

# Minimum wages in 2023: Annual review

## Introduction

In terms of minimum wage setting, 2022 will be remembered well as an outstanding year for two reasons. High inflation rates that had not been seen in decades triggered the need to substantially uprate gross wages nominally. But it was also the year in which the EU-level negotiators reached agreement on the directive on adequate minimum wages.<sup>1</sup>

## Policy context

Following approval by the European Council and European Parliament, EU ministers approved the directive on adequate minimum wages on 4 October, kick-starting the two-year implementation process for Member States. The directive establishes procedures to ensure the adequacy of statutory minimum wages, promotes collective bargaining on wage setting and improves access to statutory minimum wage protection for those workers who are entitled to such protection under applicable national laws. In the case of Member States bringing in variations or deductions – different rates of wage for specific groups of workers or reducing the pay to a level below that of the relevant statutory minimum wage – the directive requires that the principles of non-discrimination and proportionality be respected. While the directive does not specify what level is considered ‘adequate’ – leaving it up to the national minimum wage setters to decide on the international or national indicative reference values they will adhere to – it cites 60% of median and 50% of average wages in a country as examples for such target values.

The directive lists four criteria that must, as a minimum, be respected when updating statutory minimum wages: purchasing power, taking into account the cost of living; the general level of wages and their distribution; the growth rate of wages; and long-term national productivity levels and developments. In addition, all Member States with a collective bargaining coverage of less than 80% are

required to establish a framework for enabling conditions and compile an action plan to promote collective bargaining.

## Key findings

- Minimum wage earners in most EU countries have benefited from increases in statutory minimum wages over the past decade in various ways: their purchasing power has increased in real terms, and their gross wages have grown more than average wages and often at rates exceeding labour productivity. Those from the central and eastern European countries enjoyed the largest real gross and net wage increases in the decade, though starting from very low absolute levels.
- Between January 2022 and January 2023, Member States proceeded to boost statutory gross minimum wages in an unprecedented way, with increases ranging from more than 20% in Germany and Latvia to over 5% in Luxembourg. The median nominal increase across Member States was almost 11%, compared with 5% in 2022. However, owing to high inflation rates across the EU, these large nominal increases did not result in significant gains in purchasing power among minimum wages earners, except in a few countries (mainly Germany and Belgium).
- On a positive note, the recent losses in real minimum wages occurring in several countries have not eroded the long-term gains in purchasing power of minimum wage workers that have taken place since 2013.
- In 2022, net minimum wages (after personal income tax and social insurance contributions) for a single earner without children ranged from €282 per month in Bulgaria to €1,968 in Luxembourg. Six countries – Croatia, Czechia, Greece, Malta, Portugal and Spain – did not apply personal income tax on gross minimum wages, and in Latvia and the Netherlands the average personal income tax was very small.

<sup>1</sup> Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union.

- The average employee tax rate (personal income tax and social insurance contributions) on gross minimum wage for a single earner without children ranged from 6% in Spain to 40% in Romania. Minimum wage earners kept 90% or more of the gross minimum wage in Belgium, Estonia, France, Ireland, Malta, the Netherlands and Spain. At the other extreme, only 60% of the gross minimum wage was received by Romanians and 66% by Hungarians. In five countries – France, Germany, Luxembourg, Malta and the Netherlands – the same group of minimum wage earners was entitled to in-work or social benefits in 2022.
- The most substantial change in minimum wage regulations was the introduction of a monthly statutory minimum wage in Cyprus. The Netherlands introduced a harmonised definition of an hourly rate, and Romania introduced a further statutory rate for agricultural and food workers.
- During 2022, an increasing number of countries determined new levels for their statutory minimum wages following a bipartite or tripartite agreement. At the same time, when countries made ad hoc updates, such as Germany and the Netherlands, they were grounded in political decisions and outside the regular system of minimum wage setting.
- Because the transposition phase has just started, the impact of the EU directive on national minimum wage setting has been limited so far. However, one early impact is that the ‘indicative reference values’ set out in the directive (50% of average and 60% of median wages) are increasingly adopted, whether explicitly in (proposed) laws or targets (Belgium, Bulgaria, Ireland, Slovakia, Spain), based on actual updates (Croatia, Germany), or in the form of trade union demands (for example, Czechia, Greece, the Netherlands).

## Policy pointers

- In an inflationary environment, it is particularly important to ensure that the purchasing power of statutory minimum wages, taking into account the cost of living, is one of the criteria guiding their setting and updating. Currently, minimum wage legislation makes reference to inflation in some EU countries, while around a third of EU countries use rule-based mechanisms with a binding nature in order to decide on updates to the statutory rate.
- Apart from France, which takes into account inflation for the lowest-earning households (belonging to the first earnings quintile), Member States apply inflation rates calculated for the average household. As low-earning households and low-paid workers are likely to spend a larger share of their income on housing, energy and food, this could mean that the loss of their purchasing power has been underestimated. Even if minimum wage setters do not intend to move towards a living wage approach (based on a basket of goods and services needed to achieve an agreed living standard), they could reflect on how to take into account the fact that average rates of inflation might underrate the loss of minimum wage workers’ purchasing power.
- On the other hand, the fact that governments have sought to cushion the impacts of inflation for citizens with a range of measures – such as subsidies for home heating, reductions in energy taxes, price caps on food and energy, or general subsidies – means that wages have not borne the whole brunt.

### Further information

The report *Minimum wages in 2023: Annual review* is available at <https://eurofound.link/ef23019>

Research manager: Christine Aumayr-Pintar

[information@eurofound.europa.eu](mailto:information@eurofound.europa.eu)