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Estimation of the Impact of Minimum Wage Rise in Slovenia

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Summary

With adoption of the new minimum wage act, the minimum wage in Slovenia has increased markedly for the first time. This working paper analyses the impact of minimum wage rise on the number of its recipients, on the growth of gross earnings in the private sector and on employment, using data on distribution of persons in paid employment by amount of gross earnings. The ratio of minimum wage to gross wage in the private sector and the number of recipients of minimum wage will sharply increase due to the minimum wage rise, and that will put Slovenia on the top of the list of EU countries with the highest shares. We estimate that the minimum wage rise will also affect the growth of gross earnings in private sector. The size of the contribution will depend on the way of the minimum wage is adjusted. If the adjustment will be gradual, the contribution of minimum wage rise to the growth of gross earnings of the private sector will be distributed through the transitory period until 2012. The probability of an immediate and single instance of minimum wage rise is negligible, but in that case the impact on wage growth would be significantly higher. The minimum wage will contribute to dismissals, but the extent of the employment shrinkage due to the immediate adjustment of minimum wage and in the process of adaptation was estimated by the demand function.