



Acceleration of minimum wage growth in Slovakia

ESPN Flash Report 2018/54

DANIEL GERBERY – EUROPEAN SOCIAL POLICY NETWORK

JULY 2018

Minimum wage in Slovakia has increased considerably in recent years. Apart from the expected debates about the labour market consequences of this increase, questions were raised about the gap between low wages in the public and private sectors as well as about future developments: on this, the opinions of the social partners differ markedly.

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Description

22 EU Member States apply a generally binding statutory minimum wage. This is the case of Slovakia since its establishment in 1993.

Minimum wage in Slovakia is low: 639.8 Purchasing Power Standards per month in the second half of 2017, the 8th lowest in the EU (Purchasing Power Standards convert the amounts expressed in a national currency to an artificial common currency that equalises the purchasing power of different national currencies). Yet, it has grown each year, and in recent years the pace of growth has accelerated, accompanied by a political commitment from the Slovak government to continue with this trend. (Eurofound 2018)

The decision on minimum wage increase is considered each year and consists of two steps. First, the social partners discuss new proposals, trying to reach an agreement. Second, if the social partners fail to agree by 15 July, the government tables a proposal for a new amount, which is then discussed by the social partners. If no consensus is reached, the government decides on its own proposal. The new minimum wage then comes into force from 1 January of the next year.

Since 2013, the minimum wage regulations, set out in the Act on the Minimum Wage no.663/2007, cover both employees with a regular employment contract and persons

working on the basis of special work contracts such as work performance contracts, work activities contracts and temporary student job contracts. The minimum wage is set as a monthly and hourly sum, for a working time of 40 hours per week. If a person has worked less than the full working time (per month or per week), the level of the minimum wage is reduced proportionally.

In addition to the monthly and hourly minimum wage, there are so-called minimum wage claims – defined by the Labour Code and applied to the private sector – that may differ according to six degrees of work difficulty. For example, the first degree refers to assistant, preparatory or handling work carried out according to exact instructions. The sixth degree refers to creative tasks, provision of specialised or certified activities, etc. For each degree of work difficulty, a coefficient is set. The level of the minimum wage claim is then obtained by multiplying the minimum wage by the coefficient. As a result, the minimum wage for professionals with a university degree (the sixth degree) is twice as high as for persons performing basic work of the first degree of difficulty.

As of January 2018, the minimum wage has been set at €480 (€2.759 per hour), representing an increase of 10.3% compared with January 2017. This was the highest percentage growth of the minimum wage in history and the result of a gradual acceleration of minimum wage growth: between 2016 and 2017 the minimum wage rose by 7.4%,

between 2015 and 2016 by 6.6%, while – by way of a comparison – between 2010 and 2011 it grew by 2.9%. The level of the minimum wage in relation to the average wage has also improved significantly. While at the time of the financial crisis it was equivalent to approximately 40% of the average wage, in recent years it has come close to 50%. (Ministry of Labour, Social Affairs and Family 2018)

The rise in the minimum wage in 2018 has been the subject of strong disagreement between the social partners. Employer representatives disagreed with the pace of growth, proposing a smaller increase. They argued that the increase proposed by the government goes beyond the current as well as future capacities of the Slovak economy and will cause serious problems for employers in certain sectors (for example for hospitals, that have had to face increasing labour costs). Employer representatives proposed other mechanisms for minimum wage growth, especially collective bargaining, which in their view can better reflect the objective conditions of the economic sectors. On the other hand, trade unions welcomed the government's proposal, basing their arguments on the low level of wages in Slovakia (and the low minimum wage level especially), increasing labour productivity, and the need to address the issue of the working poor.

According to representatives of the Ministry of Labour, Social Affairs and Family, the significant increase in the minimum wage reflects the positive economic development, and the need to increase the low wage floor in Slovakia more rapidly in order to converge to the EU average. At the same time, it is expected to serve as an incentive for the unemployed to enter the labour market (i.e. making work pay). Moreover, negative impacts on labour market development have proved negligible (Inštitút finančnej politiky, 2016).

The criticism of the minimum wage increase came also from the political opposition, which drew attention to the fact that there are many people working in the public sector whose wages are below the minimum wage. This is the result of existing salary scales in the public sector, which include amounts below the minimum wage for unskilled and low-skilled professions (for example cleaners, cooks). In these cases, employers have to pay additional payments in order to reach the minimum wage. The opposition party "SPOLU – občianska demokracia" pointed to the discrepancy between the efforts being made to oblige the private sector to raise the wage floor, and the blind eye being turned to the situation of low-paid employees in the public sector.

In June 2018, the government has announced a plan to increase pay rates in the public sector, to ensure that nobody is earning less than the minimum wage. This step is part of a broader strategy to increase wages in the public sector, which has been agreed with the trade unions.

Outlook & commentary

The level of the minimum wage directly affects only a small proportion of employees in the Slovak economy. In 2016, 1.68% of employees working full-time earned the minimum wage (MLSAF, 2017). The proportion of employees with earnings close to the minimum wage was higher, representing approximately 7% of all employees in 2014 (Inštitút finančnej politiky, 2016). Accelerated growth in the minimum wage can be seen as a tool to bring living standards closer to the EU average, as well as a measure addressing the risk of poverty among working persons and their households. It is only recently that the minimum wage has exceeded the at-risk-of-poverty threshold, improving the living conditions of low-paid workers (and at the same time

creating incentives for the unemployed to accept low-paid jobs). Raising the minimum wage also means that the benefits of positive economic development are shared across different social strata.

On the other hand, the minimum wage trend has been the subject of strong disagreement between the social partners, which may result in deeper divisions and the weakening of social dialogue; employer representatives have already expressed their dissatisfaction with the social dialogue in this respect.

The low wage floor in Slovakia is an indisputable fact that requires systematic action and intervention, including the minimum wage increase. More effort is, however, needed to reach a broader consensus about future development.

Further reading

Eurofound (2018). *Statutory minimum wages 2018*, Luxembourg: Publications Office of the European Union.

European Commission (2018). *Country Report Slovakia 2018*, Commission Staff Working Document, Brussels: European Commission.

Inštitút finančnej politiky (2016). *Malý vplyv zvyšovania minimálnej mzdy na nezamesstnanosť [Minor impact of increasing minimum wage on unemployment]*, Bratislava: Ministry of Finance.

Ministry of Labour, Social Affairs and Family (2018). *Background documents to the Government Ordinance on Minimum Wage in 2018*.

Ministry of Labour, Social Affairs and Family (2017). *Report on the Social Situation of the Population of the Slovak Republic in 2016*.

Author

[Daniel Gerbery](#), Comenius University