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Romania: New legislation to reduce pay inequality in the public sector

New government legislation to reduce financial inequalities in the public sector will see workers receive considerable wage increases, the introduction of paid overtime and a reduction in the wage gap. However, some employer organisations fear such legislation could see a migration of workers from the private sector and have an impact on Romania’s finances.

# Background

Following numerous negotiations between the government and the social partners, parliament adopted the Unique Pay Law in the public sector at the end of June 2017. The discussions started in 2015, triggered by rising pay inequalities in the public domain, such as different wage levels for similar functions within one institution, lower wages for positions requiring higher education than for positions requiring lower education, and a high concentration of low wages at the bottom of the remuneration scale.

Some of the wage inequalities were eliminated in 2016 following a series of government emergency ordinances (20/2016, 57/2016 and 43/2016). However, not all discrepancies were properly addressed and new inequalities emerged when wage increases took place in February 2017, deepening the pay gap between certain categories of employees from the public administration and cultural sectors.

# Implications of wage increases

[Law No. 153/2017](http://www.cdep.ro/pls/proiecte/upl_pck.proiect?idp=16329) was implemented on 1 July 2017. Although the initial draft provided for wage increases starting July 2017, the final version stipulates an increase of 25%, but only starting from January 2018. The pay rises are scheduled to increase gradually, on average, to 56% in 2022, when they will reach the maximum level provided by the law. According to the Minister of Labour, Lia Olguța Vasilescu, 60% of the public sector’s employees will benefit by an increase of 100% or more, while around 3% will see a cut in their wages. The maximum wage level is calculated based on an estimated gross minimum wage of RON 2,500 per month (€544.35 as at 30 August 2017) in 2022; currently, the gross monthly minimum wage is RON 1,450 (€315.72).

One exception is the pay of medical doctors and medical assistants, which will reach the maximum level as of 1 March 2018. This measure is motivated by the low remuneration in the healthcare sector, which is among the lowest in the public sector despite several pay rises in 2016. For example, in June 2017 the average net monthly wage in the healthcare sector was RON 2,672 (€581.80), slightly above the national average of RON 2,380 (€518.22).

In addition to the pay rise planned for 1 January 2018 in the healthcare sector, the wages in the education sector will also be increased but from 1 March 2018. Following the implementation of the Unique Pay Law, teachers starting their career in the pre-university education sector will receive a monthly salary of RON 4,098 (€892.35) up to 2022. Similarly to the healthcare sector, the wages in education sector are among the lowest in the public sector; in June 2017 the average net monthly wage was RON 2,345 (€510.62), slightly under the national average wage.

Another important modification brought in by the law is overtime payment equal to 75% of the basic wage. Prior to the law, employees that worked overtime could not receive monetary remuneration, but instead were entitled to time off as compensation. The Unique Pay Law also entitles employees working during national holidays and weekends to 100% overtime pay if the compensation in equivalent time off is not possible within a period of 60 days. In addition, employees will receive an annual holiday allowance equal to the gross minimum wage.

The law will affect approximatively 1.19 million employees currently working in the public sector.

# Social partners’ reactions

Some of the employer organisations, such as the National Council for Private Small and Medium Enterprises of Romania (CNIPMMR) criticised the law’s provisions, warning that these wage increases could trigger a high level of migration of workers from the private sector to the public sector. CNIPMMR stressed that public sector employees already earn, on average, 19% more than employees in the private sector. On the other hand, the Coalition for Romania’s Development (CDR), an informal business association that has employer organisations such as Concordia among its members, stated that pay rises are a necessary step to act against the low wages trap, but that the budgetary impact must be carefully analysed.

Trade unions opposed the law’s provisions before its adoption. In May 2017, around 22,000 employees of the Finance Ministry protested in reaction to the provision of the draft. Other protests were planned in May and June by trade unions for public administration, police and education.

Although many of the trade unions’ requests were accepted during the negotiations, in June 2017 CNS Cartel ALFA – one of the five representative trade union confederations – sent a public letter to President Klaus Iohannis asking that the law should not be implemented, pointing to the inequalities that it would generate. According to Cartel ALFA, the exclusion of some categories such as mayor, vice mayor and presidents of the county councils from the law’s provisions would result in new discrepancies between different institutions of the local administration.

# Commentary

Recent data from the National Institute of Statistics indicate the public sector had seen [significant wage increases (PDF)](http://www.insse.ro/cms/sites/default/files/com_presa/com_pdf/cs06r17.pdf), prior to the law’s adoption. The biggest increase was in the public administration sector where the average net monthly wage in June 2017 was RON 720 (€156.75) higher than in June 2016, followed by the healthcare sector, which registered an increase of RON 703 (€153.08) – more than twice the increase registered by the national average wage of RON 302 (€65.78). The wages in the education sector increased by RON 413 (€89.96) in June 2017 compared with June 2016. According to the Fiscal Council, Romania [spends 8% of its gross domestic product (GDP) on wages in the public sector](http://www.zf.ro/zf-live/zf-live-dezbatere-tema-legii-salarizarii-unitare-adrian-marius-dobre-secretar-stat-ministerul-muncii-salariul-unui-profesor-gimnaziu-ajunga-minim-1-000-euro-net-2020-16229533) and the share of public salary expenditure is expected to increase to 10% in 2020, and 12% in 2022. In 2009, [public employees’ remuneration](http://cursdeguvernare.ro/remunerarea-muncii-private-relatia-cu-pib-ul-si-cu-salariile-de-la-stat-de-ce-e-romania-codasa-si-aici.html) was 9.9% of GDP, decreasing to 7.1% in 2011 following the 25% cut in public wages implemented in 2010.

Although the need for higher wages and the reduction of the pay gap are almost unanimously acknowledged by social partners and other stakeholders, the financing of the wages’ reform operated by the new law raises some serious questions. The Unique Pay Law does not calculate the budgetary impact and does not indicate the source of financing. According to Article 33 of Law No. 24/2000, every draft law must be accompanied by an impact study that estimates the economic costs related it; however, this provision is often overlooked. In an attempt to increase the budgetary revenues necessary to support the wage increases provided by the Unique Pay Law, the government announced a series of highly controversial fiscal and economic measures in July 2017. These measures, which could be seen as an attempt to find the necessary financial resources, include:

* replacing the tax on company profit with a tax on turnover;
* additional taxation of higher wages;
* the introduction of a maximum threshold for maternity leave indemnity;
* an instruction to cumulate pensions and wages in the public sector.