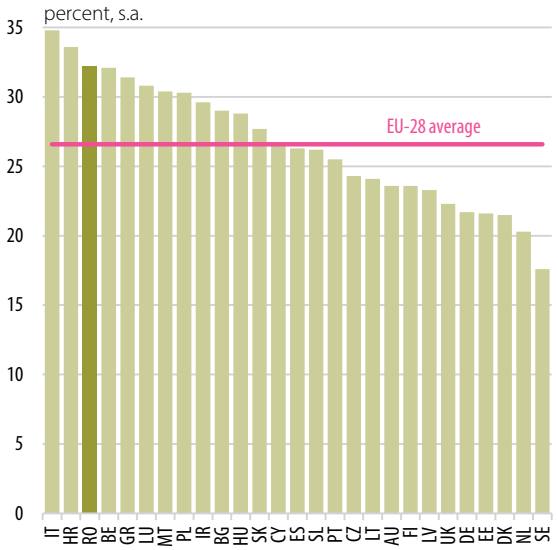
Box 3. Could the economically inactive population be a solution for easing labour market conditions?

At the moment, around 4 million people in Romania are economically inactive. Although aged between 15 and 64, therefore considered fit for work, they do not have and do not actively seek employment, nor are they self-employed. The magnitude of the phenomenon is relatively high, the inactivity rate (calculated as the ratio of the economically inactive population to the working-age population) standing at 32 percent in 2017 Q2 – one of the highest readings in the EU (Chart A).

Chart A. Inactivity rates in the EU



Source: Eurostat, NBR calculations

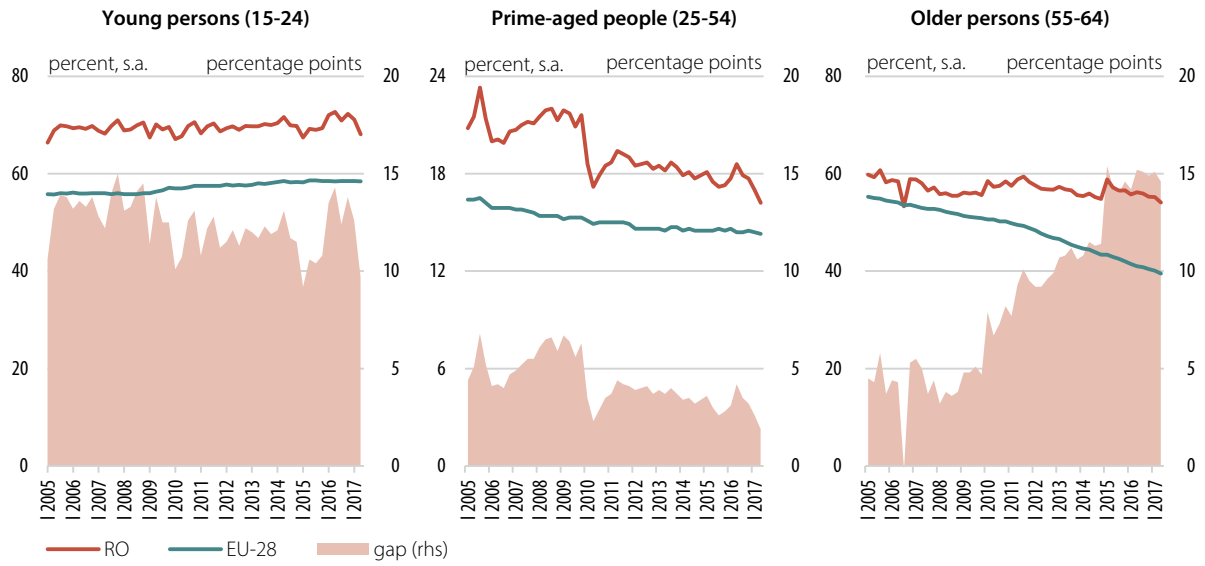
According to statistics, only 10 percent of these persons state that they would like to work, despite not looking for a job (by comparison, the EU average is almost twice as much). Such a low percentage is probably due largely to the perception of a too-high opportunity cost attached to giving up social security benefits in favour of employment (the difference between social security and wage, free time sacrificed). Moreover, it should not be overlooked that half of these persons live in rural areas, and thereby in many cases are poorly connected to the transport network and lack proper information means (e.g. regarding employment opportunities)[1]. And even if they were motivated to work or informed about job vacancies, the generally low level of training (around 60 percent only graduated from lower secondary schools or trade/vocational schools) and skill deterioration over time due to the prolonged period of inactivity make it unlikely for these candidates to meet employers' demands, in the absence of retraining courses. The excess labour supply already exhibits a low level of education, which does not match employers' requirements despite there being interest in candidates fitting this profile – ManpowerGroup's most recent Talent Shortage Survey shows that the jobs most difficult to fill are not only engineering positions, but also skilled trades positions.

The breakdown by age group shows that the widest gaps of the inactivity rate can be found at the level of young people (15-24) and older persons (55-64) (Chart B). Looking at prime-aged people (25-54), which are basically the core of human capital in an economy, the inactivity rate in Romania is very close to that of the EU (16 percent versus 14 percent). Specifically, there is relatively smaller room for improvement in this segment, all the more so as only 20 percent of these individuals are interested in working (compared with 30 percent in the EU) and most live in

[1] Even though this category led to an increase in the participation rate by 2 percentage points in 2017 Q2, due to the higher number of unpaid family workers in agriculture, the positive effects of this movement on labour market conditions are rather limited: on the one hand, other sectors are witnessing a tightening, and on the other hand, there is a wide disproportion between the share of people working in agriculture in total employment and the sector's contribution to GDP formation.

rural areas (over 50 percent). In the case of young people, a lower participation rate was expected, given that a significant number of them are in education or training (around 80 percent, which is however below the EU average of approximately 90 percent). Nonetheless, poor international test scores call into the question the extent to which this group could become a strong labour resource in the future. Moreover, with regard to young persons not in education, the fact that they are not involved in any kind of activity (neither education, nor employment) substantially reduces their chances to become a viable resource on the labour market. However, the broadest gap in comparison with the EU (and growing) is in the case of people aged between 55 and 64, which essentially make up a third of the total economically inactive population. The inactivity rate on this segment is extremely high (around 54 percent), making relatively little progress since 2005, when it stood at 60 percent. The EU average was at a similar level at that moment, yet the reforms implemented by Member States for maintaining the labour force active for a longer period of time, amid the increasing ageing of the population, have been reflected in the considerably lower degree of inactivity in this segment (40 percent in 2016).

Chart B. Inactivity rates by age group



Source: Eurostat, NBR calculations

Unlike most EU countries, where the net flow of persons changing their inactive status to active and vice versa is positive, in Romania it has been almost zero in the past 6 years and even negative on average. In terms of share, those leaving the economically inactive population, over a period of one year, amounted to approximately 20 percent of the total (yet again among the lowest percentages in Europe, best-performing countries posting even double that reading), which suggests a relatively high level of inertia. Assuming that there would be no more changes in the annual stock of economically inactive persons and that all would be motivated to seek employment, it would take approximately 6 years for these people to become economically active. However, this scenario is very unlikely given that population projections[2] (conducted in order to measure the impact of the ageing population on the economy) are pessimistic,

2 Population projections made by Eurostat in association with national statistics offices.

pointing out to a decrease in the working-age population in Romania by 1.7 million by 2030 (-13 percent, one of the sharpest declines in the EU).

In conclusion, it is very unlikely that the (re)entry of economically inactive people would play a significant part in easing the labour market, in the absence of active integration measures, especially for older persons, and of investments in a high-performing education system, ensuring lifelong learning and best adapted to market needs (including training courses for more efficient farming). These reforms are all the more necessary as the high degree of non-participation carries social repercussions, Romania exhibiting one of the highest rates of poverty among the Member States.