



HOW ATTRACTIVE ARE THE SALARIES ON THE LABOR MARKET IN THE REPUBLIC OF MOLDOVA

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Abstract: *The consolidation of economic market relations in the Republic of Moldova led, on the one hand, to the diversification of the population's forms of income, and on the other hand, to the reduction of the role of the salary in the formation of the population's income. Against the background of inflationary processes, privatization processes, other economic transformations in the context of the transition to the market economy of the 90s. 20, there was a continuous process of degradation of the real wages of workers. In the situation where the salary no longer fulfills its basic economic and social functions, i.e. reproduction, motivation, stimulation of economic growth, the population is no longer connected to the fulfillment of its employment to the labor market of the Republic of Moldova and chooses the labor markets from other countries where the salary conditions are more favorable. This fact has led to the intensification of international labor migration.*

Keywords: *salary, employees on the labor market, minimum wage, employment rate, fields of activity.*

Classification JEL: J6

1. INTRODUCTION

The process of the labor market constitution in the Republic of Moldova in the context of the consolidation of economic market relations led to the elimination of the imposition of the economically active population to provide labor services in a mandatory manner and, therefore, to the freedom of people to choose an alternative activity income-generating work. On the other hand, the mass privatization processes that took place in the 90s of the 20th century led to the drastic reduction of the activity of several enterprises and, therefore, to the sending of the personnel of the enterprises on unpaid leave, or even to their dismissal. All these processes generated, on the one hand, the increase of unemployment, especially the disguised one, and on the other hand, the diversification of the population's forms of income unrelated to any productive activity and the reduction of the role of the salary in the total available income of the population in favor of income from other types of activities. However, people laid off or sent on unpaid leave were forced to find other sources of income in order to survive.

It has been created a situation in which the salary can no longer fulfill its basic economic and social functions, namely, reproduction, motivation, stimulation of economic growth. And the population of the Republic of Moldova stopped tying their work and employment needs to the labor market in the Republic of Moldova, thus choosing the labor markets of other countries where the salary conditions and job guarantee are more favorable. This fact has led to a strong intensification of international labor migration.



The object of this article is the analysis of salaries in the Republic of Moldova, their evolution during the period of transition to the market economy, to explain why they cannot be considered as a motivating factor for improving the situation on the labor market and increasing the level of employment. For a more in-depth analysis, a vast literature in the field was used, studies, monographs, articles, informative notes, official data of government institutions concerned with the issue of salaries in the Republic of Moldova. Statistical data from the National Bureau of Statistics, the National Bank, as well as some data taken from various national and international studies conducted in recent years were used.

2. SALARY – DEFINING ELEMENT OF THE LABOR MARKET

The liberalization processes on the labor market in the Republic of Moldova in the context of the current transition to the market economy, in addition to the fact that they determined the freedom of individuals in terms of their decision to provide work services or not, also led to the expansion of alternative forms of income-generating activities to the detriment of the provision of work services and, respectively, to the diversification of the population's forms of income. This fact led, in turn, to the reduction of the role of wages in the total disposable income of the population in favor of income from other types of activities. Under these conditions, the role of the state also became less decisive in the regulation of the wages of workers, this role being shared with employers, unions, employers, etc.

Thus, processes in the field of paying workers became uncontrollable, and wages began to be determined only apparently by market forces. However, in the situation where the mechanism of the labor market is extremely fragile, and the forces of the labor market do not manifest themselves in the most perfect way, the salary as the equilibrium price on the labor market can no longer fully realize its economic and social functions of basis, namely reproduction, motivation, stimulation of economic growth. For this reason, the salary is currently presented, rather, as a social allowance and not a real labor price negotiated fairly by both parties to the employment contract, thus leaving the scope of labor relations. Distinct thanks to these processes in the field of income policy, there is a continuous degradation of occupational indicators, which can lead, in the future, to serious consequences for the functionality of the national economy.

Under these conditions, a large part of employees, (mostly employed in the public sector) who form their income exclusively from salaries, are disadvantaged compared to other categories of the population who ensure the bulk of their income from other sources. This situation leads to the degradation of the motivation of salaried work and, consequently, to an exodus of the labor force from the productive sphere to other fields of activity, including, in the underground sector of the economy, which registered during the years of transition to the market economy a rather impressive growth, or adding to the army of international labor migrants.

In general, the decrease in the role of wages in the formation of incomes, in favor of other sources of income, is a natural process under the conditions of the transition to the market economy. But when this decrease takes uncontrolled proportions, there can be a



transfer of the reproductive function of the labor force from wages to other forms of income, which are not directly related to the labor process, thus undermining the functioning mechanism of the labor market and, in general, of the prospects for sustainable economic development.

Thus, if in economically developed countries the share of salary in total income, through various government policies, is maintained at a level of around 50-70%, thus ensuring the motivation of work, the high level of employment and, therefore, the increase in labor productivity and social justice, in the Republic of Moldova the share of the salary in the total income available in the Republic of Moldova only in 2019 reached the level of 50%.

It should be noted that the strongest degradation of occupational indicators was observed at the end of the 90s, the beginning of the 2000s, correlating with an extremely low level of the share of wages in the total disposable income of the population (37.8% in 2001). Over the years, against the background of the strengthening of the labor market functioning mechanism, the share of wages in the total disposable income of the population gradually began to increase. Thus, if in 2006 the share of the salary in the total disposable income of the population was 39%, in 2021 this indicator reached the level of 50.8%.

However, the increase in the share of wages in the total income of the population did not generate any increase in the level of employment in the Republic of Moldova. According to the data of the Labor Force Survey, the employment rate in the Republic of Moldova during the last 15 years oscillates around the level of 40%.

3. EVOLUTION OF WAGES IN THE REPUBLIC OF MOLDOVA

Analyzing the salaries in the Republic of Moldova at the present moment, it can be seen that they continue to be extremely low compared to the level of salaries in neighboring countries or in the countries of the European Union. Thus, the average gross monthly salary in the Republic of Moldova in 2021 was about 8979.8 lei or 502.48 USD, the lowest level among European countries. In the 2nd quarter of 2022, it reached the value of 10376.2 lei, 14% higher than in the same period of the previous year.

Although during the last years the average salary in the Republic of Moldova has registered significant increases, it continues to be low. The growth of the average gross salary in the economy increased from 2013 to 2021 from 3674.2 lei to 8979.8 lei or 2.45 times.

Such an increase could appear very significant in developed countries. But for the Republic of Moldova, it is not high enough to really increase the level of well-being of the population.

The low level of wages, as well as their relative equalization through various capping measures from the socialist period, caused a demotivation of workers' work manifested by the weakening of work discipline, the reluctance of workers to raise their



qualifications, which, in turn, led to a decrease in labor productivity in all branches of the national economy. These practices are still observed today, especially in the budget sector.

One of the main tools of the state used in wage policy for a possible wage increase is the minimum wage. By increasing it, the increase in average wages in the economy can also be influenced. It should be mentioned that in the Republic of Moldova, there are two different mechanisms for establishing minimum wages: on the one hand, in the budget sector the minimum wage is equivalent to the reference value from the unitary wage system, and on the other hand, in the real sector (at enterprises, organizations, institutions with financial autonomy, regardless of the type of ownership and form of legal organization) it is established every year by government decision, following tripartite negotiations between unions, employers and the state, which take into account the annual increase of the index consumer prices and the growth rate of labor productivity. Thus, the minimum wage for the real sector of the economy is established annually in hourly size and monthly equivalent calculated for a full work schedule of an average of 169 hours per month. On April 22, 2022, the value of the monthly minimum wage in the real sector of the economy was set at a level of 3500 lei per month, which represents only 38.97% of the average wage in the economy in 2021 and only 37.4% of the wage environment from the real sector.

Although wages in the Republic of Moldova expressed in euros have increased by an average of 10% in recent years, it cannot be said that this increase in average gross monthly wages was the fastest growing among the countries of Central and Eastern Europe. In Romania, for example, a member country of the European Union which in recent years was facing an acute shortage of human resources, resorted to significant salary increases, so that the average gross salary in the economy in the period 2014-2018 increased on average by 16%. It must be noted that this practice has given good results, contributing to the increase in the level of employment.

3. SECTORAL GAPS IN THE FIELD OF PAYING

Another problem related to the evolution of salaries in the Republic of Moldova is the differentiation of the population depending the income according to the field of activity. Indeed, against the background of the increase in the average gross salary in the economy, the polarization of society continues to persist even today. The differentiation of the population according to income is conditioned not only by the diversification of forms of income, but also by the differentiation of salaries in various branches of the republic's economy.

The excessive differentiation of average salaries in various sectors of the economy confirms the fact that the state practically has no power of influence in ensuring the economic efficiency and social equity of the salary policy.

Against the background of the growth of the average gross wage in the economy in recent years, wages in the various economic sectors have not increased uniformly. The evolution of salaries according to the economic sector showed that in the period 2013-2021



the slowest rate of salary growth was recorded in the field of communal services, construction, transport, processing industry, while the highest increases were recorded in health and social work, art and recreation, information and communication, etc.

The essential increase in salaries in health and social assistance was determined by the effects of the reforms carried out in the field of health care. However, it cannot be said that these wage increases also led to a high level of wages compared to other fields of activity.

Low wages cause an acute shortage of personnel, especially in education and health. As a result, the services provided in these areas are not of the best quality. So, the state has not managed for a long time to establish a sufficient budget to increase salaries in the budget sector and stimulate the improvement of public services. It should be mentioned that even now the salary differences between the budgetary and real sectors are quite large. The average salary paid in the budget sector in the 2nd quarter of 2022 was 8712.9 lei, 25.7% lower than in the real sector which was 10960.4 lei.

The increase in salaries in the field of information and communications was determined, first of all, by the increase in demand for services in this field of activity.

CONCLUSIONS

Currently, the Republic of Moldova is characterized by an extremely low level of wages that generates a crisis of salaried work that is manifested by the increase in the intensity of international labor migration that also leads to the degradation of the situation on the labor market.

Against the background of emigration, the demographic crisis is also deepening (the stable population of the Republic of Moldova is in continuous reduction, and demographic aging).

Some economic sectors face an acute shortage of qualified personnel, and staff turnover and difficulties in hiring employees lead to an increase in work intensity, without this being accompanied by a commensurate increase in employee incomes.

Against the background of low wages, employers are willing to pay part of the remuneration "in the envelope", generating the expansion of the underground sector of the economy. Under these conditions, companies that practice legal remuneration are at a competitive disadvantage (having higher costs);

The low level of wages determines, respectively, a low level of population consumption, which presents an important impediment to the growth of industrial production and aggregate demand.

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