

INCOME INEQUALITY IN THE REPUBLIC OF MOLDOVA: A CHALLENGE FOR SUSTAINABLE SOCIAL DEVELOPMENT

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Abstract: *Income inequality is a major challenge for the sustainable social development of the Moldova, with significant implications for social cohesion, economic stability, and the standard of living of the population. This article analyzes the level and evolution of income inequality using relevant statistical indicators such as the Gini coefficient and income distribution by quintiles. It examines the main sources of income, regional and sectoral disparities, and their effects on economic growth and social equity. The findings highlight the urgent need for measures to reduce income gaps, including increasing the minimum wage, strengthening the social protection system, and implementing progressive tax policies. The conclusions emphasize the importance of effective interventions to promote fair income distribution and ensure sustainable development in Moldova.*

Keywords: *Income inequality, wage disparities, Gini coefficient, social policies, sustainable development.*

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1. Introduction

Income disparities represent a significant challenge for the sustainable development of society in the Republic of Moldova, with repercussions on economic stability, social cohesion, and equity in resource allocation. The degree of income inequality and its evolution play a crucial role in shaping the country's economic and social policies.

On the one hand, income differences may have objective causes, being influenced by factors such as profession, educational level, individual skills, field of activity, geographical region, or initial conditions of social integration. In this regard, a certain variation in income can have a stimulating effect, encouraging individuals to develop their skills and improve their socio-economic status.

On the other hand, when disparities become excessive, they can negatively impact social cohesion and economic balance. An inequitable income distribution can lead to a decline in domestic demand, political instability, heightened social tensions, and even an increase in crime rates. In the Republic of Moldova, this issue is exacerbated by structural, political, and economic factors, further amplified by labor migration, the considerable size of the informal economy, and limited access to economic opportunities for certain social categories.

In this context, maintaining a balance between a reasonable differentiation of incomes and avoiding excessive social polarization represents a major challenge for policymakers. A thorough assessment of the causes and impact of income inequality, along with the formulation of effective economic and social policies to reduce it, is essential for ensuring sustainable social development in the Republic of Moldova.

2. Literature review

The literature review on income inequality in the Republic of Moldova highlights both the causes and effects of this phenomenon. Stiglitz (2012) argues that extreme inequality can reduce economic mobility and destabilize society, affecting economic growth. In the Republic of

Moldova, Balan (2020) identifies the main causes as unequal access to education and forced migration for higher wages. The National Bureau of Statistics (2023) reports income polarization between regions, with higher income in Chisinau and lower income in rural areas. International studies, such as those by OECD (2023) and Eurostat (2023), confirm the trend of rising inequality in European countries, including in the Republic of Moldova, linked to economic structures and population migration.

3. Methodology

For this research, several scientific methods were used, tailored to the specifics of analyzing income inequality in the Republic of Moldova. First, a literature review was conducted, exploring both international and national sources to understand the causes and effects of income inequality. The comparative method was applied to compare data from the Republic of Moldova with those from other European countries, identifying differences and common trends.

Additionally, scientific abstraction was used to extract the essence of the phenomenon from various sources and build a coherent theoretical framework. The inductive method facilitated the transition from empirical data to general conclusions about income inequality.

4. Results and discussion

Income disparities in the Republic of Moldova represent an obstacle to sustainable social development, influencing social cohesion, access to economic opportunities, and the population's standard of living. The study of income sources and their distribution highlights both favorable trends and challenges that require appropriate economic and social measures.

The income structure among the population of the Republic of Moldova indicates significant differentiation between various social groups. Salaries constitute the main source of income (52.5%), followed by social benefits (20.7%, of which 16.5% are pensions) and income from individual agricultural activities (6.4%). Additionally, remittances from abroad contribute 11.1% to household disposable income, underlining the essential role of remittances in balancing financial resources. This dependence exacerbates the economic vulnerability of Moldovan households to external fluctuations and increases the risk of perpetuating long-term structural inequalities.

To measure the level of income inequality, one of the most relevant statistical indicators is the Gini Coefficient, which reflects the degree of deviation of actual income distribution from a perfectly equal distribution. This coefficient ranges from 0 (representing absolute equality) to 1 (indicating extreme inequality). Generally, a Gini coefficient above 0.4 is considered problematic, signaling a significant disparity in income distribution.

In the case of the Republic of Moldova, the evolution of the Gini coefficient for disposable income during the period 2018-2023 is illustrated in Figure 1.

Although the Gini coefficient in the Republic of Moldova does not exceed the critical threshold of 0.4, data indicate a gradual increase in income inequality in recent years, reaching a peak of 0.3356 in 2023. This upward trend suggests a progressive widening of economic disparities, with negative effects on sustainable development, social stability, and the population's standard of living. The main causes of this phenomenon include increasing wage disparities across economic sectors, unequal access to resources and economic opportunities, as well as the influence of social and fiscal policies on vulnerable groups.

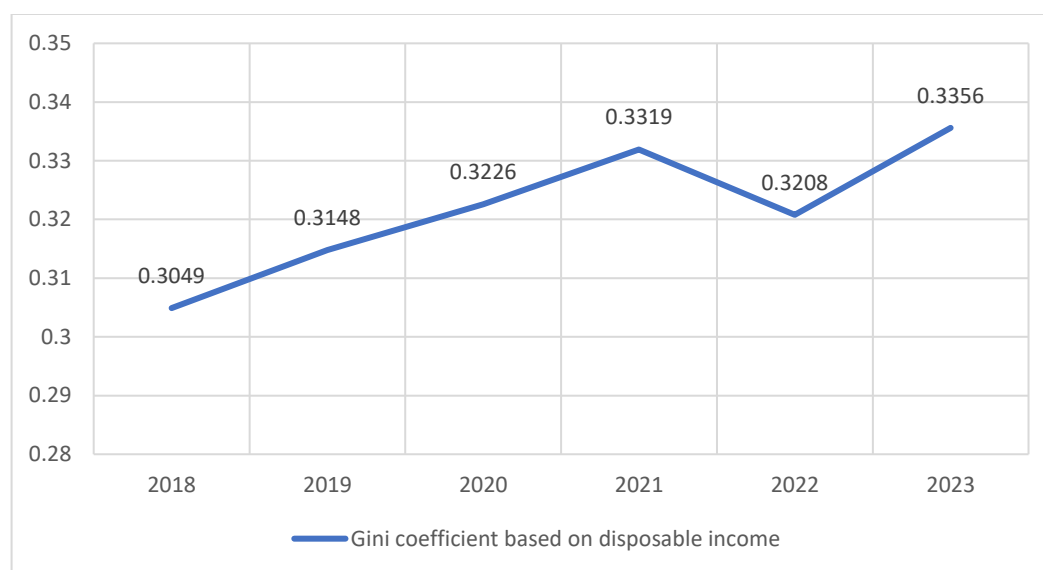


Figure 1. Evolution of the Gini Coefficient in the Republic of Moldova, 2018-2023

Source: developed by the author based on data from the National Bureau of Statistics [6]

Compared to other countries in the region, the Republic of Moldova is in an intermediate position. For instance, in 2023, the Gini coefficient in Romania was approximately 0.34, while in Ukraine, it stood at 0.29, indicating a relatively more balanced income distribution in Ukraine. Conversely, in countries such as Bulgaria or Georgia, the Gini coefficient exceeds 0.36, highlighting more pronounced inequality. Relative to the European Union average, which is around 0.30, the Republic of Moldova exhibits a slightly higher level of income inequality.

Table 1. Gini Coefficient in the Republic of Moldova and Selected European Countries (2023)

Country	Gini Coefficient
Republic of Moldova	0.336
Romania	0.34
Ukraine	0.29
Bulgaria	0.37
Georgia	0.36
Hungary	0.30
Poland	0.29
Germany	0.31
Sweden	0.28
European Union (average)	0.30

Source: developed by the author based on data from the National Bureau of Statistics [6], OECD [7], Eurostat [8]

Another relevant indicator for assessing income inequality is the income quintile ratio, which reflects the degree of financial resource concentration across different population segments. According to data from the National Bureau of Statistics (NBS) for 2023, the distribution of disposable income reveals considerable polarization: the wealthiest 20% of citizens (quintile V) hold 42.3% of total income, while the poorest 20% (quintile I) account for only 7.5%. This discrepancy results in a quintile ratio of 5.6, underscoring a significant gap in access to financial resources.

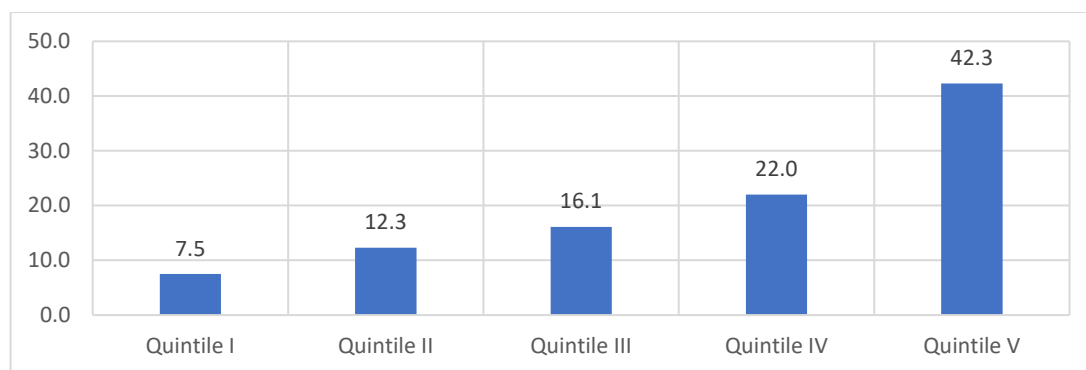


Figure 2. Distribution of Disposable Income by Quintiles in 2023 (% of Total Income)

Source: developed by the author based on data from the National Bureau of Statistics [6]

A detailed analysis of income distribution shows that income growth is not uniform across population segments. For instance, the gap between quintiles III and IV (16.1% → 22.0%) is significantly smaller than that between quintiles IV and V (22.0% → 42.3%), indicating a disproportionate concentration of income among the wealthiest individuals.

Compared to developed economies, where the ratio between the highest and lowest quintiles is around 3-4, the Republic of Moldova exhibits a higher level of income inequality than the European Union average. This situation reflects structural vulnerabilities in the Moldovan economy, including a high dependence on remittances, unequal distribution of economic opportunities, and the impact of social policies on disadvantaged groups.

Beyond inequalities between social categories, regional wage disparities also play a crucial role in the analysis of income distribution in the Republic of Moldova. Data for the fourth quarter of 2024 show that the average gross monthly salary in the economy was 15,024.5 MDL, but this figure masks significant variations across regions.

Chisinau Municipality recorded the highest salary levels, with an average of 17,702.5 MDL, exceeding the national average by 17.8%. In contrast, the lowest wages were reported in Briceni (9,562.7 MDL, 36.4% below the national average), Falesti (9,809.4 MDL, 34.7% lower), and Causeni (9,806.7 MDL, also 34.7% lower). This significant disparity reflects both the economic structure of the regions and the level of urbanization and access to well-paid jobs.

Compared to other countries in the region, this gap between the capital and the rest of the country is a common trend. However, in more developed economies, redistribution mechanisms, regional investments, and balancing policies contribute to reducing disparities. For example, in Romania, the wage difference between Bucharest and less developed regions is approximately 20-25%, lower than in the Republic of Moldova. In the European Union, cohesion policies and structural funds have played a key role in reducing regional inequalities, fostering uniform development in less advantaged areas.

Wage disparities are also observed between economic sectors. In general, sectors with a high degree of specialization and high added value, such as information technology or financial services, offer higher salaries, while low-productivity fields, such as agriculture, remain significantly below the national average.

According to data for the fourth quarter of 2024, the highest average monthly salaries were recorded in: the information and communications sector – 36,370.9 MDL, approximately 142.6% higher than the national average (15,024.5 MDL), and in the financial and insurance sector – 28,179.7 MDL, 87.3% higher than the national average. On the other hand, the lowest salaries were recorded in agriculture, forestry, and fishing – 10,066.8 MDL, 32.9% lower than the national average.

This income polarization by sector is not specific to the Republic of Moldova but is also present in other economies in Eastern Europe. The European Union average indicates a ratio of approximately 2.5:1 between salaries in the IT sector and those in agriculture, highlighting that Moldova faces a more pronounced sectoral disparity. Income inequality and high poverty levels negatively impact the well-being of the population, limiting access to decent housing, essential services such as education and healthcare, and the economic opportunities necessary for social mobility. Moreover, the unequal distribution of income amplifies vulnerability to social and economic risks, such as retirement, illness, or periods of unemployment, creating a vicious cycle of social exclusion.

An important aspect of income inequality is that it is not only reflected in differences in current earnings but also in the population's ability to accumulate assets and savings. People with lower incomes have limited savings opportunities, making them more exposed to economic shocks. Thus, income inequality leads, in the long run, to an even greater polarization of the population's well-being.

In the Republic of Moldova, the aging population significantly contributes to increasing income inequalities, as elderly individuals face a higher risk of poverty. This issue is becoming more pronounced due to the constant increase in the number and share of seniors in the country's demographic structure. Their standard of living largely depends on income earned during their professional activity, as well as on social transfers, particularly pensions, which represent the primary source of subsistence for most of them. While some pensioners benefit from relatively high pensions, especially those who worked in well-paid sectors, the majority of retirees in rural areas or in low-wage fields (e.g., agriculture) struggle with insufficient income to ensure a decent standard of living.

Income inequality has profound consequences on the development of a society, influencing the economy, social structure, and political stability. These effects not only limit overall well-being but can also exacerbate structural imbalances and hinder economic and social progress. From an economic perspective, the unequal distribution of income affects consumption and the dynamics of the domestic market. High-income individuals tend to allocate a significant portion of their earnings to luxury purchases, often from imports, which reduces the multiplier effect on the national economy. At the same time, a considerable share of internally generated financial resources is transferred to external markets, either through investments or consumption, thereby limiting the expansion of the domestic productive sector. Moreover, an unequal income distribution weakens the purchasing power of middle- and low-income populations, potentially leading to insufficient aggregate demand and slower economic growth. A strong middle class with stable incomes is essential for maintaining long-term economic balance and fostering innovation and entrepreneurship.

On a social level, income inequality deepens societal stratification, reducing social mobility and restricting vulnerable groups' access to educational and professional opportunities. Low-income individuals face difficulties in accessing essential services such as quality education and healthcare, which perpetuates the cycle of poverty and diminishes personal and professional development prospects. Furthermore, economic disparities can lead to high levels of social discontent and increased tensions among different segments of the population. Numerous studies indicate a direct link between income inequality and crime rates, particularly in societies where access to economic opportunities is unevenly distributed. As a result, social cohesion becomes increasingly fragile, and the risks of social exclusion intensify.

Politically, a society characterized by major economic disparities is prone to instability and frequent challenges to social order. Significant differences between income groups can amplify distrust in state institutions and contribute to the rise of populist or extremist movements. In the long run, such imbalances may lead to political polarization and difficulties in implementing sustainable economic and social reforms. Additionally, the unequal distribution of

resources can affect democratic participation, as disadvantaged groups have more limited access to decision-making processes and political representation.

To reduce economic disparities, a combination of fiscal and social measures is necessary to ensure a more equitable distribution of resources and to support vulnerable groups in the Republic of Moldova, such as:

- *Progressive income taxation* – In many developed economies, the tax system includes progressive tax rates, allowing for a fairer redistribution of income. For example, in countries like Sweden and Denmark, income tax can exceed 50% for high earners, helping to balance social inequalities and finance social protection programs. In contrast, since 2019, the Republic of Moldova has adopted a flat tax rate of 12%, which reduces the state's capacity to intervene in income redistribution. This approach particularly benefits high-income individuals and limits support for those with lower financial resources. While a flat tax simplifies fiscal administration, it can exacerbate social inequalities, which is why many countries combine it with additional deductions for disadvantaged groups.
- *Capital income taxation* – Another essential tool for reducing inequality is the taxation of income derived from dividends and other capital gains. In countries like Belgium, this tax is 15%, while in Japan, it can reach 50%, playing a crucial role in redistributing wealth and combating excessive capital concentration in the hands of a small elite. In the Republic of Moldova, according to Article 90¹ (3¹) of the Fiscal Code, as of January 1, 2024, a 6% tax applies to dividends paid to resident individuals. While this measure partially contributes to income balance, the rate remains significantly lower than in other countries, thus limiting its redistributive impact.
- *Tax deductions and benefits for low-income individuals* – A mechanism used in advanced economies, as well as in Moldova, is the establishment of a tax-free minimum income, ensuring that individuals with limited financial resources are not burdened by excessive taxes. This system helps improve the living standards of taxpayers in the lower income brackets and stimulates domestic consumption, positively impacting the economy. In the Republic of Moldova, a system of personal exemptions operates similarly to a tax-free minimum income, providing certain tax reliefs for low-income taxpayers. However, the value of these exemptions remains relatively low compared to the actual needs of the low-income population. Increasing these exemptions could be an effective measure to reduce inequalities and support vulnerable groups.
- *Social protection programs* – Support for vulnerable groups through allowances, social assistance, and subsidies for essential services (education, healthcare, housing) is a central pillar in combating inequality. In developed European countries, social protection expenditures represent significant percentages of GDP: 29% in the United Kingdom, 25% in Germany, 30% in Italy, and 32% in France. In the Republic of Moldova, social protection expenditures account for approximately 15% of GDP, reflecting the state's limited resources in supporting vulnerable populations. These figures suggest that while efforts are being made to support disadvantaged groups, allocated funds are significantly lower compared to developed European economies, limiting the effectiveness of inequality reduction measures.

Therefore, a more effective strategy for reducing economic inequalities in the Republic of Moldova should include a combination of more progressive fiscal measures, increased benefits for low-income individuals, and more substantial funding for social protection programs. These adjustments could contribute to a fairer distribution of resources and strengthen social cohesion.

5. Conclusions

The analysis of income inequality in the Republic of Moldova shows that, while income differentiation is a normal phenomenon in a market economy, excessive polarization can have negative effects on economic and social development. The study highlighted that the main sources of income for the population are wages, social benefits, and remittances from abroad, with their distribution varying significantly at both regional and sectoral levels.

The Gini coefficient indicates a slight increase in income inequality, necessitating the adoption of measures to prevent excessive societal polarization. Among the negative effects of excessive inequality are the reduction of aggregate demand, limited access to essential services, and the intensification of external migration:

- To address these challenges, well-founded public policies are needed, including: Increasing wage incomes by adjusting the minimum wage and stimulating employment in strategic sectors;
- Improving the social protection system for vulnerable groups;
- Promoting a progressive fiscal policy to reduce economic disparities;
- Investing in education and professional training to reduce skill gaps and improve labor market opportunities.

Reducing income inequality in the Republic of Moldova requires a complex and sustainable approach, based on balanced economic and social policies aimed at ensuring both economic growth and a fairer distribution of resources in society.

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