Demography Matters.
Impact of Demographic Transition on the Economy of Moldova

Report on building the National Transfer Accounts for the Republic of Moldova

Produced by economic think tank “Expert-Grup”

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Objectives of the report

- Estimation of the National Transfer Accounts (NTA) for Moldova (main objective).
- Apply NTA in order to estimate the impact of demographic transition on the economy of Moldova.
- Increase the awareness among policy circles, experts and donor community about the importance and implications of the ongoing demographic transition.
National Transfer Accounts

• NTA – identifies the age-disaggregation of the most important economic aggregates and flows that are registered in the economy
• NTA – consistent with System of National Accounts
• NTA – relies on the methodological contributions and fundamental researches done by Ronald Lee and Andrew Mason
• More than 50 countries have constructed or are currently constructing national NTA systems.
• Moldova joined NTA network in 2016 with UNFPA support
What is life-cycle deficit / surplus?

Evolution of labour income and consumption during life results in:

- Deficit in early years of life
- Surplus during a significant part of economically active life
- Deficit after retirement age
Financing of deficit / Spending of surplus

- **Public Transfers**
  - In-kind transfers: education, health
  - Cash transfers: pensions, social benefits
  - Financed from taxes

- **Private Transfers**
  - Intra-household transfers: from parents to children
  - Inter-household transfers: gifts, remittances

- **Asset Income**
  - Payments of interests, royalties, rents and dividends

- **Savings / Borrowings**
  - Savings accumulated during economically active life are spent after retirement
  - Credits to finance deficit in early years of life
NTA Moldova

• Reference year – 2014
• Coverage – Republic of Moldova without Transnistria region
• Data sources:
  • Population data from NBS
  • Household Budget Survey
  • Labour Force Survey
  • Administrative data from National Office for Social Insurance
Low incomes and high consumption

- Labour income has anticipated demographic profile
- Consumption also has the anticipated demographic profile, except for the ages 65-75, explained by problems in population data (data inconsistencies as population of these ages is much higher than no. of pensionaries)
- The period of life-cycle surplus is very short, especially for women
- The surplus is also relatively low
- The aggregated life-cycle deficit accounts for 36.4 billion MDL
Labour earnings have the main role in labour income

- Wages increase up to 35 years old and are relatively stable until 50 years

- The role of wages is secondary after 70 years old, when self-employment income becomes more important
Compensation of Moldovan workers abroad is very important

- Net remuneration of Moldovan workers abroad represents 22.9% of labour income
- Without labour compensation of Moldovan workers abroad, there would not be life-cycle surplus at all.
Private consumption

- Private consumption is mostly composed by goods and services other than education and health.

- It is also important in case of education, around 20-23 years old.

- Private health consumption is high at the beginning of life, decreases up to 20 years old and increases afterwards. There is an increase of private consumption of health for women in the reproductive age that persists further in life.
Public consumption

• Public consumption is dominated by education by 15-16 years old.

• Public consumption is dominated by health after 55 years old.

• Significant gender differences in the distribution of the public health expenditures related to maternity and birth from the of 19 to 33 years old. Further, at all other ages per capita expenditures are higher for women, probably determined more by their discipline in going to a doctor rather than by their poorer health status.
Life-cycle deficit by gender

Shorter period of life-cycle surplus for women (20 years) compared to men (35 years) due to:

• Lower participation on the labour market and lower labour income
• Higher consumption of education and health services
Reallocations

- Private transfers are more important to finance the deficit at the beginning of life.
- Public transfers are more important to finance the deficit at older ages (pensions).
Public and private transfers

Pensionaries receive the main inflows

Children receive the main inflows
How to use the NTA system?

• NTA may be used by:
  • Policymakers – to test ex-ante impact of the reforms with an expected demographic impact
  • Donors – to identify better the targeted groups of population in their assistance and support programs
  • Researchers – To develop more sophisticated economic and demographic models.
Sensitivity analysis to alternative demographic data

- Alternative population data for 2014 from Center for Demographic Research;
- The analysis has the role to highlight the quality of data rather than offer alternative estimates;
- While we could account for the change in the number of population, we could not account for the change in the structure of population as HBS and LFS samples are constructed based on the official population data and the macro-controls form the SNA do not change;
- The share of population that registers life-cycle surplus (33-55 years old) is lower compared to official population data, with an estimated negative impact of life-cycle surplus period

**Conclusion**: Adjustment of the macro-controls and structure of HBS and LFS to the new census data may have a significant impact on the period and value of the life-cycle surplus!
Recommendations for data and methodology

- Revision of the official statistical indicators based on the census data for accuracy of the public policies
- The national statistical system should improve data collection on migration, especially of emigrants who are outside of the country more than 12 months.
- Adjustment of HBS and LFS samples to the census latest census data for better evidence-based policies
- Adjust the System of National Accounts to the latest census data
- Establishment of an informational system in the health-care system collecting age and sex-dissaggregated data, which is completely missing currently
Applying NTA in order to estimate Moldova’s demographic dividends
About demographic dividend (DD)

- DD measures the effect of changes in the population age structure on per capita income growth.
- We will estimate two DDs:
  1. *First demographic dividend* - the growth rates of effective number of producers and effective number of consumers of economic growth (economic growth is generated when the ratio between producers and consumers increases).
  2. *Second demographic dividend* – wealth effect as a result of increased savings and capital accumulation associated with population aging.
Demographic transition brings new opportunities and challenges

- **Challenge:** Moldova is gradually losing the opportunity to explore the first DD (in 2017, the DD turned negative – net costs for economic growth).

- **Opportunity:** growth in the age profiles of effective producers creates opportunities for wealth effect (second DD).
Opportunity of the demographic transition for Moldova – wealth effect (I)

• Private asset-based reallocations – the main source for financing the lifecycle deficit before pension age.
• They consist of private capital income and private savings.
• Opportunities for investments and economic growth (if necessary preconditions are created).
Opportunity of the demographic transition for Moldova – wealth effect (II)

- Private asset-based reallocations will remain the main financing source of the LCD (in per capita terms).

- However, the wealth effect will tend to fade away over time, while the role of public transfers will tend to grow, implying rising pressures on the public finances and economic growth.
Conclusions

• Without proper policies, Moldova is going to miss the demographic window of opportunity (raising share of working age population and income earners).
• The policies should focus on exploring this window of opportunity and creating the necessary preconditions for reaping the benefits of the second DD.
Key policies aimed at minimizing the risks and maximizing the benefits of the first dividend

• Unleashing the potential of young population (human rights based approach for policies and budgeting).
• Expanding the access of youth, especially from vulnerable groups, to economic opportunities
  i. stimulating the youth employment
  ii. stimulating youth entrepreneurship
• Fulfilling the rights and participation of youth, especially of women and adolescent girls (stimulation of voluntary family planning, implementation of SDGs)
• Increasing investments in health and education of children and young people
Key policies aimed at maximizing the opportunities of the second dividend

- Extending the productive periods of effective producers (e.g. lifting pension age)
- Raising labor productivity, especially for upper-age population (e.g. enhance the business climate)
- Building a resilient financial sector
- Developing the market for T-bills and T-bonds
- Developing the second and third pillars of the pensions’ system
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