SUCCESSES AND FAILURES IN REFORMS IMPLEMENTATION PROCESS IN THE REPUBLIC OF MOLDOVA

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***Abstract**: A brief look on current socio-economic situation of the country denotes its tedious condition as a result of many years of reforms which have come across and which have not been successfully at all. The greatest difference is observable when we compare with other states 'situation in the region. The paper is based on an analysis of information (data) from the period of 2000-2016 years, delivered by the National Bureau of Statistics on Gross Value Added, salary fund, number of employees and number of working hours per national and branch economy. Also, was used statistical information of other countries in the benchmarking. The research reveals low levels of labor productivity and low wages in the national economy in comparison with countries from the region. The unsatisfactory economic development caused by reforms lack placed the Republic of Moldova on the last places among compared countries. The GDP growth rates registered in the years of independence of our country will not allow a crucial changing of things in the nearest future.*

***Key words**: Labor productivity, labor cost, average wage.*
***JEL Classification**: J24, J30, J31, E24.*

1. Introduction

The followed road by the Republic of Moldova after it has achieved independence was complicated and difficult one. In fact, after 10 years of continuous recession, in 2000 year the country's economy finally started on the path of growth, being determined by several factors, including: stabilizing of the situation on markets of Eastern European countries, especially the Russian one; increase of domestic demand which is influenced by amount increase of done work by residents from abroad; activation investment process; taking of measures to curb the growth of money in circulation, inflation reduce, etc.

In process of economic recovery, Moldova has benefited of a strong financial support from international financial institutions - IMF, World Bank, EBRD and other development partners. Especially useful was the non-reimbursable financial assistance from the EU and USA. From the USA, the Republic of Moldova has gained more than $ 1 billion within non-reimbursable assistance to implement several projects and programs, aiming firstly on improving the country's infrastructure which situation it was extremely difficult.

2. A brief look on current socio-economic situation of the country

With active support from the European Union and the USA, Moldova has got not just a considerable financial, material and moral support. After many bilateral negotiations with development partners, Moldova is the first Eastern Partnership country which materialized ratification of the Moldova-EU Association Agreement, including the Deep and Comprehensive Free Trade Area Agreement, as well as liberalized regime of visas for its citizens. This has created favorable conditions, both internally and externally, in order to develop with rapid rhythms.

In the first years of re-launching of national economy (2001-2005), there were recorded major GDP growth rates, around 7%. Starting with 2006, however, the growth rates have diminished, and in 2009 the country's economy, being heavily affected by the global financial and economic crisis, recorded for the first time since 2000 – decrease, inclusively a decreasing in GDP with 6.0% in comparison with the previous year. After the decline in 2009, there were regressions also in 2012 (0.7%) and 2015(0.4%).

However, during the period of economic growth, the GDP increased twice, in real terms and investments in long-term assets - 2.2 times. In the concerned period, more dynamically has developed: in the industrial sector - quarrying, manufacturing; in services - retail, construction, and communications. In this period the annual GDP growth rate achieved 4.5%, the investments in long-term assets - about 5%, industrial production - about 4% and agricultural production - over 1%.

The results could be much better, but the global financial and economic crisis, overlapped by political crisis inside our country, has complicated the socio-economic situation, especially last years. Although, the country's new government had an anti-crisis program, its achievement was complicated by political instability and unfavorable conditions in foreign markets.

The socio-economic situation of the Republic of Moldova started to worsen considerably after parliamentary elections from November of 2014, gradually turning into a great disappointment and revolt of population caused, first of all, by devaluation of three important banks of a colossal amount of money, qualified in media sources as “the theft of the century.” In the following period, the sociopolitical situation of our country prevented the process of achieving priority issues related to reforming society through the implementation of the Association Agreement with the EU. And it's no wonder that as a result of too late reforms, the country's economy could not manage partly recovering of the losses admitted in the early years of recession, now having just over 70% of its potential in the early 1990s, became also the poorest country from Europe.

It is known, that a concrete situation of a concrete country, can be evaluated just in process of comparison with other country, or with a group of countries, or with certain well-defined standards, in other words, to make some comparisons that would reveal the competitiveness of this country. In this case is strongly recommended, a multi-dimensional, multi-criteria approach. Competitiveness indicators are based on variables or criteria evaluations that can be grouped according to how they characterize different areas of the socio-economic system. One of the main competitiveness indicators that characterize the efficiency of used time is - labor productivity.

The Table no. 1 shows the amount of hourly labor productivity in the EU-28, Romania and Moldova in Euro since 2000 year.

Table no. 1. Labor productivity per hour (euro)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2012	2012	2013
EU-28, average	27,9	28,4	28,9	29,3	29,8	30,2	30,9	31,3	31,2	30,7	31,4	31,8	31,9	32,1
Romania	3	3,2	3,8	4	4,4	4,6	4,9	5,2	5,6	5,4	5,3	5,4	5,4	5,6
Moldova	0,5	0,6	0,6	0,7	0,8	0,9	1,0	1,2	1,5	1,6	1,8	2,0	2,3	2,4
The level of the RM in % towards the EU	1,4	2,1	2,1	2,4	2,4	3,0	3,2	3,8	4,8	5,2	5,7	6,3	7,2	7,5
The level of the RM in % towards Romania	17	19	16	18	18	20	20	23	27	30	34	37	43	43

Source: Author calculations based on statistical data. Vlad, I.V., 2015. *Strategia de dezvoltare a României în următorii 20 de ani*, Vol. I. Bucharest: Romanian Academy Publishing, pp. 250-251.

The data from the table shows how far is our country's level in comparison with developed countries. Although in these 13 years the labor productivity in the EU countries evolved at a little rhythm that exceeded 1% annually, in this period of time, Moldova increased this indicator by 4.8 times, even in this case the level of labor productivity barely reached 7.5% compared to the EU average. Moldova and Romania have a level of labor productivity below 50%. However, it is worth mentioning that the data in the Table, for Moldova are presented according to the official annual average of the Leu, against the euro for that period of time, but as we know, such a comparison is not accurate and the degree of accuracy is relative. A higher degree of accuracy in the comparison process can be obtained through the purchasing power parity (PPP) in a single currency, Figures no. 1 and no. 2.

Although, Moldova has registered a higher labor productivity increase than other states in the region (except Georgia), it continues to be on a low place by productivity. In 2016 labor productivity, expressed at purchasing power parity, for the Republic of Moldova was 15.5 thousand US dollars per employed person and increased with 4% compared to 2015. This level ranks Moldova as last among the comparison states. In 2016 in Ukraine labor productivity was $19.6 thousand, in Georgia - $ 21.9 thousand, in Serbia - $ 32.4 thousand, in Romania - 52 thousand, in Latvia - $64.7 thousand and in Lithuania - $ 68, 6 thousand. Data show that Georgia had the highest average annual growth rate of 7.1% in 2007-2016, Moldova ranks secondly - 5.8%, followed by Lithuania - 5.4%, Romania - 4.9 %, Latvia - 4.4%, Serbia - 3.3% and Ukraine - 1.7%. Ensuring of increased labor productivity in Georgia and Moldova at higher rates than other countries in the region, it still has not substantially reduced the gap between these countries in terms of labor productivity, with the remaining difference of 2-3 times.

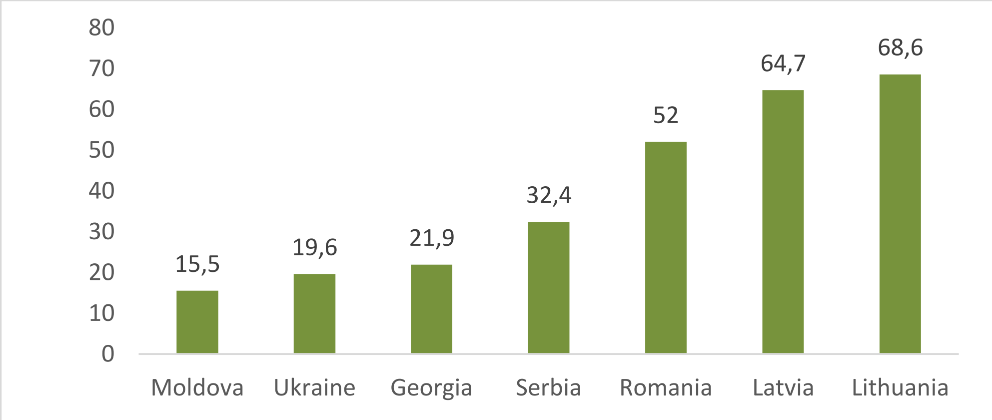

Figure no. 1. Average of labor productivity in 2016 (GDP at PPP prices 2011 year) thousand US dollars per capita

Source: Wikipedia, 2017. *List o countries by past an projected GDP (PPP) per capita.* [online] Available at: <https://en.wikipedia.org/wiki/List_of_countries_by_past_and_projected_GDP_(PPP)_per_capita#IMF_estimates_between_2000_and_2009> [Accessed 2 February 2018].

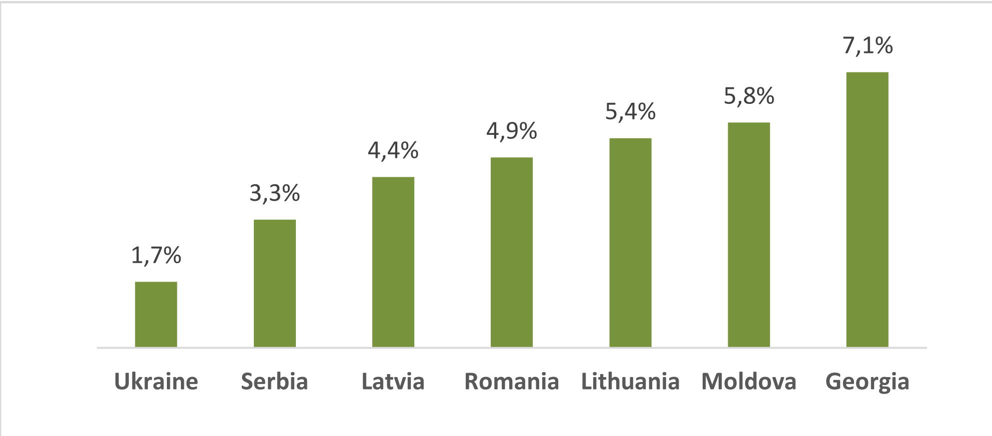

Figure no. 2. Labor productivity rhythm in 2007-2016 in the states of the region,%.

Source: Wikipedia, 2017. *List o countries by past an projected GDP (PPP) per capita.* [online] Available at: <https://en.wikipedia.org/wiki/List_of_countries_by_past_and_projected_GDP_(PPP)_per_capita#IMF_estimates_between_2000_and_2009> [Accessed 2 February 2018].

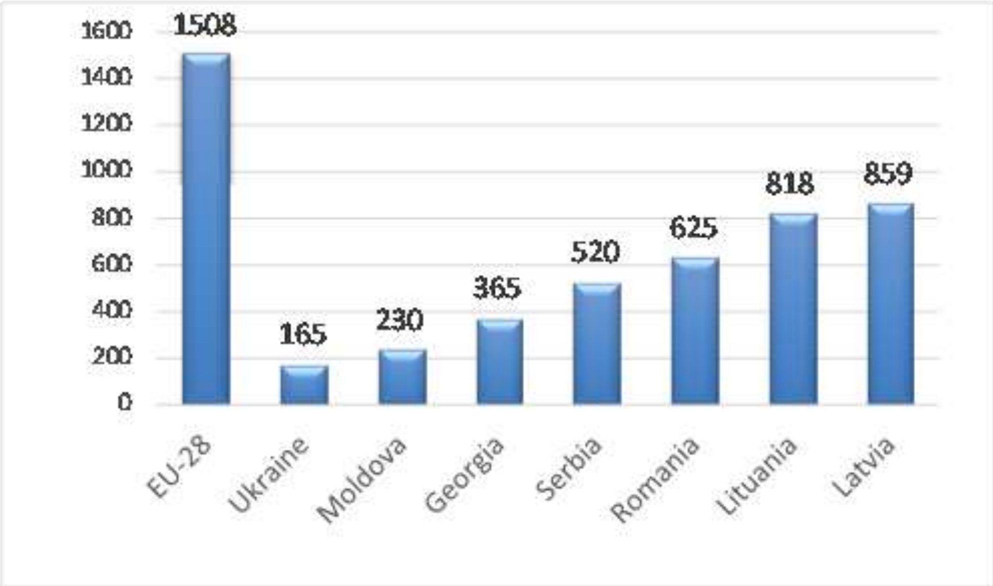

Figure no. 3. Average gross nominal wages in 2016 in comparison with countries from the region, euro

Source: National Bureau of Statistics of Republic of Moldova, 2018. *Statistical Data*. [online] Available at: <http://www.statistica.md/index.php?l=en> [Accessed 2 February 2018].

The low level of labor productivity, as a general rule, also corresponds to an adequate compensation of all efforts. The European average salary, which significantly exceeds salaries of other states, is further evidence. As far as the Republic of Moldova is concerned, it has been and is currently in the queue of the ranking of the states in the region. The average monthly net salary for Moldova has slowed down compared to other countries. In the period after 2009 and until 2016, Moldova has worsened its position with the lowest salary (except for Ukraine): 37% lower than Georgia, less than half that of Serbia. The regional crisis triggered by the sanctions against the Russian Federation was also felt in Moldova, also intensified by the domestic crisis in the banking sector, so that in 2015 the average monthly salary for Moldova decreased by 1.5% compared to the previous year and constituted 220 euro (after the official average annual rate). In 2016, the average monthly wage increased to 230 euros, but it still remained 6.6 times below the EU average, 3.7 times lower than the Latvian salary and 2.7 times lower than from Romania (Figure 3). A short time ago, Moldova has given to Ukraine the last place in ranking, which as a result of the armed conflict with Russia in 2014, is passing through a deep crisis, as a as a consequence the salary dropped sharply from EUR 267 / month (2013) to EUR 165 / (2016).

It is important that in the production process the rising wage rhythms should not exceed the rhythms of increasing labor productivity in order to avoid macroeconomic disproportions.

In Moldova, during the period of 2000-2016, the salary increased from 3.4 thousand lei per person to 48.1 thousand lei / person, that means more than 14 times, while the productivity labor has registered an increase of more than 10 times (from 9.25 to 93.9 thousand lei, which is not a normal situation). It should be mentioned that the higher wage growth compared to the labor productivity occurred in the first years of the analyzed period, and in the last 10 years this correlation has practically leveled, such were registering the same rhythms of growth (3.2 times).

3. Conclusions

The task of this paper was not to disclose all aspects on international competitiveness of the country (more details can be found in the "*Competitiveness and Impact Assessment Report on the Improvement of the Competitiveness of the Republic of Moldova for the 2015 Year"*, Chisinau, 2016), but these indicators analyzed in the research, according to the authors, in a comprehensive form characterizes the situation of the Republic of Moldova in comparison with other states from the region. We can observe that the situation is really disastrous because of many causes.

Since the moment of achieving independence and sovereignty, the Moldovan society is in a process of continuous reformation, accompanied by a series of mistakes and failures. The political class has not yet a clear agenda on how to implement the reforms that have been set up and how to achieve a sustainable balance for the everyday life of its citizens. Up to now, at state level, it has not been decided to clarify the goals and priorities of the country's development, the main directions and the succession of reform promotion. The EU-Moldova Association Agreement step by step stipulates those reforms that need to be implemented in the country to overcome existing obstacles and move on the path of prosperity, but they are often mimicked, or are done with great delays.

The Moldovan society has not consolidated around a progressive idea, in the spirit of time, which would unite the citizens of this country. In the last years, due to internal problems and external factors, the country has been in a situation of endless political and socio-economic crisis that has considerably amplified the phenomena of constraints in virtually all spheres of the vital activity of society and of the state. The complexity of the current period of society's development lies primarily in the result of the inheritance of the Soviet past, which we have not yet final discarded.

What are the prospects for the next period, what can we expect? To answer to this question, we need to see how the economy has evolved in recent years. As was already mentioned, the situation in the country has worsened, especially since the last parliamentary elections from 2014. Thus, in the years of 2014-2016, judging by the rhythms of GDP growth and the main branches of the economy, and taking into account the level of development that has been achieved so far, it can be said with certainty that the country is in a stagnant situation, and its prospects do not inspire great hopes.

If we refer to concrete figures in the last 3 years, we can notice the following situation: GDP growth rate was just 2.8%, industrial production - 2.9%, of which in the last 2 years - 0.8%, agricultural output has advanced on average by 3.5% and this is due primarily to the years favorable for agriculture - 2014 and 2016. Investments in real estate in general decreased by 18%, constituting in 2016 only 14.6% of GDP (for comparison, in 2008 they were 29%). The foreign direct investments in the national economy fell from 243 million US $ in 2013 ($ 711 million in 2008) to US $ 143 million in 2016. It is known that if you do not invest now, you will have nothing to expect in the future, that is why the prospect of the country's development is rather bleak.

According to NIER's researchers, in 2017, however, we expect an increase of around 4% of GDP. If the forecast will become true, this means that we will reach 75% of the level in 1990 this year, and with such growth rates we would still need 7 more to reach 100%. It's too much. Moldova cannot afford to move forward with such rhythms. In order to ward off the remaining countries in the region, the growth rates should be at least of 7-8% per annum for a longer period. Is such a development really possible? Experience of such developed countries as China, Ireland and others proves that it is possible.

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