

The Minimum Wage and Wage Labor in Azerbaijan

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According to the Labor Code, the minimum wage is a [social norm](#) that determines the minimum level of monthly wages for unskilled labor and services, taking into account economic and social conditions. The importance of the minimum wage in economic theory is explained by the fact that it has a positive impact on the prevention of labor exploitation, protection of wages, prevention of unfair competition, fair distribution of income, and poverty reduction.

Many international documents address the issue of wages. *The Universal Declaration of Human Rights*, adopted by the United Nations in 1948, [states](#) that “everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.” *The International Covenant on Economic, Social and Cultural Rights*, drafted by the UN, also [stipulates](#) that everyone has the right to receive, without discrimination, no less than the minimum wage “laid down by the State.”

A change in the minimum wage is in the interests of a large part of society, not just those who receive the minimum wage. Remuneration of employees working in areas financed from the state budget is based on the *Unified Tariff Schedule*, the amount of their monthly salary determined in accordance with the different rates of remuneration in this table also [depends](#) on the amount of the minimum wage. When the minimum wage increased in Azerbaijan in 2019, an [official statement](#) said, the change in the minimum wage directly affected the income levels of 450,000 people working in the public sector and 150,000 people working in the private sector, a total of 600,000 people. If we take into account that the [number of](#)

[employees](#) in the country's economy at that time was 1,534,000 people, we can say that the change in the minimum wage had a direct impact on the income of about 40% of all employees.

The minimum wage is also important in terms of the requirements of the [law](#) *On the indexation of income and savings of citizens in the Republic of Azerbaijan*, adopted in 1992 but for some reason never implemented. The law stipulates that if the increase in prices in the consumer market during the year exceeds 5%, for those whose monthly income is less than 4 times the minimum wage (currently 1,000 AZN), salaries paid from the state budget or private enterprises, excluding lump sum benefits, state pensions, scholarships, social benefits, bank deposits, government securities, fees to state insurance agencies, and alimony should be indexed based on the increase in prices and based on the monthly income compared to the minimum wage. (Indexation does not apply to the income of citizens from entrepreneurial activities and property.)

Taking all this into account, we can say that ensuring the participation of various interest groups in determining the minimum wage and the fair and effective organization of the process has a significant impact on the formation of the socio-economic situation of hundreds of thousands of people in the country. In this regard, the purpose of this article is to examine whether the minimum wage system in Azerbaijan meets the minimum requirements of the population and to determine the share of income from wage labor in the total income of the population. Approaching the issue from this point of view, it is clear that in Azerbaijan, the requirements of the population are taken into account to a limited extent in the formation of norms such as the minimum wage and related living standards and the minimum consumer basket; and there is no specific mechanism and methodology for calculating and relating these norms. Also, the share of wage laborers in the total employed population, and the share of income from employment in the total income of the population is quite low.

The minimum wage system in Azerbaijan

The Labor Code [states](#) that the amount of the minimum wage in the country is determined by the relevant executive authority. The Presidential decrees on the minimum wage [refer](#) to Article 109 of the Constitution (powers of the President of the Republic of Azerbaijan). This article states that it resolves other issues that do not fall within the competence of the Parliament and the judiciary. That is, in the process of determining the minimum wage in Azerbaijan, representatives of employers and employees or parliamentary debates do not play a role, the executive authorities independently set the minimum wage.

The *Law on the Subsistence Minimum* is also important in terms of determining the minimum wage. The fifth article of the law [states](#) that “the approved subsistence minimum for the country is the basis for determining the need criterion for determining the minimum wage, benefits, pensions, other payments and targeted state social assistance.”

According to the *Law on the Subsistence Minimum*, the need criterion is approved for the purpose of determining targeted state social assistance, depending on the subsistence minimum for the main socio-demographic groups of the population. The subsistence minimum is a social norm consisting of the sum of the cost of the minimum consumer basket and mandatory payments. In this regard, the consumer basket is one of the main factors influencing the formation of both social assistance and the need criterion, and thus the minimum wage. In this law, the consumer basket is defined as a set of food, non-food goods and services necessary for the minimum level of human health and life, determined on the basis of scientific norms. The consumer basket consists of the minimum set of food products, the minimum set of non-food products for individual and family use (clothing; shoes; stationery; household, cultural, and sanitary items; medicines; etc.), and the minimum set of services (utilities, transport, communication,

household, educational, cultural, and medical-recreational services, etc.).

The main criticism of the consumer basket is related to its composition. For example, in a [decision](#) approved by the Cabinet of Ministers, the cost of using Internet services is calculated as 1 hour per family per day, or for able-bodied people, the wear period of coats is 8 years, and the wear period of shoes is 3.5 years, and the reality of these figures is a matter of serious debate. Another noteworthy aspect of the consumer basket is that although the subsistence level is reviewed by the parliament every year within the budget envelope, the legislation provides for a review of the consumer basket every three years. Such a long time prevents the prompt consideration of consumer behavior and requirements.

There are also problems with the coverage of the minimum consumer basket in Azerbaijan. In addition to food and housing needs, the International Labor Organization [considers](#) it necessary to take into account health, children's education, and other expenses for participation in public life. However, the consumer basket in Azerbaijan does not cover such services.

International experience

There are different practices for setting the minimum wage in different countries. In some countries, the minimum wage is set by the executive, in some by the legislature, and in others by organizations representing employees. In countries where the minimum wage is based on median wages, inflation, and other economic indicators or where the unemployment rate is very low, there is no fixed minimum wage at all.

The amount of the minimum wage in [Turkey](#) is determined by the relevant committee. The committee consists of a total of 15 members – the government, entrepreneurs, and employees are each represented by five individuals. Representatives of

entrepreneurs (employers) and employees are members of the largest trade union organizations of entrepreneurs and employees, respectively. Legislation on the minimum wage makes it necessary to review the amount of the minimum wage at least once every two years. The committee holds four rounds of meetings to determine the minimum wage, at the end of which the committee members vote to make a decision. At the federal level in the [United States](#), the minimum wage is set by Congress for each working hour, not for each month. The minimum wage can also be set at the state level, but the latter cannot be lower than the minimum wage set at the federal level. State-level administrations have the power to set different levels of the minimum wage for different industries.

In [France](#), half of the increase in the minimum wage is determined by the consumer price index, and the other half is determined by changes in the purchasing power parity of workers' earnings. In addition, every year the government considers raising the minimum wage, taking into account economic indicators. If the inflation rate in the country is higher than 2 percent, the minimum wage can be revised during the year. In [Sweden](#), the level of the minimum wage varies depending on the industry. Thus, trade union organizations operating in each industry determine the minimum wage and other social conditions of employees working in this area, and collective agreements are signed between employees and employers. Although the minimum wage in [Russia](#) until 2020 was calculated on the basis of the subsistence minimum, from 2021 the minimum wage is set at 42 percent of the median wage.

Wage labor in Azerbaijan

One of the characteristics of wage laborers in Azerbaijan is that their share in the total employed population is several times lower than both the countries of the region and the world average.

Table 1: The share of wage laborers in the total employed population in Azerbaijan and other countries

Country	The share of wage laborers in the total employed population
Belarus	96%
Russia	93%
EU	85%
Ukraine	84%
Central European and Baltic countries	82%
Kazakhstan	75%
Turkey	69%
Moldova	63%
Armenia	60%
Georgia	49%
Azerbaijan	32%

In addition to the low share of wage laborers in the total employed population, the share of wage earnings in the total income of the population in Azerbaijan is not high. According to the State Statistics Committee on household [budgets](#), only about 30 percent of total family income consists of [salary incomes](#). The ratio of wage income to GDP in Azerbaijan is also quite low. According to the latest figures of the Statistics Committee, the share of wage income in GDP is only about 19 percent.

Table 2: The share of wage income in [GDP](#) in different

countries

Country	Share of labor income in GDP (%)
Switzerland	59.4
France	52.8
USA	52.7
Japan	51.6
Germany	51
Canada	50.6
Netherlands	49.6
Finland	49.4
Belarus	49.2
Austria	48.2
Russia	47.2
Azerbaijan	18.4

Interestingly, despite the fact that employees make up only a third of the total employed population and about 70 percent of household income is formed from non-wage income, the *Tariff Council's* [statements](#) on price increases use the increase in the average monthly wage of employees as an argument to justify the increases.

Another interesting point regarding the minimum and average monthly salary is that when Azerbaijan joined the European Social Charter in 2004, it [promised](#) to increase the minimum wage to 60 percent of the average monthly salary, and the *Azerbaijan 2020: Looking to the Future* development [document](#), adopted in 2012, also sets a goal of raising the minimum wage to 60 percent of the average monthly wage by 2020, but Azerbaijan still lags far behind. According to the latest

official statement, currently the average monthly salary in the country is 707 AZN while the minimum wage is 250 AZN. From this point of view, currently the minimum wage in Azerbaijan is only 35% of the average monthly salary.

Along with the average monthly salary, the median salary also plays an important role in creating the image of the salary system. Although the amount of median salary in Azerbaijan was not disclosed before, the Ministry of Labor and Social Protection of Population recently [announced](#) the amount of the median salary for the first time, and it turned out that it is only 343 AZN. This means that out of about 1.7 million [waged laborers](#) in Azerbaijan, 850,000 have a monthly salary of less than 343 AZN. On the other hand, this indicator shows that the median salary in the country is only 48% of the average monthly salary, that is, the average salary is twice the median salary. This can be considered as an indicator of high income inequality.

What needs to change

Despite the limited scope of the consumer basket mentioned above and the requirement in the European Social Charter that the ratio of the minimum wage to the average monthly wage be 60%, in Azerbaijan this figure is only 35%. Such factors indicate that the norms such as the minimum wage and the subsistence minimum do not reflect the real minimum requirements of the population and the amounts set are insufficient. One of the steps that can be taken to overcome this may be to set different minimum wage levels for different sectors of the economy, rather than a uniform amount in all sectors. Official figures also [show](#) that there are several-fold differences in the average monthly salary for various economic activities in Azerbaijan. The fact that the median wage is almost twice as low as the average monthly wage is also an indication that there is a significant difference between high-wage workers and low-wage workers. Along with different sectors of the economy, socio-economic differences

among the geographical regions can also be taken into account in determining the minimum wage. At present, the average monthly salary in Baku is about 1,000 AZN, but in most cities and regions this figure is about twice [lower](#) than in Baku. Taking this into account, different minimum wage levels can be set in large cities and other administrative districts.

At the same time, there is no legal [provision](#) in Azerbaijan that the minimum wage is related to the subsistence level. Although the *Law on the Subsistence Minimum* states that the subsistence minimum is the basis for determining the minimum wage and the basic part of pensions, this does not imply a legal obligation. However, for example, the Labor Code of Russia states that the minimum wage cannot be set below the subsistence level. Although the current minimum wage in Azerbaijan (250 AZN) exceeds the subsistence level in the country (196 AZN), it should be noted that this became [possible](#) only in 2019; before the increase in the minimum wage in June 2019, the minimum wage was less than the subsistence minimum for many years.

According to the tax legislation of Azerbaijan, the tax-exempt amount is determined not on the basis of the minimum wage, but on the basis of the subsistence minimum, which leads to a significant decrease in the income of those earning the minimum wage. Especially if employees in the non-oil and non-state sectors earn income at the level of the minimum wage, then in accordance with the [requirements](#) of the legislation, they are also subject to income tax, social security contributions, and insurance payments, which ultimately results in the employee earning less than the minimum wage. In this regard, linking the tax-exempt amount to the minimum wage in the tax code can play an important role both in terms of protecting the income of those earning the minimum wage, and in terms of increasing the role of the minimum wage as an economic and social indicator in the country.

Conclusion

One of the main indicators in terms of the formation of the minimum wage, social assistance, and the subsistence level in Azerbaijan is the minimum consumer basket. However, the composition of the minimum consumer basket does not reflect the real needs of the population. In this regard, a more equitable preparation of the consumer basket and the involvement of representatives of employees and employers in determining the minimum wage as well as the creation of conditions for the activities of organizations that protect the rights of workers can have a significant impact on the formation of a fair minimum wage system and, consequently, on the prevention of the exploitation of hundreds of thousands of people and the improvement of social protection.

The low share of the wage laborers in the total employed population can also be seen as an indication of the high level of illegal employment in Azerbaijan. In this regard, the prevention of the shadow economy is important in terms of increasing budget revenues and preventing unfair competition, as well as strengthening the social protection of illegal workers who are not provided with social benefits.