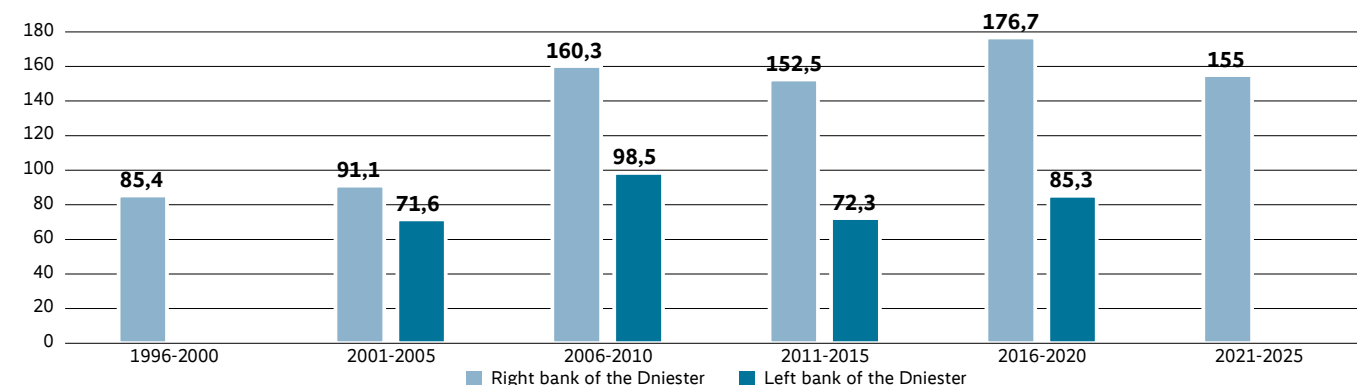
The housing construction sector in Transnistria has developed differently from that on the right bank. Relative to the population, approximately half as much housing is being built in the Transnistrian region. Over the last 25 years, an average of approximately 45,000 m² of residential space has been

built annually on the left bank of the Dniester, compared with around 523,000 m² on the right bank.

Over the last ten years, an average of approximately 164.6 m² of housing per 1,000 inhabitants has been commissioned on the right bank, whilst on the left bank of the Dniester this figure stood at just 78.8 m². This difference reflects the existing disparities in quality of life and the population's access to modern housing.

Housing completed per 1,000 inhabitants, m² (annual average)

Figure 27



Source: for the left bank of the Dniester, the statistical yearbooks of the statistical service on the left bank, editions 2003–2020; for the right bank, the National Bureau of Statistics of the Republic of Moldova, the series on the permanent population by sex and area of residence at the start of the year (1970–2019) and on dwellings completed, by territory (2005–2024), as well as the Statistical Yearbook, editions 2004–2024. Population data for the period after 2019 are estimated on the basis of natural population change. Calculations are based on the permanent population.

The deterioration in economic conditions and living standards in Transnistria has been accompanied by a reduction in investment in the construction of new dwellings. This trend is reflected in the dynamics of dwellings put into use. Between 2011 and 2015, a marked decline was recorded, followed by a relative recovery between 2016 and 2020 and pronounced stagnation between 2021 and 2025, according to the qualitative interviews conducted as part of the research.

Conclusions

The structural analysis shows that, in the reintegration process, the region's economy cannot be treated as a homogeneous whole. The main fault lines lie within it, between activities capable of operating under market conditions and sectors whose viability depends directly on access to energy at preferential prices. Paradoxically, this heterogeneity represents a resource for the design of public policies, as it allows for a differentiated approach in which adjustments need not be applied uniformly and simultaneously to all sectors.

The concentration of production in the energy and metallurgy sectors, as well as the dependence of the region's economy on MGRES and MMZ, means that any shock affecting these enterprises poses a risk to the entire socio-economic system. The decline in industrial production from 2025 onwards confirms the limitations of a competitiveness model based largely on access to cheap energy, rather than on productivity, investment and innovation. On the contrary, this advantage has reduced the incentives for modernisation, diversification and the adaptation of industry to changes in the broader economic environment.

At the same time, the increase in agriculture's share of the production structure does not reflect a deliberate structural transformation, but rather the contraction of industry. Agriculture remains undercapitalised, insufficiently modernised and dependent on climatic conditions, whilst its output represents only a small fraction of its historical potential. The sector's

high volatility and outdated infrastructure limit its ability to offset losses in industry and to rapidly become an alternative source of economic growth.

Shortcomings in the construction sector complete the picture of an economy with low domestic investment and limited demand for long-term assets. The low level of housing construction is not merely a sectoral indicator, but reflects low confidence in the region's economic prospects, a decline in household incomes and a weakening of its attractiveness as a place to live and invest.

The chapter thus demonstrates that economic reintegration cannot begin with the mere formal alignment of all sectors with the same regulatory framework. Such an approach would ignore differences in productivity, market access, energy dependence and adaptability. Adjustment must be phased in according to each sector's actual level of readiness and the economic and social costs that the transition would entail.

The sectoral distinction set out in this chapter provides an operational criterion for the phasing recommended at the end of the study. The process should begin with activities that already operate under market conditions, are connected to markets on the right bank and within the European Union, and can adopt common requirements without disproportionate disruption. For energy-intensive sectors and systemically important enterprises, transitional arrangements are required, conditional upon restructuring, investment and the gradual reduction of dependence on energy subsidies.

Consequently, the aim of reintegration policies should not be the mechanical preservation of the existing economic structure, but rather to distinguish between viable activities and those that are artificially sustained, and to support a transition that reduces the risk of a simultaneous collapse of industry, the region's budget and employment. Such an approach allows the process to begin where the real economy has already undergone part of the transition, and for temporary mechanisms to be put in place only where adaptation cannot take place without institutional and financial support.

Chapter IV.

Foreign Trade of the Transnistrian Region

Trends in the region's foreign trade

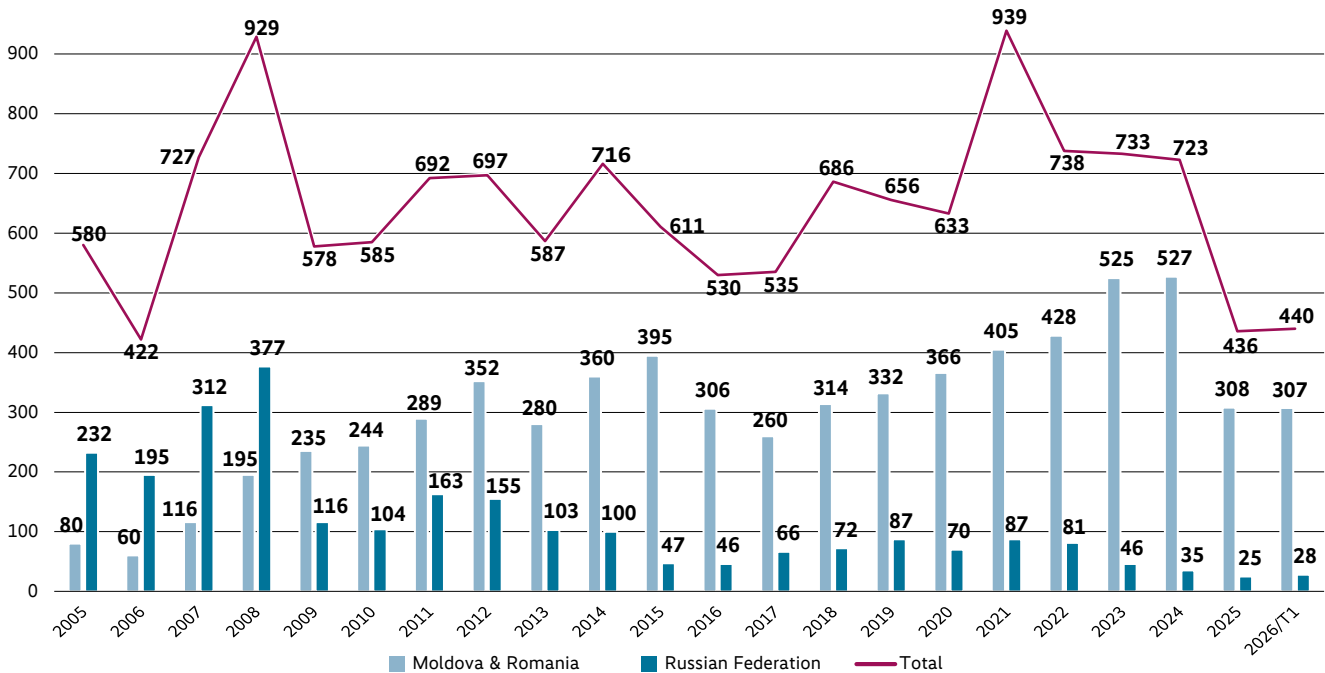
Transnistria's economy is heavily dependent on the volume of exports to foreign markets and on sales on the right bank of the Dniester. The region's key enterprises can only remain viable if they stay connected to foreign markets; the loss of access to these markets cannot be offset by domestic consumption. Trends in foreign trade mirror the processes and accumulated shortcomings in the region's economy. Statistical data indicate that the advantages of an economic model based on access to cheap energy and preferential support for heavy industry have diminished considerably. At the same time, instability in the broader region caused by the war in Ukraine has significantly restricted the economic and negotiating room for manoeuvre on

which the elites in Tiraspol have relied to ensure their economic survival over the past 36 years.

In 2025, over 70 per cent of sales outside the region were directed towards the right bank of the Dniester and Romania, compared with approximately 14 per cent in 2005. Whilst in 2005 exports were dominated by the Russian Federation market, which accounted for approximately 40 per cent of the total, by 2025 its share had fallen to just 5–6 per cent. The value of exports to the Russian Federation stood at approximately USD 25 million in 2025, compared with USD 377 million in 2008. Currently, the majority of the region's exports are directed towards European Union member states, with Romania being the main market within the EU.

Figure 28

Exports and sales on the right bank of the Dniester, USD million



Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development and the State Committee in Tiraspol for the past five years.

Following a period of relative stability, exports and sales to the right bank peaked at USD 939 million in 2021. Although they subsequently fell by approximately USD 200 million, they remained at a relatively high level until 2024. However, this performance depended to a large extent on the operation of large energy-intensive enterprises and their access to cheap energy resources.

In 2025, the situation changed radically. The volume of exports and sales to the right bank fell to approximately USD 436 million, representing a decline of over 50 per cent compared with the peak in 2021. Estimates for early 2026 suggest that this figure will remain at one of the lowest levels seen in the last 20 years. Recent developments point to a reduced capacity of the region's economy to recover quickly and return to pre-2025 crisis

levels. This development does not appear to be merely a cyclical fluctuation, but rather indicates a structural decline in export capacity. Unlike previous crises, which were followed by relatively rapid recoveries, the current contraction is taking place against the backdrop of a downward trend that has continued since 2022. This time, the fall in exports is directly affecting the Tiraspol administration's ability to generate revenue for the region's budget, given that it has limited mechanisms to cushion such shocks.

A comparative analysis of foreign trade on the two banks of the Dniester

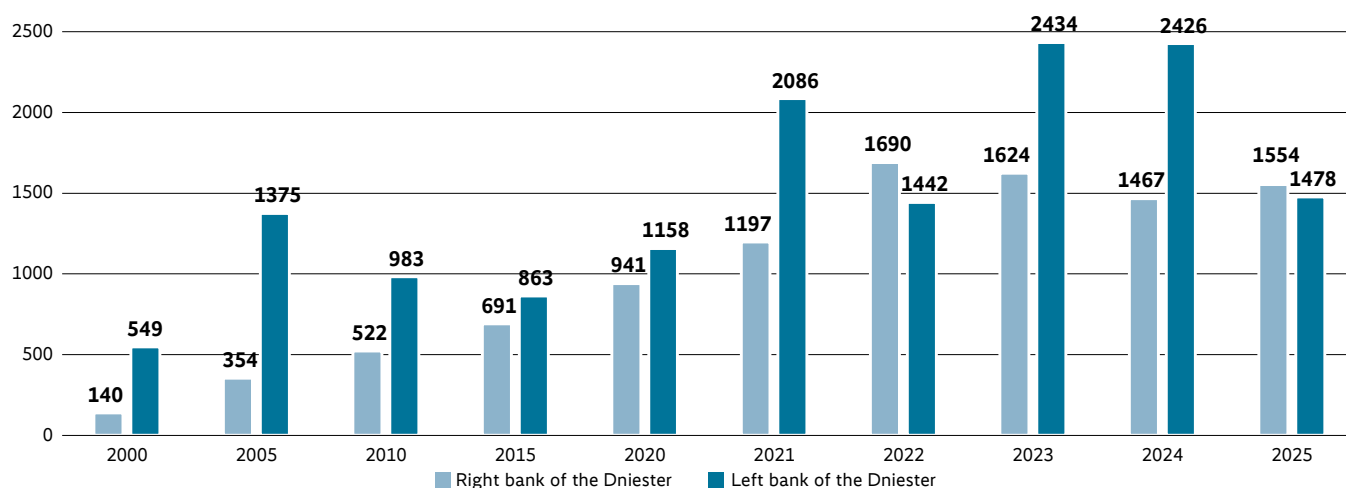
A relevant indicator for assessing economic performance is the value of exports per capita, which reflects an economy's capacity to produce and market goods on external markets. Until

recently, Transnistria enjoyed a significant advantage, largely driven by low energy costs and the region's export-oriented economy. In 2024, Transnistria's external exports amounted to approximately USD 2,426 per capita, excluding sales to the right bank, which the authorities of the Republic of Moldova classify as domestic trade.

On the right bank, the value of exports stood at approximately USD 1,467 per capita. The higher level recorded in Transnistria reflects the significant share of heavy industry and the region's strongly export-oriented economy. In 2025, however, a significant reversal took place. Exports per capita on the left bank of the Dniester fell to approximately USD 1,478, whilst on the right bank they rose to around USD 1,554. For the first time during the period analysed, the right bank surpassed the Transnistrian region in terms of the value of exports per capita.

Exports per capita, USD

Figure 29

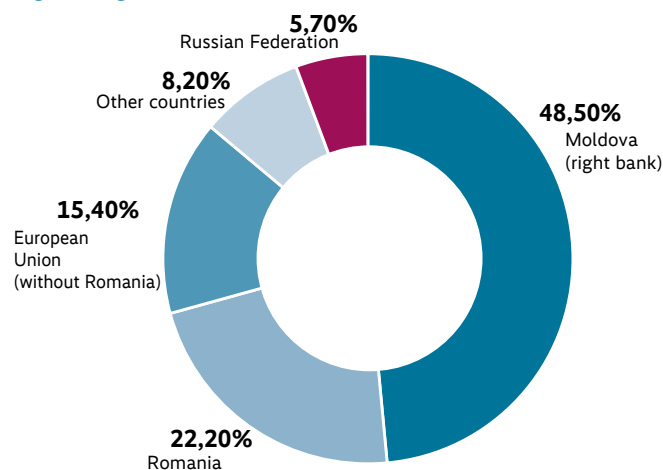


Source: statistical yearbook of the statistical service on the left bank of the Dniester 2003-2020; data from the so-called Ministry of Economic Development and the State Committee in Tiraspol for the past five years.

This shift confirms the erosion of the foreign trade advantage from which the region previously benefited. The geographical structure of trade also indicates a profound shift in economic orientation over the last decade, which has become more pronounced since 2022. Despite political rhetoric oriented towards the Russian Federation and the CIS, the Transnistrian economy is now heavily dependent on the market on the right bank of the Dniester and on European Union markets.

Exports from the Transnistrian region by destination in 2025, %

Figure 30



Source: the customs authority of the de facto administration in Tiraspol, data for 2025.

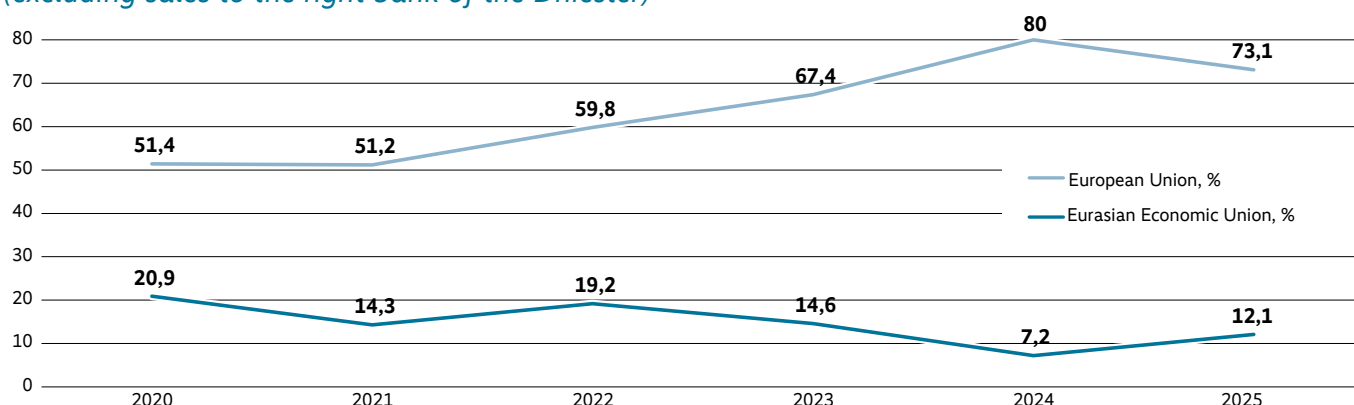
In 2025, the main destination for Transnistrian products was the right bank of the Dniester, which accounted for approximately 48.5 per cent of total sales outside the region. Romania accounted for approximately 22.2 per cent, whilst the other European Union member states together accounted for 15.4 per cent. The Russian Federation represented just 5.7 per cent of the region's exports. Romania accounted for approximately 60 per cent of Transnistrian exports destined for the European Union. Overall, over 80 per cent of sales made outside the region were directed towards the right bank of the Dniester and European Union markets.

The reorientation of the region's foreign trade and the growing role of the EU as a market for the region's products

An analysis of medium-term trends confirms a structural reorientation of Transnistrian exports. Whilst in 2020 the European Union accounted for approximately 51.4 per cent of the region's external exports (excluding sales to the right bank), this share rose to approximately 80 per cent in 2024 and stood at 73.1 per cent in 2025. At the same time, CIS markets have declined considerably in importance for the region's foreign trade, as a result of changes in the broader regional context brought about by the war in Ukraine.

Exports from the left bank of the Dniester to the EU and the EEU (excluding sales to the right bank of the Dniester)

Figure 31



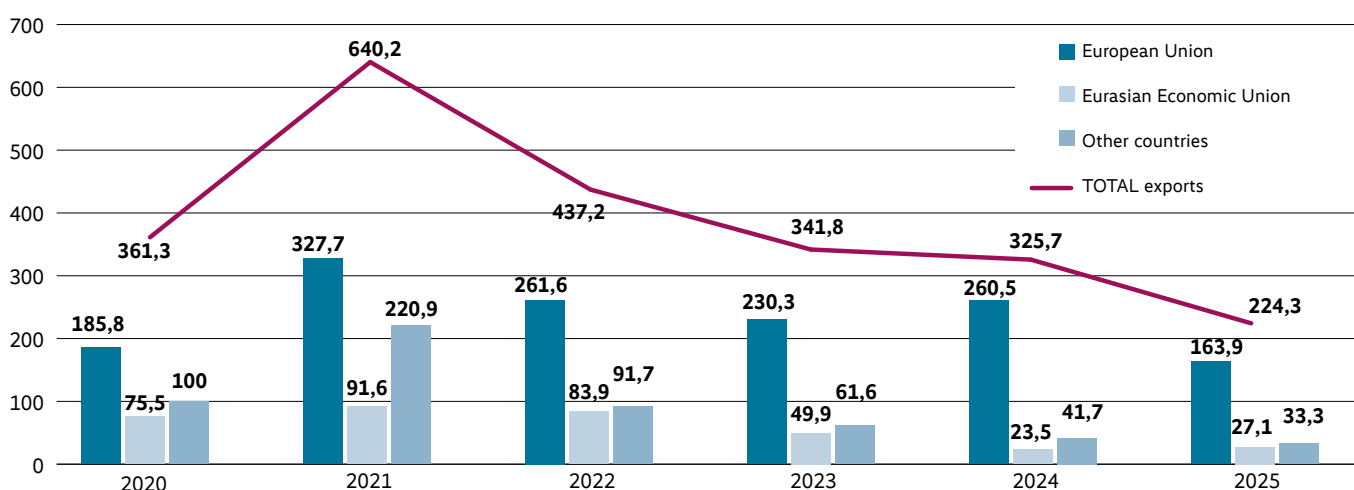
Source: the customs authority of the de facto administration in Tiraspol.

This development reflects not only a shift in trade orientation, but also the adaptation of the region's economy to new economic realities. Eastern markets no longer offer the same absorption capacity as in previous periods, and access to Western markets has become essential for the functioning of the region's economy.

Whilst previous crises affected economic sectors and export markets relatively uniformly, the current crisis highlights a clear decline in the importance of eastern markets for Transnistrian industry. The European Union market has thus become the main external destination for exporting enterprises in the region.

Exports from the left bank of the Dniester, USD million (excluding sales to the right bank of the Dniester)

Figure 32



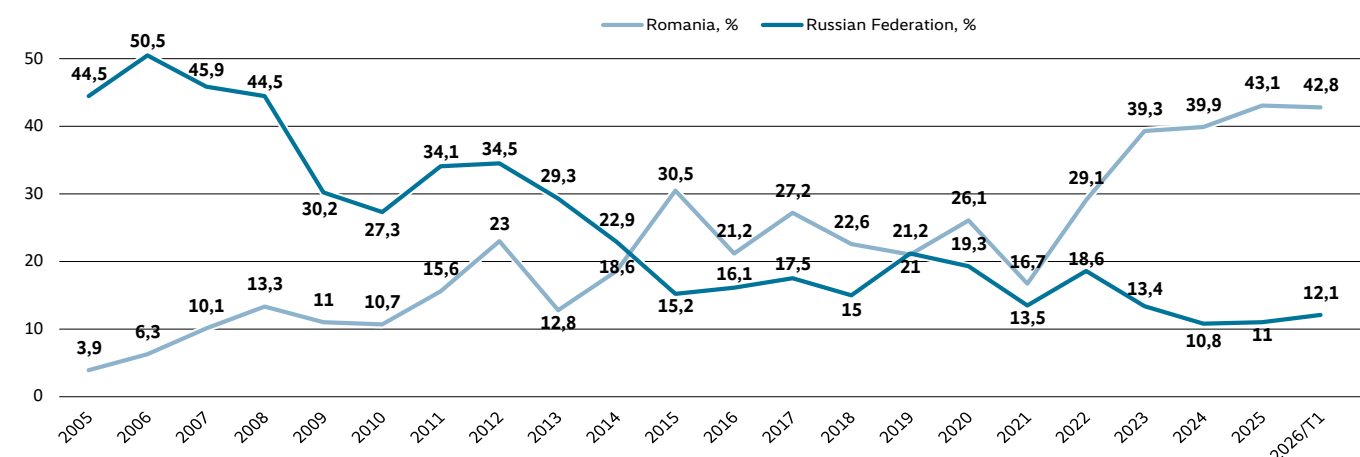
Source: the customs authority of the de facto administration in Tiraspol.

Since 2022, Transnistrian exports have largely been sustained thanks to partial adaptation to the standards and requirements set by the European Union for products originating in the Republic of Moldova. Enterprises in the region benefit from the trade preferences granted by the European Union to the Republic of Moldova, including the trade quotas negotiated by the authorities in Chisinau. One of the most telling examples of this transformation is the reversal in the relative importance of Romania and the Russian Federation as export markets. Between 2022

and 2025, exports to the European Union fell by approximately half in absolute terms, but the decline was less pronounced than that of exports to the CIS states, which fell by approximately three-quarters. Exports to other markets fell approximately sevenfold, mainly as a result of the decline in sales to the Ukrainian market, from USD 135 million in 2021 to approximately USD 4 million in 2025. The reduction in exports to Ukraine was driven in particular by restrictions on purchases of metallurgical products from MMZ and electricity generated by MGRES.

Exports from the left bank of the Dniester to Romania and the Russian Federation (excluding sales to the right bank of the Dniester)

Figure 33



Source: the customs authority of the de facto administration in Tiraspol.

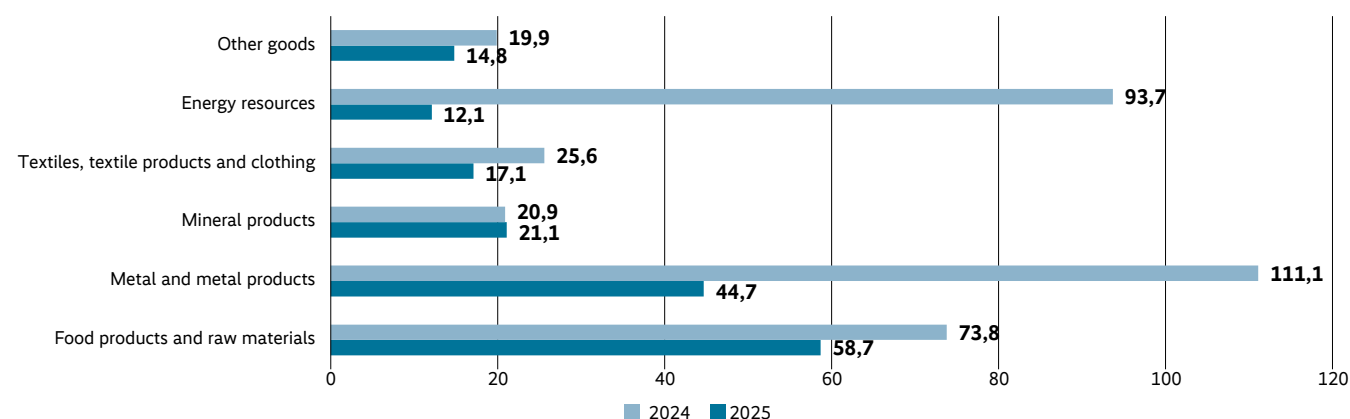
Romania has gradually replaced the Russian Federation as the main foreign destination for Transnistrian products. In 2005, Romania accounted for just 3.9 per cent of the region's exports, whilst the Russian Federation held a 50.5 per cent share in 2006. According to data available for 2026, Romania accounts for approximately 42.8 per cent of the region's exports, compared with approximately 12.1 per cent for the Russian Federation.

This reversal is not merely statistically significant, but also has

broader economic and symbolic implications for the population and representatives of the real economy. It indicates a shift from an economy traditionally oriented towards eastern markets to one increasingly dependent on access to the European Union market, which entails compliance with stricter technical and regulatory requirements. The 2025 crisis also brought about a significant change in the structure of exports. Whereas previously exports were dominated by heavy industry products, the current trade structure reflects a reduction in the share of energy-intensive sectors.

Structure of exports from the left bank of the Dniester in the first half of 2024 and 2025, USD million

Figure 34



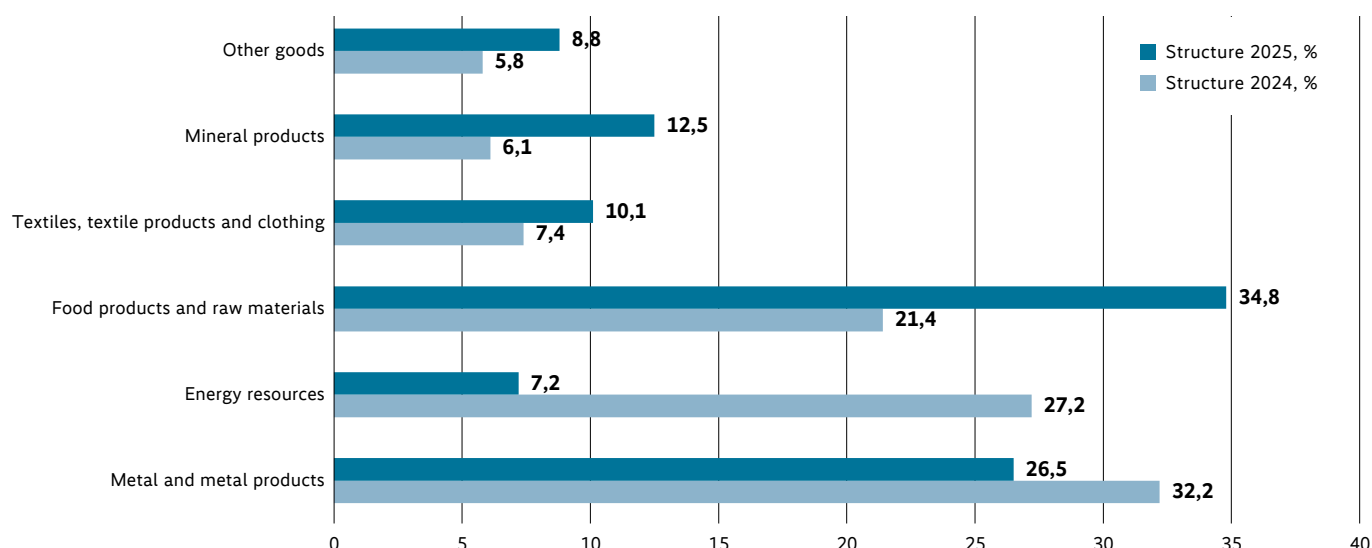
Source: the customs authority of the de facto administration in Tiraspol.

In the first half of 2024, exports from the left bank of the Dniester were dominated by products from key enterprises, which accounted for approximately 60 per cent of the total. Metals and metal products accounted for 32.2 per cent, whilst energy accounted for 27.2 per cent. In the first half of 2025, agri-food products and agricultural raw materials became the largest export category, accounting for 34.8 per cent. These were followed by metals, at 26.5 per cent, whilst the share of energy exports

fell to just 7.2 per cent. In 2026, electricity exports from the region were completely suspended. This change indicates a process of marked deindustrialisation. The reduction in the share of energy products is not the result of planned diversification, but of declining production, shrinking markets and the suspension of purchases of electricity generated by MGRES for the right bank of the Dniester.

Structural changes in exports from the left bank of the Dniester in the context of the 2025 crisis (data for the first half of the year)

Figure 35



Source: the customs authority of the de facto administration in Tiraspol.

An analysis of absolute figures for the first half of 2025, compared with the corresponding period in 2024, highlights the scale of the structural changes. Metal exports more than halved, falling from USD 111.1 million to USD 44.7 million. Energy exports recorded an even sharper decline, falling from USD 93.7 million to just USD 12.1 million.

Even food exports, which are not directly dependent on the energy sector, fell from USD 73.8 million to USD 58.7 million. The nominal increase of over 20 per cent in agricultural output in 2025 should be interpreted with caution, as in real terms, output remained approximately 5 per cent below the 2018 level. In nominal terms, agricultural output reached approximately 5.55 billion Transnistrian roubles in 2025, compared with 3.36 billion in 2018. However, a significant portion of this increase reflects rising prices rather than a corresponding rise in the actual volume of production.

A significant proportion of agricultural output is destined for the domestic market, which limits the availability of products for export; the sector is also affected by unfavourable weather conditions. Cereal production fell from approximately 500,000 tonnes in 2023 to 417,000 tonnes in 2024. The grain maize harvest amounted to 44.5 thousand tonnes, whilst yields fell from 60 quintals per hectare in 2023 to 32.3 quintals per hectare in 2024, due to high temperatures during the crops' reproductive period.

Consequently, the increase in the share of food products within the export mix does not reflect accelerated growth in agriculture, but stems mainly from the faster contraction of energy-intensive industry.

Trade integration and access to the European Union market

Adapting Transnistrian exports to the European Union market also entails compliance with certain obligations. Enterprises on the left bank of the Dniester that export to the European market must comply with the provisions of the trade framework applicable to the Republic of Moldova in its relations with the European Union. The implementation of the DCFTA, the certification of the origin of goods and compliance with technical standards are the main mechanisms facilitating access for products from the region to the European market. Over 86 per cent of sales made outside the region, including those to the right bank, are thus linked to the Republic of Moldova's customs and trade framework and, in the case of exports to the EU, to compliance with the technical requirements applicable in the European Union market, including certification of the origin of goods.

This situation creates an increasingly pronounced interdependence between producers in the region and the institutions of

the Republic of Moldova that verify compliance with the conditions for access to the European market. As a party to the DCFTA, the Moldovan authorities are obliged to verify exporting enterprises in Transnistria and to ensure that products comply with the applicable requirements. Their access to external markets is facilitated to a large extent by the trade and legal mechanisms provided by the Republic of Moldova. Foreign trade data thus highlight a fundamental contradiction in the Transnistrian model: whilst the region's administration claims a political and institutional existence separate from the Republic of Moldova, exporting enterprises are becoming increasingly integrated into the Republic of Moldova's customs and trade area, with the Republic of Moldova being the only subject of international law recognised in relations with the European Union.

Statistical data indicate a reduction of approximately 50 per cent in exports and sales to the right bank in 2025. This trend reflects the loss of the trade advantage previously generated by access to energy resources on preferential terms. In 2025 and 2026, the majority of sales made outside the region were directed towards the right bank of the Dniester and European Union markets. The contraction in exports indicates an acceleration of the process of deindustrialisation and a reduction in the share of industry in the region's economy. At the same time, access to markets that have become essential for businesses in the region depends to an ever-greater extent on the legal, customs and trade framework administered by the authorities in Chisinau.

Conclusions

The key lesson from the evolution of foreign trade is that the region's economic reorientation took place largely prior to, and independently of, any formal political decision. Economic agents turned towards the European Union market and the right bank for reasons of access, stability and profitability, rather than as a result of a common political choice. This development alters the usual logic of reintegration: trade convergence no longer needs to be built from scratch, but rather formalised, consolidated and institutionally supported.

However, this convergence remains fragile. The reduction of more than 50 per cent in exports and sales to the right bank by 2025 shows that the geographical reorientation of trade has not been accompanied by a sufficient transformation of the

productive base. The region's economy continues to depend on a few large enterprises and energy-intensive sectors, and the erosion of its energy advantage has directly affected export capacity and budget revenues.

The change in the structure of exports should not automatically be interpreted as successful diversification. The increase in the share of agri-food products has occurred mainly against the backdrop of a more rapid decline in exports of energy and metallurgical products. Consequently, this shift reflects a process of marked deindustrialisation rather than the emergence of a new competitive economic model. Agriculture does not yet have the investment, technological and productive capacity required to replace heavy industry as the region's main driver of exports.

The chapter also highlights the profoundly asymmetrical nature of this trade integration. The region's access to its vital markets depends on the legal, customs and trade framework of the Republic of Moldova, on the certification of the origin of goods and on compliance with the standards applicable in the European Union market. This reality provides Chisinau with sustainable leverage, but also places a responsibility on it to use this leverage gradually and predictably, without turning an instrument of integration into a mechanism of coercion with destabilising effects on businesses and the population.

From this perspective, trade reintegration policy should aim to expand market access, increase technical compliance, simplify customs procedures and reduce uncertainty for economic operators. The gradual implementation of common requirements must be accompanied by adjustment periods and support for businesses with competitive potential, so that harmonisation does not lead to sudden job losses and a fall in government revenue.

This chapter thus establishes an important premise for the study's final recommendations: economic reintegration must not artificially alter the direction of the region's trade, as a significant part of this shift has already taken place. The objective of public policy should be to transform a still-fragile trade convergence into predictable, regulated economic integration capable of supporting the modernisation of production. In this process, access to the market on the right bank and to the European Union market can act as a stimulus for convergence and investment, rather than as a means of exerting pressure that could accelerate the region's economic decline.

Chapter V.

Trade Relations between the Two Banks of the Dniester

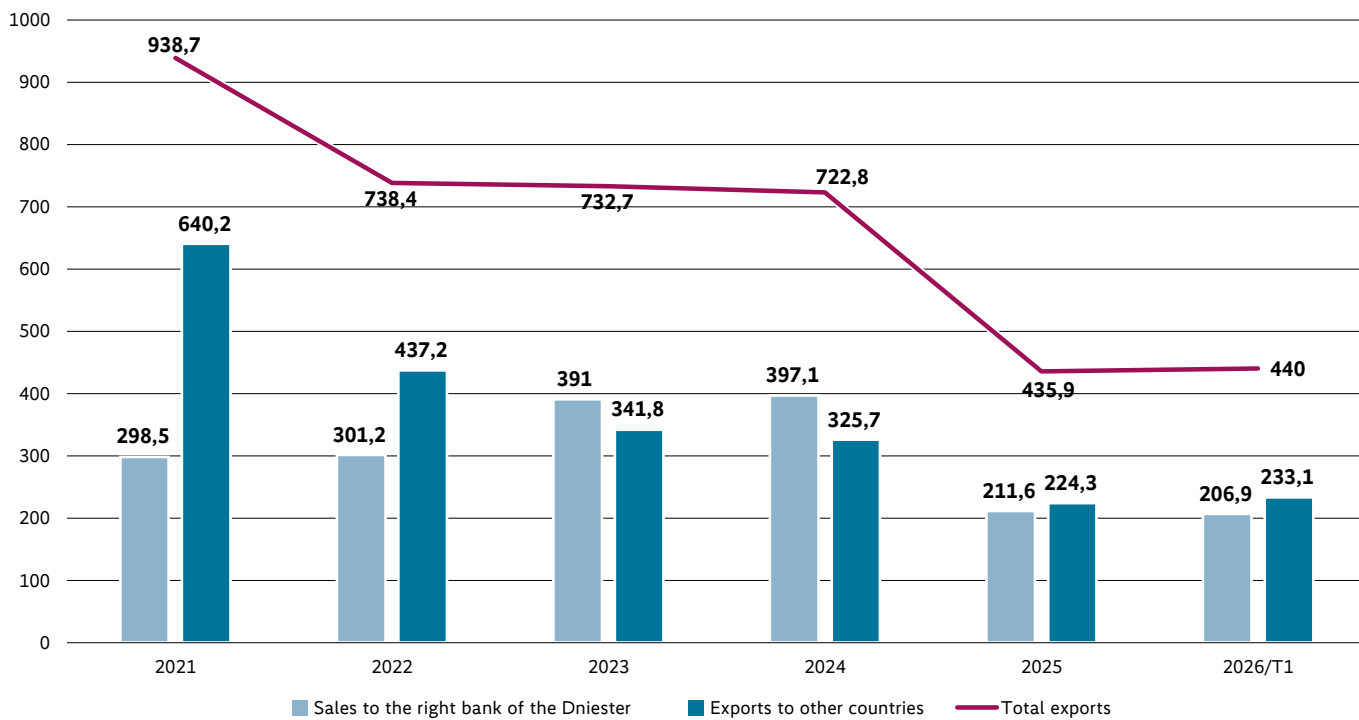
Trade dynamics between the two banks of the Dniester

Trade relations between the two banks of the Dniester reveal a significant degree of de facto economic integration, characterised by a profound yet asymmetrical dependence of the Transnistrian region on the market on the right bank. Although Chisinau has ceased purchasing electricity generated by MGRES, sales of other goods to the right bank

have not declined to the same extent. In the first four months of 2026, businesses on the left bank of the Dniester sold goods worth approximately USD 51.4 million to the right bank, with transactions conducted in Moldovan lei. Foodstuffs and agricultural raw materials accounted for around 67.3 per cent of these sales, equivalent to approximately USD 34.6 million. During the same period, the Transnistrian region did not supply electricity to the right bank of the Dniester.

Figure 36

Sales from the left bank of the Dniester outside the region, USD million



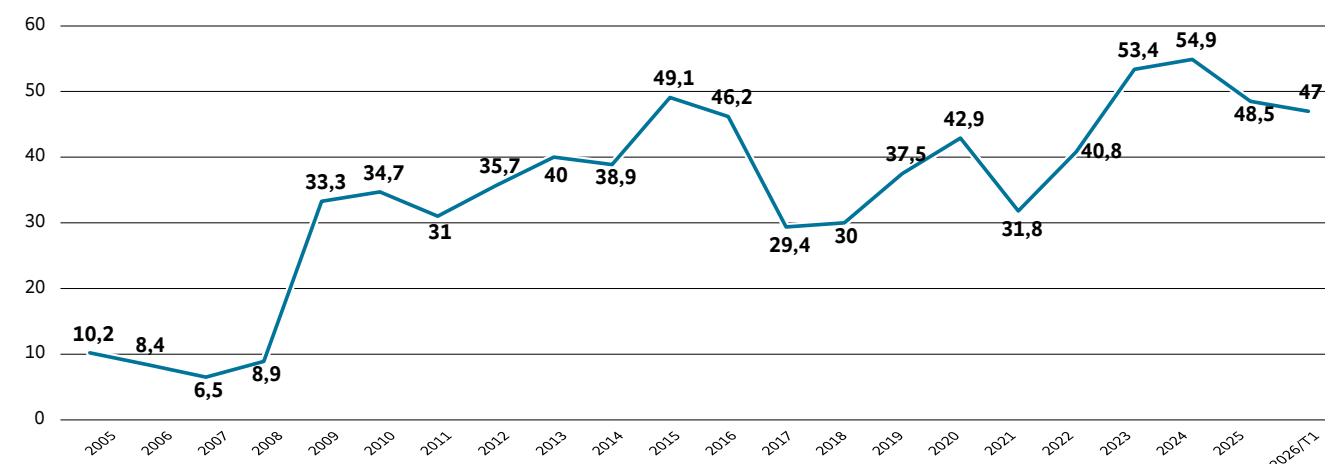
Source: the customs authority of the de facto administration in Tiraspol.

The most significant decline in Transnistrian exports is linked to the contraction of markets outside the European Union and the Republic of Moldova, particularly in Ukraine, the CIS and other regions. Against the backdrop of geopolitical changes and

reduced access to traditional eastern markets, the right bank of the Dniester has become the main market for the region's products. Trends in the share of sales confirm this structural reorientation.

Figure 37

Share of sales to the right bank of the Dniester in total sales



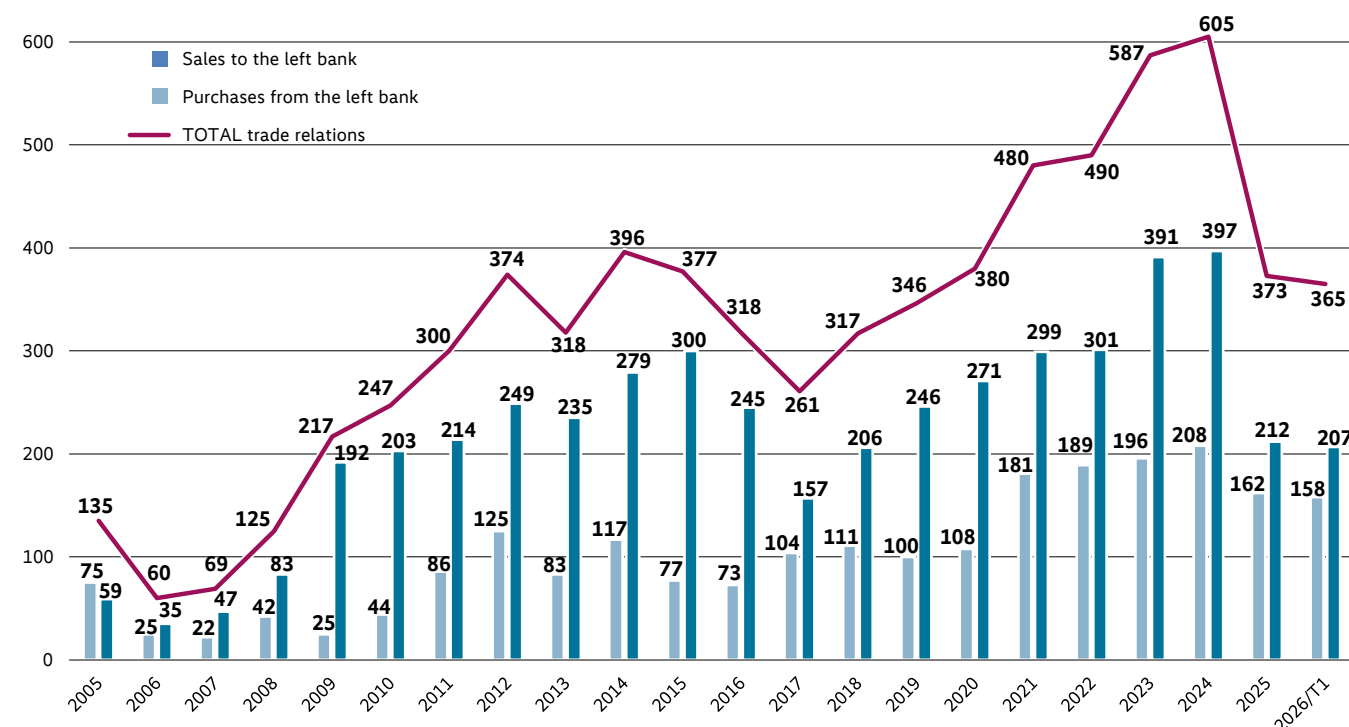
Source: the customs authority of the de facto administration in Tiraspol.

In 2020, sales to the right bank accounted for 37.5 per cent of total sales outside the region. This share rose steadily, reaching a record high of 54.9 per cent in 2024. Even amidst the severe economic contraction of 2025, the right bank continued to absorb approximately 48.5 per cent of total sales outside the region. This trend indicates that the region's

economy no longer has comparable alternative markets and that access to the Moldovan market has become essential to its functioning. The total volume of trade between the two banks, including both sales and purchases, followed an upward trajectory until 2024, reflecting the growing economic interdependence between them.

Figure 38

Trade between the two banks of the Dniester, USD million



Source: the customs authority of the de facto administration in Tiraspol.

Between 2021 and 2024, trade between the two banks rose from approximately USD 480 million to a peak of USD 605 million. During the same period, sales from the Transnistrian region to the right bank rose from USD 298.5

million to USD 397.1 million. This trend reflects not only an intensification of trade but also a process of gradual economic integration, taking place in the absence of a definitive political solution.

In 2025, however, there was a significant break in this trend. The contraction of the industrial and energy sectors considerably reduced the region's capacity to sell goods outside the region. Total sales outside the region fell from USD 722.8 million in 2024 to USD 435.9 million in 2025, whilst sales to the right bank fell to approximately USD 211.6 million. Consequently, the total volume of trade between the two banks contracted to approximately USD 373 million. This development confirms the direct dependence of trade on the region's industrial performance.

The trade balance between the two banks of the Dniester

Statistical data show that trade between the two banks of the Dniester is asymmetrical. Businesses on the left bank of the Dniester benefit from access to the market on the right bank, whilst goods from the right bank penetrate the region's commercial networks and other sectors of the economy to a much lesser extent. Since 2009, the value of goods sold from the left bank of the Dniester to the right bank has exceeded the value of goods purchased from the right bank by annual amounts ranging from approximately USD 50 million to USD 230 million.

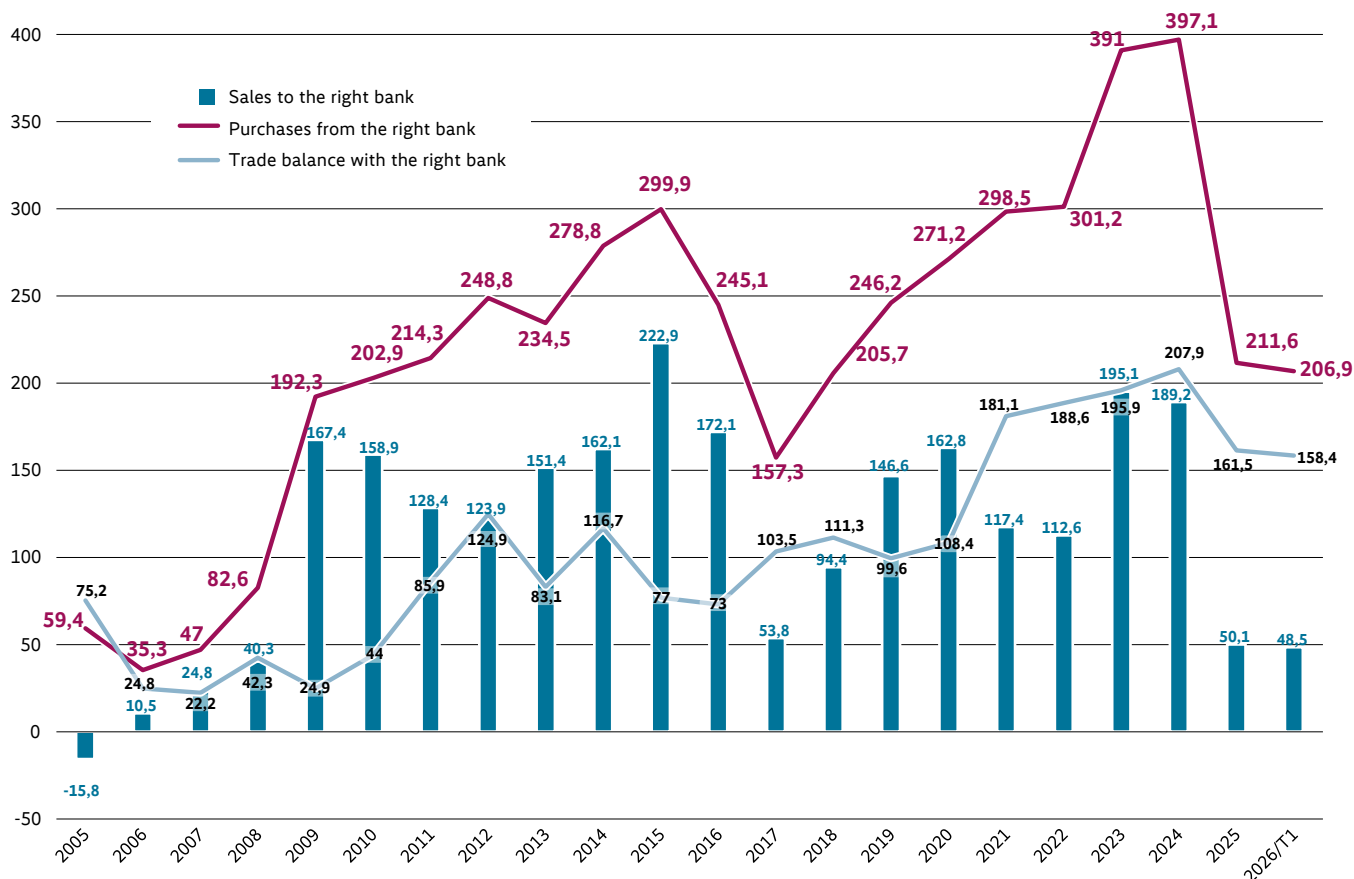
An important feature of trade relations is the consistent trade surplus recorded by the Transnistrian region in its trade with the right bank. In 2024, this surplus reached approximately USD 189 million. Between 2006 and 2025, businesses on the left bank of the Dniester sold goods to the right bank with a cumulative value of approximately USD 4.6 billion, whilst the right bank sold goods to the region worth approximately USD 2.1 billion. Thus, during this period, the Transnistrian region accumulated a trade surplus of approximately USD 2.5 billion.

Trade with the right bank has thus transformed the Moldovan market into an important source of liquidity for the Transnistrian economy.

As the trade surplus represents an important source of liquidity and foreign currency for the region's economy, the Tiraspol administration has repeatedly requested that payments between the two banks of the Dniester be made in USD rather than in Moldovan lei. Revenue from sales to the right bank is used, amongst other things, to purchase goods from abroad. Moldovan legislation permits the procurement of the necessary foreign currency via the interbank market. A significant proportion of the foreign exchange transactions carried out by companies on the left bank of the Dniester take place on the Moldovan foreign exchange market, which is supervised by the National Bank of Moldova (BNM).

Figure 39

Trade between the left and right banks of the Dniester, USD million



Source: the customs authority of the de facto administration in Tiraspol.

The trade surplus was generated mainly by sales of electricity and metallurgical products, sectors whose competitiveness depended on access to energy on preferential terms. In 2025, although the trade balance remained positive, the surplus fell to approximately USD 50.1 million. Sales to the right bank fell to USD 211.6 million, whilst purchases from the right bank of the Dniester amounted to approximately USD 161.5 million.

The reduction in the surplus restricts cash flows within the region's economy, puts pressure on the budget and diminishes the capacity to finance social expenditure. The right bank is therefore not merely a market for Transnistrian goods, but also an important source of indirect financing for the region's economy.

Beyond the quantitative dimension, trade relations between the two banks are characterised by a complex interdependence, accompanied by administrative barriers that limit formal integration. The Transnistrian economy depends on access to the market on the right bank, on the logistical infrastructure under the control of the constitutional authorities, and on the trade mechanisms provided by the Republic of Moldova.

Trade in goods produced on the left bank of the Dniester and sold on the right bank is considered domestic trade and is subject to the taxes provided for by Moldovan legislation. Among the obstacles encountered in conducting domestic trade and exports, respondents mentioned difficulties relating to financial transfers:

“We cannot transfer money directly; everything becomes 15 per cent more expensive.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

Respondents also highlighted difficulties relating to international transfers, logistical organisation, certification costs, access to European standards and accredited laboratories, the complexity of procedures for accessing foreign markets, and the lack of logistical infrastructure for perishable goods.

“The EU market is very closed. Even if you meet all the requirements, the duties and costs make the product unprofitable.”

(Interview with an entrepreneur in the agricultural sector, no specific date given – taken as 10 June 2025 in accordance with the methodology)

Participants also mentioned limited access to information on certification requirements for exports to the European Union and the difficulty of obtaining internationally recognised certifications.

“Without data, I cannot draw up a proper business plan.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

The lack of official statistical data affects the planning capacity of businesses in the region. Since 2021, the Tiraspol administration has suspended publication of the statistical yearbook, and economic data are published sporadically, unsystematically and without a sufficiently comprehensive archive. This situation makes it difficult to assess economic trends, including for entrepreneurs in the region.

“I cannot draw up a viable business plan without official statistics.”

(Focus group with entrepreneurs from the left bank of the Dniester, 10 June 2025)

The views gathered show that the process of economic convergence is not limited solely to legislative or fiscal barriers. The obstacles identified by entrepreneurs include access to finance, commercial infrastructure, product certification, recognition of documents, the availability of economic data and the level of trust in institutions. Representatives of the Transnistrian business community have expressed an interest in deeper integration into the economy of the Republic of Moldova, under transparent, legal and predictable conditions, based on uniformly applied rules.

Although the Tiraspol administration does not recognise the integration of the region's economy into the economic space on the right bank, representatives of the business community, particularly those from small and medium-sized enterprises, take a more pragmatic stance towards the prospects for economic convergence. At the same time, the regional administration employs additional control and regulatory mechanisms, including internal checkpoints, additional taxes and administrative restrictions on the flow of goods. These measures increase the costs borne by the business community and may encourage the relocation of economic activities to the right bank.

From the perspective of the Tiraspol administration, non-tariff barriers serve several functions. They maintain the appearance of separate control over trade between the two banks, support rent-seeking mechanisms that favour the dominant player in the region's economy, – the Sheriff Group – and increase the transaction costs borne by businesses. Overall, these effects reduce the efficiency of trade between the two sides.

Although Chisinau cannot directly eliminate all the mechanisms used by the Tiraspol administration to restrict interaction with the rest of the Republic of Moldova's economic area, the constitutional authorities have instruments at their disposal to facilitate or impose conditions on enterprises' access to external markets. To gain access to the European Union market and other

external markets, companies on the left bank of the Dniester must be registered in accordance with the legislation of the Republic of Moldova, comply with national customs procedures and use certificates of origin issued by the constitutional authorities.

These conditions are essential for preferential access to the European Union market under the DCFTA. In practice, the mechanism creates a close interdependence between companies interested in exporting and the institutions of the Republic of Moldova. Transnistrian exports to the European market can only take place in compliance with the general conditions laid down by law. In this respect, one can speak of the existence of *de facto* economic integration between the two banks of the Dniester, even though the prospects for a definitive political settlement remain uncertain.

The current level of integration of companies on the left bank of the Dniester into the economic space of the Republic of Moldova provides the government in Chisinau with real strategic leverage. Unlike political or security instruments, economic mechanisms directly influence the interests of businesses and offer concrete benefits to the private sector in Transnistria, including access to the market on the right bank, the European Union market, and financial and logistical infrastructure.

These benefits lay the groundwork for deeper and more predictable economic integration, in which the Moldovan authorities can support the adaptation of economic operators to the rules, standards and mechanisms set out in national legislation. Unlike confrontational approaches, this approach allows for the gradual convergence of the two economies.

At present, the domestic market of the Republic of Moldova accounts for approximately half of the goods sold by the Transnistrian region outside the territory controlled by the Tiraspol administration. The volume of trade between the two banks increased until 2024, after which it declined in 2025, partly as a result of the cessation of electricity purchases from MGRES. However, the region's trade balance with the right bank remained positive.

The Republic of Moldova has significant legal and economic levers at its disposal in its relations with the Transnistrian private sector engaged in trade and exports. The use of these levers should primarily aim to encourage compliance and gradual

integration, rather than impose disproportionate costs that could adversely affect businesses and the population. The most significant obstacles to the development of trade and the deepening of economic convergence remain linked to the administrative measures applied by the authorities in Tiraspol. During the transition phase, *de facto* economic dependence can coexist with formal political separation. Trade flows are thus a relevant indicator for assessing the direction and pace of economic integration.

Conclusions

Trade relations between the two banks of the Dniester have gone beyond occasional exchanges and now function as a stable mechanism of economic interdependence. Their main characteristic is asymmetry: the Transnistrian region consistently sells more goods to the right bank than it purchases from it, and the resulting surplus represents an important source of liquidity and facilitates enterprises' access to foreign currency. However, the reduction in this surplus in 2025 highlights the mechanism's vulnerability to contractions in the industrial and energy sectors.

The chapter highlights that deeper economic integration is limited not by a lack of interest in trade, but by institutional fragmentation and the administrative costs borne by businesses. Difficulties relating to financial transfers, product certification, logistical infrastructure, access to information and the recognition of documents reduce the efficiency of trade and the business community's ability to plan long-term investments.

From a public policy perspective, the priority is no longer to demonstrate the existence of economic integration, but to transform current trade relations into a more transparent and predictable framework for interaction. Simplifying procedures, improving access to information, facilitating financial transfers and supporting compliance with applicable standards can strengthen economic ties without causing further disruption to businesses.

At the same time, the administrative barriers imposed by the Tiraspol administration increase the costs of trade and slow the convergence of the two economies. Consequently, trade between the two sides should be viewed not only as an indicator of existing economic integration, but also as a practical platform for its gradual deepening.

Chapter VI.

The Public Budget, Tax System and Financial Sustainability

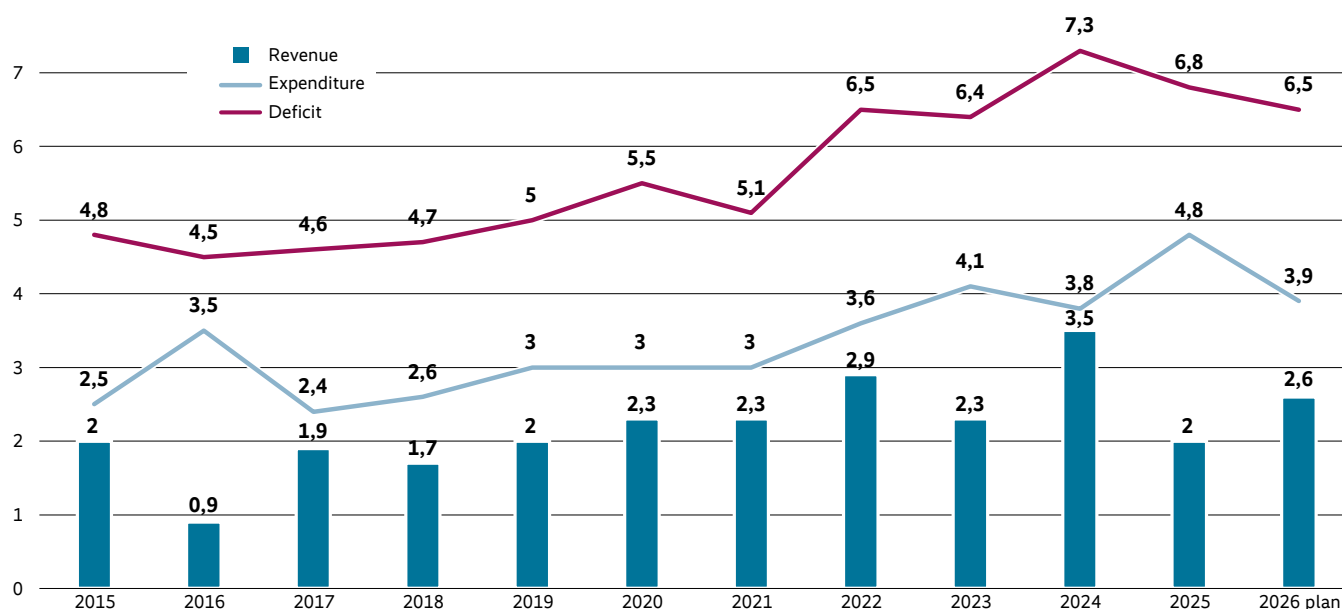
Trends in revenue, expenditure and the consolidated budget deficit in the region

An analysis of the consolidated budget adopted by the Tiraspol administration points to serious financial sustainability

challenges, reflected in declining real tax revenues and a high degree of dependence on a small number of large enterprises vulnerable to external factors. These vulnerabilities are reflected both in the structure of the budget and in the evolution of its main financial indicators.

Planned public budget on the left bank of the Dniester, billions Transnistrian roubles

Figure 40



Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

Budget revenue has grown slowly in nominal terms, from approximately 2.5 billion Transnistrian roubles in 2015 to around 3.8 billion in 2024 and an estimated 3.9 billion in 2026. At the same time, expenditure has grown at a faster rate, from 4.8 billion roubles in 2015 to a peak of 7.3 billion in 2024, before falling to approximately 6.5 billion in 2026.

This trend points to a structural imbalance, given that budget revenue covers only a portion of planned expenditure. The expenditure structure is dominated by rigid components, such as pensions, wages and security expenditure, which absorb the bulk of available resources. Consequently, the budgetary scope for public investment remains very limited, suggesting a budget geared primarily towards maintaining essential functions and meeting current expenditure needs.

The budget deficit and its sources of funding

The budget deficit is one of the main characteristics of the region's financial system and reflects the economy's limited capacity to fully sustain the current level of public expenditure. According to the data analysed, the deficit amounted to approximately 2 billion Transnistrian roubles in 2015, 2.9 billion in 2022 and 3.5 billion in 2024, and is estimated at around 2.6 billion in 2026. In the absence of access to international financial markets, financing the deficit depends on alternative mechanisms, including the accumulation of domestic debt and the use of monetary instruments that lack sufficient transparency. These practices allow the system to continue functioning in the short term, but place pressure on macroeconomic stability, including the exchange rate and inflation.

Under Article 5 of the region’s budget law, the deficit is covered annually from sources that are not disclosed in detail to the public and cannot be independently verified. According to the authors’ estimates, revenue from the sale of natural gas is one of the main sources used to cover the budget deficit. In 2025, the region received natural gas with an estimated value of approximately USD 454 million, equivalent to around 7.3 billion Transnistrian roubles. The gas was supplied to industrial and domestic consumers at tariffs considerably below its estimated market value.

According to the authors’ calculations, the tariffs applied in the region were, on average, approximately three times lower than the actual cost of the gas. For industrial consumers, these ranged from 3.3 to 5.66 Transnistrian roubles per cubic metre, equivalent to approximately USD 0.20–0.35. Household consumers and public institutions paid approximately 1.7 Transnistrian roubles, or around USD 0.10 per cubic metre. The application of differentiated tariffs based on the category of industrial consumer supports the authors’ conclusion regarding the existence of a system of selective preferential treatment for economic agents in the region. By comparison, consumers on the right bank paid approximately 14.42 lei, equivalent to around USD 0.84 per cubic metre, representing a tariff approximately 8.4 times higher. In 2022, the difference between the tariffs applied on the two banks was even more pronounced.

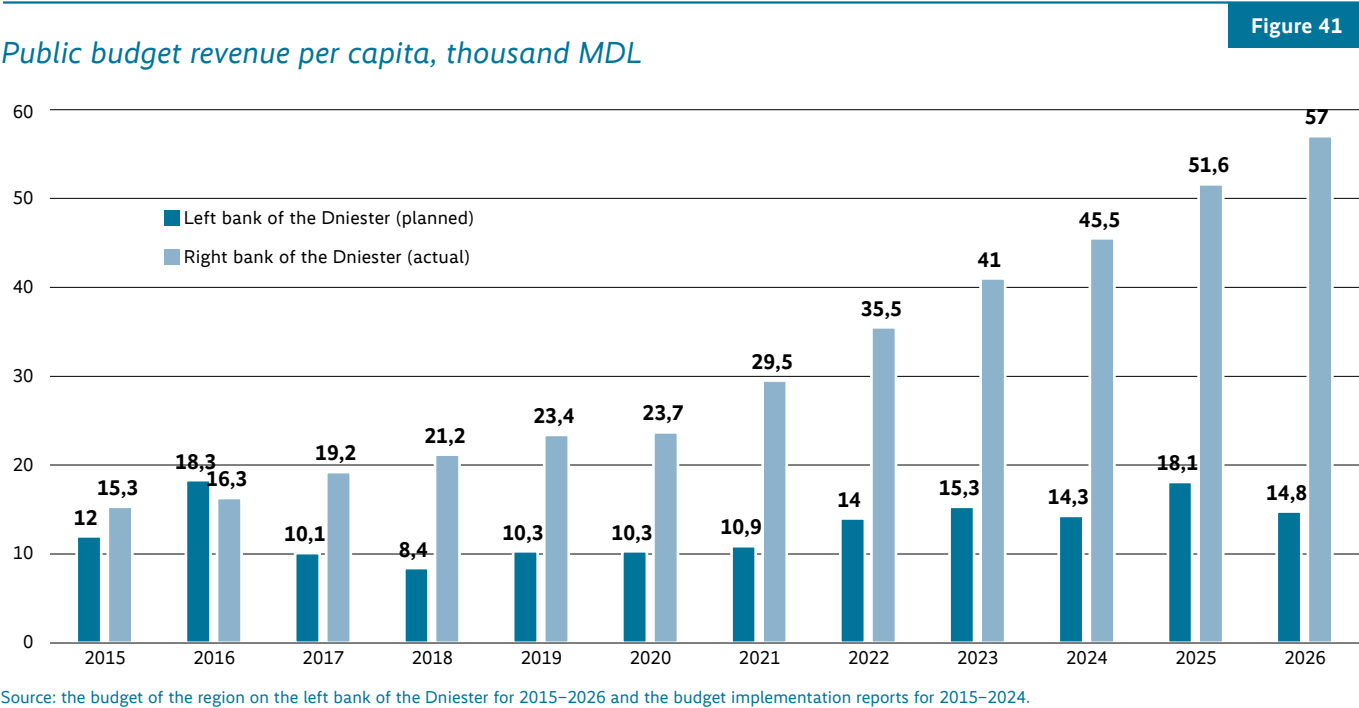
The authorities in Tiraspol avoided raising tariffs in order to limit the social impact and maintain public support, but this decision

reduced the potential for increasing budget revenue. For the second consecutive year, planned expenditure has fallen, from 7.3 billion roubles in 2024 to 6.5 billion in 2026.

In these circumstances, the administration has two main options for increasing revenue: raising the tax burden and adjusting natural gas tariffs. Both measures entail significant economic and social costs for the population and the business community. Avoiding them, however, does not eliminate the need for adjustment, but rather shifts the pressure onto public expenditure.

A comparative analysis of consolidated budget revenues on the two banks of the Dniester

2016 was the last year in which per capita budget revenue on the left bank of the Dniester exceeded the level recorded on the right bank. It stood at approximately 18.3 thousand lei in the Transnistrian region, compared with 16.3 thousand lei on the right bank. Subsequently, per capita budget revenue in Transnistria ranged from 8.4 thousand lei in 2018 to 18.2 thousand lei in 2025 and is estimated at approximately 14.8 thousand lei in 2026. On the right bank, per capita national public budget revenue rose from approximately 15.3 thousand lei in 2015 to an estimated 57 thousand lei in 2026. Thus, in 2026, per capita budget revenue on the right bank is almost four times higher than on the left bank.

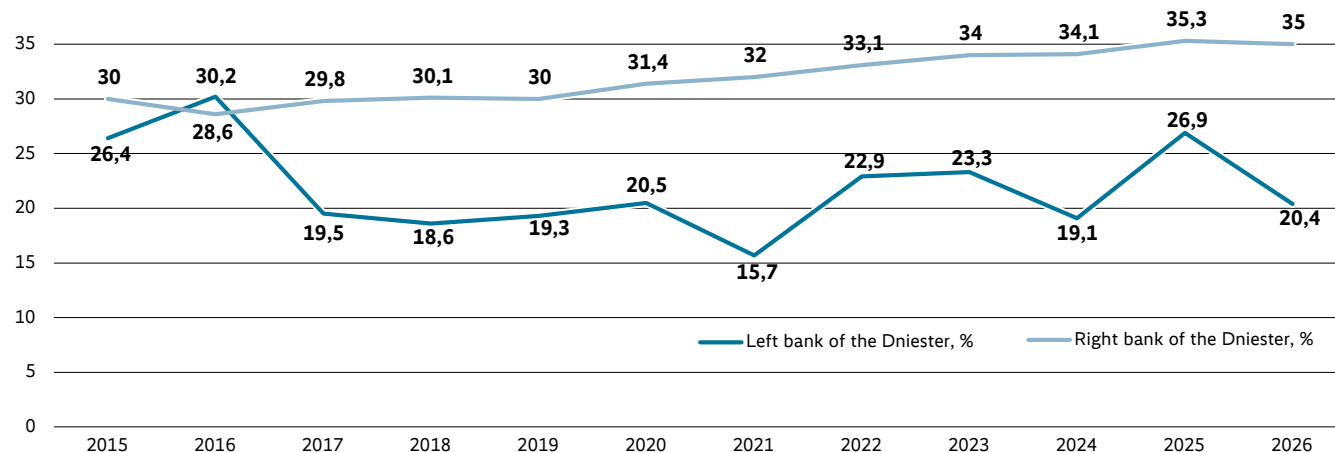


This disparity is partly explained by the narrow tax base and the low level of taxation on the left bank of the Dniester. As early as 2016, the Tiraspol administration considered introducing VAT, but the initiative was blocked for political reasons. Other fiscal and institutional reforms have also

been postponed, including the separation of the social security system from the health insurance system. These decisions have limited both the capacity to collect budget revenue and transparency in the management of public resources.

Figure 42

Public budget revenue as a percentage of GDP



Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

This discrepancy is also confirmed by the ratio of budget revenue to GDP. On the right bank, this ratio increased from approximately 30 per cent to 35 per cent of GDP between 2015 and 2026. On the left bank of the Dniester, it fluctuated between 15.7 per cent and 26.7 per cent and is estimated at 20.4 per cent in 2026. The tax burden on citizens and businesses in the Transnistrian region is thus considerably lower than on the right bank. This situation reflects both a lower level of taxation and the administration's limited capacity to mobilise sufficient resources to finance public services and investment.

The gradual introduction of VAT on the left bank of the Dniester, with the additional revenue channelled towards economic and social development projects in the region, could represent a systemic solution. Such a measure could contribute both to increasing public revenue and to the gradual harmonisation of the tax systems on the two banks.

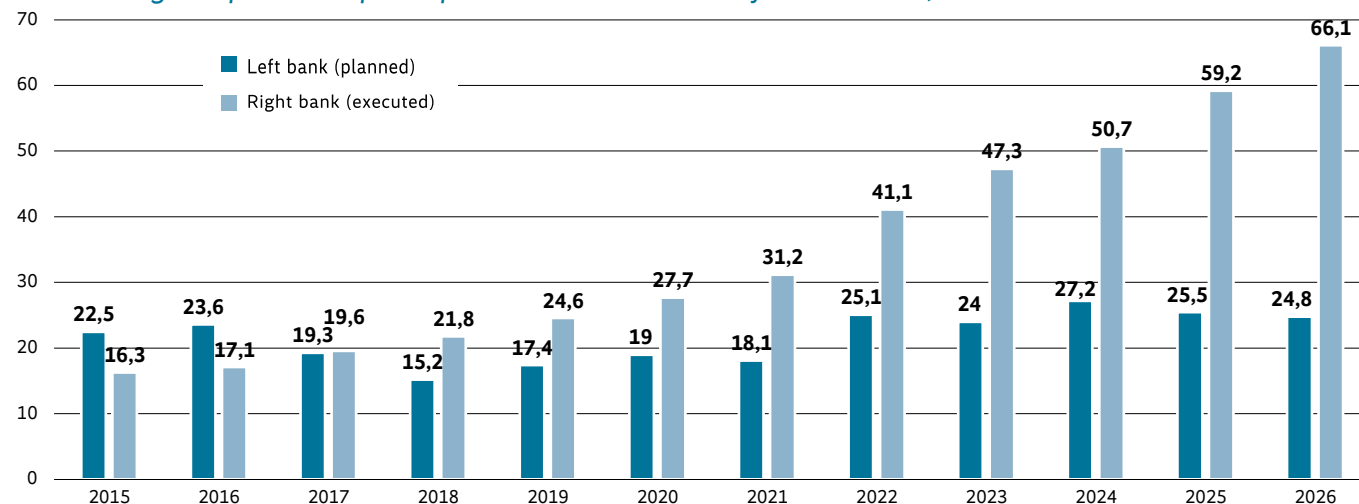
Budget expenditure and a comparative analysis of the two banks of the Dniester

The trend in public expenditure over the last ten years indicates a decline in the region's capacity to provide public services and maintain an adequate level of remuneration for public sector employees. In nominal terms, per capita expenditure on the left bank of the Dniester rose from approximately 22.5 thousand lei in 2015 to 27.2 thousand lei in 2024, before falling to an estimated 24.8 thousand lei in 2026. On the right bank, public expenditure per capita rose from approximately 16.3 thousand lei in 2015 to an estimated 66.1 thousand lei in 2026.

Between 2015 and 2016, per capita budget expenditure was approximately 40 per cent higher on the left bank of the Dniester than on the right bank. This difference was also reflected in the level of pensions and public sector wages. By 2026, the situation is estimated to have reversed, with public expenditure per capita on the right bank approximately 2.7 times as high as on the left bank.

Figure 43

Public budget expenditure per capita on the two banks of the Dniester, thousand MDL



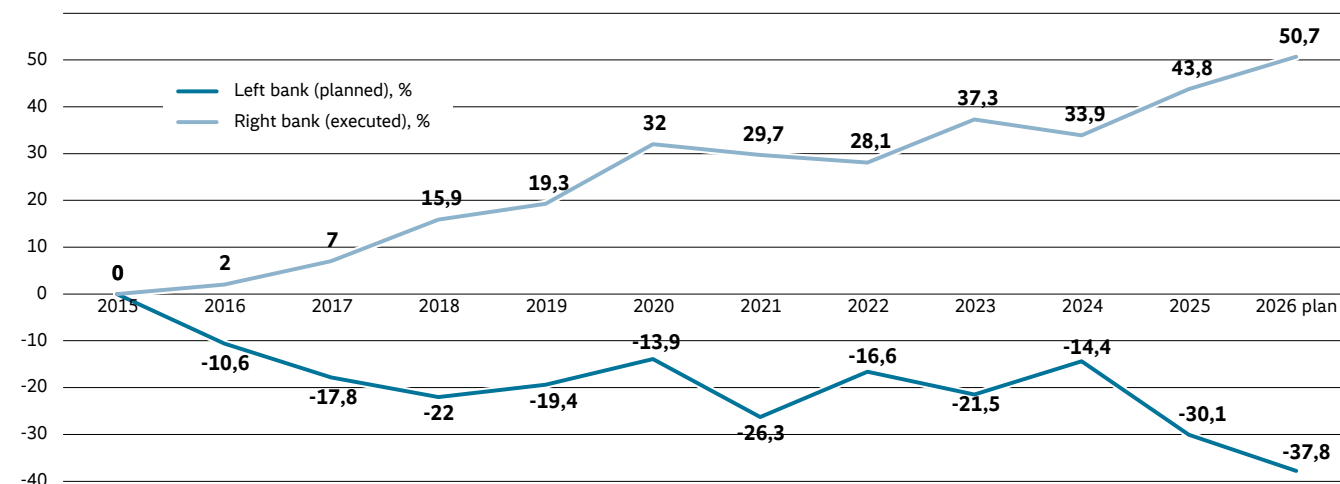
Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

Although the region's budget expenditure increased in nominal terms compared with 2015, in real terms –after adjusting for inflation – public expenditure per capita in 2026 is approximately 37.8 per cent lower than in 2015. This decline of almost 40 per cent indicates a reduced capacity of the administration to pay

public sector wages and finance infrastructure investment. Over the same period, public expenditure on the right bank, although affected by several economic crises, increased by approximately 50.7 per cent in real terms.

Real change in public expenditure on the two banks of the Dniester compared with 2015, %

Figure 44



Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

Despite the existing difficulties, the region's budgetary system continues to function. According to the authors' interpretation, the explanation extends beyond the official fiscal framework and lies in the existence of indirect subsidy mechanisms, based primarily on the sale of natural gas received on preferential terms. In the absence of these resources, the regional administration's capacity to finance its current level of public expenditure would be considerably reduced. According to the estimates presented in the study, over 40 per cent of current expenditure is financed directly or indirectly through resources generated by this mechanism.

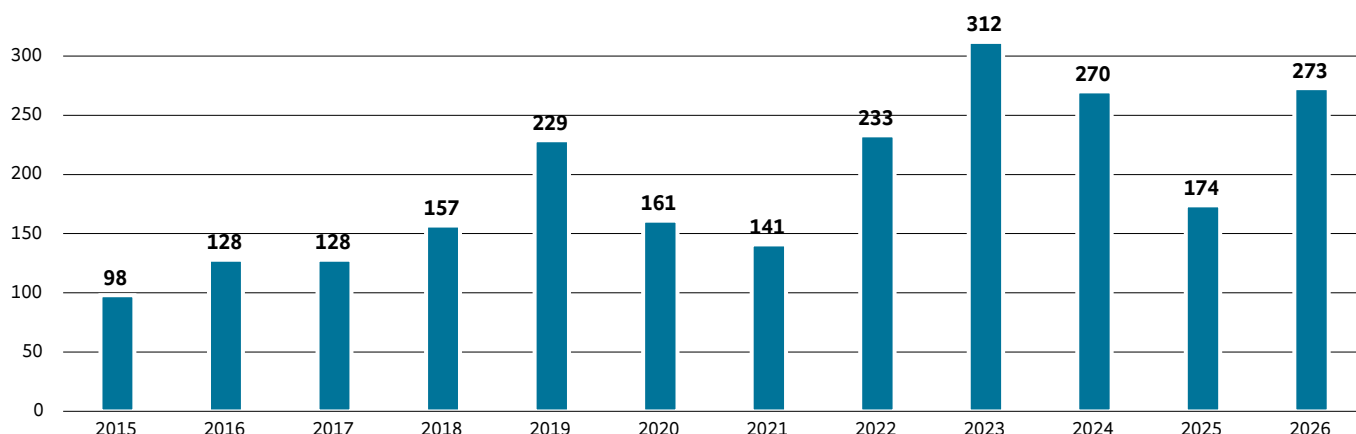
Investments in infrastructure

To assess public investment, the study analyses the evolution of the region's Road Fund. Its value increased from approximately 98 million roubles in 2015 to 312 million in 2023. In 2025, the Fund's allocations fell to 174 million roubles, before rising to approximately 273 million in 2026.

The volatility of these allocations indicates a limited capacity for strategic planning and the dependence of public investment on the resources available from one year to the next. Nevertheless, allocations for road infrastructure have remained relatively stable compared with other categories of expenditure.

Road Fund on the left bank of the Dniester, million Transnistrian roubles

Figure 45



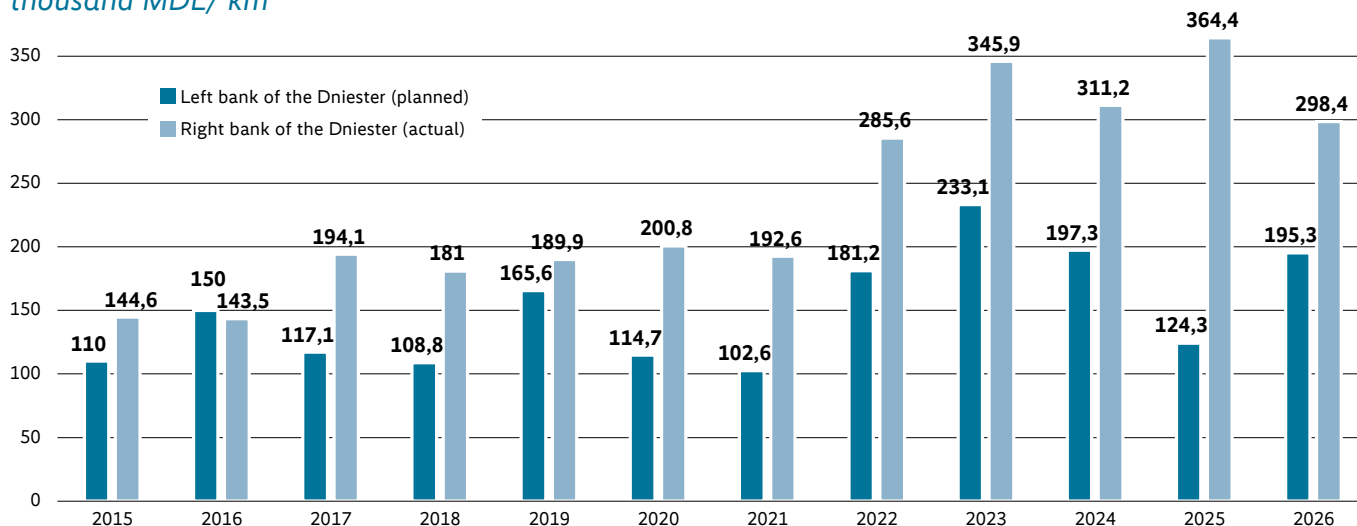
Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

Expenditure on road infrastructure, calculated per kilometre of road, ranges from approximately 100,000 to 250,000 lei in the Transnistrian region, compared with 150,000–360,000 lei on the right bank. Although allocations are higher as a share of GDP on

the left bank of the Dniester – approximately 1.2 per cent of GDP, compared with 0.9 per cent on the right bank – their absolute value reflects a considerably lower capacity for infrastructure modernisation.

Funds allocated to road infrastructure per kilometre on the two banks of the Dniester, thousand MDL/ km

Figure 46



Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

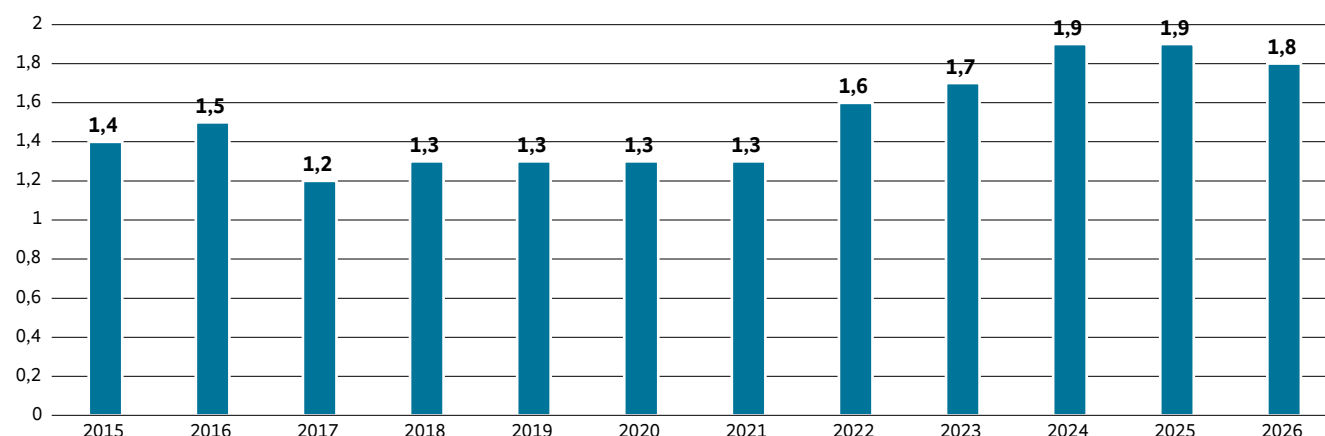
Local Budgets

Local budgets reflect the most direct impact of financial constraints on communities and the population. Their total expenditure rose from approximately 1.4 billion roubles in 2015 to 1.9

billion in 2024 and is estimated to fall to approximately 1.8 billion in 2026. The reduction in local budget expenditure is less pronounced than that recorded at the central level, suggesting that resources allocated to local communities have been safeguarded to some extent.

Local budget expenditure on the left bank of the Dniester, billion Transnistrian roubles

Figure 47

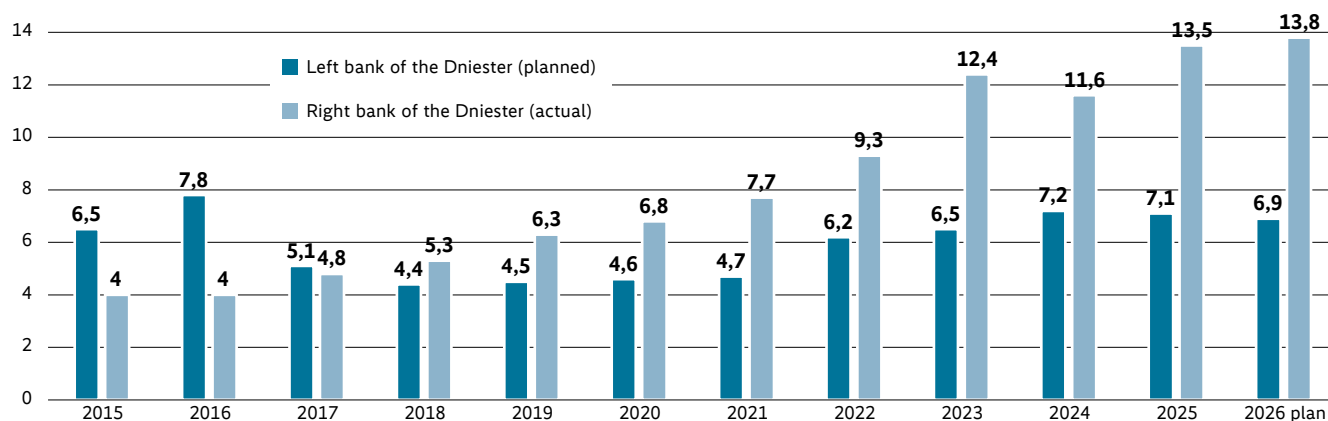


Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

In 2016, per capita local budget expenditure on the left bank of the Dniester was almost twice as high as on the right bank, amounting to 7.8 thousand lei, compared with 4 thousand lei. Between 2015 and 2026, this indicator increased steadily on the right bank, reaching an estimated 13.8 thousand lei in 2026. On the left bank of the Dniester, by contrast, local budget

expenditure per capita fluctuated, falling to an estimated 6.9 thousand lei in 2026—roughly half the level recorded on the right bank. Over the course of just a decade, there has thus been a significant reversal in the relative financial capacity of local authorities on the two banks to fulfil their responsibilities and obligations.

Local budget expenditure per capita on the two banks of the Dniester, thousand MDL



Source: the budget of the region on the left bank of the Dniester for 2015–2026 and the budget implementation reports for 2015–2024.

This discrepancy indicates that local authorities in the region are operating close to the limits of their financial capacity, with insufficient resources for development and improvements in public services. The structural deficit, insufficient revenue, declining expenditure in real terms and dependence on indirect subsidy mechanisms contribute to the fragility of the region's financial system. In the event of a disruption to external flows, particularly those related to energy resources, adjustment would have to take place either through reductions in expenditure or increases in tax and tariff revenue. Given the rigidity of expenditure, the impact of such pressures is felt directly in public sector wages, pensions and the functioning of public institutions.

Under these circumstances, the risk of a budgetary crisis stems directly from the structure of revenue and expenditure. The region's financial system is not sufficiently underpinned by its own economic and fiscal base. The current model has limited capacity to finance economic and social development and primarily allows for the maintenance of a fragile equilibrium that remains dependent on external factors.

Conclusions

The budgetary analysis concludes the assessment set out in the preceding chapters and shows that economic, social and trade imbalances converge at a common point: the inability of the region's public financial system to operate solely on the basis of its own revenue. The persistent gap between revenue and expenditure is covered by mechanisms that lack sufficient transparency and are largely linked to the sale of natural gas received on preferential terms. In the absence of these external resources, the current budget structure would be difficult to sustain.

The disappearance or reduction of this source of funding would transform the fiscal issue from an extremely sensitive political matter into an immediate practical necessity. The regional administration has limited room for manoeuvre, as the bulk of expenditure is allocated to wages, pensions, public services and security. Under these circumstances, a sudden reduction in

resources would have a direct impact on people's incomes and the functioning of essential institutions.

The limited capacity to collect revenue, the low level of taxation and the postponement of reforms have widened the gap between the two banks. Whilst per capita public revenue and expenditure have risen steadily on the right bank, the Transnistrian region's financial capacity has declined in real terms. This divergence affects both the quality of public services and the ability of local authorities to finance infrastructure development and maintenance.

For the Republic of Moldova, the implications are twofold. Tax harmonisation is no longer merely an objective of reintegration, but also a means of addressing the continued deterioration of the region's financial system. At the same time, it is one of the components of the reintegration process with the highest transitional costs and the narrowest margin for error. Introducing new taxes or adjusting tax rates may increase public revenue, but could adversely affect the population and businesses if implemented too quickly and without compensatory mechanisms.

Consequently, the alignment of the tax systems must be gradual, predictable and accompanied by measures to protect people's incomes and ensure the continuity of public services. Additional revenue collected in the region should be clearly channelled towards local development, infrastructure and social protection, so that the reform is perceived not merely as an extension of tax obligations, but also as bringing tangible improvements in the services provided to the population.

Establishing a sustainable pace of tax harmonisation thus becomes one of the key conditions for reintegration. An adjustment that is too slow would prolong dependence on external sources and exacerbate fiscal fragility, whilst one that is too rapid could cause a social and institutional shock that would be difficult to manage. Striking a balance between these two risks is one of the main premises underpinning the recommendations set out in the final section of the study.

Chapter VII.

Scenarios for Economic, Social and Institutional Reintegration

On 14 December 2023, the European Council decided to open accession negotiations with the Republic of Moldova, on the basis of the progress made in implementing reforms, including in the areas of combating corruption and de-oligarchisation. The first intergovernmental conference, which formally launched the accession negotiations, took place on 25 June 2024, a few months before the referendum on enshrining the objective of European integration in the Constitution of the Republic of Moldova. However, European integration is likely to be a longer process than the expectations that emerged among the population in the context of the referendum and the elections of 2024 and 2025 might suggest.

The reasons are multiple and structural. The Republic of Moldova remains one of the lowest-income countries in Eastern Europe, with a GDP per capita of approximately USD 6,600 in 2023, a total GDP of USD 16.54 billion and a population of around 2.5 million. The economy continues to depend to a significant extent on external financial assistance and remittances, whilst the unresolved conflict on the left bank of the Dniester creates additional challenges for the country's accession to the European Union.

The most realistic scenarios for the reintegration of the Transnistrian region depend on a series of internal and external conditions capable of altering the nature of the current regime in Tiraspol and the interdependence between the two banks of the Dniester. The Transnistrian economic model is unsustainable, fragile and non-transparent, operates in the absence of democratic legitimacy, and is undergoing a continuous process of erosion.

The deterioration of the region's economy and the war in Ukraine are structural factors that may accelerate legal and economic harmonisation with the Republic of Moldova and the European Union. In 2026, Chisinau put forward several fiscal and economic initiatives whose direct and indirect effects may generate significant controversy. Full institutional reintegration remains the most complex and costly scenario, as it entails not only the administrative restructuring of the region, but also the transformation of power relations, economic mechanisms and political identities that have become entrenched over the last three decades.

The status quo or tacit accommodation¹⁷ scenario

This scenario involves preserving the current rentier system of power, dominated by a corporation that exerts major influence over the region's economic and political life. It allows the leaders in Tiraspol to maintain privileged control over economic assets, exports, industrial enterprises and resources, as well as over power and security structures. At the same time, it allows for the selective acceptance of certain benefits arising from cooperation with the Republic of Moldova and external partners, provided that these do not affect the privileged position of the dominant groups.

Characteristics: This scenario involves preserving or replicating the current system, continuing limited technical cooperation and maintaining the rent-seeking mechanisms used to preserve apparent stability. The Russian military presence continues to be used both as a factor of internal cohesion and as a means of exerting pressure on the Republic of Moldova. The *status quo* scenario allows for a certain form of economic coexistence with the right bank, but only to the extent that the Moldovan authorities do not intervene in the redistribution of domestic resources, do not extend tax obligations, do not impose conditions on economic transactions, and do not seek the effective enforcement of national legislation in the region. At the same time, it curbs dissent and keeps only those issues on the negotiating agenda that are compatible with the interests of the local oligarchy, which favours economic integration without political reintegration.

Advantages: In the short term, this scenario keeps the conflict in a state of stalemate, reduces the risk of violent confrontation and provides a degree of predictability for economic activities. It also reduces the immediate political and financial costs that Chisinau would have to bear as part of an accelerated process of rapprochement and reintegration.

Risks: This scenario prolongs the institutional and identity-based separation between the populations on both banks, as well as the separation of the region's economy, and allows for the expansion of non-transparent economic flows towards the right bank. It perpetuates sources of insecurity and

¹⁷ Tacit accommodation refers to a tacit understanding whereby several parties tolerate and maintain certain informal arrangements because each derives benefits from them, without any formal agreement being in place. In the context of the Chisinau–Tiraspol–Moscow relationship, the term describes the maintenance of a zone of political, economic and legal ambiguity that is advantageous to various actors on all sides. It is, in essence, a form of indirect cooperation based on mutual tolerance, without any public commitment.

maintains the possibility that military contingents stationed in the region could be deployed in operations pursued by the Russian Federation in crisis situations.

Costs: Maintaining the *status quo* entails ongoing security and administrative costs, the stalling of structural reforms, a reduction in the state's territorial and symbolic cohesion, and the gradual loss of human capital through migration.

Feasibility: After more than three decades, this scenario is becoming increasingly difficult to sustain in its current form. The transformation of the Soviet-style system associated with the Smirnov administration into an oligarchic and security-driven model, dominated by the economic interests of the *Sheriff* conglomerate, has not eliminated the region's structural vulnerabilities. The Russian-Ukrainian war has profoundly altered the survival calculations of the Tiraspol administration, which has become more cautious towards Kyiv and more flexible in its relations with Chisinau. Ukraine's securitisation of the border segment adjacent to the Transnistrian region – including through protective infrastructure, surveillance systems and the reduction of poorly controlled areas – has limited opportunities for smuggling and the Russian Federation's ability to directly support local structures.

Tiraspol is calling for a return to the '5+2' negotiation format, which it regards as a form of legitimisation through high-level meetings. For Chisinau, however, resuming this format in its previous configuration offers no obvious benefits. Against the backdrop of the region's increasing isolation, the Tiraspol administration seeks to preserve the *status quo* and secure support from Western donors for projects aimed at the region's population, without committing to any substantial political or institutional changes.

The accelerating crisis scenario

This scenario involves the deepening of a major social and economic crisis, triggered by the shutdown of key industrial enterprises, energy shortages, the loss of export markets, or the suspension of natural gas supplies on preferential terms.

The crisis could also be triggered by a sudden deterioration in relations between Tiraspol and Chisinau or by destabilising actions initiated by dominant groups in the region. Such a scenario could also be fuelled by tensions arising from the implementation of fiscal and customs reforms, similar to those that followed the amendments to the Customs Code of the Republic of Moldova in 2024.¹⁸

Unlike a gradual adjustment, this scenario involves the

simultaneous deterioration of the region's key economic sectors. A reduction or suspension of activity by systemically important enterprises would lead to a decline in industrial output, exports and budget revenues. In the absence of alternative sources of funding, the effects would spill over into wages, pensions, tariffs and public services, transforming the economic crisis into a social and institutional crisis.

Initially, the shock would affect energy-intensive enterprises and export-dependent sectors. Subsequently, the reduction in tax revenues and foreign exchange inflows would limit the Tiraspol administration's ability to finance current expenditure. If these losses could not be offset, the region would face rising unemployment, accelerated migration, mounting social discontent and the deterioration of public institutions. In its most severe form, the crisis would require humanitarian, energy and financial intervention from the Republic of Moldova and external partners.

Under these circumstances, Chisinau would need to ensure the continuity of essential services, manage social pressures and prevent the economic collapse from turning into a security crisis.

The overly rapid or insufficiently coordinated implementation of fiscal and customs measures could exacerbate existing pressures. However, these measures are not the main cause of the crisis, but rather a factor that may accelerate the adjustment if they are not accompanied by transition periods and social protection mechanisms.

Characteristics: The region's economic system is already facing severe vulnerabilities. These have been exacerbated by the disruption of the traditional natural gas supply model and the shift to purchasing gas from European markets. During 2024–2025, several key enterprises in the metallurgical and energy-intensive sectors suspended or drastically reduced their economic activity.

The Moldovan authorities intervened on several occasions to authorise natural gas supplies to meet the region's needs and to allow Moldovagaz to procure the required volumes by way of derogation.¹⁹ These interventions helped to limit social tensions. However, high energy prices increase the risk of social unrest and accelerate population migration.

The main feature of this scenario is the rapid spread of the shock from systemic enterprises to the region's entire economy. In a highly concentrated economy, the suspension of operations at a few large enterprises simultaneously affects exports, local suppliers, budget revenues, domestic consumption and employment. The crisis is thus not confined to the industrial

¹⁸ In 2024, the authorities amended the Customs Code, requiring businesses in the Transnistrian region to pay customs duties. The draft legislation removes the remaining concessions, requiring businesses to pay VAT and excise duties.

¹⁹ The Ministry of Energy retained the exemption from the EU's 'unbundling' rule, allowing Moldovagaz to supply natural gas to the Transnistrian region 'to avoid an economic and humanitarian collapse on the left bank of the Dniester'. Moldovagaz purchased gas from BRM (Romania), using the regional market's infrastructure and funds paid in advance by Tiraspoltransgaz. In this way, Chisinau helped prevent the collapse of the Cuciurgan power station and an escalation of the security situation. The decisions were criticised for providing a lifeline to companies that contribute funds to the region's budget, allowing Russian energy influence to be maintained through intermediaries, preserving Moldovagaz's role in an energy crisis, and creating the perception of a 'normalisation' of relations with the Tiraspol administration.

sector, but spreads to public finances and social services. Another characteristic is the compression of the adjustment period. Measures which, in a gradual scenario, might be implemented over several years – such as tariff adjustments, broadening the tax base, corporate restructuring and cuts to public spending – would have to be adopted within a matter of months, under conditions of social pressure and limited administrative capacity.

The impact of the crisis would not be uniform across all economic activities. Energy-intensive enterprises and those dependent on public procurement would be the first to be affected, whilst small and medium-sized enterprises already connected to the market on the right bank or to the European Union market might have a greater capacity to adapt. This differentiation should be taken into account when designing intervention measures.

Signs that this scenario might be unfolding include the prolonged suspension of operations by systemically important enterprises, a rapid decline in budget revenues, mounting delays in the payment of wages and social benefits, restrictions on public services, and an increase in the migration of the working-age population.

Advantages: The crisis is not a benefit in itself. However, it can highlight the Republic of Moldova's role as an actor capable of managing emergency situations²⁰ and ensuring the region's access to resources, infrastructure and external support. Emergency interventions can create opportunities for dialogue and negotiations²¹ and may allow for the introduction of conditions regarding the easing of restrictive measures imposed by the Tiraspol administration. At the same time, such a situation may highlight the region's dependence on regional energy infrastructure and the outdated nature of its energy-intensive economic model.

To avoid a purely reactive approach to such a situation, the Moldovan authorities should have mechanisms in place in advance to ensure energy supply, the continuity of essential services, temporary income support for the population, and the coordination of interventions by external partners. In the absence of such a framework, each intervention would have to be negotiated separately, under the pressure of an unfolding emergency. Support provided during the crisis should reach the affected population, communities and businesses directly, without reinforcing the control of de facto structures over the distribution of resources. Otherwise, aid intended for social stabilisation could be used to maintain the political and economic mechanisms that contributed to the emergence of the crisis.

Risks: Any acute crisis can generate instability and destabilising actions. The radicalisation of internal tensions could necessitate more extensive intervention by Chisinau, given the emergence of humanitarian, social and security risks. A further risk

is that the Republic of Moldova's intervention could become an exclusively reactive process, lacking a clear sequence of actions and pre-established institutional mechanisms. In such a context, the pressure on the state budget and institutions would be considerably greater than in the case of a gradual adjustment.

The crisis could be exploited politically by the Tiraspol administration and by external actors interested in destabilising the Republic of Moldova. Fiscal, energy or humanitarian measures adopted by Chisinau could be presented as the causes of the economic decline, even though the region's structural imbalances predate intervention by the constitutional authorities.

The deterioration of social conditions could lead to protests, coercive responses from the region's authorities and an intensification of disinformation campaigns. A non-transparent or selective distribution of aid could exacerbate tensions between social groups and localities.

There is also a risk that humanitarian, energy and security pressures may arise simultaneously, overwhelming the Republic of Moldova's administrative capacity to respond swiftly. This risk is more pronounced if state institutions and external partners do not agree in advance on responsibilities and funding mechanisms.

Costs: This scenario entails high social and humanitarian costs, the need for large-scale external intervention, expenditure on securing energy supplies and social infrastructure, and risks of internal political destabilisation in the Republic of Moldova. Unlike the gradual scenario, the costs of an accelerated crisis would be concentrated over a short period, would be unpredictable in nature, and would be difficult to budget for. These could include emergency energy supplies, temporary income support for the population, maintaining the operation of healthcare and educational institutions, supporting local authorities, and ensuring transport and the supply of essential goods.

In addition to these social and humanitarian costs, there would be costs associated with restructuring or closing down unviable enterprises, retraining employees and integrating them into the labour market on the right bank. Delayed intervention could increase these costs, as the deterioration of infrastructure and the loss of human capital would become more difficult to reverse. The political costs would also be significant. The Government of the Republic of Moldova would have to explain to the population on the right bank the need to use substantial public resources to manage a crisis occurring in a region that is not yet under its effective administrative control.

Triggering factors and conditions for materialisation: Economic and energy crises have become recurrent in the region, against a backdrop of the Russian Federation's diminishing capacity to maintain traditional subsidy mechanisms, logistical

²⁰ Energynomics, 25 August 2025, Moldovagaz to supply natural gas to Transnistria until the end of March 2026, 19 August 2025

²¹ Ministry of Energy of the Republic of Moldova, 15 July 2025.

bottlenecks and increasingly pronounced economic isolation.

The Accelerating Crisis Scenario does not require an explicit political decision to materialise. It may result from the accumulation of the imbalances described above and the emergence of an external shock that the region's administration can no longer offset. Triggering factors may include a sudden interruption or increase in the cost of natural gas supplies, the suspension of operations at MGRES or MMZ, the loss of a major export market, a severe reduction in budget revenues, or the emergence of a domestic political crisis.

Each of these factors could be managed separately for a limited period. However, the Accelerating Crisis Scenario would materialise if several shocks were to coincide, at which point the region's administration would no longer be able to sustain its financial, energy and social compensation mechanisms. The likelihood of this scenario increases in the absence of a joint intervention plan, available financial reserves and mechanisms through which the Republic of Moldova and its external partners can provide direct support to the population and viable enterprises.

The economic reintegration with the Republic of Moldova scenario

This scenario involves the adoption of a plan to accelerate economic reintegration without immediately resolving the political status. The Republic of Moldova would gradually extend its effective jurisdiction over economic activities in the region by increasing the interdependence of companies on the left bank of the Dniester with institutions in Chisinau and through measures aimed at achieving banking, fiscal and customs convergence. Unlike the Accelerating Crisis Scenario, economic reintegration involves a planned and phased adjustment.

The objective is not the immediate takeover of all the region's administrative functions, but the gradual extension of common rules in areas where economic convergence is already well advanced or can be achieved without disproportionate social costs. This scenario is based on the reality that a significant part of the region's economy is already connected to the markets of the Republic of Moldova and the European Union. The reintegration process would formalise and institutionally consolidate economic relations that are already functioning in practice.

A concrete instrument of this approach is the Convergence Fund, established by the authorities of the Republic of Moldova in 2026.²² The mechanism aims to gradually harmonise the tax regime applicable to VAT and excise duties, phase out certain concessions granted to economic operators in the region, and harmonise tax and customs regimes across the entire territory of the Republic of Moldova.

Initially, the measures target primarily imports of products not considered essential, including alcohol and tobacco products. The funds raised from taxes paid by individuals and legal entities in the region are to be transferred to the Fund and used for economic and social development projects on the left bank of the Dniester. The Fund is intended to finance infrastructure modernisation, support for the private sector and the development of small and medium-sized enterprises, supplemented by external contributions.

During the adoption process, the mechanism was supplemented with special provisions regarding VAT applicable to supplies of balancing electricity and natural gas. The specific conditions for implementation are to be determined by the Government depending on the outcome of the negotiations. According to the initiators' estimates, the Fund could accumulate over 600 million lei annually, of which approximately 300 million lei in 2026. The new rules aim to reduce tax evasion, eliminate differential tax regimes and limit profits derived from speculative transactions. The initiators also invoke the principle of equity between citizens on both banks, arguing that the costs of the reintegration process cannot be borne exclusively by taxpayers on the right bank.

This argument is supported by reference to the social benefits granted to the population in the region. In 2025 alone, citizens on the left bank of the Dniester received benefits totalling over 138 million lei, paid from the state budget and the social insurance budget. According to the explanatory note accompanying the law, the tax concessions due to be abolished were originally designed as temporary measures but have gradually become a permanent arrangement.

The provisions are to be implemented in several stages. Some measures are due to come into force on 1 June 2026, others on 1 August 2026, whilst the complete abolition of VAT and excise duty exemptions is scheduled for 1 January 2030. This timetable provides businesses and the population with an adjustment period of approximately four years. The Fund thus combines the gradual extension of tax obligations with a commitment to reinvest the resources collected in the region's development. It represents one of the first institutional mechanisms through which gradual economic reintegration can be put into practice. Its viability will depend on the transparency of its administration, effective access to funding for communities and businesses, and the authorities' ability to demonstrate that tax harmonisation brings tangible benefits to the population.

Characteristics: The scenario prioritises sectors in which the Moldovan authorities can stimulate, regulate and monitor lawful commercial activities. It involves the integration of energy and logistics infrastructure, including railways and electricity generation and distribution systems, as well as the harmonisation of trade standards.

²² The law was promulgated by Decree No. 598-X of 5 May 2026 of the Presidency of the Republic of Moldova and published in the Official Gazette, Nos. 194–197.

The gradual application of Moldovan rules and European regulations aims to reduce the region's isolation and stimulate sectoral technical cooperation through easily demonstrable economic and social benefits. The region's regulatory framework would gradually align with Moldovan legislation and the European Union's *acquis*, without the immediate abolition of all existing institutions.

At this stage, the Tiraspol administration could seek recognition of certain documents, adapt to some trade and tax rules, and accept technical and legal cooperation in selected areas. The gradual nature of the scenario involves differentiating between economic sectors. Activities that are already compatible with market rules and linked to the economic area of the Republic of Moldova could be integrated at a faster pace. For energy-intensive enterprises, public institutions and sectors dependent on subsidies, transition periods, restructuring mechanisms and temporary forms of support would be necessary.

During the transition period, two regulatory systems could co-exist temporarily. However, this situation should be limited by a clear timetable, compliance criteria and deadlines for phasing out the parallel regimes. In their absence, the transition risks becoming a new *status quo*. The process should be organised by sector and in measurable stages, such as business registration, taxation, customs procedures, technical standards, financial transfers, infrastructure and social protection. Progress to each subsequent stage would depend on the fulfilment of predetermined conditions.

Benefits: This scenario could gradually reduce economic isolation and provide positive examples for businesses and employees. It would stimulate pragmatic interests in cooperation, increase the influence of Moldovan institutions, diminish the role of the informal economy and improve social conditions for the population. Benefits include reducing legal fragmentation, facilitating the mobility of people and capital, and paving the way for administrative reintegration.

The main advantage of this scenario lies in the possibility of spreading the costs over a longer period. Business adjustment, tax harmonisation and the expansion of public services could be carried out in stages, thereby avoiding the simultaneous concentration of pressures on the population, the business environment and the Republic of Moldova's budget. This scenario allows viable economic activities and jobs to be protected, rather than applying the same measures uniformly across all sectors.

At the same time, it can foster the emergence within the region of economic and social groups with a stake in continuing integration and maintaining access to common rules and markets. The benefits may become apparent even before a definitive political settlement is reached, through modernised infrastructure, simpler trade procedures, access to finance, better public

services and a reduction in the costs borne by businesses.

Risks: The scenario is initially limited to economic measures and does not entail immediate political reintegration. During the transition period, a hybrid system may emerge, characterised by institutional inconsistency and the absence of genuine democratisation. Other major risks include bureaucratic resistance from existing *de facto* structures, the use of harmonisation as a tool to legitimise the regime, and difficulties in implementation and subsequent monitoring.

This scenario may favour the dominant elites in the region – those who control financial and industrial power – allowing them to reap the benefits of economic integration without bearing its political costs. This could provide them with a powerful lever to delay political reintegration, potentially with the support of Russia as well as certain interested international actors.

The Convergence Fund is already being contested by the Tiraspol administration, which claims that the mechanism was drawn up unilaterally and that the imposition of additional tax obligations may affect businesses, wages, pensions and the stability of the region's budget. The region's leader, Vadim Krasnoselsky, states that "Moldova did not consult in advance, the mechanism is unilateral, and the double collection of taxes will affect pensions, wages and the stability of the budget".²³ Tiraspol also objects to the fact that the Fund will be managed outside its direct control, interpreting the mechanism as an indirect extension of Chisinau's jurisdiction.

The region's official media claim that the taxes collected will reduce the resources available to industry and the region's budget, and portray the Fund as a fiscal instrument rather than a tool for reintegration. This perception may fuel political and administrative resistance, even if the measures are implemented in stages. The risk is higher if businesses are unclear about the obligations to be introduced, the criteria for accessing funding and the intended use of the resources collected.

An analysis by the Centre for Eastern Studies (OSW),²⁴ interprets Chisinau's plan as a significant strategic shift, characterised by the abandonment of the idea of a single, comprehensive reintegration plan, a move towards phased functional integration, and the use of economic and administrative mechanisms falling within the constitutional competence of the Republic of Moldova. The proposed measures may demonstrate to the European Union that the Moldovan authorities are managing the Transnistrian issue in parallel with the accession process, applying the principle of functional integration prior to a political settlement. However, this convergence may remain superficial unless accompanied by a transformation of the region's institutions and power relations.

There is also a risk that access to the Fund's resources could

²³ Moldova 1, "Scepticism in Tiraspol over the Convergence Fund: Decisions Made Outside Negotiations 'Do Not Work'", published 9 March 2026

²⁴ Kamil Catus, "Moldova: A Convergence Fund Instead of a Reintegration Plan", OSW Centre for Eastern Studies, Analysis.

become the main objective of cooperation between the parties. The Tiraspol administration might accept the financial and economic benefits of the mechanism without making any real commitments regarding transparency, the application of common rules and institutional alignment. At the same time, if the region's administration fails to gain control over the resources, it may limit cooperation and attempt to block direct access to funding for communities and businesses.

To mitigate these risks, transparent eligibility criteria, independent selection procedures, monitoring of the use of funds and direct access for beneficiaries in the region are required. Economic convergence may be applied selectively by the Tiraspol administration, which might accept the benefits of access to markets and funding while rejecting obligations regarding transparency, competition, taxation or respect for rights.

Another risk is the temporary consolidation of a dual system in which enterprises simultaneously exploit the advantages of both legal and tax regimes. In the absence of clear deadlines and criteria, this ambiguity may give rise to new forms of tax evasion, unfair competition and regulatory capture. The scenario may also create the perception that integration is limited to the economic interests of large enterprises. To avoid this, the benefits must also reach small enterprises, local authorities, employees and vulnerable social groups.

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Costs: The scenario requires complex administrative reforms, the training and restructuring of the bureaucracy, legal and institutional adjustments, as well as extensive international oversight. Chisinau would need to demonstrate the credibility of the process through financial mechanisms capable of attracting and managing significant investment in infrastructure. Complex coordination, monitoring and regulatory instruments would be required, along with substantial European financial support.

The costs would include the adaptation of customs and tax systems, the interoperability of public registers, the modernisation of infrastructure, the expansion of financial services, product certification and the training of staff in the institutions

involved. Resources would also be needed for social protection during the transition period, including employee retraining, temporary income support, business restructuring and compensation for the effects of tariff and tax adjustments. Although significant, these costs could be planned and phased in. For this reason, they would be easier to manage than the unpredictable and concentrated expenditure that would arise in the event of a sudden crisis.

Implementation: The scenario depends on maintaining access to the European Union market, European financial and technical support, pragmatic cooperation between Chisinau and Tiraspol, and the relative stability of the security environment in the region. It also requires political will, external economic and legal incentives, pressure for standardisation, and credible mechanisms for arbitration, monitoring and implementation. Implementation requires a strategic framework approved by the Moldovan authorities, setting out the sequence of measures, the institutions responsible, sources of funding and progress indicators.

The process cannot depend solely on ad hoc negotiations between Chisinau and Tiraspol. There must also be a capacity for direct intervention in the region, so that financial and technical support can reach communities, businesses and beneficiaries without being controlled exclusively by de facto structures. Transparency in the administration of the Convergence Fund, access to economic data, independent monitoring and the linking of funding to verifiable results are indispensable to the credibility of this scenario.

The full political and institutional reintegration scenario

This scenario envisages the full reintegration of the Transnistrian region into the constitutional order of the Republic of Moldova through the application of the Constitution and national legislation throughout the country. In practical terms, the process would involve the transfer of administrative, judicial and security powers to the constitutional authorities, with or without the granting of a special status to the region.

The scenario is based on the observation that the region's current operating model – based on energy supplied on preferential terms, economic concentration, administrative control and external support – can no longer ensure long-term development. The region is therefore faced with the need to identify solutions for adaptation and survival rather than with the possibility of continuing with the existing model. In these circumstances, full political and institutional reintegration may represent the most effective long-term economic solution, even if it entails the highest costs and greatest difficulties during the transition period.

This scenario can be implemented gradually or over a shorter timeframe, depending on the political and regional context. It involves the coordinated integration of the economy and administration within a common space, the extension of market

rules and the national regulatory framework, as well as the phased implementation of economic and social legislation. Unlike gradual economic reintegration, this scenario is not limited to fiscal, trade or technical convergence, but also aims to resolve the political status and bring an end to the functioning of de facto structures as a separate system of governance.

Full reintegration does not, however, entail the immediate abolition of all institutions in the region. The process could be organised through transitional mechanisms and interim administrative structures, established on the basis of a political agreement and supported by international organisations. These would serve to ensure the continuity of public services, the phased transfer of powers and the transition to a common economic, administrative and judicial area, while guaranteeing the political and civil rights of the population.

A relevant precedent is the reintegration of Eastern Slavonia, Baranja and Western Sirmium into Croatia, achieved following the Erdut Agreement and through a transitional administration under the auspices of the United Nations. The process enabled the peaceful and phased return of the territory to Croatia's constitutional order and the gradual transfer of administrative and security functions.

Croatia's experience cannot be directly applied to the Republic of Moldova, given the differences in political, military and institutional contexts. Its relevance lies primarily in the use of a temporary international administration, a clear mandate, a transition timetable and mechanisms for demilitarisation and the transfer of powers. In the case of the Republic of Moldova, such instruments should aim to prevent escalation, protect the population and prevent the emergence of an administrative vacuum during the transition period.

Key features: The scenario involves the gradual dissolution of de facto structures and the phased transfer of powers to the constitutional authorities of the Republic of Moldova. The process would include the reintegration of the administrative and judicial systems, the demilitarisation of the region, the transformation of security mechanisms and the effective extension of the constitutional order across the entire territory.

The transfer of powers should not take place simultaneously across all areas. It could begin with public services and administrative functions of a predominantly technical nature, subsequently moving on to the judiciary, public order and security. Such a phased approach would reduce the risk of an institutional vacuum and enable the institutions of the Republic of Moldova to gradually expand their capacity to administer the region.

During the transition period, a provisional administration could be established, with national and international participation, responsible for ensuring the continuity of public services, implementing the reintegration timetable and monitoring respect for the rights of the population. The transitional framework should regulate the status of civil servants and employees of the region's institutions, the recognition of documents, the

validity of administrative and judicial acts, the property regime and the obligations of enterprises.

Clear rules would also be needed regarding the integration of local administrations and law enforcement agencies. The process could include the granting of a form of territorial autonomy or special status, provided that it operates within the framework of the Constitution of the Republic of Moldova and does not perpetuate the existence of parallel administrative, judicial and security systems.

Demilitarisation and security sector reform are central elements of the scenario. These entail the withdrawal of the Russian military contingent, the management of weapons and ammunition, the restructuring of the region's armed formations, and the transformation of the current peacekeeping mechanism into an international civilian monitoring and assistance mission.

Benefits: The main benefit of this scenario lies in the restoration of the constitutional integrity, sovereignty and territorial unity of the Republic of Moldova. Full reintegration would eliminate legal and institutional fragmentation and ensure the application of a common framework of rights, obligations and public services throughout the country. The re-establishment of ordinary courts and administrative institutions would provide the population with uniform access to justice, legal protection and public services. Residents of the region would be integrated into the national systems for land registration, taxation, social security, healthcare, education and public administration.

A single legal framework would clarify the status of documents, property, businesses and contracts, and reduce the uncertainty caused by the parallel operation of two regulatory systems. For the business community, this would mean clearer protection of property rights, improved access to finance and investment, and the elimination of some of the costs associated with parallel administrative regimes.

The demilitarisation of the region and the replacement of the current peacekeeping mechanism with an international civilian mission would reduce the risk of security incidents and create more stable conditions for economic and social development.

The scenario would also resolve the contradiction between de facto economic integration and formal political separation. Existing trade, financial and social links would be integrated into a common institutional framework, enabling a shift from the fragmented management of individual issues to development policies implemented at the national level.

Risks: The scenario would face opposition from economic, political and security elites who benefit from the current privileges and rent-seeking mechanisms. These groups could use administrative, economic or informational tools to block or delay the transfer of powers. Acts of sabotage, institutional resistance and attempts at destabilisation by groups loyal to the Russian Federation could occur. The process could also be

accompanied by disinformation campaigns and the stoking of identity-based fears among the population.

A significant risk is the emergence of an institutional vacuum if existing structures are dismantled before the institutions of the Republic of Moldova are able to effectively take over their functions and responsibilities. For this reason, the transfer of powers must be aligned with actual administrative capacity and the existence of provisional mechanisms to ensure continuity. Furthermore, disputes could arise concerning property, privatisations carried out by the *de facto* administration, the obligations and debts of enterprises, the validity of legal documents, and the status of individuals who worked in the region's institutions.

In the absence of clear transitional rules, these issues could give rise to legal uncertainty and social tensions. Some sections of the population might perceive the process as a change imposed from outside. Mitigating this risk requires consultation with communities, their representation in the decision-making process, transparent public communication, and safeguards regarding linguistic, social and cultural rights.

There is also a risk that administrative, social and security pressures may arise simultaneously. The Republic of Moldova would have to manage the expansion of public services, institutional reform, reactions from interest groups and the protection of the population within a relatively short timeframe, placing significant pressure on the state's institutional capacity.

Costs: Full reintegration would entail very high budgetary costs, which could not be covered exclusively from the Republic of Moldova's domestic resources. A multi-annual programme of external assistance would be required, focused on reforming the social, administrative and judicial systems, modernising infrastructure, economic restructuring and social integration. In the early years of the transition, the Moldovan authorities would need to ensure the continued payment of wages and pensions, the provision of healthcare and education services, the functioning of local authorities, and the maintenance of essential infrastructure.

These obligations would arise before the region could contribute fully to their financing through a harmonised tax system. In addition, there would be costs associated with restructuring unviable enterprises, retraining employees, integrating tax and information systems, and modernising energy, road and municipal infrastructure. Security sector reform, the management of arms and ammunition, the transformation of law enforcement structures, and support for a possible international mission would constitute a separate category of expenditure. Resources would also be required to resolve property disputes and administer transitional mechanisms.

The process would require a separate, multi-annual and predictable financial mechanism, supported by the European Union and other external partners. In the absence of guaranteed funding and a clear division of responsibilities, the rapid assumption of all these obligations could create pressures

exceeding the Republic of Moldova's budgetary and administrative capacity.

Conditions for implementation: Realistically, the scenario would become possible in the context of a favourable geopolitical window, linked to the end of the war in Ukraine, a reduction in the Russian Federation's influence in the region, and the establishment of international security guarantees. It would be necessary to mobilise substantial external financial support, directed not only towards emergency interventions but also towards a multi-annual programme of economic, institutional and social transformation.

At the domestic level, the Republic of Moldova should have a sufficiently broad political consensus and a coherent reintegration strategy capable of being implemented over several electoral cycles. Before the institutional handover begins, a legal framework for the transition should be adopted, setting out the region's temporary status, the sequence of the transfer of powers, the guarantees provided to the population, the property regime and the mechanisms for resolving disputes. An international agreement would be required on demilitarisation, security during the transition period and the mandate of any potential international civilian administration or mission. Without such guarantees, the process would remain vulnerable to external pressure and destabilising actions.

The scenario also involves strengthening the administrative capacity of the Republic of Moldova's institutions. These should be able to expand public services and enforce legislation and control mechanisms without disrupting the functioning of the administration in the rest of the country. Realistically, full political and institutional reintegration should be preceded by a period of economic, social and administrative convergence.

This preparatory stage would reduce the costs of the transition, limit institutional risks and facilitate acceptance of the process by the region's population.

Comparative assessment of scenarios and sequencing implications

Any comparison of the four scenarios must begin with a key methodological clarification, which follows from the analysis in Chapters I–VI. The *status quo* scenario does not represent a state of equilibrium against which the costs of change can be measured, but rather a process of cumulative economic, demographic and fiscal deterioration, the costs of which increase over time. Consequently, the absence of change is assessed as an explicit public policy option, with its own effects and costs, rather than as a neutral alternative.

The four scenarios should not be interpreted as entirely separate options. An accelerated crisis may result from a prolongation of the *status quo* or from the ill-prepared implementation of reforms. At the same time, gradual economic reintegration and full political and institutional

Scenario / Criterion	Economic sustainability	Fiscal cost	Administrative feasibility	Social and employment impact	Risk of destabilisation
S1. Status quo or tacit accommodation	Low. The existing model continues to lose production capacity, revenue and human capital.	Seemingly low in the short term, but increasing over time, including through the risk of emergency intervention.	High in the immediate term, as it does not involve reforms, but decreases as imbalances accumulate.	Negative and progressive, through reduced incomes, depopulation and the deterioration of public services.	Increasing, as the region's administration loses its capacity to cushion shocks.
S2. Accelerated crisis	Very low. Disorganised adjustment may also affect enterprises and capacities that are still viable.	High, concentrated and unpredictable, dominated by energy, social and humanitarian interventions.	Very low. Management is reactive, under pressure and without a prepared sequence of actions.	Severe, characterised by unemployment, reduced incomes, accelerated migration and the disruption of certain public services.	Very high, including through the possible overlap of social, humanitarian and security risks.
S3. Gradual economic reintegration	Medium to high. Capitalises on existing trade integration and allows for the differentiated restructuring of sectors.	Significant, but phased and more predictable; can mobilise support from the European Union and other partners.	Medium. Requires administrative capacity, timetables, compliance criteria and transitional arrangements.	Manageable, provided that tax harmonisation and restructuring are accompanied by social protection, retraining and support for businesses.	Low to medium, depending on the pace of reforms, the transparency of the Convergence Fund and the response of the Tiraspol administration.
S4. Full political and institutional reintegration	High in the long term, as it eliminates institutional fragmentation, but depends on the quality and pace of the transition.	Very high, particularly in the early years, through the takeover of public services, the restructuring of institutions and the modernisation of infrastructure.	Low under current conditions; may increase if the scenario is preceded by economic convergence and benefits from a favourable geopolitical window.	High in the initial period, but with long-term structural benefits through the integration of services, the safeguarding of rights and the integration of the labour market.	Medium to high, depending on the regional context, demilitarisation, international guarantees and public acceptance of the process.

reintegration may represent successive stages of the same process. The former provides the practical framework for the transition, whilst the latter describes the final institutional outcome. The table summarises the assessment of the scenarios based on five criteria relevant to public policy decision-making: economic sustainability, the fiscal cost to the public budget, administrative feasibility, the social and employment impact, and the risk of destabilisation.

A comparative analysis leads to three main implications for the sequencing of the process.

Firstly, gradual economic reintegration represents a feasible stage of the transition, not necessarily the end point of reintegration. It is the scenario in which costs can be spread over time, risks can be managed, and measures can be underpinned by existing trade and financial interdependencies. At the same time, it allows for the strengthening of the administrative and social capacity required for eventual full political and institutional reintegration.

Secondly, the sequence of measures should be determined by the balance between risks, benefits and the capacity of individual sectors to adapt. The process should begin by formalising trade relations between the two banks, simplifying procedures and strengthening businesses' access to the European Union market. These areas present relatively low risks and can yield immediate benefits.

The next stage should involve gradual tax and customs harmonisation, including the phased implementation of the mechanisms associated with the Convergence Fund. This stage should be accompanied by social protection, support for small and medium-sized enterprises, employee retraining, and transitional arrangements for sectors that are unable to adapt immediately. Subsequently, the process could move towards the convergence of public services, the interoperability of registers, the recognition of documents and the gradual transfer of certain administrative powers. Full political and institutional reintegration could constitute the final stage, achievable only once sufficient administrative capacity has been consolidated and the necessary political and security conditions are in place.

Thirdly, the assessment highlights the existence of a symmetric risk. Postponing the adjustment indefinitely allows imbalances to accumulate and increases the likelihood of an uncontrolled crisis. Forcing the pace concentrates the costs over too short a period and may exceed the capacity of the population, businesses and institutions to adapt.

The Accelerating Crisis Scenario represents precisely the materialisation of one of these risks. It may arise either from maintaining the *status quo* for too long or from introducing changes that are insufficiently prepared and lack transitional mechanisms.

Consequently, the key public policy choice is not between maintaining the current situation and immediate reintegration, but between a planned adjustment and one imposed by crisis. Formal arrangements that are not accompanied by genuine economic, social and institutional convergence would merely reproduce the *status quo* under a different name. By contrast, a clear sequencing of steps can transform existing economic integration into a gradual process of institutional reintegration.

The specific measures required to follow this path are detailed in Chapter VIII, which is devoted to public policy recommendations.

Chapter VIII.

Harmonisation of Legislation between the Two Banks of the Dniester

The premises of harmonisation

Reintegration is the political objective, whilst economic and institutional convergence is the process through which this objective can become a realistic prospect. Whilst political negotiations have stagnated for three decades, economic and social relations between the two banks have continued to develop, producing forms of functional rapprochement that the political process has not yet managed to formalise.

This convergence is evident, first and foremost, in the mobility of the labour force towards the right bank. Many residents of the region commute to jobs in Chisinau or other towns, drawn by higher wages, as well as access to health-care and educational opportunities. This mobility reduces the labour supply available to businesses in the region and increases households' dependence on income earned outside the region, but it also has a deeper social impact: the right bank is gradually becoming an economic and social point of reference for the region's population.

The growing closeness between the two banks is also supported by the day-to-day integration of consumer markets. People who work or study on the right bank purchase goods and services there, generating trade flows that are difficult to capture statistically but are important for economic convergence. The most structured form of convergence, however, occurs through the integration of exporting enterprises into the Republic of Moldova's trade mechanisms.

To gain access to the European Union market under the DCFTA, companies in the region register in accordance with Moldovan legislation, use Moldovan certificates of origin, export through the customs system managed by the Moldovan authorities, and apply technical standards compatible with European standards.

This development can be described as a form of 'economic Europeanisation without political Europeanisation': although the administration in Tiraspol maintains its declared political orientation towards the Russian Federation, a significant part of the region's economy is increasingly operating in accordance with the rules required for access to the European market.

However, trade convergence has not automatically led to the economic, political or institutional liberalisation of the region. The benefits of access to external markets have

been harnessed within a highly concentrated economic system, in which adaptation is largely controlled administratively rather than resulting from open competition. The concentration of key sectors, including trade, fuel, telecommunications and an ever-increasing proportion of agriculture, is combined with budgetary centralisation – which leaves local authorities without real financial autonomy – and a lack of political competition, which reduces internal pressure for reform.

For this reason, harmonisation cannot be limited to the formal registration of businesses or the introduction of technical standards, whilst leaving untouched the mechanisms that perpetuate structural differences in the functioning of the economy. It must include opening up markets, protecting small and medium-sized enterprises, facilitating access to finance and reducing economic dependence on dominant groups. Legislative harmonisation does not, therefore, start from scratch, and the task of public policy is to transform a spontaneous, asymmetrical and vulnerable convergence into a regulated, fair and predictable process.

Guiding principles of the harmonisation process

The harmonisation process must be gradual and tailored to the capacity of the economy, the population and institutions to absorb the changes. Fiscal, customs, social and administrative instruments cannot be introduced simultaneously, nor can they be applied mechanically, without assessing their effects on businesses, employment and living standards. Structural reforms may require a transition period of between four and ten years, and the pace of implementation must be aligned with changes in household incomes, business productivity and institutional capacity. As a general principle, the additional tax burden should not increase at a rate that would lead to the closure of viable enterprises, a sharp reduction in incomes or the expansion of the informal economy.

The implementation of these measures must be complemented by the application of the principle of access in return for strict compliance. Businesses benefiting from the facilities offered under the Deep and Comprehensive Free Trade Area (DCFTA), such as certificates of origin, access to the domestic market, financing or public programmes, must comply with all tax, customs, technical and reporting requirements laid down by Moldovan legislation. Businesses

that comply with these requirements should, in turn, benefit from simplified procedures and predictable access to facilities, whilst certain advantages may be restricted in the event of repeated non-compliance with the applicable conditions.

At the same time, documents, certificates and authorisations issued in the region may be accepted where they are compatible with the legislation of the Republic of Moldova, but such recognition must be strictly technical in nature and must not have the effect of politically or legally legitimising the de facto administration.

Harmonisation must also include transitional compensation mechanisms. No fiscal, tariff or social measures with significant effects on the population and businesses should be introduced without instruments to mitigate the costs of adjustment. The Convergence Fund can be used to protect vulnerable groups, restructure businesses, facilitate institutional adaptation and provide temporary compensation for differences between the two systems. At the same time, formal business activity must be simpler, safer and more advantageous than circumventing the rules.

New obligations must be accompanied by access to finance, legal protection, markets, development programmes and more efficient administrative services. Reform timetables must be published well in advance, subject to consultation with the business community and the communities concerned, and monitored on an ongoing basis. Where disproportionate economic or social effects are identified, the pace of implementation may be adjusted, without abandoning the overall direction of convergence.

Phased integration of enterprises

Enterprises in the region have varying levels of integration into the economy of the Republic of Moldova, which is why their integration into the national legal and institutional framework cannot be achieved simultaneously. Some companies already utilise the Republic of Moldova's trade agreements, certificates of origin and customs mechanisms to access external markets. These should be the first to be integrated into national regulatory systems, through the extension of tax and statistical reporting obligations, the application of uniform traceability and certification requirements, and the strengthening of controls on technical, sanitary and phytosanitary standards. For activities requiring licensing, common control mechanisms must be established so that the benefits offered by the Republic of Moldova's international agreements are accompanied by compliance with the corresponding obligations.

A second category comprises enterprises trading in goods or services on the right bank. These must gradually comply with the legislation of the Republic of Moldova applicable to the relevant activities, including sanitary, phytosanitary and technical standards, consumer protection requirements,

tax and reporting obligations, as well as authorisation requirements.

For many companies, some of these requirements are already partially in place, and the aim is not to create an entirely new system, but to standardise and extend existing practices.

For businesses focused exclusively on the market in the region, integration must be encouraged through tangible benefits, not solely through administrative pressure. These companies must be able to benefit from simplified registration procedures, access to the judicial system of the Republic of Moldova, banking services, credit guarantee schemes, subsidy programmes and support for digitalisation, certification and modernisation. Access to national and European programmes for small and medium-sized enterprises must be granted on fair terms, comparable to those applied to companies on the right bank. Progress in this process must be based on verifiable criteria, such as registration, compliance with reporting obligations, customs compliance, the adoption of technical standards and the use of regulated financial systems.

Tax harmonisation

The main structural difference between the two tax systems lies in the taxation model. On the left bank of the Dniester, income taxation predominates, whilst the Republic of Moldova's system is based to a significant extent on consumption taxation through VAT and excise duties. The immediate implementation of the entire national tax system could lead to a sudden increase in businesses' tax liabilities, with direct effects on prices, employment and living standards.

According to the authors' estimates, the current difference in tax levels between the two banks of the river accounts for approximately 15 per cent of the region's GDP, and the immediate implementation of a regime similar to that on the right bank could lead to a doubling of the tax burden borne by the region's business sector. For this reason, tax harmonisation should be carried out over an indicative timeframe of four to ten years, and the annual increase in the aggregate tax burden should not exceed approximately 1 per cent of the region's GDP.

This pace must be aligned with trends in household incomes, business productivity, the employment situation and the capacity of institutions to administer the new mechanisms, so that the transition does not lead to the closure of viable businesses or the expansion of the informal economy.

The introduction of VAT must be preceded by the development of the necessary administrative infrastructure, including the creation of a taxpayer register, the digitisation of tax administration and the training of staff in government institutions and the business sector. The standard rate of 20

per cent could initially be applied to a limited range of products, such as alcoholic beverages, tobacco products and petroleum products, whilst a favourable regime could be temporarily maintained for other goods and services. During the initial period, estimated at approximately three years, VAT collection could be temporarily capped at 3–5 per cent of the region's GDP, to allow for testing of the administrative capacity for collection and to limit the immediate impact on prices and business liquidity.

As a precautionary measure, the Government of the Republic of Moldova could begin collecting VAT on goods imported into the region as early as this period, provided that clear procedures and a transparent mechanism for the administration and use of the revenue collected are in place. Once the administrative systems are operational, the tax base can be gradually expanded, including through the application of the reduced rate of 8 per cent for food, medicines and essential goods, whilst harmonising refund procedures, deduction rules and electronic tax administration systems.

Under the timetable proposed by the authors, this expansion would take place approximately between the third and seventh years, whilst between the seventh and tenth years the common VAT regime used in the Republic of Moldova would be applied, with rates of 20 per cent, 8 per cent and 0 per cent, as well as the gradual elimination of the region's exemptions. According to estimates in the original document, the application of VAT in the region could generate revenue of at least 2 billion Transnistrian roubles annually, a figure which should be treated as a rough estimate, dependent on the tax base, the level of compliance and the administrative capacity for collection.

Excise duties should be introduced gradually for the categories of goods subject to excise duty on the right bank, based on a sufficiently long timeframe to avoid sudden price increases, the encouragement of smuggling and the expansion of the informal economy. The document recommends a transition period of up to ten years for the full implementation of the excise duty regime, with temporary differences between the two tax systems to be offset by the Convergence Fund. According to the authors' estimates, the application of excise duties could generate approximately 720 million Transnistrian roubles annually.

Following the model of the Republic of Moldova's Road Fund, up to 80 per cent of the excise duties levied on petroleum products could be channelled towards road infrastructure, which could reduce the expenditure currently borne by the region's budget for road maintenance by approximately 270 million Transnistrian roubles annually. The direct link between the taxes collected and the modernisation of infrastructure would make the benefits of harmonisation more visible to the public and the business community, and would demonstrate that the introduction of additional tax obligations is accompanied by concrete investment in the region's development.

Harmonisation must also include the reform of social and health insurance contributions. The region's current social protection fund can be gradually split into two distinct systems, one for social insurance and the other for health insurance, which would allow for more transparent management of revenue and expenditure and gradual alignment with the institutional framework of the Republic of Moldova.

The reform must not result in a sudden increase in the total burden borne by employers and employees, and any temporary differences in contribution levels can be covered by the Convergence Fund. In the initial configuration proposed by the authors, the social insurance contribution would be set at 18 per cent and the health insurance contribution at 2 per cent.

These two rates would represent an initial burden of 20 per cent, given that the total burden currently borne by employers is estimated at approximately 24 per cent. The shortfall relative to the funding requirements of the two systems would be temporarily covered by the Convergence Fund, and subsequently the rates could be gradually brought into line with those applied in the Republic of Moldova, based on an agreed timetable. The increase in contributions must be linked to an effective expansion of the population's access to health insurance, pensions and other forms of social protection, so that the new obligations are accompanied by real rights and benefits.

Existing tax incentives must be assessed in terms of their economic and social effectiveness. Those that distort competition, encourage speculative transactions or maintain unjustified advantages should be phased out gradually, whilst incentives that support productive investment, technological modernisation and job retention may be retained temporarily, based on clear and verifiable criteria.

Simplified tax regimes should be provided for small and medium-sized enterprises, and the definitions of taxable profit, depreciation and the treatment of investments should be gradually aligned with the national framework. Any new tax obligation must be preceded or accompanied by measures that support business development, including access to finance, the simplification of procedures, guarantee mechanisms and the elimination of administrative costs or monopoly tariffs.

The proposed technical parameters – namely, a timeframe of four to ten years, an annual increase of approximately 1 per cent of GDP, a temporary cap on VAT revenue at 3–5 per cent of GDP, initial contribution rates of 18 per cent and 2 per cent, and a transition period of up to ten years for excise duties – should be used as benchmarks for drawing up the harmonisation timetable, not as rigid figures applicable regardless of the region's economic and social development.

Customs harmonisation and formal trade integration

Trade between the two banks of the Dniester, as well as the region's external trade, currently operates under a combination of national rules, derogations and provisional procedures. This system increases administrative costs, reduces transparency and leaves scope for informal activities. The aim of the reforms must be to establish a single trade system, based on clear, verifiable rules compatible with the DCFTA, without hindering legitimate economic activity.

The first step is to establish a single mechanism for registration, record-keeping and reporting for companies on the left bank of the Dniester that operate on the right bank or use the Republic of Moldova's documents for foreign trade. The mechanism must provide for simplified tax registration, non-discriminatory access to certificates of origin, a single customs record and technical assistance for compliance. Reporting obligations must be proportionate to the size and activity of the enterprises, so that formalisation provides a legal and predictable pathway out of the grey area, without becoming a new administrative barrier.

The gradual implementation of the Customs Code must include the standardisation of documents, the harmonisation of tariff classification and the use of common trade nomenclatures. Exceptions and parallel procedures must be phased out, and transitional arrangements must have clear expiry dates and verifiable criteria. At the same time, the interconnection of information systems and the electronic exchange of declarations, certificates and shipment data must help to reduce repetitive procedures and the costs borne by compliant companies.

Access to DCFTA benefits must be conditional upon compliance with technical, sanitary and phytosanitary standards, as well as tax and customs obligations. Compliant companies must enjoy full and predictable access to external markets, whilst enterprises that repeatedly fail to comply cannot continue to enjoy trade advantages without assuming the corresponding obligations. To enhance transparency, a public register could be established of companies authorised to engage in formal trade through the Republic of Moldova's mechanisms, containing relevant information on tax status, licences and compliance history.

Documents, certificates and authorisations issued in the region may be accepted following verification of their compatibility with the legislation of the Republic of Moldova, without such technical recognition having the effect of political legitimisation. At the same time, an inventory must be drawn up of the taxes, permits, controls and procedures affecting the movement of goods between the two banks, and barriers lacking any fiscal, health, customs or security justification must be removed. For the metallurgy, energy, agri-food and dual-use goods sectors, robust traceability mechanisms are required, based on electronic declarations,

verifiable certificates of origin and data exchange between the competent authorities. The ultimate objective is to create a transparent, tax-compliant trade area that is compatible with the European market.

The gradual integration of the financial and banking system

The existence of two separate banking systems is one of the main structural barriers to convergence. Financial institutions in the region are not supervised by the National Bank of Moldova and have limited access to international settlement systems, which is already leading some exporting companies to use the services of banks on the right bank. This practice provides a starting point for the gradual integration of financial services.

The process must begin by reviving cooperation between the financial authorities and establishing a permanent consultation mechanism with representatives of the banking community. Supervisory and reporting standards must be gradually aligned with the requirements applied by the National Bank of Moldova, including those relating to shareholder transparency, risk management, anti-money laundering and financial reporting. At the same time, businesses on the left bank of the Dniester must be granted broader access to bank accounts, loans, payment instruments and guarantee schemes offered by the Moldovan banking sector.

Access to finance must be linked to compliance with transparency and regulatory requirements, and the long-term objective must be the creation of a single financial market, subject to unified supervision and capable of supporting investment at the national level.

The legal framework for economic activity

Trade, tax and financial integration cannot function without predictable rules on property, contracts, investment and dispute resolution. Legal uncertainties increase the costs borne by businesses, limit access to finance and reduce the region's attractiveness for investment. For this reason, legislation on business operations, contracts, insolvency, financial reporting and investment protection must be gradually aligned with the regulatory framework of the Republic of Moldova, with transition periods and assistance for companies that need to adapt their operations.

A separate issue is the recognition of contracts, guarantees, economic instruments and property rights established under the region's rules. Recognition cannot be automatic, nor can it be rejected outright. Transitional rules are needed to allow for the verification of their compatibility with the legislation of the Republic of Moldova, to protect the rights of the parties and to prevent legal uncertainty. Businesses

must also have access to credible mechanisms for resolving commercial and financial disputes, including through transitional arbitration procedures or gradual access to recognised courts.

The digitisation of registration, authorisation and reporting procedures must reduce repetitive procedures and the costs of doing business. At the same time, competition and consumer protection must be central, given the high level of economic concentration in the region. Integration must not reinforce existing monopolies, but rather facilitate market entry for new enterprises, the development of the small and medium-sized enterprise sector, and the application of common rules on product quality, consumer information and commercial practices.

Social protection and labour mobility

Labour mobility is one of the most important channels for convergence, but its effects are limited by the fragmentation of social security and healthcare systems and by difficulties in recognising periods of contribution. The Republic of Moldova already provides health coverage for a significant proportion of the population on the left bank of the Dniester, but there are still groups that do not benefit from adequate coverage, including some employees working on the right bank.

The national health insurance system must be gradually expanded, in line with contribution reforms and the capacity of healthcare institutions to provide additional services. Periods of employment and contributions paid into the two systems must be recognised on the basis of clear rules, so that people who have worked on both banks do not lose their entitlements due to administrative fragmentation. Furthermore, mechanisms are needed to ensure the portability of pensions, allowances and other benefits when a person changes their place of work or residence.

Mobile workers must be provided with clear information on contributions, employment rights, social security and access to services, and particular attention must be paid to those who are not citizens of the Republic of Moldova. Those at risk of losing certain benefits as a result of the harmonisation process must be protected through temporary compensatory measures. Through these instruments, mobility can be transformed from a factor contributing to depopulation and social insecurity into a mechanism for integration and for reducing socio-economic fragmentation between the two banks of the Dniester.

Implementation mechanisms

The implementation of reforms requires a common institutional framework, as isolated sectoral measures cannot bring about convergence unless they are coordinated, funded and monitored within a unified framework. The

Convergence Fund must be the main financial instrument of the process and may be financed from revenue derived from VAT and excise duties collected in connection with economic activity in the region, from transfers from the state budget, and from contributions from the European Union and other external partners.

The Fund's resources must finance temporary compensation for differences between the tax and social security systems, the protection of those affected by the adjustments, support for small and medium-sized enterprises, the modernisation of infrastructure, the digitisation of administrative systems and vocational retraining. The administration of the Fund must be based on public eligibility criteria, transparent selection procedures and independent monitoring of the use of resources. The fundamental principle must be that no stage of harmonisation with significant economic or social effects is implemented without an appropriate compensatory mechanism.

Technical coordination can be ensured through a Permanent Platform for Economic Convergence, bringing together representatives of the institutions responsible for finance, the economy, taxation, customs and banking supervision, alongside representatives of the business community, local communities and independent experts. The Platform should monitor progress, identify legislative and administrative barriers, prepare and update implementation timetables, assess economic and social impacts, and help resolve issues arising in day-to-day commercial activity. Its role must be that of a single point of coordination, without duplicating the remit of existing public institutions.

Formal integration cannot be achieved solely through conditionalities and obligations. Businesses, particularly small and medium-sized enterprises, must have the necessary resources to comply with the new rules. A dedicated programme must provide tax and legal advice, training on customs procedures, support for digitalisation, access to loans and guarantees, as well as assistance with certification, standardisation and access to the European Union market. Supporting this sector can create an economic base committed to common rules, competition and integration, and can reduce its dependence on large, privileged economic groups.

Conclusions

Legislative and institutional harmonisation does not entail the immediate standardisation of the two systems, but rather the gradual reduction of structural differences through predictable timetables, conditionality and compensatory mechanisms.

The process must begin in areas where convergence is already well advanced, particularly in relation to exporting enterprises, trade, customs procedures and access to the European Union market, and subsequently extend to

taxation, the financial and banking sector, the legal framework and social systems.

The sequence of measures is just as important as the measures themselves. The introduction of obligations must be preceded or accompanied by access to finance, legal protection, public services and support for adaptation. In the absence of these conditions, harmonisation may encourage informality and resistance rather than integration.

The overarching principle guiding these recommendations is to reduce unjustified barriers, enhance institutional compatibility and gradually extend common economic rules. Only in this way can convergence become a predictable and sustainable process, capable of supporting economic development and genuine rapprochement between the two banks of the Dniester.

The Transnistrian Region in 2026: Structural Crisis, Economic Convergence and Prospects for Reintegration

The study analyses the economic, social and institutional situation of the Transnistrian region in 2026, at a time when the economic model based on access to energy on preferential terms, the administrative maintenance of the exchange rate and support for energy-intensive enterprises is losing its ability to generate revenue and ensure social stability. Drawing on statistical data from both banks of the Dniester, interviews and consultations with representatives of the business community, as well as the authors' estimates, the study examines macroeconomic and exchange rate dynamics, demographic decline, developments in industry and agriculture, foreign trade, trade relations between the two banks, and the region's financial sustainability.

The analysis shows that economic integration between the two banks is already at an advanced stage. Enterprises in the region depend on customs procedures, certificates of origin and the legal framework administered by the Republic of Moldova to access external markets, whilst the European Union and the right bank of the Dniester have become their main export markets. The aim of public policy is therefore to formalise and consolidate existing economic integration, as well as to deepen convergence between the two banks in a gradual and sustainable manner. In this context, the study assesses reintegration scenarios and proposes a gradual approach to fiscal, customs, financial and banking, legal and social convergence, emphasising that the sequencing and pace of reforms, as well as the accompanying compensation mechanisms, are essential to the sustainability of the transition.

More information on this topic can be found here:

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