

# CEE wage convergence: upwards momentum since 2016 but still off-track

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### **Show different measures for convergence and wage convergence (CEE in focus, SEE as far as possible)**

- Show income convergence as GDP/capita/EU15 at PPS
- Between 1995 and 2008 wage convergence was dynamic without a loss of competitiveness, but then..
- Reversal since 2008 without a good reason
- New momentum from 2016
- **wages in EUR terms as share of EU15, wage shares**
- **Real wage growth much behind productivity growth**
- **Relative wage vs relative productivity levels (V4 – EU15)**

### **Still low wages: not only unfair, but economically detrimental**

- Less purchasing power, less growth
- <sup>2</sup> Low wage trap: getting stuck in a subordinated role

## GDP convergence for CEE (1997-2018) and for SEE (2000-2018)

Overall positive development in both CEE and SEE with important country differences

2008 was a trend break, but convergence continued

- Baltic states spectacular catching-up (Lithuania best)
- Czechia ahead of Slovenia (2018)
- Croatia, Slovenia no convergence since 2008

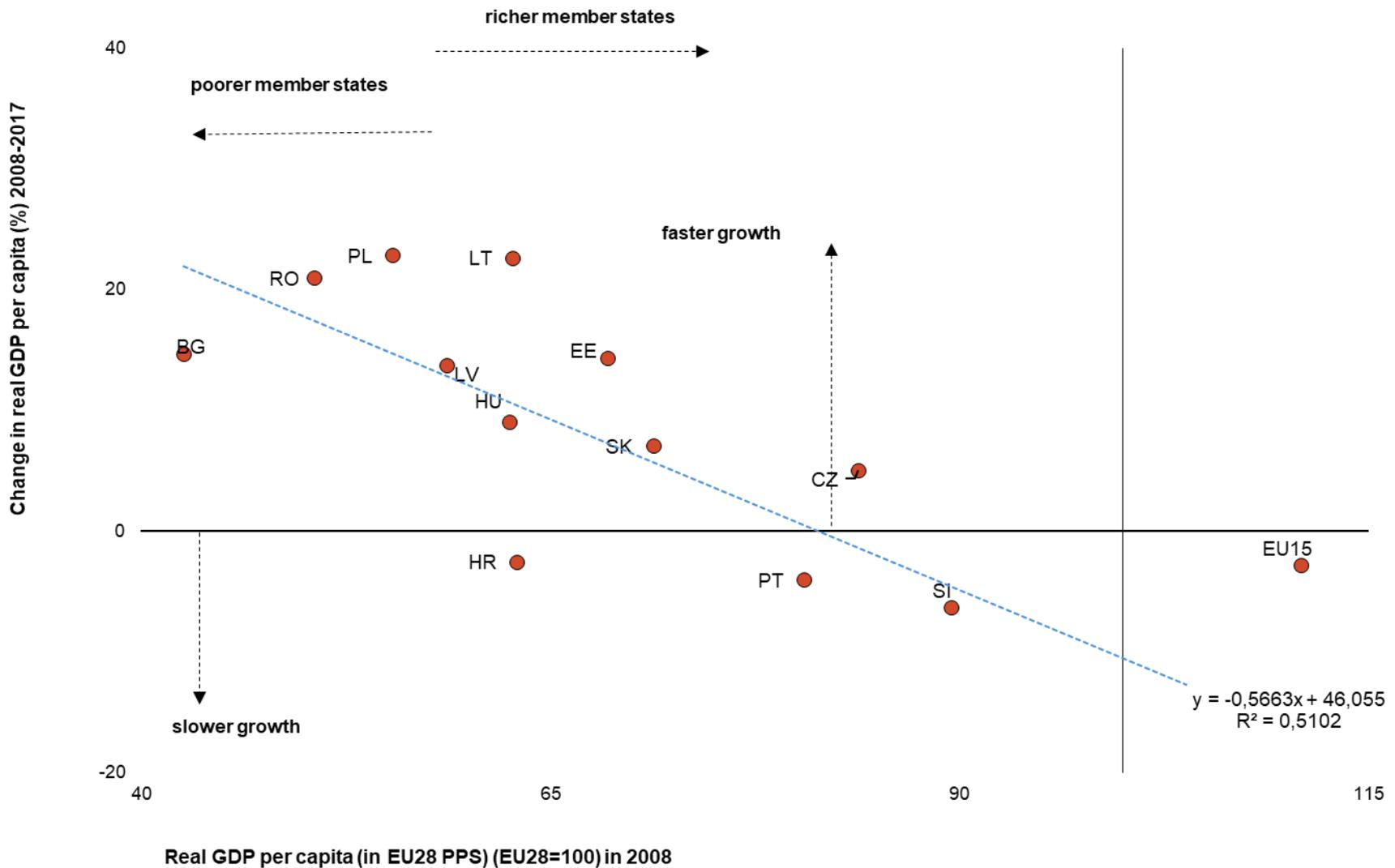
In 2000 Romania was at cca the same level as Montenegro, Serbia and North Macedonia, by 2018 Romania is much ahead of the WB region, Bulgaria also, but to a lesser extent

Foreign Direct Investment (FDI) targets now WB6 countries during 2014-18 average FDI inflow to WB6 was 6.6% of GDP, for CEE11 it was just 2.6% (Hunya, 2019, wiiw).

# Gross domestic product at current prices per head of population (%), PPS, EU15=100

CEE EU MS	1997	2008	2016	2018
Czechia	64.7	75.6	81.2	83.7
Hungary	43.1	56.3	63.6	65.1
Croatia	44.2	56.8	56.3	58.3
Poland	39.6	50	64.1	66.9
Slovakia	44.3	64.4	72.6	72.4
Bulgaria	25	39.2	44.5	46.6
Estonia	34.4	61.9	69.1	74.6
Latvia	28.5	53.1	60.2	64.4
Lithuania	31.1	56.7	70.5	74.7
Romania	24.7	44.5	54.5	59.7
Slovenia	67.2	80.9	77	81.0
SEE				
Albania	14.9	22.4	27.3	28.9
Montenegro	23.1	37.4	41.0	43.9
North Macedonia	23.4	28.7	34.2	33.8
Serbia	21.8	34.4	35.9	38.0

# Economic convergence between 2008 and 2018; Y: cumulated real GDP change, X: GDP in % of EU28, PPS



## UP to the crisis: higher wage dynamics in CEE than in both the core and periphery of EMU

Each measure has its particular focus and importance

Wage developments in nominal EUR terms are indicative for investment decisions, labour mobility

International comparisons normally deal with PPS figures that account for the local purchasing power of the nominal wage

Real wage developments are most important for trade unions and the workers (living standards)

Real wage/productivity relationship such as the wage share are decisive measure for the capital/labour relationship

Convergence in productivity ahead of wages

In all countries 2008 was a point of reversal in wage convergence – in all measures as illustrated on the graphs below

## Country differences in (wage) convergence?

Wage levels are still a fraction of that of the EU15.

Although convergence suffered a serious trend-break with the crisis and wage convergence is behind productivity in all CEE-s, there are country differences:

For the Baltic states the crisis meant a limited loss of momentum in wage convergence, with new dynamism since 2014-15, Estonia ahead of Czechia, Latvia close to Slovakia

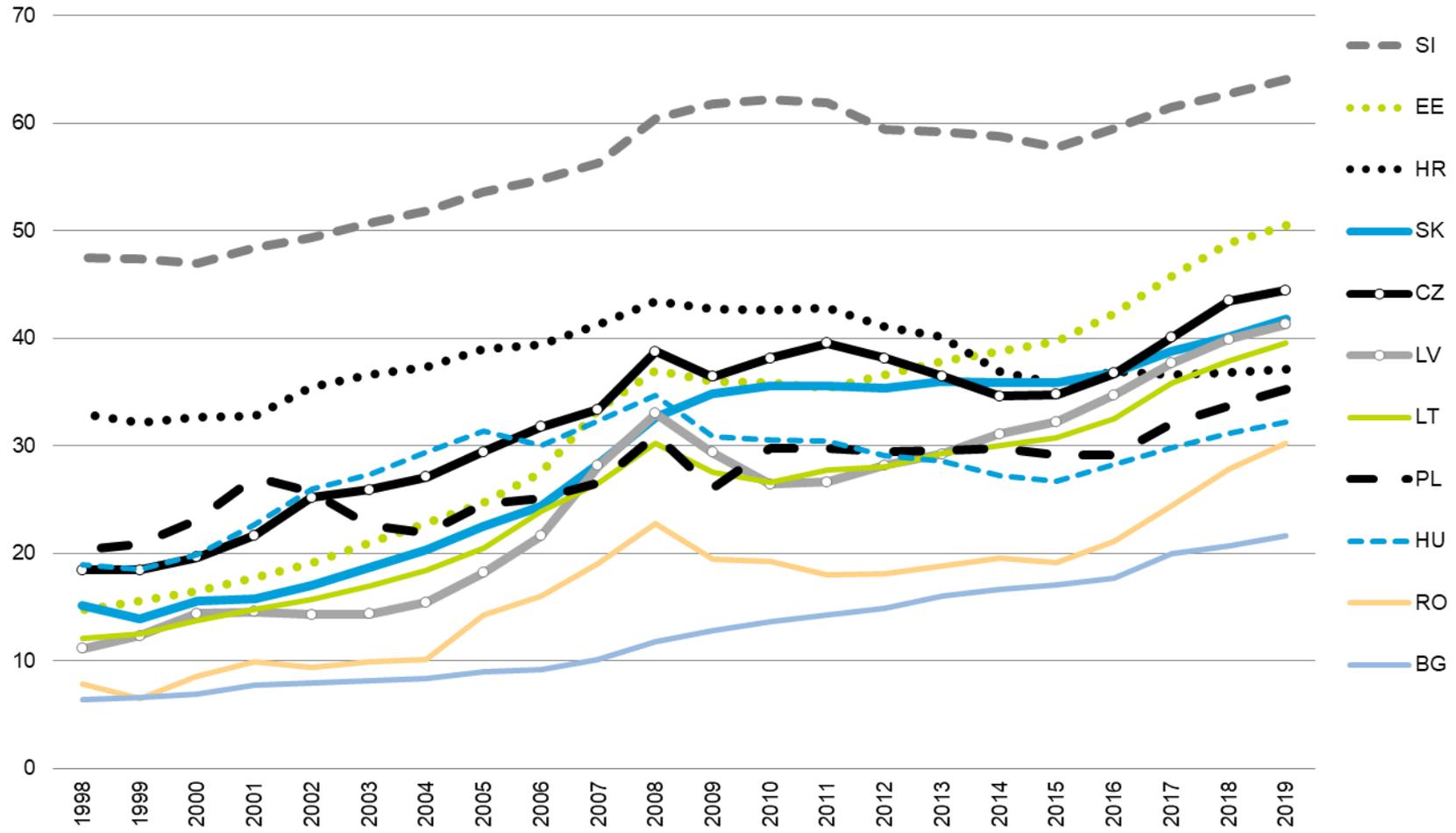
In V4 there is a clear trend break, CZ gaining momentum since 2016 (again ahead of SK), PL moderate, HU despite new dynamism worst, Croatia is clearly and steadily sliding back

After 9 years stagnation, Romanian wages grow fast since 2015, now approaching Hungary, Bulgaria steady convergence, but still lowest in EU; For longer term convergence (1995-2017)

the Baltic performance is spectacular

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# Yearly average gross wages in % of the EU15, 1998-2019 (in nominal EUR terms)



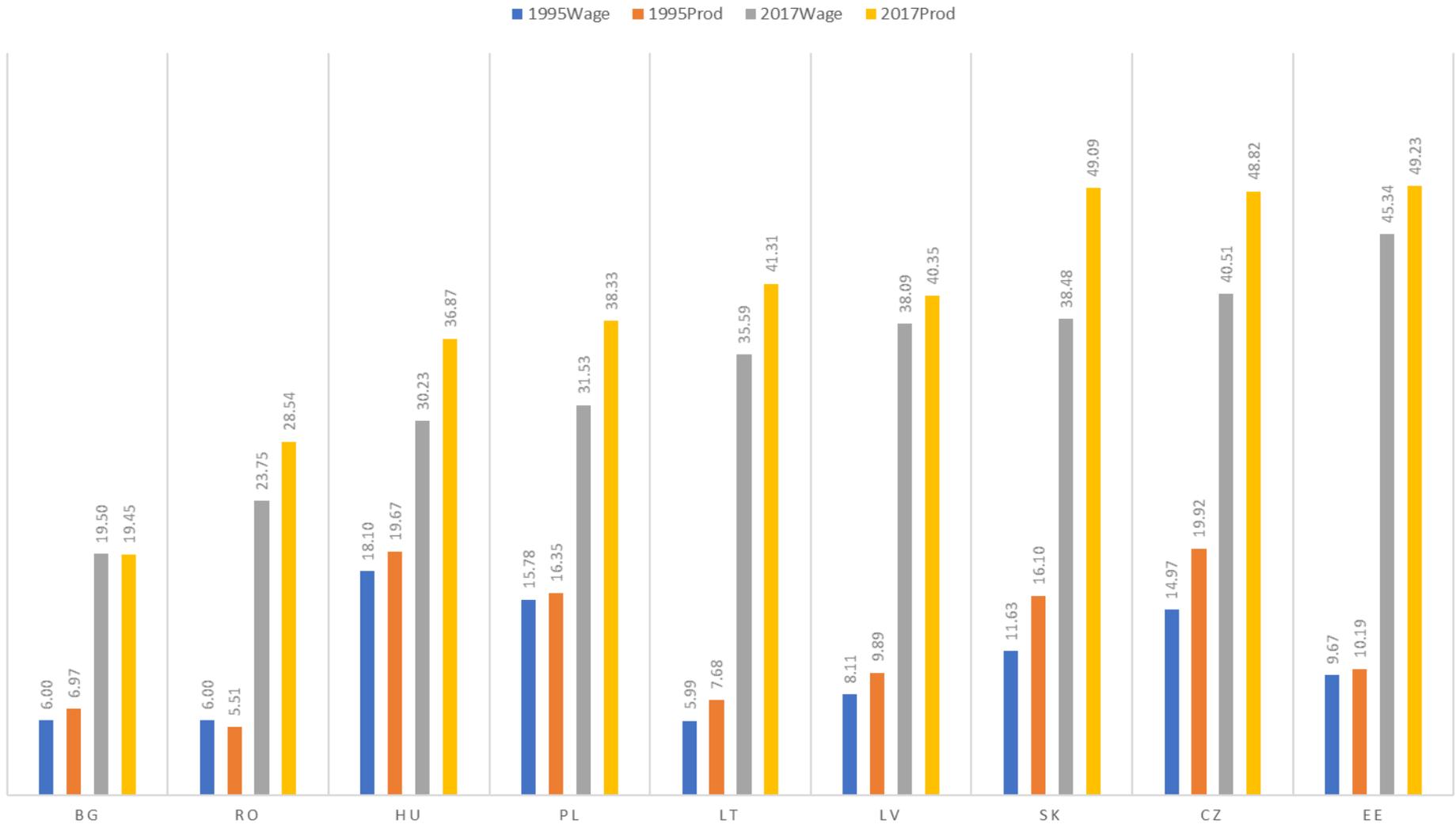
Source: AMECO 2019

# Average gross wages in Euro

	2010	2011	2012	2013	2014	2015	2016	2017	2017 in % EU15
Albania	252.33	259.97	269.95	259.03	325.34	335.11	333.75	371.52	12.4
Bosnia Herzegovina	622.04	649.65	659.67	660.23	659.31	659.11	665.04	675.57	22.6
Montenegro	715.00	722.00	727.00	726.00	723.00	725.00	751.00	765.00	25.6
North Macedonia	491.36	497.38	498.45	503.79	508.33	522.17	532.85	547.10	18.3
Serbia	460.49	517.24	507.66	536.59	523.64	506.45	515.55	543.74	18.2
Bulgaria	331.37	350.65	373.81	396.31	420.13	448.87	484.87	530.37	17.8
Croatia	1,053.5	1,047.9	1,046.9	1,047.5	1,041.7	1,057.9	1,029.0	1,079.2	36.2
EU15 average	2,655	2,708	2,782	2,841	2,891	2,950	2,954	2,979	100.0

# Wage and productivity levels (nom EUR) in % of EU15, 1995 and 2017

## WAGE AND PRODUCTIVITY LEVELS IN PERCENT OF EU15

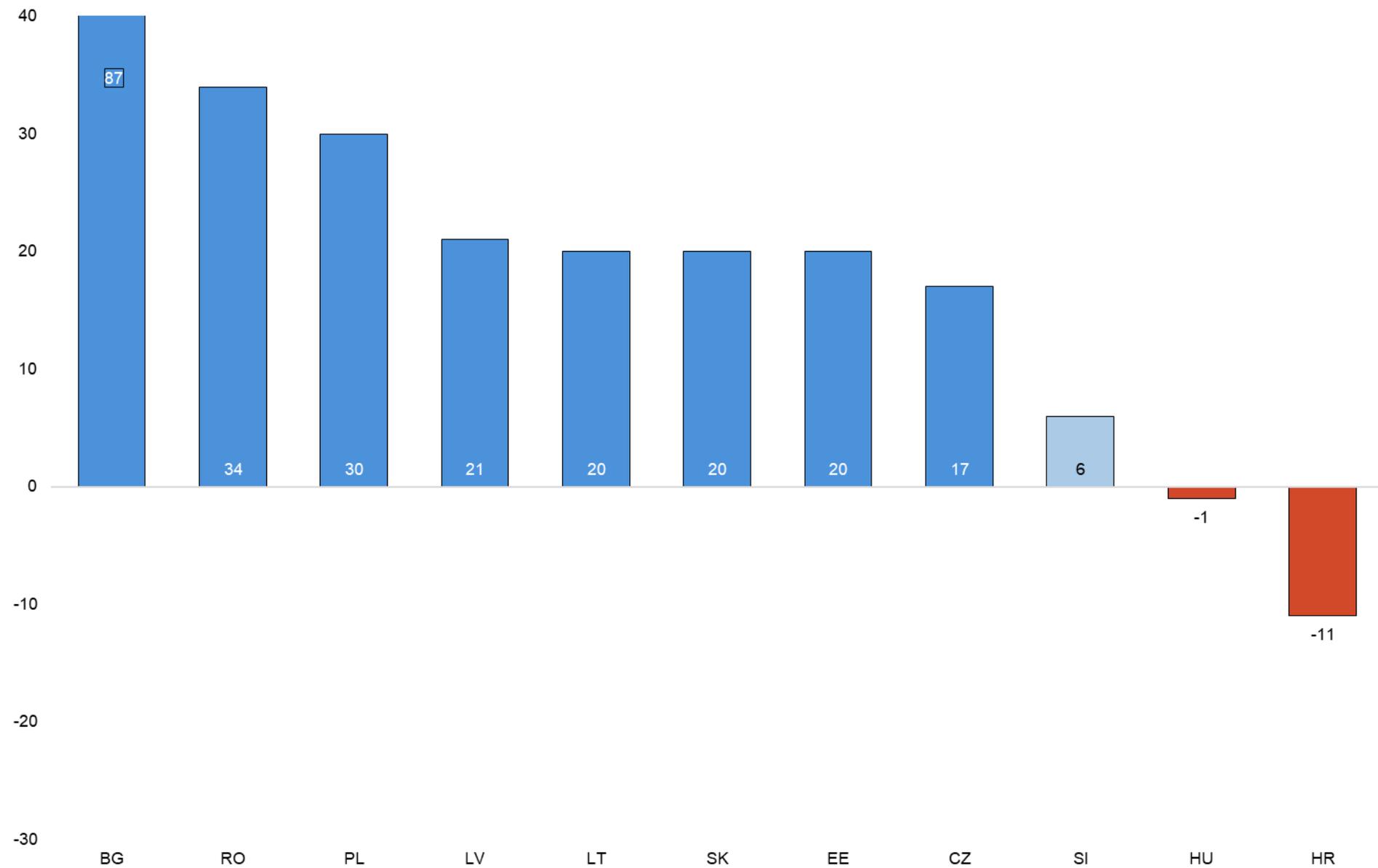


By 2018 real wages in the whole CEE region above pre-crisis levels on average by 20% (EE, SK, LT, LV), in Poland by 30%, in Romania by 34%, in Bulgaria by 87%!

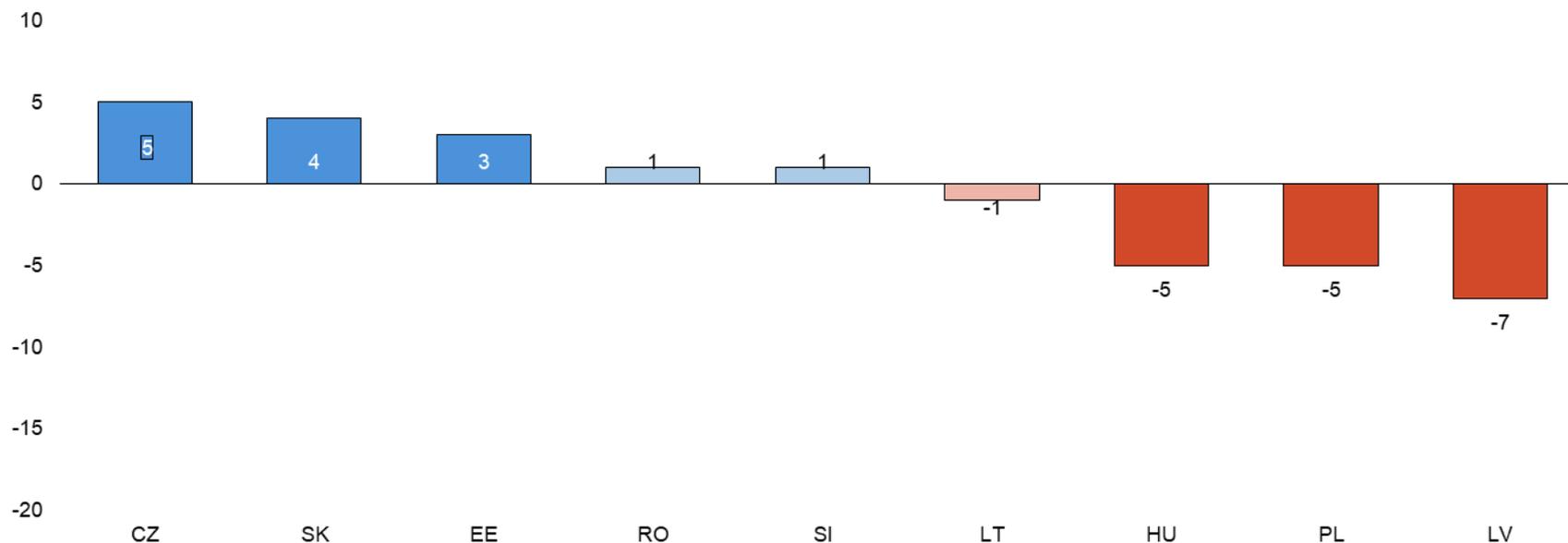
On the other hand, in Hungary – in spite of a wage dynamism since 2016 compared to 2009 still 1% lower, in Croatia real wages in 2018 were 11% lower than in 2009

Compared to productivity growth (2009-2018), in Hungary real wages were by 5%-points back (just like in Poland), in Latvia by 7% points back, while in CZ, SK, EE, RO, SI: slightly positiv, in Bulgaria wages were ahead of productivity by 60%-points

# Real compensation 2009-2018 (%-ban for the whole period)



# $\Sigma$ (Real wages – productivity) 2009-2018, %-points

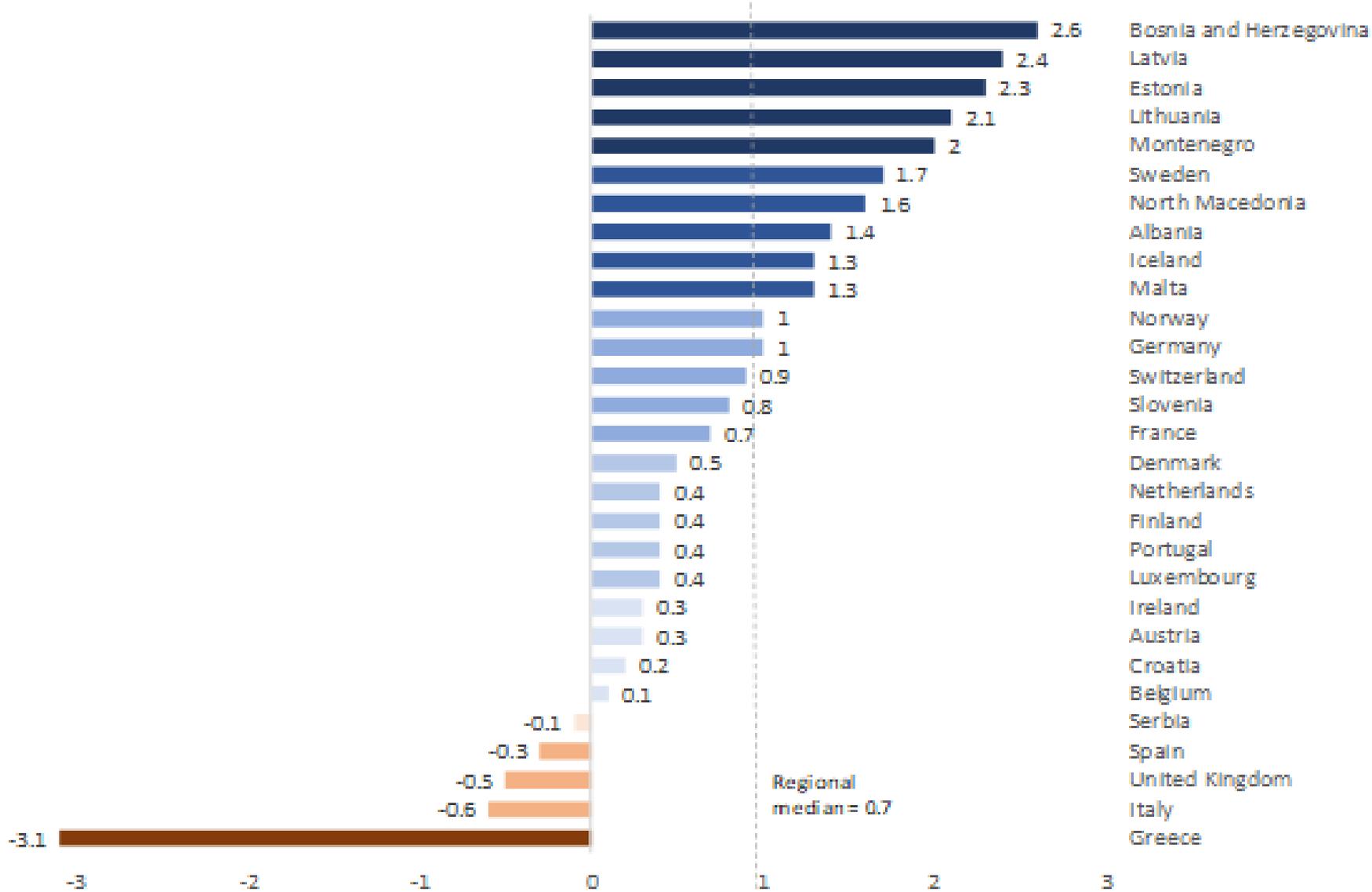


For the SEE region real wage developments were summed up in the ILO Global wage Report (2018/19)

Taking annual yearly averages into account, Bosnia Herzegovina had the highest increase (by yearly 2.6%), followed by Montenegro, North Macedonia and Albania in the region

In this period, Croatia had a slight increase while Serbian real wages did not change.

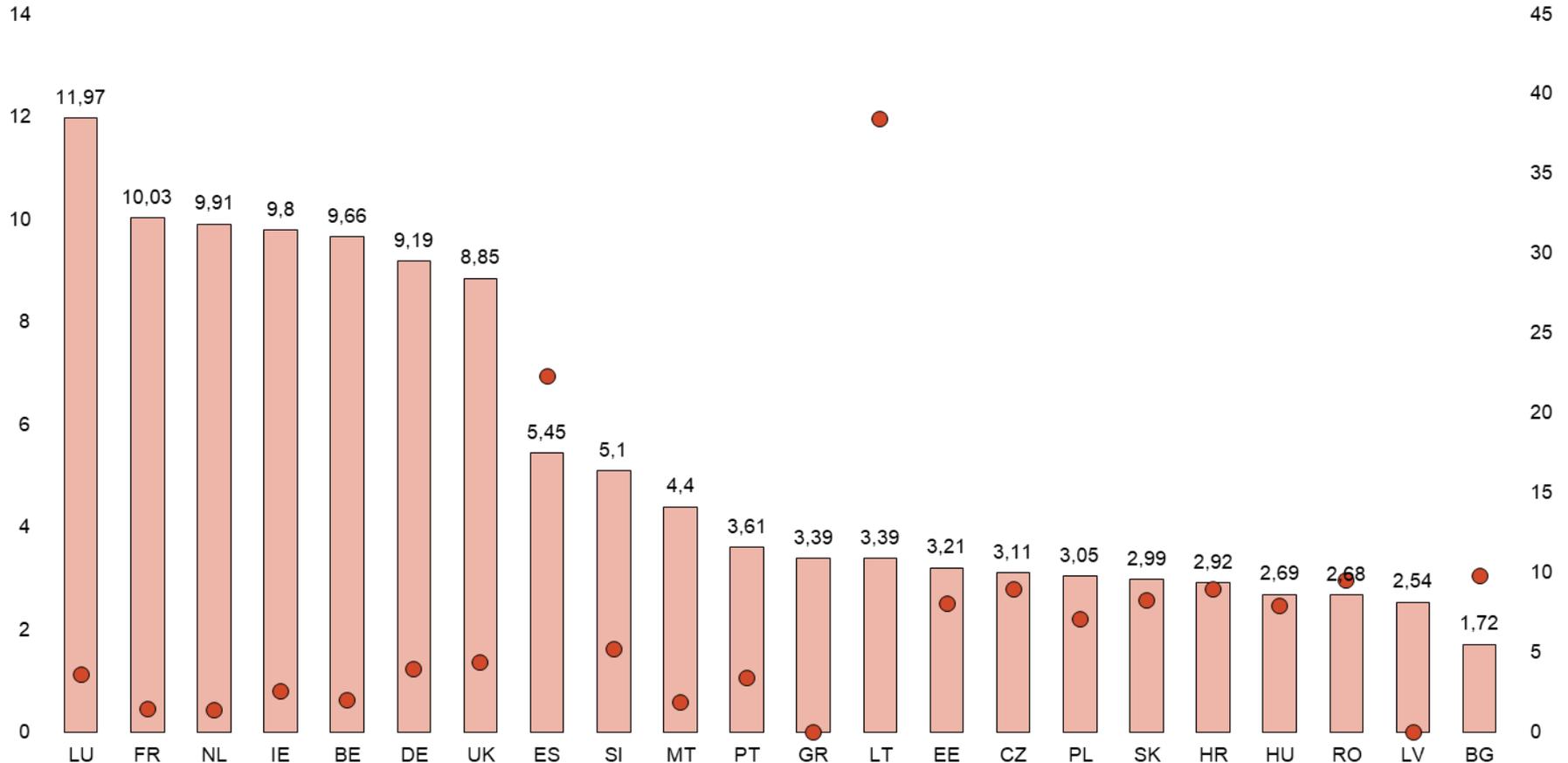
# Average annual real wage growth, selected European countries with focus on SEE – 2008-2017



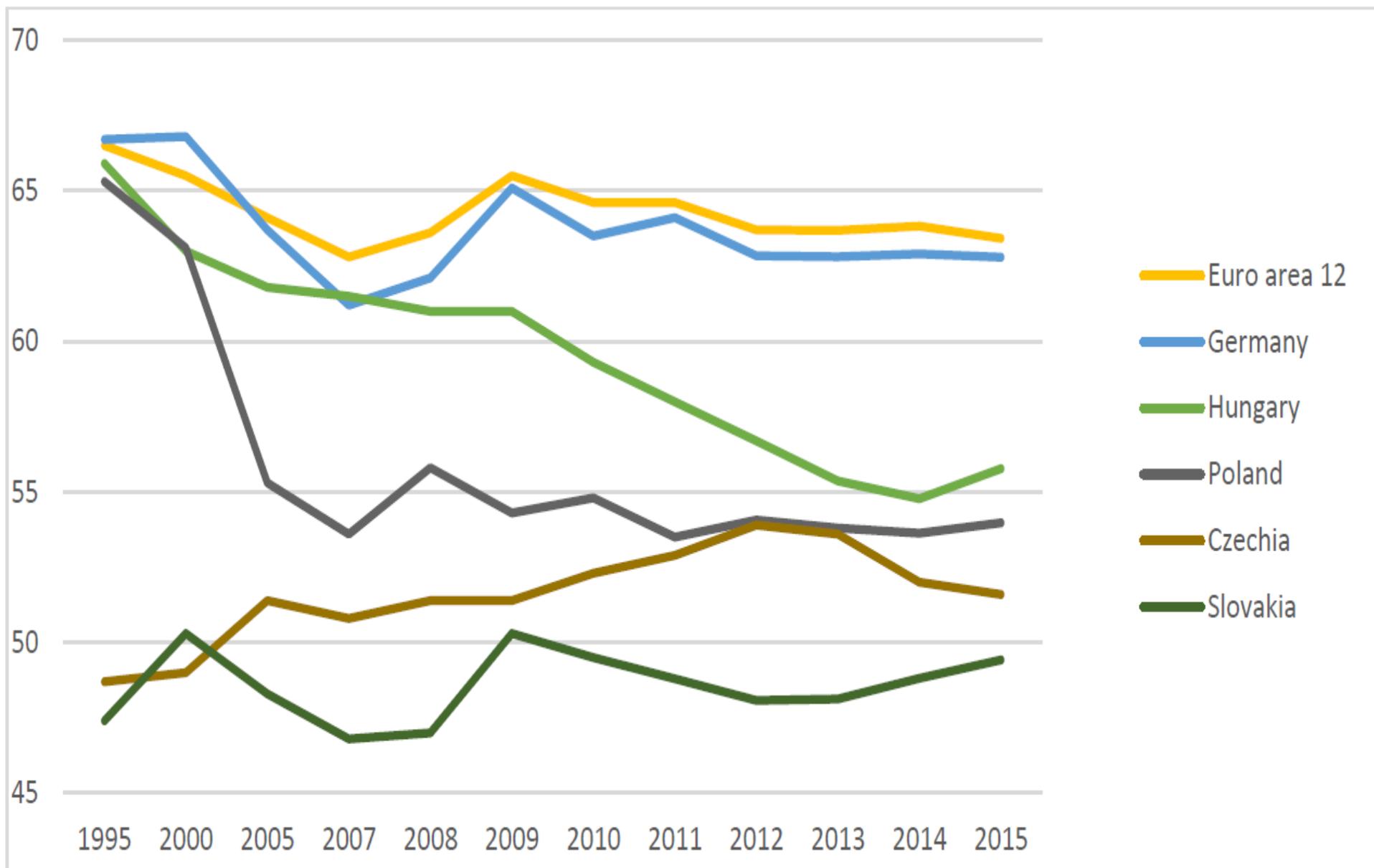
# National minimum wage (EUR/hour) 2019 January (left scale), yearly increase 2019/2018, % (right scale)

■ national minimum wage per hour (January 2019, left-hand axis)

● development of hourly minimum wage Jan 2018-Jan 2019 (in % based on national currency, right-hand axis)



# Wage shares in V4 at the bottom of the EU



## Country differences

Only the Baltic states and Bulgaria have real wage gains since the crisis, Hungary and Romania have highest losses

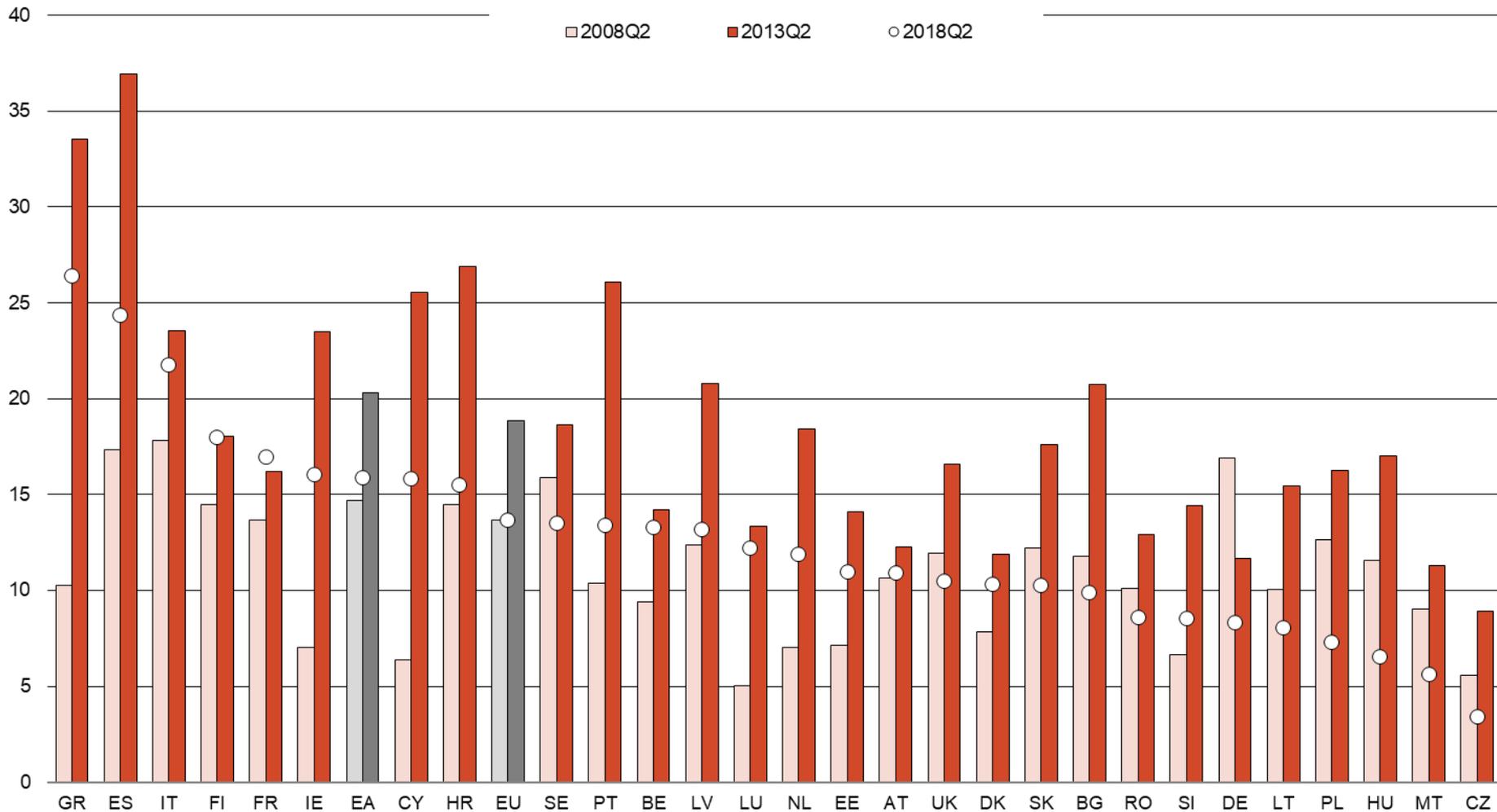
V4 wage shares in GDP are significantly lower (cca 55%) than in EU15 (63%) and the main trend is also downward.

Biggest drops in Poland (12p.p.) and Hungary (12p.p.).

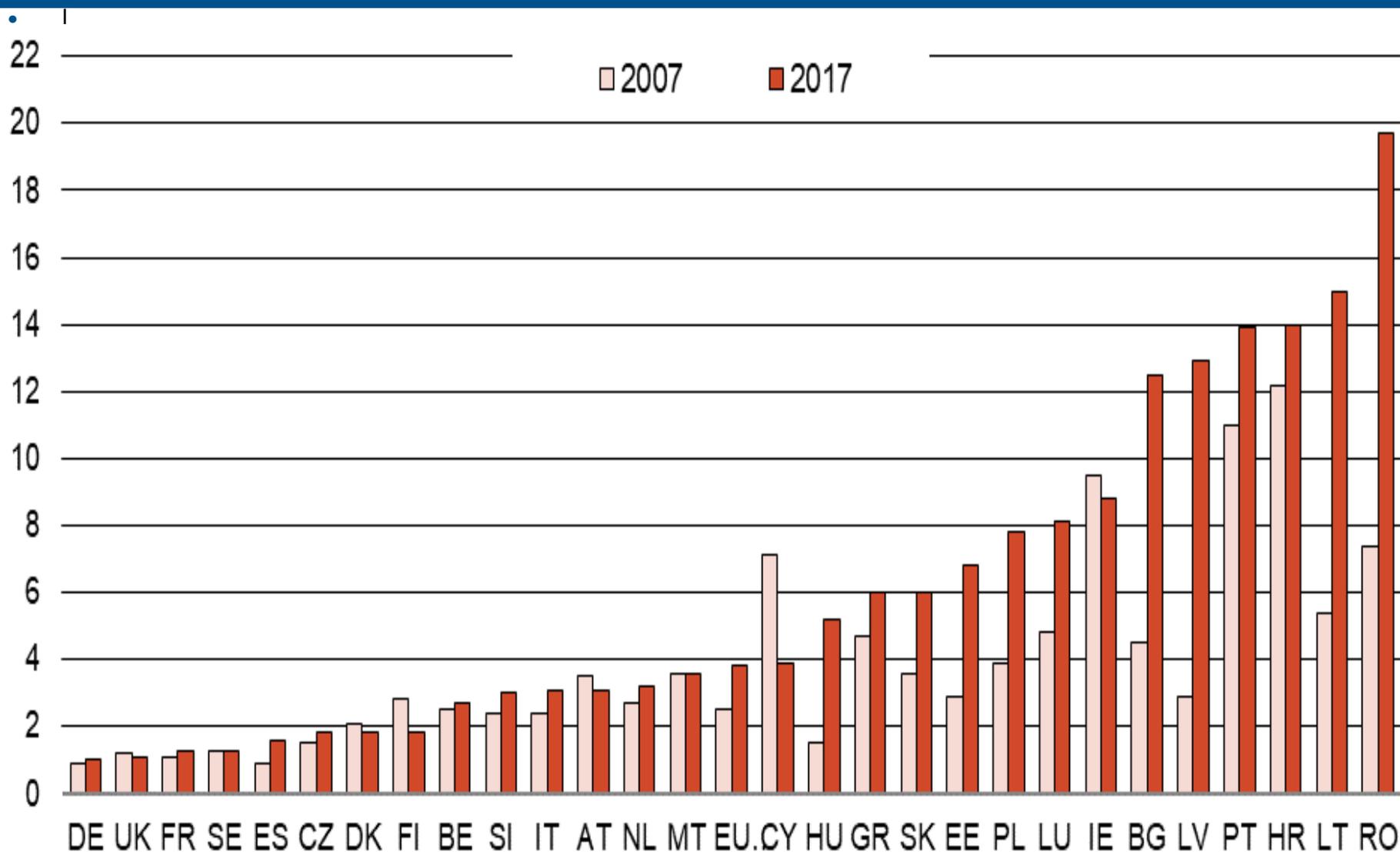
Slovak wage share is lowest (49% of GDP).

What factors may have an influence on the different performance of individual CEE countries?

# Robust labour markets: underemployment (labour market slack) for most CEE-s lower than before crisis



# Outflow of working age population – % share of people (age group 15-64 years) living in another EU MS



# Low wage trap: destined to be left behind; specialisation in low value added labour intensive activities > no future

Low wages also mean, low R&D and innovation activity

CEE are among the laggards in R&D spending and innovation

FDI in CEE is also not R&D intensive

Low innovation capacity in CEE is a blocking factor of further development and low wage profile contributes to conserve this

The role of CEE in international value chains is still dominantly based on cheap labour – a vulnerable position without future perspective, especially ahead of digitalisation and technological change

## Concluding remarks and outlook

Stalled wage convergence between the CEE new member states and the EU core undermines social cohesion in the entire EU. With free flow of capital, services and people the persistently high wage gap creates adverse effects both in the East and the West. The resulting disappointment leads to the emergence of political forces that question core EU values. The lack of wage convergence is thus not only a matter of social injustice for the workers in the East, it is detrimental for sustainable growth and it threatens the future of Europe.