

## **Wage Tendency in Albania; The Reaction to the Global Economic and Financial Crisis**

**Imelda SEJDINI**

Department of Business Administration,  
Faculty of Economy, University "Aleksander Xhuvani",  
Elbasan, Albania. Email: [sejdiniimelda@yahoo.com](mailto:sejdiniimelda@yahoo.com)

**ABSTRACT:** Wage of both public and private sectors is a very important source of incomes for most of the population in Albania. The importance of public sector wage policy exceeds the sector's actual share of total employment, because the level of wages in this sector is, to a certain extent, a point of reference for wages in the private sector, too. During the first transition years the wages of a great number of the employees, whose enterprises had stopped being operational, were practically a form of social support. The data for this paper are gathered from all the surveys done on wages during transition from the public sources and the institute of statistics. From these data results that the wages have increased recurrently, first of all to counter the inflationary effects and to provide a better remuneration to the employees in both sector, despite the global financial crisis. This is due to the lack of full integration in the global markets. In this paper we discuss about the wage tendency in Albania as a country in further development, exposed to the risks of the global financial crisis, and the reaction to the difficulties encountered while the country is preparing for the EU integration.

**Keywords:** wage, financial crisis, income

**JEL Classifications:** J31, G01, J33

### **1. WAGES DURING THE FIRST YEARS OF TRANSITION IN ALBANIA**

Under the communist system, Albania's government had maintained one of the world's most egalitarian wage structures. The central authorities fixed the number of workers at an enterprise, assigned them to particular jobs, and set the wage fund, which for the nation as a whole translated in 1983 to a monthly pay of about L400 for a worker and about L900 for a manager. By 1988 average worker earnings grew to between L600 and L700 (US\$89-US\$104); and pay for top officials reached L1,500 (US\$223). In the early 1990s, the regime modified the wage system, creating incentives for over fulfillment of plan targets, and allowing for a 10 percent pay cut for management if enterprises failed to attain plan targets.

Economic liberalization spawned a private sector without wage controls (Brown, 1999). Market-driven price hikes forced the government to raise wages for state workers twice in mid-1991. During the economic chaos, negotiators for Albania's newly independent trade unions demanded that the government automatically increase wages to keep pace with price hikes. At state factories and farms idled by disruptions in deliveries of raw materials, workers' salaries were reduced only 20 percent, a move strongly criticized by the country's main opposition party as inherently inflationary. The opposition called for fixed wages for workers at state enterprises and an absolute limit on subsidies to money-losing enterprises, as two means of slowing the bidding-up of wages and inflation (Burkhauser et al., 1996). In the chaos, the average monthly income for Albanian workers plummeted to the equivalent of about US\$10. During this long economic transition we note a radical change of wage structure conducted by the economic development, with its ups and downs during crisis.

## 2. THE GLOBAL FINANCIAL CRISIS EFFECT

The global financial crisis that has spread around the world has caused a considerable slowdown in most developed countries and has already affected financial markets and growth prospects in developing countries (Marone, 2009). The impact on the Albanian economy, one of the poorest in Europe, is yet to be determined and it is expected that the full extent of the crisis will not be felt until a later moment due to the lack of full integration in the global markets. At first glance the Albanian economy seems to have performed well in the past year; according to EBRD figures the average growth rate of the economies of South Eastern Europe at the beginning of the crisis was 6.5% with Albania growing at 6.8%, 0.3% faster than the regional average. The Albanian economy seems to have escaped relatively unharmed even in 2009, when the impact of the global crisis was felt in many developing countries. Figures from the EBRD<sup>1</sup> show that in 2009 the average growth rate of the South Eastern European countries was -6.2%; whilst Albania registered a positive growth rate of 3%.

**Table 1. Growth in the region in real GDP (%)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Albania</b>	-10.9	8.6	13.2	6.5	7.9	4.2	5.8	5.7	5.7	5.4	6.0	6.8	3
<b>South-eastern Europe Average</b>	-0.2	0.1	-2.5	3.9	4.8	4.7	4.5	7.8	4.9	7.0	6.3	6.5	-6.2

Source: ACIT, 2010

We can't exclude the Albanian economy from the negative effects of this crisis, although it is among the countries that still continue to have positive economic growth rhythms. In front of all the problematic world developments, the Albanian economy has assigned positive economic growth during the first six months of 2009 at the time when internal inflation pressures have remained controlled (IMF, 2009). According to data published by the Albanian Institute of Statistics (INSTAT), the annual GDP growth during the second trimester of 2009 was 5.3%, maintaining approximately the same rate of the first trimester. The economic activity in the sector of services had the main contribution in the GDP growth. The production sector had also its positive influence in the annual growth of GDP, mainly as a result of construction activities development, but at the same time the industrial activity accelerated the decreasing rhythms that established at the beginning of 2009 (World Bank, 2009).

Despite the influence of the global crisis, the government continues to have as an ambitious priority the continuing wage growth in order to contribute in improving the quality of life in the whole country. Among differentiated wage growth in sectors like education, healthcare, etc. the government has been very careful in controlling the minimum wage in continuous increasing, in order to diminish the number of employees paid with the minimum wage. The policy combination of tax reduction and fiscal administration reinforcement has gained their effect in the income growth and the successful wage growth program application.

## 3. WAGE POLICIES IN ALBANIA DURING THE ECONOMIC GLOBAL CRISIS

According to INSTAT the unemployment level during the last quarter of 2009 in Albania reached 13.75%. This suggests that the Albanian economy is experiencing the effects of the global recession with some delay, as the average unemployment level in the first three quarters of 2009 was 12.7%. According to official data the unemployment level in Albania remained stable during 2008 and 2009; however it is interesting to note that according to INSTAT the Labor Force in the last quarter of 2009 was almost 71 thousand workers less than in the third quarter of 2009. This sudden fall in the labor force is not explained by INSTAT and at about 6.3% of the total labor force is by far the largest seen in the past two years. If these 70,962 are assumed to have lost their jobs, as has been alleged by a number of press articles and by the opposition parties, then the unemployment level in the last quarter of 2009 would jump to a staggering 20.55%. Despite this, during the first six months of 2009 the

<sup>1</sup> EBRD 2009 Transition Report

salaries in Albania increased by about 5.6 %. This was mainly attributed to the public sector increases while in the private sector the wages remained almost unchanged. According to the Bank of Albania the private sector responded to the global crisis by freezing pay rises for its employees. The public sector on the other hand benefited from an increase in salaries in May 2009 a month before the general elections in Albania.

The national wage in the public and private sector is increased each year during the last years, according to the data published by INSTAT. In the industrial sector, the average wage during 2007 is increased by 13% relative to the previous year 2006 and 22% relative to the year 2005. In the construction sector, the wage during 2007 is increased by 67% relative to the previous year 2006 and 85% relative to the year 2005. In the transport and telecommunication sector, which are the sectors with the biggest average wage, the wage during 2007 is increased by 16% relative to the previous year 2006 and 30% relative to the year 2005. In the trade sector, the wage during 2007 is increased by 32% relative to the previous year 2006 and 55% relative to the year 2005. In the sector of services, the wage during 2007 is increased by 19% relative to the previous year 2006 and 28% higher, relative to the year 2005. Only in the public sector the average wage during 2007 was 12% higher relative to the previous year 2006 and 26% higher, relative to the year 2005. During 2008, the average wage in the public sector increased by 55% relative to the year 2005 and during 2009 it increased by 68% relative to the year 2005.

According to the labor market evaluations, the same rhythms are noted in the private sector too. The government has adopted some measures in order to save the competitive abilities of businesses, according partial compensation for the training costs and sequential compensation for the social insurance contributions for the companies that hire unemployed job seekers and especially for the fason businesses (Arango, C. and A. Pachon, 2003). The fiscal charge on business is highly reduced related to the profit tax reduction from 20% to 10% and the decrease of social insurance payment from 38,5% during 2006 to 24,5% from May 2009. The reduction is mainly related to the employers part of contribution, which is almost half decreased (from 29% to 15%).

During 2006 – 2009, the public administration wage growth is above the annual inflation rates declared by INSTAT. At the same time, the differentiated wage growth policies in different sector like education, healthcare, public security, etc. has realized every year an annual wage growth higher than the annual price index (Ceni, A., 2007). So the average monthly wage of doctors increased by 84% during 2008 related to 2005 and 100% during 2009, related to 2005. The average monthly wage of nurses increased by 89% during 2008 related to 2005 and 100% during 2009, related to the same year 2005.

The average monthly wage of educators increased by 75% during 2008 related to 2005 and 100% during 2009, related to the same year 2005. This wage growth is due to two main reasons: first of all, these sectors were distinguished by low wages although the difficult work they do and secondly, considering them with priority in wage growth, the government has projected to fight the corruption. In the continuous attempt to protect the low income people, the Albanian government has increased with significant rhythms the minimum wage. So during 2006, the minimum wage was increased by 18,6% and during 2008 was increased twice, by 6,2% and related to the same period of the previous year, the minimal wage was increased by 21,4%, while before 2006 it was increased by 7-9% (World Bank, 2008). From may 2009, the minimum wage was 5,9% higher than during 2008 and 52,5% higher than during 2005. The last growth during July 2010 was by 5,6% related to the previous growth of may 2009.

To realize the wage policies, it is negotiated with employees and employers of both public and private sector in order to attain social consent, because the wage is an important factor for the economic activity encouragement and also an important factor for the poverty reduction (Fields and Kanbur, 2006). This process has been periodically realised in the moments of minimum wage revisions, wage indexation, etc. activating the Wages Commission of National Labor Council.

In the conditions of the world economic crisis and the influence transmitted in the economy of Albania, in the preliminary meetings done by employers and employees, organizations in order to decide for the minimum wage changes, used a lot of attention in order to save the business from economic damage, and especially the fason businesses (Fullani, 2009). In order to protect the employees from the wage discrimination, the state has approached the syndicates for including the minimum wage in all the collective bargains, as a factor of important priority, especially to the small

private enterprises, securing the employees for the minimum floor of their incomes. The state has also the right to interfere by negotiating in all the divergences encountered from the way the employees are paid. The Albanian government, according to the fourth article of European Social Card, is trying to reach the parameters requested, by saving the rapport of 60% between minimal national wage and average national wage and this is another reason why we have continuous growth of the minimum wage. Actually this rapport is 48%, although the considerable growth of the minimum wage and this is because of the influence in the average wage, the growth of wages in the education and healthcare sectors. Related to this, it is very important to note the positive influence of the wage growth in the productivity growth, by 7 – 8% every year (Bank of Albania, 2009).

**Table 2. Minimum wage growth (1992 – 2010)**

Period	Minimum wage (ALL)	Growth in %
August 1992	675	1
January 1993	840	24
Jun 1993	925	10
December 1993	2400	159
October 1994	2620	9
May 1995	3300	25.9
October 1995	3700	12
April 1996	4400	18.9
1997	4400	0
March 1998	5800	31.8
April 1999	6380	10
July 2000	7018	10
Jun 2001	7580	8
Jun 2002	9400	24
August 2003	10060	7
Jun 2004	10800	7.4
May 2005	11800	9.2
July 2006	14000	18.6
January 2008	16000	14.3
July 2008	17000	6.2
May 2009	18000	5.9
July 2010	19000	5.6

Source: Ministry of Labor, Social Affairs and Equal Chances, 2010

The wage growth perspective in our country for the four coming years, also according to the economic crisis predictions, is optimistic. The wage growth with low wages priority will continue for the next years with a predicted level of growth of 10%, and the minimum wage is planned to grow each year with higher rhythms related to the annual inflation index. Wage growth will continue at the same time with the wages indexation in the same percentage of the annual inflation index<sup>2</sup>.

#### **4. WAGES TENDENCY AND THE FUTURE PERSPECTIVE**

During 1995 – 2007, we note a growing tendency in the average monthly wage for the public sector employees. We can not say the same for the real wage tendency, which is affected by the inflation fluctuations.

During 1994 – 1996, as a result of price stability and wage growth in the public sector twice during a year, the wage growth has been bigger than the price growth. The economic crisis during 1997 was accompanied by the real wage decrease, by 17% related to 1996.

During 1999 the prices almost didn't change but the real wage was changed by 17,7%. The year 2001 marks a growth by 15,1% of the monthly average wage at the same time when the consume products prices are grown by 3,1%, resulting with the real wage growth by 11,6%. During 2003, the average monthly wage is increased by 8,5% when the consume products prices are grown by 2,4%, resulting with the real wage growth by 6%. During 2004 the average monthly wage is increased by 9,9% when the consume products prices are grown by 2,4%, resulting with the real wage growth by 7,3%. During 2005 the average monthly wage is increased by 9,9% and the real wage growth is 7,3%. During 2006 the average monthly wage is increased by 7,5% and the real wage growth is 4,9%. For the year 2007, the average monthly wage is increased by 17,1% when the consume products prices are grown by 2,9%, resulting with the real wage growth by 13,8%. For the year 2008, the average monthly wage is increased by 8,2% when the consume products prices are grown by 2,2%, resulting with the real wage growth by 4,7%<sup>3</sup>.

The government has planned a wage growth for the future, by conserving the rapport not more than 1 to 5 of the lowest and higher wages.

During 2005 – 2010, the minimum wage is increased by 61% related to the 2005 minimum wage. This minimum wage growth has been gradual each year during this five years period, resulting with more than double growth from the previous five years.

The priority in the wage growth has resulted for the education and healthcare sections, when the wages are duplicated. The average wage for the public sector employees in general during the last five years 2005 – 2010 is increased by 79%, related to 36,4% of growth during 2002 – 2005.

#### **5. CONCLUSION**

Wage policies can affect the buying power of employees and the growing tendency improves their quality of life. The tensions between the government and the social partners have been intensive and the wage regulations have encountered a lot of difficulties.

The minimum wage still remains an important mean to maintain the consume of them at the end of the pay scale for the further improvement of the economy. The decisions for the minimum wage must be approached in a very careful survey of wage variations and other income sources for the most affected groups of population. All this can provide the base for the further decisions about conserving the buying force through the combination of the minimum wages with the other policies for the income generation and the tax reduction.

The effective response to these policies needs a strong social dialogue and a careful survey of the impact of crisis to the week employees. At the same time there is not an universal system of wage decisions and the national regulations reflect the level of collective bargains and the role of state in the wage policies, at the meantime that the evidence tells that the social partners inclusion is very important. The social dialogue can lead to a better articulation of wages and negotiates related to this. The government must help the employees to be protected by the unfair competition, creating a climate that helps the job creation and the poverty reduction, and improves the competitive abilities of companies. This is a difficult challenge, but the wage growth obligates the employers to consider the

---

<sup>2</sup> Ministry of Labor, Social Affairs and Equal Chances, 2010

<sup>3</sup> This data is published by INSTAT, 2009.

investments in the human capital and other complimentary factors in order to improve the labor productivity of employees. This argument can stimulate the employers to find ways for the efficiency improvement and to conserve the competitiveness in the global economy.

### **References**

- Arango, C. and A. Pachon (2003). *Distributive Effects of Minimum Wages on Household Incomes*. Washington, DC: World Bank, memo.
- Brown, C. (1999). *Minimum Wages, Employment, and the Distribution of Income*, in O. Ashenfelter and R. Layard (eds), *Handbook of Labor Economics*. Elsevier: North Holland.
- Burkhauser, R. V., K. A. Couch, and D. C. Wittenburg (1996). *Who Gets What from Minimum Wage Hikes: A Re-Estimation of Card and Krueger's Distributional Analysis in Myth and Measurement: The New Economics of the Minimum Wage*, *Industrial and Labor Relations Review*, 49 (3): 547.52.
- Ceni, A. (2007). *Menaxhimi i shperblimit*, 471-508.
- EBRD (2009). *Transition report*.
- Fields, G. and R. Kanbur (2006). *Minimum Wages, Poverty and Income Sharing*. Cornell University.
- Bank of Albania (2009). *Financial System Stability in Albania for the Second Half of the Year 2008*. *Bank of Albania Statement*.
- Fullani, A. (2009). *Recent economic and financial developments in Albania*. *Monetary Policy Statement for the second half of 2008*, BIS Review 29/2009.
- IMF (2009). *The Implications of the Global Financial Crisis for Low Income Countries*. *IMF Multimedia Services Division*, 4-6.
- Marone, H. (2009). *Some Effects of the Financial Crisis on the Developing World*. *Office of Development Studies United Nations Development Program, New York*.
- World Bank (2008). *Global financial crisis and implications for developing countries*. *Washington DC*.
- World Bank (2009). *The global economic crisis: Assessing vulnerability with a poverty lens*. *WashingtonDC*. (<http://siteresources.worldbank.org/NEWS/Resources/WBGVulnerableCountriesBrief.pdf>)