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Current wages and non-wage labour cost developments in Estonia, Latvia and Lithuania

How much are employees paid in the Baltic States?

High unemployment rates among the Baltic states have declined steadily in the last decade, only interrupted by an increase caused by the Covid-19 pandemic. Consequently, statistics show an increase in labour costs. As we will explain in this article, this trend not only applies to wages as such, but also affects so-called non-wage labour costs.

Non-wage labour costs include all expenses that employers have to pay in addition to the wages themselves. These consist mainly of contributions to the various social insurances, such as health and pensions. They also include compensation for non-working days and other special payments. In the Baltic states, these percentages are comparatively high and therefore account for a substantial burden on employers' costs.

The national labour law rules in Estonia, Latvia and Lithuania are in line with the European regulatory framework. However, significant differences remain among the three Baltic states in terms of regulation of labour costs and connected working conditions.

Wage increases are particularly evident in the minimum wage. As of 2023, the minimum wage ranges from €620 a month in Latvia to €840 a month in Lithuania. The Estonian minimum wage of €4.30 an hour or €725 a month represents a typical rate for Eastern European states, but is significantly higher than in Latvia. In fact, Latvia is regularly one of the three EU countries with the lowest minimum wage, but also enjoys an above-average annual growth rate. Steady growth is expected to continue in the upcoming years.

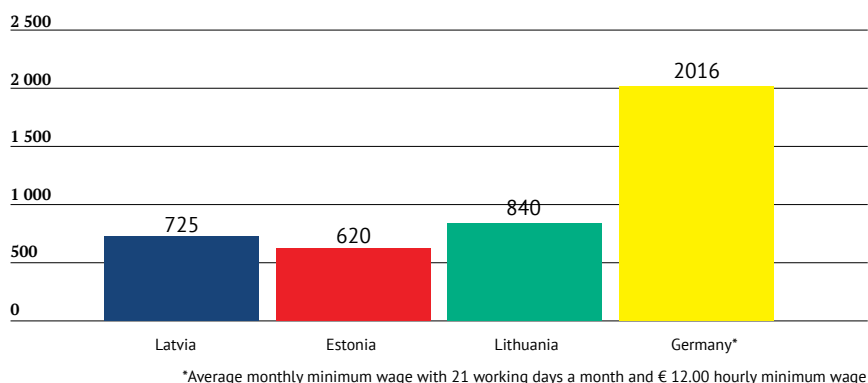
However, when comparing these numbers, keep in mind that countries levy different rates of tax and social contributions. As we show below, Lithuanian employees in particular have to pay higher contributions. Taking this into account, the wage difference is lower than it appears. Regulation of paid vacation and holidays differs in some details from other EU countries, such as Germany and Austria. In line with European law, all three Baltic states require employers to grant employees at least 20 paid vacation days in addition to paid public holidays. However, the regulations pertaining to public holidays show certain specifics that need to be taken into account. For example, on the day before a public holiday, working time in Latvia and Lithuania is statutorily reduced

by one hour, unless a shorter working time has already been stipulated in the contract or by internal company rules. And in Estonia, a working time reduction of three hours is obligatory before the following holidays: New Year's Day, the anniversary of the Estonian Republic, Victory Day and Christmas Eve. As for Latvia, if the two main national holidays (4 May and 18 November) fall on a Saturday or Sunday, employees are entitled to an additional day off on the next regular working day. On the other hand, similar rules in Lithuania were abolished.

European regulations also limit overtime to a certain amount. Overtime is only permitted for adults for an average of eight hours a week. Compensation takes the form of paid time off in lieu of another working day, or additional paid vacation or extra payment for overtime. Estonian and Lithuanian law prescribes an extra payment of 50%, while Latvian law even prescribes 100%, one of the highest within the EU.

Since European regulations do not include specific rules about non-wage costs, the Baltic states show significant differences here. Of particular interest is the widely divergent rules regarding the event of illness. As in Germany, health insurance takes over after a certain period. Before that, employers have to pay different rates or proportions of the usual payment and only for a specific number of days. In Estonia, the employer usually pays only for the fourth to eighth day of illness. Days one to three are not covered at all by either the employer or the state. At the moment, however, special

Gross minimum wage in the Baltic States



regulations apply because of the Covid-19 pandemic. Until the end of June 2023, Estonian employers pay for the second to the fifth days. In Latvia, employees away from work due to illness are not paid on the first day, either. On the second and third days, the Latvian employer must pay at least 75% of the average pay and 80% from the fourth until the ninth days. In Lithuania, on the other hand, the employer must pay wages amounting to no less than 62.06% of the usual remuneration, but only for the first two days. Payments by social insurance companies end far earlier than in many other countries, such as Germany. In Estonia and Latvia, this is after only 26 weeks or 182 days, whereas Lithuanian workers receive payments depending on the type of incapacity for work.

In comparison: German employers must pay 100% for the first six weeks, then afterwards the health insurance pays at least 70% for up to another 78 weeks.

As mentioned above, important differences also exist as to payments

for social security. All three Baltic states operate social security systems that work similarly to the German system. Employees and employers cover these costs through monthly contributions, but the distribution between employer and employee differs. Estonian employers pay 33.8%, employees only 3.6% of their gross wage. Latvian and Lithuanian employees have to pay a much higher rate of 10.5% and 19.5%. Accordingly, Latvian employers are obliged to pay 23.59%, whereas Lithuania prescribes only 1.77% to 2.49%, depending on the type of employment (permanent or temporary).

Falling unemployment rates in the Baltic states go hand in hand with a well-known problem in Western Europe: a shortage of skilled workers. As a result, labour markets now favour employees. This means that there are often more job offers than people looking for this kind of employment. In the future, companies will have to offer significant benefits in addition to higher wages in order to fill vacancies. So, for young Estonians, Latvians and Lithuanians, the prospects are good.