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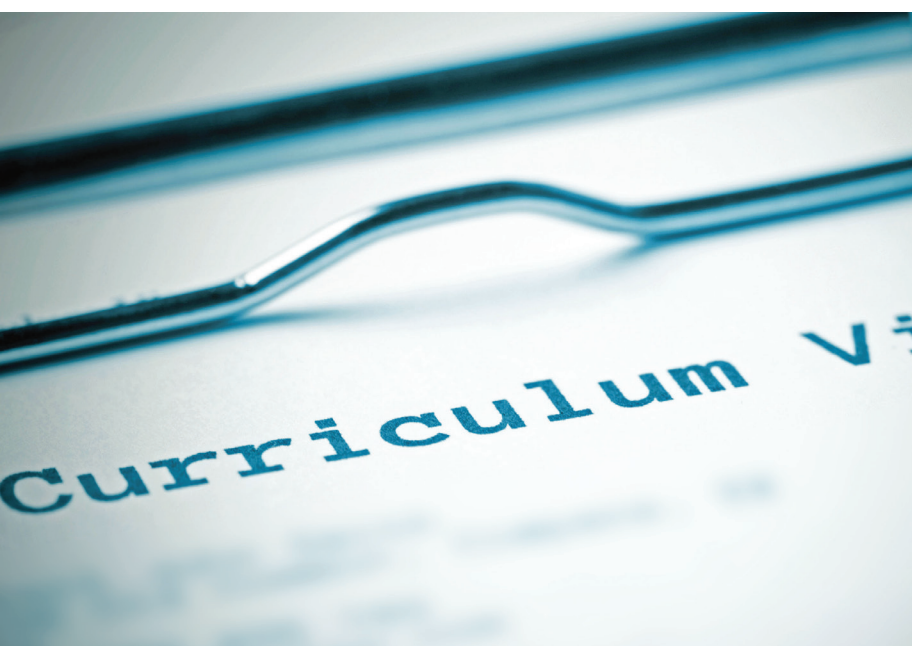
# SOCIOMETRY LABORATORY

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Ph.D.

## EMPLOYMENT POLICIES IMPACT ON LABOUR MARKET IN THE REPUBLIC OF MOLDOVA

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# Introduction

More than two decades ago, the Republic of Moldova started the arduous and tortuous process of building an independent economy, based on market economy relations. Since that time on, employment has constantly been in decision makers' spotlight, being deemed one of the most difficult problems. Ensuring productive employment would allow citizens to secure the necessary resources for a decent living, while enterprises and companies ensure sustainable development.

Nevertheless, against the background of the economic decline in 90's and "apparent recovery" of the economic situation in 2000, the main labour market indicators decreased steadily. Recent economic growth did not influence on worsening employment indicators. The labour market, being a secondary market, should fully reflect achievement or failures of real economy in the country. Labour market deterioration is accompanied by other adverse phenomena, such as widely spread informal employment, decreasing population real income, existing human capital degradation etc., phenomena that could have unpredictable long-term consequences.

Being fully aware of the employment issue importance for the country's development prospects, public authorities, since the very declaration of independence have made strenuous efforts to improve the situation on the

labour market, which is not definitely shaped yet. Thus, over the last two decades, several employment policy documents were drafted and launched: employment programmes, strategies, action plans, etc., which sought to improve the labour market situation and employment. Employment is a matter of concern in the main sector and national development strategies, such as Economic Growth and Poverty Reduction Strategy (2004-2006), National Development Strategy (2008-2011), "Moldova 2020" Strategy, National Strategy on Employment Policies (2007-2015), "Moldovan Village" Strategy or in governments' activity programmes. In spite of the fact that public authorities' efforts and expectations were extremely high, the situation on the labour market in Moldova still remains a critical one.

The specific aim of this research study is to analyze modern trends on labour market in the Republic of Moldova and factors determining the critical situation of employment.

The study focuses, primarily, on analyzing main labour market indicators dynamics, both from quantitative and structural and qualitative point of view, and employment policy measures and their impact on labour market.

The study also analyzes wage developments as main factor and indicator determining labour supply trends in the Republic of Moldova.

Finally, the study makes several conclusions and puts forward suggestions to improve current situation, based on analysis and assessment of main labour market policies on the labour market in Moldova.



# 1. Functional economy – prerequisite for functional labour market

Over the last years, Moldovan economy shows manifest signs of improvement. Main macroeconomic indicators reveal an improvement in their dynamics. Thus, both the Gross domestic product and industrial production, agricultural production, volume of fixed capital investment, retail sales volume, volume of services provided indicators, have shown a continuous increase since

2000, while inflation and unemployment rate, budget deficit, as well as other macroeconomic indicators are evidence of a relative recovery of country's economy. The same thing can be said about developments in social areas. Social indicators such as income, wage and pension level, poverty rate dynamics etc., confirm these positive trends (table 1).

**Table 1. Main economic development indicators, 2008-2014**

	2008	2009	2010	2011	2012	2013	2014
Gross domestic product (in current prices), million lei	62922	60430	71885	82349	87847	100312	111501
in % against the previous year (in comparable prices)	107,8	94,0	107,1	106,8	99,2	108,9	104,6
Industrial production volume, million lei	29988,4	22643,9	28140,1	34194,4	35975,0	39024,3	43548,0
in % against the previous year	101,5	78,9	109,3	109,5	96,9	108,5	107,3
Agricultural production, million lei	16503	13300	19873	22619	20263	23814	27071
in % against the previous year	132,1	90,4	107,9	105,0	77,6	117,5	108,2
Long-term investments in tangible assets from all funding sources, million lei	18224,8	11123,6	13804,8	16337,9	16456,5	18635	20352,5
in % against the previous year	102,3	66,5	122,6	111,8	95,9	113,2	101,8
Turnover volume of enterprises having retail trade as their main activity, million lei	x	x	x	31406,1	32534,7	39368,2	42320,8
in % against the previous year	x	x	x	115,7	99,5 <sup>5</sup>	106,5	107,5
Export, million USD	1591,1	1283,0	1541,5	2216,8	2161,8	2428,3	2339,5
in % against the previous year	118,7	80,6	120,1	143,8	97,5	112,3	96,3
Import, million USD	4898,8	3278,3	3855,3	5191,3	5213,1	5492,2	5317,0
in % against the previous year	132,8	66,9	117,6	134,7	100,4	105,3	96,8
Trade balance deficit, million USD	-3307,7	-1995,3	-2313,8	-2974,5	-3051,3	-3064,0	-2977,5
in % against the previous year	140,8	60,3	116,0	128,6	102,6	100,4	97,2
Unemployment rate according to BIM %	4,0	6,4	7,4	5,1	5,6	5,1	3,9
Consumer price index	112,7	100,0	107,4	107,6	104,6	104,6	104,7

Source: NBS

At the same time, analysis of labour market developments in Moldova shows a steady decrease in employment indicators. Labour Force Survey, conducted by the National Bureau of Statistics reveals a decrease in both economically active population and employment shares. Thus, from 2001 till 2014, the number of economically active population dropped from 1616 thousand persons to 1232,4 thousand persons, while the number of persons employed and employees fell from 1498 thousand and 899 thousand to 1184,9 thousand and 797,4 thousand persons respectively. Compared to 2013, economically active population share deceased by 0,3% (by 3,5 thousand), while the number of persons employed increased slightly by 12 thousand people and the rate of employees accounted for 67,3%.

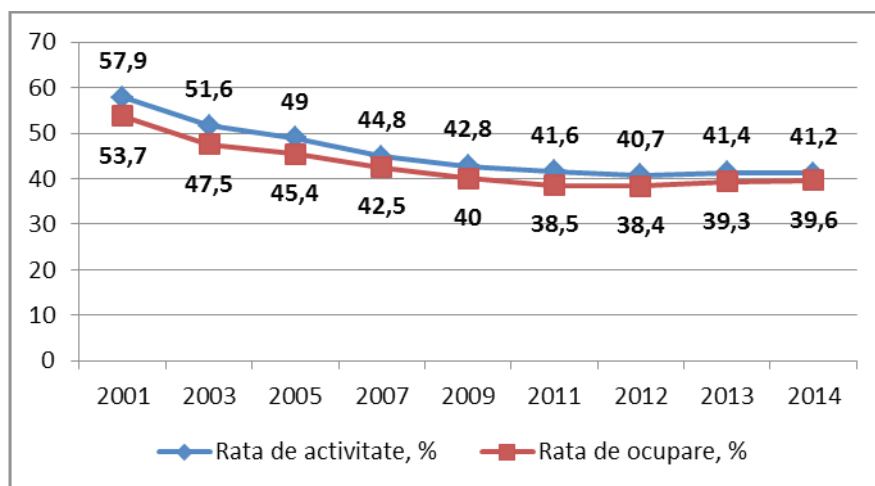
Activity and employment rates have decreased as well, from 57,9% and 53,7% in 2001 to 41,2% and 39,6% in 2014. (figure 1)

At first sight, national economy achievements show a beginning of economic system

modernization. However, this modernization generates rather high social costs as well, since it is not the result of labour force movement from worst performing sectors towards the best performing ones but is rather the result of eliminating labour force from the economic active category, determined, first of all, by domestic economic operators intention to optimize jobs within their enterprises on the pretext of increasing competitiveness and minimizing costs. This kind of actions reduce the excess of labour supply, which is a phenomenon the Republic of Moldova has been facing for a number of years. This situation leads to negative development of main employment indicators. Practical consequence of this “modernization” is a huge number of Moldovans forced to go abroad in the aftermath of adverse economic climate.

At the same time, along with the decrease in economically active population, the trend of increasing inactive population, particularly, working-age population, has been steady over the last years. Labour Force Survey reveals

**Figure 1.** Activity and employment rates developments, 2001-2014, %



Source: NBS

that inactive population over 15 years old in 2014 amounted to 1756,1 thousand persons or 58,8% of total population of the same age category, showing an increase of 5 000 people compared to 2013 (0,2 p.p.). It should be mentioned that most inactive persons are either elderly people, pensioners – 607,8 thousand or persons undergoing professional training – 287,9 thousand, or people who stay at home – 189,4 thousand.

Among those inactive, there are other several categories, such as persons who are not able to find a job – 13,8 thousand – a decrease compared to previous years (19,3 thousand in 2013) or people who work abroad or have left the country in search of work – 341,9 thousand persons (332,5 thousand in 2013), accounting for the largest share of working-age inactive population, except for retirees.

Continuous decrease in country's employment indicators should be regarded as a convincing indication of both national economy and social security vulnerability. Thus, employment rate in the Republic of Moldova, compared to that in the EU member states is much lower – 39,6% compared to over 65%, which is evidence that

both labour market functionality and recent economic growth quality are inefficient, since they fail to solve major problems faced by Moldovan society, such as: jobs that would ensure decent living, confidence in the future, social protection in case of inability to work, access to qualitative social services etc., problems that could compromise country's sustainable development.

The increase in inactive population leads to an increase in economic dependency ratio and, as a result, may generate serious problems in social protection system in the country. In 2014, the economic dependency ratio, showing the number of non-employed persons (inactive or unemployed) per 1000 employed persons was 23,73%.

The impact of this „demographic and economic pressure” is already seen. Chronic deficits faced by social insurance system budget are evidence of this fact. It is obvious that, given the current circumstances, social insurance system needs radical reforms. At the same time, it should be mentioned that these reforms will not be successful if labour market problems are not overcome.



## 2. Moldova Structural developments on labour market in the Republic of Moldova

Structural and economic reforms due to lengthy and troublesome transition to market economy have had a considerable effect on labour market processes development. Against the background of employment indicators decrease, we can see certain fluctuations concerning employment structure in the country in terms of both gender, age, residence and forms of ownership of economic entities employing people depending on the field of activity, occupational status, etc.

Analysis of distribution of employed population by gender does not reveal any disparities. Both employment and labour market participation structure show an almost uniform distribution. Distribution of economically active and employed population by gender is as follows: 50,8% men and 49,2% women for economically active population and 50,4% men and 49,6% women for employed population respectively. In terms of activity and employment rates, we can observe a prevalence of male versus female employment. Thus, male activity and employment rates were higher – 44,1% and 42,1% compared to female activity and employment rates – 38,6% and 37,4%.

Under the conditions of market economy, a lower female activity and employment rate

compared to a male one (except for the age group 15-45) is something natural. This is due to the reproductive roles of women between 25 and 40 years old. High female employment rate in the Republic of Moldova is a feature inherited from socialist times where gender equality issue, being interpreted, somehow in an erroneous way, determined women to provide the same employment services like men. On the other hand, modern approaches to gender equality play a part in equalizing employment rates between men and women. At the same time, a too simple approach to this issue generates tensions that could lead to unpredictable social consequences. Under the conditions of economic imbalance, when population wage income is insufficient for ensuring decent living, women are forced to work, usually having underpaid jobs and neglect their reproductive roles, education and housekeeping task, which, in turn, has a negative impact on social – demographic developments.

As for the distribution of economically active and employed population by residence, we may observe certain disparities determined, particularly, by a larger share of rural population compared to that urban in the Republic of Moldova: 54,0% and 46% for economically active population and 54,6%

and 45,4% for employed population. Activity and employment rates in rural areas were much lower in comparison to those in urban areas – 39,1% and 38,0% compared to 44,1% and 41,8%. This is due, first of all, to fewer employment opportunities in rural areas.

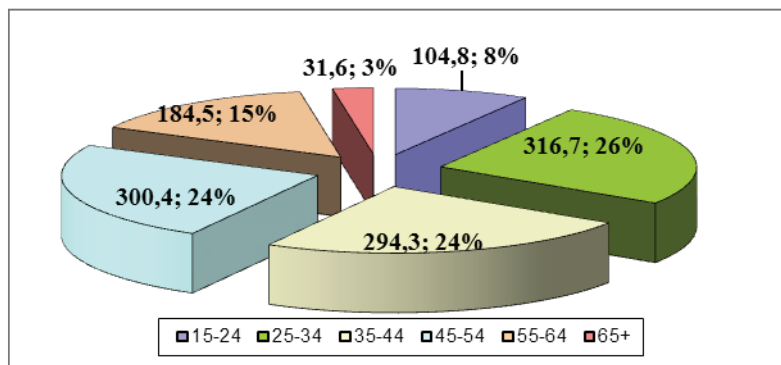
Employment structural changes depending on the environment are linked mostly to “depopulation” of rural areas. The lack of employment opportunities along poor attractiveness of jobs available in rural areas prompt rural economically active population to choose between two options: accept a job with rather modest income, in unfavourable working conditions and run the high risk of falling ill or emigrate to urban areas or abroad in order to find a more attractive and better paid job.

Depopulation of rural areas is also determined by the fact that most young people go to study in rural areas and never come back to their native village to work after finishing their studies. A factor reducing rural areas attractiveness is also the limited range of

occupations and professions in demand in rural areas. As a result, a large proportion of young population studying in cities do not wish to return to their native village since they are not able to find a job in their speciality. Otherwise their studies would prove to be unjustified investment. Another reason is underdeveloped and degraded social infrastructure in rural areas which, inevitably, determine life quality inferior to that in urban areas.

There are significant changes in employed population structure depending on age. Employed population distribution by age indicates a sustainable ageing of human potential in the country. Thus, against the background of a decrease in the number of employed population, we can notice a constant decrease in the share of young population in total employed population. According to Labour Force Survey data, employed population share, aged 15-24 years in 2014 accounted for just 8% and employed population share, aged 25-34 years – 26% (figure 2).

**Figure 2.** *Employed population distribution by age group, %, thousand persons, 2014*



Source: NBS

As a rule, young people are less present on the labour market since many of them are studying. On the other hand, low share of young people in the total of employed population is also determined by difficulties they face in terms of finding work and they have the highest rate of unemployment. On the other hand, employed young people are mostly working in the informal economy sector with, however, an increased remuneration.

According to Labour Force Survey data, in 2012, out of the total number of 279,7 thousand young people aged 15-29 that were economically active, 252,0 thousand persons were employed. Youth employment rate in 2012 reached 26,7% and decreased slightly compared to previous year (27,4%). Activity rate in 15-29 age category amounted to 29,6%, decreasing by 1,7 p.p. compared to 2012 (figure 3).

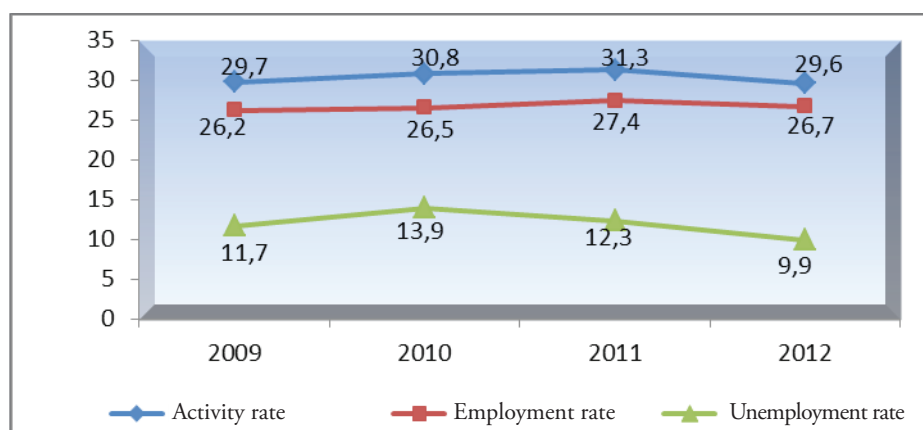
Over the same period, there were 27,7 thousand unemployed among young people aged 15-29, which accounts for 40,9% of

the total unemployed number estimated by the National Bureau of Statistics. Youth unemployment rate among young people aged 15-29 was 9,9%.

The third age people category within human potential (workers over 50 years old) is increasing in the last years. Young people attempts, particularly those with secondary vocational education qualifications, to find a job in these enterprises are, as a rule, unsuccessful for several reasons: employers are reluctant to hire persons with no experience in the field, young people turn down the salaries offered by these enterprises, while persons of retirement age are unwilling to retire and offer their jobs to youth.

Nevertheless, technological, organizational and structural changes occurring within enterprises lead to disappearance of certain jobs considered obsolete and emergence of new jobs requiring new qualifications and competences. Usually these persons are forced to accept another job

**Figure 3.** Annual development (2009-2012) of activity, employment and unemployment rates for 15-29 age category



Source: Annual Social Report 2013

with inferior responsibilities and skills that do not require supplementary qualification in order to be able to continue their professional activity or have to quit due to professional incompetence. As a rule, they accept these unfavourable conditions so as not to be made redundant. For this reason, unemployment rate for this occupational category is lower than the national average and, at the same time, their unemployment period is longer.

Depending on field of activity, persons aged over 50 are mostly employed in public administration, education, healthcare and social assistance, areas with lower wages than in other domains and, therefore, their jobs are unattractive for other occupational groups. Another explanation of this situation relies in employment security which is characteristic for older age persons who accept a job with lower but more secure wage. It may also be stated that high share of these people in the total employed population is also due to the relatively large number of people aged over 60 being employed in public administration, education, healthcare and social assistance who despite having achieved retirement age continue to work because of the shortage of specialists in these areas, especially in rural areas. We would also like to draw your attention to the quite high rate of persons aged over 50 working in agriculture (52,2% of the total population employed in agriculture in 2014). This is evidence of the fact that for persons of this age, agriculture still remains a safe solution for having a certain occupation. Dearth of jobs in other fields of activity, reluctance of economic operators to hire older people indirectly forces this category of persons to provide certain agricultural work

in return for some income. Wages in agriculture are the lowest compared to wages in other sectors of national economy.

Actually, human potential ageing is, to a large extent, determined by accelerated demographic ageing that the Republic of Moldova is currently facing. Against the background of decreasing number of total population, demographic and migration processes in the country led to an essential change in age structure both in rural and urban areas. There is a steady increase in the share of persons aged 60 and over compounded by a decrease in the share of persons aged 0-14. (table 2).

**Table 2.** *Stable population by age groups, as of 1 January, %*

	2012	2013	2014	2015
By age groups:				
0-14	16,2	16,1	16,0	16,0
15-64	73,9	74,0	74,0	73,7
65+	9,9	9,9	10,0	10,3

*Source: National Bureau of Statistics. Statistical Yearbook of the Republic of Moldova. 2015*

Thus, demographic situation in the Republic of Moldova can be considered critical, affecting negative developments of available human potential and labour market developments as well, reducing, thus, chances of a sustainable development of the country.

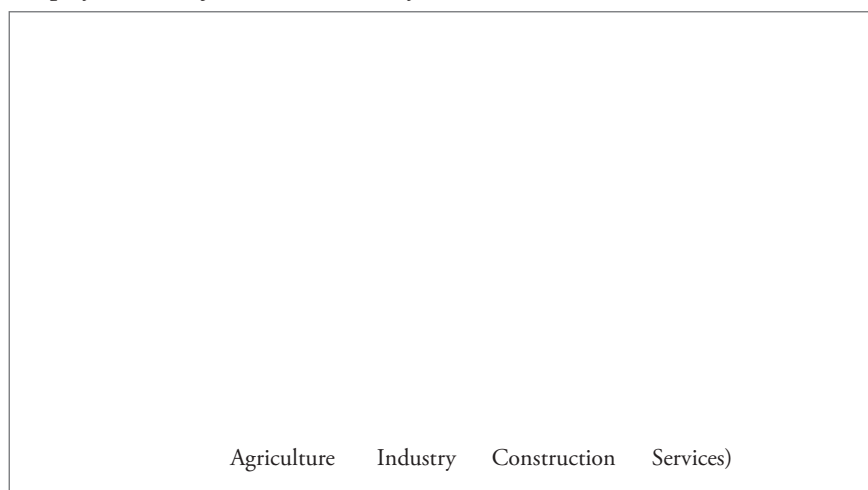
Analysis of employed labour force distribution by activity sector shows that prior to 2003 almost half of employed population worked in agriculture. At the same time, over the following years, its share dropped sharply, while the share

of population employed in services increased. In 2004, share of population employed in agriculture was 30,5%, showing a slight increase compared to previous year (28,9%), while share of persons employed in services accounted for 51,6%, decreasing compared to previous year (53,5%). Thus, we can see a slight decrease in the share of population employed in sectors that cannot ensure a high labour productivity and increases in wage income. However, the decrease in the number of persons employed in non-productive sectors does not imply a considerable increase in productivity in them (figure 4).

Also in the same reference period, the share of population employed in industry increased slightly from 10,62% in 2000 to 12,3% in 2014. The Republic of Moldova, by this indicator, lags far behind most European countries. Thus, the share of population employed in industry was 21,0% in Belgium, 20,8% in Denmark, 20,0% in France, 26,5% in Germany, 16,6% in the Netherlands, 24,55 % in Portugal and 16,6% in Greece.

The share of population employed in construction increased as well from 2,91% in

**Figure 4.** *Employed labour force distribution by sector %*



*Source: NBS*

The share of population employed in agriculture in the Republic of Moldova exceeds by far the share of population employed in agriculture in European countries. For example, in Belgium this indicator was only 2,5% of total employed population, in Denmark – 4,4%, in France – 4,7%, in Germany – 3,2%, in the Netherlands – 3,6%, in Portugal – 11,6% and in Greece – 20,4%<sup>1</sup>.

<sup>1</sup> Ion Dona „Rural economy”, Editura Economica, B., 2000.

2000 to more than 5,6% in 2014. Compared to other European countries, this indicator is the lowest. In Belgium, employment in construction was 6,5%, in Denmark 6,2%, in France – 6,5%, in Germany – 9,4%, in the Netherlands – 5,9 %, in Portugal – 8,2% and in Greece - 6.6%.

Although national economy has undergone positive structural changes in terms of employed population and GDP structure depending on



sector contribution to create added value (share of population employed in agriculture as well as agricultural production share in GDP is decreasing compared to other more productive industries and sectors), they are not sufficient to ensure a functional and competitive economy in the republic of Moldova able to compete with other countries' economies. The share of population employed in agriculture is still rather high. Therefore, it is needed to undertake comprehensive steps to ensure structural adjustment of Moldovan economy that would attract and redirect population employed in agriculture towards other national economy sectors producing goods and services.

As regards employed population distribution by occupational status, employees account for only 797,6 thousand people or 67.3% of total

employment. At the same time, the number of self-employed is quite big – 350,3 thousand persons or 29,6%. The number of employers is rather modest for now – 8,5 thousand or 0,7%, which shows that market relations consolidation is a troublesome process in the country (table 3).

One of the decisive factors determining employment structure is average monthly wage, since the level of wage influences mostly job attractiveness. Analysis of average monthly wage depending field of activity reveals a close link between employment rate increase and wage rate for the respective area. Thus, except for those employed in agriculture, the average monthly wage of employees in education, healthcare and social assistance is lower than the average monthly wage in the country.

**Table 3.** *Employed population by age group, gender and status, in 2014*

	Total by age groups	15-24	25-34	35-44	45-54	55-64	65+
Total	1184,9	94,5	302,0	282,6	292,6	181,5	31,6
Employees	797,6	65,5	226,4	187,7	193,3	113,6	11,0
Employers	8,5	0	2,7	3,7	0	0	5,7
<b>Self-employed</b>	<b>350,3</b>	<b>22,8</b>	<b>69,3</b>	<b>87,1</b>	<b>90,9</b>	61,3	19,0
Unpaid family workers	28,5	6,2	5,7	5,1	4,7	5,1	1,6

*Source: National Bureau of Statistics*



### 3. Unemployment – is it a major problem for the Republic of Moldova?

Under conditions of modern market economy, unemployment can be seen as one of main indicators of labour market functionality. At the same time, since labour market is the main subsystem of national economy whose operation is closely linked to processes on other markets, such as goods and services markets, capital markets, monetary market, etc., unemployment is one of key macroeconomic indicators. Unemployment is also an indicator of macroeconomic instability reflecting cyclical stage of economic development and a specific index of assessing economic policies pursued by the state and society's ideology and morals. Local and national particularities of country's economy have a great influence on unemployment and its forms.

Unemployment rate can be seen as a social development indicator, since labour market comprises an important social component. Unemployment may also be considered as main reason for poverty. Persons who are out of work have a lower, occasional income and are, therefore, more exposed to the risk of poverty.

Unemployment is a natural phenomenon of market economy. Anti-unemployment policies goal is not to completely eradicate it but rather manage it, i.e. maintaining an acceptable

unemployment level for ensuring economic and social balance and avoid undesired unemployment forms.

In 2014, unemployment level calculated by BIM standards reached the figure of 47,5 thousand persons, which is 15,6 thousand less against previous year and 60,8% were men and 39,2% women. There are 61,9% unemployed in urban area and 28,9% in rural area.

Unemployment rate is decreasing as well, being in 2014 3,9% (5,1% in 2013). Despite certain disparities in male and female unemployment rates and differences in terms of residence, its level is quite low. Thus, male unemployment rate was 4,6% and female unemployment rate was 3,2%. At the same time, unemployment rate in urban areas was 5,2% and in rural areas – 2,7%.

There is, however, a higher unemployment rate among young people – 9,8% in 2014, which stresses vulnerability of this occupational group on the labour market.

In the Republic of Moldova the best intervention directions of the state to solve youth unemployment problem would be increasing human potential quality, training and professional reconversion, facilitating the

creation of new sustainable jobs and youth integration into the labour market, facilitating young people access to starting up a business, facilitating access to preferential loans and other levers to support employment and self-employment.

Moldovan public authorities are aware of this problem and pay special attention to youth unemployment.

Analysis of level of training influence on unemployment reveals that most affected persons are those with higher education – 11,7 thousand or 24,6% of total unemployed in 2014. However, unemployment of people with higher education is usually short-term

(less than 3 months). Most unemployed with higher education belong to age group 25-34.

Level of unemployment is determined by work experience of individuals as well. Statistical data show that people with work experience are affected by unemployment to a larger extent. Thus, in 2014 out of 47,55 of unemployed 35,8 thousand or 75,4% are unemployed having work experience. This tendency is observed for both sexes. Nevertheless, unemployed male with work experience are more affected by unemployment than unemployed female having work experience – 22,8 thousand persons or 78,9% of total unemployed men compared to 13,0 thousand persons or 69,9% of total unemployed women (table 4).

**Table 4.** *BIM unemployed by age group, work experience, sex, 2014, thousand persons*

Sex, work experience	Total	Age groups			
		15-24 years	25-34 years	35-49 years	50 years and over
<b>Total</b>	<b>47,5</b>	<b>10,3</b>	<b>14,7</b>	<b>15,9</b>	<b>6,7</b>
Unemployed with work experience	35,8	4,0	10,5	14,8	6,5
Unemployed with no work experience	11,7	6,3	4,2	0	0
<b>Men</b>	<b>28,9</b>	<b>6,1</b>	<b>8,0</b>	<b>10,0</b>	<b>4,8</b>
Unemployed with work experience	22,8	2,5	6,1	9,4	4,7
Unemployed with no work experience	6,1	3,5	1,9	0	0
<b>Women</b>	<b>18,6</b>	<b>4,2</b>	<b>6,7</b>	<b>5,9</b>	<b>1,9</b>
Unemployed with work experience	13,0	0	4,3	5,4	1,8
Unemployed with no work experience	5,6	2,7	2,3	0	0
<b>Urban</b>	<b>29,4</b>	<b>4,9</b>	<b>9,0</b>	<b>11,1</b>	<b>4,5</b>
Unemployed with work experience	23,7	2,0	6,6	10,7	4,4
Unemployed with no work experience	5,7	2,9	2,3	0	0
<b>Rural</b>	<b>18,1</b>	<b>5,4</b>	<b>5,7</b>	<b>4,8</b>	<b>2,2</b>
Unemployed with work experience	12,1	2,0	3,8	4,1	2,2
Unemployed with no work experience	6,0	3,4	1,9	0	0

*Source: National Bureau of Statistics*

This happens because persons with work experience search more attractive and better-paid jobs, which they cannot find in the country yet. On the other hand, persons with no experience, especially, those young are reluctant to enter the labour market and increase the number of inactive population.

Analysis of duration of unemployment reveals that in 2014, the most widely spread duration was less than 3 months – 16,3 thousand persons or 34,3% of total unemployed. At the same time, other 4,8 thousand persons or 10,1% were unemployed for more than 24 months and 3,1 thousand of them are men. It should be said that most long term unemployed have work experience.

Long-term unemployment (over 24 months) is one of main indicators of social development reflecting, particularly, labour market functionality. Prevalence of short-term unemployment in rural areas can be explained by seasonal nature of work there. Thus, in spring and autumn unemployment rate in rural areas is very low.

A significant discrepancy can be seen between duration of unemployment in rural and urban areas. In urban areas this duration is more extensive. Thus, in 2014, there were 3,6 thousand persons (12,2%) who had been unemployed for over 24 months in urban areas, while in rural areas there were no unemployed according to Labour Force Survey.

There is also a small share of registered unemployment. Thus, the number of unemployed registered at Territorial Employment Agencies amounted to 21

thousand persons, while jobs available offered by these institutions reached over 8 thousand.

Therefore, it seems that in the Republic of Moldova, unemployment issue does not fit into defining features of this economic category. However, we can say that there are no tangible improvements in terms of employment. The relatively low unemployment level is supplemented by an extremely high level of inactive population, which cannot have a positive impact on labour market improved employment and functionality.

Low level of unemployment is accompanied by poor quality of employment manifested in both informal employment and a rather high level of underemployment. Thus, in economy informal sector are employed over 16,1% of total employed persons. At the same time, 32,5% of employed population had an informal job. In the total number of informally employed people, employees accounted for 18,7%, while 9,0% out of total employees had informal jobs.

Every tenth employee declared that they receive either a part (1,8% of total employees) or the entire salary (8,4%) “in envelope”. This phenomenon of salary received “in envelope” is more common in agriculture (48,3%), trade (15,2%) and constructions (13,55).

Informal employment is accompanied by the phenomenon called “undeclared work”<sup>2</sup>. Thus, undeclared work among employees accounted

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<sup>2</sup> Undeclared work means any work performed by an individual for an employer and under their authority without complying with provisions of the Labour Code upon termination of individual employment contract.

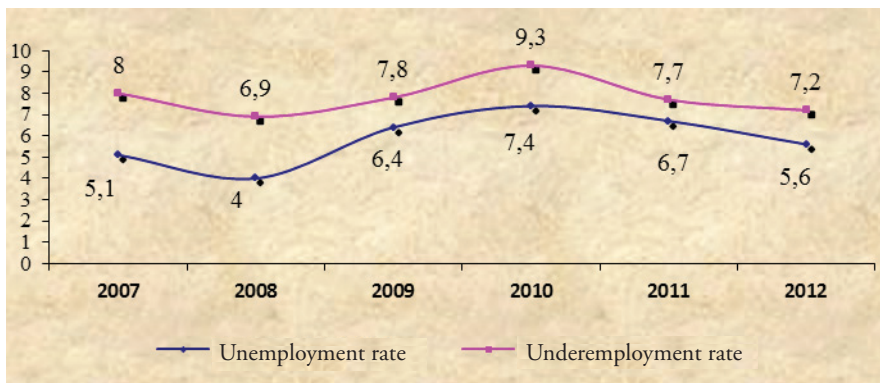
for 8,3%, reaching the same level as previous year (8,2% in 2013). Practice of hiring without signing individual employment contracts (based on verbal agreement) is more common among men (9,7% of total employed men) compared to women (7,0% of total employed women). The highest rates of employees working just on the basis of verbal agreement is seen in agriculture (47%) and trade (10,7%).

The number of underemployed persons<sup>3</sup> reached 80,1 thousand, which is 6,8% of total employed persons. This category persons number decreased by 6,9% (5,9 thousand) compared to 2013.

We should mention that the Labour Force Survey showed that every seventh employed person (14,7%) would like to change the current job due to their dissatisfaction with remuneration.

Examination of unemployment developments in the Republic of Moldova leads us to the conclusion that employment situation is quite favourable. Both informal employment level and underemployment level are acceptable. At the same time, a more thorough analysis reveals that due to low salaries, population is not motivated to remain in labour market, preferring other types of activities.

**Figure 5.** *Unemployment and underemployment rates dynamics in 2007-2012, %*



Source: NBS

3 Underemployed persons in relation to working time are employed persons who worked independently of their will, less than 40 hours and who wanted and were able to work more hours. Underemployment is an issue determined by the usual duration of working hours and highlights the characteristics and peculiarities of labour market. This phenomenon is widespread in traditionally agricultural countries.

## 4. International labour migration trends in the Republic of Moldova

Against the background of decreasing employment indicators in the Republic of Moldova we can see a considerable increase in working age inactive population where the largest share are people who went abroad to work or in search of a job.

Currently, international labour migration is one of the most remarkable phenomena affecting present situation of labour market in Moldova.

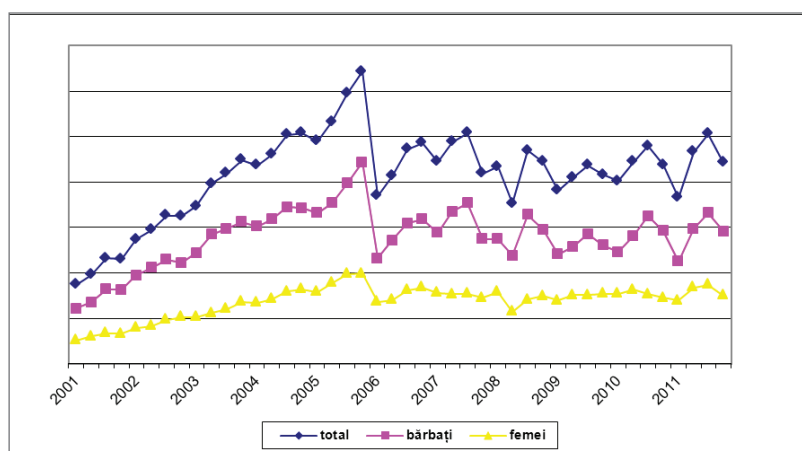
Since 1998 international labour migration has intensified and, currently, over one third of country's human potential is abroad. Thus, Labour Force Survey showed for 2014 a number of over 341,9 thousand persons<sup>4</sup> who left the country in search of work.

In international labour migration its distribution by age, sex and training level is very relevant. It can be seen that, as a rule, young people leave the country. Thus, in 2014, most people who went abroad were aged 25-34 (36%) and 35-44 (21%).

Although during reference period, the number of female migrant increased, men prevail in the total number of migrants – 64,1% compared to 35,9% in 2014.

With reference to distribution of migrants by level of training, most of them have finished high school – 25%, vocational secondary school – 27% and secondary school – 25%.

**Figure 6.** Quarterly evolution of the number of people going abroad by gender, 2001-2014, thousand persons



Source: National Bureau of Statistics, Labour Force Survey

<sup>4</sup> Labour Force Survey [www.statistica.md](http://www.statistica.md)

In the same context, it should be mentioned that most persons leaving the country are from rural areas accounting for 71,7% mainly due to dearth of employment opportunities in rural area.

Persons in search of work migrate both to Western and Eastern countries. An important factor stimulating labour migration to eastern regions in comparison with the western ones is knowledge of the language, local culture and traditions by migrants and no visa requirements. At the same time, the declaration of independence of the republic of Moldova in 1991 and society liberalization led to the opening of borders with European countries. Improved opportunities to enter European countries led to diversification of labour migration geography, redirecting labour migration vector in Moldova from east to west. Thus, according to the Labour Force Survey 311 thousand persons left the country in search of work in 2013. Although the majority left for Russia – over 191,9 thousand persons, the second country of destination is Italy – 58 thousand persons. Other countries that are attractive for Moldovan labour migration are as follows: Greece – over 2,5 thousand persons, Turkey – 9,0 thousand persons, Portugal – 5,1 thousand persons, Ukraine – 6,5 thousand persons (table 5).

Other data on international migration from the Republic of Moldova show the same trends. According to a study of “Nexus”<sup>5</sup> project, in the Republic of Moldova, in 2013, 411 thousand persons were involved in

**Table 5.** Persons who went abroad in search of work by country of destination - 2013, thousand persons

Countries of destination	Total	Men	Women
Greece	1,6	0,6	1
Israel	7,1	1,4	5,7
Italy	50,7	12,2	38,6
Portugal	4,1	3	1,1
Romania	3,5	2,6	0,9
Russia	223,6	170,7	52,8
Turkey	7,5	1,9	5,7
Ukraine	5,4	4,5	0,9
Other countries	28,9	19,9	9
Total	332,5	216,9	115,6

Source: National Bureau of Statistics, Labour Force Survey

long-term international migration or 12,4% of total population and 370 000 of them were migrant workers. Other 109 thousand people or 3,3% of population were engaged in seasonal migration. At the same time, 44 thousand migrants or 1,3% of total Moldovan population returned to Moldova and 54,5% came back in 2010-2013 (figure 7).

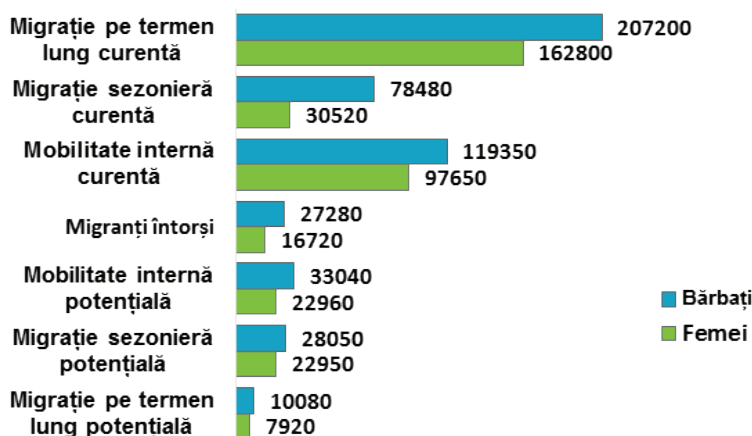
The study “Nexus” indicated the same vectors of international migration in the country. The majority of migrants leave for the Russian Federation – 56% of migrant workers (206 thousand persons) and Italy – 22% (81 thousand persons), while between 2% and 3% (8-10 thousand persons) go to countries such as France, Turkey and Portugal. In terms of seasonal work migration, 81% of work migrants are working in the Russian Federation (88 thousand persons), while 7% are working in Italy (7,7 thousand persons).

It should be mentioned that the scale of migration in the Republic of Moldova is far

<sup>5</sup> Nicolaas de Zwager, Ruslan Sintov, "Market analysis: driving innovation in circular migration - migration and development in Moldova", Chisinau, IASCI 2014, p. 27.



**Figure 7.** Estimates on different categories of current, returned and potential migrants in search of work



Source: Nicolaas de Zwager, Ruslan Sintov, “Market analysis: driving innovation in circular migration - migration and development in Moldova”, Chisinau, IASCI 2014, p. 27.

from being exhausted. The study “Nexus” revealed that over 107 thousand persons intend to go abroad in search of seasonal or long-term work. This means that the number of migrants could increase by other 22%.

Although international labour migration is considered to be new for the Republic of Moldova, this is only partly true. In the period of socialist economy, the Republic of Moldova, being one of the union republics in the Soviet Union, was characterized by quite intense internal migration. High level of migration was the result of the fact that among the 15 union republics, the Republic of Moldova was the most densely populated (130 people per square km), which was determined by demographic particularities of the region, while the economic structure was mainly agrarian. Consequently, Moldova was characterized by an oversupply of labour, which often was absorbed by “the great sites of socialist construction” through national

employment services. Many migrants were employed outside the country, especially in the northern regions of the former Soviet Union in order to obtain a higher wage or to secure a more successful career. Labour migration in the Soviet Union was also determined by the fact that many young people went to study or serve in the Soviet Army outside the republic. Some of them continued to live and work there even after finishing their studies or military service.

With the dissolution of the USSR, internal migration has become external, changing at the same time its intensity and reasons. Emergence of borders between the republics did not limit migration flows of workers to the East. On the contrary, they have become more intense, due to higher income and better employment opportunities abroad, which are absent within the country. Difficulties of the first transition years, challenges triggered by administrative, economic and social reforms, spurred migration processes, particularly economic migration.



The type of migration changed during this period as well. From permanent it became predominantly temporary (long-term) or seasonal.

Although in the early years of transition, the Republic of Moldova was faced with a strong wave of permanent emigration (usually Moldovans emigrated to Israel, the Russian Federation, Ukraine, Canada, etc.), the most noticeable form of migration was voluntary, temporary migration driven by economic reasons.

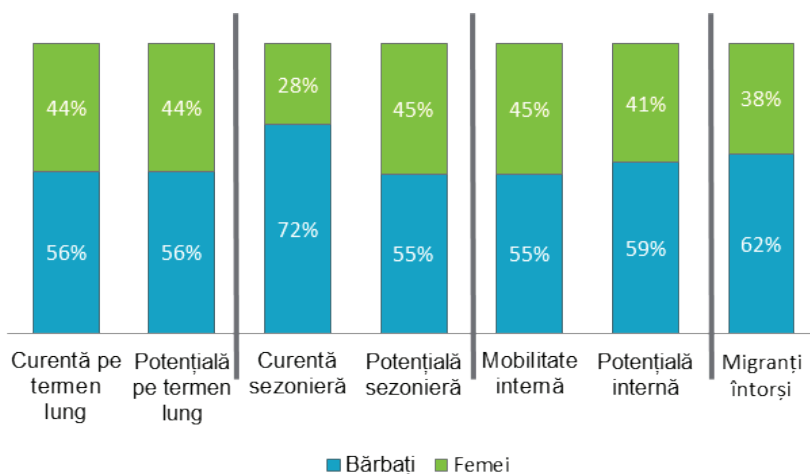
With reference to migration distribution in the Republic of Moldova by sex, studies show a prevalence of male migration against the female one. At the same time, it is seen that if in terms of long-term migration, both current and potential, this prevalence is not significant – 56% compared to 44% of total migrants, then, in terms of current seasonal migration, this gap is more noticeable – 28% for women

compared to 72% for men. The study also reveals an increase in women's rate of potential seasonal migration compared to that seasonal – 45% compared to 28% (figure 8).

Prevalence of male migrants over female migrants is determined, first of all, by stereotypes prevalent in Moldovan society, according to which men have the main role of ensuring their household well-being, while women have to take care of the house, bring up children and look after them, which means to engage in activities that are not, for the time being, bringing any value. Although most women are active on the labour market, this does not exempt them from household chores.

On the other hand, given the nature of employment and cultural traditions, the country's population has a sedentary nature, while migration is seen as the last solution to solve economic problems it may face. For this reason, high level of migration is not

**Figure 8.** Migration trends from the Republic of Moldova by sex, 2013, %



Source: Nicolaas de Zwager, Ruslan Sintov, "Market analysis: driving innovation in circular migration - migration and development in Moldova", Chisinau, IASCI 2014.

characteristic for the Republic of Moldova, while intensification of this phenomenon during the period of transition to market economy is caused, first of all, by economic hardships faced by population. In the same context, although female migration is not welcome, sometimes even blamed, the number of working female migrants is steadily growing.

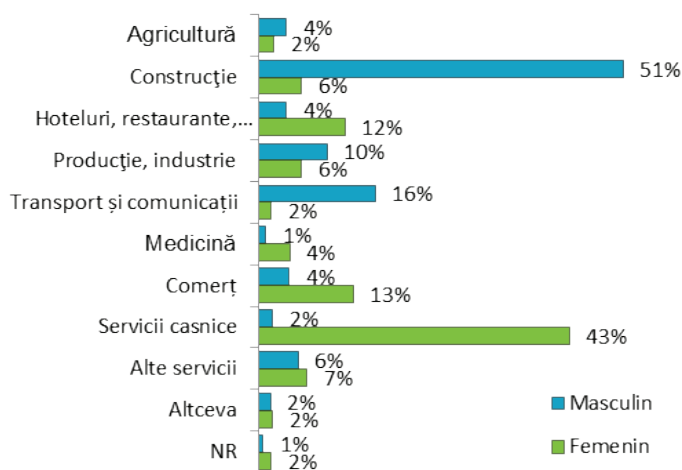
The increase in the number of women migrant workers in the Republic of Moldova is determined by reduced costs and risks associated to migration, huge discrepancies between incomes gained in the country and those in the country of destination, lack of opportunities to find an attractive and well-paid job in the country of origin, overcoming language and cultural barriers etc.

Studies in the area show that most men migrant workers work in constructions – 51%, transport and telecommunications – 16%, or industry – 10%, in the domains with

high labour demand mainly in the Russian Federation. At the same time, most women migrant workers are working in household services – 43%, hotel services – 12%, trade services – 13%, healthcare – 4%, in the domains with high labour demands mainly in European countries (figure 9).

Analysis of various statistical data („Nexus” study, the NBS data) reveal a rather negative feature of labour migration specific for the Republic of Moldova – decreasing labour qualification. As a rule, most people going abroad in search of work, even having a high level of professional training, engage in unskilled labour. These persons lose their qualification after having worked for a long time in these unskilled professions. These situations can be seen among teachers, doctors, engineers, scientific researchers and other professions that require huge investment for their training. Labour Force Survey data show that in 2013, over 11% of migrant persons had higher

**Figure 9.** *Distribution of persons migrant workers by sex and field of activity, 2013, %*



Source: Nicolaas de Zwager, Ruslan Sintov, “Market analysis: driving innovation in circular migration - migration and development in Moldova”, Chisinau, IASCI 2014.

education<sup>6</sup>. At the same time, only 2% of them were employed in domains requiring a higher qualification. Neglecting this phenomenon by decision-makers could lead to an intellectual crisis, which will be more difficult to overcome than the economic recession in the country.

Migration for educational purposes is accompanied by another negative phenomenon – exodus of highly qualified specialists. International highly skilled labour migration, known as “brain drain” is evidence of loss of intellectual capital. Most young migrants from the Republic of Moldova are at the beginning of their professional career. Labour Force Survey data show that youth unemployment level (persons aged 18-24 years) is two times higher than the general one – 9,8% compared to 3,9% in 2014<sup>7</sup>. As a rule, those who are the best leave the country. Many young people who study abroad stay there to live and work after finishing studies. Thus, the Republic of Moldova is gradually becoming a supplier of skilled labour force for other countries, which is to its detriment.

Under the conditions where skilled labour cannot fully realize their potential at home and country's economy fails to make use of them in an appropriate way and provide them with proper remuneration, this “human capital loss” is somehow justified. If labour force is not used it is losing its qualification as well. Therefore, skilled labour emigration can be considered, at the same time, as a way of preserving its potential.

<sup>6</sup> Labour Force Survey, [http://www.statistica.md/public/files/publicatii\\_electronice/ocupare\\_somaj/Fora\\_Munca\\_2014.pdf](http://www.statistica.md/public/files/publicatii_electronice/ocupare_somaj/Fora_Munca_2014.pdf)

<sup>7</sup> <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3722>

The „brain drain” phenomenon is becoming widely spread, being also boosted by youth's state of mind who do not see their future in the Republic of Moldova. This “lack of patriotism” of youth stems not only from economic crisis in the country but also by frequent political crises. Human potential degradation trigger very serious unbalances which are harming current transition, economic recovery, country's future. Therefore, “brain drain” problem should not be overlooked by authorities. Lack of state's measures seeking to address “brain drain” issue will considerably diminish chances to overcome the crisis.

International migration, beyond its potential to generate a series of social risks, may contribute to a positive impact on the development of migrants' households and communities and generally on their countries of origin development and countries of destination development as well. Actually, international migration generates three types of transfer that contribute directly to development: *persons migration* itself (immigration, emigration and return); *know-how and knowledge transfer* (as the move around people acquire ideas and knowledge and develop new skills while being abroad. This “knowledge capital” can circulate between migrants' countries of origin and destination through social networks); *transfer of financial assets*, (which can take various forms: wages, savings, remittances and investments as well)<sup>8</sup>.

A beneficial factor of international migration for the Republic of Moldova should be the educational aspect. International labour migration can contribute directly to human

<sup>8</sup> Mainstreaming migration into development planning. A handbook for policy-makers and practitioners, IOM, Chisinau, 2013;

potential adaptation to new economic conditions. People working abroad, particularly in European countries, not only improve their well-being but also acquire new work skills specific for market economy, which they may use in their country of origin and thus contribute to strengthening market economy relations.

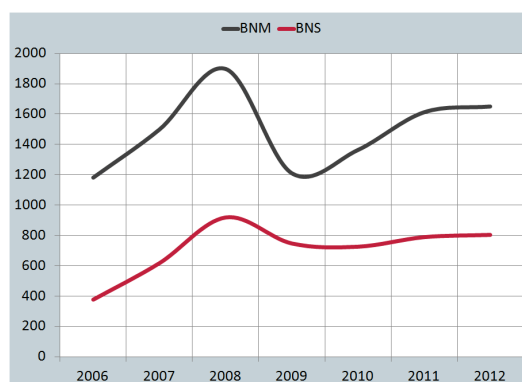
Nevertheless, given the geographical aspect of labour migration, along with Moldovan migrants' occupational profile, we cannot have high expectations in terms of their work experience. Most labour migrant from Moldova work in the Russian Federation, a country undergoing itself a process of transition to market economy. At the same time, Moldovan migrants have unskilled jobs and, quite often, they are employed in informal economy, which is not suitable for developing modern work skills in line with new economic conditions.

Social and economic role of international migration is beneficial for countries of destination as well. It helps mostly to satisfy labour demands in certain industries in countries of destination. These sectors are as follows: constructions and public works, public catering, household chores etc., sectors demanding a large number of unskilled workers. On the other hand, population ageing faced by countries of destination means that migrants are welcome not only in sectors demanding unskilled labour but also in some attractive skilled jobs, which may also face certain labour shortages.

For the Republic of Moldova, international migration is, first of all, an essential source of ensuring decent living. Since international migration is usually the consequence of the

desire to find work abroad, it ensures an impressive financial inflow, which, in turn, contributes to increasing population well-being in the country. The National Bank data show that in 2014 international labour migration transferred officially as remittances over 1,61 billion USD<sup>9</sup>, amount accounting for over one quarter of GDP. In 2000-2014, net volume of remittances increased more than 9 times, from 178,6 million USD to 1612 million USD in 2014 (figure 10).

**Figure 10.** Estimation of remittances flows based on Household Budget Survey data conducted by NBS and Balance of payments data compiled by NBM, million USD



Source: Valeriu Prohnițchi, Adrian Lupușor “Options for harnessing emigrants’ remittances and savings for the development of the Republic of Moldova”, Chisinau, UNDP, 2013.

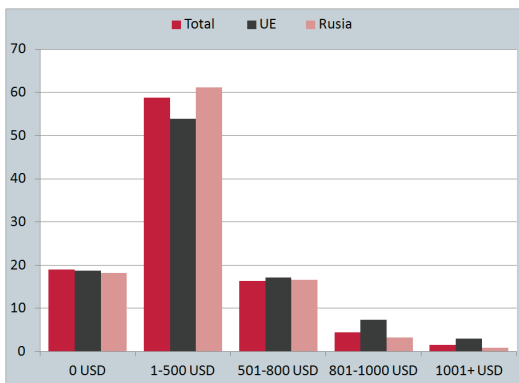
This amount could be even higher if we consider unofficial transfers as well. A large part (about 35% -40%) of remittances are transferred through informal paths, which is evidence of low financial education of emigrants and remittances beneficiaries. Indeed, CBS-AXA study “Migration,

<sup>9</sup> [www.bani.md](http://www.bani.md)

labour migration risks” reveals that remittances transfer through banking financial institutions accounts for a share of only 64,3% for men migrant workers and 62,4% for women migrant workers. The other remittances are brought home either by a courier, relatives or personally<sup>10</sup>.

Although total flow of remittances is a huge one, both in terms of its volume and share in the GDP, it is made up of small monetary transfers – over 60% of emigrants send home an average monthly amount of up to 500 USD. On average, most emigrants (58,7%) send rather small amounts of money monthly (1-500 USD), which is particularly true for those who are working in Russia. Those from the EU states send larger amounts of money due to better working conditions and higher salaries (figure 11)<sup>11</sup>.

**Figure 11.** *Migrants distribution by average monthly amount sent to family and regions of emigration destination, 2011, %*



Source: Valeriu Prohnițchi, Adrian Lupușor “Options for harnessing emigrants’ remittances and savings for the development of the Republic of Moldova”, Chisinau, UNDP, 2013.

<sup>10</sup> CBS-AXA, „Report on workforce migration abroad”, 2009

<sup>11</sup> Valeriu Prohnițchi, Adrian Lupușor “Options for harnessing emigrants’ remittances and savings for the development of the Republic of Moldova”, Chisinau, 2013.

One of the main reasons for Moldovans’ international migration is the need to finance consumption of primary necessity or durable goods and, subsequently, most remittances are directed to satisfy these needs. Therefore, their direct investment potential should not be overestimated – their beneficiaries cannot be forced to deposit them in banking system, invest directly or use them in any other way the Government consider to be “correct”.

According to the Household Budget Survey data, in 2014, remittances amounted to 17,6% of total household income, being one of main sources of revenue after salaries and social transfers<sup>12</sup>.

Analysis of household income structure, where at least one family member is working abroad, reveals crucial importance of remittances for providing for these families. Luecke and others (2009) show that for 44,5% of households, remittances are the main source of income, accounting for a share of over 50% of total income<sup>13</sup>. At the same time, over one fifth of household depend totally on financial support of family members working abroad.

On the other hand, a part of households are excessively dependent on remittances. Remittances, quite often, are sent by one member of the family (usually a man migrant worker) and, thus, the other family members are

<sup>12</sup> Household Budget Survey, <http://www.statistica.md/newsview.php?l=ro&idc=168&id=4691>

<sup>13</sup> Luecke Matthias, Mahmoud Toman Omar, and Steinmayr Andreas, „Labour Migration and Remittances in Republica Moldova: is the boom over? Trends and Preliminary Findings from the IOM/CBS-AXA Panel Household Survey 2006-2008”, IOM, 2009;

exposed to several risks associated to a potential emigrant's decrease in wage or loss of job. These risks become even higher since most remittances (over 90%, according to CBS-AXA, 2010) are used for purchasing goods and services of primary necessity. Analysis of Household Budgets shows that most average monthly expenditures of migrants' families are linked to buying foodstuffs - around 43%, purchasing clothing and footwear - 10%, housing maintenance - about 20%.<sup>14</sup>

Using such a high share of remittances for everyday consumption and such a small part

for investment is determined by high poverty level and poor employment opportunities, which are primary driver of emigration. At the same time, under the situation where labour markets in other countries offer both better employment opportunities and higher payment compared to labour market in the Republic of Moldova, the temptation to go to work abroad is too high. This fact explains, to a large extent, both worsening conditions of labour market and intensification of labour migration from the Republic of Moldova.

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<sup>14</sup> Household Budget Survey, <http://www.statistica.md/newsview.php?l=ro&idc=168&id=4691>



## 5. Wages - defining element of labour market

Liberalization of the labour market led to diversification of population income forms. This resulted, in turn, to a decrease in the role of wages in total population available income in favour of income from other types of activity. Under these conditions, state's role to regulate workers' wages became less decisive since it is shared with trade unions, employers' associations, employers, etc. Thus, processes related to workers' wages have become rather unpredictable, while wages are determined, firstly, by market forces.

At the same time, under the situation where labour market mechanism is still undergoing the establishment process and labour market forces do not manifest in a perfect way, wages as balance price on most fragile market cannot fulfil anymore its main social and economic functions, namely **economic reproduction, stimulation and regulation**. For this reason, currently, the salary is rather a kind of social allowance and not a price of labour force negotiated fairly by both parties of labour contract, thus, quitting the field of labour relations. Due to these processes in income policy, there is a continuous degradation of occupational indicators, which could likely lead to serious consequences for the entire national economy.

Analysis of current wages in the Republic of Moldova leads us to the conclusion that they are extremely low compared to wages

in neighbouring or European countries. Low level of wages is a legacy of socialist economy, pursued, practically, by most governments of countries undergoing economic transition. In socialist economy, low wages were compensated by a drastic price policy and every worker, apart their modest income, benefited for free from a wide range of social services: healthcare, kindergartens, vouchers to sanatorium, housing, etc. Low wages, along with relative equalization through various capping measures of that time, lead to lack of motivation in the workplace, expressed by poor work discipline and workers' reluctance to increase their qualification, which, in turn, lead to a drop in labour productivity in all national economy sectors. On the other hand, low wages was also determined by occupational structure of economy. A large part of human potential is employed in low labour productivity fields (for instance agriculture), while another rather large part of labour force (26% in 2014), is employed in public sector, where wages depend on state's limited budgetary capacities. These are usually persons employed in education, healthcare, culture, etc. – people with high qualification deserving better remuneration. Failure to undertake required urgent measures seeking to improve existing situation can have unpredictable consequences, affecting seriously present human capital and undermining sustainable human development.

Low wages in the Republic of Moldova diminished wage share in total population income and GDP. The decrease in wage role in forming income and increase in other income sources is a natural process in the conditions of transition to market economy. However, when this decrease is uncontrollable, there could occur a transfer of labour force reproduction role from wages to other income forms, which are not directly linked to working process, undermining, thus, functioning mechanism of labour market and sustainable economic growth prospects. Under these conditions, many employees (mostly employed in public sector), whose income depend only on wages, are disadvantaged compared to other population categories securing most of their income from other sources. This situation leads to decreasing motivation of wage-earners and, subsequently, a labour force exodus from productive sphere to other fields of activity. Thus, in economically developed countries, share of wages in total income stays at the level of 50%-70% due to various government policies, ensuring employee motivation and labour productivity growth

and social justice. In the Republic of Moldova, wages share on total income in 2014 was 41,6%, decreasing compared to previous years (table 6).

Decreasing role of wages in national economy in the Republic of Moldova can be considered as a direct consequence of income policy, especially wages policy implemented over previous transition years and failure of state to fulfil its duties in relation to employees receiving wages from the budget.

All these aspects eroded real incomes of persons directly depending on this type of income and, on the other hand, reduced population credibility in state as guarantor of public welfare, as well as led to thriving underground economy, tax evasion, corruption, crime etc.

Currently, although average monthly nominal wage has increased slightly, the Republic of Moldova still has the lowest level of wages and salaries compared to other countries in transition, being the poorest country in Europe.

**Table 6.** *Structure of disposable income (according to household budget survey, %)*

	2009	2010	2011	2012	2013	2014
<b>Disposable income - total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Including income from:						
Wages and salaries	45,3	42,6	44,7	42,7	41,6	41,6
Individual agricultural activity	8,9	9,8	10	9,6	9,1	9,5
Income from individual non-agricultural activity	6,5	6,8	6,8	7,2	6,9	6,6
Income from property	0,2	0,1	0,4	0,2	0,2	0,1
Social benefits	17,5	18,7	18,1	19,2	19,9	20,2
Other income	21,7	22	20,1	21,2	22,3	21,9
.. including remittances	17	16,8	15,3	16	17,3	17,6

*Source: National Bureau of Statistics*



In order to improve present situation, over the last years, the Government promoted a range of concrete measures, among which drafting a law on liberalizing employees' wages policy, regular indexation of wages paid from the budget etc. There are already some results of these measures. Thus, were increased first category wages in real sector up to 1900 lei, while average monthly wages grew slightly as well.

Thus, in 2014, average monthly income in the country was 1318,7 lei an increase by 19,5% compared to previous year. The highest wages were traditionally in finance – 7505,3%. Wages in agriculture and forestry – 2708,9 lei, hotels and restaurants – 1016,7 lei, education – 3391,1 lei were below country's average (table 7).

**Table 7.** *Average nominal monthly wage by types of activity, lei*

	2013	2014
<b>Total, lei</b>	<b>3 674,2</b>	<b>4 089,7</b>
Of which:		
Agriculture and forestry	2 421,6	2 708,9
Industry	3 965,9	4 388,1
Constructions	3 822,4	4 165,7
Wholesale and retail	3 005,4	3 367,5
Hotels and restaurants	2 460,0	2 757,4
Transport and communications	3 646,0	3 939,5
Financial services	7 016,3	7 505,3
Real estate transactions	3 137,7	3 583,1
Public Administration	4 808,2	5 243,4
Education	3 040,0	3 391,1
Health and social assistance	3 610,0	4 068,8
Other activities	4 508,0	5 279,4

*Source: National Bureau of Statistics*

Low wages and lack of real prospects to improve the situation in some fields of activity lead to massive workers exodus. Thus, although national average wage has increased by 19,6% over the last years, the number of employees has been decreasing. Massive employees exodus from the areas financed from budget such as education, healthcare, culture, etc., areas where training specialists requires huge investment in human capital, can lead to unpredictable consequences for country's future and the country itself could become underdeveloped with no prospects of overcoming this situation. Education, healthcare and culture are strategic areas, responsible for ensuring human capital development. Thus, currently, the Republic of Moldova is faced with a huge shortage of teachers, while mane of those employed as teachers have already reached retirement age. The same situation can be seen in healthcare, culture etc.

Another problem related to wages evolution in the Republic of Moldova refers to population differentiation in terms of income. Indeed, society polarization still continues nowadays. Population differentiation in terms of income is determined not only by income diversification but also wages differentiation in different sectors of country's economy, which is seen in comparative analysis of wage rates depending on qualification groups in various economic sectors.

Thus, excessive differentiation of minimum wage level and wage level in different economy sectors is evidence of the fact that the state virtually has no influence in ensuring efficiency and fairness of labour remuneration system.

Labour force, while average wage is no longer a balance wage in labour market and its motivation and reproduction potential is compromised.

In general, the relative economic advantage of countries with cheap labour force compared to countries with expensive labour force is completely lost because cheap labour reduces motivation, and is, therefore, unproductive, irresponsible, undisciplined, unable to produce high quality production. For this reason, cheap labour is rather an indicator of discouraging direct foreign investment, which is extremely necessary for the countries faced with economic crisis such as the Republic of Moldova and not a factor contributing to improving investment climate. Countries with cheap labour force attract, as a rule, short-term investment projects, which cannot have a considerable effect on national economy recovery.

Therefore, in order to improve the situation in wage area and, employment relations overall, it is urgent to rehabilitate wages role by increasing them both in absolute value and share in total population income and in the GDP.

Both minimum wage and average monthly wage have to be doubled or even trebled in the shortest time. Thus, it will stimulate consumption demand and, respectively, aggregate demand, contribute to population savings, which could boost investment and as a result economic growth and population standard of living. Another reason supporting the prompt increase in average monthly income is increased attractiveness of jobs in order to reduce labour force exodus. Rapid increase

of wages would ensure their adjustment to wages level in neighbouring countries. Such a solution would perfectly fit into implementing provisions of subsequent development or employment strategies.

Increase in wages will benefit not only workers and employers but also social transfers beneficiaries. Level of pensions and social allowances is closely linked to wage level. Low efficiency of social policies promoted currently in the Republic of Moldova is determined, to a large extent, by extremely low price of labour force.

Obviously, any increase in wages should be linked to increased labour productivity, which, in turn, is related to technological upgrade of production process, improvement of management, including human resources management, promotion of exports so that balance of payments equilibrium does not depend solely on volume of remittances into the country but also on other financial flows resulting from local production process.

Wages role rehabilitation and their increase in volume would restore population trust in national economy and labour market and contribute to improving situation on labour market and reducing labour migration intensity.

For this very reason one of current objectives of wage policy should be gradual increase of wages at least up to the level of neighbouring countries.

Many experts could disagree with such a solution of the problem related to income policies, including wage policy. Indeed,

substantial increase in wages could generate, on the one hand, certain inflation processes, and, on the other hand, an increase in unemployment rate.

Indeed, unjustified increase in wages generates demand-pull inflation since population income is not covered by enough goods and services. But in the situation of Moldova, which is a small and open economy, inflation sources are rather in exterior than in interior. Annually, remittances of persons working abroad worth hundreds of millions of dollars and Euros are sent into the country, which contributes to population increased consumption demand more than the suggested increase in wages within the country. At the same time, this increase in consumption demand is offset by the increase in imports. Under this situation, a rise in prices due to internal sources is seen not just in terms of housing or luxury goods but also everyday consumer goods. However, these cases could also be explained by the process of adjusting prices to those in neighbouring countries. Subsequently, the inflation we face is inflation due to offer. Currently, this inflation due to offer is compounded by inflation due to money supply in the aftermath of massive theft and embezzlement in banking system.

As regards the increase in unemployment, indeed wage rise could generate redundancies of workers. Firms that will incur losses for this reason will have to downsize seeking to increase efficiency of making use of employees that will stay. Therefore, we may conclude that increase in wages will lead, on the one hand, to improved labour market functioning by fostering competition and, on the other

hand, to turning wages into a genuine balance price on labour market. At the same time, it should be mentioned that in the situation of continuous decrease in employment indicators due to discouraging conditions on labour market, wages rise will not result in an extreme pressure on labour market from unemployed since, currently, the biggest problem on labour market in the Republic of Moldova is its functioning rather than unemployment. This is confirmed both by territorial employment agencies employees and private agencies staff that are faced with a shortage of human resources for job vacancies.

However, this increase in unemployment following wages rise will be short-term. Economic growth boosted by effective demand increase will generate the creation of new jobs, this time productive jobs, which in a short time will absorb the excess of job offer available on the market.

Under these conditions, the state has to increase its role in regulating workers remuneration, particularly those employed in budgetary sphere. Since healthcare or public education employees ensure constitutional guarantees, their wages have to be, to a large extent, secured by state. At the same time, public sector workers' wages have to be compatible with private sector employees' wages and meet the requirements of keeping, reproducing and motivating work force that benefited from huge investment. Such measures will rehabilitate reproduction and stimulation function of workforce that was destroyed during transition to market economy. These measures aiming to regulate wages in budgetary sector require a strenuous effort

from public authorities and imply changing the approach to estimate labour price.

At the same time, while regulating wages of private sector workers society has to perform some tasks such as establishing the mechanism of determining the balance wage appropriate to market economy and rehabilitating wage social functions.

The problems of establishing the market mechanism of determining balance wage

are related to developing the system of work contracts and agreements between employees and employers, determining social guarantees system, citizens' income taxes, developing an information system concerning wages level and dynamics on labour market.

In addition, it should be mentioned that the market mechanism of determining balance wage will be functional unless wage social roles are rehabilitated (macroeconomic reproduction, stimulation and regulation).

## 6. Human potential quality

Employment and its quality depends, to a large extent, on professional training level. Nowadays, under the conditions of economy based on innovation and knowledge only a well-trained and well-qualified workforce can be competitive on the labour market. In the context of European integration, which is main objective of the Republic of Moldova development, human potential quality issue is thought to be one of the most important and pressing problem of Moldovan society.

Human potential quality issue correlates harmoniously with the strategic goal of European Union set out in Lisbon Strategy – 2000, which is to become *“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”*.

Based on these benchmarks, analysis of human potential quality in the Republic of Moldova reveals that workforce level of training is quite high. In 2014, most economically active persons had higher education – 24,35, vocational secondary education – 23,5% and high school education – 18,4%, while inactive population of working age had middle school education – 29,7%, high school education – 22,7% and vocational secondary education – 17,3%, education that does not ensure an attractive job, with career prospects and high wage, which does not motivate persons to be present on labour market (table 8) .

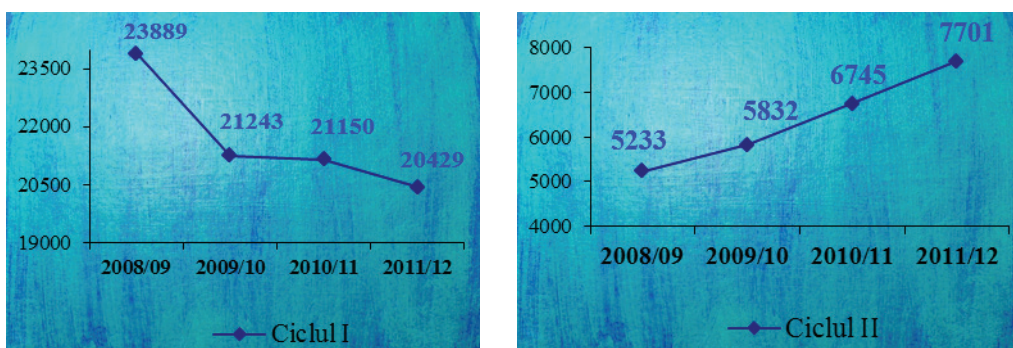
While analyzing human potential structure by level of education in comparison to other neighbouring countries it seem that the Republic of Moldova population is not very

**Table 8.** Population aged 15 and over by participation in economic activity by level of education, in 2014, %

Level of education	Economically active population	Employed population	BIM unemployed	Inactive population
Total (thousand persons)	1232,4	1184,9	47,5	1756,1
Higher	300,4	288,7	11,7	198,8
Specialized secondary	170,3	163,8	6,5	194,1
Vocational secondary	289,2	279,3	9,9	304,9
High school, general secondary	237,7	227,4	10,3	399,5
Middle school	226,5	217,5	9,0	521,2
Primary or without primary school	8,3	8,2	0,0	137,6

Source: National Bureau of Statistics. Labour Force Survey

**Figure 12.** Evolution of students enrolled in higher education institutions, persons



Source: NBS

keen on increasing its training level. This situation is not determined only by labour market conditions, but also by deplorable state of secondary vocational education which, unfortunately, is not able, for the time being, to provide a well-qualified labour force in line with labour market current requirements. Secondary vocational education failed to adapt to labour market beneficiaries demands. In this respect, specialists offer is steadily decreasing, while educational services quality is at a very low level. Consequently, labour market focused on absorbing specialists with higher education.

This situation can also be explained by the fact that labour market in the Republic of Moldova, being still an emerging market, is not yet able to communicate properly with vocational training system about conditions of labour supply demand. For this reason, higher education level is more attractive for ensuring better opportunities of professional integration for graduates.

Analysis of students number dynamics in vocational training and higher education institutions reveals a continuous decrease in their amount.

Thus, in 2012-2013 academic year, 20429 persons enrolled in higher education studies (cycle I), by 408 persons or 2,0% less compared to previous years enrolment. At the same time, 7701 persons enrolled in master degree studies (cycle II), by 280 (3,8%) more compared to 2011-2012 academic years (figure 12).

As regards secondary specialized education, in 2012 8755 persons were enrolled, which is 2,55 less compared to previous year.

In secondary vocational education is seen a downward trend. In 2012 only 11890 persons were enrolled, 8,7% less compared to previous year.

According to National Bureau of Statistics data on higher education institutions activity, at the beginning of 2012-2013 academic year, in 34 higher education institutions, total number of students studying in the first and second cycle accounted for 102458 persons, which shows a slight decrease of 1,45 compared to 2011.

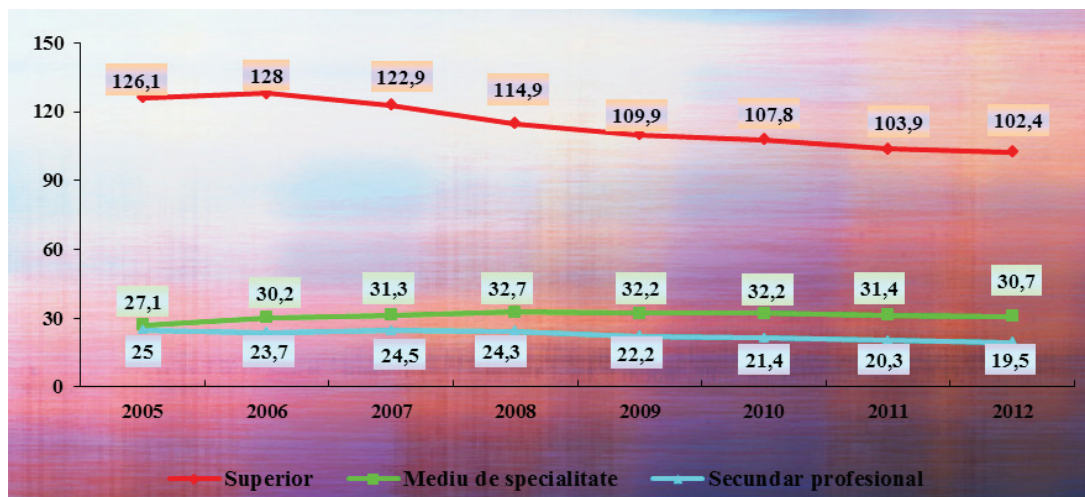
In secondary specialized education there is a drop in the number of students as well. Thus, in 47 colleges, the number of students



at the beginning of 2012-2013 academic year amounted to 30725 persons, which is 2,3% less compared to previous years. In secondary vocational education, in 2 vocational high schools, 44 vocational schools and 21 trade schools, total number of students reached 19581 persons, which shows a decrease by 3,6% compared to previous year (20320 students) (figure 13).

**International migration of labour force** – in recent years international workforce gains momentum. The main reason that generated this process is lack of opportunities to find employment on labour market in the country. Indeed, shortage of available productive jobs, low attractiveness of the existing ones, both in terms of wage and career prospects and active working life quality prompt increasingly working age population to emigrate.

**Figure 13.** Evolution of number of students in higher education, secondary specialized education and secondary vocational education in 2005-2012, thousand persons



Source: NBS

It should be mentioned that critical situation in terms of human potential training is a problem that has been faced for many years and is determined by several factors such as:

**Demographic factor** - currently the Republic of Moldova faces a continued decrease in the number of population, accompanied by population ageing. In this context, the number of potential students for both higher education and vocational training institutions is declining as well. Reduced human potential has a powerful impact on decreasing employment indicators.

The scope of this phenomenon is determined by easier access of migrants to foreign labour markets and more opportunities to find their jobs, which are much more attractive than those on labour market in the country and evidence of this is the increased volume of remittances over the last years. Massive exodus of working age population from the country compromises population reproduction processes and leads to a fall in employment in the country.

**Low quality of economic growth** – analysis of GDP growth by aggregate demand

components reveals that GDP increase is mainly due to increase in final consumption expenditure of households, while negative balance of trade is going up. At the same time, gross capital formation shows just a slight increase, which is insufficient for ensuring sustainable economic growth. This situation cannot contribute to creation of the required number of attractive and productive jobs, which would halt the drop in employment. This situation also affects vocational training and higher education system in the Republic of Moldova.

**Modernization of market economy mechanism** – market relations that are primarily based on competitiveness and efficiency urge economic operators to minimize production costs and optimize the number of jobs within their enterprises. This

process leads, on the one hand, to the decrease in excess labour supply has been existing in the Republic of Moldova for many years and, on the other hand, to an increase in labour productivity and economic efficiency. At the same time, this process determines also a decrease in competitiveness of potential workers from the Republic of Moldova.

Among other factors negatively affecting human potential quality can be mentioned: economic conditions; low quality of employment; low wages; education quality; limited employment and career prospects opportunities for young graduates and school-leavers especially in rural areas; lack of concrete programmes for youth professional orientation; gap between professional knowledge and skills of young graduates and school-leavers and those required by organizations; poor entrepreneurial culture etc.





## 7. Employment policies

Employment and social protection of persons in search of a job is an integral part of socio-economic policies and strategies promoted by the state. Extent of unemployment, low level of employment, virtually inexistent employment opportunities urged the state to intervene decisively on the labour market both through legislative and regulatory measures seeking to ensure for employees and people who lost their jobs a certain level of social protection. No wonder labour market is considered to be the most social and regulated of all markets.

In order to successfully implement policies on labour market were adopted a range of normative acts aiming to improve regulatory framework for promoting active policies, particularly, in terms of encouraging labour force mobility, professional orientation, training, integration or reintegration, assistance with career issues, involvement of unemployed in public works, etc. A series of normative acts provides for adjusting national legislation to international standards and implementing ILO conventions ratified.

In the Republic of Moldova, the state intervenes on labour market through institutions such as: Government with its ministries, particularly the Ministry of Labour, Family and Social Protection, National Employment Agency, Labour Inspection, National Social Insurance House, local public authorities, National

Commission for Collective Consultation and Bargaining etc., which, along with social partners such as National Trade Union Confederation of the Republic of Moldova and National Confederation of Employers Republic of Moldova are constantly improving and developing legislative and regulatory framework seeking to improve labour relations and continuously increase active working life quality.

Currently, employment policies are a set of measures developed by the state in order to intervene on labour market aiming to boost creation of new jobs, improve adjustment of labour resources to economic needs.

It should be mentioned that over the last years of transition to market economy, state intervention on labour market in the Republic of Moldova underwent several changes in terms of workforce employment policy measures that were promoted. Thus, if in the early 90's, employment policies implied active measures and mainly sought to ensure full employment of labour force, then in the late 90's, emphasis was put on passive measures, ensuring conditions required to establish and strengthen market relations on the emerging labour market against the background of severe economic recession of that time. At the same time, it is worthwhile mentioning that over that period employment policy was constantly

improved and streamlined. Therefore, constant transformation of state intervention mechanism on labour market can be seen as a distinguishing feature of labour market in the republic of Moldova at current stage.

Indeed, over this period, in addition to changes in workforce employment concept, institutional framework, legislation related to employment, and social protection of the unemployed were altered several times, while employment service was modernized substantially.

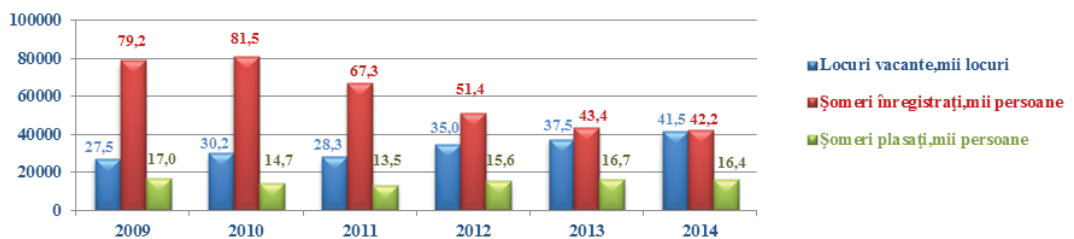
Currently, implementation of employment policies is the responsibility of National Employment Agency and territorial employment agencies, whose activity is governed by Law No. 102-XV of 13.03.2003 on Employment and Social Protection of Persons Seeking Work.

National Employment Agency activity is focused on preventing unemployment and ensuring high level of employment, employment or reemployment of persons seeking work; supporting employment of disadvantaged persons, ensuring equal opportunities on labour market, providing

incentives to employers to hire persons seeking work, fostering labour force mobility under the conditions of structural changes in the economy, providing financial assistance to unemployed and encouraging them to seek work, providing social protection to persons seeking work, carrying out public awareness campaigns on labour supply and demand, measures that are provided for in legislation.

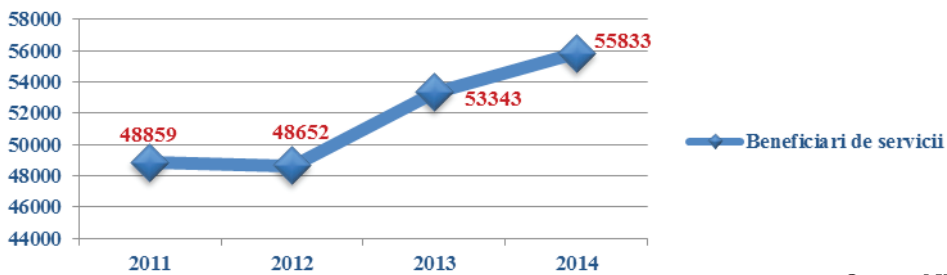
One of the main functions of employment services in the Republic of Moldova is providing information and mediation services to persons affected by unemployment. It should be mentioned that every year along with modernization of National Employment Agency the range of services provided was expanded and diversified. Thus, National Employment Agency has implemented several new services over the last years such as encouraging and supporting territorial mobility of persons seeking work in order to facilitate finding a suitable job, diversifying the categories of persons eligible for professional reconversion services, professional training and orientation, providing psychological counselling to discouraged workers etc. At the same time, overall volume of services provided is constantly increasing.

**Figure 14.** Dynamics of job vacancies, unemployed and persons who found a job in 2009 – 2014



Source: NEA

**Figure 15.** Dynamics of professional information and counselling services



Source: NEA

In 2014, National Employment Agency registered 42,2 thousand persons seeking work that appealed to territorial employment agencies, 41,5 thousand job vacancies and 16,4 thousand persons found a job (figure 14). We can see that the number of persons seeking work that turn to territorial employment agencies is steadily decreasing against the background of increase in job vacancies managed by these agencies.

At the same time, the number of persons who turned to information and counselling services provided by agencies is increasing – from 48859 persons in 2011 to 55833 persons in 2014, which is evidence of an improved credibility of this institution (figure 15).

However, irrespective of Agency efforts concerning employment services diversification, situation on Moldova's labour market is not improving. Under current circumstances the solution for overcoming crisis should be sought elsewhere. Since working age population is more attracted by the prospect of providing labour services abroad and not on labour market in the Republic of Moldova it is crucial to highlight factors prompting country's population to take these decisions.

Labour market, which is not shaped definitely yet, has always faced crisis situations that were overcome by launching various strategies both in terms of sector, economic development and employment.

Such a strategy was launched on 15 May 2002, whose goal was, first of all, to **ensure a functional labour market**. This implied, in the first place, creation of favourable conditions for developing labour demand and supply patterns in line with modern market economy. Competitive environment, which is the basis for market economy would ensure optimum level of employment, sustainable growth of labour productivity and, subsequently, wage income of workers, while, on the other hand, it would ensure best human potential capitalization.

Although implementation of this strategy has not been accomplished yet, in 2006, the republic of Moldova started developing a new employment strategy. Development of a new, better and more modern strategy was determined by new political goals of European integration the Republic of Moldova committed to achieve. This prompted harmonization of values, principles and levers

of intervention of the state on labour market with those European.

In fact, employment strategy 2007-2015 was developed quite professionally and included all elements required for such strategy. Its 11 priority directions were formulated in line with needs and realities of labour market in the Republic of Moldova of that time. However, the goals

to improve employment indicators were not achieved, on the contrary, they have worsened.

Unfortunately, the Strategy failed to consider specific economic circumstances of the Republic of Moldova and population values, which are rather different from rational economic behaviour characteristic of modern market economy.



## Conclusions and recommendations

In the context of economic stability, labour market situation in the Republic of Moldova reveals a steady decrease in main employment indicators, which could affect adversely social security system.

Young population is particularly facing a more difficult situation. In general, employees face a number of problems related to large numbers of jobs with low productivity and wages, informal sector expansion, payment of wages “in envelope”, etc.

On the other hand, international labour migration is acquiring alarming proportions that generate huge social costs as well.

Negative trends on labour market affected human potential as well, which, quite often, does not meet current labour market requirements, while professional training of candidates at different levels and that of persons seeking work is not carried out efficiently. Therefore, both employed population and the unemployed become uncompetitive.

Under these conditions, public employment service makes strenuous efforts to ensure an increase in employment and provide adequate social protection to persons seeking work, including disadvantaged categories of persons.

In order to improve situation on labour market it is necessary to undertake the following actions:

- Promote economic policies able to create competitive and attractive jobs, which would lead to an increase in employment, eradicate long-term unemployment, especially among youth and in rural areas;
- Implement, on a large scale, flexible forms of employment to ensure balance on labour market;
- Streamline integration measures in labour market of disabled persons and persons released from prison;
- Develop policy measures focused on migrants’ integration in labour market;
- Undertake measures to ensure sustainability of rural population income. Diversify fields of activity in rural areas. Streamline measures to support small business in rural areas;
- Establish efficient cooperation between the Ministry of Education and Ministry of Labour, Social protection and family on improving workforce quality by training and ensuring a functional system of professional orientation and continuous professional training;
- Develop and implement an efficient continuing education and training system to maintain and develop existing human capital. Review of high school, secondary, vocational and higher education curricula content and their readjustment to companies and labour market demands.

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