COLLECTIVE BARGAINING

THE WRONG TARGET ONE YEAR ON: PAY CUTS IN THE PUBLIC SECTOR IN THE EUROPEAN UNION

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The wrong target one year on: pay cuts in the public sector in the European Union

Executive summary

This report looks at ten countries in the EU which have cut the pay of their public sector employees, concentrating on developments in 2011.

Czech Republic: the new government elected in July 2010 introduced a 10% cut in the public sector paybill for all but teachers from January 2011, although individual ministries were able to decide whether to achieve this through reductions in pay or jobs. The government also wanted to make major changes to pay systems, but union opposition forced them into a partial retreat. Public sector pay is to be frozen until 2014. Official earnings figures for those employed by the government show that by the fourth quarter of 2010, pay was 4% lower than a year earlier, although it has subsequently recovered slightly. Taking inflation into account, government employees are now around 5% worse off in real terms than they were in 2009.

Estonia: a series of overlapping budgetary measures first to freeze and then to cut personnel meant that the total public sector paybill in 2010 was 15% below that of 2008. Since then there have been no further cuts but public sector pay is to be frozen until 2014. Official figures show that those working in local government have been most affected by the cuts. In 2011 their earnings were still almost 8% lower than in 2008, while prices had gone up by 8%, making them more than 15% worse off in real terms.

Greece: measures began in November 2009 and by October 2010, the government estimated the overall impact of the cuts was equivalent to a 14% pay cut in nominal terms in 2010. Since then a new payments system has been introduced, which the government expects will cut pay on average by another 17% over three years. There are no official figures on the impact on earnings, but with prices rising by more than 7%, it is likely that many public employees are around 40% worse off in real terms.

Hungary: following a series of partial measures the 13th month payment was permanently abolished in 2009 and replaced by a lower flat rate payment for the majority of public sector employees, whose wages were frozen for 2010. The new government elected in April 2010, has extended the pay freeze to 2012 and possibly as far as 2016. Official figures show an 8% decline in public sector earnings between 2008 and 2011, while prices rose by more than 10% over the same period. As a consequence public sector workers are almost 20% worse off in real terms.

Ireland: cuts in public sector pay began with an average 7.5% pensions levy on all public service employees, announced in February 2009 and were followed by cuts in pay which came into effect in January 2010. An agreement with the unions was reached in March 2010, under which there would be no further reductions until the end of the agreement in 2014 and no compulsory redundancies. The intervention of the International Monetary Fund (IMF) at the end of 2010 led to a 10% cut for new recruits, but no change in pay for existing employees. Despite the election of a new government in April 2011, public sector pay remains frozen until 2014. Official figures show that public sector employees earn 5% less in 2011 than they did in 2008, and this does not take account of the change in net pay as a result of the 7.5% pensions levy. Prices have also fallen but only by 1.4% over the same period

Latvia: after a series of reductions during 2009 and 2010, which the IMF estimated led to a 30% reduction for central government employees, the government in 2011 concentrated on holding down the overall public sector pay bill. There have been some increases where it has been difficult to recruit and retain staff and performance related bonuses have been introduced for a limited number of employees. Official figures show that public sector earnings are 12% lower in 2011 than 2008, while prices have gone up by more than 5%, leaving employees 17% worse off in real terms.

Lithuania: public sector pay was cut through a series of measures throughout 2009 and culminated in an agreement with the unions in October 2009, which involved an average 10% reduction (on top of previous cuts) which would last until the end of 2010. This freeze was extended in July 2010 until at least the end of 2012 and attempts to sign a new agreement when it ran out at the end of 2010 failed. Official figures show that earnings in the public sector fell by 9% between 2008 and 2011. With prices rising by almost 9% over the same period, public employees are 18% worse off in real terms.

Portugal: after freezing public sector pay in 2010, the government announced that it would be cut by an average of 5% in 2011. In April 2011 the government sought financial support from the IMF and as part of the package, it was agreed that public sector pay would be frozen at its lower level until the end of 2013. Following the election of a new government a new package of cuts was announced in October 2011. Depending on earnings, this abolishes or halves the 13th and 14th month payments in both 2012 and 2013.There are no official figures on public sector earnings, but the government's announcements suggest that losses range between 6% and 22%, while prices have risen by 6% since the end of 2009.

Romania: cuts to public sector pay and conditions began in 2009 but the most drastic cut came in 2010 when the government introduced a 25% cut in public sector pay to run from 1 July until the end of the year. The government also introduced a new pay system, which was agreed in parliament at the end of 2010 but will take years to implement. Around 15% of the 25% cut was eliminated over the course of 2011, but the additional costs this involved were largely offset by the elimination of the 13th month payment and a holiday bonus. Despite expectations that the 25% would be fully restored in 2012, in line with a Constitutional Court ruling that it was only temporary, legislation came into effect in December stating that pay in 2012 would remain frozen. Official figures show that earnings in public administration were 15% lower in 2011 than 2008, while prices over the same period rose by almost 17%. This means than in real terms public sector workers have lost a third of their pay.

Spain: the government cut public sector pay by 5% in June 2010 and announced it would remain frozen at this lower level until the end of 2011. The new government, elected in November 2011, announced in December that the freeze would continue until the end of 2012. It also introduced a uniform 37½ hour working week for all public sector employees, increasing agreed working time of many employees in local and regional government, without any compensatory pay increase. There are no official figures for public sector earnings over this period but the combination of the 5% pay cut and a 4.4% increase in prices suggests that public sector employees are almost 10% worse off.

Introduction

This report for the European Federation of Public Service Unions (EPSU) looks at 10 countries in the European Union which have cut the pay of their public sector employees. They are the Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Portugal, Romania and Spain. It builds on a report published at the end of 2010, which examined the situation in eight of the 10 (all but the Czech Republic and Portugal).[1]

All of the countries examined have cut public sector pay in response to the financial crisis which became evident in the autumn of 2008, but the timing varies, reflecting the spread of the crisis. Estonia, Hungary, Latvia and Lithuania were the first, taking action in the second half of 2008. Greece, Ireland and Romania followed in 2009; while in Spain, Portugal and the Czech Republic it was 2010 before pay cuts were announced, although in Portugal and the Czech Republic the cuts were only implemented in 2011.

In six states, Greece, Ireland, Hungary, Latvia, Romania and Portugal, the International Monetary Fund (IMF) has been directly involved, often alongside the European Commission and the European Central Bank.

In comparing the situation now to that at the end of 2010, one of the most striking points is how little has changed since then and that the common elements that could be identified then are as noticeable now. These are:

- Repeated cuts – this was seen to be a key feature of government actions in the earlier report and it continues to be the case. Although the countries that first took action in 2008 did not take further steps to cut pay in 2011, most of those acting first in 2009 and 2010 have taken further action in 2011 or 2012. This is the case for Greece, Romania, Spain and Portugal. Only the Czech Republic has so far announced a single round of cuts or other measures;
- Elimination or reduction of bonuses and additional payments – this was a target in government cuts up to the end of 2010 and Portugal has become the latest state to target them;
- Attempts to protect the lower paid – as at the end of 2010, this continues to be a feature of the pay cuts in many states – Portugal also falls into this category. However, over time countries have found it more difficult to protect lower earners, and cuts in bonuses and additional payments often result in some employees losing much more than others irrespective as to whether they are high or low paid. ;
- The cuts are often linked to attempts to reform the pay system – this seems particularly to be the case where the IMF is involved. Greece, Latvia and Romania, are all in the process of introducing a standardised system of pay, which in every case has cut pay levels, often substantially. In addition, in some countries there is pressure to move away from a pay system based on service related progression to one based on assessment. This is the case in the Czech Republic and in Hungary ;
- The cuts are normally imposed rather than agreed with the unions – this has become clearer since the report at the end of 2010 as further cuts have been imposed. Only Ireland now has a current agreement on the issue of pay cuts as the agreement signed in Lithuania in 2009 could not be renewed when it lapsed in 2011;
- In most cases, the mechanisms used to cut pay have been decided centrally – this finding from the end of 2010 remains true for the majority of states. However, the Czech Republic has joined Estonia in leaving it to individual ministries to decide how to achieve the required cut in personnel costs, whether through cuts in pay or jobs.

The final point, which is only now becoming clear, more than three years after the crisis started, is that the reductions in public sector pay seem to have been converted into a

[1] The wrong target – how governments are making public sector workers pay for the crisis, Labour Research Department, December 2010, http://www.epsu.org/IMG/pdf/Pay_cuts_report.pdf

permanent feature of government policy in the countries affected. Even when there are no further cuts, public sector pay is to be frozen at its new reduced level – sometimes for years into the future.

It is more difficult to be precise about their impact on earnings in every case, as seasonal variations obscure the picture and in some cases there are no up-to-date earnings figures. However, it is clear that the losses have been very substantial, particularly when inflation is taken into account, ranging from a 5% loss in the Czech Republic to more than 30% in Romania. (The situation is almost certainly worse in Greece, but there are no official figures.)

In some states there was a slight recovery in pay levels in 2011, with Romania reversing a part of its 25% temporary cut, and earnings creeping up in countries like Latvia and Lithuania as the need to recruit and retain staff became clear. However, in Portugal and Greece the situation clearly deteriorated dramatically in 2011-2012, and nowhere did public sector earnings, after taking inflation into account, return to their pre-cuts level.

The detailed situation covering the normal methods of setting pay, the action governments have taken to cut pay, and the impact of these cuts, is set out in the individual country reports.

The Labour Research Department expresses its thanks to the many public sector trade unionists in the countries concerned who helped with the compilation of information and case studies for this report.

Czech Republic

Background

There are some 685,000 people working in what is described as the non-business sphere in the Czech Republic. The vast majority of these, 637,000, work for government, centrally and locally, as well as for social security funds, The remaining 48,500 work for non-profit institutions.

Details of government employment are set out in the table. The figures are for the third quarter of 2011 and the same period of 2010 and make clear the fall in employment over the period.

Number employed in government (full-time equivalent): 2010 and 2011

Area of service	**Number employed in 3rd Quarter (000)**			
	2010	2011	Change	Change %
Central government	276.0	266.3	-9700	-3.5%
Local government	371.2	363.6	-7600	-2.0%
Social security funds	7.1	6.7	-400	-5.6%
All government	654.3	636.6	-17700	-2.7%
Czech Statistical Office: Table No 3106-11 http://www.czso.cz/csu/2011edicniplan.nsf/engt/660038494E/$File/310611q309.pdf				

Pay for those working in the public sector is determined by legislation which sets out the pay scales for the 16 grades of staff employed, which are each linked to specific educational qualifications, ranging from basic education on the first grade to a post-graduate qualification for the sixteenth.

Originally pay progression was linked to service, with employees reaching the maximum point on a 12-point scale after 32 years. However, currently employers have some flexibility in where employees are placed between the minimum and maximum points and this has been extended by the current government. There are also personal allowances linked to performance, which can be up to 100% higher than the basic pay. Finally there are additional payments relating to elements such as management responsibility or weekend working.

The overall result is that there is very considerable variation in the actual amounts paid to individuals apparently doing the same job. This may reflect different conditions – in local government, for example, pay in cities is normally higher than in small towns – but there is also criticism that the system is abused and used to benefit individual employees.

Government action

In the 2010 budget, government action to reduce expenditure on the pay and conditions of public sector employees was limited to a reduction in the number of posts.[2] However, following elections a new government took office in July 2010, with a programme of further cuts in public spending. The coalition agreement on 27 July 2010 set out the three key elements of government's plans with regard to public sector pay. These were:

- first "to reduce the payroll in government departments and in organizations funded fully or partly from the public purse by a tenth, excluding teaching salaries, which will increase";

[2] Convergence Programme of the Czech Republic, January 2010

- second: to leave the decisions on how to do this, “whether to make these savings by cutting salaries, layoffs, or a combination of the two, in the hands of each minister”; and
- third to make changes in the “system for the appraisal of the work done by public-sector employees towards greater motivation and better rewards for more capable, more industrious employees.”[3]

These policies were included in a statement outlining the policies of the new government in August 2010, which added that “for a further three years the value of salaries will not increase which will constitute pressure to improve the efficiency of public administration”.[4] (The government policy statement, like the coalition agreement, also included plans to cut a range of social benefits, with changes to unemployment benefit, maternity and parental allowances and in sick pay arrangements among others.)

In practice, on the third point, changes to the pay system, the government wanted to abolish automatic progression through the 12-point pay scale on the basis of service and replace it with one based purely on performance, as assessed by management.

The unions opposed all the planned changes on public sector pay and organised a major demonstration in Prague on 21 September 2010. This produced a change of direction in the government, which, while continuing with its policy of pay cuts, retreated on the issue of the pay system. Instead of completely abolishing service related progression, it agreed that it could continue for a period but that management could place individual employees at specific points on the pay scale, without taking their years of service into account. This continues to be the situation.

The 2012 budget, passed in September 2011, made no fundamental changes to the policy on public sector pay, although the government does expect there to be some increases in wage spending in the areas of education and health. In total these increases are expected to produce a 1.2% increase in the volume of public sector pay over the period 2012-14.[5] However, the basic aim of government policy, that for most employees pay should remain frozen at the new reduced levels until 2014, remains unchanged.

Impact

Official statistics on earnings provide an indication of the effect that these changes have had on pay in the public sector. There are seasonal differences in earnings, which are much higher in the fourth quarter, and this makes comparisons difficult. The figures show overall government earnings starting to fall as compared with the previous year in the third quarter of 2010, when they were 1.8% lower than the same period of 2009. By the fourth quarter they were 4.0% lower than 12 months earlier.

Earnings are still lower than they were in the same period in 2009, and as prices have risen by 4% over the same period (September 2009 to September 2011) public sector employees are on average 5% worse off in real terms.

[3] Coalition Agreement between the ODS, TOP 09 and the VV
[4] Policy Statement from the Government of the Czech Republic 4 August 2010
[5] Convergence Programme of the Czech Republic, April 2011

Earnings in government sector: 2010-2011

Gross monthly earnings CZK and change on previous year						
Period	Overall government		Central government		Local government	
	CZK	Index (2009Q3 = 100)	CZK	Index (2009Q3 = 100)	CZK	Index (2009Q3 = 100)
2009 Q3	24,540	100.0	28,447	100.0	21,445	100.0
2009 Q4	27,967	114.0	32,920	115.7	24,040	112.1
2010 Q1	23,361	95.2	26,955	94.8	20,599	96.1
2010 Q2	24,301	99.0	28,306	99.5	21,200	98.9
2010 Q3	24,107	98.2	27,989	98.4	21,099	98.4
2010 Q4	26,856	109.4	31,676	111.4	23,124	107.8
2011 Q1	22,942	93.5	25,811	90.7	20,774	96.9
2011 Q2	24,080	98.1	27,321	96.0	21,589	100.7
2011 Q3	24,389	99.4	28,000	98.4	21,623	100.8
Full-time equivalent						
Czech Statistical Office: The number of employees and average monthly gross wages and salaries by institutional sector (full-time equivalent) http://www.czso.cz/csu/2011edicniplan.nsf/engp/3106-11						

Estonia

Background

There are some 150,000 people employed in the public sector in Estonia, with slightly more employed by central than by local government. In 2010 the Ministry of Finance published detailed statistics that indicate that there were 141,000 employees in the public sector in 2009, based on full-time equivalents (see table).

Number employed in public sector: 2009

Area of service	Number of employees
Central government (state)	
	35,269
State-owned companies	16,947
Other state bodies, including foundations and not-for-profit organisations	20,194
Local government	
Local government agencies	51,571
Companies with local government participation	10,998
Foundations and not-for-profit organisations	6,185
Total	141,164
Source: Public Service Yearbook 2009, Ministry of Finance of the Republic of Estonia, 2010	

More recent figures from the national statistical office, Statistics Estonia, show there were 155,500 in 2008, 158,600 in 2009 and 157,700 in 2010[6]. These figures include some employees on long term leave (principally maternity leave).

Of the 150,000 working in the public sector, 28,300 have a special status as public servants (23,200 in central government and 5,100 in local government). Their terms and conditions are set by regulations – by the national government for those working for the central government and by the relevant local authority for those working for local government. However, particularly for higher paid public servants, the basic rates set by regulation, account for only a part of total earnings, with additional payments, linked to performance or additional skills, often being worth much more.

The terms and conditions of other employees in the public sector – the vast majority, including medical and teaching staff, and those working for state-owned companies, are governed by the employment legislation that applies to private sector employees, and for them additional payments make up a much less important component of earnings. There is collective bargaining with the unions on pay in those ministries, such as the ministry of the interior, and other institutions, such as parts of the health services, where the unions are strong enough to compel the employers to negotiate.

Government action

The Estonian government started to take action to reduce government spending in April 2008, with the first pay reductions agreed in July 2008. This was followed by a series of budgets, supplementary budgets and budget consolidation measures.

[6] Statistics Estonia table ML0205, figures are an annual average.

In the area of pay there were a series of measures requiring personnel costs, first to be frozen and then to be reduced, by amounts ranging from 8% to 10%. The overall effect of these overlapping changes was that the total paybill in 2010 was 15% smaller than in 2008.[7]

However, in contrast to some other states, the Estonian government did not use a single central mechanism, such as an across the board pay cut or a pensions levy, to achieve these reductions. Instead it was left to each ministry and government agency to achieve the cuts in its own way, and several methods were used, often in combination. They included: cuts in employment, sometimes linked to structural reform; reductions in performance related supplements and other additional payments; periods of unpaid holiday; and cuts in basic pay.

Since the end of 2010 there has been no fundamental improvement in the situation, with the existing (reduced) levels of pay and other supplements remaining unchanged. The new government elected in March 2011 stated that budget levels would be frozen until 2014 and the government's Stability Programme, presented to the European Commission in April 2011 states that over the planning period (2011-15), "the government will continue with strict budgetary policy."[8]

However, the lack of improvement, following earlier pay cuts, has led to growing problems for the public sector workforce and increasing pressure for pay rises. The teachers are calling for a substantial increase and organised a demonstration in October 2011, calling for a 20% increase. Negotiations between the union (ROTAL) and central government were due to take place in spring 2012 and it remains to be seen whether the government will be able to hold to its position. This is particularly the case as government revenues have been higher than expected. However, in line with its policy that "possible over-reception of tax revenues will be directed to reserves,"[9] the government has banked this money rather than spending it.

Impact

Figures from the national statistical office give an indication of the impact of the cuts on earnings. They show earnings of local government workers have been particularly badly affected and in the second quarter of 2011 they were still 7.7% lower than in the same period in 2008. The state sector (central government) has not been hit as hard, as, after falling below the 2008 level in both 2009 and 2010, they had recovered to 1.7% above the 2008 by 2011.

However, if inflation is taken into account, even state sector earnings are sharply down in real terms. The consumer price index shows that, after a slight dip in 2009, prices in the second quarter of 2011 were 8.2% higher than in the same period in 2008. This means that on average, after taking inflation into account, those working in the state sector are now over 6% worse off than they were in 2008 and those in local government are more than 15% worse off.

[7] Public Service Yearbook 2009, Ministry of Finance of the Republic of Estonia, 2010
[8] Stability Programme 2011, Republic of Estonia
[9] Stability Programme 2011, Republic of Estonia

Earnings in the public sector: 2008 to 2011

Gross monthly earnings euro and index and consumer prices index (2nd quarter)				
State or local government	2008	2009	2010	2011
State (euro)	€1,064	€1,035	€1,037	€1,082
State (2008=100.0)	100.0	97.3	97.5	101.7
Local government	€823	€814	€774	€760
Local government (2008=100.0)	100.0	98.9	94.0	92.3
Includes employees with an employment contract, a service contract and those working under the Public Service Act.				
Statistics Estonia, Table WS31: Average monthly gross wages				

Greece

Background

There are some 710,000 employees in the public sector in Greece. Figures provided to the European Commission by the Greek Ministry of Finance in 2011, indicate that there were 775,994 public sector employees in 2010 and that this was forecast to fall to 708,870 in 2011, with further falls expected each year until 2015, by which time it would have fallen to 602,472.[10] The 2011 figure is broken down into 646,480 permanent employees, 14,576 political appointees and 47,724 temporary employees.

In terms of their distribution between different activities, earlier preliminary figures for permanent employees, also from the Greek Ministry of Finance, give the following picture.

Breakdown of permanent employees in the public sector: 30 June 2010

Area of employment	Number	Percentage
Central administration	391,825	51.7%
Other entities (excluding hospitals)	47,508	6.3%
Local authorities	83,664	11.0%
State owned enterprises	77,561	10.2%
Security officers	64,967	8.6%
Churchmen	10,811	1.4%
Military personnel	81,159	10.7%
Total	757,522	100.0%
Source: The Economic Adjustment Programme for Greece, Hellenic Republic Ministry of Finance, July 2010		

The pay and pensions of those working in the public sector are set by law. Public services employees have collective bargaining rights under legislation passed in 1999 (Law 2738/1999). However, these rights specifically exclude pay and pensions, with the result that formal collective agreements are limited to issues such as leave, working time, training and trade union facilities. However, ADEDY, the union confederation for public service employees, has in the past been able to bring pressure to bear on the overall level of pay settlements at national level. In addition, at local level, union federations and local union bodies (second and third level union organisations in the Greek union structure) have been able to reach informal agreements on pay within individual public sector bodies. These informal agreements have been important in adding to overall levels of pay.

Government action

The moves to cut the pay and conditions of those in public services began in November 2009, when the newly elected government, facing an unexpectedly large budget deficit of 12.7%, presented its first budget. These first steps have been followed by an apparently endless succession of government measures driving down public sector pay. The main methods used until the end of 2010 were a cumulative 20% cut in additional allowances, as well as major reductions in, or in some cases the complete abolition of, the 14th and 13th month salaries that public sector employees had previously received. The government estimated that the 2010 reductions were equivalent to a 14% cut in pay in nominal terms.[11]

In addition, as part of the agreement with the IMF signed in May 2010, the government committed itself to the creation of a simplified remuneration system for public sector employees with a single wage grid, which would cover basic wages and allowances

[10] The Economic Adjustment Programme for Greece: Fifth review - October 2011, European Commission

[11] Hellenic Stability and Growth Programme Newsletter, 17 May 2010

potentially payable to all public servants. This was to ensure that pay reflected both productivity and the tasks undertaken. The process was to be started by September 2010 and legislation implementing the new payments system was to be adopted by June 2011. This is being combined with the introduction of a single payment authority to pay and monitor all salaries in the public sector.

The most recent report from the IMF published in December 2011, noted that this transformation of the pay system had been completed and that it was "embedding significantly more ambitious and upfront cuts than originally planned". Among the consequences of the change are that it "brings entry-level salaries more in line with private sector norms, aligns wages across the public sector, introduces formal evaluation processes for promotion and bonuses". It also reduces a range of allowances, which overall "reduce the wage bill by 6½ percent". Some individuals are, in the words of the IMF report "facing individual wage declines exceeding 25 percent" and there is some phasing in for those affected in this way.[12] These changes do not cover those on so-called special regimes (military and police personnel, judges, doctors and university staff), but the intention is that their pay will be adjusted in the future. In money terms, one of the consequences of the changes is that entry level wages in the public sector have been cut from €851 a month to €780.[13]

The Greek government estimates that all these changes, which are to be introduced over three years will "reduce wages for standard employees on average by 17 percent". Incentives will be limited to "a capped one-off bonus of 3 percent per year and a special bonus for employees involved with the collection and control of public finances".[14]

As well as cutting pay in the public sector, the government is cutting jobs, aiming to reduce general government employment by 150,000 between 2010 and 2015, and for some of those affected, this could include a cut in pay. The initial plan was that some 30,000 public servants, whose employment was considered unnecessary, were to be move into a "labour reserve", where they would be paid 60% of their previous basic salary (excluding overtime and other payments). They would remain in this labour reserve for a maximum of 12 months and after that time, if there were no available positions, they would be dismissed. Some 14,000 public sector employees were placed in this labour reserve at the end of 2011.

However, the minister responsible, Dimitris Reppas told a parliamentary committee in January 2012 that the scheme would not be used again because it did not provide "anything significant from a fiscal aspect … and there was a danger of the public administration being unable to operate because of the loss of key personnel". It appears that there were few immediate savings because most of those affected took early retirement.

Impact

There are no earnings figures for the public sector that would allow the impact of the government's action on the average earnings of public sector workers to be demonstrated. However, a press release accompanying the 2011 draft budget from the Ministry of Finance stated that since the start of 2010 there had been a "15% reduction in public sector wages [and] a 10% reduction of pensions in the public and private sectors."[15] With the government itself expecting a further 17% reduction in public sector pay over the next two years, this suggests that by the end of the process Greek public servants will be earning approximately one third less than they were at the start of 2010. At the same time between December 2009

[12] Greece: Fifth Review Under the Stand-By Arrangement, Rephasing and Request for Waivers of Nonobservance of Performance Criteria, November 2011
[13] Figures from the union confederation ADEDY
[14] Memorandum of economic and financial policies, attached to Letter of Intent from Greek government to IMF, November 2011
[15] Press release on draft budget 2011, Ministry of Finance, 4 October 2011

and December 2011 prices increased by 7.7%. This means that the loss of earnings in the public sector from the start of the crisis has been around 40%.

Hungary

Background

Official statistics indicate that there are 740,000 employees in public services (described as budgetary institutions) in Hungary, although this figure includes a significant number of so-called “fostered workers”. These are workers who were previously unemployed but are currently on short-term projects within the public sector under the so-called Pathway to Work, public employment programme. A more comparable figure for Hungarian public sector employees is 674,000.

The figures for November 2011 from the Hungarian Central Statistical Office on public employees, both including and excluding these fostered workers, are set out in the table.

Employees in the public sector: 2011

Area of service	**Number of employees**	
	Including fostered workers	Excluding fostered workers
Public administration, defence and compulsory social security	243,800	236,000
Education	235,800	235,500
Health and social work	207,500	151,600
Other	51,600	51,300
Total	738,700	674,400
Source: Hungarian Central Statistical Office: STADAT, Table 2.1.24, Average statistical staff number of employees in the budgetary institutions and Press Release 20 January 2012		

The budgets determining the pay of those working in the public sector in Hungary are set by legislation, although decisions are normally taken following discussions between the unions and the government at national level. Those employees classed as government officials (108,500 in the first six months of 2010, almost all working in public administration, defence and compulsory social security) have a different employment status to other public service employees. The pay and conditions of government officials are not subject to collective bargaining. Their pay is set by law, which in the past was based on qualifications and years of service. The government has recently changed this to a more performance based system. However, there is collective bargaining over the pay of other employees in the public service, primarily those working in education and health.

Government action

The first steps towards cuts in public sector pay were taken in October 2008, when Hungary became one of the first countries to be seriously affected by the global financial crisis. The Hungarian government quickly opened discussions with the International Monetary Fund, the European Union and the World Bank and in November 2008 these bodies agreed to provide financial support to Hungary in return for a package of measures, which, among other things aimed to cut public spending.

In the letter of intent sent to the IMF on 4 November 2008, the government promised to freeze wages in the public sector in 2009 and in addition to eliminate the 13th month salary for all public service employees. Limits were also imposed on the 13th month payment made to pensioners and other public expenditure was also to be reduced.

However, a combination of political uncertainty – the government did not have a parliamentary majority – and union opposition meant that the 13th month payment was initially replaced by a supplement of similar value, although this was reduced over time. It was only with the appointment of a technical government in April 2009 that it was announced that the 13th month payment would be permanently abolished from 2010 onwards and replaced with a supplement for the lower paid. The government also stated it was freezing pay for public sector employees for 2010 as well as 2009.[16]

A new FIDESZ government elected in April 2010 failed to reach agreement with the IMF on its plans, and subsequent disagreements between the two sides over a range of government policies meant that the IMF assistance programme expired.

On pay the government told the tripartite National Interest Reconciliation Council (OÉT) in October 2010 that it planned to freeze public sector pay again in 2011. (The OÉT was subsequently replaced by a new body, the NGTT.) This was implemented as planned, although the government paid a wage supplement to those on low earnings to compensate for tax credit changes. [17] The government also introduced a new payments system for public sector employees, replacing the previous pay scales with performance based pay.[18]

The wage freeze in the public sector is being carried forward into 2012. As a report setting out the main measures in the country's 2012 budget points out, "Nominal wages have been frozen in the public sector. The wage supplement compensating for the abolishment of tax credits for low earners remains in effect."[19]

Looking further into the future, it appears that there will be no increase in public sector pay until 2016 at the earliest. The convergence programme presented to the European Commission points out that without a wage increase public sector net wages will rise in 2013, as additional income tax deductions (the so-called super gross principle) will end. It goes on to state that, "In the subsequent two years the wage bill (without public work programmes) will remain unchanged".[20]

Impact

Official figures show very clearly the impact of the government's cuts in public sector pay on earnings in the public sector. Earnings overall are now 8% lower than they were in 2008. (The figures are for 11 months from January to November each year). In public administration and defence (the one sub-group for which appropriate figures are available for all four years) the fall is 9%. The figures in the table exclude "fostered workers" on short-term projects in the public sector at very low rates as part of the government's employment promotion scheme.

These figures do not take inflation into account. Over broadly the same period, between December 2008 and December 2011, prices in Hungary went up by 10.4%, which means that in real terms public sector employees in Hungary are almost 20% worse off than they were in 2008.

[16] See Letter of intent to IMF, 11 June 2009 and Supplemental memorandum of understanding (Second addendum to the memorandum of understanding) between the European Community and the Republic of Hungary, 15 June 2009
[17] Convergence Programme of Hungary: 2011 – 2015: April 2011
[18] See Extension of governmental power in Hungary, EIRO July 2011 http://www.eurofound.europa.eu/eiro/2010/12/articles/hu1012011i.htm
[19] Measures to attain the sustainable reduction of public debt, Ministry for National Economy, October 2011
[20] Convergence Programme of Hungary: 2011 – 2015: April 2011`

Gross monthly earnings of full-time employees in the public sector: 2008-2011

Year	**All budgetary institutions**		**Public administration and defence**	
	HUF	Index (2008=100)	HUF	Index (2008=100)
2008*	224,061	100.0	281,337	100.0
2009	208,825	93.2	256,017	91.0
2010	209,441	93.5	255,196	90.7
2011	206,181	92.0	256,077	91.0
* Calculated from 2009 figures				
Hungarian Statistical Office: Number of employees and earnings in national economy: January to November (Table 15) http://portal.ksh.hu/pls/ksh/docs/eng/xftp/gyor/let/elet21111.pdf				

Ireland

Background

There are just over 300,000 employed in public services in Ireland, on a full-time equivalent basis, although government policy is to reduce this number to 282,500 by 2015, and it has already fallen from 320,400 in 2008. The breakdown between different services is as set out in the table.

Public service employees 2011 (2nd Quarter)

Type of service	Employees
Civil Service	37,202
Defence Sector	10,324
Education Sector	92,815
Health Sector	105,253
Justice Sector	14,567
Local Authorities	30,728
Non Commercial Semi State Bodies	11,880
Total	302,770
Figures are for full-time equivalents Source: Department of Public Expenditure & Reform – Databank http://databank.per.gov.ie/	

The pay and conditions of employees in public services in Ireland are negotiated rather than being set by legislation. Conditions are negotiated at national level within each of the services, although conditions negotiated for civil servants will often influence those negotiated elsewhere.

However, for a long period, beginning in 1987, collective bargaining on pay in the public services, as elsewhere in the economy, was conducted within the parameters of a series of social partnership agreements.[21] These set fixed overall percentage pay increases for the whole of the public services (and the private sector), although sometimes with higher increases for the lower paid. There was also a formal procedure to deal with areas where it was felt that pay in the public sector was out of line with private sector earnings.

As the financial crisis hit Ireland at the end of 2008, an attempt was made to continue with this approach and on 28 January 2009 the unions, employers and government agreed a statement setting out a general framework on how to move forward.[22] However, further talks on concrete implementation collapsed without an agreement, and the government introduced its own proposals. As a result the period of partnership agreements covering the whole economy has clearly ended, at least for the present, although agreements have been reached for public sector employees.

Government action

Cuts in the pay and conditions of those working in the public services were first announced on 3 February 2009, when the government said that an agreed 3.5% pay increase for public service employees, due on 1 September 2009, would not be implemented, and that a

[21] The agreement in 2000, known as the Programme for Prosperity and Fairness, set up a Public Service Monitoring Group (PSMG), whose role was to oversee the implementation of public service pay agreements, and to "deal with any overarching issues that arise in implementing these agreements as well as any other issues which both sides agree would help to improve the operation of public service pay and industrial relations arrangements."

[22] Framework for a Pact for Stabilisation, Social Solidarity and Economic Renewal, 28 January 2009

pension-related pay deduction levy, equivalent to 7.5% of pay on average would be imposed on all public service employees.

However, this did not resolve Ireland's financial crisis, and after further unsuccessful negotiations with the unions, the government again introduced its own measures in December 2009.These cut the pay of those employed in public services by 5% for the first €30,000 of annual salary, 7.5% on the next €40,000 and 10% on the next €55,000. For those earning more than €125,000 a year, the cuts were 8% up to €165,000, 12% between €165,000 and €200,000 and 15% on salaries of €200,000 or more. They took effect in January 2010.

The measures were opposed by the unions and there was industrial action at the start of 2010. However, talks with the government restarted and on 30 March the negotiators reached the so-called Croke Park agreement. This guaranteed: that there would be no further pay reductions over the lifetime of the agreement – from 2010 to 2014; that pay would be reviewed in the Spring of each year to see whether a pay increase might be possible; that there would be no compulsory redundancies; and that the 2010 pay reductions would be disregarded for the purposed of calculating pensions for those retiring in 2010 and 2011. In return the unions agreed to cooperate fully in redeployment within the public services as part of a modernisation of the public services, allowing staff numbers to be reduced.[23] After some further discussion the agreement was ratified by the unions in June 2010.

However, by November 2010 the deepening crisis in Ireland's banking sector led to a bailout by the EU and the IMF. In the area of public sector pay and employment, the government introduced new measures aimed at cutting the public sector paybill by a further 8%. This was to be achieved through a further reduction in staff numbers plus a 10% pay cut for any new recruits to the public service, with all new entrants starting on the minimum point of the pay scale. In addition, the measures agreed with the IMF included a new, less generous pension scheme for new public service recruits – it is based on career average earnings rather than final salary – and an average 4% cut in pensions already being paid to retired public service employees.

The Irish elections in February 2011 produced a new government, which made a number of changes in the area of labour policy: for example, the planned 12% cut in the national minimum wage introduced as part of the austerity package was reversed. However, there was no fundamental change in policies on public sector pay, which is set to remain frozen until 2014.

The first review of the Croke Park agreement was published in June 2011, but offered no indication that the savings made might be used to improve pay levels. In fact, it implied that if savings were not made existing pay levels could be at risk. It stated that, "The State [Ireland] has made external commitments to achieve substantial savings in its expenditure by 2014, including savings of at least €1.2bn in the public service pay and pensions bill. To achieve those savings, without further pay reductions or compulsory redundancies, it is imperative that savings and efficiencies are delivered urgently".[24]

The need for further pay savings was also made clear by Brendan Howlin, the minister for public expenditure and reform, when he addressed the Irish parliament on 5 December 2011. He said that he expected "additional cost savings, through the introduction of new working arrangements, including new rosters where applicable. In 2012, public service bodies will

[23] Public Service Agreement 2010-2014

[24] Public Service Agreement 2010-2014: First Progress Report, June 2011

have to achieve savings in respect of overtime of 10% and in allowances and premium payments of 5%."[25]

Impact

Figures produced by the Central Statistics Office Ireland show how public sector pay has fallen since the start of the crisis at the end of 2008. At their lowest point, in the first quarter of 2010, gross earnings were almost 8% lower, and although they have recovered slightly they are still 5.2% below their level at the end of 2008. Prices have also fallen over this period, but by much less, only 1.4% between December 2008 and December 2011.

Public sector earnings: 2001 to 2011

Period	Earnings per week	
	€	Index (2008 Q4 = 100)
2008Q4	956.71	100.0
2009Q1	934.00	97.6
2009Q2	946.09	98.9
2009Q3	945.50	98.8
2009Q4	965.84	101.0
2010Q1	881.80	92.2
2010Q2	908.08	94.9
2010Q3	911.70	95.3
2010Q4	910.80	95.2
2011Q1	872.85	91.2
2011Q2	894.56	93.5
2011Q3	906.81	94.8
Source: Central Statistics Office Ireland: Public sector average weekly earnings		

These figures are averages and some employees have been much more severely affected, as Howlin explained in his speech to the Irish parliament at the end of 2011.

> *"In discussing public service pay, it is important to acknowledge that public servants have already seen significant reductions in their pay. The impact of the pay reduction on the gross pay of public servants was progressive and ranged from almost 9% at Clerical Officer Level to over 23% at Secretary General Level. On a similar basis, a Teacher would have incurred a reduction of 12%, a Staff Nurse over 10.5%, a Garda over 11% while a middle-ranking public servant at Higher Executive Officer level would have sustained a reduction of 12.3%."*

It is also important to remember that the figures are for gross pay and do not take tax changes or, more importantly, the pensions levy imposed at the start of 2009 into account.

[25] Address to Dáil Éireann on Expenditure Estimates 2012
http://budget.gov.ie/Budgets/2012/Documents/Final%20Version%20Minister%20Howlin%20Speech%20to%20Dail%20on%20Budget%20Measures%205th%20Dec%202011.pdf

Latvia

Background

There are 264,000 employees in the public sector, according to figures produced by the Ministry of Finance in April 2011. These show that the largest area of employment is local government, accounting for 39% of all employees, followed by commercial companies (33%) and central government (28%). Around one third of those working in local government are teachers. Since 2008 employment in central government has fallen by 20% and employment in local government by 16%.

Number of employees in the public sector: 2010 (headcount)

Area of activity	**Average number of employees**
Central government institutions	74,200
Local government institutions	103,100
Commercial companies	87,100
Total	264,400
Source: Twenty-fourth informative report on changes to wages and salaries and employment in the state, Ministry of Finance, April 2011	

A minority of those employed in the public sector have a special status, as civil servants, members of the armed forces, police officers and so on. Civil servants are not covered by collective bargaining; their pay and conditions are set by regulations. The pay and conditions for these employed in local government and state owned companies are subject to negotiations, although negotiations in local government are constrained, as government regulations set maximum levels for basic pay rates and other payments. Performance related bonuses, normally paid in April and November, have been a significant part of overall pay in the past, as have holiday bonuses, normally paid in June.

Government action

The financial crisis came to a head in Latvia in October 2008, with a run on Latvia's second largest bank, Parex Banka. However, the Latvian government had already started to take steps to cut spending on public sector pay, having decided to cut the number of positions in public administration by 10% in September 2008. As the crisis worsened, the Latvian government approached the International Monetary Fund and other international institutions asking for support and the IMF agreed a loan in December 2008, with EU support being agreed in January 2009.[26] As part of the deal the Latvian government committed itself among other things to "cut average compensation (wages and bonuses) in the entire public sector by an additional 15 percent in 2009 (relative to the originally adopted budget) with further reductions in 2010-2011." In addition, the government abolished holiday bonuses for 2009 and limited a number of other additional payments.

There was initially some protection for the low paid – those earning less than 360 LVL (twice the minimum wage) – but one consequence of this was that the impact of the pay cuts in the first half of 2009 was less than planned, with the public sector paybill falling by 5% in the first six months rather than the 35% assumed in the government's initial programme.[27]

[26] See IMF Working Paper, Adjustment under a currency peg: Estonia, Latvia and Lithuania during the global financial crisis 2008-09, Catriona Purfield and Christoph B Rosenberg, 2010
[27] Republic of Latvia: First review and financing assurances review under the stand-by arrangement, IMF, October 2009

With the economic situation continuing to worsen, in June 2009, the government introduced a supplementary budget making further severe cuts. Despite opposition from unions and employers to many of the proposals, the government introduced legislation which abolished further bonuses and supplements, and allowed public institutions to save money by cutting working time (unpaid leave.). Redundancy payments were reduced and the maximum basic pay for central government employees was cut by 20% for those earning more than 300 LVL and 15% for those below this level. The protection for those earning less than 360 LVL was removed.[28]

These measures had a dramatic effect on public sector pay. As the IMF noted in its January 2010 report "The central government laid off almost 6,000 workers in the third quarter, and applied an 18 percent average wage cut to the remainder. The burden has fallen heavily on teachers, who now earn less than half the public-sector average."[29]

In January 2010 the government introduced a new pay system, with a common remuneration system for employees in both local and central government. The new pay scales cut the maximum basic pay by 5% on average as compared with the previous pay scales and bonuses were limited. Writing in June 2010, the IMF described the government's measures up to that time in the following terms: "Expenditure cuts have dominated the adjustment. The wage bill was cut by 4 percent of GDP (an average 30 percent wage cut for central government employees, though some workers such as teachers suffered more)."[30]

Since then the government has continued with a policy of pushing down overall pay costs in the public sector: public sector pay as a percentage of GDP fell from 10.2% in 2009 to 8.5% in 2010, and is expected to have fallen to 8.0% in 2011 and to fall to 7.7% in 2012. However, although there has been no overall increase, there are some cases where pay has risen, in part because it has become increasingly difficult for some parts of the public sector to recruit and retain staff. Since the start of 2011 individual employees have been able to receive performance related bonuses worth up to 30% of basic pay, although no more than 10% of employees should receive this supplement. The intention is that this should be partially paid for by reducing the number of staff. This has been the case in the police service, where wages have been increased but the number of officers has been cut.

Impact

Figures from the central statistical bureau show the impact of the government's pay cuts, with average earnings in the public sector now 12% lower than in 2008. The figures are based on the first nine months and so may not give a complete picture as pay is sometimes higher in the last quarter because of bonuses. Despite this the overall trends are clear, with earnings dropping by 16% between 2008 and 2010, before recovering slightly in 2011.

Looking at the different areas of activity, it is clear that earnings in the public sector as a whole, which includes government owned companies, have fallen by less than earnings in both central and local government. Central government has been the hardest hit, falling by 22% by 2010, and still 17% down in 2011.

This is in line with the observations of the IMF in the middle of 2010, which found that "Despite the later introduction of a wage grid, public sector pay cuts were uneven, with central government staff and teachers bearing the greatest burden, while local governments and especially state owned enterprises have reduced wages much less."[31]

[28] Sixth informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, May 2009
[29] Republic of Latvia: Second review and financing assurances review under the stand-by arrangement, IMF, March 2010
[30] Republic of Latvia 2010 Article IV Consultation, IMF, December 2010
[31] Republic of Latvia 2010 Article IV Consultation, IMF, December 2010

These figures do not take any account of inflation, which after falling in 2009, began to rise again in 2010 and 2011. Overall, between December 2008 and December 2011, prices increased by 5.4%. This means that on average employees in the public sector were around 17% worse off in real terms than they had been in 2008.

Average monthly salaries in public sector: 2008 to 2011

Year	**Total public sector**		**Central government**		**Local government**	
Based on first nine months	LVL	Index (2008=100)	LVL	Index (2008=100)	LVL	Index (2008=100)
2008	553	100.0	628	100.0	454	100.0
2009	517	93.5	542	86.3	439	96.6
2010	465	84.1	490	78.0	377	82.9
2011	488	88.2	520	82.8	394	86.7
Source: Average monthly wages and salaries of employees by month, recalculated to produce nine month averages, Table DS04,Latvijas Statistika						

Lithuania

Background

There are some 340,000 employees in the public sector in Lithuania, including substantial numbers in the supply of electricity, gas and water and transport. The figures from Statistics Lithuania, the official national statistics office, show that there were 336,700 in October 2010, with 297,900 employed full-time and 38,900 working part time.[32] The number employed in the public sector has fallen by 7.5% since 2008, when there 364,200 public sector workers in total, although the number of part-time employees has risen.

Number of employees in the public sector; October 2010

Area of activity	Full-time	Part-time	Total
Public administration, defence and compulsory social security	64,703	2,237	66,940
Education	104,474	19,106	123,580
Health and social work	58,974	8,789	67,763
Electricity gas and water supply and waste management	14,387	472	14,859
Transportation and storage	19,710	3,634	23,344
Arts, entertainment and recreation	10,804	2311	13,115
Professional, scientific and technical activities	7,615	839	8,454
Other	17,172	1,462	18,634
Total	297,839	38,850	336,689
Source: Statistics Lithuania, from db1.stat.gov.lt/M3060829 for full-time employees and db1.stat.gov.lt/M3060830 for part-time employees who have a direct employment contract and work at the main workplace all the month (October) and receive remuneration.			

Reforms introduced by the Law on Public Service in 1999, further amended in 2002, divided those working in the public sector in Lithuania, both in central and local government, into two main categories, civil servants and public employees.

Civil servants, who in turn are split between statutory civil servants (25,200 with a special status, working as police officers customs officers, diplomats and in the armed services) and other civil servants (29,700[33]), carry out a range of core tasks linked to policy making and the operation of state power. They cannot be dismissed, except for serious breaches of discipline, and their pay is set by legislation rather than through collective bargaining

Public employees are primarily involved in the provision of public services such as education and health, although there also around 25,000 in public administration and their employment contracts are similar to those employed in the private sector. Their pay and conditions are subject to collective bargaining. However, these negotiations are decentralised to the level of individual institution or service, so in practice they only take place where there is a sufficient union presence. Where there are no unions, pay and conditions are determined by the employers alone.

[32] Other figures produced by Statistics Lithuania (db1.stat.gov.lt/M3060708) give a significantly higher figure of 400,200 (headcount) or 366,700 (full-time equivalent). However this is for all employees working at the main or secondary workplace under an employment contract and potentially includes some double counting. These figures also show a clear decline over the period since 2008, with the headcount number falling from 428,500 to 400,200 (a 6.6% fall), while the full-time equivalent number fell from 393,900 to 366,700 (a 6.9% decline).

[33] Figures for both types of civil servant are for January 2010 and come from the Civil Service Department, http://www.vtd.lt/index.php?1424807728

Government action

The first steps to cut the pay of those working in the public sector were taken in December 2008 by the newly elected government led by the Prime Minister Andrius Kubilius. The amount provided for pay in 2009 was cut by an average of 12% for both central and local (municipal) budgets, although there were some exceptions such as teachers' pay. However, the government decided this was not enough, and two further rounds of cuts were imposed in May 2009 and July 2009.

In May 2009, salary appropriations for most employees were cut by 11.2%, leading to major cuts in additional payments and the widespread use of unpaid leave – normally two weeks. In July 2009 the government made direct cuts in the pay of public sector employees. Initially an across the board 10% pay cut was proposed, but following strong opposition from the unions, who argued that the higher paid should shoulder a greater burden, these plans were revised. Under the new arrangements the overall 10% saving was still achieved but the basic salary was cut by only 5%, while other pay elements, of greatest benefit to the higher paid, were cut by more. These cuts ran from August 2009 until the end of 2010. In addition from 1 September 2009 there was an 8% reduction in the salary appropriations for budgetary institutions and organisations.[34]

Further discussions between the government, the unions and the employers led to the signing of a national agreement on 28 October 2009. As well as covering a wide range of issues, this confirmed the average 10% cut in pay for state officials and civil servants and the average 8% pay cut for those employed in other publicly funded bodies. In return, the government promised that, during the period of the national agreement, there would be no further reduction in the basic salary level in the civil service.

In June 2010, the parliament approved an extension of these pay reductions for a further two years until the end of 2012.[35]

The national agreement signed in October 2009 ran out at the end of 2010 and before the expiry date there was general agreement among the unions, employers and government that, despite some shortcomings in the way the agreement had been implemented, it would be helpful for it to be renewed. However, this proved impossible and the agreement lapsed.[36]

Since then the government has continued with its policy of public spending restraint, including maintaining the cuts in public sector pay imposed in 2009. As it set out in the convergence programme, presented to the European Commission in April 2011, "The stabilisation of public finances and optimisation of government budget expenditure will be achieved through continuing the expenditure saving measures implemented in previous years, i.e. through extending the application of temporary measures of cutting wages in the public sector and saving on other expenditure."[37]

On this basis, the IMF forecast that public sector pay, expressed as a proportion of GDP, would fall from 11.1% in 2010 to 10.2% in 2011 and 9.3% in 2012.[38]

In December 2011, the Lithuanian parliament finally adopted a budget for 2012, which is intended to reduce the government deficit to 3.0% of GDP. Speaking in October, when the

[34] Republic of Lithuania, News release 3.7.2009
[35] IMF Working Paper, Adjustment under a currency peg: Estonia, Latvia and Lithuania during the global financial crisis 2008-09, Catriona Purfield and Christoph B Rosenberg, 2010
[36] See Trade unions finally organise a long-planned rally, EIRO, June 2011, http://www.eurofound.europa.eu/eiro/2011/04/articles/lt1104019i.htm
[37] Convergence programme of Lithuania of 2011, April 2011
[38] Republic of Lithuania: 2011 Article IV Consultation, IMF November 2011

budget was agreed by the cabinet, the prime minister expressed the hope that there could be a new national agreement with the unions and employers, but this seems unlikely.

Impact

Official figures from Statistics Lithuania indicate the effect of the pay cuts on those working in the public sector. They show that that there has been a slight recovery in public sector earnings, since their lowest point at the start of 2010 but that they are still 9% lower than they were at the start of the crisis at the end of 2008.

These figures do not take account of inflation and, as prices rose by 8.7% between December 2008 and December 2011, this suggests that in real terms public sector workers are around 18% worse off than they were three years earlier.

Public sector pay: 2008-2011

	Average monthly earnings	
	LTL	Index 2008Q4 = 100
2008Q4	2,464.6	100.0
2009Q1	2,318.8	94.1
2009Q2	2,316.8	94.0
2009Q3	2,272.4	92.2
2009Q4	2,208.9	89.6
2010Q1	2,135.8	86.7
2010Q2	2,167.4	87.9
2010Q3	2,177.6	88.4
2010Q4	2,251.2	91.3
2011Q1	2,178.5	88.4
2011Q2	2,231.5	90.5
2011Q3	2,244.8	91.1
Statistics Lithuania: Table M3060311: Average monthly earnings and indices by NACE 2 by type, sector, sex		

Figures are also available for different parts of the public sector and they show that, in percentage terms, those working in public administration, defence and compulsory social security have been hit much harder than employees in education or health and social work. The earnings of public administration workers have fallen by 17% since the last quarter of 2008, compared with a 5% fall for education workers and a 4% fall for health workers. Employees in public administration are still the best paid of the three groups, but the gap between them and the others has been significantly reduced.

Public sector pay by area of activity: 2008-2011

	Public administration and defence; compulsory social security		Education		Human health and social work activities	
	LTL	Index (2008Q4 =100)	LTL	Index (2008Q4= 100)	LTL	Index (2008Q 4=100)
2008Q4	3,224	100.0	2,100	100.0	2,294	100.0
2009Q1	2,840	88.1	2,119	100.9	2,206	96.2
2009Q2	2,849	88.4	2,154	102.6	2,189	95.4
2009Q3	2,753	85.4	2,118	100.9	2,123	92.5
2009Q4	2,641	81.9	2,023	96.3	2,065	90.0
2010Q1	2,573	79.8	1,947	92.7	2,000	87.2
2010Q2	2,620	81.3	1,988	94.6	2,012	87.7
2010Q3	2,625	81.4	1,986	94.6	2,034	88.7
2010Q4	2,658	82.4	2,050	97.6	2,150	93.7
2011Q1	2,621	81.3	1,954	93.0	2,048	89.3
2011Q2	2,663	82.6	2,004	95.4	2,149	93.7
2011Q3	2,677	83.0	2,003	95.4	2,204	96.1
Statistics Lithuania: Table M3060315: Monthly earnings, LTL by type, sex, sector, economic activity (NACE 2) and quarter						

Portugal

Background

There are some 726,000 people employed in public administration in Portugal (see table), with the majority working in the central administration, which is responsible for large areas of education and health.

In addition there are 57,900 people working in a variety of state owned enterprises, ranging from transport companies to theatres and a further 92,300 employed in state owned enterprises in the area of health, primarily hospitals.[39]

Number employed in public administration: 2010-2011*

Area	Number employed	
Central government		551,405
of which		
Ministry of Education and Science	237,892	
Ministry of Health	126,847	
Regional government (Azores and Madeira)		38,823
Local government (municipalities)		135,888
Total		726,000*
*As the figures for central government relate to June 2011, those for local government to 2010 and those for regional government to 2005, a precise total has not been provided		
Sources: Central government and local government: Boletim do Observatório do Emprego Público, No 6, December 2011 http://www.dgaep.gov.pt/upload//OBSEP/BOEP_06/DGAEP-OBSEP_BOEP_06.pdf Regional government: Caracterização dos Recursos Humanos da administração pública portuguesa: 2005, dgaep, 2008: http://www.dgaep.gov.pt/upload/catalogo/RH2005.pdf		

The vast majority, around 80% of those working in public administration, used to have a special status and were appointed through "nomination" as "funcionários públicos". The remainder were on employment contracts similar to those in the private sector. However, since 2008, new legislation has been in place that aims to reduce the use of nominated employees to certain core functions and bring the contractual status of most public employees much more closely in line with that in the private sector – changes which many of the unions opposed.

Pay and conditions are determined by a mixture of collective bargaining and consultation.[40] The recent cuts in pay were simply imposed (see below).

Government action

In January 2010 the Portuguese government announced its intention to freeze public sector wages for that year, as well as cutting public sector pensions. Further austerity measures were presented in April 2010 and although they did not include additional proposals for public sector pay, the government's growth and stability programme, published in March made it clear that the public sector salaries would be subject to "strong constraint" in the period 2010 to 2013.[41]

[39] Sector Empresarial do Estado – Relatório de 2011, Direcção-Geral do Tesouro e Finanças, 2011
[40] See Portugal: Representativeness study of the European social partners organisations – Public administration sector, EIRO, May 2011
http://www.eurofound.europa.eu/eiro/studies/tn0912027s/pt0912029q.htm
[41] Programa de Estabilidade e Crescimento: 2010 – 2013, Portuguese Republic, March 2010

By September the government had decided that this was no longer sufficient and a new package of measures was announced on 29 September 2010. As well as freezing pensions for 2011 and increasing VAT, the government cut public sector pay by an average of 5% from 1 January 2011. The government protected the lowest paid, with the pay of those earning less than €1,500 a month not being cut at all, and the pay of those earning between €1,500 and €2,000 a month being cut by 3.5%. Above €2,000 the pay cut was applied progressively, with those earning €2,500, for example, losing 6.0% of their pay; those earning €3,000 losing 7.67% and those earning €4,000 losing 9.75%. All those earning €4,200 or more had their pay cut by 10%.

However, these austerity measures failed to satisfy the financial markets and in early March 2011 the government came forward with a further package of savings, the fourth in little over a year. Among other things it provided for public sector salaries to be frozen at their lower levels until 2013, a two-year delay in uprating pensions in line with inflation, cuts in health spending and suggestions that bargaining should be decentralised. These proposals were rejected by the parliament on 23 March and the government fell. As a consequence, on 6 April, the then Portuguese prime minister, José Sócrates, announced that the government would seek external help from the EU and the IMF.

However, it was clear that this help would only be provided if Portugal adopted policies very similar to those set out in March. As a result, the Financial Adjustment Programme put forward by the government, acting in a caretaker capacity, in May 2011, was in most respects a reissue of the March austerity package. On public sector pay, the programme was for "freezing of wages in the public sector… promotion constraints; [and] civil servants reduction (1%/year in central administration and 2%/year in local authorities).[42]

This was the basis of the agreement with the European Commission, the European Central Bank and the IMF, as set out in an attachment to Portugal's letter of intent to the IMF, sent on 17 May 2011. It stated in slightly greater detail what would happen to public sector pay and employment in the next two and a half years.

> *"Following the 5 per cent average cut in public sector wages this year, wages … will be frozen through 2013 … Through a policy of only partly replacing separating staff, we will reduce the number of civil servants at the central government by 1 percent in both 2012 and 2013. The rationalisation of the public administration at local and regional governments will provide further reduction in costs, including a reduction in employment by 2 percent annually."*[43]

The document also set out the government's commitment to cut pay at state owned enterprises (SOEs): "we will reduce SOE fringe benefits by at least 5 percent per year over 2011-2014 and will align wage compensation policies to those of the general government".

The new government which was formed after elections on 5 June 2011 strongly supported the programme agreed with the IMF and EU bodies. And when the new Portuguese prime minister, Pedro Passos Coelho, presented his budget plans for 2012 on 13 October 2011, he proposed further austerity measures. As well as tax rises and cuts in education and health, he announced that for a two-year period the working week would be increased by half-an-hour in the private sector (without any increase in pay). In addition the package contained cuts in the number of public holidays and shifting others to Mondays or Fridays, so that workers would not take off the days between the holiday and the weekends.

[42] Economic and Financial Adjustment Programme: Main Guidelines, Portuguese Ministry of Finance, 5 May 2011
[43] Letter of Intent: Attachment I: Portugal—Memorandum of Economic and Financial Policies, IMF, May 17, 2011

Pay in the public sector was also targeted, and the 13th and 14th month payments, each about one month's salary and paid at Christmas and in the summer, were abolished or reduced for a period of at least two years. The initial government proposal was that those earning more than €1,000 a month would lose them completely, while those earning between €485 (the level of the minimum wage) and €1,000 would lose the equivalent of one of these payments. The debates in parliament led to a slight change, and the threshold for the complete loss of these payments was raised from €1,000 a month to €1,100.[44]

The IMF estimates that the complete loss of both the 13th and 14th months' pay amounts to a 12% average cut in annual salary.[45]

Impact

There are no current earnings statistics which allow the average impact of these cuts to be measured. However, combining the average 5% cut in 2011, with the loss or reduction of the 13th and 14th payments in 2012, it is clear that their impact is substantial, although it varies with salary. Someone on €900 is only affected by the loss of half the value of the 13th and 14th month payment – a 6% fall. However, someone on €1,200 loses both payments – a 12% drop. An employee on €1,500 lost 3.5% in 2011 and loses a further 12% in 2012 – 15.5% in total; and someone on €3,000 lost 7.67% in 2011 and loses 12% in 2012– almost 20%. The highest losses are felt by those paid €4,200 a month or more, who lost 10% in 2011 and lose 12% in 2012 – 22% in total.

These losses do not take account of inflation in the two years from December 2009 (immediately before the first freeze in public sector pay) and December 2011, prices rose by 6.2%. With pay to be frozen until the end of 2013 and the IMF in December 2011 forecasting that prices will rise by 3.3% in 2012 and 1.3% in 2013, it is clear that by the end of 2013 some public servants will have lost one-third of the value of their pay in real terms and many will have lost a quarter.

[44] See The Economic Adjustment Programme for Portugal: Second Review – Autumn 2011, European Commission, December 2011

[45] Portugal: Second Review Under the Extended Arrangement, IMF, December 2011

Romania

Background

There are some 1.2 million employees in the public sector in Romania. Figures in the IMF report published in October 2011 show that in the second quarter of 2011 there were 1.23 million employed in the public sector, 12% down from the peak of 1.4 million in 2008[46]. A breakdown between different areas of activity for 2008, drawn from a different source, is set out in the table

Public sector employment 2008: by area of activity

Area of activity and type of employment	**Numbers employed***
Central government – civil servants	78,153
Central government – specialists (military, police, fire etc)	263,325
Central government – normal employment contracts	37,535
Local government – civil servants	78,002
Local government – normal employment contracts	240,289
Schools and nurseries (pre-university)	339,688
Universities	68,203
Health	224,458
Agencies and others	165,944
Total	1,495,597
* These figures are based on authorised rather than actual numbers, which were lower	
Source: Public Sector Pay Practices in Romania, World Bank 2008	

Pay for all those working in the public sector in Romania is set by legislation and there are many different pieces of legislation governing the pay of specific groups of employees, and the various components of their pay. Although the precise situation varies depending on the employee concerned, a high proportion of total pay has in the past been made in the form of allowances and bonuses, including merit pay, service related additions, supplements linked to working conditions and payments for management responsibilities, among others. In 2008, a World Bank Report estimated that base salaries accounted for 54% of total pay in central government, 60% of pay in local government and only 42% of pay among the police, gendarmerie, fire service and the judiciary.[47]

Although pay is set by legislation, in many areas there have been negotiations between the government and the unions, with the government giving force to the results of negotiations through government ordinances (ordonante).

In the recent past there have been major efforts to introduce a uniform salary structure for public servants to make pay clearer and more transparent and so lessen the possibility of individual pay being influenced by personal or political bias. Initially a demand from the unions, this was agreed in principle between the unions and the government in 2005 but framework legislation to implement it was only introduced in November 2009, in part as a response to the financial crisis (see below).

[46] Romania: Second Review under the stand-by arrangement and request for modification of performance criteria, IMF, October 2011
[47] Public Sector Pay Practices in Romania, World Bank, 2008

Government action

Cuts to public sector pay and conditions began in April 2009, as part of a package agreed with the International Monetary Fund. The government agreed not to implement further pay increases in the public sector in 2009 (worth 5%) or make equivalent savings through job cuts, as well as reducing overall levels of public sector employment by replacing only one in seven of those leaving. It also promised to establish a unified and simplified pay scale and to reform the bonus structure, implementing the changes over a three-year period with action to protect the lowest paid.[48]

The next steps came in August 2009 when the government announced that it would take emergency measures to cut the public sector wage bill. These included substantial cuts in overtime hours and premia and the imposition of a two-week period of unpaid leave between October and December 2009.

The legislation establishing a framework for the introduction of a uniform salary structure for public servants was also finally passed in November 2009. However, the final package was not agreed with the unions, who feared that the way it was being implemented would result in wage cuts. The government made it clear that the framework law was only the first step and that further legislation would be introduced by the end of September 2010.

However, in May 2010, before this legislation could be introduced, the government took further and much more drastic action to cut public sector pay. It announced a temporary 25% reduction across the board, although it promised that no wages would be cut below the level of the minimum wage. These measures and others, including a 15% cut in pensions, which were proposed at the same time were challenged in the Constitutional Court. It ruled that the pension cuts were unlawful but the pay cuts were judged to be legal, although only if applied for a limited time. Legislation introducing a temporary 25% cut in pay until 31 December 2010 was passed on 30 June.

The government also pressed ahead with longer-term changes in public pay, introducing detailed legislation on a unified pay law for the public sector. The legislation was in two parts. One set an overall limit for the total public sector wage bill for 2011 of 39 billion lei (about €9 billion). The second was an implementing framework law including the new pay system with new job categories and a new wage scale, which was passed as Law 284/2010 at the end of 2010.

The main changes included in this new pay system were that all “remaining bonuses are set as ceilings rather than mandatory levels, both at an individual and aggregate level, allowing for flexibility according to performance and budgetary conditions; and … the productivity bonus system (stimulente) will be eliminated by incorporating it into the basic wage.”[49] Only high levels of tax collection are to be rewarded.

Although these changes have the effect of reducing total pay, they will take time to be fully implemented. As the IMF noted in January 2011, “full application of the new wage system will take several years.”[50] However, the government had already committed itself in its letter of intent to the IMF in September 2010 to eliminate the 13th month salary and the holiday bonus from January 2011.[51] It was also continuing the policy of replacing only one in seven of those leaving the public sector. This meant that there was room for “an average recovery [of public sector pay] of around 15% in 2011” [52], while keeping the overall public sector

[48] Letter of intent to International Monetary Fund, 24 April 2009
[49] Romania — Sixth Review Under the Stand-By Arrangement, IMF, January 2011
[50] Ibid.
[51] See Letter of intent to International Monetary Fund, 9 September 2010
[52] Convergence Programme: 2011-2014, Government of Romania, April 29, 2011

paybill below the 39 billion lei limit. In the view of the government "the nominal wage increase [in 2011] is balanced by the elimination of the 13th salary and the holiday bonus".[53]

Following the slight improvement in public sector pay in 2011, the expectation had been that 2012 would see the complete restoral of the 25% cuts. This was one of the government's priority aims as set out in the Convergence Programme, published in April 2011, where the government said it wanted "the gradual removal, by the end of 2012, of the nominal cuts of 25% enforced in 2010".[54]

Later in the year, the IMF pointed out that this was both a legal requirement, and financially possible, because of the faster than expected falls in government employment. In its report in October 2011 it stated: "During 2011, public employment has continued to decline—more rapidly than originally envisaged – leaving room to gradually reinstate the remainder of the wage cut by end-2012 – as mandated by the Constitutional Court."[55]

However, it now in early 2012 it appeared less likely that the pay cuts will be reversed in 2012. On 8 November 2011, the parliament adopted an emergency ordinance, proposed by the government, freezing pay for 2012. The legality of this legislation was challenged in the Constitutional Court with the opposition arguing that the 2010 ruling by the Court meant that restoring the pay cuts could only be delayed until 2012. However, the Court rejected this view and found that the parliament did have the right to delay restoring the cuts. The new law, promulgated on 14 December 2011, provides that public sector pay in 2012 should be frozen at the same level as December 2011.

This is despite the fact that, as the IMF points out in its latest report, "Public employment continued to decline faster than expected, causing underspending on the wage bill".[56] Indeed, because of the negative impact on domestic demand and growth, the IMF even "recommends the [Romanian] authorities consider modest increases for public employees and retirees (perhaps reflecting the cost of living) during the course of 2012 if budget conditions permit."[57]

It is possible that the government will reconsider, and introduce some increases for public sector pay during 2012. But at present, the policy is for another 12 months of freeze.

Impact

The impact of the government's actions on public sector pay can be clearly traced in the official statistics on earnings. There are no figures for the public sector as a whole, but there are statistics for the three main public sector areas: public administration (including defence and compulsory social security), education and health (and social services). The figures in the table are all for a single month, October. They show first the decline in earnings in 2009 – much sharper in public administration, than in education or health, where there was almost no impact. Then all three sectors are hit by the 25% pay cut in the second half of 2010 (including October), which cuts public administration earnings by 27.4% compared to 2008, while education falls by 25.1% and health by 22.7%. There is some recovery in 2011, but earnings in public administration in October 2011, were still 14.6% lower than the same month in 2008, while in education the drop was 17.9% and in health it was 9.6%.

[53] Letter of intent to International Monetary Fund, 10 March 2010
[54] Convergence Programme: 2011-2014, Government of Romania, April 29, 2011
[55] Romania: Second Review under the stand-by arrangement and request for modification of performance criteria, IMF, October 2011
[56] Romania: Third Review under the stand-by arrangement and request for modification of performance criteria, IMF, January 2011
[57] Ibid.

Even these falls may not reflect the full impact of the cuts. As they are not for a complete year, they do not yet show the full effect of the loss of the 13th month salary and holiday bonus in 2011 on overall annual earnings

Gross monthly earnings (October) in public services: 2008-2011

Year (Oct)	**Public administration and defence: public sector social security**		**Education**		**Health and social services**	
	lei	Index (2008=100)	lei	Index (2008=100)	lei	Index (2008=100)
2008	2,991	100.0	2,145	100.0	1,862	100.0
2009	2,712	90.7	2,124	99.0	1,864	100.1
2010	2,170	72.6	1,606	74.9	1,439	77.3
2011	2,553	85.4	1,762	82.1	1,701	91.4
Source: Monthly Statistical Bulletins (Buletinul statistic lunar nr.10/2011, 10/2010, 10/2009) , National Institute of Statistics Romania						

These losses, severe as they are, are for nominal earnings and do not take inflation into account. In fact, between December 2008 and December 2011 prices rose by 16.6%. This suggests that, in real terms, earnings in the public sector continue to be between a quarter and a third lower than in 2008.

Spain

Background

There are almost 2.7 million people employed in the public services in Spain.[58] Official figures for January 2011 show that almost half work at regional level in the autonomous communities, although the majority of those employed at this level work in education and health. The number employed has shown a steady increase over most of the last 10 years: it was 2,243,000 in 2001. However, as a result of government policy to reduce the size of the public sector, it fell from 2,699,000 in January 2010 to 2,684,000 in January 2011. This fall is likely to continue.

Employees in the public sector: January 2011

Level of government	Number employed	
Central government		592,813
Regional level		1,242,285
of which Non-university teaching	543,037	
of which Health	492,000	
Universities		100,784
Local authorities		647,488
Total		2,683,370
Source: Empleo Público en España: Ministerio de Hacienda y Administraciones Públicas		

The structure of negotiations for the whole of the public service in Spain was changed with new legislation in 2007, which introduced a new top-level negotiating committee for the whole of the public administration (Mesa General de Negociación de las Administraciones Públicas). Before this change, only employees of central government had been covered by this top level negotiating body. The new structure provides a mechanism to negotiate on issues covering the whole of the public service, including the general pay increases for public employees. This is then included in legislation.

Below this level there are similar negotiating bodies at regional and local level. As well as these general negotiating bodies, each administration can set up sectoral negotiating bodies which deal with particular groups of employees.

Although the legislation makes it clear that most issues will be covered by collective agreements, it also establishes that some issues, such as the rights of users of public services, are excluded from collective bargaining. On pay it also states that while normally agreements will be honoured, the state reserves the right to suspend or modify them in cases where “substantial changes in the economic circumstances” result in a serious threat to the public interest.[59]

The most recent national agreement between the government and the unions was signed on 25 September 2009 for the period 2010 to 2012. It provided for a 0.3% increase for 2010 and a revision clause, which was intended to ensure that the purchasing power of those employed in the public services was not undermined by unexpectedly high levels of inflation over the three years for which the agreement was to be valid.

[58] This is the figure proved by the ministry of finance and public administration. Figures from the labour force survey (Encuesta de Población Activa, Instituto Nacional de Estadística, inebase: Table 3.49 Asalariados del sector público por tipo de administración, sexo y grupo de edad) show a significantly higher figure for public sector employment totalling 3,185,900 in the first quarter of 2011.
[59] Estatuto Básico del Empleado Publico Law 7/2007, Article 38

Government action

The government's intention to cut the pay of those working in the public services became clear when José Luis Rodríguez Zapatero, the then leader of the government, announced a 5% reduction of pay in May 2010. The pay cut was part of a package of measures, which included freezing pensions in 2011 and cuts in social provisions and other areas, in an attempt to reduce Spain's budget deficit.

The reduction from 1 June 2010 and the freezing of public service pay at this lower level in 2011 was introduced through decree (RDL 8/2010), which in its introduction made specific reference to the powers given to the government in the 2007 legislation to alter pay rates already agreed.

Although there was an overall reduction of 5%, for some groups of employees pay was reduced by more than this for higher paid employees and less than this for the lower paid.[60] However, this tapered reduction did not apply to all public sector employees. In many cases the pay of all employees was reduced by a uniform 5%.

The initial intention was that the 5% cut would not be extended beyond the end of 2011. However, the new government of Mariano Rajoy, which was elected in November 2011, agreed on 30 December 2011 that public sector pay would be continue to be frozen at this lower level for a further 12 months until the end of 2012. In addition, it stated that the working week for all public sector employees would be 37.5 hours. This was previously the weekly working time for employees at central government level, but not for those at regional and local level, many of whom had agreed a shorter working week. The increase will not result in higher pay and if employees wish to keep the shorter hours which had previously been agreed, their pay will be correspondingly reduced. Finally the government announced a complete ban on recruitment in the public sector other than in a very few areas such as some teachers and some health staff, security forces and those responsible for tackling fraud, where a maximum of 10% of those leaving can be replaced.[61]

The measures were presented to the unions in the negotiating committee for the whole of the public administration (Mesa General de Negociación de las Administraciones Públicas) on 30 December after they had been agreed. The unions rejected them unanimously.

Impact

There are no separate figures on the earnings of those working in the public sector, so it is not possible to provide details of the impact of the average 5% cut in pay on earnings levels. However, between June 2010, when pay was cut and December 2011, prices rose by 4.4%. This implies that there has already been an almost 10% cut in the real value of pay in the public sector.

[60] For more details see the note produced by the technical staff of FSC-CCOO (RDL 8/2010 Decretazo salario empleados públicos 24 May 2010)

[61] Set out in Real Decreto-ley 20/2011, de 30 de diciembre, de medidas urgentes en materia presupuestaria, tributaria y financiera para la corrección del déficit público, published in Boletín Oficial del Estado, 31 December 2011








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