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Minimum wage - quo vadis? National and European background

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As is well known, Romania has a general, legally regulated minimum wage, which is increased (at least) once a year by government decree. It currently amounts to RON 3,300.

A new increase to RON 3,700 as of July 1, 2024 was recently announced, which according to the press should already be in place.

At the same time, there are also new European requirements for criteria for setting minimum wages by the member states. Against this backdrop, what is the future of the minimum wage in Romania?

Development

In recent years, the general minimum salary has grown rapidly: in January 2020, it was raised from RON 2,080 to RON 2,230 (approx. 7.9%). This was followed by a (Covid-related low) increase of approx. 3% to RON 2,300 on 1 January 2021 and further increases to RON 2,550 (approx. 10.9%) on 1 January 2022 and RON 3,000 (17.65%!) on 1 January 2023. In 2023, a further increase of approx. 9.1% to RON 3,300 followed in October. The announced increase on 01.07. means a further jump of more than 12%.

The wage policy, which is, of course, welcomed by employees and certainly partly due to the election campaign, is naturally not fully understood by employers. There are certain sectors of the economy whose business model is based on the minimum wage.

This includes, in particular, manufacturing companies that mainly employ unskilled or non-specialized workers. A good example are companies that operate in the contract system, i.e. in the mere processing of goods, which is often the case in the textile industry. The majority of the costs here usually consist of salaries, which are of course factored into the consumer prices. Increases in the minimum wage may cost such companies their profit margin, especially if they occur unexpectedly (as in October 2023). Many manufacturers may find it very difficult to pass on the unplanned increases to customers, as contracts often have fixed terms (such as one season) - if customers accept the increases at all.

Minimum wage directive: new EU requirements

Until now, there have been no European regulations on the minimum wage. Due in part to the wide pay gap in the EU, the Minimum Wage Directive (Directive (EU) 2022/2041) was the first instrument created to establish fair and equitable wages across the EU.

The directive does not, of course, aim to establish a single European minimum wage; however, member states must define criteria for setting and updating minimum wages that contribute to their adequacy and include at least the following:

- the purchasing power of the statutory minimum wage, taking into account the cost of living;
- the general level of wages and their distribution;
- the growth rate of wages;
- long-term national productivity levels and trends.

The member states are responsible for determining and weighting these criteria, but they must base their assessment of appropriateness on reference values. The directive mentions 60% of the gross median wage and 50% of the gross average wage as an optional example.

The directive also encourages collective bargaining.

The directive must be implemented by **15.11.2024**. The PNRR also obliges Romania to establish an objective and predictable mechanism for determining minimum wages.

Status

Negotiations are already taking place between employers' associations, trade unions and the Ministry of Labor, in which several scenarios are being discussed. Discussions include aligning the minimum wage with the forecast development of the inflation rate or maintaining a certain ratio between the minimum and average salary, in each case in conjunction with other adjustment criteria. Both the Ministry of Labor and the employers' association Concordia have already carried out studies and simulations on this. The latter recommends basing it on the inflation rate, but focusing less on the forecast indicators and more on the actual indicators, and keeping the minimum salary level between 40 and 50% of the average salary.

Conclusion

New regulations regarding the criteria for determining the minimum salary are expected in fall 2024. These will be relatively complex and could (but need not) result in further increases.

For some companies, this could call their business model into question. It is well known that the air has become thin for certain sectors in Romania (as evidenced by closures and mass redundancies in recent years). On the other hand, this can also be seen as a sign of Romania's development from a low-wage country to a quality location - and therefore a positive one.

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