

OPTIMIZATION OF PUBLIC EXPENDITURE MANAGEMENT FROM THE PERSPECTIVE OF CONSOLIDATING THE RIGHT TO A DECENT LIVING

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Abstract

The present study highlights the need and obligation of the state in ensuring a decent standard of living for its citizens. Needless to say, personal well-being depends directly on the person's own will and effort and is achieved as a matter of priority through the personal work of each and family itself, but not everyone is able to ensure one's material well-being and decent living through one's own work, which is why the state must be involved in order to improve the standard of living of the population, since both the constitutional norm and international norms establish this fact. The obligation in question is also a consequence of the 'new vision of ensuring citizens' rights and freedoms not only through the individual efforts of each state, but also through the collective efforts of the international community'. The standard of living of citizens in the Republic of Moldova is extremely low. Low income levels and increased risks of poverty are caused by limited economic opportunities, and inefficient management of public spending. The income of the population, remains the lowest in the countries of Central and Eastern Europe, being about 40% of the average recorded in the countries of the EU.

Keywords: *human rights, the right to a decent standard of living, minimum of existence, the disposable income, public expenditure*

1. INTRODUCTION

The right to a decent standard of living is considered a *fundamental right*, as it is defining for the human personality, being found in distinct acts within both international and national laws. The inclusion of this right in the category of fundamental ones, initially through international, subsequent national acts, is a consequence of the 'new vision of ensuring citizens' rights and freedoms not only through the individual efforts of each state, but also through the collective efforts of the international community'. This right leads the state to undertake multiple measures of sustainable economic development to ensure the well-being and prosperity of society. In this respect, the state must, on the one hand, encourage the personal effort of every citizen to participate in useful social work, and on the other hand, knowing that not everyone is able to ensure one's material well-being through one's own work, must be involved by taking concrete measures to ensure a decent living for its citizens. The social policy of the state must include: regulation of the minimum wage, the fight against unemployment, free primary health care, free access to primary and general education, the establishment of social benefits for certain categories of socially vulnerable population, which for various reasons cannot perform any kind of work, etc.

The financing of these expenses in our country is mainly made from the resources of the public budget, which is why the optimization of the management of public expenditure in order to ensure a decent standard of living becomes an extremely important task, especially in the context of the deep economic crisis that Republic of Moldova is facing.

Based on these findings, this paper aims to analyse the standard of living of the population of Moldova in the light of compliance with the constitutional rule on the obligation of the state to provide an income, in the size that would allow every citizen a decent living. Since the basic instrument by which constitutional law is achieved is public finances, the paper also examines the effectiveness of the financing of public expenditure related to social protection.

2. MATERIALS AND METHODS USED

In theoretical-scientific terms, the current research has been carried out in the context of the complex and systemic approach to contemporary economic and social concepts. The research is based on approaches to human rights, in particular the right to a decent living, which is derived from the category of economic, social and cultural rights. The importance of ensuring decent living depends not only on the effort of one's own, which is achieved as a priority through personal work, but also through the active involvement of the state by creating economic and social conditions and taking special measures to improve the living of the population.

The paper evaluates the standard of living of the population in the Republic of Moldova through the prism of efficient management of public expenditure in order to ensure a decent standard of living.

The data of the investigations was taken from the international and national normative acts, the generalizing data of the National Bureau of Statistics of the Republic of Moldova, the reports on the execution of the state social insurance budget, etc.

Taking into account the complexity of the research theme, an extensive arsenal of scientific methods of study has been applied to its *implementation*: quantitative analysis of documents, research of existing studies and documents, collection of relevant statistical data; *the analytical method* by which the essence of the problem under investigation is presented; *the synthesis method*, applied to establish links between the various indicators investigated; *statistical methods :descriptive and simple regression*, applied to describe the relationship between the values of the variables used; *comparative method* – used in comparing economic and social indicators that characterize the standard of living of the population;

3. RESULTS AND DISCUSSIONS

Arguing that fundamental human rights and freedoms are indivisible, in order to ensure its full life, all rights alike are important. However, as it is also apparent from the Tehran *Proclamation* (1968), economic, social and cultural rights are given priority, „since the full realization of civil and political rights without the effective exercise of economic, social and cultural rights is impossible, and the achievement of sustainable progress in the implementation of human rights largely depends on thoughtful and effective policies of economic and social development, both at national and international level”. (1, 1968, art.3) If civil and political rights can be ensured by the adoption of legislative acts, economic and social rights require, in addition to the appropriate legislative framework, for effective measures to be taken to comply with them: the establishment of state structures for the provision of services, the provision of financial resources for the payment of pensions and other fair social benefits and without delay, etc.

Along with other economic and social rights, the *right* to a *decent living* is a substantial right, without which many of the fundamental human rights and freedoms lose value. The importance that living standards have for the person, family and society as a whole makes each state's individual efforts complemented by the collective efforts of the international community. Beyond being the subject of the ongoing concerns of international organizations specializing in solving the problem of hunger, malnutrition and social security, the right to a decent standard of *living* is also enshrined in some acts of universal importance, having its legal starting point in the Universal Declaration of Human Rights.

Thus, according to Article 25 of the Universal Declaration of Human Rights, „*every man has the right to a standard of living which ensures his health and well-being and his family, including food, clothing, housing, medical care, and the necessary social services; he shall be entitled to insurance in the event of unemployment, sickness, invalidity, widowhood, old age or in other cases of loss of livelihood, as a result of circumstances beyond his control*”. (2, 1948, art.25)

The International Covenant on Economic, Social and Cultural Rights, in Article 11, includes in the category of economic, social and cultural rights, together with other rights and the right of the person

to a standard of *living* sufficient for oneself and one's family, including sufficient food, clothing and housing, and to a continuous improvement in his or her living conditions.

At the national level, the Constitution of the Republic of Moldova includes the right to a decent standard of living, although the constitutional text is not clearly defined. Thus, Article 47 'Right to social assistance and protection' provides for 'the obligation of the State to take the necessary measures to ensure that *every man has a decent standard of living which ensures his health and well-being and his family*. Citizens are entitled to *insurance in the event of unemployment, sickness, invalidity, widowhood, old age or in other cases of loss of livelihood, as a result of circumstances beyond their control*. (3, 1994, art.47); Article 47 confers constitutional value on one of the basic principles of the democratic state, a principle which establishes that the development of the free man is not his personal or his family's problem, but an essential component of state policy. It is precisely the achievements in the field of social protection and policy that indicate the level of development and prosperity of the state. It can be said that the State fulfils its constitutional obligation, to defend human rights and freedoms, to create material, political, legal and other conditions, for the exercise of rights and freedoms, for their implementation in life, only if there are successes in the field of social protection.

Therefore, the State is obliged by the Constitution to provide its inhabitants with a minimum of existence, i.e. remuneration in a size that would allow them to obtain the basic constituents of decent living: *food, housing, clothing, healthcare and social services necessary*.

In the context of this, it becomes clear that *decent living, personal well-being* depends, on the one hand, on the will and effort of *one's own*, and, on the other hand, it also involves a significant effort of the *state*. Undoubtedly, ensuring *a decent living* is achieved as a matter of priority through the personal work of everyone and their *family*. It is important that decent living depends directly on the individual's participation in useful social work, as every person must personally create his material well-being, realize his creative potential, and the latter must support this activity.

In this way, it becomes certain that decent living is based on one's own income. Income is one of the key factors that directly influences the standard of living of the population, the most relevant being disposable income, also known as net income, which is the part of the income that remains available to people to cover consumer spending and saving.

The disposable incomes of the population of Moldova between 2016-2019, according to data of the National Bureau of Statistics, registered a continuous increase, after a period of stagnation and decline in real terms, in particular, between 2014-2016.

Table 1. The disposable incomes of the population, 2017-2019

| | 2016 | 2017 | 2018 | 2019 |
|---|-------------|-------------|-------------|-------------|
| Average disposable incomes per person (lei) | 2060,0 | 2244,9 | 2383,1 | 2880,6 |
| Nominal increase in% compared to the previous year | 5,3 | 9,0 | 6,2 | 20,9 |
| Real increase in% compared to the previous year | 1 | 2,2 | 3,1 | 15,3 |

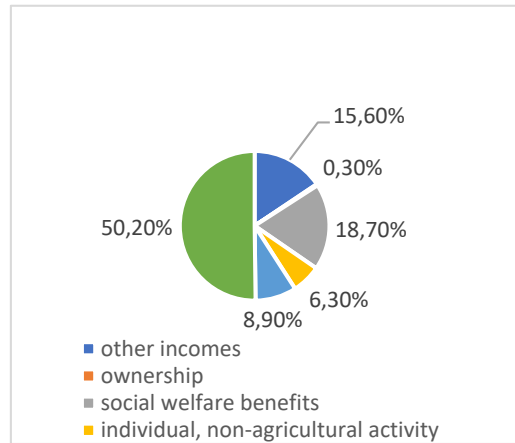
Source: elaborated by the author after *Data Base* National Bureau of Statistics

In general, the population income dynamics was extremely volatile, mainly due to its sensitivity to the macroeconomic situation. In 2016-19, it increased 1.4 times, in real terms, increasing by 15.3%.

Data reflect that of the population's total disposable income, which in 2019 accounted for an average of 2880.6 lei per person, or about 146 Euros (the average annual exchange rate of 19.67 MDL for one euro in 2019), earnings represent the most important source of income - with a share of 50.2%, social benefits being the second source of income by importance, constituting about 18.7% of the average monthly income of the population. At the same time, the structure of available income reveals that a

significant source for the family budget remains to be money transfers from abroad - 12.5% in total revenues.

Figure 1. Structure of Disposable Income, 2019

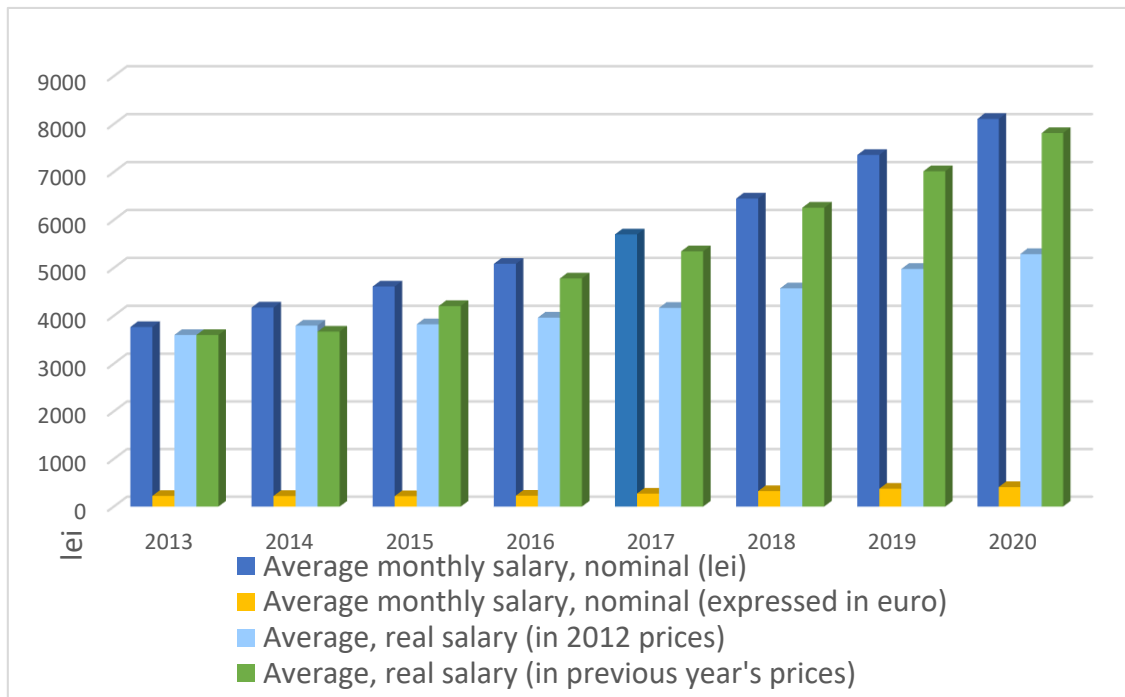


Source: Data Base National Bureau of Statistics

Confirming that earnings are the most important source of income for the population of the country, it is worth noting that in the Moldova, wage incomes are far too low to ensure a decent living.

From the data presented for 2012-2020, it is noted that the average monthly salary in Moldova, constantly, registered an increase, in 2020 it is more than 2 times compared to 2012.

Figure 2. The evolution of the average salary, nominal and real

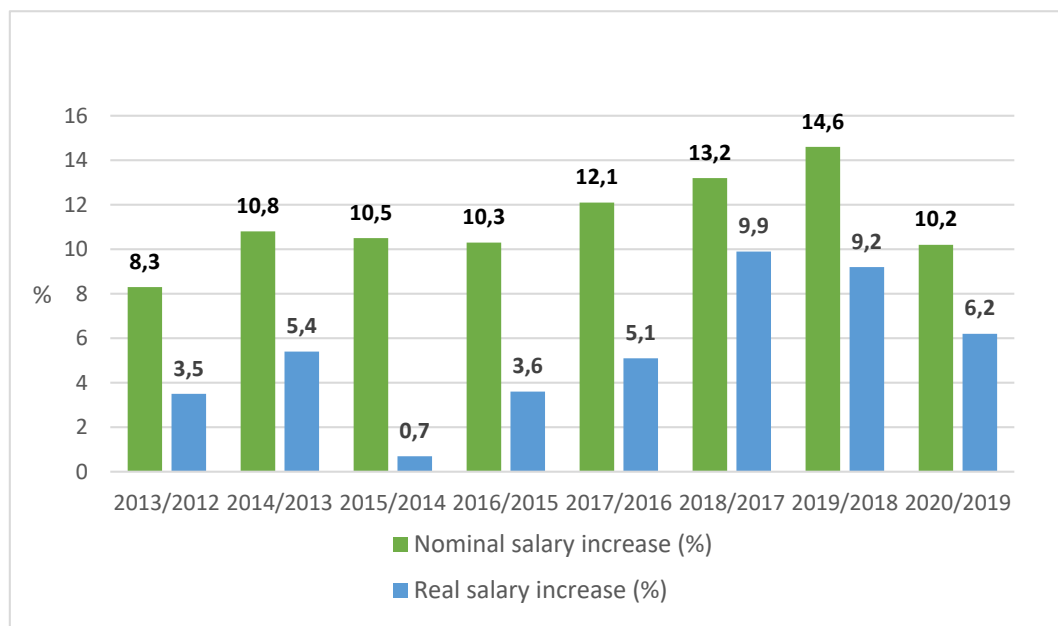


Source: elaborated by the author after *Data Base* National Bureau of Statistics

Since 2014 the average monthly salary has increased each year between 10-14%. The cumulative nominal increase in wage income for the period in question was more than 75 %. The picture presented gives the impression that wage growth is a significant, de facto one, but, given the inflation rate, the increase is insufficient to produce a real increase in the standard of living of the population.

The increased inflation rate in the country's economy reflects that in real terms, by 2017 wages had seen modest growth, and only in the following period did they actually grow at 8-9%, while last year, growth being only 6.2%, resulting in an average increase in consumer prices and a reduction in purchasing power and the standard of living of the population.

Figure 3. Nominal and real increase of the average salary (gross) - total economy



Source: elaborated by the author after *Data Base* National Bureau of Statistics

Despite increases in recent years, Moldovan salaries remain among the lowest in the region. For comparison, the average salary in the Republic of Moldova, in the last decade, is less than half that in Romania. Moreover, the slow pace of growth only increases the wage differences between the Republic of Moldova and the countries of the European Union. The income of the population in the Republic of Moldova remains the lowest compared to the countries of Central and Eastern Europe, being about 40% of the average recorded in the countries of Central and Eastern Europe that are members of the European Union. (5,2019, p. 7).

Moreover, according to research carried out by the National Institute of Economic Research, the value of the average monthly salary per economy, necessary to fully meet the rational needs of the employee and his family members for 2018 amounted to 12 477 lei or about 630 Euros (the average annual exchange rate of 19.84 MD for one euro in 2018), which represents, a double value obtained officially by an employee. (6, 2019, p. 9).

It becomes clear that in Moldovan society not every man is able to ensure his material well-being and decent living through his own work, which is why the state must be involved by taking special measures to improve the living of the population in general, and in particular of certain social categories. Through its system of social protection, the State must provide a number of social benefits, of a special role for the living of these categories.

Social assistance, for our population, represents the second, by importance, source of income, constituting, on average, 18.7% of the average monthly income of the population. This highlights the

increased dependence of the population on state aid, and its small share increases the low standard of living. Keeping in mind the fact that social benefits are intended to reduce the risk of poverty and by far increase incomes, in the context of budgetary constraints and demographic ageing, they will rather serve as a source of social risks and vulnerabilities.

With the aim of covering the full range of social needs of people and families in difficulty or likely to become socially dependent, however the impact of social benefits on poverty reduction is insignificant, with the unsuccessful targeting and small size of benefits being among the main causes. The share of social benefits in the population's income structure for the period 2015-2019 increased extremely modestly, by about one percent annually, and taking into account the increased rate of inflation in the given period, the increases in question were not even felt.

At the same time, viewed through the prism of outputs, social benefits, represent significant public expenditure intended *for security and social protection*. This type of expenditure has its recent origin in the interventionist political-economic ideology, which emerged in the US after World War II, known as the doctrine of *the welfare state*.

The objectives of the public authority in such a State are: *to ensure a minimum income, to support citizens in disadvantaged situations such as illness, old age, unemployment, disability ,etc., to guarantee a good standard of living for the whole population, in relation to a certain list of services, and to minimize the effects of events involving social risks. The services in question shall be made available to members of the company free of charge or at a low price, or allowances, pensions, aid, etc. are granted, through which the population can afford a decent living.*

In this respect, the social policies developed by the State must identify the instruments to correct market economy imperfections in order to provide equal opportunities for their social categories affected by these imperfections. This includes policies to reduce unemployment and poverty, establishes aid for people and families in need or disadvantaged persons (who are generally considered to be children, young fresh graduates, the elderly, the disabled).

The main characteristics of the modern system of financing social security activities are the fact that the funds are obtained from social contributions, socially legitimized by the principle of solidarity. At the international level, the implementation of this expenditure is made from public budget resources and private funds, including those accumulated from donations or resources of non-governmental organizations, but in our country, the funding is made almost entirely from the resources of the public budget. In this context, optimizing *the management of public spending in order to ensure a decent standard of living* is a task as necessary as it is difficult for our state.

In order to ensure a decent standard of living, the state must assume that all social protection expenditure is investment in human resources, which is why the resources spent must find their best use and meet long-term needs, adapting quickly to new conditions.

The objectives of the Public Expenditure Policy set out in the Government Activity Programme and the National Development Strategy "Moldova 2030" establish that „the State will take measures that will contribute to increasing the efficiency and subsequent quality of public resource allocations to finance social projects, as well as the efficiency of the social protection system (general objective 7) and expenditure for social sectors, with a view to increasing allocations for the development of infrastructure, utilities and living conditions, with a focus on people from vulnerable groups”. (7, 2020, p. 55)

Since the constitutional rule requires *the State to ensure a minimum of existence, an income, in a size that would allow it to acquire the basic constituents of decent living, the State is becoming increasingly interested in identifying the most efficient economic models that make public expenditure more efficient, while applying standards oriented towards the average level of social stratification and which would fully absorb the lower levels. Regrettably, these standards are for the time being unsuitable for the Republic of Moldova, which often hardly manage to cover the minimum of existence. However, the situation in question reflects the extremely low capacity of the State to guarantee income which would ensure a decent standard of living for vulnerable groups of society.*

The minimum income for these categories must cover the *minimum of existence (consumption)* established within the framework of social policy, by thorough economic and statistical calculations. The concept of minimum existence requires the establishment of a set of periodic expenses, necessary to meet basic needs for a family with a particular structure. In addition to the needs immediately necessary for survival: housing, food - the minimum basket for a decent living covers a comprehensive range of current needs such as clothing, personal hygiene, education, health care, transport, communications, recreation, as well as any unforeseen expenses (family events, health problems, etc.); includes all the expenditure necessary to cover the general biological and social needs existing at any given time. Therefore, the minimum of existence reflects a person's minimum needs and can only be used to justify the size of the minimum wage, pensions, incentives, etc., while people's vital normal activity must be assessed on the basis of other principles.

In the Republic of Moldova, according to the National Bureau of Statistics, the value of the minimum of existence in 2019 was, on average, per person 2031.2 lei, the equivalent of 103 Euro.

Table 2. The value of the minimum of existence in 2019, average monthly values per person (lei)

| The value of the minimum of existence | Total | Big cities | Small towns | Villages |
|---------------------------------------|---------|------------|-------------|----------|
| Annual average | 2 031,2 | 2 292,3 | 2 013,5 | 1 938,4 |

Source: Data Base National Bureau of Statistics

At the same time, significant differences are registered on the average residence: for the population of large cities – 2292.3 lei or 13.8% more than the minimum of existence for other cities and 18.3% or 1938.4 lei more compared to the countryside. In addition, it is attested that the share of the food basket in the minimum amount of existence is about 50 per cent, an extremely high share compared to the situation of European countries.

Although the population's monthly disposable incomes for 2019 (of 2880.6 lei) exceeded the average size of the minimum of existence, however the minimum coverage level of only 1.42 times remains too modest to ensure a decent living.

Table 3. Co-relationship between population income and minimum of existence, 2019

| | 2019 |
|---|--------|
| Available population income, monthly averages per person, lei | 2880,6 |
| Co-relationship between the average monthly income available per person and the minimum amount of existence, or | 1.42 |
| Average monthly salary per economy for an employee, lei | 7356 |
| Co-relationship between an employee's average monthly salary per economy and the minimum amount of existence for the working-age population, or | 3,4 |

Source: Data Base National Bureau of Statistics

The co-relationship between an employee's average monthly salary and the average existence minimum for the working-age population is 3.4 times higher. At the same time, the co-report differs depending on the activities of the national economy. The maximum level of coverage of the minimum of existence for the working population has been reached by employees in the *information and communications* sector – 7.4 times, and the minimum – by wages in *agriculture, forestry and fisheries*, whose wages cover the minimum of existence in proportion of 2.2 times.

Since the minimum of existence for different categories of population is different, we note that for certain categories of population, the level of coverage of the minimum of existence is at the limit.

Table 4. Co-relationship between the average pension and the minimum of existence for pensioners, 2019

| | 2019 |
|--|--------|
| <i>Minimum of existence for pensioners, lei</i> | 1707,4 |
| The average size of the monthly pension set, lei | 1901,1 |
| Co-relationship between the average size and the monthly pension established and the average amount of the minimum of existence for pensioners, % | 111,3 |
| The average size of the monthly pension set for the age limit, lei | 1843,0 |
| Co-relationship between the average size of the monthly pension set for the age limit and the average amount of the minimum of existence for pensioners, % | 107,9 |

Source: Data Base National Bureau of Statistics

For the category of pensioners, *the minimum of existence* constituted 1707.4 lei. Since the average monthly pension established for 2019 was 1901.1 lei, the minimum coverage of the existence for this population category is at 111.3%, and if we refer to the average old-age pension, which amounted to 1843.0, the co-report is even lower- 107.9%, which draws attention to a deplorable standard of living for pensioners. Although the average monthly pension size increased by 11.2 per cent compared to 2018, in real terms the 6 per cent increase cannot change the situation of pensioners much. A similar situation is also attested to the beneficiaries of childcare allowances.

Table 5. Co-relationship between the monthly allowance for childcare and the minimum of existence, 2019

| | 2019 |
|---|--------|
| <i>Minimum existence for children 1-6 years old</i> | 1682,9 |
| Monthly allowance for the care of children up to 3 years of age for insured <i>persons</i> , lei | 1759,5 |
| Co-relationship between the monthly allowance for the care of children up to 3 years of age for insured <i>persons</i> and the average amount of the minimum existence for children aged 1-6 years, % | 104,6 |
| Monthly allowance for the care of children up to 1.5/2.0 years of age for <i>uninsured persons</i> , lei | 640,0 |
| Co-relationship between the monthly allowance for the care of children up to 1.5/2.0 years of age for the <i>uninsured</i> and the average amount of the minimum existence for children aged 1-6 years, % | 38,0 |

Source: Data Base National Bureau of Statistics

It is obvious that the formal system of social protection in Republic of Moldova does not meet the needs of the population.

Despite the reforms implemented in the field of social protection, the social protection system remained in the process of transformation, being a centralized, predominantly reactive and redistributive one.

In evolutionary terms, public spending on social protection is increasing, about 1.5 times in 2016-19, but the population's standard of living continues to be extremely low. Social protection has a share in the spending of the National Public Budget (NPB) of over 35 percent.

Table 6. Share of Social Protection expenditures in GDP and NBP

| | 2016 | | | 2017 | | | 2018 | | | 2019 | | |
|---------------------------------------|---------------|-------------|--------------|---------------|-------------|--------------|---------------|-------------|--------------|---------------|-------------|-------------|
| | mil.lei | % din | | mil.lei | % din | | mil.lei | % din | | mil.lei | % din | |
| | | NPB | GDP | | NPB | GDP | | NPB | GDP | | NPB | GDP |
| GDP | 160805 | - | - | 178904 | - | - | 192508 | - | - | 210099 | - | - |
| EXPENDITURE, total in NPB | 48462.6 | - | 35.8 | 54522.4 | - | 36.3 | 59608.9 | - | 31.0 | 65975.6 | - | 31.4 |
| EXPENDITURE, Social protection | 17267.7 | 35.6 | 10.75 | 19063.2 | 35.0 | 10.65 | 21003,0 | 35.2 | 10.91 | 23338.5 | 35,7 | 11.1 |

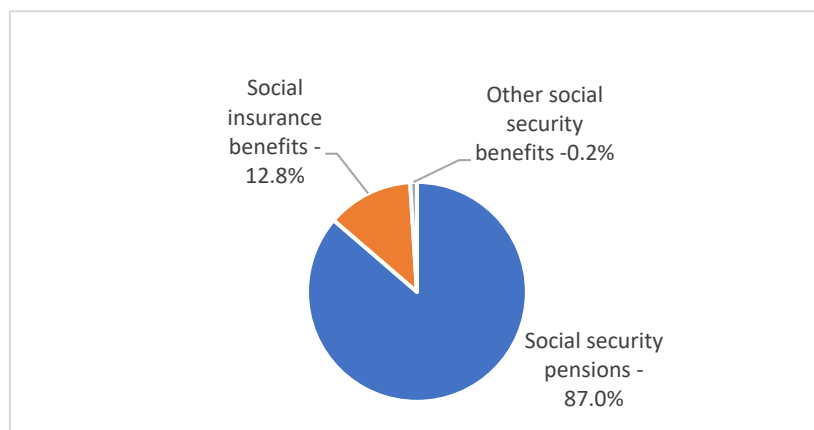
Source: elaborated by the author after 8; 10

As a share of GDP, spending on social protection in 2019 reached 11.1%, an insignificant increase of 0.19% compared to the previous year. For comparison, the share of public expenditure on social benefits in GDP on average in the EU is 18.6%.

The considerable part of public expenditure is social benefits, in 2019 constituting - 98.2% of the total, of which the majority of expenditure is for *social security* - **72.4%** and social assistance - **27.6%**. This share remains relatively constant over several years. (10, 2020, p. 16).

Social insurance expenditure, as a share of GDP, is 4.8%. They are mostly intended to pay pensions - 87 per cent (80 per cent for age pensions), about 12.8 per cent for the payment of social security benefits and only 0.2 per cent - to finance other types of benefits.

Figure 4. Expenditure structure for social insurance benefits, 2019



Source: elaborated after 10

The situation in question shows that for other insurance risks, such as: temporary capacity for work, maternity, the possibilities are practically equal to null. At the same time, we find that 80 per cent of

the expenditure for the payment of pensions goes to pensions for the age limit, with the other categories of pensions (disability, survivors, etc.) constituting 20 per cent. Despite the state's efforts to optimise public spending by promoting pension reform, initiated in 2017, the deficit of the State Social Insurance Budget continues to increase, seriously reducing spending on other forms of social support, such as social services or social assistance payments. The reason for this is also because the pension reform in particular concerned how pensions were paid, but not how to collect contributions. Pressures on the social protection system, in particular social security, will continue to grow, on the basis of an ageing population, but also on significant migration and informal employment.

According to forecasts, by 2030, about 29% of the country's population will be over the age of 60. (7, 2020, p. 87) If effective policies are not implemented, the share will increase to 34% by 2050. Vulnerabilities among older people will increase as a result of the growing demographic burden, high dependency, less hope for a healthy life and low quality of health services. These things will have a major effect on both the state social security system and the social assistance system.

In recent years there has been a trend towards reducing expenditure on established new pensions, which is conditioned due to the policy of gradually increasing the retirement age.

Spending on social assistance is extremely low and in decrease 0.8% from 2018 and 1.1% compared to 2017, with the vulnerability of the social assistance system being relevant. The conclusion, reached - funding from the state budget is decreasing by each year. At the same time, in 2016, they accounted for more than 14% of NPB's total expenditure, and in 2019 --11.2 percent or 2.8 percent of GDP. Expenditure on social services has an extremely low share of total expenditure on social assistance – just over 5%, and the remaining 95% – is expenditure on social payments. Social assistance benefits are fragmented and offered to a wide range of beneficiaries. Targeting social assistance is poor, and the data targeting (Informational Automated System ‘Social Assistance’) is not fully used to adjust social protection policies.

The inefficiency of public expenditure is also caused by poor cohesion between social assistance and employment policy. At the same time, social assistance coverage is not universal, thus generating opportunities for exclusion, especially for uninsured families.

It is ineffective and requires a review and design of social assistance programmes, created with the aim of eliminating or diminishing social problems faced by certain categories of the population in difficulty. Often the aid given increases the social dependence of the segment of the population to which it is addressed. By using proxy calculations (indirect estimates) when designing them, some social categories with low living conditions are sometimes unduly excluded. Accessibility to the programme, especially in rural areas, often requires additional costs, which is a burden on vulnerable families. Awareness of the various social assistance programmes available in society is limited. In this context, in order to optimise public expenditure, reforming the social protection system is extremely necessary.

At the same time, it is important to mention that all expenditure related to social protection (benefits plus social services) is **an investment in human resources**, as it has the effect of developing the capacities of individuals, maintaining their physical and mental state at high levels, leading, therefore, to economic and social development. In this context, public expenditure incurred by the State is not a definitive consumption of national income but, on the contrary, it generates social development (social „profit“). In order for human development to be sustainable, the following conditions must be met: members of society to have a good state of health, an accumulation of knowledge at the level of society, access to resources that ensure a decent standard of living.

4. CONCLUSIONS

The right to a decent living is a substantial right without which many of the fundamental human rights and freedoms lose their importance. **Decent living** depends not only on **your own will and effort**-but also involves a significant effort by **the state**. The state is obliged by the Constitution to provide its

people with a minimum of existence, in a size that would allow them to acquire the basic constituents of decent living.

In the Republic of Moldova, the most important source of human living is earnings, in fact, which is far too small to ensure a decent living. Despite increases in recent years, Moldovan wages remain among the lowest in the region, below half that in Romania and about 40% of the average recorded in the countries of Central and Eastern European members.

According to the data of the National Institute of Economic Research, the value of the average monthly salary per economy, necessary to fully meet the rational needs of the employee and his family members should be at least twice as high.

Social benefits are the second, by importance, a source of income, constituting 18.7%, which highlights the increased dependence of the population on state aid, and its small share increases the low standard of living. On the other hand, social relations represent significant expenditure by public authorities, intended for security and *social protection*. Effective management of these expenditures could help to increase the standard of living of the population.

Although public spending on social protection in recent years has been increasing, the living standards of the population continue to be extremely low. Their share in BPN is more than 35 per cent or 11.1 per cent of GDP, compared to the EU average of 18.6 per cent in GDP. 87 per cent of social security costs are for the payment of pensions. The pension reform, initiated in 2017, did not lead to an end to the increase in the State Security Budget deficit - the cause of the fact that the reform was only about how pensions were paid, but not how contributions were collected. The deficit will continue to increase in the coming years due to the ageing effect of the population, significant migration and informal employment.

Spending on social assistance is extremely low - 2.8 per cent of GDP, which highlights the vulnerability of the social assistance system.

Serious reforms in the area of social protection are needed to reduce the pressures on the social security system, caused by the effect of an ageing population. The reforms would have the effect of making public expenditure on *security and social protection more efficient*.

The need for state intervention in ensuring the standard of living of the population is becoming more evident today, when the population as a whole, but in particular the vulnerable categories of society, have been severely affected by the crisis triggered by the coronavirus pandemic (COVID-19). In these circumstances, the standard of living of the population has fallen even further.

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