Minimum wages in 2021: Most countries settle for cautious increase

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Author:

Aumayr-Pintar, Christine
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Despite the unusually tough economic and labour market conditions, most EU Member States made nominal and real increases to their minimum wages in 2020. This is what a first overview of recent minimum wage developments reveals. Some countries lived up to earlier promises or pre-agreements, while other countries strayed somewhat off their original path but still maintained the overall trend of increasing minimum wages in line with other wages. Although most countries were cautious in the level of increase granted, low inflation rates meant that the value of minimum wages still went up beyond rises in consumer prices. For the time being, at least, it can be concluded that the policy response in the context of the COVID-19 pandemic is distinct from the approach taken during the global financial crisis, when a greater number of countries moved quickly to freeze nominal minimum wages.

Introduction

Minimum wage setting is never an easy task, but it is an even more daunting exercise in times of crisis. The COVID-19 pandemic has impacted on economies and labour markets worldwide: suddenly, severely and almost simultaneously; however, some sectors and workers have been much more affected than others. [1] Lower paid workers in the EU27 and UK have been hit hardest by the crisis, losing more working hours than higher paid managers and professionals, according to the International Labour Organization's flagship report on global wages for 2020–2021.

> ILO: Global Wage Report 2020–21: Wages and minimum wages in the time of COVID-19

Decision-makers on minimum wages were faced with determining the 2021 level of minimum wages in the context of challenging economic conditions, downward pressure on wages due to higher unemployment, and great uncertainty about the economic projections for the months ahead. In addition, the pandemic led to disruptions in normal negotiation and consultation processes.

The dilemma for decision-makers – how to keep the purchasing power of the lowest paid high and ensure the adequacy of their pay, while safeguarding jobs and businesses – is not a new one, but was aggravated and made more urgent during the crisis. It is in this context that the following results on minimum wages for 2021 can be understood.

Unless otherwise indicated, the quoted percentage figures in this article refer to the increase of gross statutory minimum wages in national currencies between January 2020 and January 2021. For Belgium and Spain, negotiations on the 2021 rate are ongoing at the time of publication (February 2021).

Trying to make good on previous commitments

Some of the highest nominal increases were recorded in countries where governments had made earlier commitments to substantial raises of the minimum wages through legislation or political parties in pre-elections, or where a pathway for increases had already been agreed with the social partners in previous years.

Notable in this regard are Latvia, where the increase of +16.3% had been negotiated and decided already in 2017, and Slovenia, where the increase of +8.9% was based on the first-time application of the 2018 changes to the Minimum Wage Act, which stipulates that the minimum wage should exceed the minimum cost of living by 20–40%. In the context of the pandemic, the Slovenian government decided on the lowest possible increase and also committed itself to partially reimburse employers for the increase over the next half year. In Bulgaria (+6.6%), the government decided to follow the direction of the proposal for a Directive on adequate minimum wages in the European Union. In Portugal, the government unilaterally decided to increase the minimum wage by 4.7%, based on their earlier commitment to raise minimum wages up to €750 by the end of their mandate in 2023. The social partners were consulted, but no agreement was reached.

In Croatia, following non-agreement among the social partners, the government made a unilateral decision to increase minimum wages by +4.6%. This increase was somewhat larger than the average wage growth in the first seven months of the year and even slightly exceeded one of the union representative's proposals to the Commission for Monitoring and Analysis of the Minimum Wage. The increase was linked to the legislation-based commitment for the minimum wages to achieve the proportion of 50% of average wages.

Falling short of earlier announcements, but not very far off the projected plans, Slovakia, Poland and the UK all announced increases. In Poland, the increase of +7.7% to PLN 2,800 was made unilaterally by the government and exceeds the value which the regularly applied formula would have suggested; however, it is still short of the previously communicated target of PLN 3,000 for 2021. The Slovakian government, which in 2020 made a legal commitment to increase minimum wages to 60% of average wages should the social partners fail to agree in their negotiations, also took a more cautious approach, settling on 57% of average wages (+7.4%) for 2021. The UK Low Pay Commission also took a cautious approach in their unanimous decision to put forward a rate that minimises any significant risk to employment prospects. The increase (+2.2% from April 2021) is still largely in line with wage growth and slightly higher than predicted inflation. Even though the 2021 increase falls somewhat short of the projected target path for 2021, the commission noted they did not recommend a change to the UK government's target of two-thirds of median earnings by 2024.

> European Union: Proposal for a Directive on adequate minimum wages in the European Union

Sticking to the standard formula

In countries where minimum wages are updated mainly by recourse to a set formula, the minimum wage setting was smooth and, with some exceptions, not too controversial as increases followed the results of the formulas. One small deviation was recorded in Germany, where minimum wages are increased at the same rate as the index of collectively agreed wages over the next two years. In this case, the German Mindestlohnkommission (Minimum Wage Commission) used their room for manoeuvre and recommended the calculated increase of +11.8% over two years, to be granted in four stages: the first in January 2021 being more moderate (+1.6%), then further increased to €9.60 in July 2021, and two more substantial increases in January and July 2022 (€9.82 to €10.45), based on the assumption of economic recovery. Following the recommendation of the expert group on minimum wages, the French government decided not to grant any additional increase beyond the formula-based indexation increase (+1%), which was criticised by most unions. In Malta, all the social partners agreed to follow the standard indexation approach this year, leading to an increase of a similar magnitude (+1%).

Somewhat larger were the minimum wage increases in the Netherlands (+3%) and Luxembourg (+2.8%). In the Netherlands, the government decided that the economic figures did not justify the activation of an existing hardship clause to deviate from the standard approach. In Luxembourg, the government kept to the +2.8% increase based on the indexation formula, despite protests on the part of employers.

Going for a softly-softly approach

More controversial were the debates and negotiations in Czechia, Hungary, Ireland, Lithuania and Romania which deferred decision-making until late in the day, the final outcome being slight increases.

In Czechia, the government decided on a nominal increase of +4.1%, which is above the projected national inflation and straddles the social partners' positions. The Hungarian government continued negotiations with the social partners into 2021, and in late January an agreement was reached between the employer organisations and two out of the three trade unions. From 1 February, Hungarian minimum wages will increase by +4% and in July the agreement will be renegotiated based on the latest economic evidence; if this is positive and the government cuts the social security contributions by 2 percentage points, a further increase of 1 percentage point will be granted from July onwards.

The Irish Low Pay Commission (LPC) initially deferred their decision, but ultimately recommended a small increase of +10 cents per hour (+1% of the latest rate of €10.2 as per February 2020), based on a majority compromise – although two union representatives stepped out of the LPC in protest. In Lithuania, the negotiations in the tripartite council also reached a critical stage after disputes over deferrals. Later in the year than usual (October instead of July), the government increased the minimum wage by +5.8%, but reserved the possibility to reconsider this in December 2020, based on revised economic forecasts. In consultations with the social partners, the Romanian government presented them with three scenarios, but ultimately decided on an increase below their own scenarios (+3.1%) and somewhat closer to the employers' position. Trade unions were particularly critical of the fact that the law of 2019 that sets the basket of goods and services as the main criterion in establishing the minimum wage had not been applied in this case.

Prolonging negotiations into 2021

Four Member States – Belgium, Hungary, Slovenia and Spain – prolonged their negotiations on the new rate into 2021. While Slovenian and Hungarian actors decided on a new rate in late January, the negotiations in Belgium and Spain are ongoing at the time of writing, with an increasing risk of conflict escalation.

Belgian social partners are currently negotiating overall wage increases (including the statutory minimum wage). The basis for these negotiations is a technical report by the Central Economic Council, which stipulates the margin of increase within which social partners can negotiate. For 2021–2022, the maximum increase permissible according to this margin is 0.4%, which trade unions are denouncing as being too low and negotiations were stalled.

Likewise, the Spanish government (which had substantially raised minimum wages in 2019 and 2020) extended the validity of the 2020 rate on an open-ended basis into 2021 and favoured continued negotiations with the social partners on determining a new rate. After a first meeting in January, at which employers underlined that they would not accept any increase for 2021, trade unions decided to commence action and put pressure on the government to unilaterally set an increase for 2021.

Opting to freeze levels

Only two Member States, Estonia and Greece, had already decided to freeze the level of minimum wages for a full year. The Estonian social partners responsible for negotiating the minimum wage came to a quick agreement to freeze the level of minimum wages for 2021. Employers referred to a Bank of Estonia forecast, which would have justified a cut to the minimum wage, according to the previously agreed formula, but supported the freeze based on the argument that it would ensure stability. In Greece, where decisions on minimum wages are implemented in July, a decision was made to freeze the minimum wage level, and the next decision for July 2021 is pending.

Bargaining in countries with no statutory minimum wage

While data on 'average' collective bargaining outcomes are not yet available, the first assessments indicate that collective bargaining in 2020 was relatively unaffected by the pandemic, but wage increases remained largely more moderate. In Austria, settlements were reached relatively quickly and only moderate increases were agreed. Cyprus continued to keep their statutory occupational rates frozen and the deliberations on introducing a national statutory minimum wage were halted due to the increase in unemployment. In Denmark, the main bargaining round had already been finalised early in the year and therefore remained largely unaffected. In Finland, most sectors were relatively unaffected by the pandemic with the exception of the hard-hit restaurant and tourist sector, in which decisions on pay increases were deferred to 2021. In Italy, the bargaining rounds proceeded with some snags due to the worsening economic situation and prospects, but a conclusion was eventually reached and updated agreements were signed. In general, the current economic conditions and uncertainty was taken into consideration in the renewals and this influenced the levels and distribution of wage increases. The Swedish and Norwegian actors postponed their bargaining rounds (scheduled for early in the year) until the autumn, by which time the settlements that were agreed were not unduly influenced by the pandemic.

Conclusions

Nominal statutory minimum wages in most Member States and the UK continued to rise in 2021. With inflation being low, this has resulted in real increases for those minimum wage workers who have managed to retain their jobs and the same working hours.

Where minimum wage setting is based on formulas (France, Germany, Luxembourg, Malta and the Netherlands), the process tended to be systematic and not too controversial. In such cases, there was no substantial crisis-related deviation from the standard formula. In some central and eastern European countries, where minimum wage rates are often very low – for example, Bulgaria, Latvia, Poland, Slovakia, Slovenia, and to a lesser extent Lithuania and Croatia – the nominal minimum wages of 2021 were increased considerably, as several governments tried to adhere to their previously announced intentions to increase minimum wages relative to other wages – or relative to a minimum cost of living level. Some, however, fell short of their initial intentions. While others sanctioned an increase to maintain purchasing power, a more convincing rationale was the 'fairness' argument and the pressure to improve the remuneration of low-paid essential workers. The EU minimum wage initiative, which emphasises the need for adequate minimum wages to prevent in-work poverty, may have acted as a catalyst in some cases.

Some Member States were more restrained in their increases for 2021. In some of these cases Member States were more open to the demands of employers to freeze or postpone increases to the minimum wage as a way of protecting businesses or employment.

To date, only two countries – Estonia and Greece – have decided to keep the minimum wage frozen for a full year, and two more countries – Belgium and Spain – are continuing the negotiations into February. This is in contrast to the last financial and economic crisis when many Member States froze their wages relatively quickly and for a longer time as noted in Eurofound's report on pay developments in 2010. It remains to be seen whether this trend will continue or whether minimum wages will come under more pressure in 2021 if the economic situation worsens. Eurofound will be monitoring the emerging situation over the coming months and will provide updates and further analysis in forthcoming publications, including in their upcoming report *Minimum wages in 2021: Annual review*.

Eurofound: Pay developments – 2010

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Research carried out prior to the UK's withdrawal from the European Union on 31 January 2020, and published subsequently, may include data relating to the 28 EU Member States. Following this date, research only takes into account the 27 EU Member States (EU28 minus the UK), unless specified otherwise.

Part of the series

Minimum wages in the EU

This series reports on developments in minimum wage rates across the EU, including how they are set and how they have developed over time in nominal and real terms. The series explores where there are statutory minimum wages or collectively agreed minimum wages in the Member States, as well as minimum wage coverage rates by gender.

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