Global Wage Report 2020-21: Factsheet for the European Union

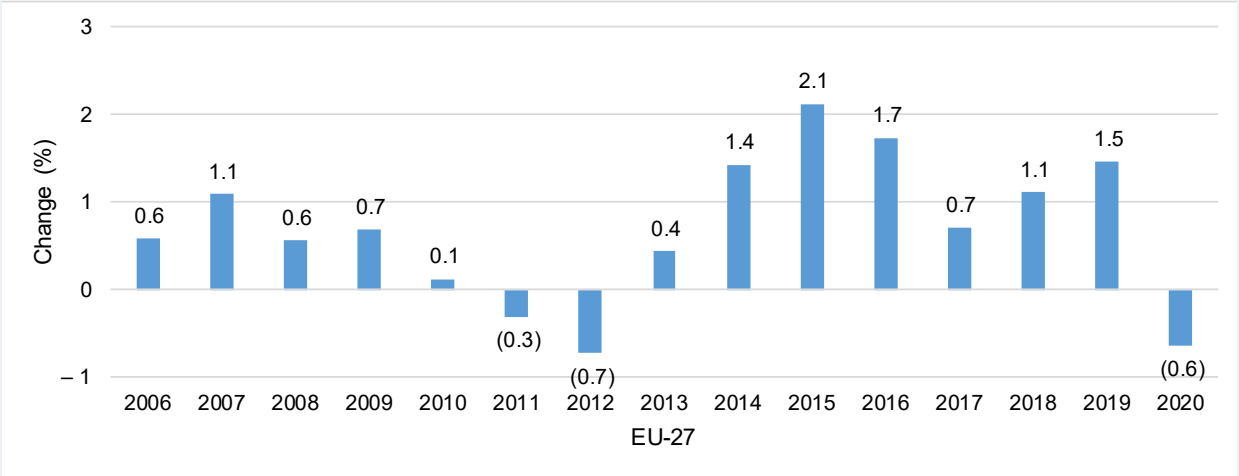
Date: 21 / May / 2021

Part I: Recent trends in wages

How average wages have evolved before the crisis

In the five years preceding the pandemic, real wage growth fluctuated between 0.7 and 2.1 per cent in the European Union (figure 1). The preliminary estimate for 2020 shows a 0.6 per cent drop in real wages. The estimates in figure 1 are based on data from the EU-27 economies (see Appendix).[1] Figure 2 shows that real wages increased most rapidly in Eastern European countries and, much more slowly in Southern and Western Europe.

Figure 1. Annual average real wage growth global and EU-27, 2006–20 (percentage)

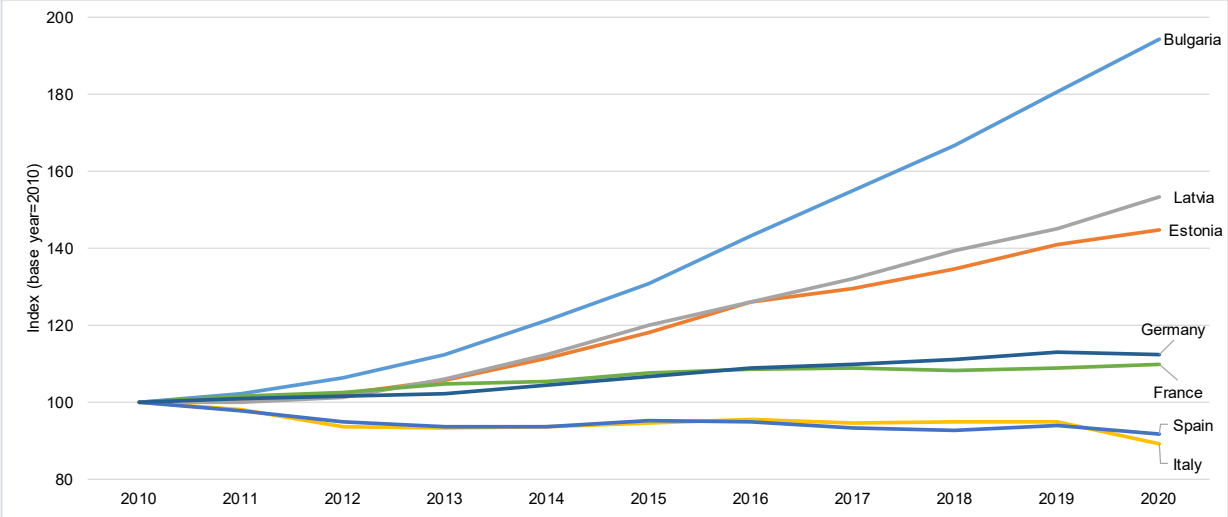


Note: Figures for 2020 are preliminary estimates as national estimates are not yet available for all countries.

Source: ILO estimates based on official national sources as recorded in ILOSTAT and the ILO Global Wage Database. The full data set is available from the ILO Global Wage Database and can be downloaded free of charge (see www.ilo.org/ilostat).

1 These data refer to real monthly average wages. Real monthly wage growth is calculated as the change in nominal monthly wages net of changes in the cost of living as measured by the relevant national price index, usually the consumer price index. Because the report uses monthly wages, rather than the less widely available hourly wages, fluctuations reflect changes in both hourly wages and the average number of hours worked. The regional estimates are weighted averages that take into account the total numbers of employees in different countries.

Figure 2: Average real wage index, selected countries, 2010–20



Note: Figures for 2020 are preliminary estimates as national estimates are not yet available for all countries.

Source: ILO estimates based on official national sources as recorded in ILOSTAT and the ILO Global Wage Database. The full data set is available from the ILO Global Wage Database and can be downloaded free of charge (see www.ilo.org/ilostat).

In the last 10 years, a gap was observed between wage growth and productivity growth in EU-27 countries. Sustainable wage growth over long periods is only possible when there is significant productivity growth. Figure 3 shows the indices of average real wages and labour productivity in EU-27 countries between 2009 and 2019. Overall, it may be seen that labour productivity (+12.3 per cent) increased more rapidly than real wages (+8.4 per cent) between 2009 and 2019. Overall, the decoupling of wages from labour productivity explains why labour income shares (the share of labour compensation in GDP) in many countries remain substantially below those of the 1990s.

Figure 3: Trends in average real wages and labour productivity in EU-27, 2009–19

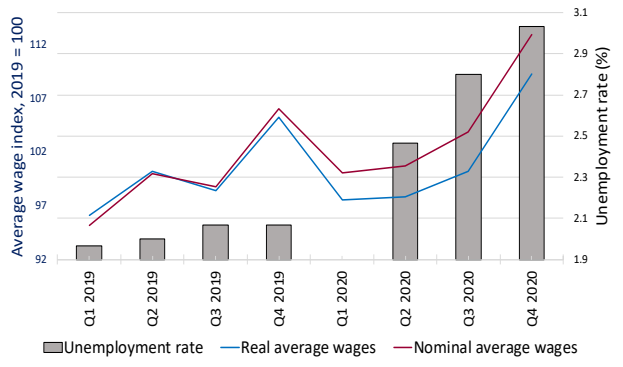
Source: ILO estimates.

How average wages have evolved during the crisis

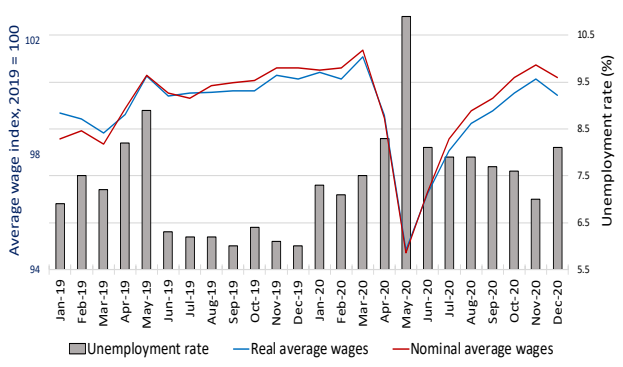
Figure 4 provides an overview of the impact of the COVID-19 crisis on average wages during the year 2020. In a selection of countries, a downward pressure on wages can be observed in the first half of the year, in the midst of the first wave of the crisis.[2] For example, in Finland, the wage indices fell sharply in April and May 2020 at the same time as unemployment rose, albeit temporarily. Similar trends are visible in other countries, such as Spain, for example. By contrast, in France and Italy, average wages have been rising markedly at the same time as unprecedented job losses, due to a "composition effect". Although the unemployment rate has fallen in France and Italy during the COVID-19 crisis because of difficulties in undertaking an active job search, a large number of workers with relatively low pay have lost their employment and consequently average wages have increased owing to the composition effect.[3] An improvement is visible in most countries from the summer onwards due to the easing of lockdown measures and a certain recovery of economic activities. However, the same situation that had been observed in the second quarter of 2020, but to a lesser extent, reappeared in the last quarter of the year due to a new wave of contaminations and containment measures.

Figure 4: COVID-19 impact on average wages, illustrated by average wage indices and unemployment rates, selected countries in Europe, 2019 and 2020

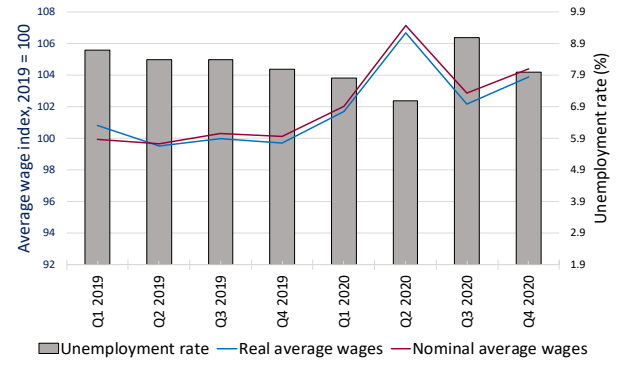
(a) Czechia



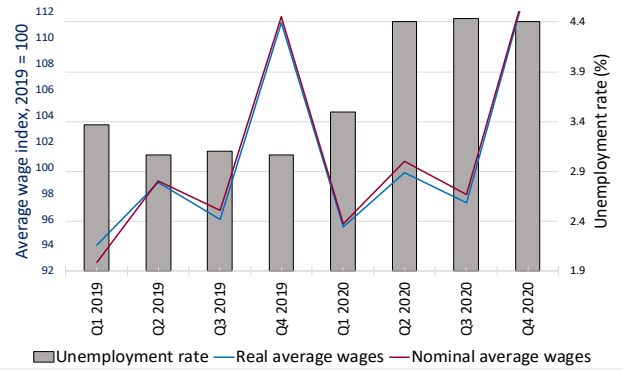
(b) Finland



(c) France



(d) Germany



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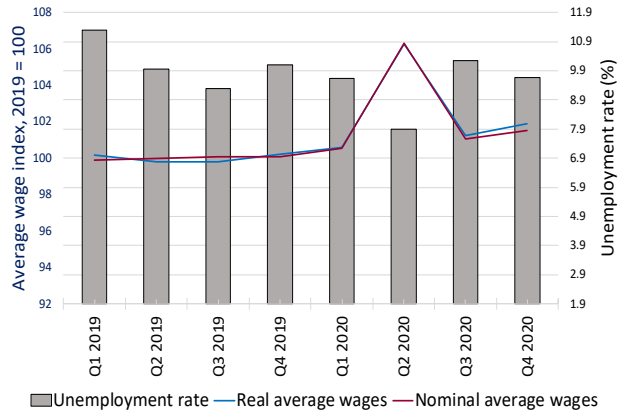
2 Comparing countries is made difficult because some wage statistics are designed to take into account the change in the composition of the labor force, and other statistics take into account employment protection measures (wage subsidies), while other statistics do not consider either of these two elements.

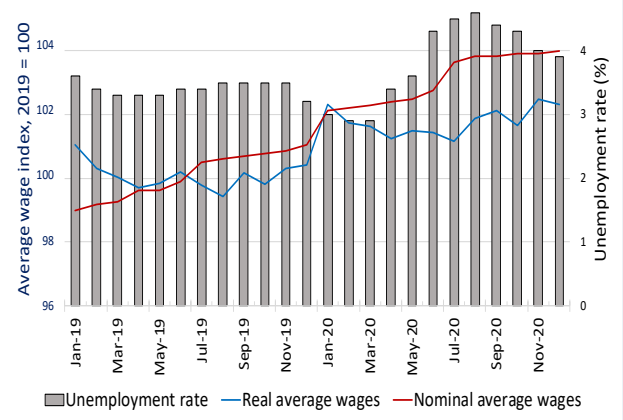
3 In France and Italy the unemployment rate fell after the start of the crisis, because only a small portion of those who lost their jobs were actively looking for new jobs during lockdown (see https://www.insee.fr/fr/statistiques/4641598#titre-bloc-1).

Figure 4: COVID-19 impact on average wages, illustrated by average wage indices and unemployment rates, selected countries in Europe, 2019 and 2020 (continued)

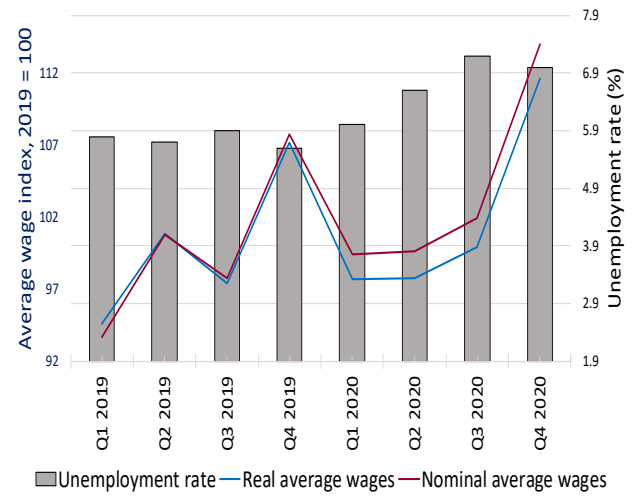
(e) Italy



(f) Netherlands



(g) Slovakia



(h) Spain

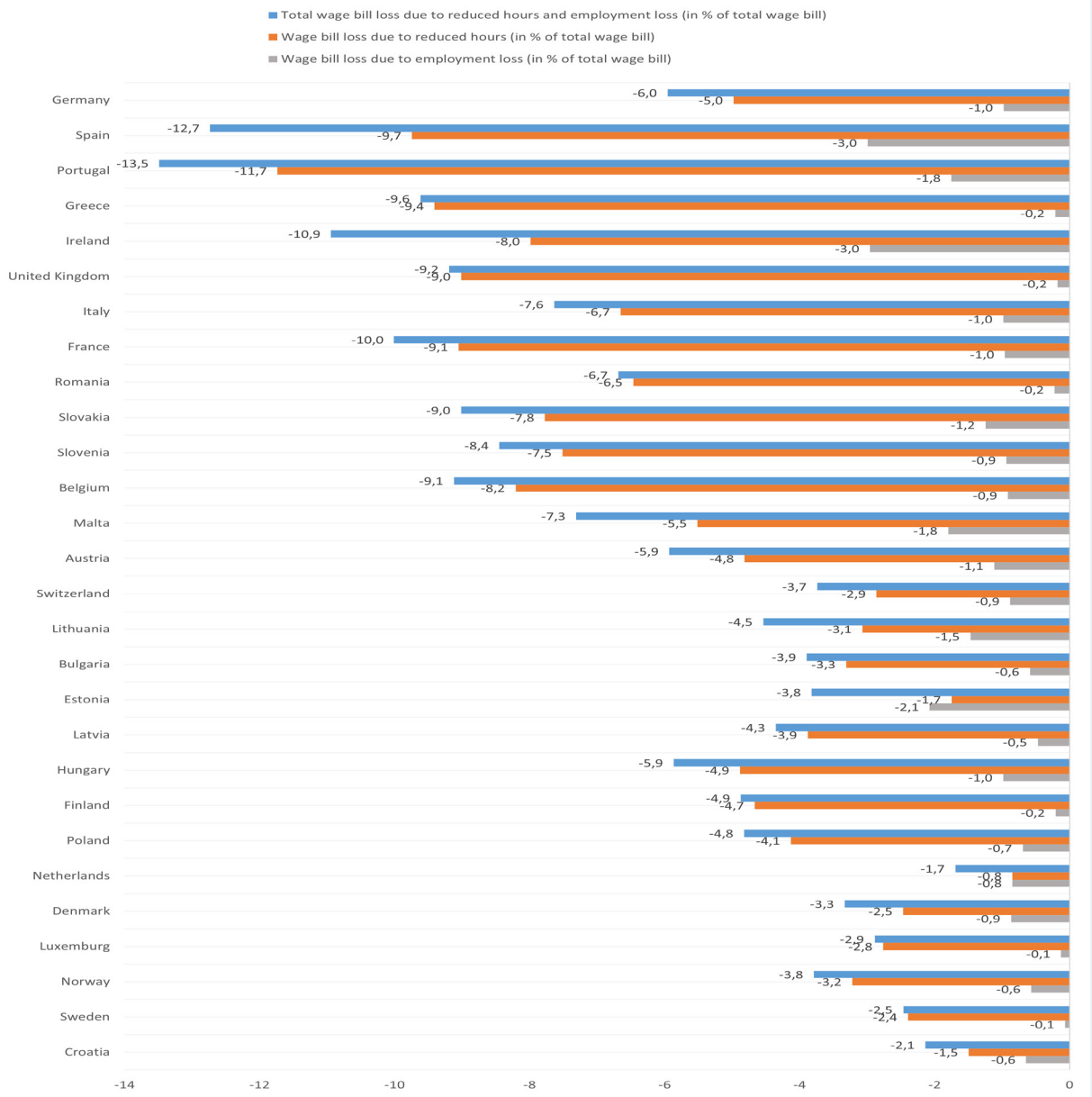
Notes: (a) Czechia: average gross monthly wage per full time employee; OECD unemployment rate. (b) Finland: wage and salary indices by industry, monthly, seasonally adjusted series, whole economy; unemployment rate for persons aged 15–64. (c) France: labor cost index - Wages only (hourly wage index), all industries; unemployment rate (unemployment as defined by the International Labour Organization) for persons 15 years and older, France excluding Mayotte, seasonally adjusted. (d) Germany: Index of agreed monthly earnings, including extra-payments, whole economy; ILO unemployment rate. (e) Italy: gross earnings per full time equivalent unit index, only industry and services are covered, excluding Public administration and defence, and compulsory social security, seasonally adjusted; unemployment rate for persons 15 years and older, seasonally adjusted. (f) Netherlands: monthly index of collective labour agreement wages, including special payments; unemployment rate, 15–74 years, seasonally adjusted. (g) Slovakia: average monthly wage; official unemployment rate. (h) Spain: total wage cost per worker, all industries from B to S of NACE Rev.2 (except activities of households as employers and of extraterritorial organizations and bodies); overall unemployment rate.

Sources: (a) Czech Statistical Office. (b) Statistics Finland. (c) Institut national de la statistique et des études économiques (INSEE), Agence centrale des organismes de sécurité sociale (ACOSS), Direction de l'Animation de la recherche, des Études et des Statistiques (DARES). (d) Germany, Statistisches Bundesamt. (e) Istituto nazionale di statistica (Istat). (f) Statistics Netherlands. (g) Statistical Office of the Slovak Republic. (h) Spain, Instituto Nacional de Estadística.

▶ How the COVID-19 pandemic has affected the wage bill and inequality in Europe

Looking at a selection of European countries, the Global Wage Report estimates that without the payment of wage subsidies, workers would have lost 6.5 per cent of their total wage bill between the first and second quarters of 2020 (figure 5). Reduced working hours have been the primary means by which the labour market has coped with this crisis: the wage bill losses caused by lay-offs (–1 per cent) are much smaller than those attributable to reductions in working hours (–5.5 per cent).

▶ Figure 5: Total wage bill loss, and wage bill loss owing to reduced working hours and to employment loss, selected European countries, between first and second quarters of 2020 (percentage)

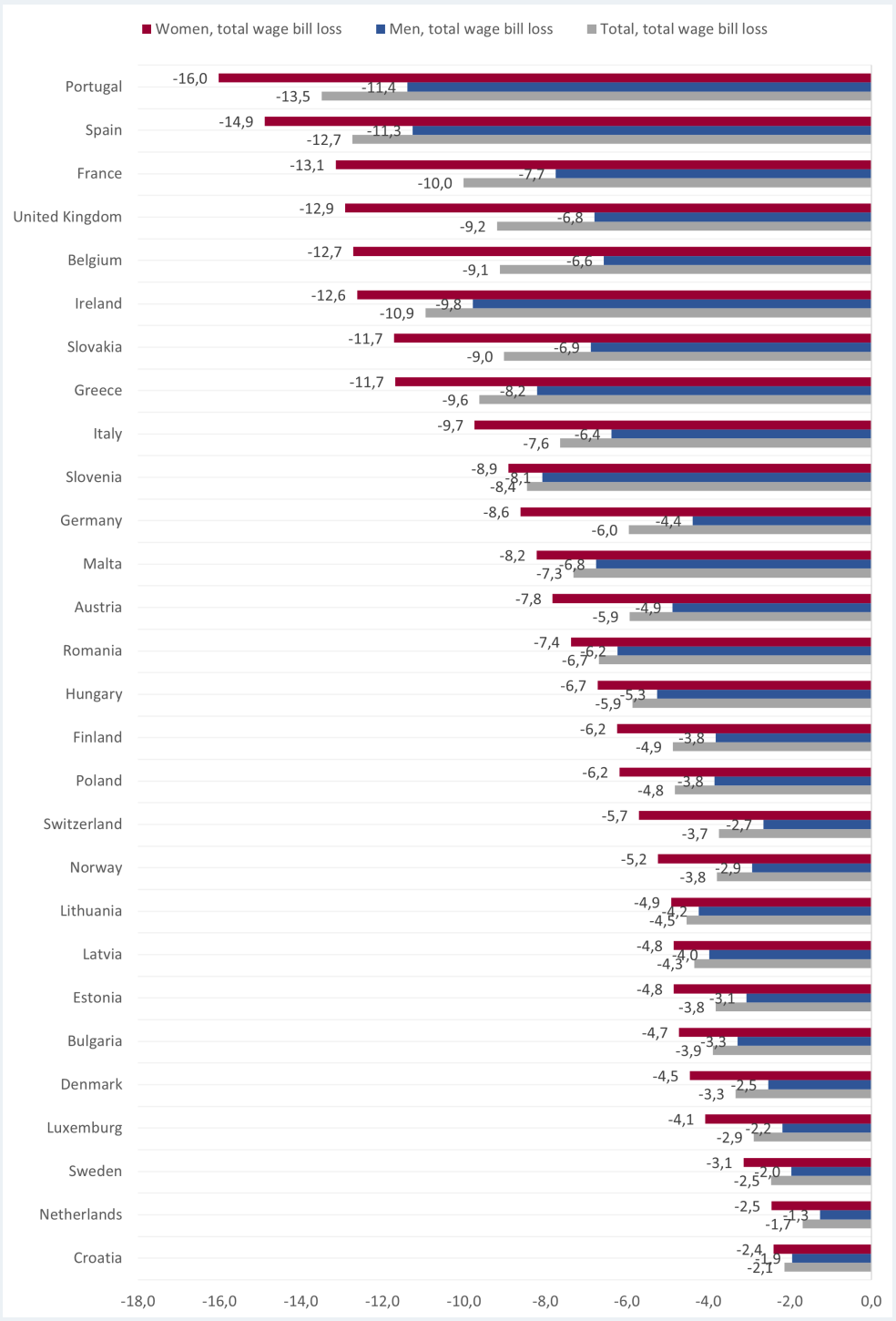


Note: Eurostat estimates of the number of employment ("Employment by sex, age and citizenship") and the number of actual working hours ("Index of total actual hours worked in the main job by sex and age group") have been used to simulate the wage bill lost.

Source: EU-SILC (2018); Eurostat.

For women, the total wage bill would have declined by 8.1 per cent, compared to a decline of 5.4 per cent for men. Such a discrepancy was mainly caused by reduced working hours, more than by the difference in the number of lay-offs. The wage bill lost as a result of the drop in working hours was 6.9 per cent for women compared to 4.7 per cent for men (figure 6).

▶ Figure 6: Total wage bill losses, by country and by gender, selected European countries, between first and second quarters of 2020 (percentage)

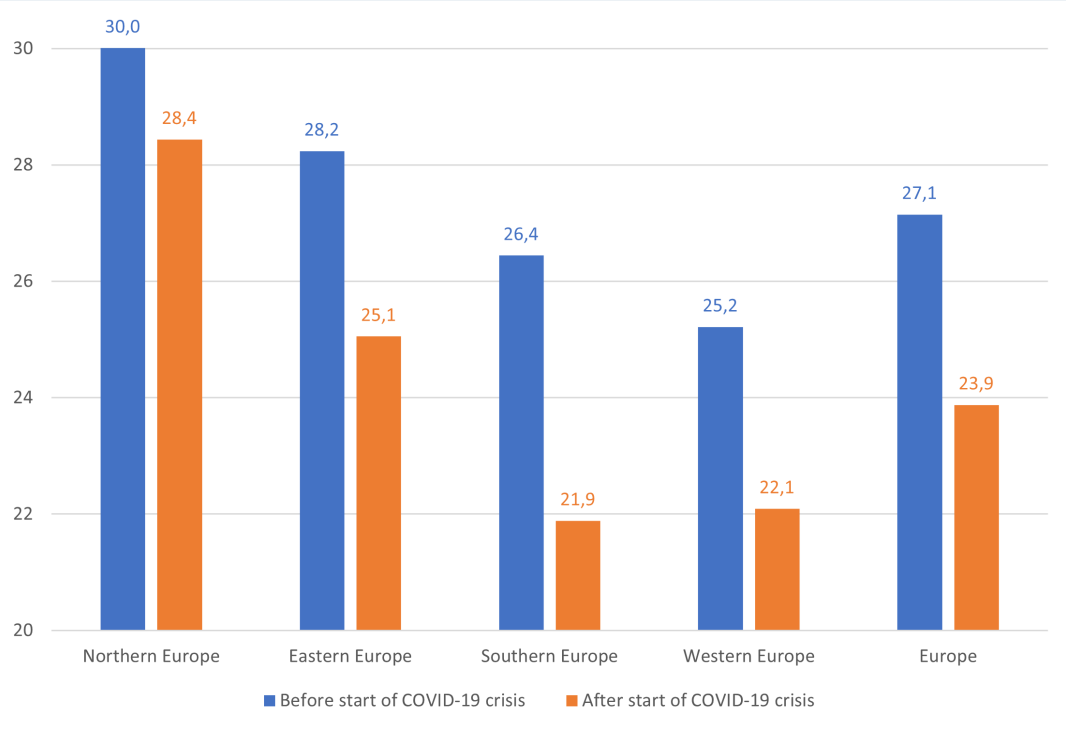


Note: Eurostat estimates of the number of employment ("Employment by sex, age and citizenship") and the number of actual working hours ("Index of total actual hours worked in the main job by sex and age group") have been used to simulate the wage bill lost.

Source: EU-SILC (2018); Eurostat.

Looking at the impact of the crisis on wage inequality in European countries, the estimated share of the total wage bill received by those at the bottom 50 per cent of the wage distribution has fallen by 3.3 percentage points in Europe, indicating that the crisis has disproportionately affected lower-paid workers, thereby increasing wage inequalities. Figure 7 shows the percentage of the total wage bill accounted for by individuals at the bottom 50 per cent of the wage distribution before and after the start of the pandemic within each of the four groupings of European countries.

Figure 7: Share of the total wage bill received by those at the bottom 50 per cent of the wage distribution, four groups of European countries, first and second quarters of 2020 (percentage)



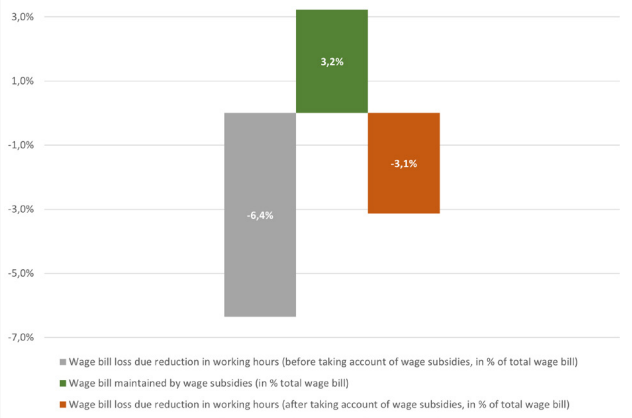
Notes: Northern Europe = Denmark, Finland, Norway, Sweden; Southern Europe = Croatia, Greece, Italy, Malta, Portugal, Spain; Western Europe = Austria, Belgium, France, Germany, Ireland, Luxembourg, Netherlands, Switzerland, United Kingdom; Eastern Europe = Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia.

Source: EU-SILC (2018); data from national statistical offices.

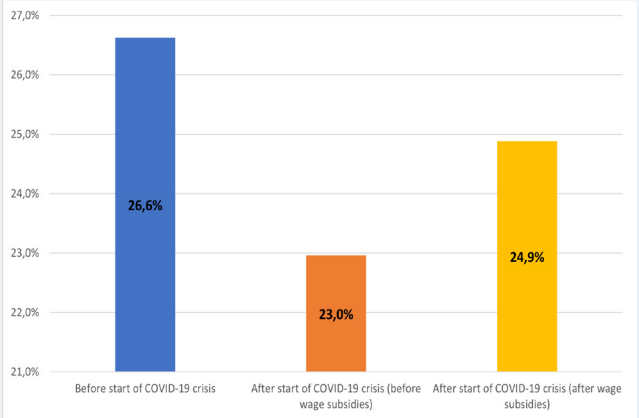
Wage subsidies have been widely used throughout Europe to prevent massive lay-offs and have permitted to compensate around half of the wage bill loss caused by the reduction in working hours thereby mitigating the increase in inequality. Most of the European countries have either introduced or expanded existing wage subsidies to cover all employees or those who were unable to work owing to lockdown measures. For a selected sample of ten European countries with detailed information on the wage subsidies schemes, Figure 8 shows how such job retention measures have permitted to mitigate the effects of the crisis on the decline of the wage bill, along with the increase in inequality. On average, while 6.4 per cent of the wage bill would have been lost following a reduction in working hours in those ten selected countries, only 3.1 per cent of the wage bill was eventually lost after taking into account wage subsidies, which suggests that around 51 per cent of the wage bill losses caused by reduction in working hours have been saved by wage subsidies. Wage subsidies have also permitted to mitigate the impact of the crisis on earnings inequality in those countries by reducing the decline in the share of the total wage bill received by those at the bottom 50 per cent of the wage distribution from 3.7 to 1.7 percentage points.

Figure 8: (a) Wage bill loss due to reduction in working hours (before and after wage subsidies); (b) Share of the total wage bill received by those at the bottom 50 per cent of the wage distribution (before and after wage subsidies) (percentage)

(a) Wage bill loss due to reduction in working hours (before and after wage subsidies)



(b) Share of the total wage bill received by those at the bottom 50 per cent of the wage distribution (before and after wage subsidies)



Notes: Estimates use wage subsidies information for Belgium, Bulgaria, France, Hungary, Latvia, Portugal, Slovenia, Spain, Sweden and Switzerland.

Source: EU-SILC (2018); Eurostat.

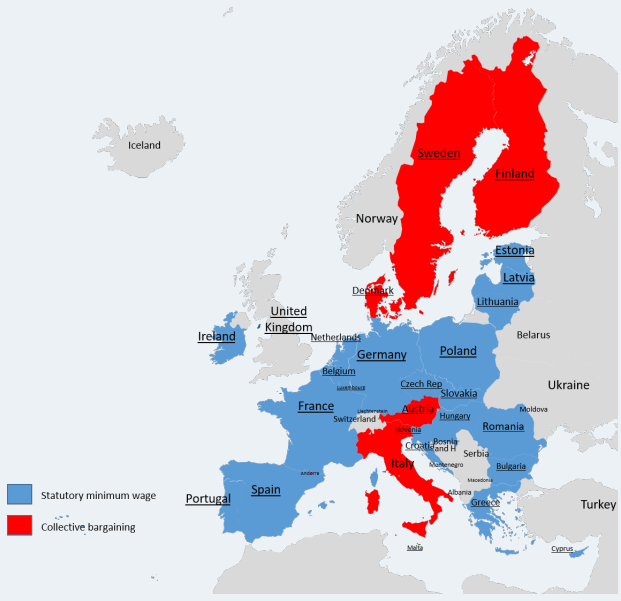
Part II: Minimum wages and inequality

▶ How many countries have statutory minimum wages and how do they differ across countries?

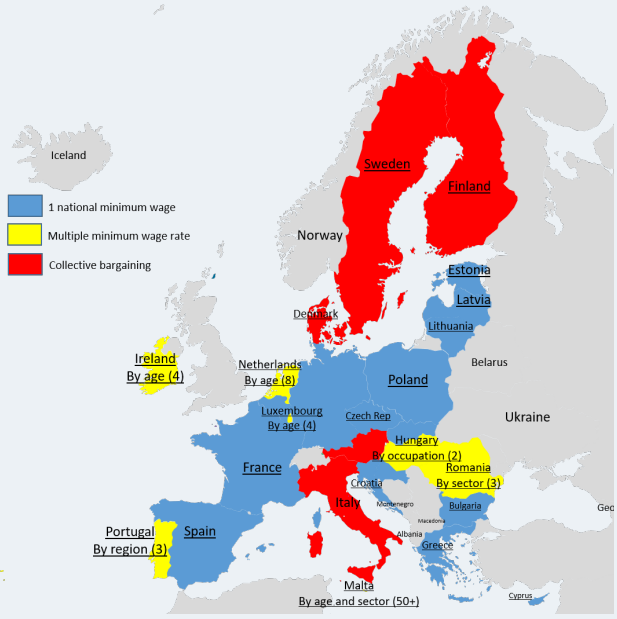
Statutory or negotiated minimum wages exist in all European Union member countries. In around one out of five countries, namely Austria, Denmark, Finland, Italy, and Sweden, minimum wages are negotiated, that is, they are set exclusively or primarily through binding collective agreements. In a much larger share of countries (81 per cent), minimum wages are statutory, which means that they are set by governments, generally after consultation with the social partners (see figure 9). In a number of those countries, statutory minimum wages coexist with higher collectively agreed minimum wages in particular industries or enterprises. More than one out of two countries with a statutory minimum wage have a single national minimum wage rate, while the other half have between 2 to 10 rates; Malta has a more complex systems with more than 50 rates.

▶ Figure 9: How many countries have statutory minimum wages and how do they differ across countries?, EU-27, 2020

(a) Distribution of minimum wage systems in the European Union



(b) Numbers of minimum wage rates and type of disaggregation in the European Union



Note: This figure covers only ILO Member States. Countries labelled as "Collective bargaining" are those where minimum wages are set exclusively or predominantly through negotiated collective agreements.

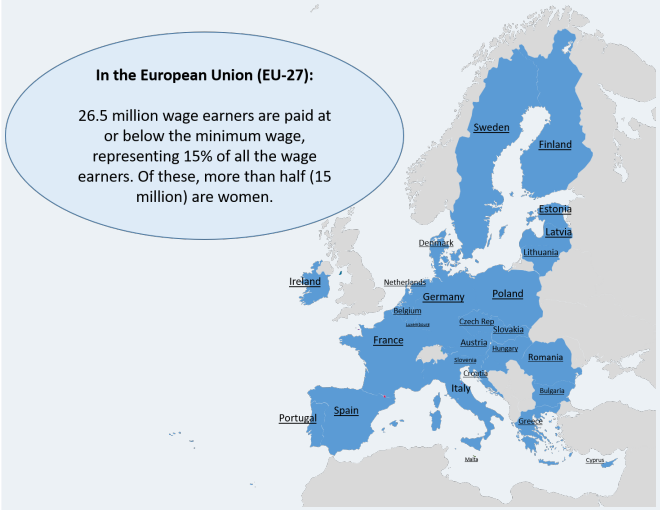
Source: ILO minimum wage database.

How many workers earn the minimum wage or less?

An estimated 26.5 million wage earners are paid at or below the applicable minimum wage among EU-27 member countries, which corresponds to 15 per cent of all the wage earners. Of these, more than half are women (15 million). In fact, around two third of those 26.5 million wage earners who are paid at or below the minimum wage in EU-27 earn less than existing hourly minimum wages (i.e. 19.2 million wage earners representing 11% of all the wage earners). This is either because they are not legally covered or because of non-compliance.

Figure 10: Number of wage earners below or at the hourly minimum wage, EU-27, 2019

(a) Number of wage earners below or at the hourly minimum wage, EU-27, 2019



(b) Number of wage earners paid less than the hourly minimum wage, EU-27, 2019

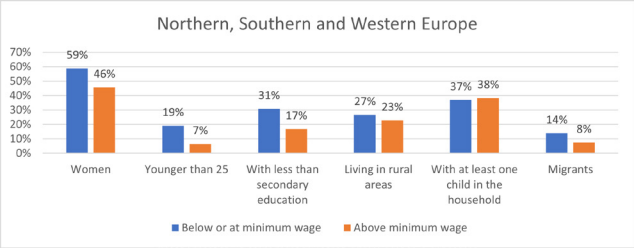
Source: ILO estimates.

▶ What are the demographic and labour market characteristics of minimum and sub-minimum wage earners?

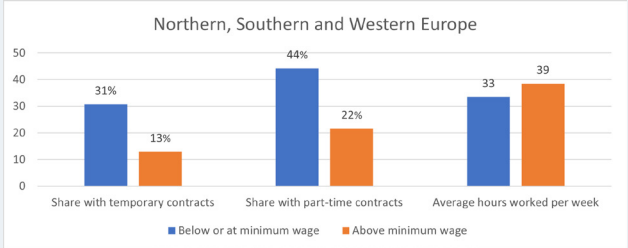
When the characteristics of sub-minimum and minimum wage earners are compared with those of employees paid above the minimum wage, it can be seen that women, young workers (aged under 25), workers with lower education and rural workers are all over-represented (figure 11). Young workers, for example, make up only 7 per cent of those paid above the minimum wage and 19 per cent of those paid at or below the minimum wage. However, this also implies that more than 80 per cent of sub-minimum and minimum wage earners are aged over 25, and more than one third of them have children.

▶ Figure 11: Demographic and labour characteristics of sub-minimum and minimum wage earners compared with those paid above the minimum wage

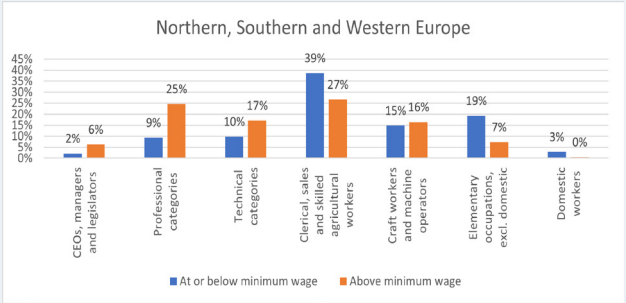
(a) Demographic characteristics of sub-minimum and minimum wage earners compared with those paid above the minimum wage



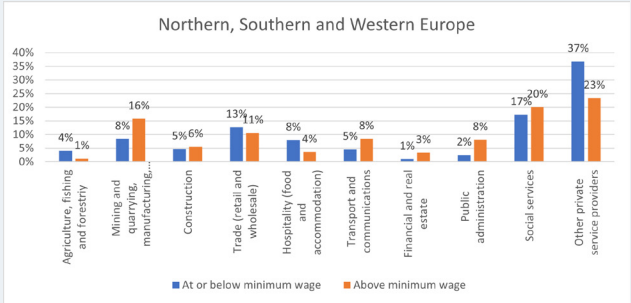
(b) Labour market characteristics of sub-minimum and minimum wage earners compared with those paid above the minimum wage



(c) Occupational classification of sub-minimum and minimum wage earners compared with those paid above the minimum wage



(d) Sectoral distribution of sub-minimum and minimum wage earners compared with those paid above the minimum wage



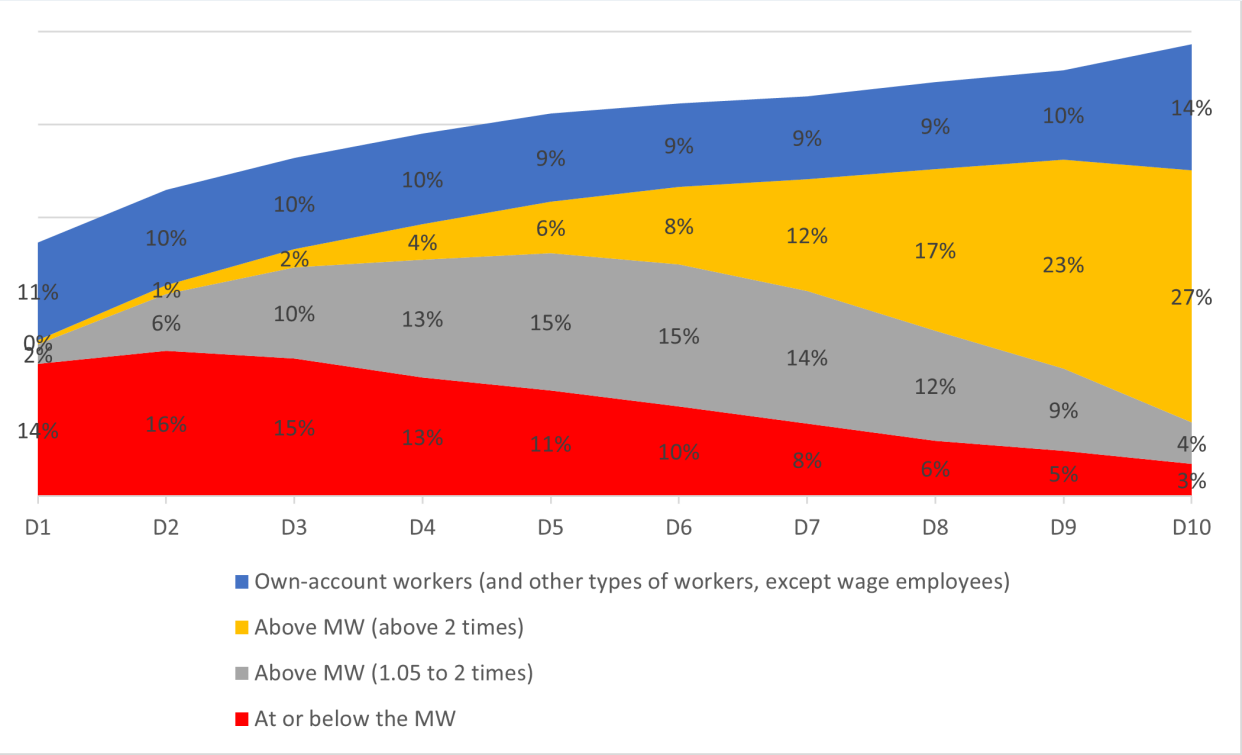
Source: ILO estimates.

Looking at labour market characteristics of sub-minimum and minimum wage earners (figure 11), it appears that they are more likely to have temporary contracts and part-time jobs than those paid at higher levels; on average, they also work less hours. With respect to the occupational distribution, a large majority of sub-minimum and minimum wage earners work in lower- and middle-skilled occupations. In particular, compared with employees paid above the minimum wage, minimum and sub-minimum wage earners are over-represented among clerical, sales and skilled agricultural workers, elementary occupations and domestic workers, as they are also among craft workers and machine operators. Within selected European countries, the aforementioned occupations account for an estimated 76 per cent of all minimum and sub minimum wage earners, whereas only 50 per cent of employees paid above the minimum wage work in these occupations. Furthermore, around 54 per cent of minimum and sub-minimum wage earners are employed in the sectors of social services and other private service providers.

▶ Do minimum and sub-minimum wage earners live in poor households?

The evidence suggests that the majority of those paid at or below the minimum wage are located in the lower tail of the income distribution (figure 12). In Europe, 69 per cent of all sub-minimum and minimum wage earners are located in the lower half of the income distribution.

▶ Figure 12: Distribution of wage earners across income deciles, EU-27 (percentage)



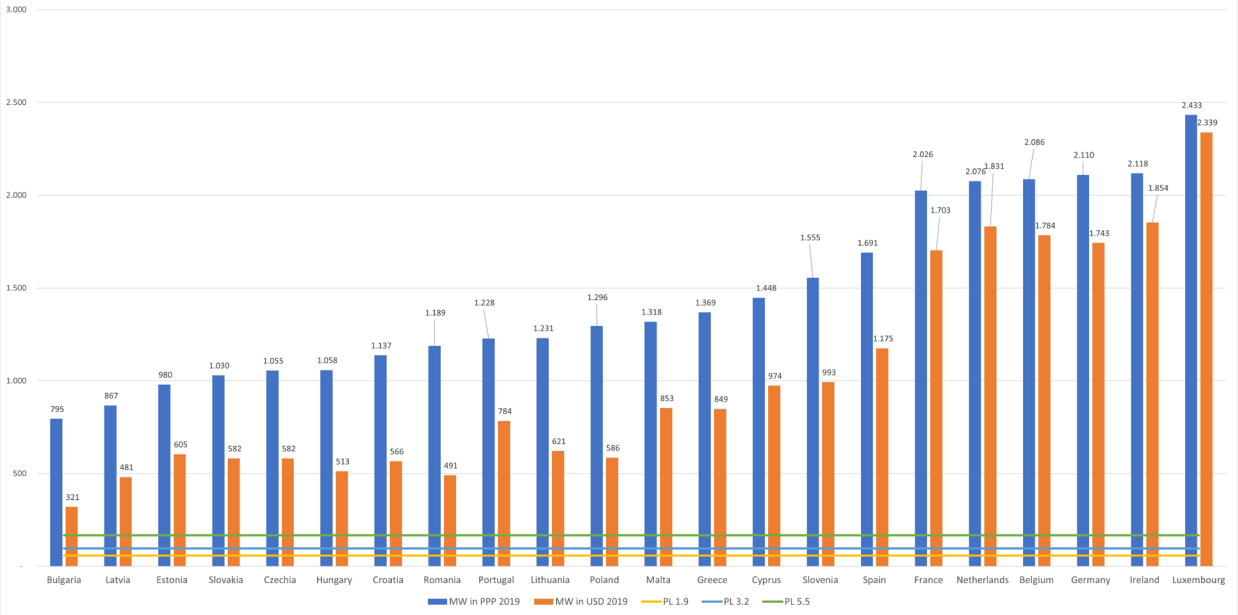
Note: Estimates are based on the 27 countries for which data are available in the EU-SILC database. Regional estimates are weighted averages. Regional estimates are weighted averages. Note that the sum of the percentages within each category of workers adds up to 100 per cent. For more information, see Appendix V in the full report.

Source: ILO estimates.

▶ At what level are minimum wages set?

Absolute levels: In the European Union, the median value of the monthly minimum wage is US$1,307 (PPP), with values ranging from US$795 (PPP) in Bulgaria to US$2,433 (PPP) in Luxembourg (figure 13). The highest minimum wages are found in Luxembourg, Ireland and Germany; the lowest in Bulgaria, Latvia and Estonia.

▶ Figure 13: Gross monthly minimum wage levels in the EU-27, 2019 (US$ actual and PPP values)



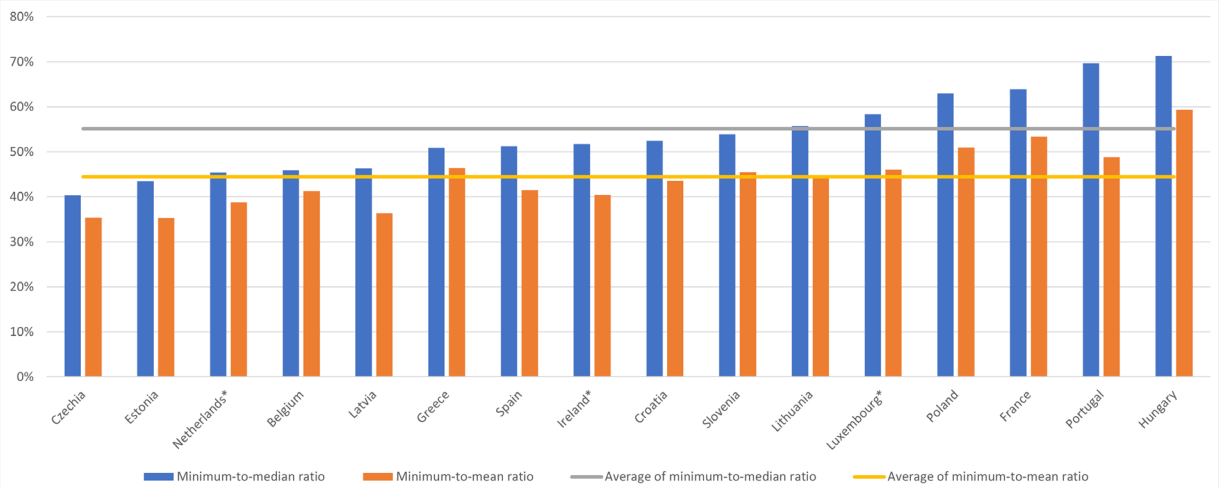
MW = minimum wage. PL = poverty line. PPP = purchasing power parity.

Note: The data refer to national minimum wage rates where they exist. For countries with multiple minimum wage rates, the rate selected refers to: the national minimum wage floor where it exists; the urban rate where there are different rates in urban and rural areas; the industrial rate (e.g. SMIG) when different rates apply to industrial and agricultural workers (e.g. SMIG/SMAG systems); the rate for unskilled workers or the lowest occupational category where rates differ by skill level or occupation; the rate applied to domestic enterprises where there are different rates for domestic and foreign enterprises; the lowest regional rate when there are different rates in different regions and no national minimum wage floor exists; the rate applied to small enterprises when rates vary depending on firm size; and the rate for the manufacturing sector when rates differ by sector (if multiple rates exist within the manufacturing sector, the lowest rate is selected). For more information, see Appendix V in the full report.

Source: ILO minimum wage database for the minimum wage levels, International Monetary Fund's World Economic Outlook database (Oct. 2020) for the PPP conversion rates and World Bank's World Development Indicators (Oct. 2020) for the exchange rates.

Relative levels: Among European countries, a large majority of countries have minimum wages set above 50 per cent of the median wage; only a minority of countries have minimum wages above 60 per cent of the median. In figure 14, which shows estimates for countries with available data, one may observe that minimum-to-median wage ratios range from 40 per cent in Czechia to 71 per cent in Hungary.

▶ Figure 14: Minimum wage level relative to median and mean wage, selected countries in EU-27, 2017 (percentage)



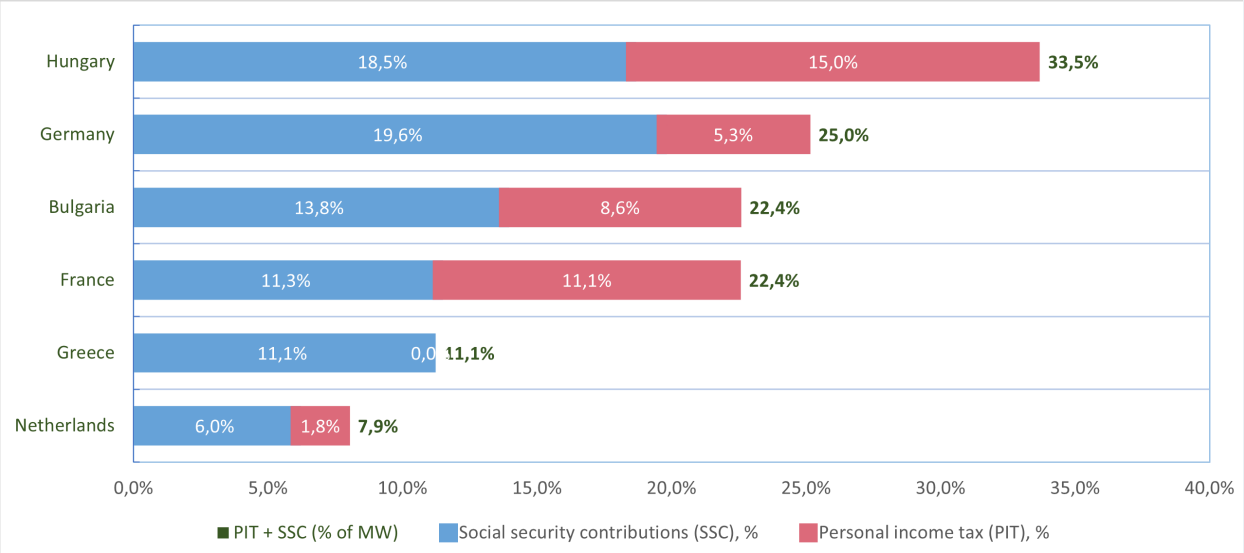
Note: Years are given in parentheses. Countries marked with an asterisk (*) are those with multiple minimum wage rates, for which minimum-to-median and minimum-to-mean ratios have been calculated using a weighted average of the minimum-to-median and minimum-to-mean ratios of these multiple rates. For more details, see Appendix V in the full report.

Source: ILO estimates based on microdata.

How taxes and social contributions impact minimum wage levels

In general, minimum wages are defined as gross amounts and are accordingly subject to personal income taxes and to social security contributions which contribute to reducing the take-home pay. Minimum wage earners in Hungary, which uses a flat-rate income tax, have the lowest take-home share of the minimum wages (after the deduction of employees' contributions as well as personal income tax).

Figure 15: Personal income tax and social security contributions for a single minimum wage earner with no children (% of gross minimum wage), selected European countries, 2019



MW = minimum wage. PIT = personal income tax. SSC = social security contributions.

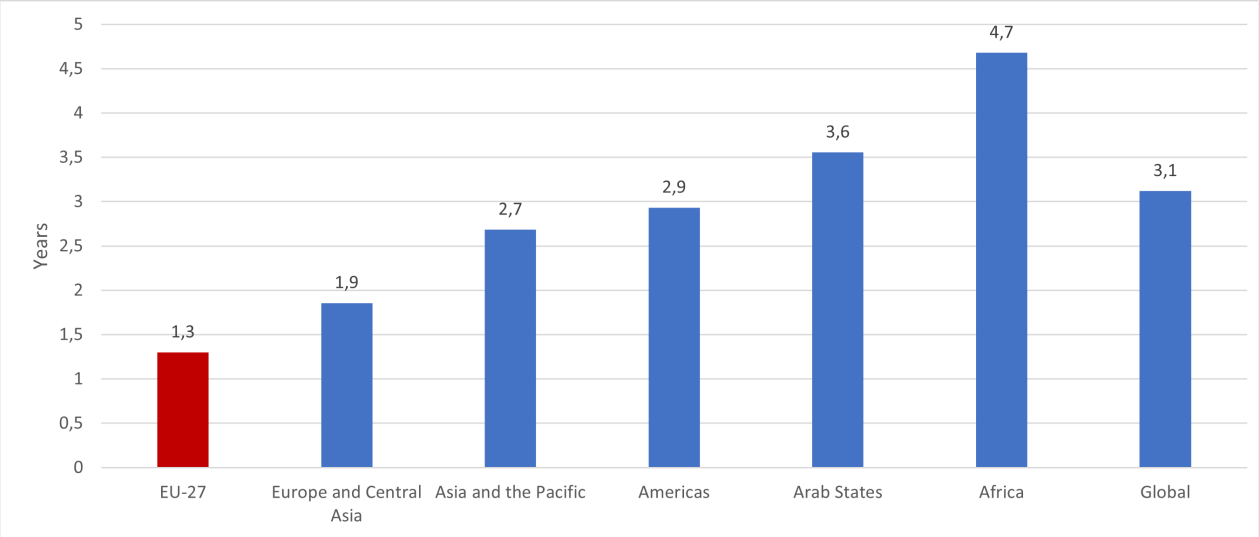
Note: The difference in totals is due to rounding of the estimates. For the following countries, the calculation of personal income tax takes into account the tax credits for which minimum wage earners are eligible (sources are given in parentheses): Greece (OECD 2019b); Netherlands (OECD 2019b).

Source: For social security contributions: ISSA (n.d.).

How often do countries adjust their minimum wage?

Since 2010, on average, countries in the European Union adjusted their minimum wage more frequently than countries in other regions. At the global level, countries with statutory minimum wages have adjusted their minimum wages, on average, every 3.1 years (figure 16). The frequency of adjustment varies across regions: on average, countries in the European Union are adjusting their minimum wages every 1.1 years, while in Africa the average interval is 4.7 years and in Asia and the Pacific it is 2.7 years. In the Americas and in the Arab States, countries are adjusting their minimum wages on average every 2.9 years and every 3.6 years, respectively.

Figure 16: Average frequency of adjustment of the minimum wage, global and by region, 2010–19 (years)



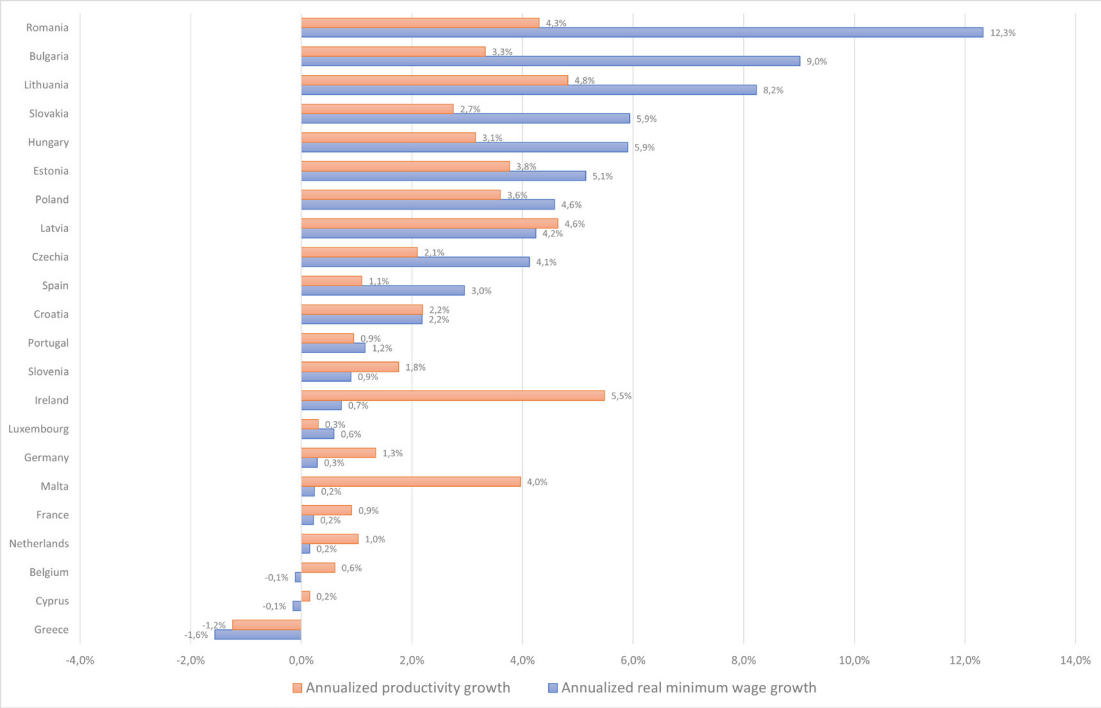
Note: For countries that have adopted a minimum wage after 2010, the frequency of adjustment is calculated using the years between the implementation and 2019.

Source: ILO minimum wage database

How have minimum wages evolved?

In the European Union, 19 out of the 22 countries with statutory minimum wage (approximately 86 per cent) have seen their minimum wages grow in real terms between 2010 and 2019, though not always in line with productivity growth (figure 17).

Figure 17: Average annual growth of real minimum wages and labour productivity in EU-27, 2010–19 (percentage)



Note: For countries that have adopted a minimum wage after 2010, the annual growth rates are calculated using the years between the implementation and 2019.

Source: ILO minimum wage database for the minimum wage level and International Monetary Fund's World Economic Outlook database (Oct 2020) for the Inflation (end of period consumer prices).

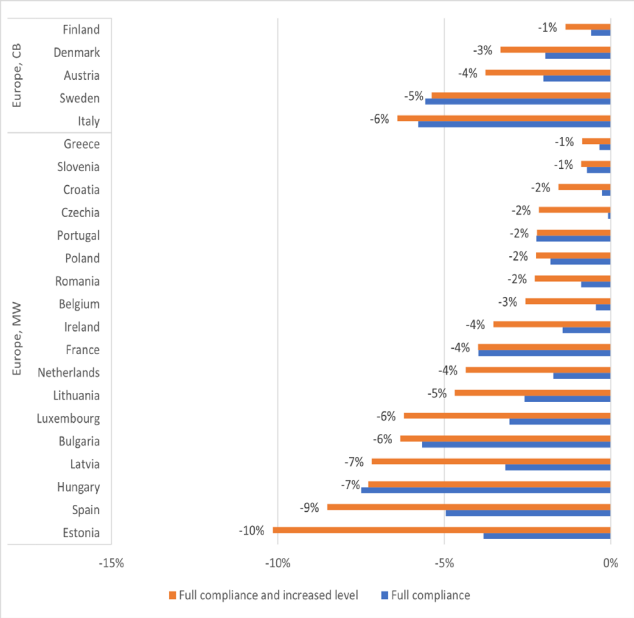
Looking at how minimum wages have evolved during the COVID-19 crisis, findings show that the crisis has led to more cautious minimum wage adjustments. In Europe, 18 countries with a statutory minimum wage system adjust their minimum wage regularly in the first quarter. While all these countries adjusted the minimum wage rates in 2020, only 15 of them adjusted the minimum wage rate in the first quarter of 2021, the exceptions being Estonia, Romania, and Spain. In addition, the adjustment rates, in the majority of countries, were lower in 2021 than in previous years. While the median adjustment rate in real terms was 4.5 percent in 2020, it was 1.5 percent in 2021.

▶ Do minimum wages have the potential to reduce inequality?

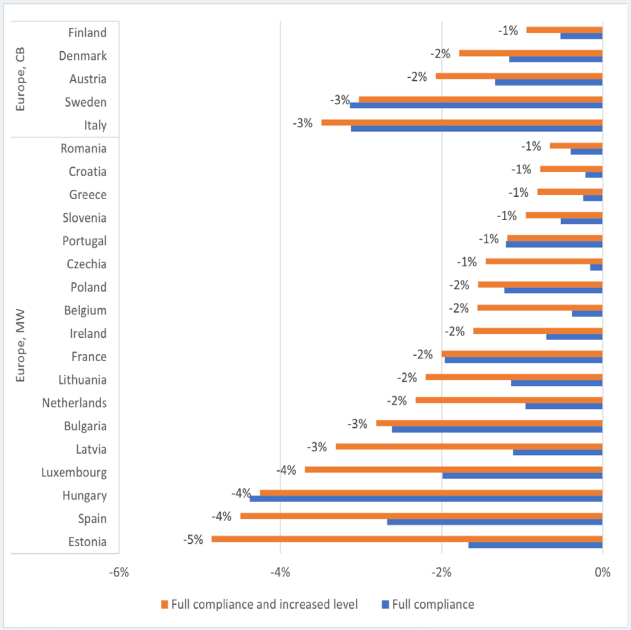
Results from simulations suggest that reaching a situation of full coverage and compliance, and increasing the level of the minimum wage to 67 per cent of the median, would have the potential to reduce income inequality (figure 18). The effect of these simulations on the Palma ratio and the Gini coefficient suggests that increases in compliance with, coverage of, and level of, the minimum wage have the potential to reduce income inequality in all of the countries studied, with the best potential improvements observed in Estonia, Spain and Hungary. Note that, in order to account for the possibility of an adverse employment effect, this scenario assumes that there is an employment penalty of 1 per cent for each increase of 10 per cent in the total wage bill. It should also be emphasized that the selection of 67 per cent of the median as a benchmark is not meant to indicate an optimal minimum wage level, but simply to illustrate the potential effect of an increase in minimum wage levels.

▶ Figure 18: Potential impact of two simulated minimum wage scenarios on income inequality, selected European countries: (a) % change in Palma ratio; (b) % change in Gini coefficient

(a) % change in Palma ratio



(b) % change in Gini coefficient



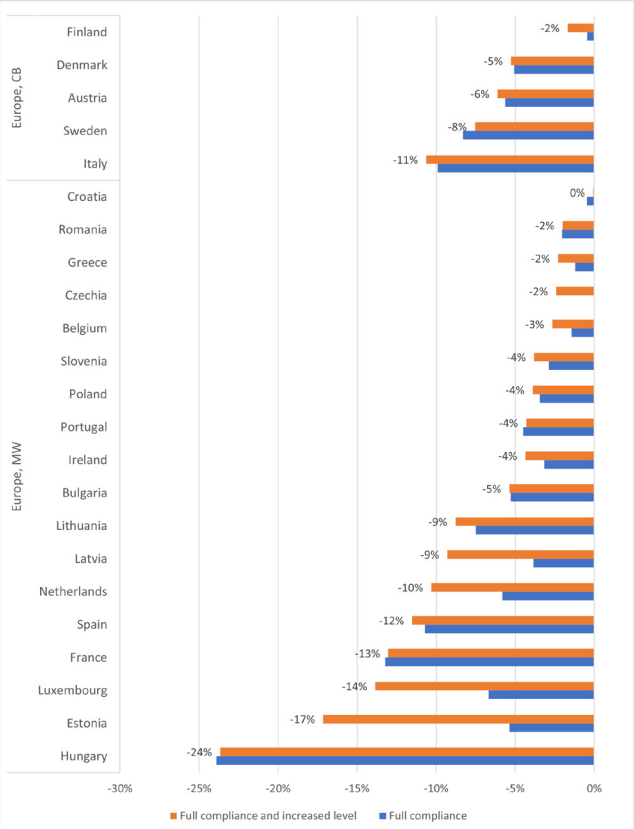
Source: ILO estimates

▶ Do minimum wages have the potential to reduce poverty?

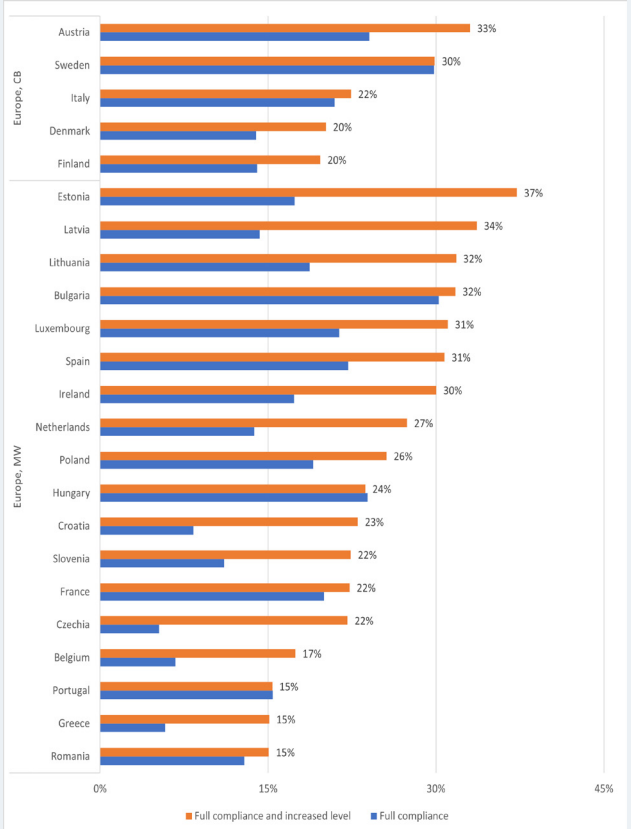
Using the proportion of households living on less than half the median income as an indicator of relative poverty, the simulations show that improving the legal coverage and the compliance with the minimum wage and raising the level, for example, up to two thirds of the median have the potential to reduce relative poverty, measured as the proportion of households living on less than half the median income (figure 19). In Estonia, for instance, such a scenario would increase the income of more than 35 per cent of the population and result in a reduction of 17 per cent in the share of households living in relative poverty.

▶ Figure 19: Potential impact of two simulated minimum wage scenarios on poverty, selected European countries: (a) % change in relative poverty among households; (b) % of people living in households with increased income

(a) % change in relative poverty among households



(b) % of people living in households with increased income



Note: (a) Change in the share of households below half the median household income per capita. (b) Change in the share of individuals living in households that experience an increase in total household income.

Source: ILO estimates.

Part III: Wage policies for a human-centred recovery

During the COVID-19 crisis, adjustments to minimum wages should be carefully balanced and calibrated, through full participation of the social partners and evidence-based social dialogue. Criteria for adjusting minimum wages should take due account not only of the needs of workers and their families, but also of economic factors. Thus, while it may be essential to ensure that low-paid workers and their families are able to maintain their living standards by adjusting rates to compensate for price inflation, in the particular circumstances of some countries it may be difficult or risky to implement larger increases. This is particularly the case where minimum wages are already relatively high with respect to median wages, and where employment and labour productivity have been severely affected by the economic crisis triggered by the COVID-19 pandemic.

In 2019, the ILO adopted the Centenary Declaration for the Future of Work, which calls for a human-centred approach to the future of work and, as part of this, for adequate wages for workers. It calls on the ILO to "carry forward into its second century with unrelenting vigour its constitutional mandate for social justice by further developing its human-centred approach to the future of work, which puts workers' rights and the needs, aspirations and rights of all people at the heart of economic, social and environmental policies", and identifies the private sector as "a principal source of economic growth and job creation". The Declaration notes that "persistent poverty, inequalities, and injustices ... in many parts of the world constitute a threat to those advances [in economic and social progress] and to securing shared prosperity and decent work for all". It also highlights the importance of "harnessing the fullest potential of technological progress and productivity growth, including through social dialogue, to achieve decent work and sustainable development, which ensure dignity, self-fulfilment and a just sharing of the benefits for all" (ILO 2019).

The ILO Centenary Declaration for the Future of Work emphasizes the importance of adequate minimum wages, statutory or negotiated. The Declaration calls for the institutions of work to be strengthened to ensure adequate protection of all workers, and reaffirms the continued relevance of the employment relationship, while recognizing the extent of informality and the need to achieve transition to formality. In this context, all workers should enjoy adequate protections, taking into account respect for their fundamental rights; maximum limits on working time; safety and health at work; and "an adequate minimum wage, statutory or negotiated". Wages are indeed a key dimension of the well-being of workers and their families, and adequate minimum wages are an essential requirement for a human-centred approach to the world of work.

In establishing adequate minimum wages, governments should make every effort to ensure the full consultation and, as far as possible, the direct participation, on an equal basis, of the social partners in the establishment and functioning of minimum wage systems. As emphasized in the ILO *Minimum Wage Policy Guide*, such consultations can be effective only when they are openly conducted and held before any decisions are taken by the public authorities (ILO 2016). This is because social dialogue recognizes a common interest in the well-being of businesses and workers and their families, despite the divergent views of the relevant actors on some occasions. For decision-makers, social dialogue is also an important opportunity for obtaining useful information and for involving the relevant social partners in an effective policy design. This improves ownership and buy-in from the social partners, which will permit more successful implementation. Social dialogue is also crucially important in minimizing misunderstandings and tensions, thereby contributing to the maintenance and strengthening of social and industrial peace. Furthermore, it is important to include independent experts and national statistical offices in the social dialogue process. As the various participants in social dialogue need to have advance access to relevant information in order to formulate their views, governments should devote sufficient resources to the collection of statistics on wages and other relevant data.

Although a majority of ILO Member States set minimum wages only after consultation with employers' and workers' organizations, or with their full participation, in practice such consultations are not always effective. For many countries, improving these consultation mechanisms should be a priority in working towards adequate minimum wages. Furthermore, while this report has presented cross-country comparisons of the level of minimum wages in relation to median or mean wages, social dialogue around minimum wage rates should be based on solid, country-specific evidence about the needs of workers and their families, and on national economic factors. The needs of workers and their families can be evaluated by estimating the cost of living for families of different sizes, taking into account the costs of food, housing, education and health along with other important expenditures (see box 1). Relevant economic factors include the level and evolution of productivity and prices, and the capacity of sustainable enterprises to pay minimum wages while maintaining levels of employment.

Box 1: Do minimum wages meet the needs of workers and their families?

Many workers around the world continue to suffer from very low wages. An ILO project funded by the Netherlands seeks to develop better indicators of the needs of workers and their families, reflecting national circumstances, and thereby to fill a knowledge gap and strengthen the capacity of governments, the social partners and enterprises to set wages that take into account both social and economic factors.[a] The project is being piloted in Costa Rica, Ethiopia, India, Indonesia and Viet Nam.

The methodology being tested estimates the cost of living on the basis of four categories of expenditure:

(1) The cost of food, calculated on the basis of a low-cost diet that is suitable for the target population in terms of composition and meets a standard of calorie intake as defined by the WHO and the Food and Agriculture Organization of the United Nations (FAO).

(2) The cost of housing, calculated on the basis of a basic dwelling of acceptable standard in the specific location. Following the United Nations Human Settlements Programme (UN-Habitat), this is calculated using national and international standards on characteristics of adequate housing, such as size, quality of materials and amenities.

(3) The cost of health and education. A basic level of education and health expenditure is calculated on a basis similar to that used by the World Bank in computing the non-food "basket" when constructing poverty lines. This element is estimated relatively by taking the average monthly expenditure on health and education of the population reference quintile that is closest to the calorie standard used for the cost of food in (1) above.

(4) The cost of other essentials. All other expenditure components (such as clothing and transport) are aggregated into one group; as for (3), this element is calculated relatively by taking the average monthly expenditure on other essentials of the population reference quintile that is closest to the calorie standard used in (1) above.

This methodology thus combines absolute measures for food and housing and relative measures for the cost of health, education and other essentials – a combination in line with the philosophy underlying the Minimum Wage Fixing Convention, 1970 (No. 131).

The methodology would provide a framework that is adaptable at the country level to reflect national circumstances and preferences, ensuring national ownership by governments and the social partners. A central element of minimum wage setting is social dialogue and consultation with the social partners. Indeed, the objective of the present methodology is to support governments and/or the social partners in their efforts to set adequate wages, taking into account both the needs of workers and their families and also economic factors.

[a] This technical cooperation project is entitled "Indicators and methodologies for setting adequate wages". For details, see https://www.ilo.org/global/topics/wages/projects/WCMS_742240/lang--en/index.htm.

The evidence presented in this report reinforces the importance of implementing the principles of the Minimum Wage Fixing Convention, 1970 (No. 131). Key principles of the Convention include: (1) a broad scope of application, with exclusions kept to a minimum; (2) full consultation with – or direct participation of – the social partners, on a basis of equality, in the design and operation of minimum wages; (3) setting minimum wage levels that take into account both the needs of workers and their families and also economic factors; (4) adjusting the rates from time to time; and (5) appropriate measures to ensure the effective application of minimum wages. These principles and good practices are further developed in the ILO *Minimum Wage Policy Guide* (ILO 2016), and in the report of the Committee of Experts on the Application of Conventions and Recommendations (ILO 2020n).

Although many countries have ratified Convention No. 131 since its adoption, there remains scope for further ratifications. Among the EU-27 countries, all ILO Member States, just 10 countries have ratified the Convention since its adoption in 1970. Those countries that have ratified the Convention include: Bulgaria, France, Latvia, Lithuania, Malta, Netherlands, Portugal, Romania, Slovenia, and Spain.

▶ APPENDIX

Table A1. Average real wage index, EU-27, 2013–19

	2013	2014	2015	2016	2017	2018	2019
EU27	0.4	1.4	2.1	1.7	0.7	1.1	1.5
Austria	0.1	1.2	1.3	1.6	-0.6	0.3	1.1
Belgium	0.0	2.9	0.3	-0.5	-0.2	-0.4	1.0
Bulgaria	5.6	7.7	8.0	9.5	8.1	7.7	8.4
Croatia	-1.4	0.5	0.8	1.8	2.2	2.2	3.0
Cyprus	-1.8	-1.3	1.6	1.2	0.2	1.7	1.4
Czechia	-0.7	1.9	3.4	3.8	4.5	6.0	5.2
Denmark	0.6	0.8	1.4	1.3	1.1	1.2	0.7
Estonia	3.6	5.4	5.9	6.8	2.8	3.7	4.8
Finland	0.2	-0.5	0.9	0.7	0.0	0.9	0.6
France	2.1	0.6	2.1	0.8	0.1	-0.6	0.6
Germany	0.6	2.2	2.2	2.1	0.8	1.2	1.6
Greece	-9.3	1.9	0.2	1.4	-0.4	2.2	1.1
Hungary	1.7	3.2	4.4	5.7	10.3	8.3	
Ireland	-1.0	0.0	1.2	1.3	1.7	2.5	2.3
Italy	-0.4	0.1	1.1	0.9	-1.0	0.4	0.1
Latvia	4.5	6.1	6.7	4.9	4.8	5.7	4.1
Lithuania	4.5	4.6	6.1	7.6	5.1	7.8	6.3
Luxembourg	0.6	2.1	2.8	0.7	1.4	1.6	0.0
Malta	1.3	1.4	2.0	4.1	2.0	2.4	1.9
Netherlands	-1.0	0.6	1.7	1.2	-0.3	0.3	
Poland	2.7	3.3	4.4	4.3	3.7	5.5	4.6
Portugal	-0.6	0.1	-0.2	0.4	0.7	2.1	0.6
Romania	0.8	6.4	10.2	11.8	12.8	8.0	8.8
Slovakia	1.0	4.2	3.2	3.8	3.3	3.6	5.0
Slovenia	-2.0	0.9	0.9	2.3	0.4	2.1	2.9
Spain	-1.4	0.1	1.6	-0.1	-1.8	-0.6	1.2
Sweden	2.5	2.8	2.0	1.5	1.1	0.4	0.4

Note: Figures for 2019 are preliminary estimates as national estimates are not yet available for all countries.

Source: ILO estimates based on official national sources as recorded in ILOSTAT and the ILO Global Wage Database. The full data set is available from the ILO Global Wage Database and can be downloaded free of charge (see www.ilo.org/ilostat).

▶ More information on the Global Wage Report 2020-21

The 2020-21 edition also reviews minimum wage systems across the world and identifies the conditions under which minimum wages can reduce inequality. The report presents comprehensive data on levels of minimum wages, their effectiveness, and the number and characteristics of workers paid at or below the minimum. The report highlights how adequate minimum wages, statutory or negotiated, can play a key role in a human-centred recovery from the crisis.

"The Global Wage Report is central to the analysis of wage trends and labour market developments as well as to the theoretical debate about the role of labour in the economy. It is an indispensable publication for economists, trade unionists, employers and the interested public." Hansjörg Herr, Berlin School of Economics and Law.

Link: https://www.ilo.org/global/research/global-reports/global-wage-report/2020/lang--en/index.htm

Also available in French and Spanish:

French: https://www.ilo.org/global/publications/books/WCMS_779314/lang--fr/index.htm

Spanish: https://www.ilo.org/global/publications/books/WCMS_789973/lang--es/index.htm

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