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Executive Summary: Analysis of the adequacy of the minimum wage in the Czech Republic 2023

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Vlastimil Beran

Adéla Petřeková

Jitka Špeciánová

Jiří Vyhlídal

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Abstract

This executive summary presents key findings from a detailed analysis conducted in Czech on the adequacy of the statutory minimum wage in the Czech Republic for 2023. The analysis was prompted by the adoption of the European Directive on Adequate Minimum Wages in the EU (Directive (EU) 2022/2041), which requires member states to regularly assess minimum wages based on factors such as purchasing power, wage distribution, productivity trends, and overall wage growth. Despite recent increases, the Czech minimum wage remains insufficient to cover basic living costs for single-person households, particularly in urban areas with higher expenses. Indicators like the Kaitz index and tax wedge analysis reveal structural shortcomings, including the minimum wage's limited ability to address income inequality or meet international adequacy benchmarks. The study highlights how inflation, productivity trends, and systemic inequities further undermine the effectiveness of the minimum wage. Recommendations include gradual increases in the minimum wage, stronger collective bargaining, and reduced tax burdens for low-wage earners to align with European standards, reduce in-work poverty, and enhance financial stability.

Keywords: statutory minimum wage; adequacy analysis; Kaitz index; Czech Republic; Directive of the European Parliament and of the Council on adequate minimum wages in the European Union

Executive Summary

Introduction

The statutory minimum wage comprises a fundamental regulatory mechanism that is designed to ensure fair and dignified remuneration for workers in the labour market. It plays a critical role in terms of achieving a decent standard of living, reducing in-work poverty, combating income inequality, and promoting social cohesion. The evaluation of the adequacy of the minimum wage gained renewed importance in the Czech Republic following the adoption of the 2022 European Directive on Adequate Minimum Wages (Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on Adequate Minimum Wages in the European Union, 2022). This directive requires member states to regularly evaluate the adequacy of the statutory minimum wage via the application of clear and explicit benchmarks, such as purchasing power, wage distribution, overall wage growth, and national productivity levels. Additional indicators, including poverty risks, employment trends, and international comparisons, serve to further enrich this multidimensional evaluation.

The Czech Republic is one of several EU member states that has introduced a statutory minimum wage, which is applied uniformly across all sectors and all employees irrespective of age or other demographic characteristics. Employers are legally prohibited from compensating workers with wages below the statutory minimum. On 1 January 2023, the minimum monthly wage was increased by CZK 1,100 to CZK 17,300 for a standard 40-hour working week. Correspondingly, the hourly minimum wage rose from CZK 96.40 to CZK 103.80.

This executive summary is based on the results of an extensive study conducted by the Research Institute for Labour and Social Affairs (RILSA) on the adequacy of the minimum wage in the Czech Republic for 2023 (Beran et al., 2024). It aims to distil the key findings of the analysis, as well as to provide a structured overview of the methodology applied, the main results, and policy recommendations. In line with the full study, this summary reflects the situation of an employee who lives alone with housing costs that correspond to the normative levels used in the calculation of housing allowances in the Czech Republic. Normative housing costs consist of standardised amounts as determined by the state that reflect average housing expenses based on the household size and population of the respective municipality. These costs are used to calculate housing allowances and represent the maximum housing expenses that are eligible for state support.

The study is grounded in a robust methodology developed by Špeciánová et al. (2024) that was specifically tailored to evaluate the adequacy of the minimum wage in the context of the Czech Republic. The methodology integrates the four core criteria mandated by the European Directive (purchasing power of the minimum wage considering the cost of living, wage distribution, wage growth and national productivity levels and developments), whilst also incorporating supplementary indicators such as the risk of poverty, unemployment traps, and the tax wedge. The dataset is derived

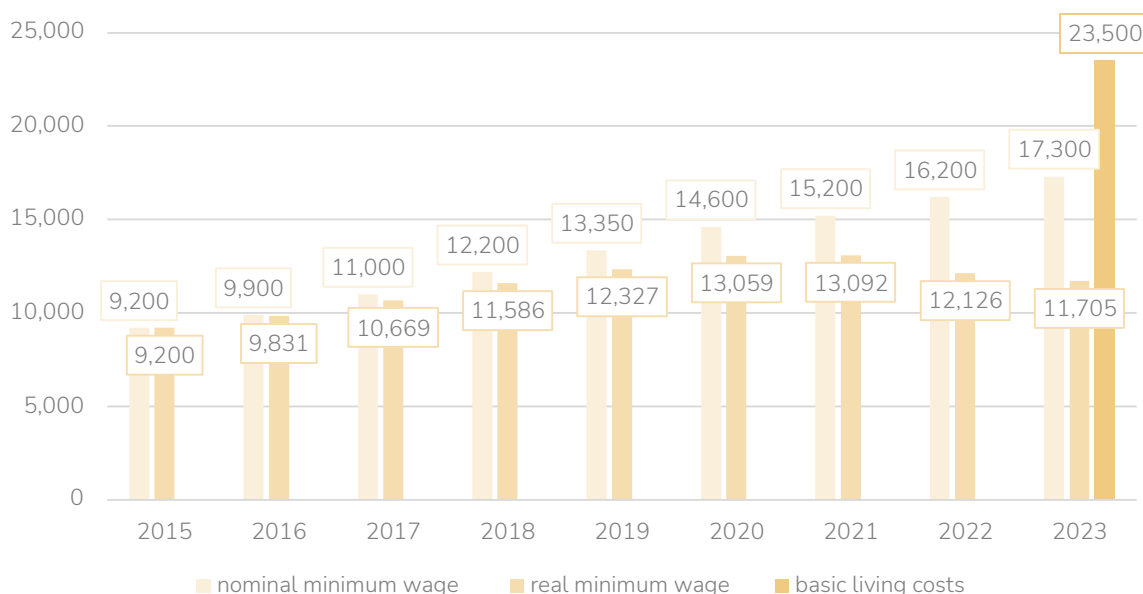
from the integration of national and international data sources that encompass the Czech Statistical Office (ČSÚ), the Ministry of Labour and Social Affairs (MPSV), Eurostat and the OECD, supplemented with proprietary calculations. The methodology is unique in terms of its combination of diachronic (over time) and synchronic (comparative group) approaches that allow for a dynamic and comparative evaluation of the adequacy of the minimum wage. We believe this novel framework enhances the depth and precision of the assessment, thus providing an innovative approach to understanding the dynamics of the minimum wage in the Czech labour market. However, the methodology establishes a relatively high baseline for evaluating living standards, thus leading to findings that indicate that the minimum wage is disproportionately low. Therefore, the executive summary emphasises the challenges faced by workers who strive to maintain a dignified standard of living under current minimum wage policy conditions.

The full study, which assesses the adequacy of the minimum wage in the Czech Republic in 2023, includes detailed statistical analyses, novel modelling approaches, and broad contextual information that is beyond the scope of this summary. This document aims to synthesise the key findings and to provide a detailed narrative on the adequacy of the minimum wage in relation to covering essential living costs, wage distribution, productivity, and international standards. Recommendations are provided primarily to guide policymakers towards ensuring equitable labour conditions and fostering economic sustainability.

Adequacy of the Minimum Wage Relative to Living Costs

The primary function of the minimum wage is to safeguard the ability of workers to meet their basic living needs. Nevertheless, the 2023 statutory minimum wage in the Czech Republic, set at CZK 17,300 gross per month, was discovered to be insufficient to fulfil this role. When accounting for housing costs at normative levels, the net minimum wage of CZK 15,371 failed, in terms of most scenarios, to cover combined living minimum and housing expenses. This inadequacy was particularly pronounced in urban areas such as Prague and Brno, where rental costs are significantly higher than the national average.

Figure 1 Comparison of nominal and real minimum wages over time and basic living costs in 2023



Note: The living costs of CZK 23,500 represent the sum of the living minimum for an individual and normative housing costs in a municipality with a population of less than 70,000. This constitutes the modelled lowest possible living costs where living expenses are considered to be the sum of an individual’s living minimum and housing costs at the level of normative housing costs.

Data source: the ČSÚ; own calculations

In order to meet basic living requirements, the minimum wage would need to increase by an estimated 36–60%, depending on the location. For example, in larger cities, a nominal gross minimum wage of CZK 23,500–27,700 would be necessary to bridge the gap between income and essential expenditure. This shortfall has tangible consequences for workers at the lower end of the wage spectrum, forcing many to rely on supplementary welfare benefits or to live under precarious conditions.

Inflation exacerbated the inadequacy of the minimum wage in 2023. While the nominal wage increased by 6.8%, consumer price inflation reached 10.7%, thus eroding the real value of wages. This marked the second consecutive year of declining purchasing power, thus leaving minimum wage earners increasingly vulnerable to financial instability. Furthermore, the implications of the modelling underscore the structural disconnect between the minimum wage and the actual cost of living for a single-person household, particularly when housing costs are considered. This context highlights the limitations of current minimum wage policy in terms of ensuring financial security for individuals in such situations.

In order to better understand these limitations and their broader implications, the methodology employed in this study integrates supplementary indicators such as the unemployment trap and the tax wedge. These analytical tools reveal how systemic factors compound the challenges faced by

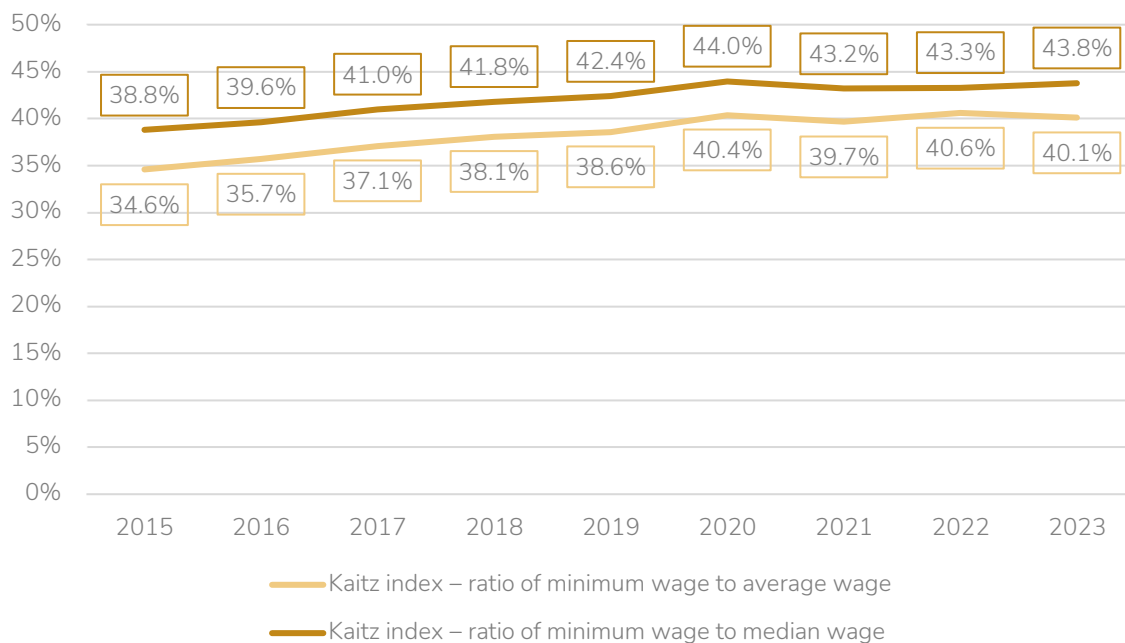
minimum wage earners. For instance, the unemployment trap reveals how the disincentives for low-wage workers to accept full-time employment act to limit upward mobility due to the interplay of low wages and high effective marginal tax rates. The tax wedge analysis highlights how substantial portions of minimum wage earnings are absorbed by mandatory social security and health insurance contributions (the income tax paid by workers who earn the minimum wage in the Czech Republic is almost negligible), which reduce take-home pay to levels that are inadequate in terms of covering basic living expenses. Structural challenges such as the overrepresentation of women and younger workers in minimum wage employment exacerbate these issues. In addition, regional disparities further complicate the scenario, with workers in more expensive cities facing much higher living costs than those in other areas.

Adequacy in Relation to Wage Distribution

The Kaitz index, a critical indicator of wage adequacy, reveals the shortcomings of the Czech minimum wage in the context of the broader wage distribution. In 2023, the Kaitz index was equal to 40.1% of the average wage and 43.8% of the median wage, thus falling significantly below the indicative reference values – international benchmarks set at 50% and 60%, respectively. Although these reference values are mentioned in the European directive, they are not binding for member states, which are free to establish their own thresholds. In addition, the depiction of the Kaitz index in **Minimum wage as a share of average and median wages in 2015–2023** **Figure 2** highlights the persistent gap between the minimum wage and international reference thresholds, which reinforces the need for policy adjustments that effectively address wage inequality. These figures highlight the limited ability of the minimum wage to mitigate income inequality or to enhance the living standards of low-wage workers.

Based on both diachronic and synchronic comparisons, the analysis of the Kaitz index further reveals the drawback of the Czech minimum wage in the context of the broader wage distribution. Between 2020 and 2023, the Kaitz index demonstrated stagnation (or a minor decline) in terms of the ratio of the minimum wage to median and average wages, thus indicating that it is not reflecting increases in overall wage levels. The opposite trend was evident in previous years, with the Kaitz index experiencing slow yet sustained growth from 2015 to 2020. These trends reflect the limited effectiveness of previous wage policies in terms of reducing income inequality since the minimum wage has consistently fallen short of international adequacy benchmarks. Furthermore, the synchronic analysis highlights disparities across sectors such as retail and hospitality, where the proportion of minimum wage workers exceeds 30% compared to less than 10% in the finance and technology sectors. Demographically, women and younger workers are overrepresented among low-wage earners, with single mothers facing compounded challenges due to a combination of low earnings and high dependency burdens.

Figure 2 Minimum wage as a share of average and median wages in 2015–2023

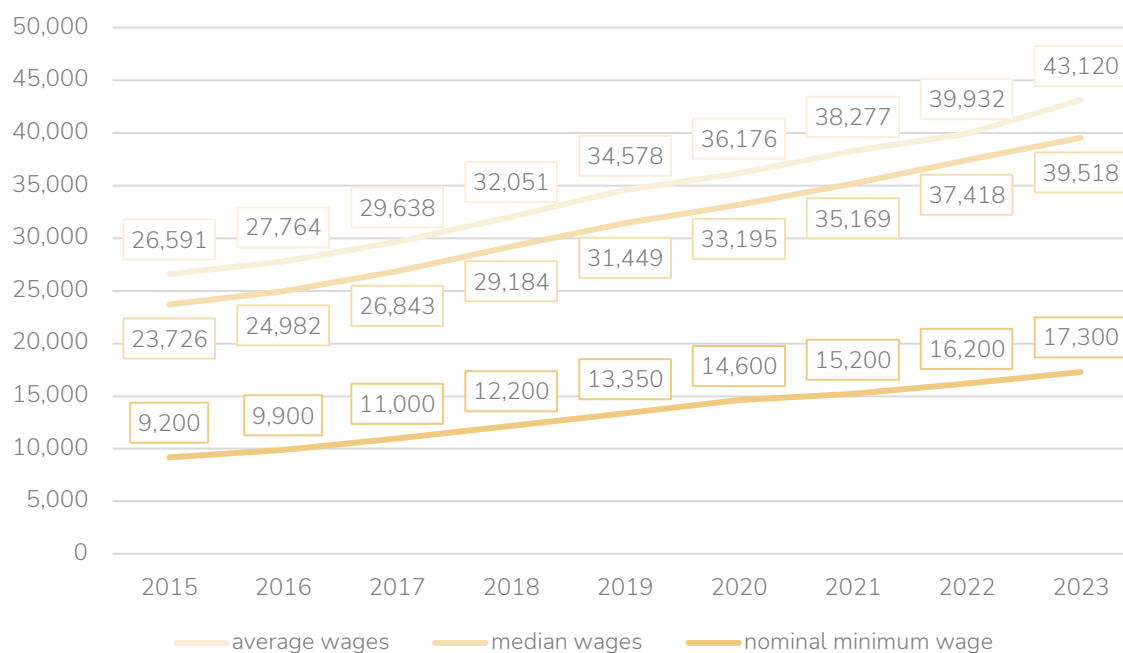


Note: the average wage data for 2023 is still preliminary.

Data source: the ČSÚ; own calculations

We recommend supporting collective bargaining concerning the setting of the minimum wage in line with the Directive, and we applaud the introduction of a minimum wage indexation mechanism in the Czech Republic. The structural inequities underscored by the Kaitz index also manifest themselves in the limited influence of the minimum wage on the broader wage distribution. For instance, with the representation of the minimum wage at a level of around 75% of the first decile threshold, workers languishing in the lowest 10% of earnings face a daunting uphill battle to approach median wage levels. Similarly, at 60% of the first quartile, minimum wage earners fall short of significantly closing income gaps within the lower half of the wage spectrum. Despite a marginal decline in the share of low-wage earners in total income over recent years, this has been overshadowed by an expansion in high-wage segments. This divergence underscores the inability of the minimum wage to adequately address systemic wage inequality.

Figure 3 Development of minimum, average and median wages in the Czech Republic, 2015–2023 (in CZK)



Note: data on average wages for 2023 is still preliminary.

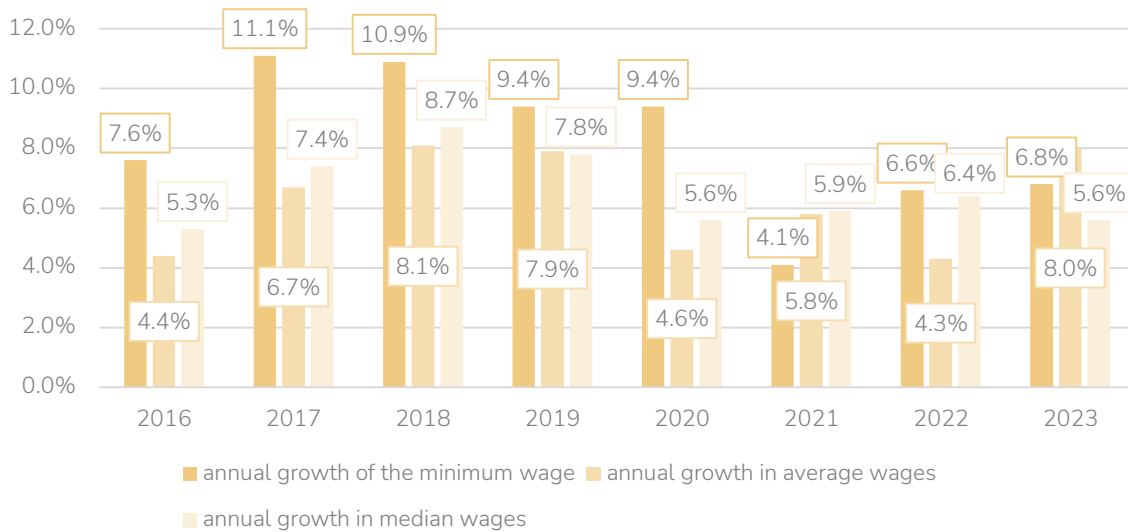
Data source: the ČSÚ, ISPV, MPSV; own processing

Pace of Wage Growth and Labour Productivity

The analysis of wage growth trends reveals further limitations. Between 2022 and 2023, the minimum wage grew at a rate of 6.8%, which was slower than the 8.0% increase in average wages but outpaced the 5.6% rise in median wages. While this growth pattern suggests a slight narrowing of wage inequality at the median level, the relative stagnation of the share of the minimum wage of the average wage illustrates its diminishing economic significance.

Moreover, the relationship between wage growth and labour productivity has evolved over time, reflecting changing structural inefficiencies. From 2007 to 2012, the minimum wage in the Czech Republic was not increased. As a result, subsequent adjustments were made at a faster pace than the growth in productivity. The rapid increase was driven by the need to compensate for the prolonged period of stagnation. In 2023, however, this trend was reversed due to high inflation and economic challenges. From the long-term perspective, the minimum wage continues to lag behind productivity growth, thus indicating potential for further increases. Moreover, additional analysis, e.g. the tax wedge, further revealed how fiscal policies disproportionately affect low-wage workers since significant portions of their earnings are absorbed by social security contributions, thus reducing net take-home pay.

Figure 4 Annual growth of minimum, median and average wages in the Czech Republic in 2016–2023



Note: data on average wages for 2023 is still preliminary.

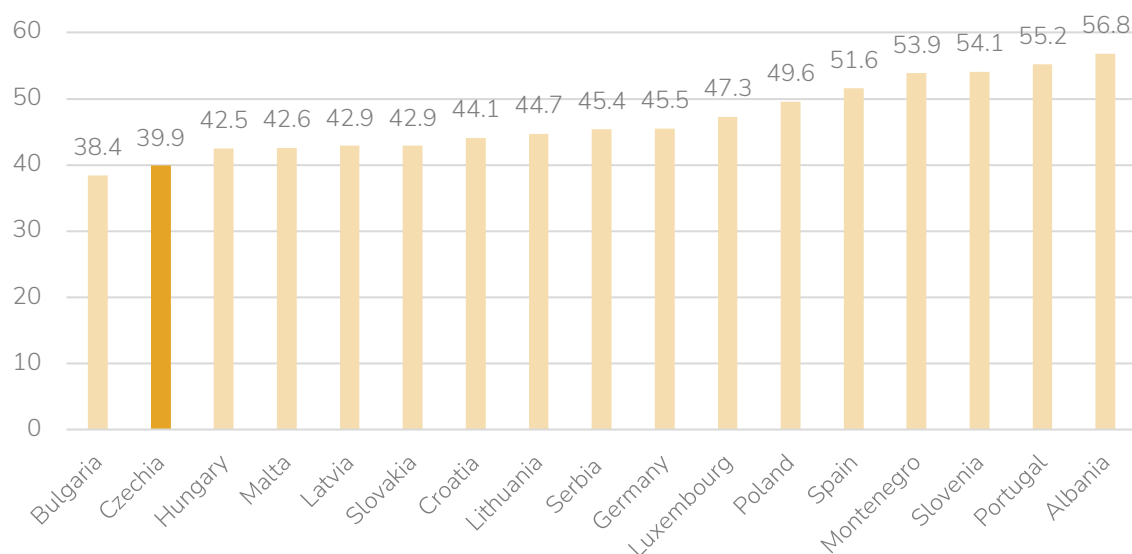
Data source: the ČSÚ, ISPV, MPSV; own processing

Figure 4, which details the year-on-year growth rates for minimum, median and average wages, underscores the afore-mentioned trends. It also illustrates the increasing disparity between wages at the lower and upper ends of the distribution, thereby highlighting the need for targeted intervention.

International Comparisons

International comparisons consistently highlight the significant inadequacies in the Czech minimum wage in terms of both EU and OECD standards. Ranked seventh lowest in the EU when adjusted for purchasing power standards (PPS), the Czech minimum wage trails behind countries with comparable economic profiles, e.g. Slovakia and Poland. This ranking reflects the challenges faced by Czech workers with concern to maintaining a decent standard of living, especially when international benchmarks suggest that higher minimum wages contribute to lower poverty rates and greater social cohesion.

Figure 5 Kaitz index compared to Eurostat data for 2023 in %



Note: No data was available for Belgium, Estonia, Ireland, Greece, France or the Netherlands.

Data source: Eurostat (Monthly minimum wage as a proportion of average monthly earnings (%) – NACE Rev. 2 (from 2008 onwards)); own illustration

The Kaitz index and the tax wedge together highlight the inadequacy of the Czech minimum wage in terms of supporting a decent standard of living, particularly when compared to other EU nations. Figure 5 reveals the Czech Republic Kaitz index (39.9%) as being among the lowest in the EU, thus highlighting the significant disparity between minimum wages and average earnings. In contrast, countries such as Slovakia (42.9%) and Poland (49.6%) exhibit higher Kaitz index values, thus providing more robust support for low-wage workers. The Czech Republic also has one of the highest tax wedges for minimum wage earners in the EU, further diminishing the already limited purchasing power of low-wage earners. While gross minimum wages may appear competitive, the burden of mandatory contributions to social security and health insurance significantly reduces net take-home pay, thereby creating financial strain and reducing the effectiveness of the minimum wage with respect to combating poverty. Comparatively, countries such as Ireland and Malta demonstrate how lower tax wedges can result in better living conditions for minimum wage earners. These structural shortcomings with concern to wage adequacy, exacerbated by high mandatory contributions and low purchasing power, point to the broader challenge of addressing poverty and financial hardship among low-income earners—an issue further explored via the international metrics of poverty and exclusion.

Concerning the question of international metrics, the analysis requires careful consideration when interpreting Eurostat and OECD data, particularly with regard to discrepancies when addressing the poverty risk. The Czech Republic reports one of the lowest AROPE (At Risk of Poverty or Social Exclusion) rates in the EU, despite the minimum wage comprising 43.8% of the median. Concerning workers, the in-work poverty rate is remarkably low, i.e. 3.8% compared to the EU average of 9.4%.

However, the AROPE indicator, due to its being a relative measure, may underestimate the true extent of financial hardship in countries such as the Czech Republic with relatively low income inequality and generally low wage levels. The median income is relatively modest in these countries, thus leading to a lower at-risk-of-poverty threshold. Consequently, individuals with incomes just above this threshold may still experience significant financial hardship, which the AROPE indicator may not fully capture. In addition, even those not classified as at risk of poverty may struggle to meet their basic needs in nations with generally low wage levels. Furthermore, the Eurostat metric differs from the analysis metric since it considers a residential household rather than a single-person household. This distinction excludes individuals with non-conventional living arrangements, e.g. lodging houses and institutional accommodation, which are more common for those at risk of poverty. The low survey response rates from socially excluded groups and affluent gated communities further limit the accuracy of the indicator. Vulnerable demographics, including single mothers, older women living alone, and members of Roma communities, remain disproportionately affected by financial instability. This indicates that despite the robustness of the analysis, caution must be exercised in terms of articulating claims, and the wider socioeconomic context should be considered. Furthermore, it highlights the need for focused research aimed at revealing those aspects of poverty and social exclusion that remain hidden within the dataset.

Conclusion and Recommendations

The multiple indicators employed in the analysis revealed that the statutory minimum wage in the Czech Republic in 2023 was inadequate. It failed to meet the basic living needs of workers, lagged behind inflation and productivity growth, and fell short of international benchmarks. Despite positive labour market trends, including low unemployment and relatively low in-work poverty rates, these positive trends failed to offset the systemic shortcomings in terms of the settings of the minimum wage.

However, it is important to note that we modelled an employee (single-person household) who lives alone and pays housing costs that match the normative levels used in the calculation of housing allowances in the Czech Republic. This partly explains why the minimum wage appears disproportionately low in as much as it reflects a relatively decent standard of living for a one-person household.

We propose the following recommendations with respect to addressing these challenges and aligning with European standards.

- Gradual increases in the minimum wage to approach the indicative reference value thresholds of 50% of the average wage and 60% of the median wage.
- Strengthening the mechanisms for collective bargaining and social dialogue in the wage-setting process so as to ensure more inclusive policymaking.

- The introduction of policy measures aimed at addressing gender wage disparities and the provision of targeted support for low-income workers in vulnerable sectors.
- Reducing the tax wedge for low-wage workers so as to enhance their net take-home pay and improve their financial stability.
- Refining the methodologies applied for the assessment of poverty aimed at capturing the hidden dimensions of financial hardship, such as those experienced by unconventional households and socially excluded groups.

The implementation of these recommendations would significantly improve the financial situation of low-wage workers in the Czech Republic, enhance their standard of living and reduce the prevalence of in-work poverty. Gradual increases in the minimum wage, coupled with targeted policy measures, would ensure fairer remuneration and higher levels of income security for workers employed in vulnerable sectors. Strengthening collective bargaining and reducing the tax wedge would not only increase net take-home pay but also foster a more inclusive and equitable labour market. Ultimately, the adoption of our recommendations would ensure the alignment of the Czech Republic with European standards and promote both social cohesion and economic resilience.

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