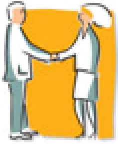


EPSU Collective Bargaining Briefing
Impact of the economic crisis on public sector workers
26 March 2009

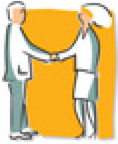
Responses to the economic crisis vary from country to country with governments adopting a range of tactics to try to shore up collapsing financial institutions as well as attempting to kick start faltering economies. However, in several European countries a central element of government "strategy" focuses on public sector spending cuts delivered through attacks on public sector workers' pay and conditions. In some cases government policy has been partly determined by conditions put on loans provided not just by the International Monetary Fund (IMF) but also by the European Union. Below we outline the state of play in a number of countries where public sector workers are facing pay restraint or even pay cuts that are not only part of a policy to restrict public spending but are also meant to serve as a lesson to the private sector.

Ireland

The country has been hit hard by the crisis with a collapse in the property market and a banking crisis that has so far led to the nationalization of one bank and a government rescue plan for the financial sector that so far runs to €7 billion. Latest figures from the European Commission indicate that the Irish economy shrank by 2.0% last year and could contract by as much as 5% this year. A central element of the government's attempt to control its increasing budget deficit – set to rise from 6.3% of GDP in 2008 to over 11% this year – is to impose a "pensions levy" on public sector workers. The Irish finance minister said that: 'This payment is in recognition of the fact that public service pensions are significantly more favourable than the generality of pensions in the private sector together with the need to reduce net public service pay costs." The "levy" is effectively a pay cut worth the equivalent of 7.5% of the public sector pay bill. This unilateral decision by the government followed the breakdown in national level talks with the trade unions. The anger felt by workers across Ireland led to the biggest demonstration in Dublin for over 20 years on 21 February. Public sector unions along with the ICTU trade union confederation argue that unions, employers and the government have to negotiate over a strategy to respond to the crisis and have drawn up a 10-point action plan that is starting point for talks. They have called for national negotiations to resume on the basis that the "pensions levy" is also up for re-negotiation. On 25 March the Irish prime minister has agreed to talks on the basis of the ICTU proposals and a planned trade union day of action on 30 March has been postponed.

Latvia

The Latvian economy shrank by 2.3% last year and the forecast 6.9% contraction this year would be the worst performance of any EU economy, and on current trends the country may also be one of the few Member States to see GDP continuing to fall in 2010. At the end of last year the previous Latvian government negotiated a €7.5 billion IMF-led rescue loan that included financing from the EU, Nordic countries, the Czech Republic, Poland, Estonia and the World Bank. The government coalition collapsed in February 2009 and the new administration is talking about the possibility of negotiating further lending from the IMF. The previous government argued that it was essentially to put an end to the recent trend of high wage growth and its 15% cut in the public



administration wage bill for 2009 is also meant to serve as an example to the private sector. Trade unions organized a national demonstration against government policy last year and have attacked the government for its failure to negotiate over its recovering strategy and for imposing pay cuts across the board with no protection for the lower paid.

Hungary

Hungary's economy did expand slightly in 2008 (+0.9%) but forecasts suggest a 1.6% contraction in 2009. However, the crisis had a particularly sharp impact on the country's financial sector with its heavy dependence on foreign borrowing, and the IMF, EU and World Bank agreed a €12 billion economic rescue package for Hungary last November in the biggest loan for an emerging market economy since the global crisis began. The loan conditions include a nominal wage freeze for all public sector workers along with the abolition of the 13th month salary. There are also cuts in a range of social payments including pensions, with all pensioners losing their 13th month payment.

Greece

European Commission figures indicate that the Greek economy grew by 2.9% in 2008 making it one of the better performing economies in the EU. Growth is set to fall to just 0.2% in 2009 but this is still positive in contrast to more than half of the EU Member States where the economy is forecast to contract. The government wants to cut public spending as part of a strategy to bring its deficit within the 3% limit set by the EU's Stability and Growth Pact and on 18 March it announced that it would freeze public sector pay in 2009 with only workers earning less €1700 a month set to benefit from one-off payments of between €300 and €500. More than half of public sector workers earn more than the €1700 threshold. The government also announced an effective cut in public sector employment with recruitment limited to 12,000 in 2009 so only partly replacing the 22,000 civil servants who are due to retire.

Romania

Latest figures indicate that the Romanian economy achieved the highest level of economic growth of any EU Member State last year at 7.8%. This is expected to fall to 1.8% in 2009 but this would still leave the country as one of the fastest growing in the EU. However, the government is trying to reduce a deficit that is set to rise from 5.2% of GDP in 2008 to 7.5% in the current year. On 25 March a €20 billion loan package for Romania was announced with €5 billion in support coming from the European Union, along with contributions from the IMF (€13 billion), World Bank (€1 billion) and the European Bank of Reconstruction and Development and other multilateral creditors (€1 billion). The terms of the loan have still to be negotiated. In the mean time the government has said that public sector pay increases in 2009 will limited to forecast inflation of 5%.

Ukraine

On 18 March Commission President Barroso used a meeting with Ukrainian president Victor Yushchenko to urge him to meet the requirements of the €10.4 billion IMF loan negotiated last year. The government committed itself to cuts in public expenditure with public sector pay increases limited to inflation, a postponing of planned increases to the minimum wage and a change in the calculation of social benefits to link them with forecast rather than actual inflation.