

Germany – Significant increase in minimum wage

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The Minimum Wage Commission today proposed raising the minimum wage in two steps to €14.60 by the beginning of 2027. This is less than the target set in the coalition agreement. However, the minimum wage would again increase more sharply than collectively agreed wages. This is likely to raise wage costs, thereby pushing up inflation and, at the same time, worsening the long-term prospects of low-skilled workers on the labor market.

Minimum wage to rise to €14.60 at the beginning of 2027 ...

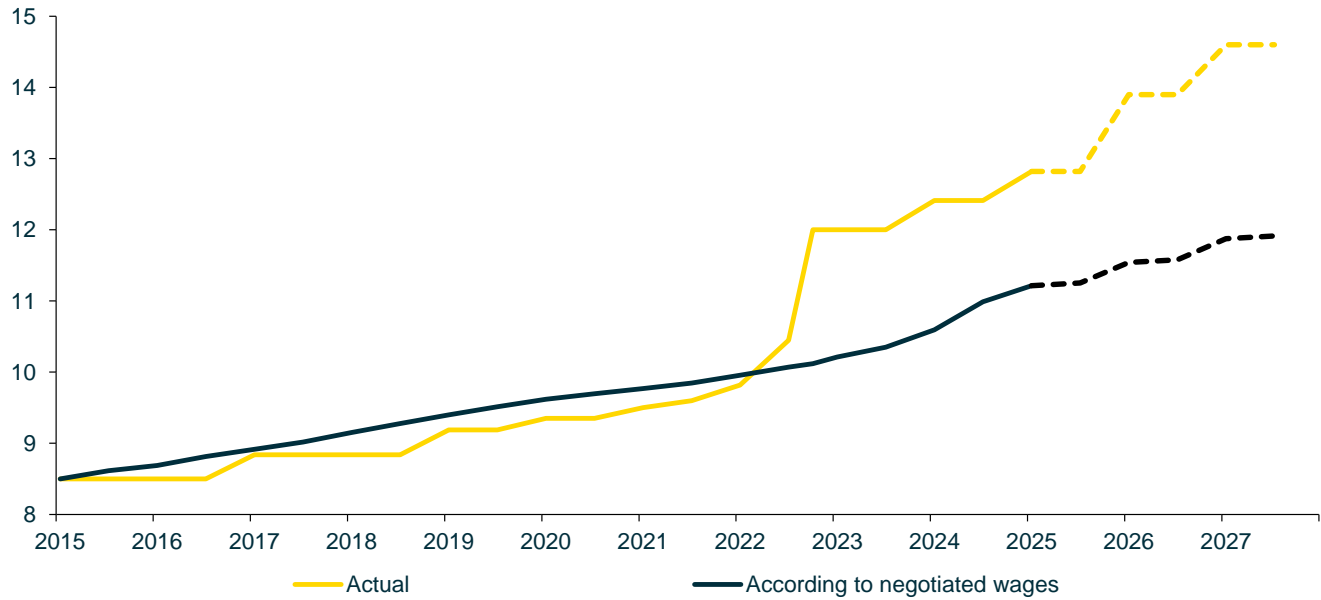
The Minimum Wage Commission today proposed raising the minimum wage in two steps over the next two years: to €13.90 per hour at the beginning of 2026 and to €14.60 per hour at the beginning of 2027 (Chart 1). So far, this is only a proposal that still has to be implemented by the Federal Ministry of Labor. However, since the decision was apparently unanimous in the commission, meaning that the union representatives also agreed, this is likely to be a formality, even though the SPD had been calling for a minimum wage of €15 until recently.

Chart 1 - Minimum wage rises significantly

Minimum wage per hour in euros, actual development and development if the minimum wage had followed the negotiated wages (excluding one-off payments and



ancillary agreements); dotted line: proposal by the Minimum Wage Commission and Commerzbank forecast



Source: Sozialpolitik-aktuell.de, Bundesbank, Commerzbank Research

... and thus probably once again faster than collectively agreed wages

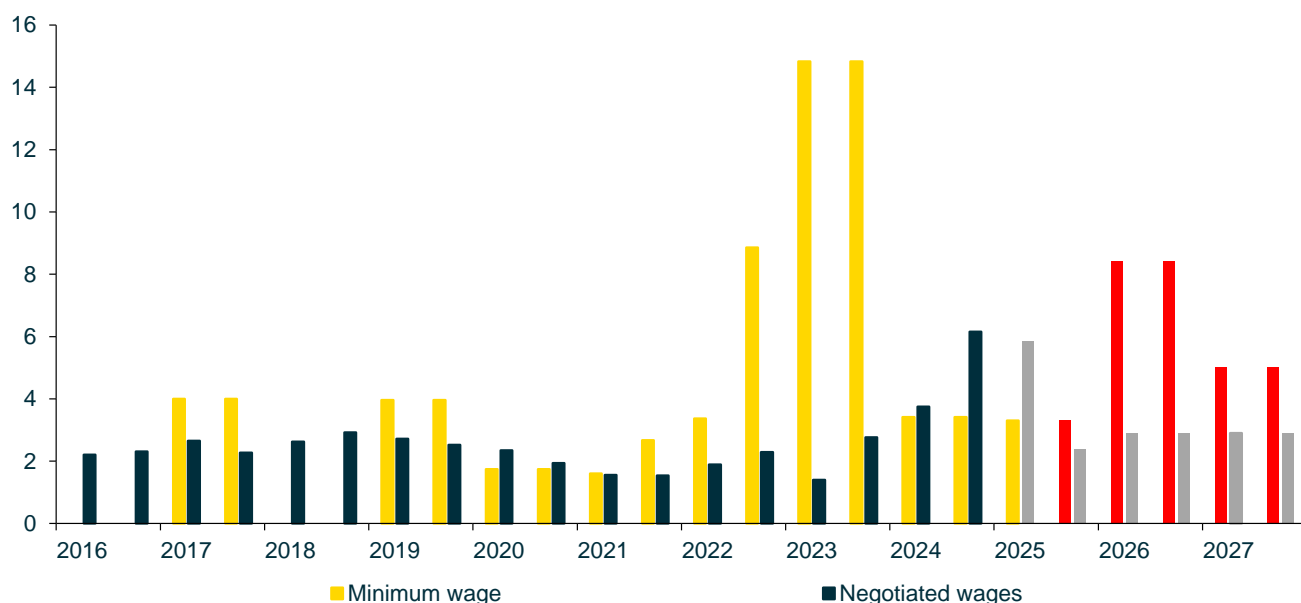
This means that the minimum wage is likely to rise faster than collectively agreed wages in the next two years, for which we expect an increase of just under 3% for 2026 and 2027. This partly offsets the fact that collectively agreed wages (excluding one-off payments



and ancillary agreements) have recently risen slightly more than the minimum wage (Chart 2). In the slightly longer term, however, the minimum wage is continuing to rise faster than collectively agreed wages.

Chart 2 - Minimum wage will probably increase stronger the negotiated wages

Minimum wage and collectively agreed wages (excluding one-off payments and ancillary agreements), change compared with previous year in percent, half-year figures, from 2025H1 Proposal by the Minimum Wage Commission or forecast by Commerzbank



Source: Sozialpolitik-aktuell.de, Bundesbank, Commerzbank Research

Stronger rise in wage costs pushes up inflation

The sharp increase in the minimum wage is likely to cause wage costs for companies to rise further, especially as it will also have an impact on wages that are just above the new lower limit. If the economy picks up again in the next two years, as we expect, companies are likely to pass on these higher costs to their customers, which is another reason why consumer prices are likely to rise slightly more strongly again.

Fewer opportunities for low-skilled workers?

Since the introduction of the minimum wage, there has been debate about the extent to which it affects the employment opportunities of low-skilled workers. So far, most studies have concluded that no such effect is apparent. However, stronger wage growth, which is being driven by sharp increases in the minimum wage as described above, reduces Germany's price competitiveness. In addition, unemployment has risen sharply recently, particularly among low-skilled workers. This may also be due to the large number of refugees entering the labor market. However, their urgently needed integration into the labor market will certainly not be made easier by a higher minimum wage.



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