

A minimum wage increase in Montenegro as of 1 July 2019

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Several months of debate on the level of the minimum wage in Montenegro have resulted in its increase as of 1 July 2019. It will be set at €222 a month, which represents a 15% increase. This change will affect average wages as well as pensions and social benefits.



Description

The last change in the level of the minimum wage in Montenegro was in 2013 when, with the Amendments to the General Collective Agreement, the minimum wage was set at about 40% of the average monthly salary (€193). In 2018, the debate on the minimum wage level resumed, when the trade unions called for it to be increased to 50% of the monthly average wage, up to €250. This demand was followed by a union analysis document, submitted to the members of the Social Council at the end of February 2019. The main arguments that the unions emphasised in the analysis were the fact that Montenegro has the lowest minimum wage in the Western Balkans and in Europe, as well as a very low standard of living and purchasing power for low-wage workers.

Although all parties in the Social Council (a tripartite body made up of Government, trade union and employers representatives) had some understanding for them, these demands also meant new demands from employers, who primarily expected a reduction of the tax burden on labour. Therefore, the Government had to find an appropriate model that could satisfy all parties. The options considered to meet the employers' demands included reducing or eliminating the tax on profits for companies that reinvest their profits, or providing certain forms of tax relief on labour taxes or contributions. Furthermore, it was evident that the

Government supported the request to increase the minimum wage, but not to the extent proposed by the trade unions.

At the beginning of April, the Government proposed to the social partners an increase of the minimum wage to €222 (i.e. 43% rather than 50% of the average salary) from 1 July 2019, followed by a reduction of 2 percentage points (from 4.3% to 2.3%) in the health insurance contribution rate paid by employers. All social partners accepted the proposal, and the Government adopted the Decision on the Minimum Wage on 23 May 2019. As the unions have made this agreement contingent on the adoption of their amendment to the 2003 Law on Pension and Disability Insurance, the discussion in the Social Council will be continued.



Outlook and commentary

In May 2019, the Ministry of Labour and Social Welfare announced that employees who are currently insured at the level of the minimum wage (12,000 employees, i.e. around 6.5% of the total working population) or up to an amount of €222 (between 42,000 and 48,000 employees in total) will benefit the most from this agreement. However, it is not yet clear how many workers receive a salary that is only registered in part (at the level of the minimum wage), while another part is provided as an "envelope" payment (i.e. a payment "in black"). The change in the minimum wage will not improve the living standards of these workers. In addition,

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one may question whether or not the new minimum wage will substantially improve the living standards of low-wage workers, bearing in mind that even this new minimum wage level remains significantly lower than the cost of the minimum food basket with a minimum caloric intake - €274 a month (April 2019) according to the national statistical office (MONSTAT).

According to current Government estimates, the minimum wage increase will cause a €6 increase in the average gross wage. This will then lead to an increase in pensions, as these are currently adjusted by an index referring 25% to a change in the average wage and 75% to a change in prices. It will also cause an increase in the main social benefits (such as family income support), which are adjusted 50% in line with the change in the average wage and 50% in line with price changes.

Employers will pay somewhat higher tax contributions for low-wage workers (due to the difference

between the previous and the new minimum wage), but also lower contributions for health insurance (for wages above a €222 net wage). Currently, the total contribution rate for health insurance amounts to 12.8% of the gross wage (the employee pays 8.5% and the employer pays 4.3% percent; the latter will be reduced to 2.3% [see above]). The Government estimates that the state budget will benefit from an increase in revenue of about €5 million a year from taxes and contributions, while employers would pay some €13 million less a year due to the reduction in health contributions. This means that the gain for employers and the loss for the state budget will be around €8 million, which will be covered by growth in other revenues.

Thus, bearing in mind all the potential implications of an increase in the minimum wage, it is important to closely monitor the labour market and the social situation in Montenegro in the future.

Further reading

Government of Montenegro (2019), Press Release, 23.05.2019.

<http://www.gsv.gov.me/vijesti/200600/Ministar-Purisc-Vlada-donijela-Odluku-o-utvrdivanju-minimalne-zarade-u-neto-iznosu-od-222-eura.html>

Ministry of Labour and Social Welfare (2019), Press Release, 20.05.2019,

<http://www.gov.me/naslovna/vijesti-iz-ministarstava/199530/Ministar-Purisc-Povecanje-minimalne-zarade-ce-bitno-popraviti-status-zaposlenih.html>

MONSTAT (2019), Minimum consumer basket, Press release, http://www.monstat.org/userfiles/file/min%20potrosacka/2019/4/MPK_april_%202019.pdf

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