

PROBLEMS OF DETERMINING THE MINIMUM WAGE AFTER THE ADOPTION OF THE DIRECTIVE ON ADEQUATE MINIMUM WAGES IN THE EU: THE CASE OF THE SLOVAK REPUBLIC

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Abstract

The main reason for the adoption of the Directive of the European Parliament and of the Council on adequate minimum wages in the European Union was the ever-increasing income inequalities and the low level of minimum wages in most countries of the European Union. The low level of the minimum wage does not motivate mainly the long-term unemployed to enter the labour market. Another reason for adopting this directive was to ensure that people paid the minimum wage were not below the poverty line. However, according to employers' associations, the high level of the minimum wage worsens the country's competitiveness. The main goal of this paper is to approach the main factors that determine the minimum wage in the Slovak Republic. These are mainly the following factors: the relationship between supply and demand in the labor market, labor intensity, the price level and, last but not least, the bargaining power of the social partners and the tradition of social dialogue. Previous experiences of determining the minimum wage confirm that the minimum wage must meet not only economic but also social criteria.

Key words: Minimum wage, labour market, social dialogue

JEL Code: J23, J31, J50

Introduction

Slovakia is one of the countries that do not have a long history of social dialogue among social partners under normal market conditions, even though the country underwent changes in the political and economic conditions already thirty years ago. This is a short period of time in terms of the continuous appearance and disappearance of political parties with no ideological background, structural problems of the Slovak economy, high long-term unemployment rate and a high share of socially excluded population in a big part of the

regions. Several conservative and liberal political parties, as well as employers' representatives believe that the answer to the labour productivity gap compared to the more developed EU countries lies in maintaining a low minimum wage compared to the average wage, with a view of not increasing the total labour costs so that the country remains internationally competitive. Employees' representatives (Confederation of Trade Unions as the strongest central organisation of trade unions in the Slovak Republic) have long considered the minimum wage level in Slovakia to be insufficient. Therefore, they have high hopes for the European pillar of social rights from late 2017, which puts emphasis on adequate wages that satisfy the needs of workers and their families (Marchal, S., 2020). Despite the global COVID-19 crisis and the related economic problems leading to a drop in GDP in most countries, the European Commission drafted a proposal for a Directive on adequate minimum wages in the European Union, quoting Ursula von der Leyen's State of the Union address of September 2020: "But the truth is that for too many people, work no longer pays. Dumping wages destroys the dignity of work, penalises the entrepreneur who pays decent wages and distorts fair competition in the Single Market... Everyone must have access to minimum wages either through collective agreements or through statutory minimum wages." This is a precise evaluation of the situation in Slovakia, too. In the period when the Directive on adequate minimum wages in the EU was being drafted, Eurofound prepared studies on the issues relating to minimum wages in EU member states. The 2020 study lacked analytic data on the share of people working for the minimum wage only for two EU-27 member states, namely Italy and Slovakia (Eurofound 2020, s. 13). The aim of this paper is to fill the gaps in general data on the development of minimum wages in Slovakia, but also to point out certain wider and specific economic and social issues relating to remuneration and determining the minimum wage in Slovakia, including with regards to the decreasing impact of trade unions in the social dialogue (Martišková, Kahancová, Kostolný, 2021).

1 Labour market factors impacting the wage level and particularly the minimum wage level

From an international point of view, the wage level in Slovakia is inadequate if wage developments are assessed using the main macroeconomic indicators. Since joining the EU in 2004, Slovakia's position by international standards has improved in terms of developments in productivity per inhabitant, employee or hour worked as the main criteria for wage growth. According to Eurostat data, the share of labour productivity in GDP per capita measured as

a percentage of the EU-27 average in 2013 prices in the purchasing power standards of currencies rose from 57% in 2004 to 75% in 2010, and then decreased to 69.7% in 2019. In Slovakia, the share of compensation of employees¹ on GDP in % was falling behind the EU-27 average for a long time, although in recent years, the gap decreased significantly from 10.7 p.p. in 2010 to 8.6 p.p. in 2015 and 4.5 p.p. in 2019. Similarly, the share of wages and salaries on GDP in % fell behind the EU-27 average in the three specified years, namely by 8.8 p.p., 7.6 p.p. and 5.1 p.p, respectively. Considering the specified macroeconomic indicators, Slovakia still has room for the growth of both average and minimum wages.

The overall wage level in Slovakia is influenced by several contradicting tendencies within the main factors. This includes disparities in labour productivity between the foreign and domestic sector of the economy, and between large enterprises and SMEs, which have not yet been successfully reduced. Finally, this also includes a territorial asymmetry of the overall economic development. In Slovakia, a high share of regions falls behind and have poor infrastructure, and active labour market policies aimed at decreasing the total unemployment rate and especially the long-term unemployment rate are ineffective there. Unemployment pushes wages downwards especially in these regions. The result of the unequal economic development in different regions is the movement of a large share of the young and qualified labour force to the western part of the country (especially into the region of Bratislava, the capital), which increases the prices of flats in this region excessively, with continued growth even during the COVID-19 crisis. The reaction of most young people to difficult conditions, uncertainty in the labour market and growing debts of young families is reflected in the fact that the birth rate has long been decreasing, and this already started to show more significantly in the decreasing number of young graduates entering the labour market in roughly the last five years. The relative labour shortages in manufacturing professions can be felt in the business community, which is trying to persuade the Slovak government to allow immigration of labour force from third countries, especially Ukraine and Serbia, which halts wage growth. In mid-2020, the number of foreigners in Slovakia reached 146 thousand, with more than 60% of them being third-country nationals (Lichner, Hvozdíková, 2020, p. 43).

The long-term unemployment is still the main factor causing the low minimum wage level in a large number of Slovakia's administrative districts (Slovakia has 79 administrative

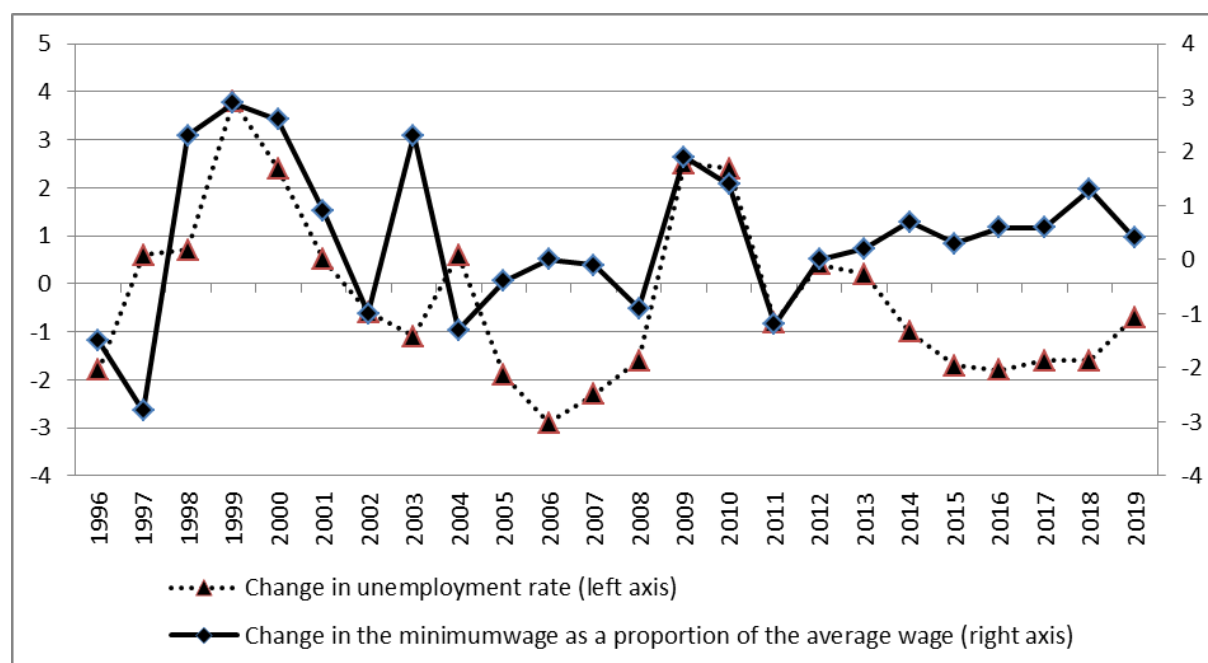
¹ Compensation of employees, labour costs and their individual items are specified in Commission Regulation (EC) No 1737/2005.

districts, out of which five are in Bratislava and four in Košice). The situation in the districts is taken into consideration by both the social partners and the government, which takes the final decision on the minimum wage level if social partners fail to reach an agreement.² Failure of social partners to reach an agreement about the minimum wage level is a common phenomenon in Slovakia, and it takes place each year.

In 2015, the long-term unemployment rate reached 7.5% of the active population (EU-27 average: 5.0%). By 2020, the long-term unemployment rate dropped to 3.2%, but a higher rate was observed only in two EU countries, namely Greece (10.9%) and Italy (4.8%). The share of the long-term unemployed on the total number of unemployed persons in Slovakia reached 66.8% in 2015, and in 2020, it dropped to 48.5% (EU-27 average: 36.6%). Again, a higher share was recorded only in Greece (66.7%) and Italy (52.4%).

Figure 1 below presents the year-on-year changes in unemployment rate (using the ILO methodology) and changes in the minimum wage as a proportion of the average wage in p.p.

Fig. 1: Changes in unemployment rate and the minimum wage as a proportion of the average wage in p.p.



Source: Authors' calculations based on OECD data

² The current version of the Minimum Wage Act (No. 663/2007) provides that starting on 1 January 2021, the minimum wage equals 57% of the average wage for the calendar year preceding the calendar year for which the amount of the monthly minimum wage is determined by two years.

Values in Figure 1 show that between 1996 and 2019, there were several periods when both curves had the same trend, as well as periods where they differed significantly. The correlation coefficient for the whole 1996–2019 period was $r = 0.46$. If the trend of the curves were similar in the whole analysed period, this would mean that a drop in the minimum wage as a proportion of the average wage led to a drop in the unemployment rate, and vice versa, and an increase of the minimum wage increased the unemployment rate. The most significant difference in the stated logical relation of the two indicators can be identified in the 2004–2008 and 2012–2019 periods. It is not possible to explain the decrease in the unemployment rate after 2001 *ex post* exclusively by the decreased minimum wage as a proportion of the average wage. Other economic factors also made a contribution to the decrease in unemployment rate from the highest value of 19.3% (in 2001), especially the increase in investments and modern technologies in connection with Slovakia's expected accession to the EU and the increase of the attractiveness of the whole region, a drop in the labour force first entering the labour market in the last years of the analysed period as a result of the demographic development, active labour market policies, etc.

The international comparison of Slovakia with other countries in the region (V4 and the Baltic states) confirms a significant difference between the development of nominal and real average as well as minimum wages. Slovakia has been experiencing (together with Estonia from the specified group of states) a substantial price increase, which leads to widening the gap between nominal and real average as well as minimum wages. Compared to other countries with a lower price level, the nominal wage growth in Slovakia increases the overall labour costs, which puts the influx of further foreign direct investment at a disadvantage from the economic point of view. From the social point of view, the slower growth of real minimum wages in Slovakia leads to a relatively high share of employees facing material deprivation. According to Eurostat data, if the share of the working poor (people at risk of poverty or social exclusion, employed, aged 18+) in 2019 was 7.4% in Slovakia, 4.6% in the Czech Republic, as high as 12.3% in Luxembourg and 8.4% in Germany, then the share of the materially deprived (material deprivation, employed, aged 18–64) is reversed compared to the more developed EU countries: it reached 5.0% in Slovakia,

2.9% in the Czech Republic, 2.4% in Luxembourg, 3.6% in Germany and 2.5% in Austria.³ The listed data for Slovakia are the consequence of a relatively low minimum wage level (Table 1).

Tab. 1: International comparison of monthly nominal minimum wages (EUR), real minimum wages (PPS) and minimum wages as a proportion of average wages (%)

	EUR	EUR	PPS	PPS	%
	2019	2020	2019	2020	2019
CZ	521.8	560.3	692.5	757.34	39.6
EE	540.0	584.0	632.89	684.45	38.5
LV	430.0	430.0	552.37	552.37	41.6
LT	555.0	607.0	809.05	884.86	46.5
HU	462.5	469.3	685.73	740.96	42.4
PL	526.3	597.1	871.29	1006.82	46.1
SK	520.0	580.0	602.03	671.49	40.7

Source: Authors' calculations based on OECD data

Note: PPS = Purchasing Power Standards

The relatively low nominal and real minimum wage levels in Slovakia cause the unwillingness of the low-skilled workforce to enter employment for the minimum wage, the preference of the unemployed for work in the grey economy, the dependence of a large share of the socially excluded communities on social benefits and the fact that they remain in the poverty trap. Between 2015 and 2019, the price level in Slovakia increased by 8.9 p.p. (the EU-27 price level for individual consumption each year = 100). During the same period, the increase of this price index was recorded at 7.0 p.p. in the Czech Republic, 5.4 p.p. in Hungary and only 2.4 p.p. in Poland. This development is also confirmed by the data in Table 1, showing that in the field of real minimum (but also average) wages, Slovakia pays a “tax” on the Euro compared to other V4 countries⁴ (the price level value for the Euro area countries in 2019 = 106.3). This is not only about the price increase for the analysed period, but also the overall price level in 2019, with Slovakia reaching 75.1% of the EU-27 average price level, the Czech Republic 69.1%, Hungary 62.1%, and Poland only 56.8%. Assuming comparable nominal values of labour costs, average wages, and minimum wages in the V4 and Baltic states, the price development puts Slovak real wages at a significant disadvantage (both average and minimum). Yet, it is clear that even the minimum wage as a proportion of the

³ The paradox identified in the values for the selected SILC indicators points to the need of a complex evaluation of poverty using several indicators.

⁴ Czech Republic, Poland and Hungary still use their national currencies.

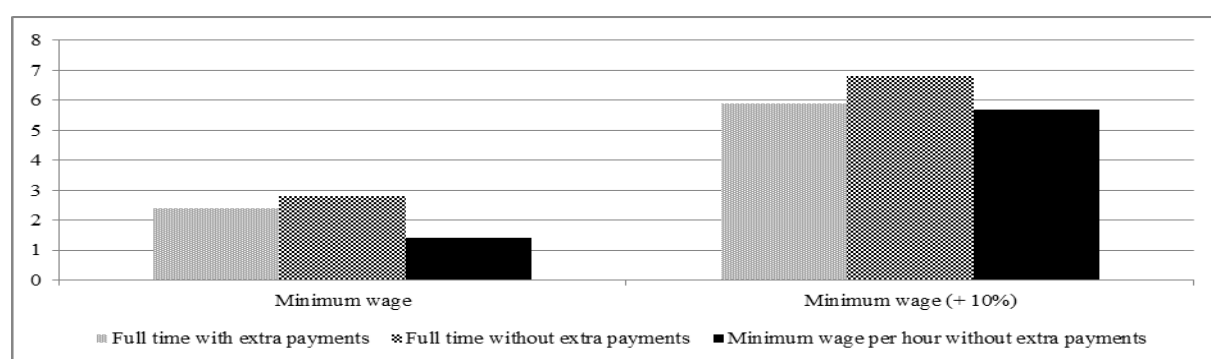
average wage in Slovakia does not differ significantly from the average of comparable countries in Table 1.

2. Employment at the level of the minimum wage or minimum wage (+ 10%)

Quantifying employment rate at the minimum wage level or minimum wage level (+ 10%) is connected to a number of methodological issues, such the inclusion of supplements to the minimum wage or part-time work. For this reason, Figure 2 presents the results for employment at the level of the minimum wage using three different calculations. For two of them, only employees working full time are considered, while they differ in the inclusion of supplements paid with the minimum wage. The third calculation is based on the hourly minimum wage, and takes part-time workers into consideration, too. The calculations use data from Trexima, Ltd.⁵

In 2019, out of the total number of full-time workers, roughly 5.9% (109.5 thousand) of employees received remuneration at the level of the minimum wage with supplements (+10%). If we only account for employees working full time for the gross minimum wage without considering any supplements paid with the minimum wage, employment at the level of the minimum wage will be somewhat higher, reaching 6.8% (128 thousand) employees. In terms of the hourly minimum wage, the employment at the level of the minimum wage accounted for 5.7% (117 thousand) employees.

Fig. 2: Employment at the level of the minimum wage or the minimum wage (+ 10%) in 2019, in %



Source: Authors' calculations using data from Trexima, Ltd.

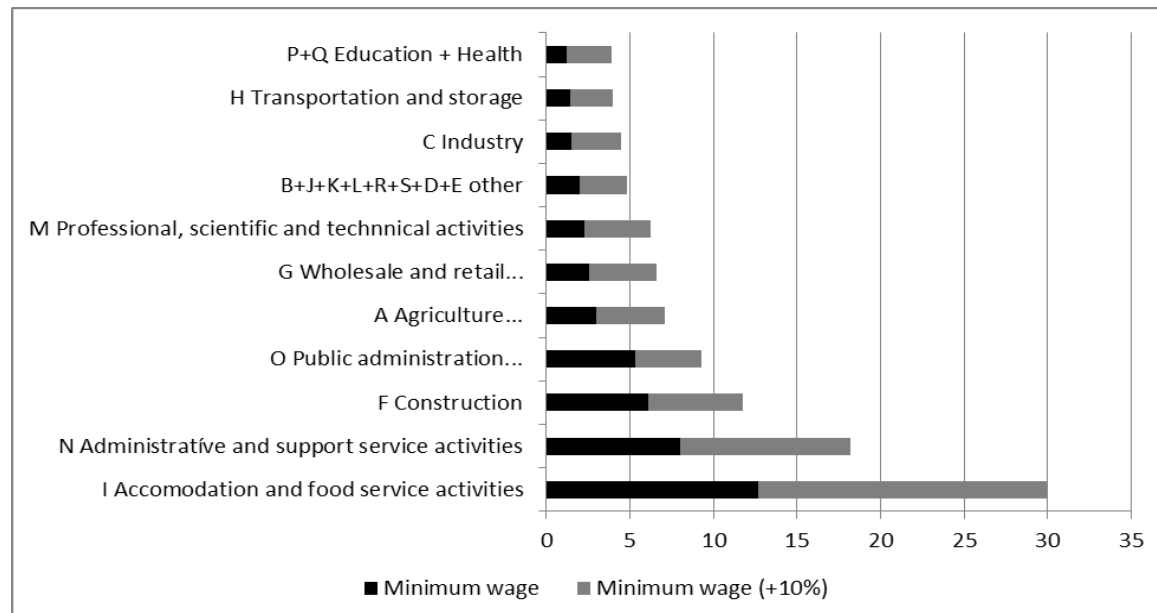
Note: If the minimum wage in Slovakia in 2019 was EUR 520, then the minimum wage (+10%) equalled EUR 572.

⁵ Trexima, Ltd. processes statistical data in the field of labour market also for the Statistical Office of the Slovak Republic.

These data for Slovakia are not fully comparable to other EU countries listed in the Eurofound (2020) study, because they were based on the EU-SILC database. In 2017⁶, roughly 9% of employees in the whole EU (excluding data for Italy and Slovakia) worked for the minimum wage (-/+ 10%). In individual countries, this share ranged from 3% in Sweden to 21% in Romania.

The Eurofound study on the minimum wage of 2020 claims that in EU countries, employees most often work for a wage similar to the minimum wage in accommodation and food service activities (16%) and in agriculture (15%). As can be seen in Figure 3, the situation is similar in Slovakia: the largest share of employees working for the minimum wage or the minimum wage (+10%) is concentrated in accommodation and food service activities. To a large extent, this is caused by the lower qualification of the labour force active in these services, but also by the assumption that a large part of employees can increase their lower basic income by tips. This is followed by administrative and support service activities, construction, and public administration.

Fig. 3: Share of employees working for the minimum wage or the minimum wage (+10%) by sectors, 2019



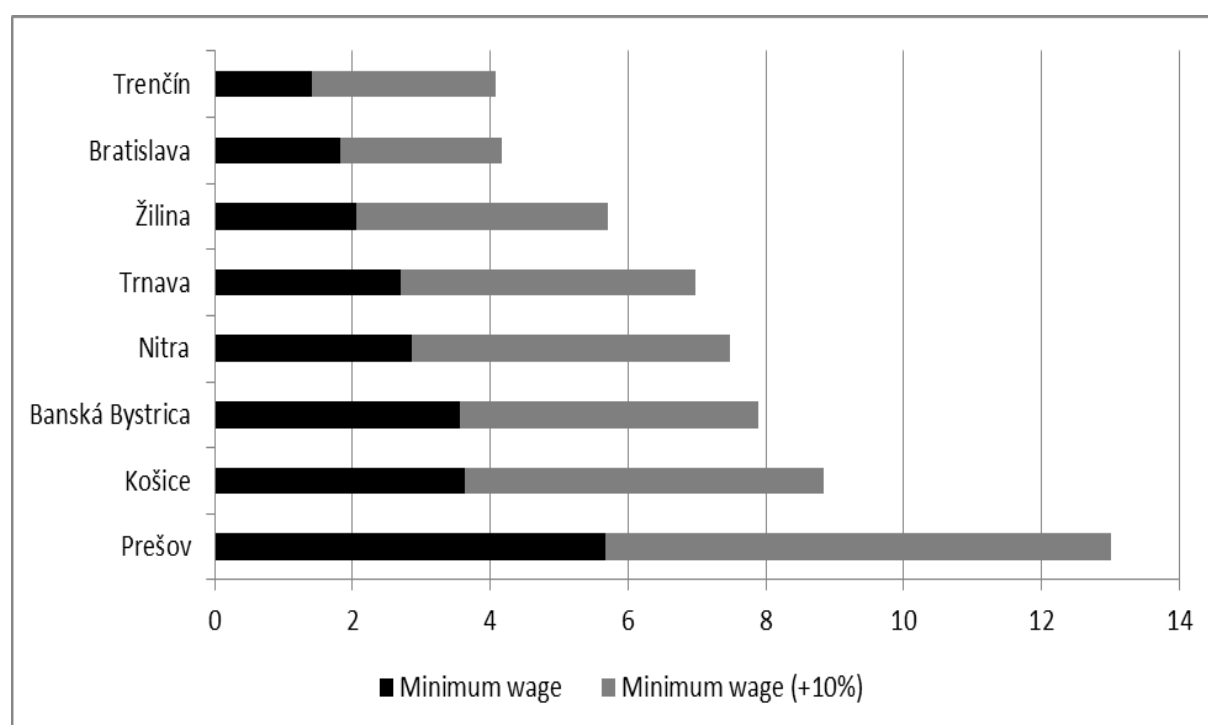
Source: Authors' calculations using data from Trexima, Ltd.

Note: Calculated based on the wages of employees working full time (excluding supplements).

⁶ According to the methodology, data published from SILC for 2017 in fact refer to the preceding year 2016.

In terms of employing people for the minimum wage or the minimum wage (+10%), significant regional differences can be observed. According to data in Figure 4, employees work for the minimum wage or the minimum wage (+10%) most often in the Prešov, Košice and Banská Bystrica regions, i.e., mainly in the eastern part of Slovakia. The lowest share of employment at the level close to the minimum wage can be observed in the Trenčín and Bratislava regions.

Fig. 4: Share of employees working for the minimum wage or the minimum wage (+10%) by regions, 2019

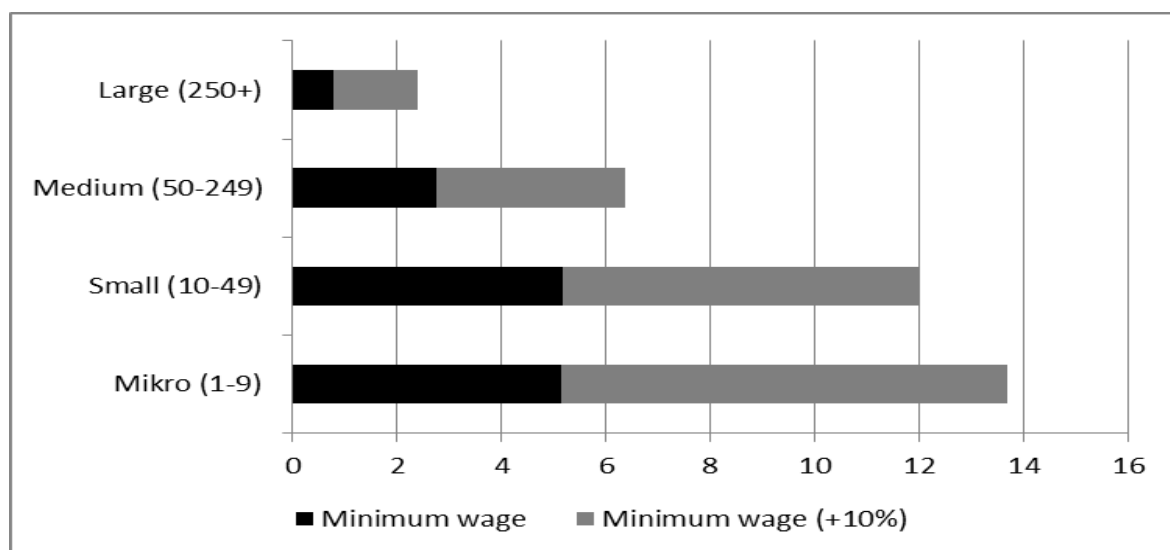


Source: Authors' calculations using data from Trexima, Ltd.

Note: Calculated based on the wages of employees working full time (excluding supplements).

In Slovakia, compensation at a level close to the minimum wage is more typical for enterprises with a lower number of employees. According to the data in Figure 5, in 2019, only one in forty full-time employees in enterprises with a headcount of 250 or more worked for a gross monthly salary at the level of the minimum wage (+10%). However, in micro-enterprises with not more than 10 employees, roughly one in eight full-time workers worked for the lowest wage defined as above. This gap in compensation between businesses with a lower number of employees and large firms with a headcount of 250 and more is highlighted especially by the Slovak Business Agency (2020).

Fig. 5: Share of employees working for the minimum wage or the minimum wage (+10%) by company size, 2019

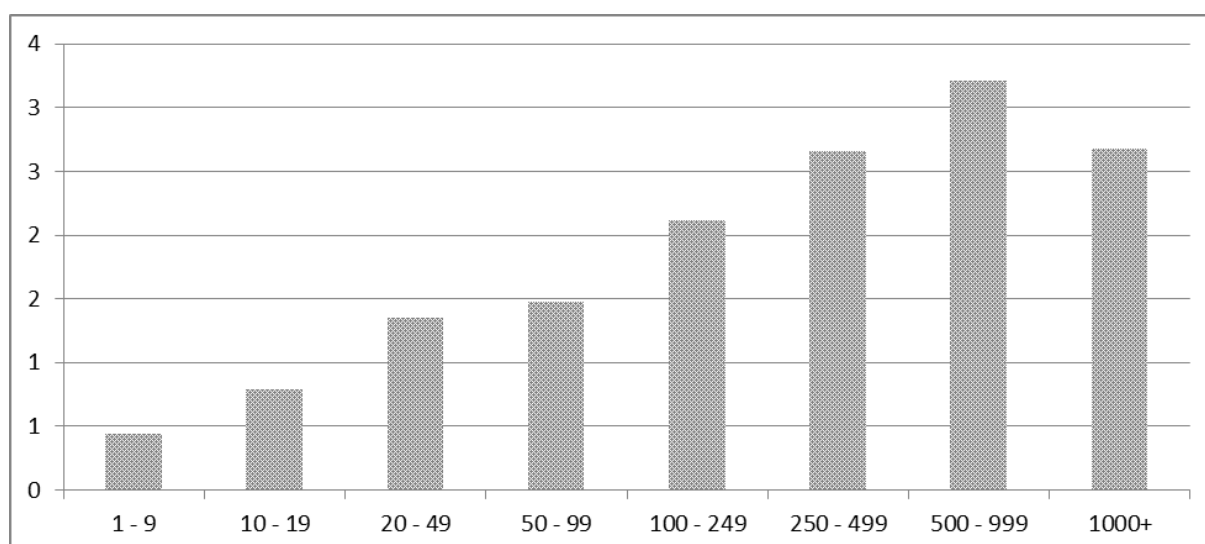


Source: Authors' calculations using data from Trexima, Ltd.

Note: Calculated based on the wages of employees working full time (excluding supplements).

What is important for the total income of a worker in the case of compensation close to the level of the minimum wage are wage supplements, i.e. Saturday supplements, Sunday supplements, overtime supplements, night work supplements and holiday supplements, which are more significantly differentiated according to the size of the enterprises (Figure 6).

Fig. 6: Share of overtime, night work, weekend, and holiday supplements on the average monthly amount of paid wages to all employees (%) by company size, 2019



Source: Authors' calculations using data from Trexima, Ltd.

Note: Only for employees working full or part-time.

Thanks to these wage supplements, roughly one in five employees working full-time for the minimum wage (+10%) was able to increase their income on average by as much as 12%. Entrepreneurs often consider paying these wage supplements to be too big a financial burden, but in 2019, these five supplements combined accounted for only around 2% of the total average monthly amount of paid wages to all employees working full or part-time. This share was only 0.4% in the case of micro-enterprises, and for large businesses with over 1,000 employees, it was just below 3% of the average monthly sum of wages paid to all employees.

2. Approaches of social partners to the minimum wage and compensation levels in Slovakia

Over the last years, the minimum wage level in Slovakia was influenced not only by the main economic factors, but also by political factors, including the basic political orientation of government coalitions. Governments with a stable position of SMER, a social-democratic type party, over roughly the last 10 years were more inclined to increase the minimum wage compared to the previous periods, while they had to account for not only social but also economic factors. The growth of the minimum wage after the global economic and financial crisis in 2012–2013 was explained by the fact that the minimum wage level was falling behind the level in similar EU countries. For 2020, the previous government enacted a minimum wage of EUR 580, which was criticised by employers' associations and opposition political parties (since 2020 part of the government coalition). For 2021, the “automatic” increase of the minimum wage, gradually leading to the minimum wage as 60% of the average wage, was abolished, and the minimum wage was determined by law at EUR 623. Despite COVID-19, the current government increased the minimum wage in 2021 by 7.4% compared to 2020, which represented one of the largest relative increases of the minimum wage in the last years, even though trade union representatives demanded a minimum wage of EUR 656. The trade unions based their statements especially on the recommendation of the European Committee of Social Rights saying that the share of the net minimum wage on the net average wage should be 60%, but also on the bad social situation of people working for the minimum wage and their families.

After the adoption of the Directive on adequate minimum wages in the European Union by EU authorities at the end of 2020, Slovak trade unions agreed with the position of the European Trade Union Confederation (ETUC) saying that the directive should include a fixed relation between the minimum and average or median wage in a specific country. It can be

expected that the topic of the European minimum wage will stay on ETUC's agenda (Seldén, 2020).

The quality of the social dialogue in Slovakia is deteriorated also as a result of a low rate of organisation of employees in trade unions, only reaching 35%. Therefore, trade unions do not have sufficient support to push for social and economic interests in bipartite and tripartite consultations (in the field of social benefits, working conditions and employment conditions). Moreover, the last amendments of the Labour Code and the Collective Bargaining Act⁷ that entered into effect at the beginning of 2021 weakened the bargaining power of trade unions associated in the Confederation of Trade Unions (KOZ) and increased the problems of specifying the representativeness of employees' and employers' organisations. KOZ claims that by adopting these amendments, the government will strive to provide access to tripartite consultations for completely unrepresentative employee associations, and especially those that will follow the intentions of the current government.

If the European Parliament calls on member states to ensure a 70% coverage of collective agreements (not only in terms of wages), then the most recent legal adjustments will not improve the current situation in Slovakia, where the coverage of collective agreements in 2019 reached 26%, while this number was 15.4% in the case of private sector organisations, and more than 65% in the case of the public sector.⁸ The lower the coverage, the higher importance of the statutory minimum wage (Bruckmeier and Bruttel, 2021). In the future, it will prove to be extremely hard to increase the coverage of collective agreements, because starting at the beginning of 2021, the possibility to extend higher-level collective agreements has been completely abolished, although it represents a characteristic element of European continental collective bargaining systems (Martins, 2020). The adjustments of the relevant legislation were welcome by employers' representatives, who, in this period of increasing government debt and budget deficit (in connection with COVID-19), push the government into decreasing wage costs also by slowing down the growth of the minimum wage, and thus also of unit labour costs as a way to improve the profitability of the enterprise sector.

⁷ Act No. 2/1991 on collective bargaining and Labour Code No. 311/2001.

⁸ KOZ Position of 5 February 2021. <https://www.kozsr.sk/2021/02/05/vlada-a-parlament-predviedli-totalny-paskvil-namiereny-proti-zamestnancom-a-odborom/>

Conclusion

The international comparison of minimum wages in Slovakia and other EU countries in Central Europe and the Baltic states confirms that its level is not significantly different from the average for these countries. A negative factor impacting further minimum wage growth opportunities is the high price level in Slovakia. If in the near future, the price level continues to rise faster than in the other analysed countries, Slovakia can face problems in the social area (slower growth of real low and minimum wages, possibly also increases in the number of materially deprived inhabitants), as well as in the economic area by increasing labour costs and decreasing production effectiveness. The best solution for the future in Slovakia is a higher-quality social dialogue between social partners, mutual respect among them, and a growing coverage of wages by collective agreements in line with the requirements of the European Parliament and the current version of the Directive on adequate minimum wages in the EU.

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