

Minimum wage policy in selected Central, Eastern and Southeastern Europe (CESEE) countries – existing policy approaches and critical challenges

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Minimum wage – always policy relevant economic and political issue

“I would suggest increasing the minimum wage in the Republic of Srpska¹ to the 1.050 Convertible Mark (BAM), since those who receive and earn minimum wages should have enough money to live”, said Milorad Dodik, President of the Republic of Srpska, in November 2023². After negotiations, minimum net wage has been set up to 900 BAM³, a 28.6% increase, which accounts for around 64.3% of the average wage (1,400 BAM), one of the highest rates in Europe. Polish Prime Minister Mateusz Morawiecki announced a 18% rise of minimum wage as the living standard has been considered among top voters’ priorities ahead of elections held in October 2023⁴. In January 2024, Czech Government adopted the highest ever wage hike of 9.2% (up to 770 EUR gross wage and 41% of average wage) aiming to reach 45% of the average wage (currently amounting around 1.860 EUR⁵) in the following 5 years period. Minimum wage increase is gaining importance when the inflation pressures persist. The politicians are often playing on the edge trying to impress low-income workers signaling commitment to protect their living standard through wage increase, while at the same time trying not to anger employers. The real effects on the living standard and employers’ expenditures, however, depend on many factors including law enforcement (eg. population working in informal economy – home-based workers, street vendors, seasonal workers in agriculture, etc.), amount of taxes and contributions, etc.

Minimum wage has always been a subject of political debates since, unlike in the case of many other economic concepts, opinions of researchers and policy makers are deeply divided. Different views are often a consequence of different ideological perspectives, political tactics, and power relations. Left-wing parties are usually more sensitive to the workers’ rights advocating for greater use of redistribution instruments to reduce inequalities. In election campaigns political parties might use minimum wage as an “election bribe”. Right-wing parties might advocate for the increase entering the natural field of the leftists or stick to their ideological roots freezing the minimum wage for a certain period of time as it was the case in Great Britain during the conservative governments in 1980s. The power of interest groups including trade unions and unions of employers might also explain contrasting measures.

This article provides analysis of the existing socio-economic challenges for regulating minimum wage across 15 CESEE countries highlighting diverse national policy approaches. The central part of the discussion refers to the question on how the countries structured their wage policy, indicators of minimum wage and related issues including the share of low-wage earners, non-compliance, coverage and collective bargaining.

Research-based evidence and dilemmas

¹ Entity in Bosnia and Herzegovina, a “candidate country” for accession

² Politika magazine, November 5, 2023: <https://www.politika.rs/scc/clanak/582257/Dodik-Predlozicu-da-minimalna-plata-u-Republici-Srpskoj-bude-1-%20050-konvertibilnih-maraka>

³ Slightly above 500 EUR

⁴ Reuters news portal, September 14, 2023, <https://news.yahoo.com/news/polish-govt-hikes-minimum-wage-143511441.html>

⁵ In the last quarter 2023 per Czech Statistical Office. https://www.czso.cz/csu/czso/pmz_ts

Minimum wage is defined as the minimum remuneration that an employer is required to pay for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract (ILO, 2017). National minimum wage introduced within formal laws and statutes exists in more than 90% of the 186 ILO (International Labour Organization) members, and in 22 out of 27 EU member states, while the others often exclusively rely on collective bargaining⁶ mechanisms to ensure minimum living standard protection (Visser, Hayter and Gammarano, 2017).

Historically speaking, the minimum wage policy has been strongly influenced by neoliberal economists suggesting that setting the minimum wage has detrimental effects for the economy mainly through imposing the burden of high labour costs for the small and medium enterprises and increasing unemployment. The negative effects were particularly identified in the sample of low-income workers and during economic downturns (Neumark and Wascher, 2006). Wilson (2012) argued that businesses tend to rationally respond to such mandates by cutting employment to maintain their net earnings. Additionally, opponents of the minimum wage policy revealed that increased minimum wages result with driving workers into uncovered jobs, encouraging employers to reduce training opportunities for employees, discouraging part-time work, reducing school attendance, etc. (Joint Economic Committee, 1995). Specifically for the emerging economies, lower wages represent an important comparative advantage used to attract foreign investments.

Some negative effects for the group of low-skilled and young workers have been captured even by the proponents of the minimum wage. However, they indicate that the welfare effects of the minimum wage far outweigh any possible negative employment effects (Cengiz et al., 2019). Leitner (2024) confirms that adequate level of the minimum wage coupled with enforced compliance has been confirmed significant factor in avoiding in-work poverty and increasing welfare. As per EU Commission impact analysis (European Commission, 2020), the adequate level is considered to be at 60% of the median wage, thus increase of the minimum wage to that level would have slight negative employment effects while bringing solid welfare benefits. It should be underlined that the current minimum to average/median wage, proportion of minimum wage employees and success in dealing with compliance issues represent important determinants of minimum wage policy effectiveness. Although most of the economies introduced minimum wage policy into their legislation, specific governance mechanisms remained relevant.

State of play in the Southeastern Europe

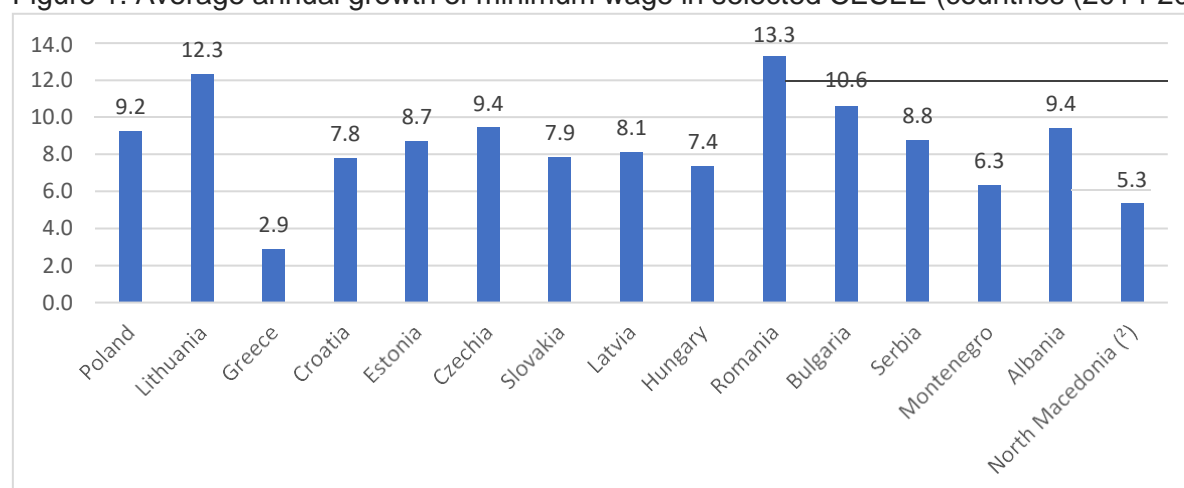
Introduction of the minimum wage in most of the CESEE countries has been set up in the early 1990s. Until 2017 and proposal for a European Pillar of Social Rights, the EU development paradigm neglected the importance of the minimum wage as it was believed that economic growth will gradually improve the welfare of the low-paid population. This was particularly visible during the global economic crisis period (2008-2009), when the EU advocated for the freezing or even decreasing the minimum wage and weakening collective bargaining arrangements (Schulten and Muller, 2021). As a result, in 2018 the net income of a single minimum wage earner was below the at-risk-of-poverty threshold (European Commission, 2020), being less than 35% of the average wage in most of the countries (Leitner, 2024). Apart from failing to deliver satisfying living standard, such a policy triggered emigrations from less developed EU regions, widening development gaps and resulting in the shortage of skilled workers in emerging European economies. In the previous couple of years, it could be noticed a fundamental policy reversal. In 2022, the EU Commission adopted The Minimum Wage Directive (European Commission (2022)), which aimed at providing decent minimum wage,

⁶ A process of negotiation between independent unions and employers (or employers' organizations) to determine terms and conditions of employment, typically wages and working time, and relations between the parties.

improving access to minimum wage protection and increasing share of employees covered by collective agreement. The directive also suggests that minimum wages should be set at the level of 60% of the country's median wage, while recommending the policy makers to achieve the collective bargaining coverage rate of 80%. Governments in the EU are required to implement Directive into national legislative in 2024.

Data shows that, observed countries have introduced statutory wage floor increasing minimum wage levels by respectable growth rates (considerably surpassing GDP growth rates). Minimum wage growth in Romania, Lithuania and Bulgaria surpassed 10% annually (Figure 1).

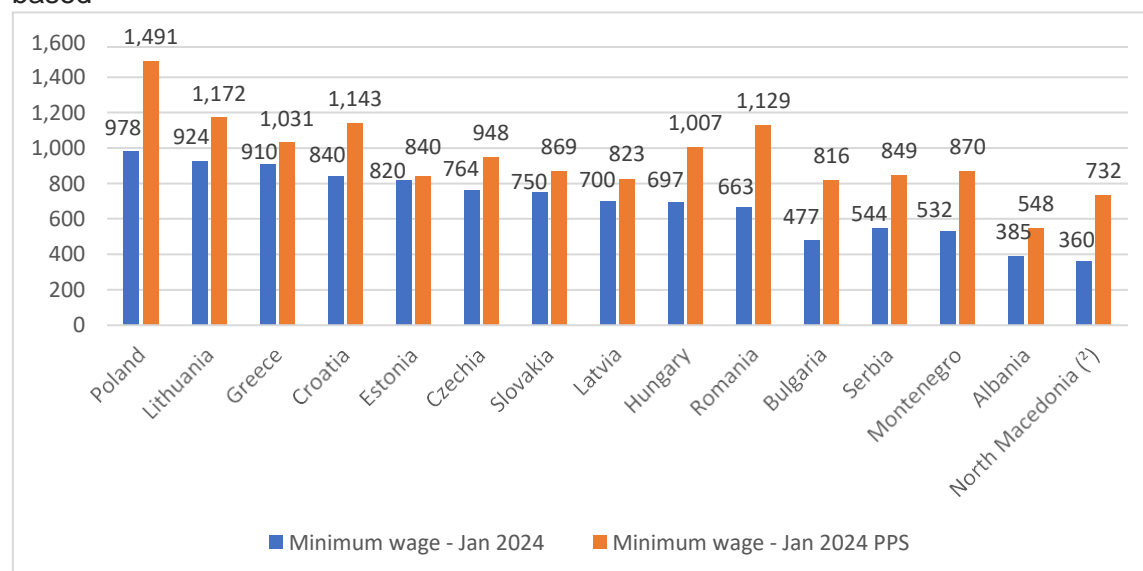
Figure 1. Average annual growth of minimum wage in selected CESEE (countries (2014-2024)



Source: EUROSTAT

Consequently, both in absolute and PPS⁷ terms, minimum wage recorded noticeable increase in all of the observed economies (Figure 2) slightly catching up with the 60% of the median wage level (Figure 3). Minimum wage above 1,000 EUR adjusted by PPS were recorded in Poland, Lithuania, Croatia, Romania and Greece, being higher even if compared to some developed economies where opposing views are still prevailing (eg. PPS adjusted minimum wage in the USA amounts to 837 EUR). In Romania and Albania with the share of 61% of median wage, minimum wage already reached levels stipulated by the EU Directive.

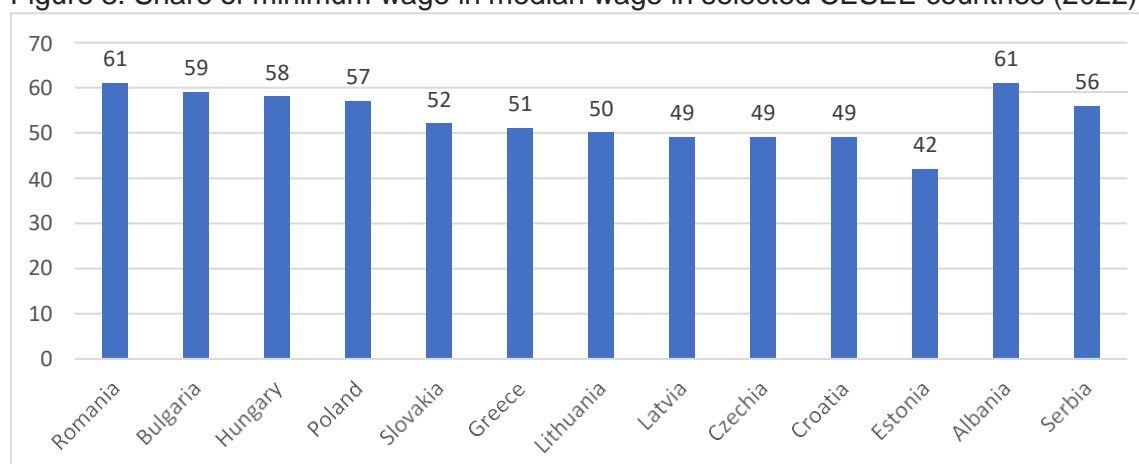
Figure 2. Minimum wage in selected CESEE countries in 2024 (in EUR per month) and PPS based



Source: EUROSTAT

⁷ Purchasing Power Standard

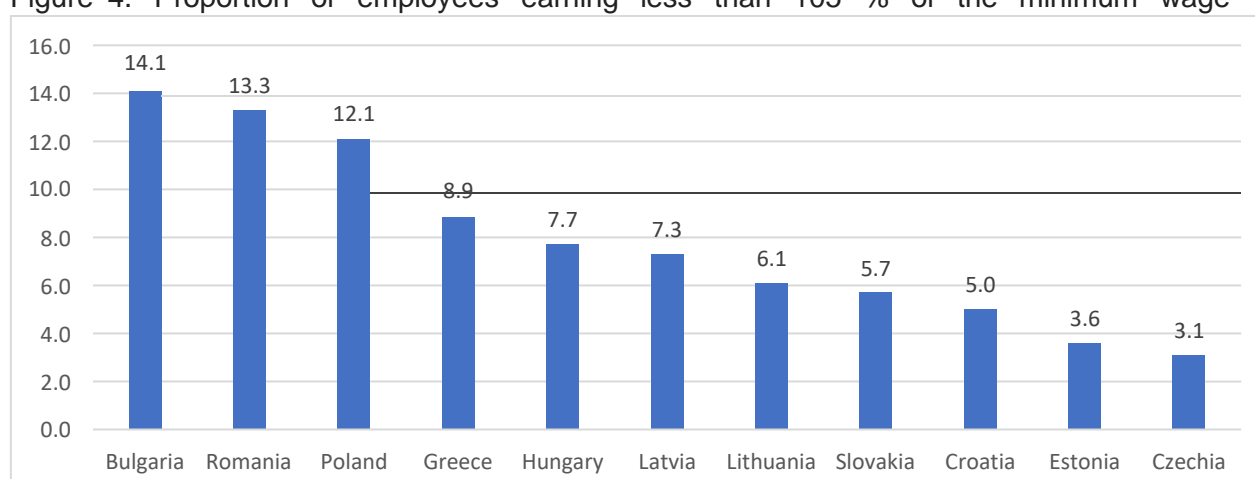
Figure 3. Share of minimum wage in median wage in selected CESEE countries (2022)



Source: EUROSTAT

Focusing minimum wage discussion around the increase dynamics, politicians are seldom addressing the issues related to non-compliance or non-coverage (different treatment of specific population groups – migrants, youth, workers in specific sectors, etc.), that are particularly relevant for most of the Central and Eastern European (CEE) and Southeast European (SEE) economies. Eurofound (2023b) estimates suggest that, while 7% of the workers in the EU earn less than the minimum wage (working unrecorded and unpaid overtime), the proportion is considerably higher in Hungary (13%) and Lithuania (8.5%). Insufficient attention has been also paid to the matters of union density, representativeness, extension rules and collective bargaining. Higher bargaining coverage is clearly negatively correlated with the share of low-wage workers (Leitner, 2024). As shown in the EUROSTAT data, several SEE countries have a considerable share of workers earning less than 105% of the minimum wage (Figure 4). It is not surprising then, that Bulgaria, Romania and Poland over the last couple of years increased minimum wage at solid pace since they also account for the largest share of the low-earning workers, comparing to Czechia and Estonia.

Figure 4. Proportion of employees earning less than 105 % of the minimum wage



Source: EUROSTAT, 2018

In general, once being set, a minimum wage is seldom reduced in nominal terms. If Government aims to apply conservative policy, it often freezes the minimum wage for a certain period of time causing the erosion in real terms. The exception could be found in Greece over the financial crisis in 2012-2013 where Government had to apply a minimum wage cut as a part of the financial rescue package (Eurofound, 2023a). In general, convergence trends with “EU-15 countries⁸” could be noticed meaning that minimum wage rise more quickly in Eastern

⁸ The 15 pre-2004 EU Member States

European countries than in Western ones (Fernandes, 2019). The impact on the living standard, however, also depends on the taxation system. In some countries the effects of minimum wage on the purchasing power are limited as workers in Romania and Hungary for example, receive only 60% and 66% of the gross salary respectively. Dealing with inflation has been detected as one of the critical issues since automatic indexation mechanisms⁹ are still not incorporated leaving a huge space for discretionary measures.

Among the other observed issues, the most relevant for the selected country groups include as follows (Eurofound, 2023b):

- Enforcement issues referring to inadequate working time accounting, when employers declare in employment contracts and agreements that employees work part time, while they actually work longer hours and receive the rest of the payment off records (in Estonia, Hungary and Lithuania)
- Insufficient capacities of the labour inspectorates (in Romania, Slovakia and Czechia)
- Regulatory framework inconsistencies (in Poland)
- Information exchange mechanisms (in Greece)

Concluding remarks and minimum wage policy perspectives

Recorded increases of statutory minimum wages provided solid benefits to the workers in the observed countries, referring to the income security, better health and higher life satisfaction (Lebihan, 2023). Although starting from a low base, recorded minimum wage growth in overall exceeded increase of average salaries and labour productivity. Long-term benefits were negatively affected by recent inflation trends, though the overall increase is still significant if compared to the previous decade.

- In countries where collective bargaining mechanisms are less developed, unlike in the case of Scandinavian countries, the minimum wage policy remains an important instrument for achieving fair labour market outcomes. In most of the SEE countries, share of workers under the collective bargaining regime is low amounting from 13% in Poland to 35% in Czechia.
- For many SEE countries, there is a considerable share of workers earning a salary close to or equally to the statutory minimum. Minimum wage setting in these countries provides an important protection mechanism to sustainable satisfactory living standard and avoid in-work poverty. Anchoring minimum wage growth to economic indicators, member states can minimize the prospect of 'policy inaction' or of infrequent and unpredictable updates of minimum wage rates as it was the case in Romania and Bulgaria (Cova, 2022).
- Enforced compliance remains one of the critical issues when designing an effective minimum wage policy setting. Therefore, effective enforcement strategies, building capacities of the enforcement institutions and strengthening cooperation with social partners represent important elements of the future policies.

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⁹ Wage adjustments for consumer price increases incorporated into legislative.

at:

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