

## Poland: Why wage growth is more subdued than expected

Wage growth in Poland continues to decelerate, falling to 5.9% year-on-year in October vs 6.8% in the last 10 months. The data suggests that a generous hike in the minimum wage next year still won't be enough to push overall wages above 8% in the first quarter



Shoppers at the Poznan City mall in Poland

In October, corporate wage growth in the enterprise sector decelerated from 6.6% to 5.9% YoY, below market forecasts (6.2%). Our models (the official breakdown is not yet available) suggest a stronger slowdown in industry, but also some moderation in services. The ongoing deterioration seems to stand in contrast to the National Bank of Poland's survey, which shows an increasing share of firms mulling wage hikes.

But we have a few theories to explain why wages may have moderated faster than expected and growth is lower than implied by the NBP's survey:

- While the number of companies planning wage hikes is high, the scale of hikes is low.
- Companies may see the introduction of the occupational pension scheme (companies should pay an additional contribution of 1.5%) as a substitute wage hike.
- Some businesses may postpone pay rises to January 2020 when a strong hike in

the minimal wage (by 15%) should take place.

- The personal income tax was cut from October onwards, so in net terms, employees have already received higher wages and there is no need to hike the gross salary.

Therefore, it is probable that a strong rise in the minimum wage in January 2020 will bring overall wage growth to levels seen in 1Q of 2019 (7.7%) rather than push wages above 8%YoY. We estimate that the rise in the minimum wage should add about 1.5 percentage points to overall pay growth. We no longer expect to see average wage growth rising above 8%YoY in 1Q20.

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