Grant Thornton
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Salary Catch Up Index

When will Polish wages catch up with the EU average?

07 November 2018

Key findings

Over the past few years, Poland has made great strides towards bridging the pay gap, but EU pay levels remain well out of reach

If the current pay growth dynamics are sustained, the first EU country we will come level with will be **Portugal** – in **March 2023**

On the other hand, the last country we will be able to catch with the current pay dynamics is **Germany** – but that will have to wait until **May 2077**

Poland will not only be a chaser, it is also being chased by other countries. With the current dynamics, in **November 2029 Romania** will overtake Poland in terms of pay levels

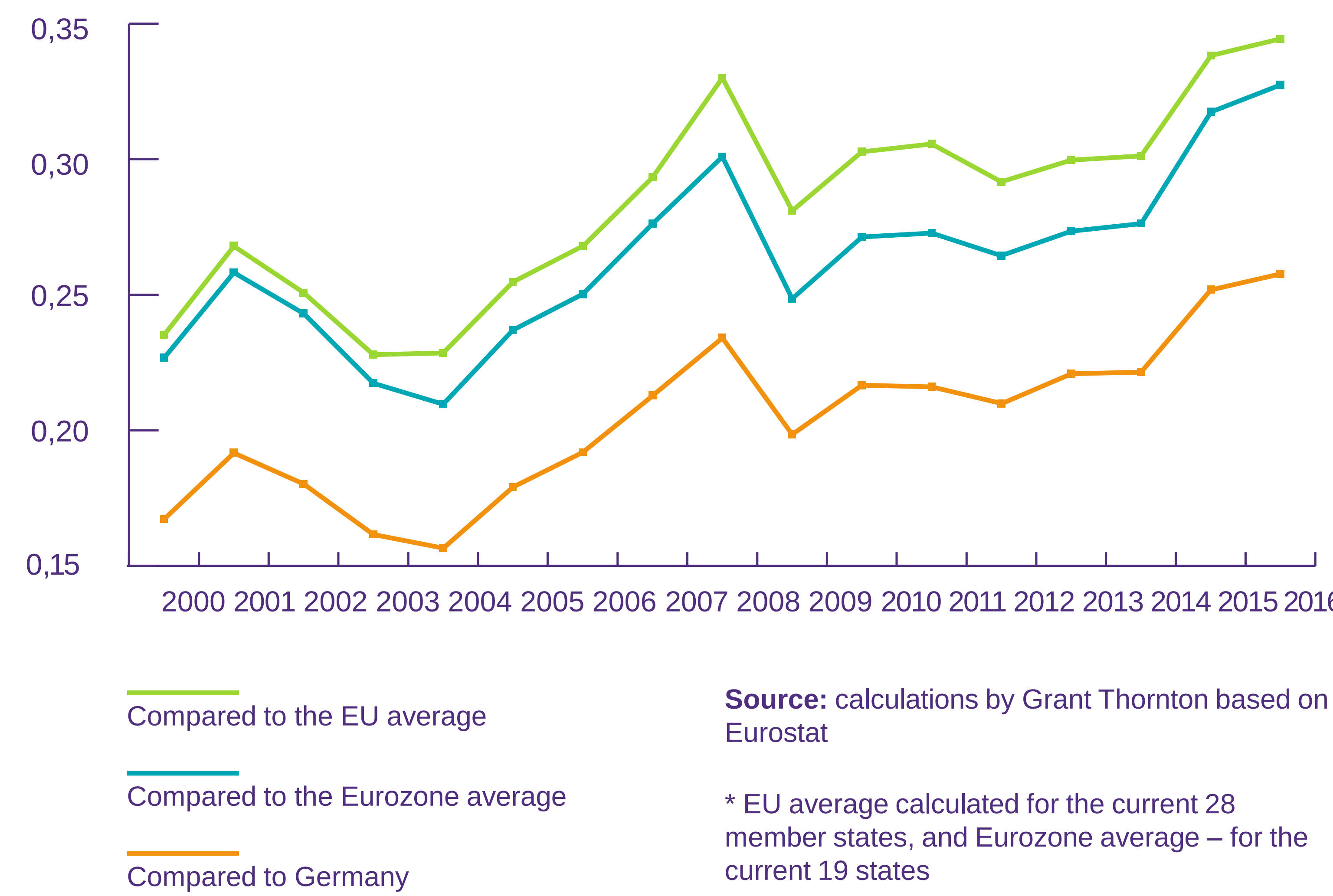
1. Looking back

How far we have come

Recent years have been a period of dynamic economic growth in Poland. Since 2000, GDP per capita in Poland has jumped 149.8% (in euro) compared to 58.8% growth EU-wide. When Poland joined the EU in 2004, our GDP was 47% of the EU average, and now it is up to 70%, meaning that in the space of 13 years we have made up nearly half the distance (23 out of 53 percentage points).

And how does such strong economic growth translate into earnings in Poland? According to Grant Thornton's calculations based on Eurostat data, the wages of Polish employees – like GDP – have been catching up to the EU average, albeit a little more slowly. In 2000, for which the earliest data are available, the average pay in Poland accounted for 23.5% of the EU average, while in 2016 (most recent comparable data) the figure was 34.4%. Compared to Germany, EU's biggest economy, the percentage stood at 16.7% and 25.8% respectively. So, we are still quite far behind average EU pay.

Chart 1.
Average wages in Poland compared to the EU average, Eurozone* and Germany (%)



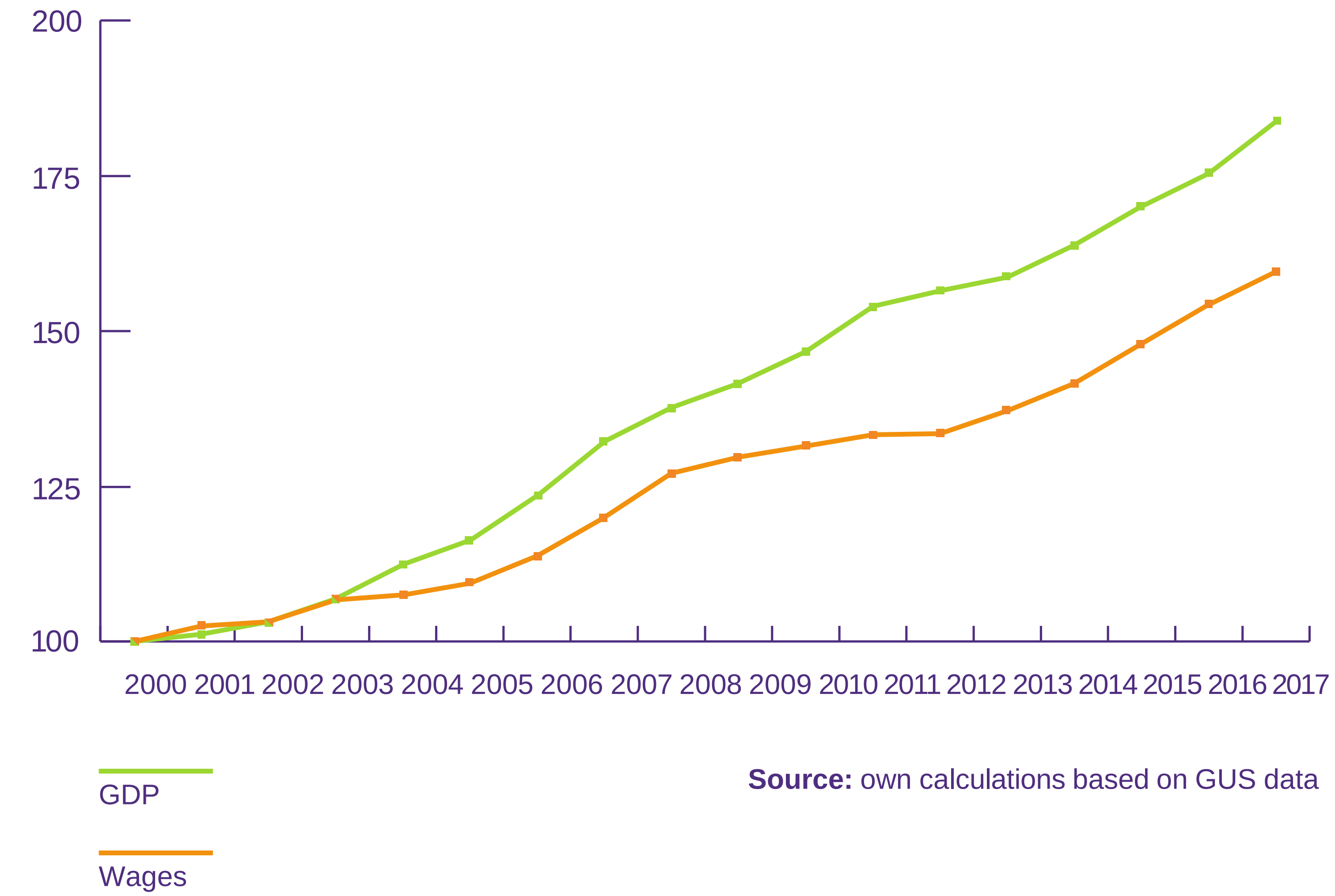
Source: calculations by Grant Thornton based on Eurostat

* EU average calculated for the current 28 member states, and Eurozone average – for the current 19 states

Wages significantly behind GDP

The figure below shows how much wages in Poland have been lagging behind overall economic growth. Since 2000, Poland's gross domestic product in real terms (after adjusting for inflation) has grown by 83.8 per cent, while the average remuneration in the national economy in the same period was up by only 59.6 per cent. Theoretically speaking, if the average gross remuneration in the national economy had risen in step with GDP dynamics, it would amount not to PLN 4,517, as it did in Q4 2017, but PLN 6,351. In other words, because of the lag, by now employees are hypothetically "losing" as much as PLN 1,834 every month. In total, over the 17-year period covered by the analysis, the aggregate loss would have come to a total of PLN 190,300 (assuming that the loss amounted to 0 in 2000 and then increased arithmetically up to PLN 1,834 per month in 2017).

Chart 2.
Real pay dynamics in the national economy in Poland and real GDP dynamics in Poland
(per cent, data for 2000 = 100)



Source: own calculations based on GUS data

PLN 190,300

this is how much more an average employee in Poland would have earned in 2000–2017 if average monthly pay had been growing at the same rate as the GDP.

2. Current situation

How much do people earn per month in Poland and how much in the EU

According to Eurostat data, the average monthly pay in the EU amounts to EUR 2,904.30, that is approx. PLN 12,669.72.* In turn, looking only at the countries of the Eurozone – the figure goes up to EUR 3,094.22.

The country with the highest average pay in the EU is Luxembourg – with EUR 4,654.83 per month, which is an astounding PLN 20,336.49. Lowest monthly earnings are invariably found in the poorer countries of Central and Eastern Europe. The lowest amount, as little as EUR 460.72 (PLN 2,010.86), is paid monthly to workers in Bulgaria. The average pay is slightly higher in Romania (EUR 570.93), Lithuania (EUR 718.60) and Latvia (EUR 799).

Poland comes 8th last in the ranking of average pay across the EU. The average employee in Poland earns EUR 982.32 (PLN 4,287.53), so Poles earn nearly twice as much as Bulgarians.

In spite of the dynamic growth in the Polish economy, compared to the European Union our earnings remain unremarkable – we get paid nearly three times less than the EU average.

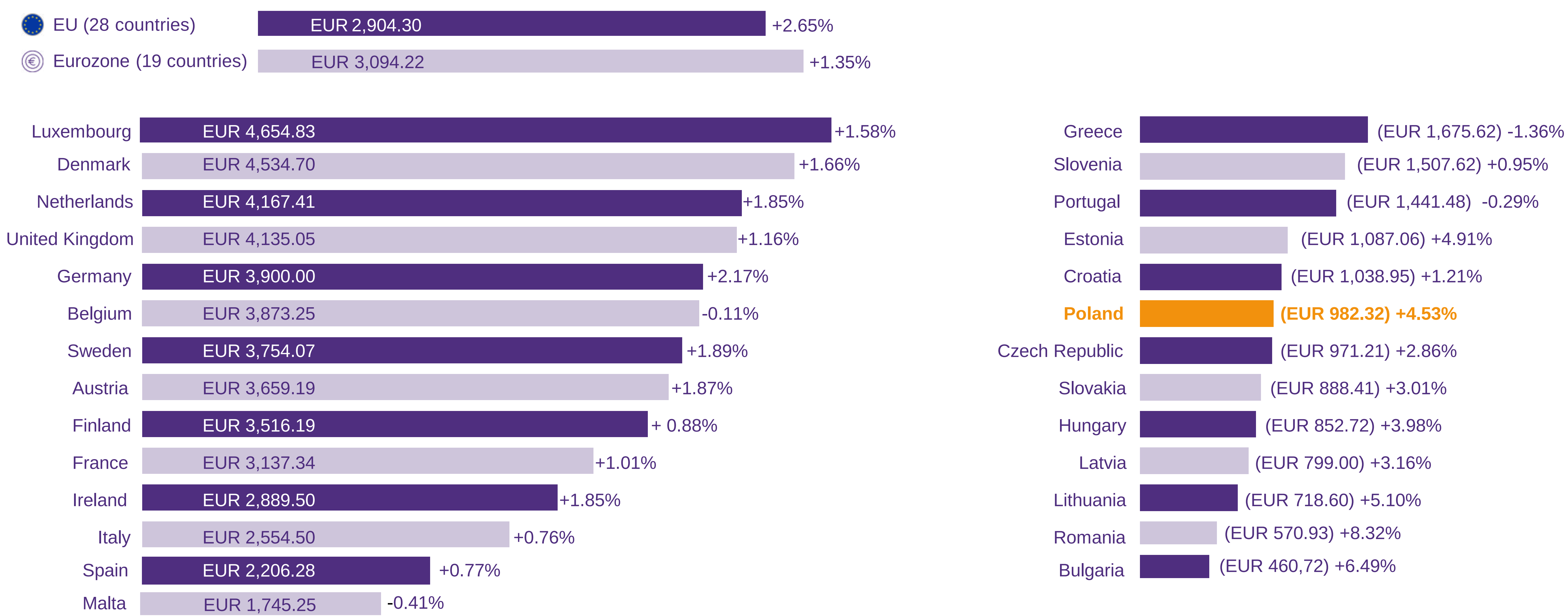
And compared to the affluent Luxembourg, the Polish citizen earns on average some 16,000 zlotys less.

The current low wages in the countries of Central and Eastern Europe cannot however be regarded as evidence that these countries are not growing. Quite the contrary – the pay growth rate observed now and predicted in the short- and mid-term significantly exceeds that of Western Europe. The average real dynamics, after adjusting for inflation, for the ten poorest EU member states (including Poland) amounted to 4.63% in 2016 (the most recent available comparable data). The highest rates were observed in Romania (8.32% growth) and Bulgaria (6.49%). Poland stays close to the average for the region. Earnings made by Polish employees are growing at 4.53%.

On the other end of the spectrum, the lowest dynamics of average pay growth are reported in Greece. It is one of the unlucky few countries in the EU to have negative growth dynamics (-1.36%), due to the effects of the economic crisis of 2010.

How much do people earn per month in Poland and how much in the EU

Chart 3.
Average monthly pay in the European Union, Eurozone and countries in EU, and average real dynamics (after adjusting for inflation)



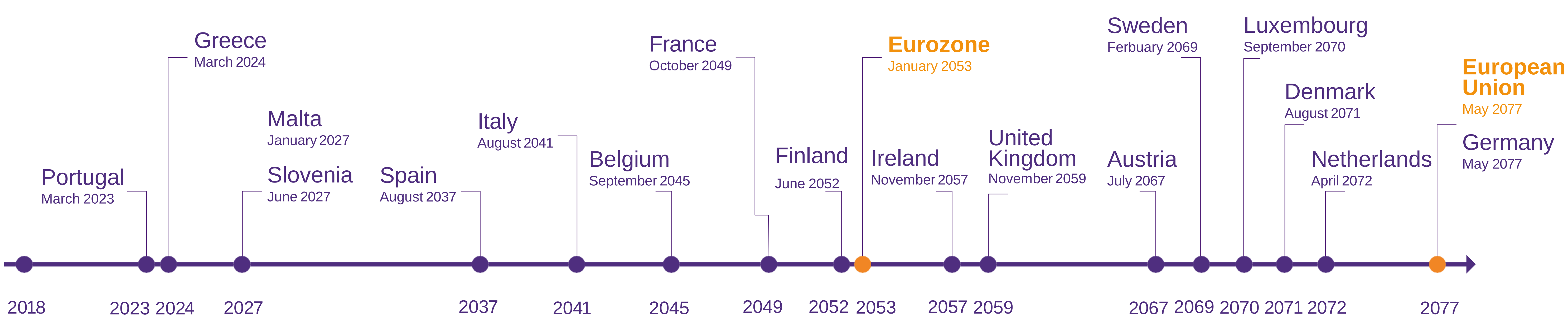
Source: Calculations by Grant Thornton based on Eurostat data

3. When will wages in Poland catch up with the EU average?

The chart represents the process of Poland's progression towards the average EU pay levels, assuming that all countries maintain their current dynamics (from the past three years) of pay growth in real terms (after adjusting for inflation).

Current earnings in individual countries and the relevant growth rates were used to calculate how annual pay levels will be changing in the years to come. The axis presents the anticipated dates that Poland will reach the pay level of the given country.

Chart 4.
Anticipated dates that Poland catches up with the EU average pay and earnings in individual EU member states (after adjusting for inflation)



Source: Calculations by Grant Thornton based on Eurostat data

Half a century behind the EU average

Our calculations are based on the assumption that pay growth dynamics will remain at their current levels across the EU. If in the coming years earnings in Poland were to grow at 4.53% per year in real terms (the way they did over the past three years), with the average EU pay maintaining annual growth of 2.65%, our calculations suggest that it would take nearly 60 years for Polish wages to level up with the EU average. The lines representing Polish and EU-average monthly earnings would only intersect in May 2077, at approx. EUR 14,620.

Our calculations also suggest that out of all the EU member states where wages exceed those in Poland we would first catch up to Portugal – which will happen as early as March 2023, even though the current difference between the Polish and Portuguese annual earnings per capita is quite high, amounting to EUR 5,510. The reason for such a fast rate of convergence with a relatively affluent Western country is Portugal's negative pay growth of -0.29%.

The first country we will match in terms of pay levels not because of its negative growth dynamics is Slovenia. Currently, an employee in Slovenia earns about EUR 6,000 more per year than one in Poland. However, thanks to slow pay growth in Slovenia (at the rate of 0.95%), with the current dynamics Poland would overtake it in ten years – in June 2027.

it would take nearly 59 years for Polish wages to level up with the EU average

59 YEARS

Germany at the very end

Assuming that pay growth dynamics in EU countries were to remain at the current levels, in September 2070 Poland would catch up to Luxembourg, which according to Eurostat data has the highest wages across the European Union – on average EUR 4,655 per month. Due to the relatively low pay growth rate (+1.58%) we would close in on Luxembourg sooner than on Germany, even though the latter has lower earnings today. This is because wages are going up relatively fast in Germany – at an impressive 2.17% per year. The combination of relatively high wages and quite strong growth dynamics makes Germany the last country that Poland would catch at the current rates of growth – as late as May 2077. At that time, earnings in both countries would reach approx. EUR 175,000 per year.

It may seem surprising that Poland will level up with Germany (as the last EU country) and the EU average at exactly the same time. One would expect that the EU average should be surpassed much earlier, somewhere halfway along the way. Please note, however, that the calculation of the EU average includes not only those countries that we are chasing (richer than Poland), but also poorer countries that we will naturally never "catch up with" seen as we are already ahead of them. These countries make our progression towards the EU average longer.

COMMENT FROM OUR EXPERT

The calculations presented in the report are based on the assumption that pay dynamics in individual countries will remain at their current levels. We are very well aware, of course, that the odds of this actually happening, especially over the long term, are low. Nevertheless, such an approach enables us to answer, at least approximately, a question which is of interest to all Poles – when will our wages be on a par with those in other European countries?

Our calculations show that it is a very remote prospect. To accelerate the process, the Polish economy would have to rapidly improve its efficiency, and that in turn would require Polish businesses to become much more innovative. Creating favourable conditions for enterprise development should be a priority concern to the state. We believe that a lot more could be done to create an environment conducive to business development in Poland. At a declarative level, this is understood by all consecutive governments. In reality, there are no signs of a substantial improvement in business conditions anywhere on the horizon. And the stakes are high because, at the end of it all, more efficient enterprises build a stronger economy, which in turn provides the foundation for increasing wages and consequently brings prosperity to society.

Tomasz Wróblewski
Managing Partner
Grant Thornton

We look forward to hearing from you

Media contact:

Jacek Kowalczyk
Director for Marketing & PR
Business Relations
T +48 505 024 168
E Jacek.Kowalczyk@pl.gt.com

Grant Thornton is one of the leading audit and advisory organizations in the world, with a presence in 136 countries and headcount of more than 50,000. We have been in Poland for 25 years. Our team of 550 employees supports clients in such areas as audit, advisory services and outsourcing.