International Labour Organization

ILO brief

Policy Brief

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Minimum wage response to COVID-19 and inflation crises [1]*

An Asia-Pacific region overview

Key points

- This brief analyzes the evolution of nominal and real minimum wages from 2015 to 2022. While nominal minimum wages, represent the statutory minimum wage rates set by the government or authorized entities, real minimum wages consider the impact of inflation on the purchasing power of these nominal wages.
- By adjusting for inflation, real minimum wage levels allows for a meaningful comparison of the minimum wage's purchasing power across different time periods, and their implications on workers' economic well-being.
- Before 2020, countries in the Asia-Pacific region had more dynamic minimum wage adjustments that had positively improved workers' living standards. Between 2015 and 2019, the real minimum wage rates experienced an average annual increase of 2.5 per cent, in 22 selected countries in the region taken together.
- However, three out of the 22 countries (Papua New Guinea, Sri Lanka, and Timor-Leste) failed to adequately adjust their national minimum wages, resulting in a decrease in real minimum wage rates from 2015 to 2019.
- In contrast, from late 2020 onwards real minimum wages on average show a declining trend across countries, due to irregular and insignificant revisions which coincided with secular increase in inflation caused by COVID-19 and was exacerbated by the conflict in Ukraine in general and economic crisis/political turmoil in specific countries. Some countries even postponed their minimum wage adjustments during this period to support businesses and protect employment.
- Overall, between 2020 and 2022, 15 out of the 22 analyzed countries experienced a decline in the purchasing capacity of their minimum wages, ranging from 2.2 per cent to 44.7 per cent.

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▶ Introduction

This brief aims to shed light on how select countries in Asia and the Pacific have utilized minimum wage as a labour market institution to ensure adequate labour income protection during the COVID-19 crisis and ensuing inflation caused by Ukraine war. To achieve the stated objective, the brief examines the dynamics of minimum wages setting and adjustments before, and after the pandemic. It also exhibits how inflationary pressure has deteriorated the purchasing power of minimum wages across different countries in the region.

According to *ILO's Global Wage Report 2022-23*, the COVID-19 pandemic and global inflation have had detrimental effects on wages and purchasing power. As a result, many countries have experienced negative real wage growth, particularly impacting low-income workers who have been hit the hardest. This unfortunate situation has further exacerbated the significant losses that workers and their families already endured during the pandemic, leading to a cost-of-living crisis. The implications of this crisis are far-reaching, as the erosion of real incomes, without appropriate policy responses, could intensify inequality and contribute to social unrest (ILO, 2022).

The objective of this study is to analyse the evolution of both nominal and real minimum wages from 2015 to 2022. Real minimum wages[2] offer a more accurate assessment of workers' earnings in relation to the cost of living. Unlike nominal minimum wages, which represent the legally mandated or negotiated minimum wage rates set by the government or authorized entities, real minimum wages consider the impact of inflation on the purchasing power of these nominal wages. By adjusting for inflation, the real minimum wage allows for a meaningful comparison of the minimum wage's purchasing power across different time periods, what can refer to their implications for workers' economic well-being.

In this brief, we examine 22 countries[3] with minimum wage systems within the Asia-Pacific region, utilizing available data, to analyse the trajectory of minimum wages in real terms <u>before and following the COVID-19 crisis.</u> Our primary focus is to understand the implications of rising prices in the region on real minimum wages. We aim to assess how minimum wage systems have responded to changing social and economic conditions by adjusting nominal wages to protect workers from deterioration of purchasing power. Furthermore, it is crucial to acknowledge the need for alternative support measures to combat rising prices, especially in situations where there is limited coverage of minimum wage or a prevalence of high level of informal employment.

Our conclusion shows that minimum wage policies in the Asia-Pacific region unveil mixed outcomes during and after the COVID-19 pandemic. While, prior to the crisis, many countries implemented measures that positively increased real minimum wages, particularly in the context of strong economic growth; during and after the pandemic, several countries have failed to implement significant and timely adjustments to their minimum wages. This situation raised concerns about the ability of the workers and their families to cope with the cost-of-living crisis, as their purchasing power diminished each month, putting them at risk of poverty and deprivation.

I. Inflation trends in Asia and the Pacific[4]

The COVID-19 pandemic and the conflict in Ukraine have both had an impact on inflation in the Asia-Pacific region. Inflation has been attributed to a combination of factors such as COVID-19-related restrictions, cumulated public debt, loose monetary policy, and supply bottlenecks (GWR, 2022-23). The conflict in Ukraine has also influenced and aggravated rising prices worldwide. In addition, certain countries in the region such as Myanmar, Pakistan and Sri Lanka, the eruption and continuance of political and/or economic crisis have further put these countries in a more serious situation in terms of accelerated inflation. Therefore, in the Asia-Pacific region, the extent of this impact varies from country to country (ADB, 2022). For instance, according to Economic and Social Commission for Asia and Pacific (ESCAP) some countries such as Sri Lanka, Cambodia, and Pakistan to name a few, are more exposed

[2] To adjust for the influence of price changes over different time periods, minimum wages are measured in real terms, i.e. the nominal wage data are adjusted for consumer price inflation in the respective country.

[3] We selected countries with minimum wage systems in place which had available data on monthly or quarterly consumer price index information as well as minimum wage data from 2015-22.

[4] The inflation data is sourced from individual country statistical or central bank departments.

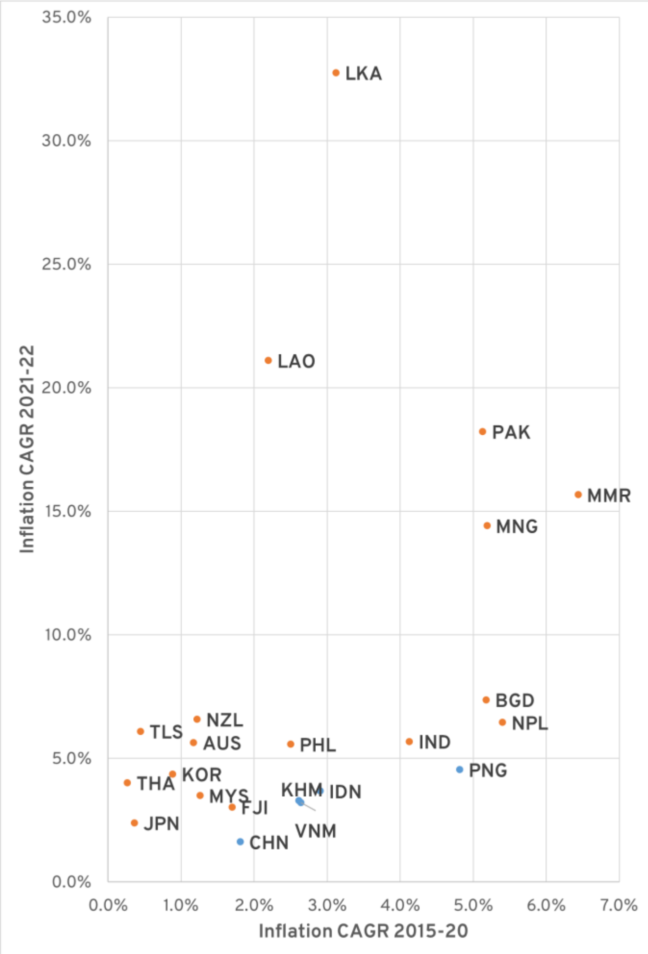
to the Ukraine conflict than other countries in the region (ESCAP, 2022).

These rising prices are particularly pronounced in case of lower-income households, who work largely in the informal economy, affecting most essential items in their consumption baskets. Lack of minimum wage enforcement and high levels of non-compliance, further exacerbate their vulnerability. This leads to concerns for the most vulnerable workers and their income in real value terms. Although, in the Asia-Pacific region, inflation continues to surge in numerous economies, mirroring trends observed in other parts of the globe, it becomes evident that the predominant factor behind this upward trajectory is driven by escalating costs associated with energy and food commodities (IMF, 2023).

For instance, smaller economies have been severely impacted by soaring inflationary pressures. These pressures have placed a significant burden on their economies and the purchasing power of workers. For example, in 2021 and 2022, double-digit inflation rates surged in Mongolia, Pakistan, Sri Lanka, Lao People's Democratic Republic, and Myanmar (Figure 1). Additionally, Myanmar is currently grappling with a political crisis that has extensively destabilized its economy, exacerbating the financial stress on vulnerable households.

During the same period, it is noteworthy that high-income countries have also encountered high inflation rates relatively to their historical averages. For example, Australia and New Zealand have experienced unusually higher inflation patterns. In the case of Japan, which is known for its low inflation and occasional deflation, there was a cumulative increase of 6.4 per cent in prices from 2015 onwards, with much of the increase occurring in 2021 and 2022. Similarly, the Republic of Korea experienced its highest peak of inflation in 2021, reaching 7.5 per cent. These instances highlight the unique inflationary circumstances faced by these countries during the specified period.

Figure 1. Average inflation rate comparison, 2015-20 vs 2021–22, CAGR %



Source: Author's estimation.

Among upper-middle-income countries (and in fact across all countries in the region), China stands out as the only nation that has not experienced rising prices following the crisis. However, the remaining countries in this group, known for their developing economies, demonstrate a range of inflation patterns post-crisis. While Malaysia experienced its highest inflation peak in four years at 3.2 per cent in 2021, Indonesia and Thailand have seen progressive price increases since the pandemic outbreak, leading to more than doubling their rates in 2022 relative to 2021. Fiji, on the other hand, with more volatile inflation due to factors such as natural disasters also experienced an increase in inflation rates in 2022.

Following the COVID-19 crisis, most low-middle-income countries in East and Southeast Asia experienced significant price increases in 2022, except for Cambodia and Papua New Guinea. Among these countries, several other have witnessed a substantial surge in their inflation rates over the 2021 and 2022. In particular, the inflation rates in the Philippines, Myanmar, and Mongolia have more than doubled, indicating a significant inflationary impact during this timeframe. Furthermore, Lao People's Democratic Republic and Timor-Leste have seen their inflation rates increase by approximately tenfold compared to their previous rates.

In the South Asian region some countries face soaring inflation caused by multiple factors such as surging food and fuel prices, currency depreciation, and disruptions in supply chains. Among these nations, Sri Lanka, Pakistan, and Bangladesh have been especially impacted, with escalating prices of food and essential commodities emerging as a significant concern. This situation has strained the purchasing power of individuals and households, posing additional challenges to their economic stability and well-being.

Overall, rising prices of food and energy in the Asia-Pacific region are a significant concern for lower-income households. As reflected in *the Global Wage Report 2022-23,* a substantial portion of the consumption expenditure of these households is allocated towards these essential items. Consequently, the impact of the cost of living on vulnerable workers, and the subsequent effect on their income in real value terms, is a cause for serious concern.

Furthermore, more than half of all sub-minimum and minimum wage earners are situated at the lower end of the income distribution. This emphasizes the importance of timely interventions and government support measures to address the challenges faced by these workers and their families. Ensuring their well-being and safeguarding their livelihoods necessitates proactive measures to alleviate the burden of rising prices and protect their purchasing power.

II. Minimum wages levels across countries in the region

The role of minimum wages in the context of inflation

Minimum wages can play a critical role in ensuring adequate wages for low-paid workers, helping to reduce inequality and working poverty. Studies have found a significant positive effect of minimum wages on the earnings of workers (Card & Krueger, 2000; Dube, 2019; Mansoor and O'Neil, 2022; Neumark, 2014). Furthermore, owing to the positive earnings effect, studies have found a beneficial pass-through of higher earnings to consumption for low-paid workers (Mansoor and O'Neil, 2022).

Inflation rates are eroding the purchasing power of minimum wages worldwide, affecting 160 million workers[5] in Asia and the Pacific that are paid at and below the minimum wage (ILO, 2021). Given the positive impact of minimum wages on the earnings of the workers and their consumption, a rise in inflation threatens to negatively impact the consumption levels of the poor household engaged in low-skilled jobs. Therefore, setting adequate minimum wages and their periodic revision is essential in protecting workers from unduly low pay and even preventing workers from falling into poverty and ensuring that their wage maintains its purchasing capacity, compensating for the erosion from inflation.

Although it is crucial to adjust wages to keep up with inflation and provide low-paid workers and their families with a decent standard of living, in some countries, implementing substantial increases may prove challenging or considered risky from the perspective of its potential negative impact on employment, especially in the formal sector. This situation is especially true in countries where minimum wages are already comparably high in relation to median wages and where the COVID-19 economic crisis has severely impacted employment and labour productivity. In this context, sound labour market institutions must engage social partners in social dialogue based on evidence to propose timely minimum wage adjustments that take into consideration the needs of the workers and their families and economic factors.

According to the *Global Wage Report 2022-23*, inflation rates are diminishing the purchasing power of minimum wages, affecting wage earners worldwide who earn at or below the hourly minimum wage. Increasing prices affect not only the minimum wage but can also affect wages below that level. Therefore, it is crucial to extend minimum wage protection to all groups of wage earners, and strengthen compliance measures to ensure the well-being of workers who receive pay below the minimum wage are protected adequately and effectively.

[5] According to the Global Wage Report 2020/21 approximately 134 million workers in the Asia-Pacific region receive wages below the minimum wage threshold.

Addressing minimum wage systems in the context of the cost-of-living crisis requires robust social dialogue founded on evidence. This approach is crucial to prevent the decline in purchasing power experienced by millions of workers in the region. Moreover, it must consider the sustainable development of enterprises that create more job opportunities. Adequate and timely adjustment of minimum wages holds the potential to significantly enhance the living standards of low-income households, and a predictable mechanism grounded on evidence for enterprises to make efficient decisions.

Eighty six percent of ILO Member States in the Asia-Pacific region have statutory minimum wages, albeit there are significant differences in the systems employed across countries (ILO, 2020). These differences encompass various aspects, including the scope of coverage, frequency of adjustment, number of minimum wage rates, mechanism of consultation, criteria for setting the minimum wage, and enforcement measures. Consequently, these varying systems lead to different minimum wage outcomes and varying degrees of protection.

Nonetheless, it is noteworthy that from 2015 to 2019, prior to the COVID-19 crisis, wage policies in the region experienced considerable strengthening, which have played a crucial role in reshaping the minimum wage system across countries towards an improved situation.

Comparing monthly minimum wages in Asia and the Pacific in US$ and PPP$, 2015 and 2019

How has minimum wage policy shaped minimum wage levels in the region?

In 2019 monthly minimum wage levels, expressed in dollars, in the Asia-Pacific region show three distinct groups based on their values (see Figure 2):

- Countries with minimum wages above the one-thousand-four-hundred-dollar mark,
- Countries (or States) with minimum wages between US$200 to 300,
- Countries (or States) with wages below US$200.

In most countries with multiple minimum wage levels, we have opted to utilize the median value as a representation. However, for India[6], we have adopted a slightly different approach. In the case of India, we have considered the minimum wages of unskilled workers from three distinct States/Union Territories (See Box 1).

▶ Box 1. Standard approach to compare minimum wages across countries

Comparing minimum wages in Asia and the Pacific requires a standardized approach to ensure accurate analysis. Using a common currency and time rate allows for a clearer understanding of workers' earnings in each country. However, it is important to consider additional factors beyond the face value of minimum wages. Minimum wage figures are typically reported before tax and social security deductions, and variations in working hours, national holidays, and paid leave days can further complicate comparisons.

Selecting a representative minimum wage rate for comparison is crucial, especially in countries with multiple minimum wage levels[7], wages based on regions, sectors, occupations, and skill levels. Converting minimum wages to a monthly rate involves considering statutory full-time working hours and assuming a standard number of working days.

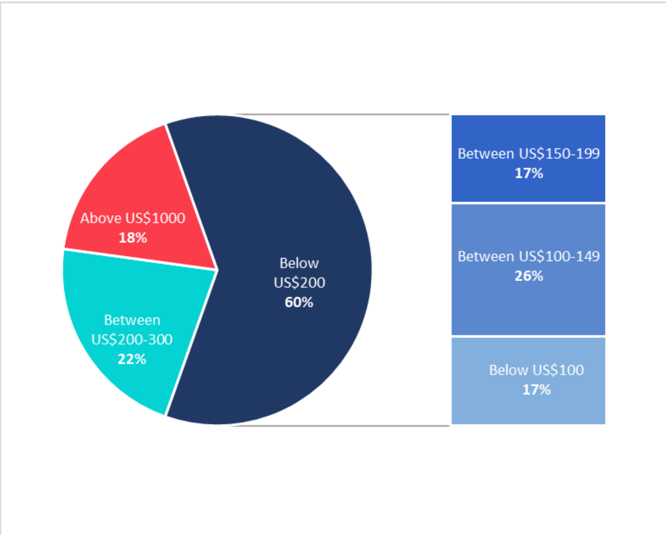
It is important to note that using US dollars alone for comparison may not fully capture the purchasing power of minimum wages in each country. Variations in the cost of living and prices of goods and services must be taken into account, such as through purchasing power parity (PPP) or local price level considerations, when comparing minimum wages across countries.

[6] India has one of the most complex minimum wage systems in the Asia-Pacific region, with more than 2,000 minimum wage rates. State and Union Territory Governments have the autonomy to set minimum wages. For this policy brief we have considered three State/Union Territory minimum wages for unskilled workers: Nagaland, Punjab and Delhi Union Territory, representing lower, median and higher minimum wages in the context of India.

[7] **Note**: In this analysis, median values were employed for the 32 provincial minimum wages in China, 34 provincial minimum wages in Indonesia, lowest non-agriculture minimum wages in 17 regions in the Philippines, regional minimum wages in Thailand, the minimum wages of four provinces in Pakistan plus the Islamabad Capital Territory, and minimum wages in the four regions of Viet Nam. The weighted average of 47 prefecture minimum wages in Japan was utilized. National minimum wages were used for Australia, New Zealand, Republic of Korea, Fiji, Lao People’s Democratic Republic, Malaysia (or City Council or Municipal Council area), Myanmar, Mongolia, Nepal (excluding the Estate Tea Sector), Papau New Guinea, Sri Lanka and Timor-Leste. The minimum wage for the garment sector was considered for Cambodia and Bangladesh. For India it was difficult to select a representative minimum wage among the more than 2,000 rates. In this case we took three State government examples of unskilled minimum wages. A minimum wage from the State of Nagaland (the lowest minimum wage of unskilled workers), from the State of Punjab (a median representative minimum wage of unskilled workers) and from Delhi,

This selection allows us to encompass a range of minimum wage values, including those that are low, median, and high, thus providing a more comprehensive perspective on the minimum wage landscape for unskilled workers in the country.

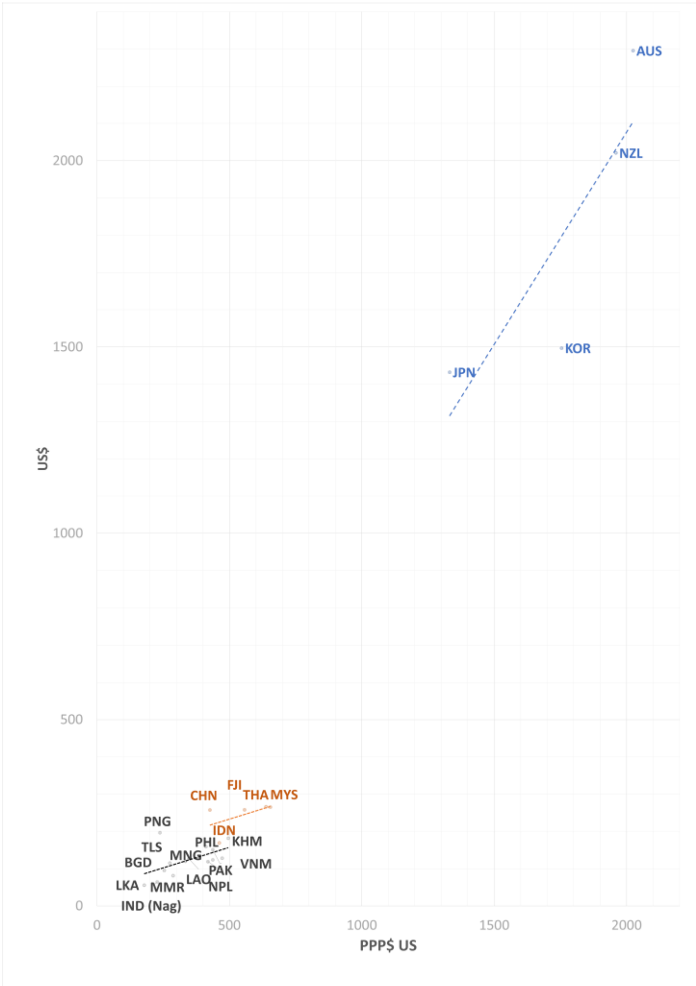
Figure 2. Share of countries or states by minimum wage-levels in US$, 2019



Source: Author's estimation based on minimum wage levels of 22 analyzed countries in the Asia-Pacific region. See Foot Note 6.

The comparison in US dollars also shows a strong correlation between minimum wage levels in the Asia-Pacific region and levels of economic development, as measured by per capita GDP. Figure 3 provides a visual representation, how the three groups of minimum wage levels in US dollars align with the classification of countries into high, upper-middle, and lower-middle income categories according to the World Bank Analytical Classifications. Within the group of 22 countries, the monthly minimum wages in 2019 varied significantly, ranging from US$56 to US$2,296. The median level, which corresponds to US$164, represents the middle point of this wage spectrum.

Figure 3. Monthly minimum wages across countries by income (high, upper-middle, and lower-middle income) in Asia and the Pacific in US$ and PPP$, 2019



Source: Author's estimation based on ILO minimum wage database for the minimum wage levels, International Monetary Fund's World Economic Outlook database for the PPP conversion rates and World Bank's World Development Indicators for the exchange rates.

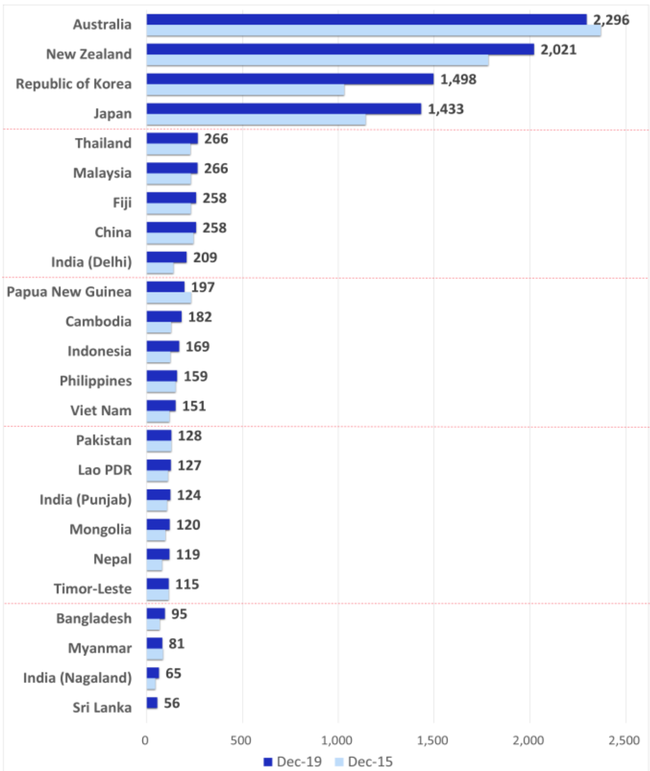
As of 2019, the high-income countries in the Asia-Pacific region exhibit the higher minimum wage levels. These countries include Australia (US$2,296), New Zealand (US$2,021), the Republic of Korea (US$1,498), and Japan (US$1,433). In the four years leading up to the COVID-19 pandemic, the Republic of Korea and Japan substantially increased their minimum wages, with a compound annual growth rate of 10 per cent and 6 per cent, respectively (Figure 4). New Zealand also increased its minimum wage by an average of 3.2 per cent annually.

Union Territory, where the minimum wage for unskilled workers is a relatively higher value compared to other State minimum wages for the same worker.

Among the second group of countries and State/Union Territories, such as Thailand (US$266), Malaysia (US$266), Fiji (US$258), China (US$258), and Delhi Union Territory in India (US$209), the minimum wage levels are significantly higher than the median but still comparatively lower than those observed in the first group with higher minimum wage levels in the region. In 2015, China had the highest minimum wage in this group (US$244), while Thailand had the lowest (US$228). However, all countries in this second group increased their minimum wage levels to a varying degree during the last four years preceding the crisis, which altered their relative rank by 2019. Between 2015 and 2019, India (Delhi Union Territory), Thailand, Malaysia, Fiji, and China had annual growth rates of 10.5 per cent, 4 per cent, 3.6 per cent, 2.9 per cent, and 1.4 per cent, respectively.

The third group of countries, comprising the majority (i.e., 60 per cent) in the Asia-Pacific region have low minimum wage values, generally below US$200 (See Figure 4). This group exhibits more heterogeneous and a wider range of values. However, Cambodia and Nepal stand out due to the higher average annual increases in their minimum wage levels from 2015 to 2019 by around 10 per cent.

Figure 4. Monthly minimum wages in Asia and the Pacific in US$ actual 2015 and 2019



Source: Author's estimation based on LO minimum wage database for the minimum wage levels, and World Bank's World Development Indicators for the exchange rates.

Among countries in the low minimum wage group (i.e., the third group), we find three sub-categories:

- Countries with minimum wages above US$150 but less than US$200, including Viet Nam (US$151), the Philippines (US$159), Indonesia (US$ 169), Cambodia (US$182), and Papua New Guinea (US$197).
- Countries with minimum wages between US$100 and US$150, including Pakistan (US$128), Lao People's Democratic Republic (US$127), Punjab-India (US$ 124), Mongolia (US$120), Nepal (US$119), and Timor-Leste (US$115).
- Countries with minimum wages below US$100, including Bangladesh (US$95), Myanmar (US$81), Nagaland-India (US$ 65), and Sri Lanka (US$56).

Between 2015 and 2019, 21 out of 22 countries adjusted their minimum wages at least once, resulting in an overall average growth rate of 3.7 per cent in US dollars. The only exception was Timor-Leste, which did not revise its minimum wage during this period. Among the countries that made adjustment - Bangladesh, Fiji, Nagaland – India and Papua New Guinea revised their minimum wage only once; while Lao People's Democratic Republic and Myanmar made two revisions each.

A more accurate way to compare minimum wages is using Purchasing Power Parity (PPP) rather than in US dollars (Box 1). This is because PPP considers the cost of living in a country and adjusts for differences in prices of goods and services, allowing for a more realistic representation of the purchasing power of minimum wage earners. For instance, in countries with a lower cost of living, minimum wage earners may be able to afford essential items such as food, housing, and healthcare. However, even higher minimum wages may not cover these needs in countries with a higher cost of living.

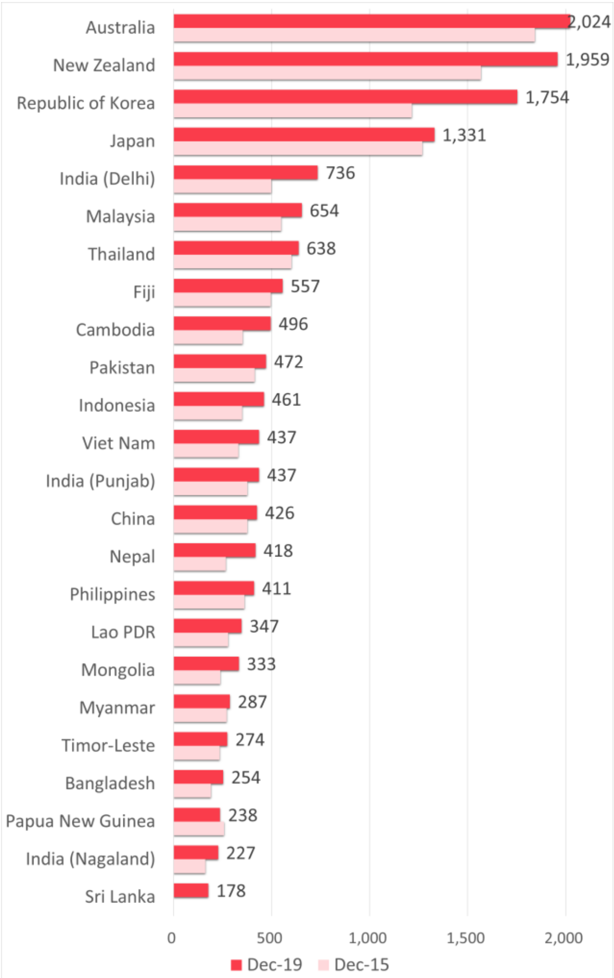
When we factor in the cost of living using Purchasing Power Parity (PPP), the differences in minimum wages between high-income and middle-income countries are reduced. For most high-income countries, their PPP values decrease, as the same amount of dollars yields a lower purchasing power due to the high costs of goods and services prevalent in these countries. For instance, among the 22 countries analyzed in the Asia-Pacific region, the median value of the monthly minimum wage in 2015 was US$358 (PPP). Australia had the highest monthly minimum wage of US$1842 in PPP, while the State of Nagaland in India had the lowest monthly minimum wage of US$162 in PPP (Figure 5).

In 2019, the median monthly minimum wage in the Asia-Pacific region was valued at US$437 at Purchasing Power Parity (PPP). Notably, Australia boasted the highest monthly minimum wage of US$2024, while Sri Lanka had the lowest at US$178 (PPP) (See Figure 5). By using PPP values, the disparities in minimum wage levels between countries are smoothed out, making it difficult to identify clear demarcated groups. Between 2015 and 2019, Republic of Korea, Viet Nam, Cambodia, Malaysia, and Indonesia made significant strides in improving the purchasing capacity of their minimum wages. This improvement is noteworthy, considering that their cost of living was relatively lower compared to countries with similar minimum wage levels in US dollars.

Consistently having the highest minimum wages in both 2015 and 2019 were Australia, New Zealand, the Republic of Korea, and Japan. These countries maintained their position at the top of the minimum wage spectrum in the region. The countries with the lowest monthly minimum wages in 2019 were observed in Sri Lanka (US$178 PPP), the Indian state of Nagaland (US$227 PPP), Papua New Guinea (US$238 PPP), Bangladesh (US$254 PPP), Timor-Leste (US$274 PPP), Myanmar (US$287 PPP), Mongolia (US$333 PPP), and the Lao People's Democratic Republic (US$347 PPP).

Advancing up the ladder, countries such as the Philippines (US$411 PPP), Nepal (US$418 PPP), China (US$426 PPP), the Indian state of Punjab (US$437 PPP), Vietnam (US$437 PPP), Indonesia (US$461), Pakistan (US$472 PPP), Cambodia (US$496 PPP), Fiji (US$557 PPP), Thailand (US$638), Malaysia (US$654 PPP), and the Delhi Union Territory of India (US$736 PPP) made progress in improving their minimum wage levels in PPP terms to a great extent (See Figure 5).

Figure 5. Monthly minimum wages in Asia and the Pacific in PPP$ actual 2015 and 2019



Source: Author's estimation based on LO minimum wage database for the minimum wage levels, and World Bank's Databank for the PPP conversion rates.

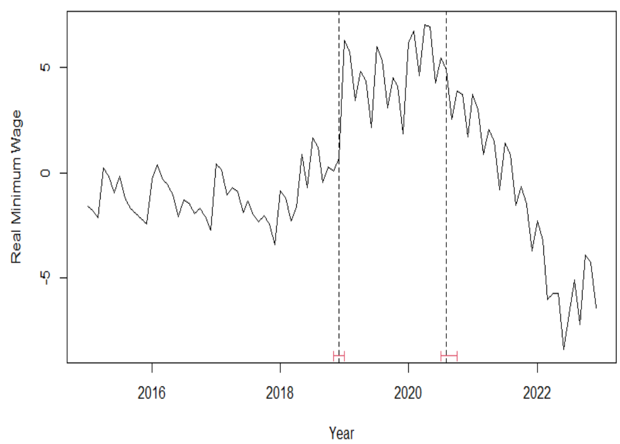
III. Identifying structural breaks in the real minimum wage trend 2015-22

Failure to take timely measures can lead to a decline in the real value of minimum wages, as is evident during the current inflationary situation. As previously discussed, minimum wages play a crucial role in safeguarding the purchasing power of low-paid workers and are instrumental in reducing inequality and poverty (Mansoor and O'Neil, 2022). Therefore, ensuring adequate minimum wage levels is imperative by conducting regular reviews and making necessary adjustments (GWR 2022-23).

In this section, we use a statistical tool, the *Bai-Perron multiple breakpoint test*, to check for multiple structural breaks (See Box 2) in the real minimum wages and to study the effect of recent inflation on the real minimum wages. A structural break in the real minimum wage series at the time when they are falling implies a significant deterioration in the purchasing power of millions of low-paid workers. Identification of any such breaks demands quick action on the part of the policy makers to restore the purchasing power. In fact, the effectiveness of minimum wage policy depends on how proactively policymakers responds to structural breaks in the real minimum wages.

Using this statistical analysis, we identify if there is a structural break in the overall real minimum wage series[8] of the 22 countries in the Asia-Pacific region between 2015 and 2022. It is assumed that the rise in inflation in post-COVID time due to supply chain bottlenecks and the uncertain global economic environment due to the Ukraine war, will result in a fall in real minimum wages, if individual countries don't take timely action. Figure 6 shows the detrend indexed real minimum wage series.

Figure 6. Detrend Indexed Real Minimum Wage with Structural Breaks and Confidence Intervals



Source: Author's estimation of real wage regional composite index based on the ILO minimum wage database for the minimum wage levels of 22 countries of the Asia-Pacific region and inflation (consumer prices) from each countries statistical offices or central banks.

The dotted lines, in figure 6, indicates the month of the structural break, and the red brackets indicates the confidence interval. We have found two structural breaks in our analysis, one corresponding between November 2018 and January 2019) The other corresponds to 2020 (Between July and October). The detrending helps us to see sub-trends in the underlying data.

The first structural break indicates that the real minimum wage index in 2019 had transitioned from an upward trend to a more stable level of purchasing capacity. This implies that countries in the Asia-Pacific region before 2019 had more dynamic minimum wage adjustments that had effectively improved workers' living standards from 2015 to 2019, increasing their minimum wage in real terms.

The second structural break, the most significant one occurred during the late 2020 period, when the impact of COVID-19 struck economies due to supply chain disruptions. The linear decline in the real minimum wage index from this point onwards suggests that the minimum wage adjustments were insufficient to counterbalance the secular rise in the inflation rate in the region. The conflict between Russia and Ukraine exacerbated the perpetuation of this trend in 2022.

Both real minimum wage and inflation data are taken from official country sources such as national statistical offices, central banks and ministries of labour.

▶ Box 2. Testing for structural breaks

In simple terms, a structural break in statistics refers to a significant change or shift in the pattern or behaviour of data over time. It occurs when there is a clear break or discontinuity in the underlying relationship or trend within a dataset. This change can happen for various reasons, such as shifts in economic conditions, policy changes, or other external factors.

Testing for structural breaks is an essential econometric tool as many socio-economic factors can affect - macroeconomic variables. In our case, a global health pandemic, in combination with the Ukraine war, has affected the macroeconomic variable that implies welfare goals aimed to be achieved by minimum wage policy.

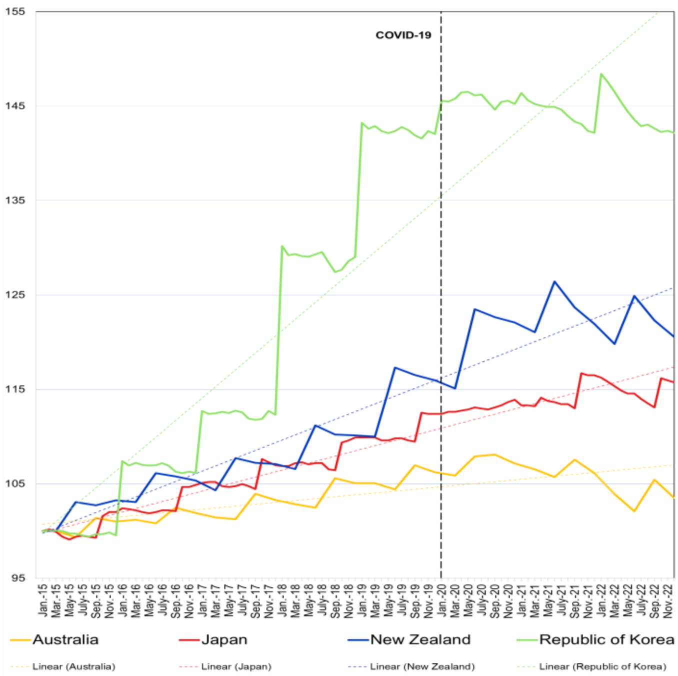
For this purpose, we first generated an indexed minimum wage series by creating a composite real minimum wage index of all 22 countries in Asia and the Pacific, using the Principal Component Analysis (PCA). The PCA is a technique to combine information on multiple indicators in one meaningful composite indicator.

To remove any trend from the indexed real minimum wage series, we have first detrended the real minimum wage series and then conducted Bai-Perron multiple breakpoints test to test for structural breaks in the indexed real minimum wage series between 2015 and 2022 (Bai & Perron, 2003).

IV. Real minimum wages during the crises

High-income countries in Asia and the Pacific, namely Japan, Republic of Korea, New Zealand, and Australia, possess robust labour market institutions with longstanding practices of regular minimum wage adjustments. Moreover, these countries have demonstrated a strong commitment to addressing the economic and social realities within their respective contexts. For instance, figure 7 reveals that the real minimum wages in these four countries have been increasing over the past few years, though at varying rates. In addition, the average trends reveal that Republic of Korea substantially improved real minimum wage before the COVID-19 crisis compared to other countries.

Figure 7. Real minimum wage index for high-income countries, 2015-22 (base year January 2015 = 100)



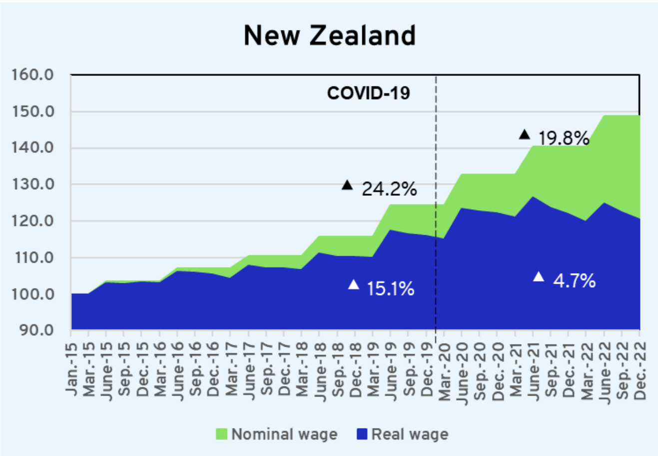
Source: Author's estimation based on the ILO minimum wage database for the minimum wage level and for inflation (consumer prices) data from Australian Bureau of Statistics, Statistics of Japan, Stats N.Z. and Korean Statistical Information Service.

The graph also illustrates how regular and annual adjustments play a vital role in responding to changes in the cost of living and broader economic conditions, aiming to preserve or increase the real value of the minimum wages and share the fruits of progress with low-wage earners. In figure 7, peaks in the graph represent periods of minimum wage adjustments, while the downward dips reflect the impact of rising prices on the purchasing power of the minimum wage. Additionally, the crisis and the unexpected inflation rates have influenced the raising trend in real wages in Japan, Australia, and Republic of Korea, causing a temporary deviation from the established trajectory. Country specific changes in nominal and real wages are analysed below.

Despite Australia's annual adjustments to the national minimum wage, inflation has surpassed wage increases in the years following the COVID-19 pandemic. From 2015 to 2019, the adjustments to the national minimum wage, which applies to approximately 2.2 million workers, resulted in a purchase capacity increase of 6.2 per cent. However, during the post-pandemic period, nominal increases were limited to 1.7 percent in 2020, 2.5 percent in 2021, and 5.2 percent in 2022. Despite these efforts, inflation has outpaced wage increases, resulting in an overall 3.5 per cent improvement in purchasing power since 2015 as of December 2022.

New Zealand has seen a compression of wages at the lower end of the distribution, reinforced by minimum wage and pay equity policies (Maré, 2022). An increase of $1.20, (or 6 per cent), brought the 2022 minimum wage to $21.20 per hour. The regular yearly adjustments during post-COVID period, especially in 2020 and 2021, have continuously increased real wages of low paid workers (See blue line in Figure 7). However, the increase, which came into force in April 2022, substantially improved the real value of minimum wage. Overall minimum wage adjustments in nominal terms resulted in an increase of 19.8 per cent during the post-COVID crisis, and an improvement in purchasing power by 4.7 per cent (See Figure 8). To put this in context, the minimum wage in New Zealand, has increased in real terms by 20.5 per cent more since January 2015.

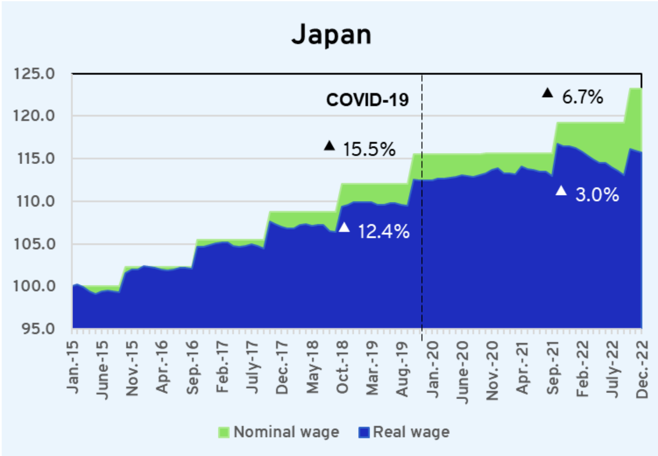
Figure 8. Nominal and real minimum wage index for New Zealand, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Stats NZ.

The average hourly minimum wage in Japan, was increased by ¥31 in 2022, the most significant increase since Japan began recording minimum wages by the hour in 2002. Since 2016, the minimum wage had been raised by at least 3 per cent for four consecutive years (every October). Due to low inflation and occasional deflation, the cumulative nominal increase of 15.5 per cent by January 2020 translated to a notable improvement in buying power, reaching 12.4 per cent (Figure 9).

Figure 9. Nominal and real minimum wage index for Japan, 2015-22 (base year January 2015 = 100)



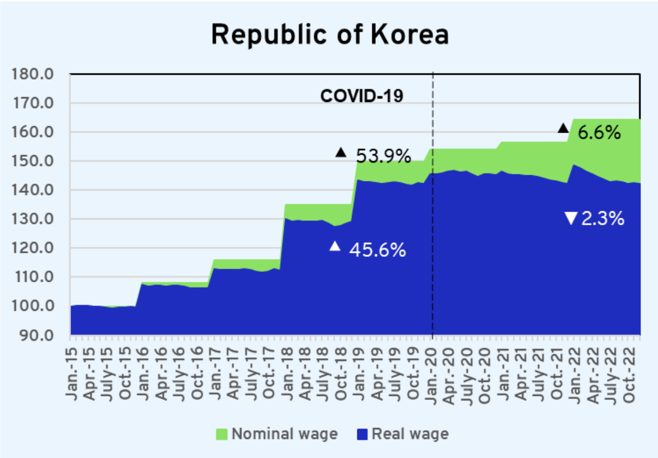
Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Statistics of Japan.

In 2020, due to the impact of COVID-19, the minimum wage increased only by a modest increase of ¥1, resulting in a weighted average of ¥902. However, in 2021, a more dynamic minimum wage policy was reinstated based on the Basic Policy on Economic and Fiscal Management Reform, aiming to reach a national weighted average hourly minimum wage of ¥1,000. Despite a 1.8 per cent decline in real wages adjusted for inflation in 2022, by December of the same year, the real value of the minimum wage stood at 15.7 per cent higher than in 2015.

The national minimum wage[9] in the Republic of Korea has increased by 42.2 per cent in real terms from 2015 to 2022 (Figure 10). However, there have been concerns about the impact of sharp minimum wage hikes on employment numbers and the economy, especially in 2018 (16.4 per cent) and 2019 (10.9 per cent) before the crisis. Business representatives raised most criticisms, and the government introduced measures to support these businesses, including tax breaks and subsidies. After 2019, minimum wage increases were smoothened, and the nominal minimum wage was raised by 2.9, 1.5 and 5.1 per cent, in consecutive years, mainly to countervail the rising cost of living.

[9] While the 2022 minimum hourly wage corresponds to 9,160 won, the monthly minimum wage considers that the worker be paid one or more holidays per week (Labor Standard Act, Art. 55). Therefore, the monthly minimum wage is equivalent to 9,160 * 209 hours - 1,914,440 won. The study used the monthly minimum wage of Republic of Korea.

Figure 10. Nominal and real minimum wage index for Republic of Kores, 2015-22 (base year January 2015 = 100)

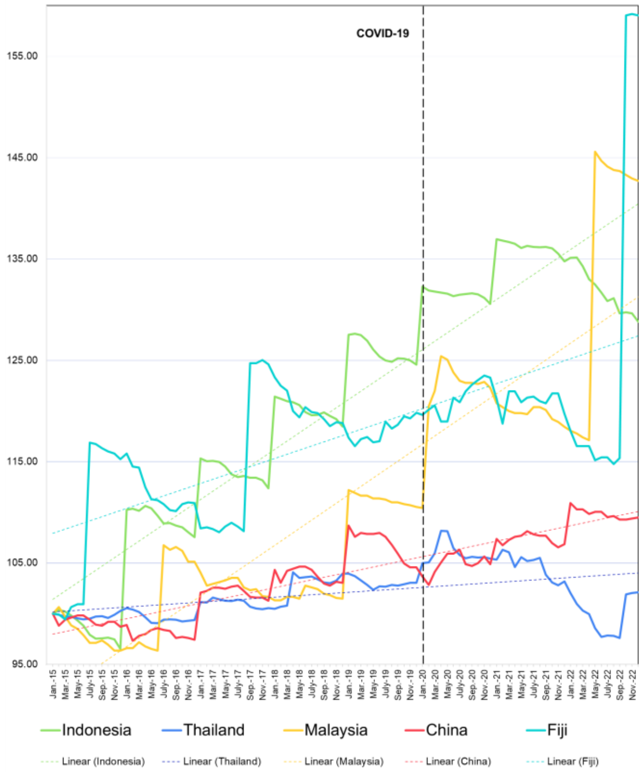


Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Korean Statistical Information Service.

As a result, wage earners saw the highest purchasing capacity peak in May 2020, with an increase of 46 per cent compared to 2015. Overall, Republic of Korea´s more dynamic minimum wage policy during pre-COVID-19 period has enabled minimum wage earners to attain one of the highest living standards compared to other countries.

Shifting the focus to the five upper-middle-income countries in East and Southeast Asia and Pacific countries, Figure 11 shows how real minimum wages have evolved in these countries. The picture depicts these countries' different minimum wage setting patterns and how these countries relaxed their adjustments in the post-crisis at least until mid-2021.

Figure 11. Real minimum wage index for upper-middle-income countries in East and Southeast Asia and the Pacific countries, 2015-22 (base year January 2015 = 100)

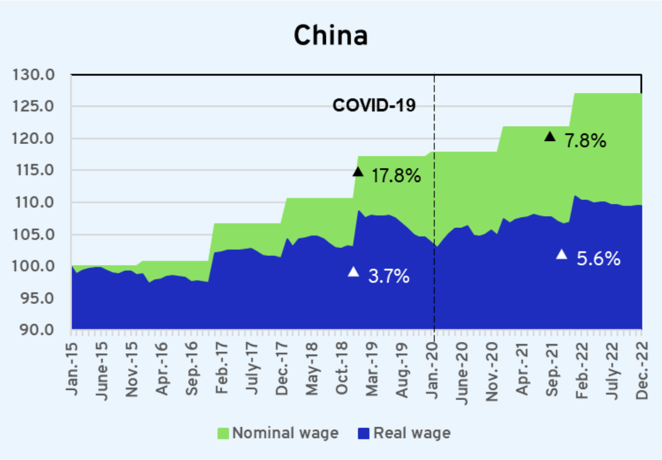


Source: Author's estimation based on the ILO minimum wage database for the minimum wage level and for inflation (consumer prices) data from Badan Pusat Statistik, Trade Policy and Strategy Office Thailand, Department of Statistics, Malaysia, National Bureau of Statistics of China and Fiji Bureau of Statistics.

Among the depicted minimum wage trends in Figure 11, the green line representing Indonesia consistently exhibits a higher peak each year, indicating an improvement in real terms, at least before the crisis when this trend was relaxed. In contrast, Fiji and Malaysia show more irregular adjustments over the time period, with a visible steep increase in 2022, trying to compensate for the cost of living and beyond, substantially enhancing real minimum wage.

On the contrary, China's minimum wage system follows a provincial framework, with adjustments set at different times. In addition to provincial minimum wages, some cities and municipalities in China also have the authority to set their own minimum wages. Nevertheless, examining central tendencies reveals a consistent average annual growth rate of 1.3 per cent in its real median minimum wage over the entire period. This noteworthy progress amounts to an overall increase of 9.5 per cent in value since 2015 (Figure 12).

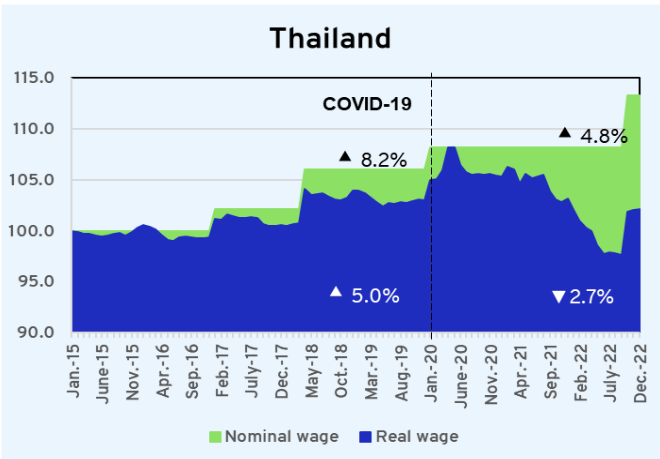
Figure 12. Nominal and real minimum wage index for China, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from National Bureau of Statistics of China.

Thailand also has provincial minimum wages that are adjusted occasionally with recommendations from the National Minimum Wage Commission. Unlike China, minimum wages in Thailand usually come into force for all provinces simultaneously. This occurred in January 2017, April 2018, January 2020, and the latest in October 2022. Although the initial three adjustments preceding the COVID-19 period contributed to a 5 per cent improvement in the real minimum wage (See Figure 13); the most recent adjustment resulted in a nominal increase of 4.8 per cent, which fell short of countervailing the inflationary pressures, notably from 2021 onwards. As a result, real minimum wages experienced a decline of 2.7 percent during the post-COVID period (Figure 13).

Figure 13. Nominal and real minimum wage index for Thailand, 2015-22 (base year January 2015 = 100)

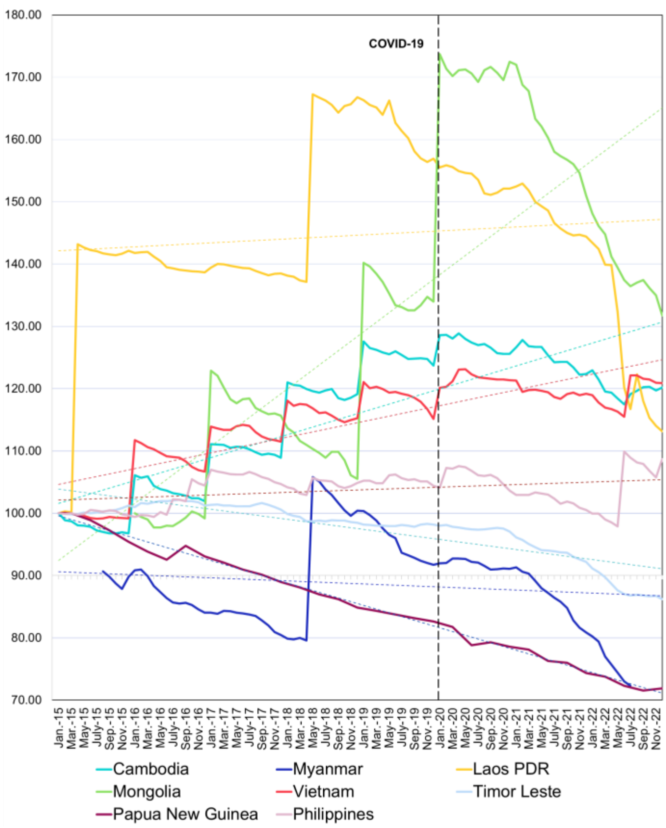


Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Trade Policy and Strategy Office.

Moving to the low-middle-income countries in East and Southeast Asia, figure 14 shows that most of them experienced a decline in the real value of their minimum wages from 2020 to 2022.

This unfortunate trend resulted in a significant loss of purchasing power, ranging from 4 to 44 per cent, directly impacting the livelihoods of countless low-wage workers. Interestingly, the graph also illustrates that before the onset of the COVID-19 pandemic, minimum wage adjustments were more frequent and substantial. These proactive measures in pre-crisis period led to tangible improvements in real minimum wages for many wage earners.

Figure 14. Real minimum wage index for low-middle-income countries in East and Southeast Asian countries, 2015-22 (base year January 2015 = 100)

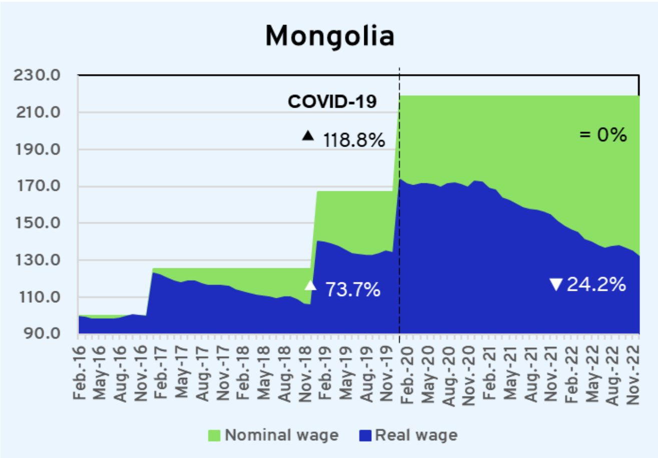


Source: Author's estimation based on the ILO minimum wage database for the minimum wage level and for inflation (consumer prices) data from National Bank of Cambodia, Central Statistical Organization, Bank of L.A.O. P.D.R, Central Bank of Mongolia General Statistics Office, Statistical Department Timor-Leste, National Statistical Office Papua New Guinea, and Philippines Statistics Authority.

Mongolia and Lao People's Democratic Republic have witnessed a significant increase in their nominal minimum wage rates, nearly doubling from 2015 to 2022. It is important to note that both countries lack a regular revision mechanism for minimum wages, leading to irregular and substantial adjustments from time to time.

These variations stem from the presence of high levels of inflation and prolonged intervals between revisions. However, despite these shared characteristics, the two countries have experienced slightly different outcomes in real terms. Mongolia, revised the minimum wage thrice between 2015 and 2020, increasing by 118.8 per cent (Figure 15). As it made no revisions in the post-COVID period, this resulted in substantial reduction (24.2 per cent) of the minimum wage in real terms. However, the minimum wage value at the end of 2022 showed more than 30 per cent higher purchasing capacity than in January 2015.

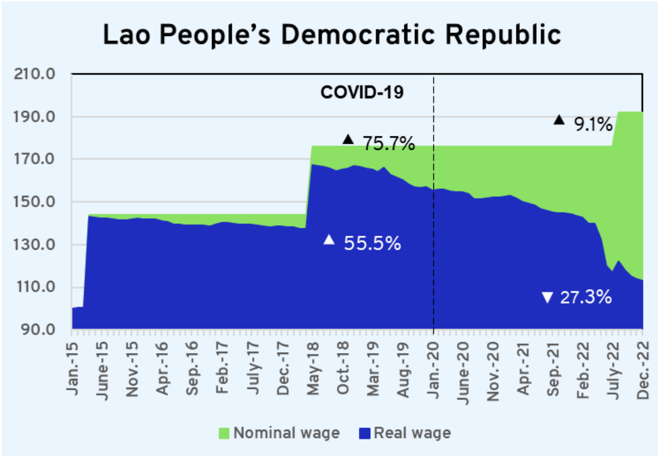
Figure 15. Nominal and real minimum wage index for Mongolia, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Central Bank of Mongolia.

Similarly, Lao People's Democratic Republic has encountered the challenge of lacking a consistent and structured mechanism for establishing minimum wages. The intervals between revisions are both long and irregular, posing difficulties in maintaining the real value of wages. Despite having increased its nominal minimum wage by 75.7 per cent (Figure 16) before the COVID-19 crisis, the impact has been eroded by escalating prices, resulting in a decline in real terms. This trend has further been intensified in 2022, with the revision implemented in August (9.1 per cent) barely making an impact as inflation swiftly eroded its value by the end of the year.

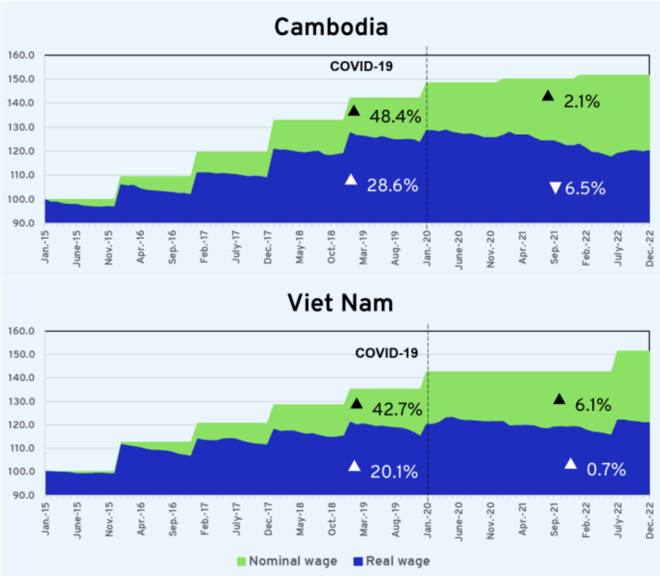
Figure 16. Nominal and real minimum wage index for Lao People's Democratic Republic, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Bank of L.A.O. P.D.R.

Meanwhile, Cambodia and Viet Nam follow a similar trend of minimum wage adjustment on time and value (Figure 17). Both have technical boards that assess their minimum wage revisions every year but the pandemic, reduced the frequency of adjustments. For example, Viet Nam temporarily paused its 2021 revision to provide a respite to the private sector. It then resumed its periodic and dynamic adjustments in 2022, which improved the real value of the minimum wage in July 2022 for all regions. As a result, Viet Nam have increased minimum wage values by 19.8 per cent from 2015 to 2022. Similarly, Cambodia which also has a structured wage adjustment mechanism witnessed an increase in the real value of its minimum wages by 23.4 per cent during the same time period. The main difference between both systems is that while Viet Nam has a universal minimum wage coverage, Cambodia's extends such protection solely to workers in the garment, textile, and footwear sectors. This exclusion in Cambodia leaves a significant portion of the workforce vulnerable to subminimum wages, which have further eroded due to escalating prices.

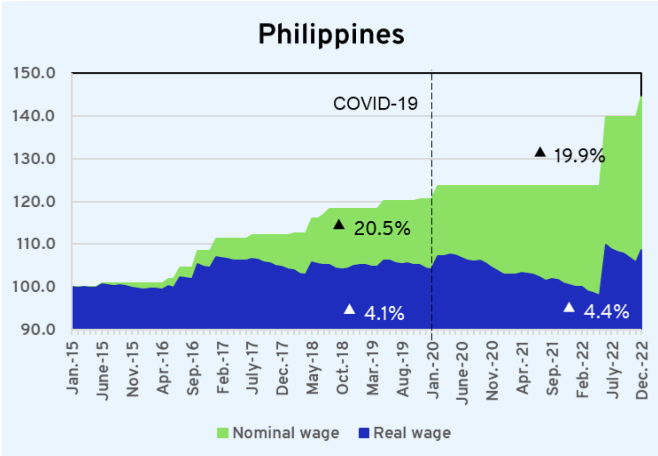
Figure 17. Nominal and real minimum wage index for Cambodia and Viet Nam, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from National Bank of Cambodia and General Statistics Office – Viet Nam.

In the Philippines, minimum wages are set by the Regional Tripartite Wages and Productivity Boards (RTWPBs), which are composed of representatives from the government, employers, and workers. The RTWPBs adjust minimum wages based on various factors, including inflation rates, cost of living, and productivity. The minimum wage law includes workers in non-agricultural industries and specific agricultural sectors, with some exemptions and special rules for certain types of workers, such as domestic workers. Overall, the adjustments to minimum wages in the Philippines have been relatively modest over the past few years, with increases ranging from PHP 2 to PHP 40 per day, from January 2015 to May 2020. As a result, the median minimum wage has seen a nominal increase of 20.5 per cent during pre-COVID period that meant a 4.1 per cent increase of purchasing power (Figure 18). However, some provinces have been more dynamic in adjusting their nominal minimum wages, like regions I and VI, which has meant reducing disparities across regions. For example, the national capital region minimum wage, which holds the higher minimum wage levels, had the lowest increase between 2015-2022. However, in post-COVID period, adjustments were strained until June 2022 where most provinces increased the minimum wage ranging from PHP 16 to PHP 110 per day, to compensate for the rising cost of living.

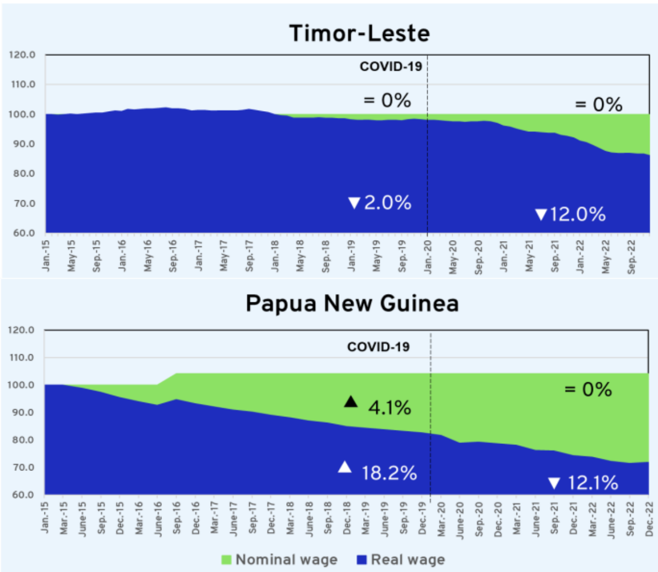
Figure 18. Nominal and real minimum wage index for the Philippines, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from the Philippines Statistics Authority.

On the negative side, three countries (Papua New Guinea, Timor-Leste and Myanmar) have made little effort to maintain the purchasing capacity of the minimum wage. Timor-Leste has had no minimum wage revision between 2015 and 2022; Papua New Guinea and Myanmar had only one minimum wage adjustment in the same period.

Figure 19. Nominal and real minimum wage index for Timor-Leste and Papua New Guinea, 2015-22 (base year January 2015 = 100)

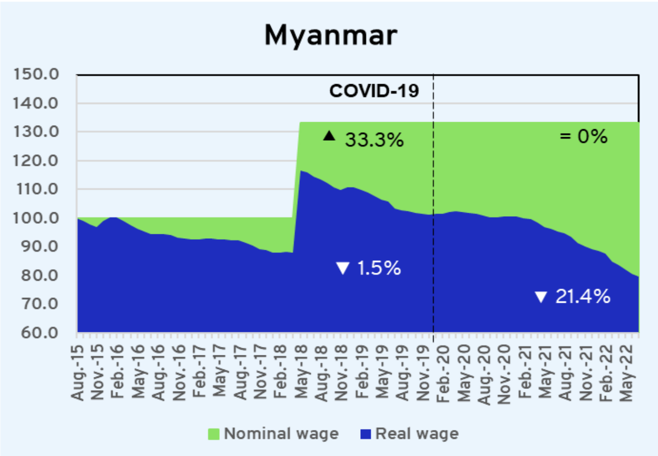


Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Statistical Department – Timor-Leste, and National Statistical Office – Papua New Guinea.

In these last three years, infrequent/lack of adjustments has impacted low-paid workers, reducing their capacity to buy things at a rate of 4.2, 4.6 and 8.7 per cent a year, respectively. It is a worrisome picture that requires actions from policymakers to support workers from falling into poverty and ultimate deprivation. The erosion of minimum wages in Papua New Guinea and Timor-Leste is a result of an inactive adjustment policy and the progressive rising prices, particularly after 2021 (Figure 19).

Myanmar, has a minimum wage system that has not been activated since the military takeover in 2021. While the economy has shown a glimmer of improvement in the past few months, inflation undermines the modest recovery at the household level (OCHA, 2022). From May 2018 to July 2022 (last CPI figure) the minimum wage purchasing capacity has been reduced by a third of its value (Figure 20).

Figure 20. Nominal and real minimum wage index for Myanmar, 2015-22 (base year January 2015 = 100)

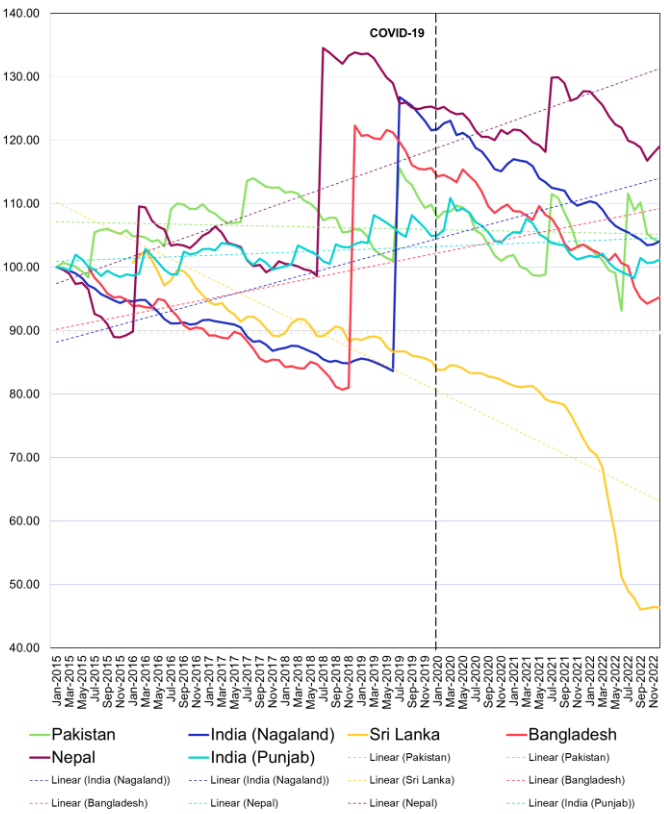


Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from Central Statistical Organization.

In South Asia, we identify minimum wage systems with distinct frequency of adjustment responding differently before and after the COVID-19 crisis (Figure 21). In India, minimum wages in almost all States are indexed every six months to Consumer Price Index (CPI) through the "variable dearness allowance" (VDA) to compensate for changes in the cost of living; in Pakistan, adjustments are done every year; in Nepal minimum wages revision takes place in every two years; in Bangladesh every five years and in Sri Lanka, no regular adjustment mechanism exists. In Sri Lanka, absence of adjustment mechanism coupled with galloping inflationary situation has erased any effort of nominal wage increases to counteract on the cost of living problem.

The changes in real minimum wage values in South Asian region (Figure 21) unveil how vital the frequency of adjustment is to have a timely response in protecting workers' wages.

Figure 21. Real minimum wage index for South Asian countries, 2015-22 (base year January 2015 = 100)



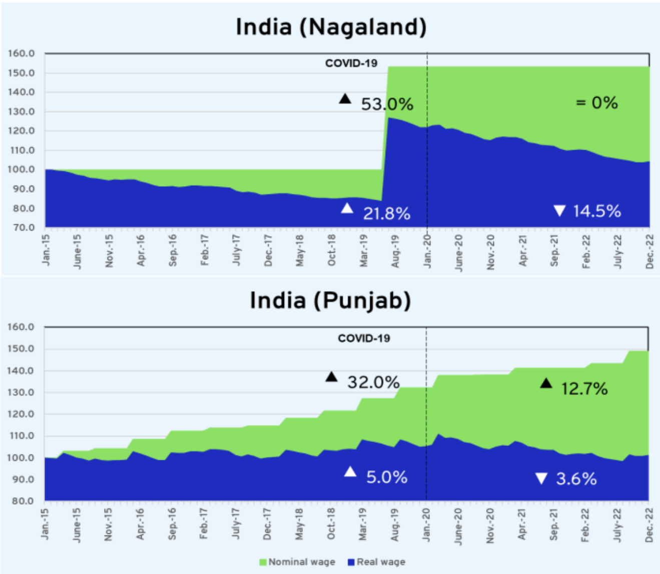
Source: Author's estimation based on the ILO minimum wage database for the minimum wage level and for inflation (consumer prices) data from State Bank of Pakistan, Reserve Bank of India, Central Bank of Sri Lanka, Bangladesh Bureau of Statistics and Nepal Rastra Bank.

In India, each state Government committed to adjust minimum wages in a gap of every six-month following a tripartite agreement reached in 1988. While most state governments follow the agreement, few governments undertake revision in an irregular manner. Among the three Indian states selected for this brief (Nagaland, Punjab and Delhi), the State of Nagaland for instance revised its minimum wage only once during the analyzed period, which took place in 2019. Conversely, the State of Punjab and Union Territory of Delhi implements the VDA every six months, which recalibrates the minimum wage based on changes in the CPI.

While the revision in Nagaland resulted in a nominal increase of 53 per cent in minimum wages (Figure 22), the adjustments in Punjab have been relatively modest. Consequently, both mechanisms have yielded similar outcomes, with minimal growth observed in real minimum wages in both states. However, a more comprehensive approach, combining elements of both systems, may have resulted in a more favourable outcome to offset rising inflation during the post-crisis period.

Such an outcome has been observed in Delhi, where government after a gap of 23 years, first set the basic value of minimum wages in 2017 leading to increase in the nominal minimum wage and corresponding rise in real wages by 40.5 per cent. Subsequent adjustments in every six months have made minimum wages in Delhi the highest in the country. Such measures were largely due to political will and commitment on the part of state government to provide adequate protection to the low-paid workers. Under the state-level Minimum Wages (Delhi) Amendment Act, 2017, enforcement measures have been strengthened by extending rigorous sanctions in cases of non-compliance, a step to make the minimum wage system effective in practice.

Figure 22. Nominal and real minimum wage index for the States of Nagaland and Punjab in India, 2015-22 (base year January 2015 = 100)



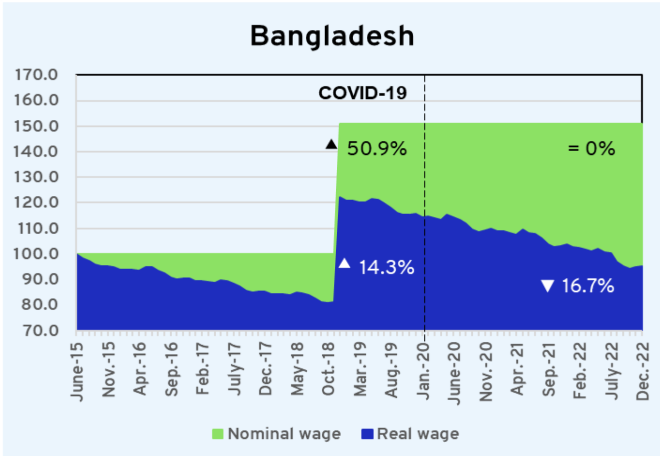
Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from the Reserve Bank of India.

Despite its yearly adjustments, Pakistan has not been able to overturn the rising cost of living that emerged from COVID-19 and its aftermath. Price increases have been exacerbated due to the increasing fiscal pressures and drop in foreign exchange reserves, as import commodity prices, including fuel, have skyrocketed. Structural economic constraints need to be addressed so that nominal minimum wage adjustments turn into effective protection and wage real value, not overturned by a wage-price spiral cycle.

Following the post-COVID crisis, workers in Bangladesh and Sri Lanka have undergone significant changes in their circumstances, primarily due to the impact of inflation. In Bangladesh, the process of determining the minimum wage every five years highlights the urgent need for substantial nominal wage adjustments to effectively address the decline in purchasing power. Despite the considerable 51 per cent increase in the minimum wage in December 2018, which may have posed challenges for many businesses, workers experienced limited improvements in their living standards as a result of continuous price increases. Unfortunately, the real value of the minimum wage in December 2022 is approximately 5 per cent lower than its purchasing power in 2015 (Figure 23), and this downward trend persists.

Over the past three years in Bangladesh, there has been an alarming annual minimum wage reduction in real terms, amounting to a rate of 7.3 per cent.

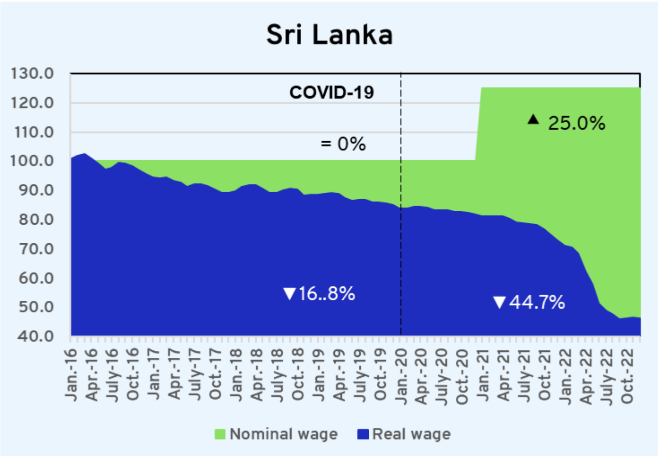
Figure 23. Nominal and real minimum wage index for Bangladesh, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from the Bangladesh Bureau of Statistics.

In 2016, Sri Lanka introduced a national minimum wage for all private sector employees, irrespective of their industry or occupation, except for domestic workers. Nevertheless, the Act falls short of providing a structured mechanism for regular adjustments. It lacks a defined procedure for a comprehensive consultation and fails to establish clear criteria for setting or modifying the minimum wage. As a result, the current framework in Sri Lanka lacks a consistent mechanism for minimum wage adjustments, contributing to the deterioration of the minimum wage value in real terms.

Figure 24. Nominal and real minimum wage index for the Sri Lanka, 2015-22 (base year January 2015 = 100)



Source: Author's estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from the Central Bank of Sri Lanka.

The real minimum wage value in Sri Lanka has more than halved since its introduction in 2016 (Figure 24) and is considered one of the lowest PPP$ and US$ values in the region. Absence of structured adjustment mechanism and inflation caused by multiple crisis (COVID-19 crisis followed by economic crisis) resulted in worst deterioration in the purchasing capacity of the workers in Sri Lanka in recent times, leading to a substantial drop in the standard of living and the risk of falling into poverty as they struggle to make ends meet.

Nepal, on the other hand, fixes two separate minimum wage rates – a general rate and a tea sector rate which is lower. Overall, the country saw a rise in nominal wages in 2018 which led to a significant improvement in real wages. During the COVID-19 crisis, the government had paused its biannual minimum wage adjustment mandated under the new Labour Act in 2019. Due to the subsequent adjustment of rates in 2021, wages have maintained their real value and even slightly rose during the period under observation. However, particularly the tea sector struggles with several compliance issues, including delayed implementation of new minimum wage rates and unattainable plucking targets (Nepal Human Rights Year Book, 2021).

Wrapping up: Winners and losers revealed

In summary, the findings presented in this brief show that in all countries except in Malaysia, China, the Philippines and Fiji, monthly real minimum wage grew at a slower rate during post-COVID, compared to pre-COVID times.

In pre-COVID times, from 2015 to 2019, countries in the Asia and the Pacific, had more dynamic minimum wage revisions. On average a composite real minimum wage index comprised of the 22 countries shows a structural break at the end of 2018 and beginning of 2019, that supports this statement.

Another significant structural break occurred during the late 2020 period, when the impact of COVID-19 struck economies due to supply chain disruptions and inflation started to pick up in some countries, and minimum wage policy relaxed to give way to business recovery. Then later, the Russia and Ukraine conflict, in 2022, exacerbated rising prices, which accentuated a trend in the decline of minimum wages in real terms.

This brief found that fifteen of the twenty-two selected countries in Asia and the Pacific registered negative growth in real minimum wages during post-COVID period. These countries have reduced their minimum wage purchasing power from January 2020 until December 2022 in a range from 2.2 to 44.7 per cent.

These countries in the order of reduction are: Australia (-2.2 per cent), Republic of Korea (-2.3 per cent), Indonesia (-2.6 per cent), Thailand (-2.7 per cent), Pakistan (-3.5 per cent), Nepal (-4.7 per cent), Cambodia (-6.5 per cent), Timor-Leste (-12.0 per cent), Papua New Guinea (-12.1 per cent), Bangladesh (-16.7 per cent), Myanmar (-21.4 per cent), Mongolia (-24.2 per cent), Lao People's Democratic Republic (-27.3 per cent), and Sri Lanka (-44.7 per cent) In the case of India, all three State or Union Territory governments showed a decline in the real minimum wage: State of Punjab (3.6 per cent), Delhi (4.9 per cent) and State of Nagaland (14.5 per cent).

Among the countries that had their minimum wage value reduced in real terms, Timor-Leste, Papua New Guinea, India (State of Nagaland), Bangladesh, Myanmar and Mongolia did not make any revisions of the minimum wage from January 2020 to December 2022. In the remaining countries, the nominal minimum wage adjustments post COVID could not suffice to countervail the rise of inflation.

On the other hand, seven countries namely Fiji (33 per cent), Malaysia (29.2 per cent), China (5.6 per cent), New Zealand (4.7 per cent), the Philippines (4.4 per cent), Japan (3.0 per cent), and Viet Nam (0.7 per cent) increased their minimum wages in real terms.

Lastly, due to continuous rise in inflation and no simultaneous change in nominal minimum wages; monthly real minimum wages for seven countries have fallen below January 2015 levels, which is a matter of serious concern and requires immediate attention. These countries are Sri Lanka (-53.9 per cent), Papau New Guinea (-28.1 per cent), Myanmar[10] (-20.2 per cent), Timor-Leste (-13.8 per cent), and Bangladesh (-4.7 per cent).

V. Policy Recommendations

Minimum wage institutions must actively protect workers from unduly low pay and prevent them from falling into poverty by ensuring that their wages maintain their purchasing power despite inflation. The minimum wage plays a crucial role in guaranteeing adequate wages for low-paid workers and contributes to the reduction of inequality and poverty. It ensures that workers and their families receive reasonable compensation enabling them to meet their basic needs. In the light of rising inflation, which falls hardest on the low-paid workers, adequate minimum wages can safeguard and countervail effects of rising cost of living.

Adequate and regular adjustment of minimum wages would significantly improve the living standards of low-income households. Inflation rates are diminishing the purchasing power of minimum wages, affecting around 186 million wage earners in Asia and the Pacific who earn at or below the hourly minimum wage. It is crucial to adjust nominal minimum wages to keep up with inflation and provide low-paid workers and their families with a decent standard of living. However, in some countries, implementing substantial increases may prove challenging or risky. This is especially true in situations where minimum wages are already comparably high in relation to median wages and where the COVID-19 economic crisis has had a severe impact on employment and labour productivity. Therefore, complementary policy responses in terms fiscal transfer and social security measures need to be in place to protect the living standard of low-income households.

It is imperative to strengthen minimum wage institutions by promoting evidence-based decision-making and fostering robust social dialogue. This calls for political will at the highest level to change the business as usual approach currently plaguing many countries in the region. By doing so, countries can proactively prevent the further deterioration of workers' purchasing power, by setting adequate minimum wages that balances both the needs of the workers and their families and economic factors. This calls to regularly adjust minimum wage rates in response to changing economic conditions, including rising inflation, with full participation of the social partners, in line with the Minimum Wage Fixing Convention, 1970 (No. 131). Institutional frameworks must also facilitate the collection of data, information, and research to ground discussions on evidence and enabling decision making to be more accurate when balancing social and economic dimensions.

Countries must take the necessary steps to extend the minimum wage to all groups of wage earners, including women, youth, domestic workers, homeworkers, and migrant workers, regardless of their contractual arrangements. It is crucial to recognize that many workers currently lack coverage under minimum wage protections. These workers are likely to earn below minimum wage levels, and face a more vulnerable situation with rising prices. An inclusive approach will help ensure fair and equitable remuneration for all workers, promoting social justice and economic well-being in the region.

Taking into account and measuring the needs of workers and their families, to advocate for social justice, the availability of cost-of-living evidence plays a significant role in determining wage adequacy. It helps to inform discussions on whether minimum wages are aligning with or diverging from the cost of living; especially important during periods of rising prices. ILO´s baseline methodology offers a comprehensive approach to estimate the requirements of workers and their families in various country contexts. It utilizes income and expenditure surveys conducted by national statistical offices, to estimate the minimum wage rates and has been tested in various countries.

At the same time, economic factors should also be taken into account when setting minimum wages, including the capacity of many enterprises to pay, as well as broader economic considerations. As reflected in the ILO Minimum Wage Fixing Convention No.131, there is a need to consider both the needs of workers and

[10] The drop in real minimum wage for Myanmar has been estimated until May 2022, as data for CPI is only available up to this period. Therefore, the loss of the minimum wage value is likely to be higher in December 2022. If CPI followed the 2021 trend, then the projected minimum wage purchase capacity loss would be of 25 per cent in December 2022.

their families and economic factors when setting wages. Rising prices, have a direct impact on workers and their families, and also may impact on businesses, especially those who operate in the informal economy. Therefore, it is also crucial to analyse the extent to which setting and adjustment of minimum wages will affect the paying capacity and productivity of firms. If wages increase in the absence of productivity gains, this may further trigger inflation and in turn, hurt employment.

The creation of decent formal wage employment is crucial for achieving a fair distribution of wages and income, as well as promoting sustainable wage growth. While high-income countries have largely recovered their employment levels, with some even surpassing pre-pandemic levels, low- and middle-income economies are still struggling to regain pre-pandemic employment rates. Moreover, informal employment is increasing in these economies, which could have long-lasting negative effects. The Recommendation, 2015 (No. 204), concerning *Transitioning from the Informal to the Formal Economy* offers guidelines to assist low- and middle-income countries in mitigating these challenges.

Macroeconomic policies, especially driven by central banks and monetary authorities need to continue to pursue inflation rate targets for the medium-term. This may involve raising interest rates to address the current inflation crisis and prevent further inflation escalation. While these measure will lead to higher costs of financing and borrowing, impacting consumption and investment, it is expected to slow down inflation and stabilize the economy. However, it is crucial to consider the potential adverse effects of tight monetary policy on specific population segments, particularly low-income households. Additionally, higher interest rates can negatively impact businesses as the cost of financing and investment increases, potentially dampening job creation in the private sector and slowing down economic growth.

Alternative government measures need to be introduced to alleviate the impact on households. The Global Wage Report, addresses measures and examples that include means-tested vouchers for low-income households, temporary reductions in indirect taxation on goods and services, and taxes on oil and gas companies or wealthier households. Additionally, cuts to value-added tax (VAT) can help mitigate the burden of inflation for low-income households and reduce the overall price level. Monitoring and controlling prices of basic essential goods and services that directly impact low-income households. These policies aim to support vulnerable households during the cost-of-living crisis without negatively impacting inflation.

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