Migration and Economic Development

Mainstreaming migration into the Moldova 2020 Strategy

Migration is a problem

- Remittances account for a large portion of the GDP (35%)
- Remittances are effective in decreasing poverty rate
- Labor outflow has penalized the GDP growth rates so far
- Brain drain has an adverse impact on labor force availability
- Migration is a social catalyst with multiple undesired effects (families divided, children raised by a single parent or relatives etc.)

Migration is at heart of Moldova 2020

Current growth model

- Has limitations
  - Consumption-led economic growth (fuelled by remittances)
  - Not enough to ensure convergence with higher living standards
- Is unsustainable
  - Declining rate of remittances due to reunification of families abroad translates into declining rate of growth

Proposed growth model

- Investment-led
  - Stimulates capital formation and retention of labor force by removal of the binding constraints
- Allows faster accumulation of wealth
  - GDP in 2020 is estimated at 12% higher than baseline
- Creates more opportunities at home

Seven priorities

- **Quality of education** aligned with market demand
- **Improved road infrastructure** provides better access to services and increases mobility
- Efficiency in the financial sector improves **access to finance**
- **Better business rules** attract investors
- **Efficient use of energy** resources optimizes production cost and energy bill for households
- **Reformed pension system** ensures decent living conditions for retired persons
- **Corruption-free judicial system** ensures property rights and attracts investment

Brain drain

- Employers complain about labor productivity and lack of desired qualifications
- Education system will be aligned to market demands
- Educated people will have more labor opportunities at home
- Moldova 2020 targets a reduction of young emigrants from 17,7% to 10%

Savings rate

- Lending to real sector is lower than in peer countries
- The potential pool of resources available for lending is higher if migrants will remit more
- Current level of remittances reflects the spending of migrant's family in Moldova
- An attractive Moldovan financial sector will achieve more remittances as investment

Pension reform

- Migration makes the pension system based on solidarity principle (PAYG) unsustainable
- Migrants are outside the pension scheme
- A three pillar pension system is more sustainable
- Capitalization of pension contributions attracts participation in the pension fund
- Bilateral agreements with host countries must continue