

Minimum wages in selected SEE countries

Abstract

Minimum wages have been defined by the International Labour Organisation as 'The minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.'¹ Their main purpose is to ensure that work guarantees decent livelihoods for workers and their families. They also have important macroeconomic functions as they help to stabilise the economy by supporting aggregate demand during downturns and countering inflation.² Minimum wages in south-eastern Europe tend to be substantially lower than the rest of Europe. The social partners tend to be involved in minimum wage setting machinery; nevertheless, the adequacy of wages remains a major concern with a substantial share of workers experiencing poverty and severe material deprivation in some countries. This article gives an overview of the relevant minimum wage provisions across a selection of south-east European countries: Albania; Montenegro; FYR Macedonia; Bosnia and Herzegovina; Slovenia; and Serbia.

Keywords: minimum wages, minimum wage machinery, poverty, in-work poverty, adequacy

Introduction

In view of the International Trade Union Confederation's (ITUC) 'The World Needs a Pay Rise' campaign and the European Trade Union Confederation's (ETUC) 'Europe needs a pay rise' campaign, trade unions in south-east Europe expressed an interest in gaining comparative knowledge on the situation of minimum wages in the region. The Pan-European Regional Council of Trade Unions (PERC) thus distributed a questionnaire in spring 2017 to its affiliates in this region, collecting information on the levels of minimum wages, the mechanisms for fixing these and the criteria which are taken into account regarding their adjustment.

This article synthesises the questionnaire responses and uses available data from the Eurostat and ILO databases to provide a short descriptive analysis. The information presented in this article was then discussed at a meeting of trade union economists in December 2017 before the work was finalised. Overall, the information presented in this chapter shows that minimum wages in the region tend to be

1 ILO (2014) *General Survey of Reports on the Minimum Wage Fixing Convention 1970* (No. 131); and the *Minimum Wage Fixing Recommendation 1970* (No. 135).

2 See, for instance, Grimshaw and Miozzo (2003) *Minimum wages and pay equity in Latin America*.

substantially lower than in the rest of Europe and also tend not to be sufficient to support adequate livelihoods for workers and their families.

Coverage and level of minimum wages

All of the countries under assessment have minimum wages enshrined in their national legislation; these tend to cover all workers except for the case of Bosnia and Herzegovina, where separate minimum wages exist for each of the two entities. In many cases in the countries covered, higher minimum remuneration levels are defined on an industry sector basis according to collective agreement, but they must be above the national (or regional) minimum wage level.

Table 1 summarises the scope of minimum wage legislation across the range of countries selected in this article, as well as their levels in national currency and in Euro/dollar equivalent.

Table 1 – Minimum wage coverage, by country

Country	Coverage	Rate
Albania	All employees	24 000 lek / month (€180)
Montenegro	All employees	€288 / month
FYR Macedonia	Minimum wages cover all workers but have been historically implemented differently across certain sectors, namely: textiles production; clothing manufacture; and leather production. 2018 is the deadline for applying the minimum wage equally across all sectors	14 739 den / month (€240)
Bosnia and Herzegovina	Minimum wages are set regionally: one for the Bosnian Federation; and one in the Republika Srpska	406 marka / month in the Bosnian Federation (€207); 370 marka in Republika Srpska (€189)
Slovenia	All employees in the private sector	€805 / month
Croatia	All employees	3 276 kuna / month (€434)
Serbia	All employees with the exception of domestic workers who may be paid up to 50% in in-kind allowances	30 586 dinar / month (€256)

Source: Eurostat, ILO Travail database, and union questionnaires

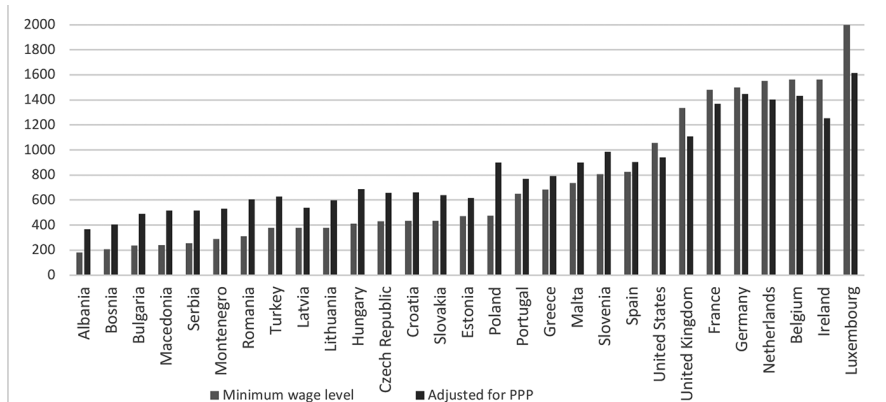
Minimum wages in comparison to the average wage also vary between south-east European countries. In Montenegro and Croatia, minimum wages represent around 40 per cent of gross average earnings whereas in Albania and in Slovenia they represent over 50 per cent.

Adequacy of minimum wages

In all countries, the needs of workers and/or their families are explicit criteria in the legislative setting of minimum wage levels; however, in many cases minimum wages are insufficient to guarantee a decent life for workers and their households, let alone lift them out of poverty. Chart 3 below shows that the gross national minimum wage is above the poverty threshold for an individual person. That said, the construction of poverty lines differs in some countries so wages above the poverty line may still not be sufficient to cover workers' basic expenditure. They might also not be sufficiently adequate to prevent a worker from falling into poverty after taxes and social security contributions.

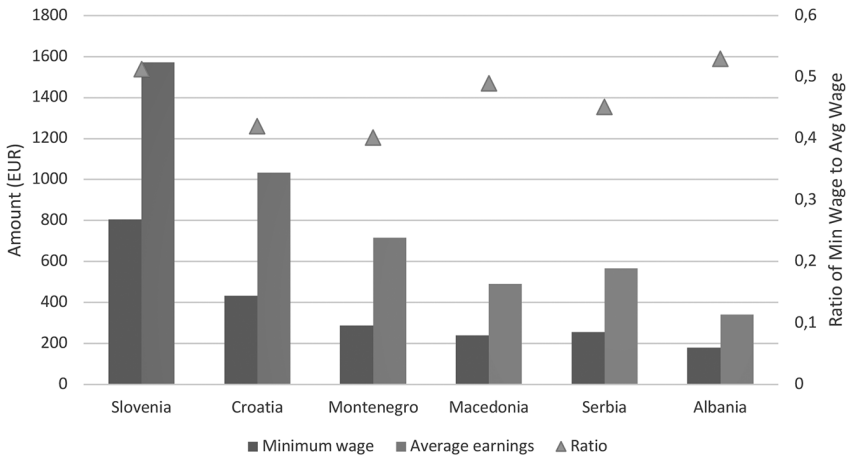
Adequacy considerations become even more concerning when larger households are taken into account. In all cases except for FYR Macedonia and Albania, the gross monthly minimum wage is lower than the poverty threshold for a family of four. In the case of Albania, however, it should be noted that the national poverty line is extremely low and is likely to understate the financial hardship many families may be facing. Moreover, once taking into account taxes and social contributions, it is possible that, in other countries, the net incomes of minimum wage earners will be unable to lift families above the poverty line.

Chart 1 – Gross minimum monthly wages (in Euro)



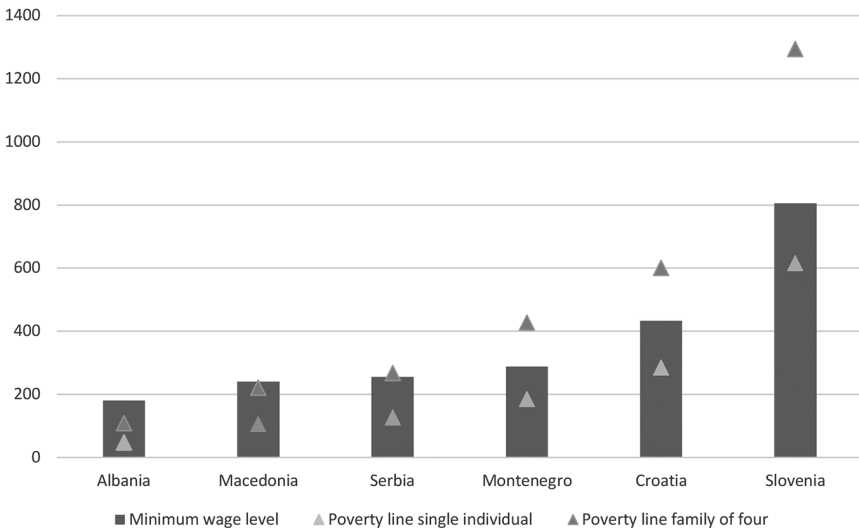
Source: Eurostat 2017, plus responses to minimum wage questionnaires

Chart 2 – Gross minimum wages compared to gross monthly average earnings (in Euro)



Source: Eurostat 2017

Chart 3 – Gross monthly minimum wage compared to national poverty lines for selected south-east European countries: single individual and household (in Euro)

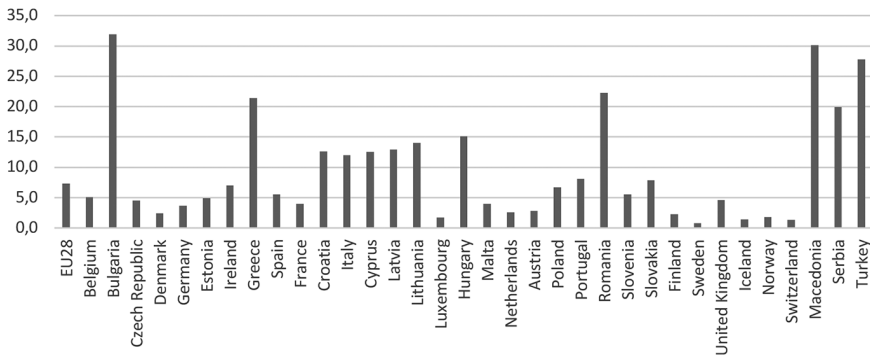


Source: Eurostat 2017 and national questionnaires

Note: Bosnia and Herzegovina not included because of lack of poverty data; OECD equivalence scale applied in order to adjust the poverty line to a family of four.

Overall, low minimum wages in south-east Europe lead to high levels of in-work poverty and severe material deprivation. Chart 4 below shows that nearly 30 per cent of workers in FYR Macedonia, and 20 per cent of those in Serbia, are severely materially deprived (i.e. are unable to afford several essential goods and services).

Chart 4 – Share of materially-deprived workers (%)



Source: Eurostat 2017

Note: Bosnia and Herzegovina, Albania and Montenegro not included because of lack of data.

The severe material deprivation indicator refers to an inability to cover several basic items of expenditure which may include: meeting unexpected expenditure; taking a one-week annual holiday away from home; affording a meal involving meat, chicken or fish every second day; providing adequate heating for a dwelling; affording durable goods like a washing machine, colour television, telephone or car; being confronted with payment arrears (mortgage or rent, utility bills, etc.).

Minimum wage machinery

The mechanisms for setting minimum wages vary somewhat between countries, with the social partners having a more direct role in some countries than others. In Albania and Serbia, minimum wages are set directly by tripartite bodies. In Montenegro, FYR Macedonia and Croatia, the government decides the minimum wage following consultation with tripartite bodies. In Slovenia, no such body exists; however, the social partners are supposed to be formally consulted before the minimum wage is set.

The criteria for setting the minimum wage also tend to vary between countries. In all cases, minimum wages are supposed to take into account the needs of workers and their families. In some countries, changes to the cost of living are to be taken directly into account when the minimum wage is updated, for example in Slovenia. In Montenegro, the average wage is also an explicit criteria in the minimum wage in order to prevent social exclusion, as the minimum wage cannot be lower than 30 per cent of the average wage.

In terms of the frequency for adjustment, only in Serbia and Slovenia is the minimum wage adjusted annually – enabling minimum wages regularly to take into account changes in inflation and the cost of living, and changing labour markets.

Finally, it should be noted that most south-east European countries have ratified ILO Convention 131 on minimum wage fixing, which sets out that minimum wages should be set with the involvement of the social partners; take into consideration the needs of workers and their families; and be accompanied by measures to ensure their effective application in practice. FYR Macedonia and Croatia are the only two south-east European countries that have not ratified this Convention.

Table 2 – Procedure for minimum wage setting

Country	Procedure for minimum wage setting	Scheduled frequency of adjustment	Ratified C 131?
Albania	The National Labour Council, a tripartite body, sets the minimum wage.	No time period specified in legislation	Yes
Montenegro	The Social Council, a tripartite body, defines a proposal for the minimum wage which is sent to the government for a final decision. The minimum wage should take into account the average wage, cost of living and the difficult social situation of the lowest earners. The minimum wage should not be below 30% of the average wage in Montenegro.	Updated upon the proposal of the Social Council on a semi-annual basis (last update was 2013)	Yes
FYR Macedonia	The Economic and Social Council, a tripartite body, prepares a recommendation for the minimum wage, which is sent to the government for a final decision.	Adjusted annually	No
Bosnia and Herzegovina	Government sets the minimum wage following social partner agreement	Adjusted on an <i>ad hoc</i> basis	Yes
Slovenia	The minimum wage shall be determined by the minister of labour after prior consultation with the social partners.	Adjusted at least once per year to take into account any rise in consumer prices	Yes
Croatia	The government sets the minimum wage following a recommendation from the Economic and Social Council, a tripartite body.	No time period specified in legislation	No
Serbia	The Social Economic Council, a tripartite body, determines the minimum wage annually. If no agreement is reached, the government determines the wage level.	Determined annually	Yes

Source: ILO Travail database and national questionnaires. For Bosnia and Herzegovina, and Macedonia, additional information taken from IMF (2016) *Cross Country Report on Minimum Wages* 16/151.