

Béla Galgoczi (bgalgoczi@etuc.org)

**Trends of wage developments and collective bargaining in the
new EU member states and candidate countries /2003-2004/**

**EPSU CB Conference
20-21-October 2004, Brussels**

I. Major characteristics of the new member states

1. Economic and social environment in 2003 and 2004

After several years of wage restraint and social sacrifices,

at times of fast GDP and continuous productivity growth in the last 2-3 years,

Dynamic wage growth is again under pressure (this time) **due** to the prospect of the **EMU entry**

Stability and Growth Pact targets are the major determinants of economic policy in the new member states.

There is a basic contradiction:

between the **general expectations of the public vis-a-vis 'fresh' EU membership** and the fact that the EU or better to say the **EMU brings more 'belt-tightening'** and austerity programmes instead of the quick growth of living standards.

Furthermore: it is hard to understand for the public, for the employees and also for the trade unions, **why wage restraint is back on the agenda amid 4-5-6 % real GDP growth and double digit industrial productivity growth.**

This constellation is so **hard to cope with;** "result": **three left wing governments** of three key countries were **fallen in a row after EU accession:** Poland, Czech Republic and Hungary.

Highlights of the national CB reports

Major trends are opposite of those, seen in Western Europe: - is this a sign of convergence?

- **substantial, sometimes exuberant real wage increases in the past years, also in 2003**
- **efforts for strengthening branch level agreements /mixed and vague results, but still the orientation/**
- **working time still (?) having a downward trend /although in a cautious approach/**
- **rapid nominal convergence of both economic performance indicators and wages**
due to the combined impact of real dynamics and the appreciation of local currencies against the Euro – one example Hungary: **nominal GDP growth in Euro at 10% /2003, 2004 2005/, nominal wage growth in Euro: 17% (for 2003).**

Macroeconomic highlights for 2003

the sluggish European growth, especially the bad performance of Germany (biggest export market) has put its mark on their growth figures,

still, CEE countries in 2003 were further on the most dynamic part of Europe with growth rates in a range of 2.5% in the Czech Republic to 8.9% in Lithuania, with a mean value of 3.7%.

An acceleration of growth is expected for all new member states for the next period.

GDP growth in nominal Euro terms is close to 10% /year – nominal convergence!!!

The major hurdle of short term growth prospects is the prospect of EMU accession,

a substantial tightening of fiscal policies is needed to bring down the large – in certain cases excessive budget deficits to the level of the Maastricht criteria within a few years

This impact of the EMU prospect also refers to the monetary policy, which is in the squeeze of the Maastricht targets and the productivity induced inflationary pressure.

Controversial impacts of ambitious EMU entry aspirations

In Poland and the Czech Republic inflation was driven down to zero or one per cent, in Lithuania even deflation was seen – now a backlash follows

Hungary and Slovenia pursue a more “careful” inflationary adjustment having had inflation of around 5%,

while in Slovakia inflation climbed unexpectedly to 8%.

As regards unemployment, countries again show a wide variety

with Hungary /5.5%/ and Slovenia /6%/ through the Czech Republic /9%/ to Slovakia, Poland and Lithuania between 17 and 20%.

Generally it can be said that labour markets could not profit from the dynamism of the economy, /exception: Hungary and Lithuania/.

Employment rates with the exception of the Czech Republic and Slovenia /with around 65%/ are further on substantially lower, than in the EU 15 with an average value of around 54%.

3. Wage developments – a contextual overview

Wage developments in CEE countries need maybe the most interpretation,

We have three kinds of wage figures,

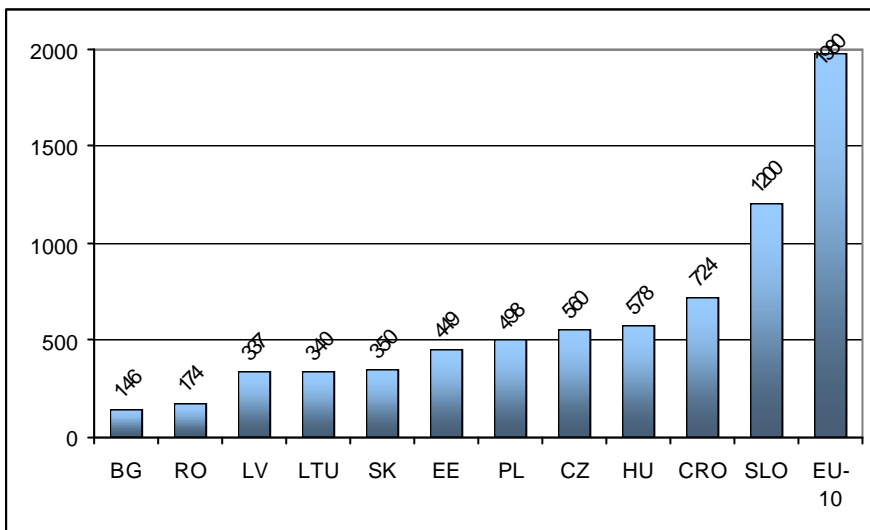
Wages expressed in Euro at exchange rate parities: these are indicative for international comparison, but this are also the figures that influence investment decisions /delocalisation/

Wages expressed in Euro at purchasing power parities: these figures tell about the real value of these wages, when living conditions and living standards are concerned – also indicative for real convergence

Real wage developments measured in national currency: these figures are crucial, when collective bargaining is concerned.

The major difficulty is that all three dimensions show a totally different picture.

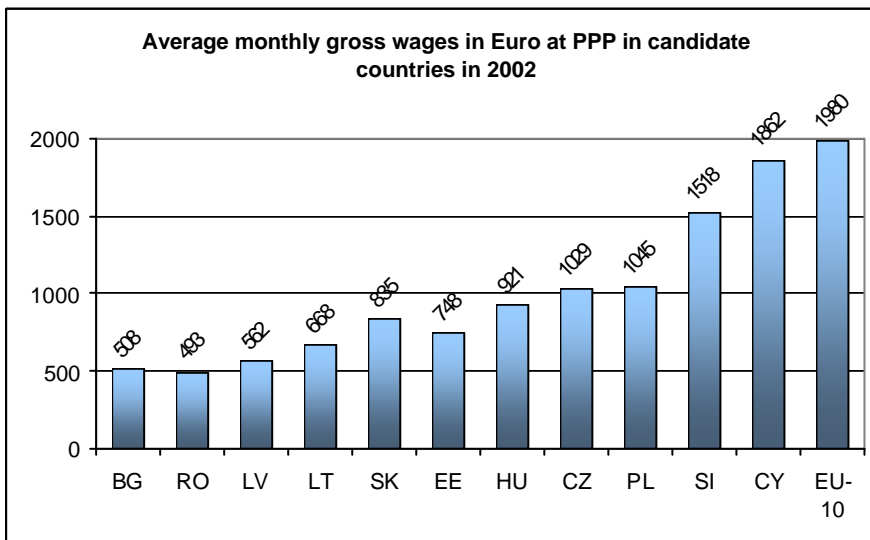
Graph 1: Gross average wages of acceding and candidate countries, end of 2003 (Euro at exchange rate parity)



Source: ETUI, Collective bargaining reports 2003, for CRO WIIW (2002)

Average gross wages (for 2003) range, in exchange rate terms, from €146 (BG) to €1200 (SI). These are alarmingly low figures, when compared to EU levels.

Graph 2: Average gross monthly wages in selected candidate countries in 2002 (euro at PPP)



Note: EU-10 covers DK, DE, ES, FR, IRL, NL, AU, PT, FI, UK. and are of 2000.
Source: WIIW *Statistical yearbook on candidate countries, 2003*

Note that five of the CEE countries have similar or higher wage levels at PPP than Portugal.

The dynamics of the wage development processes

Processes in Euro

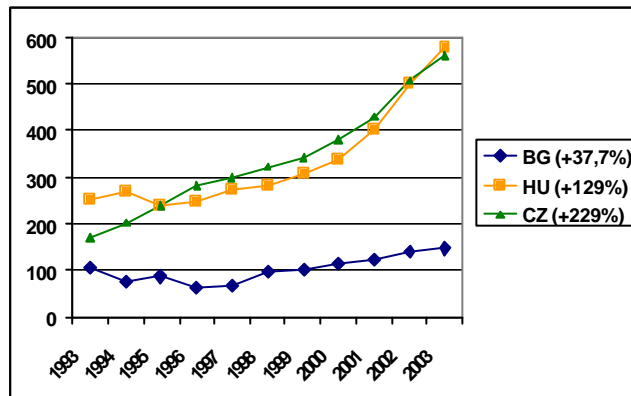
source for a higher rate of wage catch-up is not just higher real wage growth than in the EU15 but also the appreciation of CEE currencies against the Euro.

‘nominal convergence’

Graph 3.

Dynamics of wage developments in three CEE

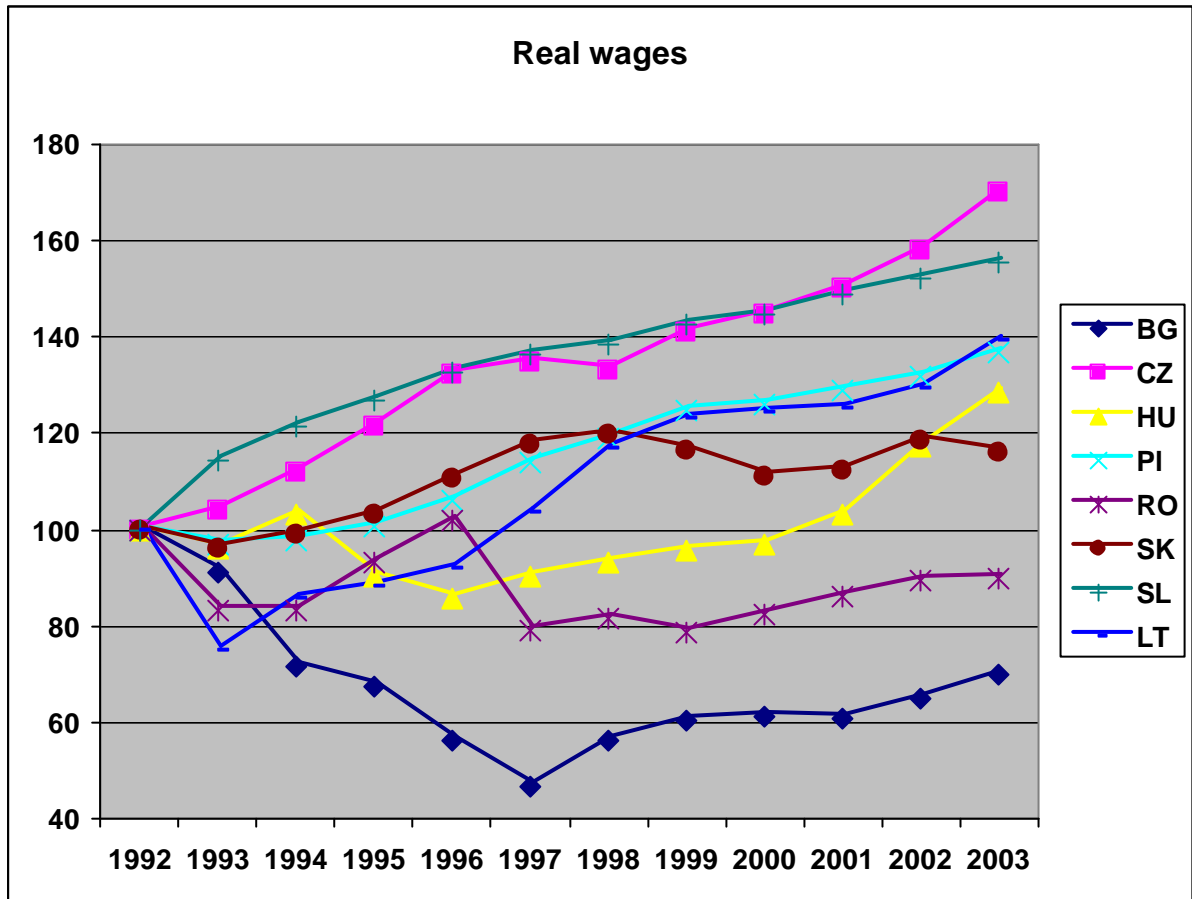
countries in Euro /average wages/



Source: WIIW database 2003, ETUI 2004.

The contrasting side: real wage developments in national currencies

Graph 4



II. A summary of collective bargaining developments in 2003-2004 based on the CB country reports

1. Wage demands of trade unions, actual wage developments

Table I. Wage demand (expressed in real terms) and effective wage increases in real terms (%) – 2003

Country	Trade union demand	Actual real gross wage increase
Czech Republic	4	7.6
Bulgaria	-	7.6
Hungary	3-4	9.4 (10.1 for net wages)
Lithuania	-	7.8
Poland	-	3.4
Slovakia	0	-2
Slovenia		2
Romania	-	0

Source: Collective Bargaining Yearbook 2003-2004. ETUI

Rather dynamic wage developments processes, in most cases, have outpaced trade union demands:

In the Czech Republic, this was due to the lower than calculated inflation

In Bulgaria, union demands for a jump in minimum wage were rejected, the the real growth of the average wage by 7,6% was however beyond expectation

In Hungary, both trade union demands and the national wage recommendation was outpaced by reality – 10% net real wage growth - , mostly due to

the impact of the strong wage dynamics of the previous year.

There was no report on trade union demands in Lithuania, where the 7.8% real wage increase has been a result of robust growth and deflation (which is a paradoxical combination in 'normal market economies').

In Poland, no agreement reached on national level; the government initiated a 3% nominal increase which, as a result of lower inflation, turned out to become a 3.4% real growth.

In Slovenia, a very special wage formula was agreed in tripartite negotiations /on the basis of Slovene inflation, inflation in the Euro zone and the exchange rate of the Slovene Tolar against the Euro/. The final outcome was a 2% real wage increase.

Slovakia and Romania represent the other side of the coin: no real wage increase under robust economic and productivity growth.

In Slovakia, an agreement was made on 6.5% nominal growth, which was fulfilled with the difference that inflation then grew out of control, reaching 8.5%.

No national agreement reached in Romania: average growth of nominal wages 18%, equal to the annual inflation rate (the original inflationary target was 14%).

2. Working time developments

Working time developments in CEE saw a very gradual reduction in average hours but also a trend towards greater flexibility, with permitted overtime extended in Poland, Slovakia and Romania.

In the **Czech Republic**, the trade union federation CMKOS made its key **demands** in terms of working time in 2003 a **37.5-hour working week – achieved in 80% of agreements**. The statutory working week remained 40 hours, while time actually worked rose marginally by 0.2% to 42 hours.

The social partners in **Hungary** agreed in 2002 to start **negotiations** on a **step-by-step reduction in the 40-hour working week**, but this was eventually postponed until 2005. Legislation limits the number of extra hours worked to 200 per year, but this can be extended to 300 hours by collective agreement.

The new Labour Code in **Lithuania** allowed employers to introduce the **more flexible organisation of working hours**. Overtime is strictly limited and must not exceed four hours within two successive days and 120 hours per year. The government also introduced measures to shorten working time for people in jobs that cause increased mental or emotional stress.

In **Poland** the second phase of the 2001 legislation on working time came into force in 2003, **cutting the working week to 40 hours** over five days, from 41 hours the previous year. 2003 also saw the implementation of a **controversial agreement** between the government and the OPZZ trade union confederation **on more flexible working arrangements, increasing overtime limits** from 150 to 400 hours a year.

Average **working hours fell slightly** in **Slovakia**, to **40.5 hours**, on the basis of a statutory working week of 40 hours. Average weekly working time agreed through collective bargaining was 38.48 hours (for single-shift work). Amendments to the Labour Code **extended permitted overtime working from 250 to 400 hours per year** and redefined paid time-off for trade union activities and training.

In **Slovenia**, legislation **reduced the working week from 42 to 40 hours** in 2002. However, the average working week is still more than 40 hours, climbing to 47.5 hours in agriculture, with men working longer than women.

Collective agreements in **Bulgaria** largely adhere to the 40-hour week laid down in the Labour Code. Unofficial overtime in sectors such as garments and textiles – most of it unpaid – is estimated to be as high as 20-30% of normal hours.

Romania's new Labour Code, which came into force in 2003, limited overtime to eight hours per week but raised the limit of yearly overtime hours from 360 to 416. The **working week remained at 40 hours** under the national collective agreement.

3. Trends in collective bargaining

The national level of social dialogue still the strongest element of the bargaining structure in CEE countries.

Efforts were, on the other hand, underway to **build stable bilateral bargaining frameworks in the NMS-s**. This is in **contrast with the trend in the EU-15, where the opposite trend, of flexibilisation and opting out, is prevailing**. Here, we can at least witness a **certain convergence** but there is a long way to go before CEE reaches comparable coverage rates.

These efforts were bearing fruit in some places.

In the Czech Republic, Hungary and Slovakia, trade unions concluded collective agreements in new sectors, or broadened bargaining coverage, in 2003.

In Hungary, /due to PHARE project on the *Social Dialogue*, more than fifty sub-sectoral dialogue committees are expected to start work in the near future.

The sectoral level of collective bargaining gained a new impetus in 2003 and, by the beginning of 2004, 44.5% of workers in the competitive sector were covered by collective agreements, with 100% coverage in some areas.

A similar PHARE project in **Poland** led to a framework agreement between the social partners in three sectors: chemicals; metalworking; and light industry. This is not an inter-sectoral labour agreement, but it **does lay the groundwork for co-operation** and the development of social dialogue, and for possible collective bargaining in the future.

Collective bargaining in the **Czech Republic**, some 35% of Czech workers were covered by collective agreements in 2003 – **a moderate increase** on the previous year. The social partners asked the government to use its powers **to extend sectoral agreements** to companies outside the employers organisation, but ran into opposition from a group of right-wing MPs. The matter subsequently returned to parliament and the **unions are continuing their campaign for extension and for the country to ratify ILO Convention 154** on Collective Bargaining.

Sectoral collective bargaining is relatively strong in **Slovakia**, covering about 50% of the workforce. **In 2003, 53 sectoral agreements were registered.** However, with employers pushing **for more flexibility** through decentralisation to local company deals, the system is at something of a **crossroads**.

Structures for collective bargaining in **Lithuania** are rather under-developed, with little tradition of bilateral negotiation, agreements are most common at the national or the enterprise level, and only 15% of workers are covered by sectoral deals.

In **Bulgaria**, 63 sectoral and branch agreements are in force, covering 38% of the workforce. No agreements have been reached for the last three years in the chemical industry, pharmaceuticals and machine engineering, nor in some food sectors.

4. Qualitative aspects of collective bargaining

In the new member states, collective agreements still tend to focus on basic issues such as pay and working time, and there is some way to go to develop a framework of qualitative measures.

As regards **gender issues**, legislation in the **Czech Republic** has aimed to bring gender equality up to EU standards, while trade unions have focused their efforts on trying to raise awareness and change the social climate.

In **Hungary**, an office was created for a minister in charge of equal opportunities, with the full support of the trade unions, to have gender issues and the equal treatment of socially vulnerable groups, with an emphasis on the Roma community, in its focus of activities.

The **Lithuanian** government published a *National Programme of Equal Opportunities for Men and Women for 2003-2004*, aimed at enabling men and women to participate equally in all spheres of public life.

Demands aimed at improving working conditions for women are regularly included in collective negotiations in **Slovakia**, although there were, however, no particular gains in 2003. In fact, there was a slight decline in the proportion of women's pay as a percentage of that of men, to 71%.

Agreements on **lifelong learning** are largely in their infancy in these countries. Some of them (e.g. Hungary) boost company training by a '**Vocational Training Fund**' that collects its resources through obligatory training contributions paid by all enterprises.

In the **Czech Republic**, most collective agreements lay down employers' obligations to provide for training, retraining and education, especially when workers' existing skills are no longer required.

III. Some features of public sector developments

Public sector: definition problems in NMS

Great heterogeneity of the sector!!!

Standard definition: budgetary sphere /vs the business sphere/

Within budgetary sphere:

**Public administration /central and local/,
Health and social sector,
Public education.**

Problem of classification, with network industries /electricity, gas, telecommunication, etc/ on the one hand,

and 'business enterprises' in state /public/ ownership on the other hand.

Wage and CB processes are quite different in these 'subsectors':

Wages in health and social sector, such as in education are generally below average in NMS-s /this is where the 'low pay problem can be addressed/

On the other hand:

Wages in public administration and in case of network industries are generally substantially higher, than national averages;

State enterprises in the business sphere are special case, but mostly problematic..

As Collective bargaining is concerned:

It is generally true for all of the mentined subsectors that CB rests on more solid basis, than in the business sector and this is also reflected in coverage and unionisation rates

/part of this is legacy, a new strengthening is to be observed however in public administration health and education in some of the countries...

Basic trends by countries:

Hungary:

Two different national negotiation bodies exist: one for the business sphere and one for the 'budgetary sphere'

Up to 2000 it was characteristic that wages in the 'budgetary sector' were below the wages of the business sector, then the trend has changed /due to massive wage increased in health and education initiated by the government, such as the impact of the radical minimum wage increase..

In 2003: real wages in the business sector grew by 7.8%, while in the 'budgetary sector' by 12%.

The average wage in the 'budgetary sector' /640 Euro/ is 18% higher, than in the business sector /544 Euro/.

Trends are again taking a turn with pressures mounting on the budgetary sector!!

Bulgaria:

Wages in the public sector are 38% higher than in the private sector.

2003 was the first year when wages in the private sector grew faster than in the public sector!

Czech Republic:

January 2004: substantial change in the remuneration system of the public administration and public service employees – growing differentiation ..

There are no higher level collective agreements in the public sector.

Following negotiations between TU-s and government an Act of Government sets the rules. Company /institution/ level agreements /that are common in public administration and public services, as well/ can not change the statutory remuneration system!

Lithuania:

**Real wage increase in 2002: public sector: 4,0%
Private sector: 6.2%**

**Real wage increase in 2003: public sector: 4,9%
Private sector: 6,0%**

Poland:

Modest wage increase in both private and public sectors

Specificity: the only ‘branch level agreement’ Poland has, is for public service employees in the municipal sector. /Beside this only company level agreements.../

Romania:

The ambition was only that wages keep pace with inflation in 2003, as well /18%/ . The budgetary sector with its 14% overall increase /4% real decrease/ was among those, not meeting this minimal criteria. Only manufacturing, catering, transport sectors had positive real wage increases. In the public sector: only police employees had real wage increase..

Slovakia:

The only new member state that did not have substantial wage increases in the last period /also 2003/ - a real wage decrease of 2% was the national average for 2003 /6.5% nominal increase amid 8.5% inflation/.

Even so, public service wage tariffs had been change from 2003. Wage increases in health care and education reached levels between 20 and 40%.

It can be noted also that wages in the 'Electricity, gas, water' sector are 30% higher, than the national average.

Slovenia:

Similarly to Hungary, Slovenia has also two separate national agreement: one for the public sector, one for the private sector.

Wage system in the public sector was modified in 2003 towards less differentiation. Previous indexation was abolished.

IV. General conclusions

After several years of **wage restraint and social sacrifices** due to fundamental restructuring, **dynamic wage increases** backed by fast GDP and continuous productivity growth in the last 2-3 years **are under pressure of the prospect of the EMU entry** – Stability and Growth Pact targets are the major determinants of economic policy in the new member states.

Basic contradiction between the general **expectations vis-a-vis 'fresh' EU membership** and the fact that EU or better to say **EMU brings more 'belt-tightening'** and austerity programmes

Major trends are opposite of those in Western Europe: is this also a kind of convergence?

- **substantial, sometimes exuberant real wage increases in the past years, also in 2003**
- **efforts for strengthening branch level agreements /mixed and vague results, but still the orientation/**
- **working time still (?) having a downward trend /although in a cautious approach/**
- **rapid nominal convergence of both economic performance indicators and wages due to the combined impact of real dynamics and the appreciation of local currencies against the Euro – one example Hungary: nominal GDP growth in Euro at 10% /2003, 2004 2005/, nominal wage growth in Euro: 17% (for 2003).**

A variety of country experiences

In general, wage developments are not in line with bargaining targets and agreements:

- **in most cases they are higher (HU, CZ,..)**
- **in case of some countries there are no comprehensive targets to refer to although wage increases were beyond expectation(LTU, BG)**
- **in one case they fall short: Slovakia**

Wage developments are generally not linked to productivity developments, the ETUC guidelines on CB did not prove to be indicative in the practice of these countries

There is evidence of certain shortening of the working time, although controversial practices with overtime are further on characteristic

A pressure for further flexibilisation can be observed.

Collective agreements rarely have qualitative elements

The structure and coverage of collective bargaining remains weak, especially regarding the sectoral level

Some positive signs can be seen in regard to strengthening the sectoral level almost in all countries

Certain results of consolidation can be seen in Hungary and the Czech Republic

In Slovakia, sectoral bargaining was more developed (this did not show in the achievement of real wage growth in circumstances of high growth and dynamic productivity increases)

In Slovenia, where coverage is full, there is a pressure for flexibilisation

Appendix:

Table 2.

Coverage rates and trade union organisation grades in CEE countries, 2003 (%)

	CB coverage rates	TU organisation
BG	38	22-25
CZ	25-30	30
HU	45-50	22
PI	10	15
MT	n.a.	60-70
SK	50	40
SL	Full	41,3
EE	n.a.	under 15
LV	under 20	30
LT	10-15	15

Quelle: EIRO on-line 2003, ETUI 2003

Table 3.

Collective agreements at sectoral level in the new member states of the EU (%)

country	Number of CB agreements	Coverage rate of collective agreements at sectoral level
CZ	12	n.a.
HU	19 sectoral+33 multi-employer	17,8%
PI	136 multi-employer agreements, 20 of which sectoral	Under 10
CYP	12	n.a.
SK	55	50%
SL	38	Close to 100%
EE	7+10subsectoral	Under 10%
LV	10	n.a.
LT	Few	n.a.

Source: EIRO on-line 2002, ETUI CB yearbook 2003-2004

Table 10: Total wage increase minus (inflation plus productivity) *					
	2001	2002	2003	2004	Average
	<i>Using productivity per hour</i>				
Belgium	1,5	1,5	-0,7	-0,7	0,4
Denmark	0,3	0,2	-0,6	-0,5	-0,2
Finland	1,4	0,2	0,6	0,5	0,7
Germany	-3	-2,6	-1,8	-2,3	-2,4
Norway	-1,5	2,2	0,2	--	0,3
Portugal	--	--	--	--	--
Sweden	2,8	-2,7	-2	-0,7	-0,7
UK	--	-0,4	-2,1	--	-1,3
	<i>Using productivity per head</i>				
Czech Republic	--	--	--	--	--
Estonia	1,7	2,5	5,8	-2	2
Germany	0,7	0	-0,8	-3	-0,8
Hungary	5	9,7	4,3	-0,2	4,7
Iceland	-2,1	4	-0,7	--	0,4
Ireland	6,2	4,7	4,8	5,4	5,3
Italy	0,7	1,2	1,6	--	1,2
Luxembourg	--	--	--	--	--
Poland	-4,9	-3,6	-2,8	-3,1	-3,6
Portugal	--	--	--	--	--
Romania	--	--	--	--	--
Slovenia	1,4	-1,8	0,2	-0,8	-0,3
Spain	0,7	-0,4	1,1	-0,1	0,3
* See notes to tables 1, 2, 4 and 5.					

Graph 6.

National workplace IR in ACC + CC

	DUALISTIC MODEL	MONISTIC MODEL	MONISTIC WITH complementary channel for non-TU-companies		INFORM.	CONSULT.	CODETERM
SLO	WC+TU				Y	Y	Y
HU	WC+TU				Y	Y	Y
CZ			TU	Empl. council	Y	Y	Y
SK	WC+TU				Y	Y	
PL		TU			Y	Y	Y
LV		TU + electd rep. of non-unionised employees			Y	Y	Y
EE		TU + electd rep. of non-unionised employees			Y	Y	
LTU		TU			Y	Y	
BG			TU	Gen.meeting of empl.	Y	Y	
RO			TU	Empl.rep.	Y	Y	
CYP		TU			Y	Y	
MT		TU			Y	Y	
TR		TU			Y	Y	

ETUI
EGI
ISESource: ETUI.
KEY: y= yes

Note: WC stands for works council and TU for Trade Union