

Box VI-1 New wage settlements

Last December, a new one-year wage settlement was signed by the national member organisations and the largest unions within the Icelandic Federation of Labour (ASÍ) and the Confederation of Icelandic Employers (SA). Only half of ASÍ's member organisations approved the contract in the January vote. Thereafter, the State Conciliation and Mediation Office proposed a supplement to the unions that rejected the December agreement. The proposal was approved, and the wage settlements of the unions that approved the original December agreement were amended accordingly. The public sector has concluded similar agreements with most of its counterparties. Settlements with individual public and private sector unions have entailed larger wage increases, however. Wage negotiations have yet to be concluded with many groups, including air transport workers and some municipal and State workers.

The supplement to the December agreements provides for the following:

- Vacation and December bonus payments will increase by a total of 32,300 kr., or 40% year-on-year.
- The contract period was lengthened from the period originally provided for in the December agreement: in general, by two months for the private sector (to end-February 2015) and by four months for the public sector (to end-April 2015).

It is assumed that the direct increase due to the supplement is in line with the December agreement. The cost of the contract with its supplement is estimated at 3.2% (2.8% due to general wage increases and 0.4% due to an additional increase in the lowest wage rates) as of the date the settlements took effect, either 1 January or 1 February, depending on when they were approved.¹ The employer contribution to employees' education and training funds increased by 0.1%. The cost effect of the increase in the vacation bonuses is estimated to be similar to a 2% wage increase as of 1 January 2015. This is intended as a counterweight to the lengthening of the agreement. The same applies to the 20,000 kr. one-off payment to public sector employees in April 2015. This increase is comparable to 2% higher wages for two months longer than the term of the private sector wage agreements. This provision could be an indication that the contracting parties consider a 2% increase the likely outcome of next year's negotiations.

The contracting parties assume that other wage changes in connection with the implementation of the agreements this year will be small enough to keep the rise in the Statistics Iceland wage index below 4% between December 2013 and December 2014. If this materialises, it will entail an additional pay increase of ½ a percentage point over and above the negotiated pay rises. In view of the fact that negotiated pay increases have accounted for an average of 60% of changes in the wage index since 1990, this could be an underestimation, particularly because some settlements provide for much larger overall pay increases.

1. The unions that approved the settlements effective 1 February received a special one-off payment of 14,600 kr. The cost effect of this payment is estimated to be the same as if wages had increased by 3.2% on 1 January.