

Analysis of Minimal Wage Development in Slovak Republic from Year 1993

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Abstract: *In the Slovak Republic employers are obliged, in accordance with the Labor Code, to provide the employee with a wage at least to the amount equal to the minimal entitlement determined for the degree of work corresponding to the intensity of the relevant job position. The amount of the minimal wage is determined on the basis of an agreement between the employer's representatives and the employee's representatives; if no agreement is reached, the procedure under the Minimal Wage Act applies. This paper aims to analyze the development of the minimal wage in the Slovak Republic since 1993.*

Keywords: *minimal wage, labor code, subsistence wage, net salary.*

JEL codes: J80

1 Introduction

The Minimal wage in Slovakia was established in 1990. (Makovsky, 2011) Since the minimal wage is influenced by state intervention, it is an intervention in the market mechanism and its costs are borne primarily by employers, it is an important indicator in assessing impacts in the payroll field. (Meixnerova, Krajnak, 2020)

The amount of the minimal wage in the Slovak Republic is determined on the basis of an agreement between the representatives of the employers and representatives of the employees, if no agreement is reached, the procedure under the Minimal Wage Act is applied, i.e. the minimal wage for the following calendar year is determined to be 57 % of the average monthly gross wage of an employee in the Slovak economy published by the Statistical Office of the Slovak Republic for the calendar year two years preceding the calendar year for which the monthly minimal wage is determined. (Nedomlelová, Staňková, Vavrek, 2017)

The agreed wage of an employee may not be lower than the minimal wage. The provision of the minimal wage is regulated by Minimal Wage Act no. 663/2007 Coll., as amended. As the Minimal Wage Act regulates the provision of the minimal wage and the established minimal wage (monthly and hourly) applies not only to employees working on the basis of an employment contract, but also to employees working on an hourly basis. (Pauhofová, Stehlíková, 2018) Pursuant to Section 120 of the Labor Code, the employer is obliged to provide the employee with a wage at least at the amount of the minimal entitlement determined for the degree of the work intensity of the relevant job position. The employer is obliged to assign a degree of work intensity for each job position according to the levels of difficulty specified in Annex no. 1 of the Labor Code (1 - 6 level). The amount of the

minimal wage entitlement for the relevant degree of work intensity with an established weekly working time of 40 hours is given as the result of the hourly minimal wage or monthly minimal wage and the coefficient of the minimal wage for each degree of work intensity set out in § 120 of the Labor Code (koeficient is from 1 till 2). With an agreed weekly working time less than 40 hours, the rates of minimal wage can be reduced proportionally.

2 Methodology and Data

On the basis of the recommendations of the European Committee of Social Rights, the minimal wage should achieve at least 60% of the average wage in a national economy. (Onaran, 2012) Without the existence of such a guarantee there is the danger of generating a higher risk of working poverty and its dependence on the social system. (Dickens, Manning, 2014) On the basis of this statement, we formulated the following hypotheses:

H1 The minimal wage in Slovakia does not achieve 60% of the average wage of Slovak economy

H2 Minimal wage is not growing as fast as average wage

H3 Net minimal wage does not grow slower than gross minimal wage in Slovakia.

For analysis we used data shown in the following table. The development of the minimal monthly wage from 1993 to 2001 (for the first level of labor intensity) together with the development of the average monthly wage in the Slovak economy.

Table 1 Development of minimal and average wage in years 1993 - 2020

Year	Gross minimal monthly wage (1th level)	Net minimal monthly wage (1th level)	Average gross monthly wage in SR
1993	73,03 €		178,55 €
	81,33 €*	64,27 €	
1994	81,33 €	71,57 €	208,92 €
1995	81,33 €	71,57 €	238,83 €
1996	81,33 €		270,66 €
	89,62 €**	71,57 €	
1997	99,58 €	86,68 €	306,25 €
1998	99,58 €	86,68 €	332,04 €
1999	99,58 €		356,10 €
	119,50 €**	86,68 €	
2000	132,78 €		379,41 €
	146,05 €*	116,85 €	
2001	146,05 €		410,44 €
	163,31 €*	127,36 €	
2002	163,31 €		448,48 €
	184,89 €*	142,04 €	
2003	184,89 €		476,83 €
	201,82 €*	158,98 €	
2004	201,82 €		525,29 €
	215,76 €*	188,05 €	
2005	215,76 €		573,39 €
	229,04 €*	204,77 €	
2006	229,04 €		622,75 €
	252,27 €*	216,27 €	
2007	252,27 €		668,72 €
	268,87 €*	236,39 €	
2008	268,87 €	251,26 €	723,03 €
2009	295,50 €	275,22 €	744,50 €
2010	307,70 €	286,47 €	769,- €
2011	317,- €	286,49 €	786,- €

2012	327,- €	295,03 €	805,- €
2013	337,7 €	303,21 €	824,- €
2014	352,- €	313,86 €	858,- €
2015	380,- €	326,24 €	883,- €
2016	405,- €	350,49 €	912,- €
2017	435,- €	369,79 €	954,- €
2018	480,- €	391,01 €	1 013,- €
2019	520,- €	425,42 €	1 092,- €
2020	580,- €	461,69 €	1 133,- €

Source: Own processing on the base of data from ŠÚ SR

* from October, 1th

** from April 1th

The net minimal wage in the table above was calculated to be the gross minimal wage minus the employee's contributions to the funds (valid for the relevant year) minus the non-taxable part per taxpayer and the non-taxable part per 1 child (since 2004 instead of the non-taxable part per taxpayer the tax bonus per 1 child has been applied and the tax bonus has been directly deducted from personal income tax). In the calculations, we used the income tax rates valid for the relevant year. (Konečná, Andrejovská, 2020) As the gross minimal wage from 1993-2007 changed over the years, we took into account the wage valid on 1 January of the current year for the calculation of net minimal wages.

3 Results and Discussion

In the following table we can find the calculated year on year growth of the gross minimal wage, net minimal wage and gross average wage. In the last column, the share of minimal gross wage is calculated in gross average wage.

Table 1 Development of minimal and average wage in years 1993 - 2020

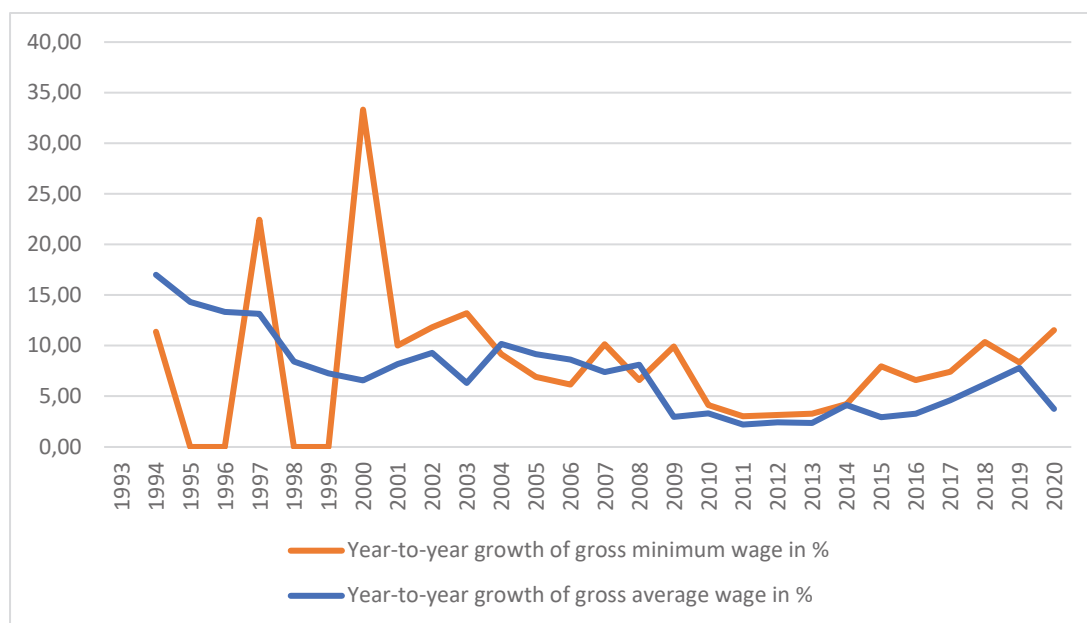
Year	Year-on-year growth of gross minimal wage in %	Year-on-year growth of net minimal wage in %	Year-on-year growth of gross average wage in %	Share of minimal wage in average wage in %
1993				40,90
1994	11,37	11,37	17,01	38,93
1995	0,00	0,00	14,32	34,05
1996	0,00	0,00	13,33	30,05
1997	22,44	21,12	13,15	32,52
1998	0,00	0,00	8,42	29,99
1999	0,00	0,00	7,25	27,96
2000	33,34	34,79	6,55	35,00
2001	9,99	8,99	8,18	35,58
2002	11,82	11,53	9,27	36,41
2003	13,21	11,92	6,32	38,77
2004	9,16	18,29	10,16	38,42
2005	6,91	8,89	9,16	37,63
2006	6,15	5,62	8,61	36,78
2007	10,14	9,30	7,38	37,72
2008	6,58	6,29	8,12	37,19
2009	9,90	9,54	2,97	39,69
2010	4,13	4,09	3,29	40,01
2011	3,02	0,01	2,21	40,33
2012	3,15	2,98	2,42	40,62
2013	3,27	2,77	2,36	40,98

2014	4,23	3,51	4,13	41,03
2015	7,95	3,95	2,91	43,04
2016	6,58	7,43	3,28	44,41
2017	7,41	5,51	4,61	45,60
2018	10,34	5,74	6,18	47,38
2019	8,33	8,80	7,80	47,62
2020	11,54	8,52	3,75	51,19

Source: Own processing on the base of data from ŠÚ SR

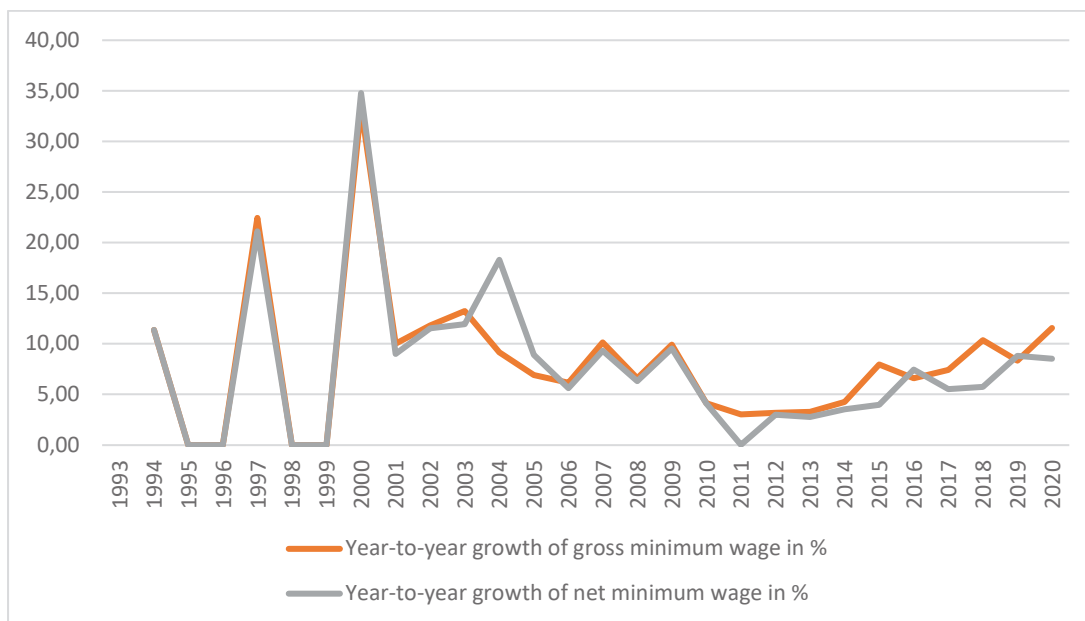
When monitoring the share of the minimal wage in the average wage from table 1, we can say that the minimal wage achieves approximately 40% of the average wage for almost the whole monitored period. In 2020 it was even 51,19 %. This was caused by the fact that the minimal wage increased faster than average wage. The lowest value for the share of the minimal wage in the average wage in Slovakia occurred in 1999, at 27,96 %. In other years the value of the share oscillated around 40%. The share did not reach the recommended value by the European Committee of Social Rights, but from 2004 the dynamic pace of growth in the minimal wage in Slovakia has been faster than the year-on-year growth in average wages.

Graph 1 The growth of minimal and average monthly gross wage in years 1993 – 2020



Source: Own processing on the base of statistics data (ŠÚSR)

In graph no. 1 we can see more clearly how the gross minimal wage and the gross average wage increased in the Slovak Republic. In the years 1994 - 1996 and 1996 - 1999, the minimal wage remained at the same level and subsequently in 2000, the highest increase of up to 33.34% was recorded, which caught the growth of the average wage in the years when the minimal wage did not increase. Except for the years 2004-2006 and for year 2008, the minimal wage always grew faster than the average wage. The highest difference between the growth of the minimal wage and the average wage was in 2020, when the minimal wage increased by 11.54%, but the average wage increased (probably also due to the COVID pandemic) by only 3.75%.

Graph 2 The growth of the minimal gross and net monthly wage in years 1993 – 2020

Source: Own processing on the base of statistics data (ŠÚSR)

Until 2003, the growth of the minimal net wage almost identically copied the growth of the minimal gross wage. In 2006, the gross minimal wage grew faster than the net minimal wage. The largest difference between the growth of gross and net wages was recorded in 2000 when the gross minimal wage increased by 9.16% and the net minimal wage by 18.29% and in 2011, when the gross minimal wage increased by 3.02%, but the net minimal wage did not increase. This was due to the reduction of the non-taxable part per taxpayer. From the point of view of the state, this was only a political tool, when they increased the gross minimal wage, thereby increasing the costs of employers and state budget revenues in taxes and insurance premiums, but did not affect the net wages of employees.

Conclusions

The aim of this paper was to analyze the development of the minimal wage from 1993 in the Slovak Republic and to confirm or refute the established hypotheses. The first hypothesis is that the minimal wage in Slovakia does not reach 60% of the average wage of the Slovak economy. This hypothesis was confirmed and that the minimal wage reaches on average only 40% of the average wage in Slovakia, but this share has a growing character and in 2000, the minimal wage reached the level of 51,19% of the average wage.

The second hypothesis is: the minimal wage is not growing as fast as the average wage. The opposite is true. From the year 2008, the minimal wage always has grown faster than the average wage. The last hypothesis says that the net minimal wage is growing slower than gross minimal wage in Slovakia. This hypothesis was confirmed and even in 2011, the minimal net wage did not increase at all, despite the fact that the minimal gross wage increased.

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