

# Minimum wage in the Czech Republic and the EU

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## Introduction

As of 1<sup>st</sup> August, a new minimum wage applies in the Czech Republic. It has been set at CZK 8,500 per month, or CZK 50.6 per hour. After several unsuccessful attempts since 2007 to increase the "frozen minimum wage" of CZK 8,000, it was accomplished by the recently formed government of Prime Minister Jiří Rusnok. Previous proposed increases of the minimum wage from ministers Jaromír Drábek and Ludmila Müllerová did not succeed. Müllerová's proposal to increase the minimum wage by CZK 500 was approved only later under new Minister of Labour and Social Affairs František Koníček.

It is necessary to keep in mind that the mere setting of the minimum wage is not an easy task, and it is necessary to consider the functions it is intended to serve. After all, the amount of the minimum wage is important from both a social and from an economic point of view. The minimum wage should motivate employees to find and carry out legal employment. However, in relation to employers it plays a somewhat protective role by defining the lowest possible labour costs and setting the basic conditions for competition among business entities and limitation of "wage dumping". However, it has its pros and cons. A high minimum wage could push certain workers out of the labour market and increase unemployment. On the other hand, a low minimum wage, not only due to its amount, but also due to the average wage ceiling, could lead to reduction of living standards for workers and even to avoidance of work and abuse of welfare benefits. A lower minimum wage and the level of guaranteed wages derived from it also result in lower contributions to social security. Therefore, negotiations regarding setting the minimum wage tend to be lengthy and sometimes even involve conflict. The issue of directly reflected differing interests of social partners is involved. Whether trade unions, companies or the state, each party attempts to promote its interests during negotiations regarding the minimum wage.

The minimum wage is defined as the lowest acceptable amount of remuneration for work in an employment relationship. Its basic legal definition is set by the Labour Code (Act No. 262/2006 Coll., as amended). The amount of the basic minimum wage, other rates of the minimum wage during a limited scope of work performed by the employee and conditions for providing the minimum wage are set by Government Regulation No. 567/2006 coll., on the minimum wage,

on the lowest levels of guaranteed wages, on limiting burdensome work environments and on the amount of extra pay in addition to wages for work in a burdensome workplace, as amended. In that regulation, the minimum wage was last raised as of 1<sup>st</sup> January 2007 from CZK 7,955 to CZK 8,000 per month or CZK 48.1 per hour.

However, the current increase to CZK 8,500 is not the only change that occurred this year. Regulation No. 246/2012 cancelled Section 4 of the specified regulation regarding the minimum wage from 2006. Effective as of 1<sup>st</sup> January 2013, all lower (monthly and hourly) minimum wage rates during limited work by an employee were cancelled:

- 90% of the set amount of the minimum and guaranteed wage, if it is the first employment of an employee between the ages of 18 and 21, for a period of 6 months from the employment start date;
- 80% of the set minimum and guaranteed wage, if the employee is a minor;
- 75% of the set amount of the minimum and guaranteed wage, if the employee receives a disability pension for first-degree or second-degree disability;
- 50% of the set amount of the minimum and guaranteed wage, if the employee receives a disability pension for third-degree disability or if the employee is a minor with a third-degree disability who does not receive a disability pension for that degree of disability.

## Czech minimum wage history and present

The history of the minimum wage in the Czech Republic in the form in which we know it now dates back to Czechoslovakia in 1991. The statutory single minimum wage per month and per hour was set by the government as of 1<sup>st</sup> February 1991 for all sectors. Until 1991, Czechoslovakia did not have a minimum wage either set by law, by a government regulation, by any other act or by collective bargaining. Its functions were ensured by directly set wage tariffs, which were differentiated based on sectors and parts of national industry and based on complexity, responsibilities and urgency of work activities and working conditions. As of 1991, the minimum wage was set by the government based on recommendations from social partners.

The amount and conditions for providing the minimum wage were set by the government in its regulations usually as of the start of the year and in some years also in the middle of the year. In the business sphere, it is possible to agree on a higher minimum wage through a collective agreement. This year's increase valid as of 1<sup>st</sup> August in the 16th consecutive change to the minimum wage. However, because of its amount, it is among the lowest increases.

Although nominally CZK 500 is slightly above average compared to all changes since 1991, in terms of percentage it is among the lowest increases. The lowest increase was made by 1<sup>st</sup> January 2007, when the minimum wage was practically increased only cosmetically by CZK 45 to CZK 8,000.

### Development of Czech minimum wage 1991-2013

Valid from:	Hourly rate	Monthly rate	Change to monthly rate
1. 2. 1991	10.8 CZK	2,000 CZK	-
1. 1. 1992	12.0 CZK	2,200 CZK	10.0%
1. 1. 1996	13.6 CZK	2,500 CZK	13.6%
1. 1. 1998	14.8 CZK	2,650 CZK	6.0%
1. 1. 1999	18.0 CZK	3,250 CZK	22.6%
1. 7. 1999	20.0 CZK	3,600 CZK	10.8%
1. 1. 2000	22.3 CZK	4,000 CZK	11.1%
1. 7. 2000	25.0 CZK	4,500 CZK	12.5%
1. 1. 2001	30.0 CZK	5,000 CZK	11.1%
1. 1. 2002	33.9 CZK	5,700 CZK	14.0%
1. 1. 2003	36.9 CZK	6,200 CZK	8.8%
1. 1. 2004	39.6 CZK	6,700 CZK	8.1%
1. 1. 2005	42.5 CZK	7,185 CZK	7.2%
1. 1. 2006	44.7 CZK	7,570 CZK	5.4%
1. 7. 2006	48.1 CZK	7,955 CZK	5.1%
1. 1. 2007	48.1 CZK	8,000 CZK	0.6%
1. 8. 2013	50.6 CZK	8,500 CZK	6.3%

Source: MPSV

The longest intervals between changes were from 1992 to 1996 and from 2007 to this August. Otherwise, with the exception of 1997, the minimum wage was adjusted each year in 1999, 2000 and 2006 even twice per year, always first by 1<sup>st</sup> January and second by 1<sup>st</sup> July. This year's increase is unique not only because the longest period without adjustments of the minimum wage has ended, but also because it is effective as of August.

By how the minimum wage is increasing and the average wage is developing, their ratio is also changing. This ratio has been developing since the introduction of the minimum wage in 1991. In the last six years as a result of "freezing" the minimum wage amount, imaginary scissors have been opened between the monthly minimum wage and the average wage. In 2012, the ratio of the minimum wage to the average wage exceeded 30%, and in 2007 it was just under 40%.

However, this was neither the lowest nor highest ratio between these indicators. When the minimum wage was introduced in 1991, it was set at more than 50% of the then average wage. However, that ratio in the years that followed fell until 1998, when the monthly minimum wage represented approximately a fifth of the average wage. In the two years that followed, the minimum wage was increased each year by both 1<sup>st</sup> January and 1<sup>st</sup> July. The minimum wage valid in 1998 in the amount of CZK 2,650 was increased to CZK 4,500, effective as of 1<sup>st</sup> July 2000, which represented a year-to-year increase by 35.9% in 1999 and a 25% increase in 2000.

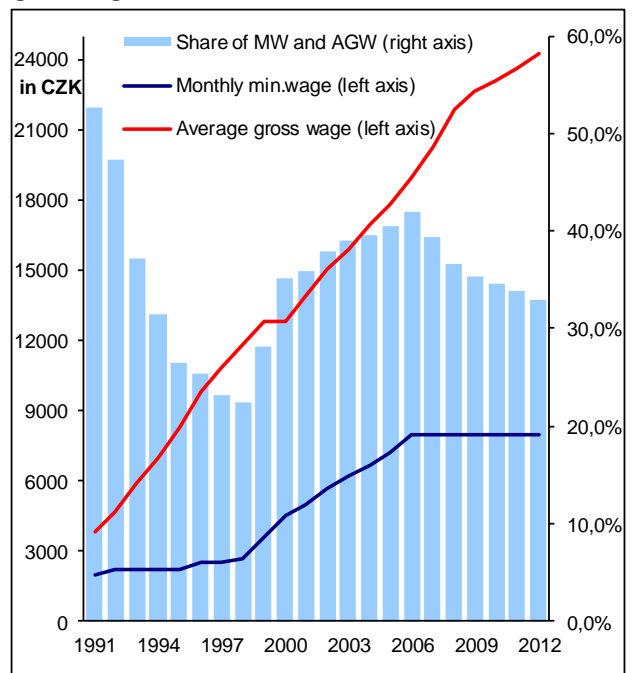
As of 1<sup>st</sup> August 2013, Government Regulation No. 210/2013 Coll. has amended Government Regulation No. 567/2006 Coll., on the minimum wage, and the basic minimum wage has been increased, with the possibility available for employees who receive disability pensions during limited work performance to continue to receive the minimum wage valid for such employees since 1<sup>st</sup> January 2013.

The minimum wage applies to all employees in an employment relationship or in a legal relationship based on agreements on work performed outside of an employment relationship (agreements on work performance and agreements on work activity). Employment relationships for a definite or indefinite period and concurrent employment relationships are not differentiated. Entitlement to a minimum wage arises in each employment relationship or legal relationship based on agreements regarding work performed independently outside of employment relationships.

The minimum wage applies as the only wage value for employees in organisations in the business sphere, in which collective bargaining regarding wages is carried out. In individual collective agreements, it is possible to agree on a higher minimum wage than required by the government regulation regarding the minimum wage. In other organisations in the business sphere in which no collective agreement has been entered into or in which wage conditions are not agreed upon in a collective agreement, besides the minimum wage the lowest possible guaranteed wage also applies. The lowest level of the guaranteed wage for the 1st group of work is identical to the minimum wage.

In the non-business sphere (public services and administration), besides the minimum wage and the lowest level of the guaranteed wage, a system of pay tariffs is also applied. These lowest wage levels (even in the event of limited work

#### Development of Czech monthly minimum wage and average gross wage



Source: MPSV, VÚPSV, ČSÚ

Note: minimum wage amount by the end of the particular year, average monthly wage for individuals

#### Lowest level of guaranteed wages

Work group	Per hour	Per month
1.	50.6 CZK	8,500 CZK
2.	55.9 CZK	9,400 CZK
3.	61.7 CZK	10,400 CZK
4.	68.1 CZK	11,400 CZK
5.	75.2 CZK	12,600 CZK
6.	83.0 CZK	13,900 CZK
7.	91.7 CZK	15,400 CZK
8.	101.2 CZK	17,000 CZK

Source: MPSV and Government Regulation No. 210/2013.

performance by an employee) are categorised in eight groups based on the complexity, responsibilities and physical demands of performed work.

The amount of the minimum wage for the set weekly work period of 40 hours is CZK 8,500 per month or CZK 50.6 per hour.

The rate of the minimum wage for the set weekly work period of 40 hours for an employee who receives a disability pension is CZK 8,000 per month or CZK 48.1 per hour.

The specified minimum wage and guaranteed wage amounts related to the set 40-hour work week. However, under Section 79 of the Labour Code, employees can have a work period other than a week set. The set weekly work period for employees with two-shift jobs is 38.75 hours per week.

The weekly work period for employees working underground and for employees working in a non-stop or three-shift job is 37.5 hours per week. Shortening of the set weekly work period without reducing wages can also be referred to in a collective agreement or internal regulation. In all such cases, the minimum wage per hour is increased in proportion to the shortened work period. This ensures if the length of the set weekly work period differs that the employee (when working the set period) is entitled to the same minimum wage per week or per month. The specific hourly wages based on the set weekly work period are derived by employers from the basic or lower (in the case of an employee with limited work performance) hourly wage according to the following formula:

$$MMx = MMz \text{ times } k$$

$$k = 40 / x$$

MM = minimum wage for the set weekly work period;

z = 40 hours;

x = a different set weekly work period, such as 37.5 hours;

For an employee paid a monthly wage who has agreed on a shorter work period (Section 80 of the Labour Code) or who has not worked during the calendar month the work period corresponding to the set weekly work period, the minimum wage shall be reduced in proportion to the worked period. If the wage, pay or remuneration from an agreement in the calendar month does not reach the minimum wage, the Employer is required to pay the difference to the employee, regardless of whether or not the lower number of hours worked was caused by the employer, and this also applies for employees remunerated by a task wage. The received wage or pay decisive for determination of entitlement to payment of the difference between the paid and minimum wages includes all wage amounts, except for wages and pay for overtime work, extra pay for work on holidays, for night work, for work in a burdensome work environment or for work on weekends. The wage (pay) also does not include amounts provided in connection with employment, particularly substitution of wages, severance pay, reimbursement of travel costs and remuneration for on-call status.

#### Lowest levels of guaranteed wages during limited work performance

Work group	Per hour	Per month
1.	48.1 CZK	8,000 CZK
2.	53.1 CZK	8,900 CZK
3.	58.6 CZK	9,800 CZK
4.	64.7 CZK	10,800 CZK
5.	71.5 CZK	12,000 CZK
6.	78.9 CZK	13,200 CZK
7.	87.1 CZK	14,600 CZK
8.	96.2 CZK	16,100 CZK

Source: MPSV and Government Regulation No. 210/2013.

#### Minimum wage amount based on the length of the set weekly work period

Weekly work period	Minimum wage per hour	
	basic rate	lower rate*
40 hours	50.6 CZK	48.1 CZK
38.75 hours	52.2 CZK	49.7 CZK
37.5 hours	54.0 CZK	51.3 CZK

Source: MPSV, \* during limited work performance by an employee with a disability pension

## Minimum wages in EU countries

The issue of the minimum wage in individual EU member states remains at their discretion and is not handled at the EU level. The minimum wage is set by a statutory or national inter-sectoral agreement in 21 EU states (Belgium, Bulgaria, the Czech Republic, Estonia, France, Croatia, Ireland, Lithuania, Latvia, Luxembourg, Hungary, Malta, the Netherlands, Poland, Portugal, Romania, Greece, Slovakia, Slovenia, the UK and Spain). Croatia became the 21st state on 1<sup>st</sup> July 2013 when it entered the EU.

However, the minimum wage in these states does not have a unified form. For example, there are differences related to different groups of workers (trainees, young workers), to whom the basic minimum wages do not necessarily apply. Especially employment of young and inexperienced workers can result in high numbers of minimum wage earners. Some of these states therefore have decided to set reduced minimum wages for young workers.

Other exceptions can apply to physically disabled employees, who often are not included in minimum wages or to whom special regulations apply. In some cases, state employees are not included either. Other differences can arise when assessing the length of employees' experience, their family situation and other factors.

In the other seven EU states (Denmark, Finland, Italy, Cyprus, Germany, Austria and Sweden), statutory minimum wages are not set, but instead wages tend to be set based on bargaining among social partners. Agreements often apply at the level of individual sectors or industries, which have a binding character. For example, in Germany although there is no set minimum wage for all employees in all sectors, a minimum wage is set for certain specific sectors, which varies between the former GDR (including Berlin) and the former West Germany. The wage difference between the federal states from the former GDR and the federal states from the former West Germany can be up to one euro in the hourly minimum wage. The hourly minimum wage is set this way for example for the construction sector (building, painting, varnishing, electricians and installation of roof covers) and for the sectors of waste management, cleaning, personal care, laundry and security.

In some of these sectors, there is further differentiation of qualified and unqualified workers. The lowest hourly minimum wage in particular sectors is around 7 euros in the former GDR and about 1 euro more in the former West Germany in the commercial cleaning and security sectors, while the highest hourly minimum wage is about 13 euros.

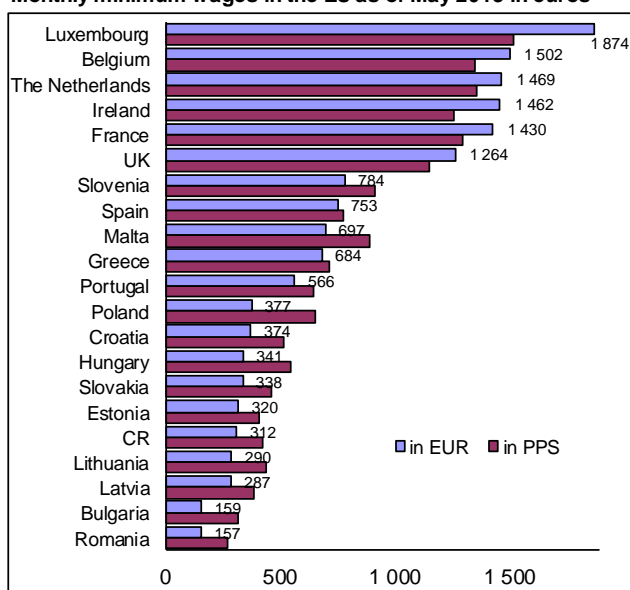
Minimum wages are set either as hourly, daily, weekly or monthly, to enable conversion of the minimum wage from one base to another. In certain states, the minimum wages are automatically increased proportionally in relation to price inflation, and in others price and wage fluctuations are taken into consideration conditionally or unconditionally during yearly re-examination of minimum rates. When planning minimum wages, other criteria can also be taken into consideration, such as effects on employment, unemployment and competitiveness.

Eurostat monitors the statistics of minimum wages for the EU and other states. These published statistics are converted to monthly national minimum wages, since some states have them set as weekly or hourly. These are then converted to monthly minimum wages based on the information provided from specific countries.

- Ireland: hourly rate x 39 hours x 52 weeks / 12 months;
- France: data for January 1999 to January 2005: hourly rate x 39 hours x 52 weeks / 12 months; data from July 2005: hourly rate x 35 hours x 52 weeks / 12 months;
- Malta: weekly rate x 52 weeks / 12 months;
- the UK: (hourly rate x average basic paid hours per week for full-time employees in all sectors x 52, 18 weeks) / 12 months;

In some states (Portugal, Greece and Spain), wages are paid in 14 payments, and therefore minimum wages are converted to 12 payments.

Monthly minimum wages in the EU as of May 2013 in euros



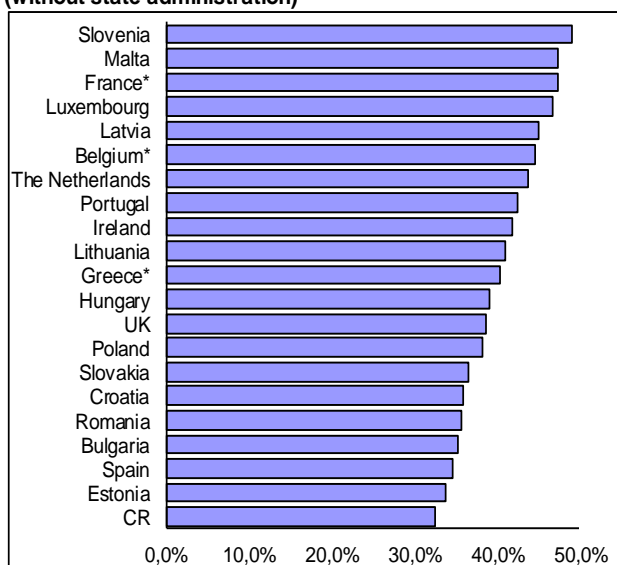
Source: Eurostat, \* data for Croatia has also been added

Monthly wages differ greatly among individual EU states. All minimum wages are specified as gross amounts, meaning prior to deduction of income taxes and contributions to social security. These deductions are different in each of these states. The Romanian minimum wage (157 euros) is not even a tenth of the minimum wage in Luxembourg (1,874 euros), which is one of the highest in the EU. It is apparent from examining the graph of monthly wages in euros that there are huge differences between former Communist countries of Eastern Europe and the Baltic states and older EU states.

The Czech Republic's minimum wage is one of the lowest in the EU. The increase of the Czech Republic's minimum wage as of 1<sup>st</sup> August does not change that much, since the increase amounts only to approximately 20 euros, which puts us only ahead of Estonia. Another interesting group consists of states whose minimum wage is higher than the average wage in the Czech Republic (the UK, France, Ireland, the Netherlands, Belgium and Luxembourg).

Another interesting type of comparison of minimum wages is their expression in purchase power standard (PPS), which is an artificially created monetary unit used during international comparison. We obtain these data in PPS from the value expressed in the national currency, divided by purchase power parity (PPP). Purchase power parity expresses for us the number of units of national currency for which it is possible to purchase the same amount of products and services as for a unit of another currency on a foreign market. This eliminates the differences in price levels between individual countries.

**Share of minimum wage in average earnings in EU in 2011 summarised for the industrial and services sector (without state administration)**



Source: Eurostat, \*data as of 2010

**Growth in nominal minimum wages in national currency in European Union**

	2013/2000	2013/2007
Romania	1,456%	79%
Bulgaria	363%	72%
Latvia	300%	67%
Hungary	284%	50%
Estonia	258%	39%
Slovakia	154%	34%
Slovenia	153%	50%
Poland	139%	71%
Lithuania	133%	67%
<b>Czech Republic</b>	<b>100%</b>	<b>0%</b>
UK	72%	16%
Luxembourg	57%	19%
Ireland	55%	4%
Portugal	52%	20%
Spain	52%	13%
Malta	43%	16%
Belgium	37%	19%
France	36%	14%
the Netherlands	35%	13%
Greece	30%	-6%

Source: Eurostat, own calculation, minimum wages by 1<sup>st</sup> January of the particular year.

The expression of minimum wages in PPS reduces their range. Generally, it can be stated that states with lower price levels "improved" and states with higher price levels have minimum wages expressed in PPS that are lower than when expressed in euros. The lowest minimum wage in PPS is in Romania (274), and the highest is in Luxembourg (1,524).

In view of the individual approach to changes in minimum wage amounts, their frequency and amounts are fully at individual states' discretion. The fewest changes since 2000 have been made in Ireland, a total of 6 by January 2013, of which the most recent change occurred in the second half of 2007. There were fewer than ten also in Lithuania and Latvia. They were followed by the Czech Republic, with ten minimum wage increases. However, the most changes to the minimum wage (over 20) were made in the Netherlands. If we look at these changes in terms of percentage growth, the winner is Romania, which in 2000 had a monthly minimum wage of 45 RON and where the minimum wage was 700 RON at the end of 2012.

Given that the minimum wage has been increased twice since then by another 50 RON, this rise is even higher. In the Czech Republic, the growth has been by 100% from CZK 4,000 to 8,000. The only reduction of the minimum wage was in Greece in the second half of 2012 by approximately 22%. A "decline" in the minimum wage also occurred in France in 2005. However, that decline was not the result of a decrease in the minimum wage, but of a decrease in the number of hours worked from 38 to 35.

If we express the share of the monthly minimum wage in the gross monthly wage in a summary for the industrial and services sector (without state administration), we get an interesting comparison.

This ratio ranges approximately from 30% to 50%. In 2011, the Czech Republic had a minimum wage that was 32% of the average gross wages. The highest share is in Slovenia, Malta and France, reaching nearly 50%.

## Conclusion

Heated debates have taken place recently not only about the last increase in the minimum wage. All of those involved in this debate have their own arguments.

There are both many supporters and many opponents of increasing the minimum wage, which in the Czech Republic based on a qualified estimate derived from data from the information system about average earnings (generated for the Labour Ministry by Trexima s.r.o.) affects over the long term about 3% of employees. But how is the Czech minimum wage in a European comparison? It is true that the minimum wage in the Czech Republic was long frozen at CZK 8,000

However, the situation is similar in Ireland, where for just as long the minimum wage has remained unchanged. With its absolute amount expressed in euros or in PPS, the Czech minimum wage is among the lowest among the EU states that have a minimum wage, and the current increase by CZK 500 does not change this much. However, where we are on the tail-end is with regard to the minimum wage in relation to the average gross monthly wages.

The topic of minimum wages is a very sensitive one, but there has always been and still is certain room for further increases. It certainly would not be a good idea to increase it by thousands, but it should not be left at such a low level, because when it is that low it cannot serve its basic purpose.

And what do you think about it?