

RESEARCH

**REPORTS**

RECOMMENDATIONS

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# COLLECTIVE BARGAINING DEVELOPMENT IN ESTONIA IN THE CONTEXT OF THE ADEQUATE MINIMUM WAGE DIRECTIVE (ART. 4)

INSTITUTE OF  
PUBLIC AFFAIRS

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DEVELOPMENT IN ESTONIA**  
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WAGE DIRECTIVE (ART. 4)

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Social Policy Programme

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## 1. Methodological preface

This survey was compiled using desk research of national sources, including, among others, publicly available statistical databases, legal acts relevant to the sector, strategic documents, and policy documents of social partners and other stakeholders of the national industrial relations system, as well as other publications (sources that do not meet the criteria of scientific publications including e.g. websites, blogs, information on social media profiles).

In addition to the desk research, four interviews were conducted — one with a representative of the Confederation of Trade Unions, a trade union representative, a representative of the Confederation of Employers, and an employee of the state agency in the field of work. The time to conduct interviews was not the most suitable, as negotiations were underway in Estonia to establish a new minimum wage limit, and therefore the people interviewed referred to an ambiguous situation and would have liked to delay the interviews, which the survey schedule did not allow for.

## 2. General characteristics of the labour market and industrial relations system

As a result of the energy and war crisis, employment in Estonia declined in the second half of 2023 and at the beginning of 2024, but moderately, considering the extent of the recession. A labour market that reacts little to a weak economic environment is not just an Estonian phenomenon; this can be observed in many European countries. There is no single explanation for why this is the case, but there are probably several factors behind it. Among others, these include: the delay in accelerating wage growth at the start of the crisis, which made the labour force more favourable to other production inputs, and helped to preserve jobs; corporate profits were preserved at the beginning of the recession, as the decline in production volumes was compensated by rapid price increases; and companies were afraid of labour shortages as the economic situation improved. In 2023, the resurgence of inflation, a decrease in production volumes and, at the same time, strong wage growth led to a decrease in profits. Given that the external environment promises to improve gradually and that the labour market will recover after the economy starts to grow again, it can be expected that employment will continue to decline during the year.

Until mid-2023, employment in the services sector remained stable, but in the second half of 2023, the impact of the recession was felt, with the unemployment rate being higher in the second half of 2023 than in the first. However, employment increased in the second half of the year in the public sector, but also in the financial sector, where high interest rates have increased profitability, and in activities that were still recovering from the coronavirus pandemic. Registered unemployment has been rising since mid-2023, taking into account seasonal factors, and there were more registered unemployed per vacancy in October 2024 than there were at the beginning of 2024. However, this means more competition for jobs and less upward wage pressure. As for different regions, unemployment increased more in Ida-Viru County than elsewhere in Estonia, which is explained by a higher share of the industrial sector. In other Estonian counties, the registered unemployment rate was very uniform.

Average gross monthly wage growth slowed in 2023 thanks to the private sector. In the public sector, wage growth was accelerated at the beginning of 2023 by the exponential increase in the minimum wage for teachers and the collective agreement that entered into force in healthcare. At the beginning of 2024, wage growth in the public sector was expected to slow sharply, as the increase in the payroll of that year's state budget was significantly smaller than in the previous year. Although wage growth in the private sector slowed, it was still buoyant given the low inflation rate and the sustained recession. Labour income, as a share of GDP, has now reached a higher level than it was during the coronavirus crisis. From the point of view of companies, this means an increase in the cost of production, which makes it more difficult to compete in export markets with producers from other countries. A new and tight state budget has also been adopted, which means that redundancies have already begun in public institutions<sup>1</sup>.

## 2.1. Labour market performance

The labour force participation rate in Estonia is high, but despite this, it increased even more in 2023, with it reaching 74.1% (up from 73.6% in 2022). While in 2022 the growth in labour force participation was caused by a recovery from the pandemic decline in 2021, by 2023 labour force participation

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<sup>1</sup> Labour market overview of Bank of Estonia, 2024, Orsolya Soosaar, Katri Urke, Lauri Matsulevitš, Kaspar Oja

exceeded the pre-crisis level. The exception was the decrease in the participation rate of young people in 2023, but this was due to very low participation rates in the 15–24 age group, even though there was a small increase in the proportion of 15–19-year-olds.

As of 2023, there were 153,883 economically active companies and 18,847 self-employed persons in Estonia. According to 2022 data, there were approximately 56,000 people in Estonia who regularly (at least once a week) performed platform work, and about 96,000 who performed platform work once a month. Platform work is the main source of income for about 4% of workers.

The steady increase in the participation of older people in the labour force is the main reason why the labour force participation rate in Estonia has risen to a very high level compared to other countries. Firstly, the participation of Estonian residents aged 55–59 in the labour market has grown as high as that of 25–54-year-olds and now amounts to 90%. Secondly, Estonian residents aged 60–64 are currently participating twice as actively in the labour market compared to the beginning of the century. The labour market participation rate of the population aged 65–74 has also almost doubled.

In the last quarter of 2023, the average full-time gross monthly salary amounted to 1,906 Euro and its median was 1,578 Euro. Some factors support wage growth, one of them is raising the minimum wage: an increase of 10.9% of the average salary in 2023 and 13.1% of the average salary (to 820 Euros) in 2024<sup>2</sup>

As a result of the collective wage agreements that entered into force, wage growth accelerated in the first half of 2023 in the administrative areas of local governments and the state. The fact that wage growth accelerated in the first quarter in local government institutions was primarily a reflection of the 23.9% increase in the minimum wage for teachers. Furthermore, in the second quarter, it was due to a 20% increase in the minimum hourly wage for healthcare workers in the state's administration. However, the growth rate of wages in the private sector, especially in Estonian-owned private companies, slowed during 2023<sup>3</sup>.

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2 Labour market overview of Bank of Estonia, 2024, Orsolya Soosaar, Katri Urke, Lauri Matsulevitš, Kaspar Oja

3 Estonian Trade Unions Confederation

According to Statistics Estonia, as of 31 January 2024, according to the population register, there were slightly fewer than 26,000 Ukrainian citizens aged 15–74 with temporary protection, which includes residency permits. Of these, around half were in employment, while the unemployment rate of them was 25%<sup>4</sup>.

According to data from the Tax and Customs Board, the number of people who have declared their wages in the general government sector in Estonia remained almost unchanged in the second half of 2023, while employment in the private sector decreased<sup>5</sup>.

The number of people who have declared their wages in companies registered in the commercial register decreased in the second half of 2023 and at the beginning of 2024 due to the economic downturn. According to data from the Tax and Customs Board, in January 2024 the number of wage earners in the manufacturing industry decreased by approximately 4,900 people compared to January last year. In addition to manufacturing, employment has also fallen in real estate and construction, which have been affected by high interest rates and market activity; transport and warehousing, the state of which directly depends on the performance of the industrial sector and the activity of foreign trade; and in administrative and ancillary activities, which include activities of workforce rental companies.

Among the branches of the services sector, the number of wage earners decreased by 1% in comparison to the last quarter of 2023<sup>6</sup>, which is in line with the decline in retail sales volumes.

Overall, however, the economic downturn has had a moderate impact on employment so far, and future developments in labour demand will depend largely on how the economy recovers.

From Statistics Estonia's Vacancy and Labour Mobility Survey<sup>7</sup>, the vacancy rate, i.e. the ratio of vacancies to the number of vacancies and filled jobs,

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4 Statistics Estonia

5 Estonian Tax and Customs Board

6 Statistics Estonia

7 Statistics Estonia

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has decreased since the first half of 2022. According to this study, there were a total of 10,620 vacancies in the second half of 2023. By activity, the number of vacancies decreased in the manufacturing industry, trade, administrative and auxiliary activities, as well as in education.

## 2.2. Industrial relations at a glance

Compared to, for example, neighbouring Finland, it can be said that employees are not organised in Estonia to protect their interests, with trade unions only enrolling about 7% of workers as members<sup>8</sup>. In Estonia, employees often seek protection with work-related issues, but there is no general tendency to form associations.

Estonia has one main cross-sectoral trade union confederation—the Confederation of Estonian Trade Unions (EAKL), which was founded in 1990 as the country was breaking away from the Soviet Union. It consists of 15 branch trade unions that unite employees of state and local government institutions, intellectuals, healthcare workers, transport workers (incl. road, rail and air transport), industrial workers (energy, light and food industry, wood processing, metalwork), journalists and those employed in the service sector (postal, communications, trade, service, hotel and cleaning sector workers, etc.).

To found a union it only requires five employees, but it is necessary to have 500 members to participate in collective bargaining. Collective agreements on working conditions are an important part of employment relationships, but unfortunately, collective agreements are not very common in Estonia. As the representative of a state institution explained, in Estonia the majority of employees' working conditions are regulated by the Employment Contracts Act, but in the Nordic countries, collective agreements play a more important role. In Estonian law, the highest law in employment relations is the Employment Contracts Act, while collective agreements are regulated by the Collective Labour Dispute Resolution Act. No fundamental changes have been made to these laws, but according to the interviewed member of the Confederation of Trade Unions, the existing law would need to be updated primarily based on how few collective agreements have been concluded in Estonia. There are no sectoral wage restrictions, but the general minimum

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8 The European Trade Union Institute



wage applies. This reduces the impact of collective agreements, as well as the motivation of employees to engage in their conclusion.

Employers are represented by the Estonian Employers' Confederation, which represents all of the biggest industrial associations and most of the large businesses in the country. Both directly and through industry associations, they represent over 2,000 companies employing more than 250,000 people.

Article 29 of the Constitution of the Republic of Estonia provides that everyone is free to belong to unions and federations of employees and employers. Unions and federations of employees and employers may assert their rights and lawful interests by means which are not prohibited by law. The conditions and procedures for exercising the right to strike are provided by law. The main legislative act regulating the right to strike in Estonia is the Collective Labour Dispute Resolution Act (CLDRA), which determines the procedure for resolving collective labour disputes and lockouts and the calling and organising of strikes. The Trade Unions Act provides for the right of trade unions to organise strikes, while the Civil Service Act, as the main source of regulation in the public sector, prohibits civil servants from striking.

### 2.3. Collective labour agreements

The conclusion, validity, termination and content of a collective agreement are regulated in Estonia by the Collective Agreement Act.

The right to conduct collective bargaining in an enterprise is vested in a trade union or an authorised representative of employees (e.g. an employee representative). The employees' representative has the right to engage in collective bargaining if there is no trade union with the employer or there are no union employees.

Collective agreements can also be concluded between trade unions and employers' associations or confederations. A third party cannot be a party to the contract. It is possible to agree on wages, holidays, the procedure for laying off employees, as well as vocational and educational opportunities. It is also possible to agree on issues related to the collective agreement, for example, the automatic extension of the collective agreement to be concluded, the conditions for amending it, or the organisation of supervision of performance.

Concluded collective agreements are mandatory to be registered within 15 working days in the database of collective agreements maintained by the Ministry of Social Affairs.

#### 2.4. Opinions on the state of collective bargaining

A member of the trade union of educational workers believed that collective agreements are not very common in the Republic of Estonia, since the trade union movement is still in the early stages. In general, a person is satisfied if he receives an employment contract at all with the minimum guarantees specified in the Employment Contracts Act. The fact that a collective agreement can negotiate, for example, one week of paid leave compared to that provided for in the Employment Contracts Act is a huge victory for a trade union that has negotiated on behalf of its members. Directive (EU) 2022/2041 of the European Parliament and of the Council encourages countries to increase the share of collective agreements, i.e. the opportunities for workers to defend their interests and benefits. A member of the Confederation of Trade Unions confirmed that it is important to move towards this goal.

The existence of a collective bargaining agreement — even if not all the benefits sought were received (and this is generally never possible) — is always better than the absence of that agreement. The very existence of a collective agreement shows the employer that behind the employee, as an individual private person, there is a protective organisation — a trade union. The trade union member interviewed also found that the conclusion of collective agreements promotes economic development by improving and integrating working conditions in enterprises and harmonising competitiveness. The more people in the ranks of the trade union, the stronger this trade union will be in the negotiations. Explaining this to the Estonian people, who believe that the trade union movement is often associated with the legacy of the Soviet era, is a big and difficult job.

### 3. Collective bargaining dynamics in recent years

In 2021, the government adopted amendments to the Collective Agreement Act, which provide for stricter rules for extending the terms and conditions of collective agreements.

Since that change, only those trade unions (that include 15% of the employees from that field of activity or have at least 500 members) or the employers' union (whose members employ at least 40% of the employees of the respective field of activity) can agree on the extension of the collective agreement. This change, in the opinion of all interviewees, has complicated the situation of small trade unions and professional associations (for example, a trade union of care workers), which find it difficult to sign 500 members, and therefore the impact of their actions is inevitably very small, which in turn does not encourage new members to join.

## 4. State of play after the adoption of the directive

### 4.1. Discussions and legal preparations

Due to the directive, the Estonian government, as well as trade unions and employers, face major challenges. The challenge is not just that the Estonian minimum wage lags behind the indicative benchmarks commonly used at an international level, such as 60% of the gross median wage and 50% of the average gross wage, but it is also, maybe even more so, to promote cross-sectoral collective bargaining on wage conditions. Estonia is one of the last in the European Union in terms of workers covered by collective agreements with only 19%<sup>9</sup>. Consequently, Estonia faces the challenge of promoting collective bargaining.

The government's work plan includes drawing up a strategy to promote social dialogue.

It has been suggested that for Estonia the directive would mean quite a big change. The implementation of the directive will mean a significantly faster increase in the minimum wage than usual. The directive also provides for measures to ensure that workers have effective access to minimum wages. In other words, it requires wider information on workers' rights, more effective labour inspection, and the prosecution of unlawful employers.

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<sup>9</sup> Müller T., Vandaele K. and Zwysen W. (2024). Wages and collective bargaining: the Adequate Minimum Wages Directive as a game changer, in Piasna A. and Theodoropoulou S. (eds.) (2024) Benchmarking Working Europe 2024, ETUI and ETUC.

<sup>10</sup> Sabina Trankmann

The government has taken a position on the directive that it is important to ensure that people in Estonia and throughout the European Union earn decent wages wherever they work. The role of the social partners in wage negotiations is also important and support is continued for their freedom to negotiate wages independently, as is currently the case. In Estonia, the minimum wage is agreed upon by the representative organisations of employers and trade unions. The government considered that this should continue in the same way within the framework of the proposed directive.

The draft directive distinguishes between countries with statutory minimum wages and countries with collective agreement-based minimum wages. “In Estonia, the amount of the minimum wage is agreed upon by the social partners, who conclude a national minimum wage as a result of negotiations between them. Therefore, it is right to treat Estonia as a country with a collective agreement-based minimum wage,” stated the Estonian government<sup>10</sup>.

#### 4.2. Any trade union’ activity dedicated to promoting/ familiarising the audience with the directive

The chairman of the Confederation of Trade Unions has said that now trade unions must strive for more collective bargaining and higher wage increases through them.

“Wages must ensure a decent life. This means that the minimum wage must also give people the opportunity to feel like a full member of society — to entertain, to go to the theatre and cinema,” he said, adding that in member states with high minimum wages, minimum wage limits are often agreed through collective bargaining.

Cross-sectoral collective bargaining coverage must be increased to at least 80% so that extended collective agreements at the branch level cover the wages of most workers. To achieve this goal, the state, employers and trade unions need to engage in a social dialogue, during which a national action plan will be drawn up based on the agreements concluded<sup>11</sup>.

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10 Estonian Ministry of Social Affairs

11 Estonian Trade Unions Confederation

## 5. Action plan

There is no discussion of a plan to increase the scope of collective bargaining between the government and the social partners, but there is a plan to promote social dialogue at the government level. Currently, other minimum wage negotiations are underway between the Confederation of Trade Unions and the Confederation of Employers. This year, the minimum wage for full-time work is 820 Euros per month and the minimum hourly wage is 4 Euros and 86 Cents. Trade unions believe a 12% increase in the minimum wage would be reasonable. A goodwill agreement has been concluded with trade unions and employers until 2027, by which time the minimum wage should increase to 50% of the current average wage.

The chairman of the Employers' Confederation said that this agreement was concluded during a period of economic growth, and at the moment he is not very optimistic about its execution.

## 6. Summary and conclusions

In Estonia, the trade union movement is weakly developed, compared to, for example, the Nordic countries, and is accompanied by a strong image of the legacy of the Soviet era, since during that period trade unions were active, although they did not perform the usual tasks of trade unions. As a result, the involvement of workers in trade unions is extremely troublesome, and this creates a circular effect: trade unions with a small number of members are weak and have little impact, employers do not understand the role of trade unions, for example, in supporting occupational safety and harmonising the competitiveness of companies, and often have a negative attitude towards those who join trade unions, seeing dissatisfaction with the employer and confrontation. Under these circumstances, trade unions face a difficult task in increasing their popularity, increasing their membership, increasing collective bargaining coverage, and acting as serious partners in social dialogue.