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HOW MUCH CAN THE MINIMUM WAGE BE INCREASED? A SECTORAL ANALYSIS OF THE 80,000–90,000 AMD RANGE

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Abstract: The statutory minimum wage in the Republic of Armenia has been 75,000 AMD (gross) per month since January 2023, which is below the officially adopted subsistence level of the consumer basket. This study quantitatively assesses the direct financial burden and impact distribution of three realistic scenarios of increasing the minimum wage to 80,000, 85,000 and 90,000 AMD. The analysis is based on the log-normal distribution applied to data on 784,964 employees registered in the formal sector provided by the Statistical Committee of the Republic of Armenia. The study reveals the structure of beneficiaries by NACE Rev.2 sectors and forms of ownership. Statistical data indicate that about 45% of the additional costs are borne by the state, primarily through salaries in the education sector. At the same time, it is documented that after the imposition of a 20% flat income tax, the disposable net wage remains below the poverty line in all three scenarios considered. The results obtained justify that a gradual increase in the minimum wage should be accompanied by a targeted reduction in the tax wedge at the bottom of the income distribution.

Keywords: minimum wage, wage distribution, Kaitz index, official sector, consumer basket, tax impact distribution, tax wedge.

JEL classifiers: J38, J31, I38, H24

Research aims: To quantify, by sector and ownership, the workers who would benefit from raising the minimum wage to 80,000, 85,000 or 90,000 AMD, and to estimate the direct fiscal cost to the state at each step.

Research novelty: The study is the first to fit a formal-sector log-normal wage distribution and use it to evaluate both the sectoral incidence of these thresholds and their adequacy against the consumer basket.

Introduction

The statutory minimum wage in Armenia is set at 75,000 AMD (gross) per month as of January 1, 2023. As of 2023, the official consumer basket used as the poverty line was estimated at around 80,000 AMD (ArmStat 2026), which continues to grow in line with inflation. The minimum threshold set by the legislation is below the subsistence level even before taxes and other mandatory payments are levied. Moreover, low-income groups overwhelmingly bore the burden of the decline in real purchasing power during the inflation period that followed in 2022 (Tavadyan, 2025). The need to revise the minimum wage is regularly raised at the state and public levels, and the current political agenda focuses not on a sharp doubling of the rate, but on ensuring realistic increases in the near term. Local studies have already considered the possibility of applying a sector-specific minimum wage (Mayilyan and Torosyan, 2025), but the current policy is based on the application of a single nationwide threshold, which is the subject of this analysis.

According to international experience, the impact of the minimum wage on the employment rate is directly determined by the Kaitz ratio. In the low bite range, when the ratio of the minimum to the average wage is less than 0.40, the negative effects of employment reduction are usually minimal and statistically indistinguishable from zero (Manning, 2021, 4). Meanwhile, when the Kaitz ratio exceeds 0.50, the negative effects become systematic and regular, across countries and methodologies (Neumark, 2018). The three thresholds considered in this analysis are located in the lower range. Due to this circumstance, the risks of employment reduction are relegated to the background, and the issue of financial burden distribution appears at the core of the analysis: in particular, in which sectors and at whose expense the additional payments are actually provided.

This paper considers three related scenarios of monthly wages of 80,000, 85,000 and 90,000 drams. This is fully consistent with the historical pattern of minimum wage increases in Armenia, where gradual increases in the range of 5,000 to 13,000 drams have been the norm since the 2014 reforms. The last such adjustment was recorded in January 2020, from 55,000 to 68,000 drams (+24%), followed by a smaller increase to 75,000 drams (+10%) in January 2023.

The work is empirical in nature. This paper calculates the number of employees affected, the monthly and annual indicators of the additional wage fund, as well as the distribution of the financial burden between the public and private sectors for the three considered thresholds. Using the NACE Rev.2 classification, the sectoral concentration of beneficiaries is revealed. Then, the

change in disposable net wages is estimated after deducting the 20% flat income tax (FIT) and the 5% mandatory funded pension contribution, and the result is compared with the consumer basket for 2023. The analysis is accompanied by a numerical tool that allows policymakers to apply the same model of wage distribution and tax calculations (Tvyal 2026)[1].

Data and methodology

The empirical analysis was conducted on the basis of monthly data on formal sector wages as of January 2026 published by the Statistical Committee of the Republic of Armenia (ArmStat 2026, 2026a). The database includes data on 784,964 employees with registered employment contracts, disaggregated by NACE Rev.2 19 sectors and forms of ownership (state and non-state). The database does not include self-employed persons, informal sector workers, as well as citizens working in the agricultural sector without a registered contract. According to estimates by the International Labor Organization, informal employment in Armenia in 2024 amounted to about 32% of total employment, while in 2017 it was 47.6% (ILO 2024). The poorest segments of the labor force are concentrated in this unrecorded group; as a result, the latter are excluded from any minimum wage regulation in the formal sector.

The log-normal distribution, $W \sim \mathrm{LogNormal}(\mu_\ell, \sigma)$, was applied to the grouped statistical data. The aggregate shape parameter of the distribution was obtained from the ratio of the mean and median, using the following formula:

[1] *The tool is available at the following addresses: https://tvyal.com/wages*

$$\sigma_{total}=\sqrt{2\left(ln\acute{W}-ln\grave{W}\right)}=\sqrt{2(ln293{,}309-ln219{,}736)}\approx 0.76$$

resulting in a mean of 293,309 drams, a median of 219,736 drams, and a mode of 123,326 drams for the aggregate distribution of the formal sector. The assumed wage Gini coefficient, which is $2\Phi\left(\sigma_{total}/\sqrt{2}\right)-1\approx 0.41$, falls squarely within the range of 0.37–0.44 recorded for the Armenian labor market in the post-transition period (World Bank 2011; Tavadyan and Ghazaryan 2022).

Applying a single σ_{total}=0.76 indicator across all sectors of NACE Rev.2 would lead to the identification of between-sector and within-sector dispersions. According to the general law of dispersion:

$$\sigma_{total}^2=\sigma_{between}^2+\sigma_{within}^2$$

Based on the set of averages grouped by sector of the Statistical Committee of the Republic of Armenia, $\sigma_{between}\approx 0.51$ is obtained, from which the intra-sector average calculated with employment weights is $\sigma_{within}\approx 0.56$. The shape parameters of individual sectors fluctuate around the base indicator of 0.56, based on the imputed sdlog values obtained from the administrative data of Georgia, since the latter is considered the closest structurally similar model (Geostat 2024). In particular, 0.325 is recorded in the public administration sector, 0.425 in the education and healthcare sectors, 0.575 in retail trade and manufacturing, 0.675 in construction, reaching up to 0.825 in finance, and 0.925 in information and communication sectors. In the case of sectors J and K (ICT and finance), the upper tail of the empirical distribution is formed by a power law, rather than a log-normal decay. Due to this circumstance, a Pareto component with a parameter of the form

$\alpha \approx 2.5$ has been added to the log-normal body in the part above the 90th percentile (Atkinson, Piketty and Saez, 2011). The complete calibration matrix and the tax calculation mechanism used are published using the "Armenian Wage Statistics" tool (Tavadyan, 2026a).

In the case of the proposed MW minimum wage threshold, the monthly wage fund increase is calculated using the following formula:

$$\int_0^{MW} (MW - x)\, f(x) dx = MW \cdot \Phi(z_1) - \mu \cdot \Phi(z_2)$$

where:

$$z_1 = \frac{ln(MW) - \mu_\ell}{\sigma}, z_2 = \frac{ln(MW) - \mu_\ell - \sigma^2}{\sigma}$$

The integral was calculated analytically for each sector of the economy, using the sectoral parameters (μ_ℓ, σ) and the number of employees, after which the results were aggregated. Data for the public and private sectors were calculated separately. Since the three considered thresholds are in the lower part of all sectoral distributions, the results obtained are independent of the Pareto upper part adjustments.

The net salary was calculated based on the tax structure in force in Armenia in 2026: a 20% flat income tax applied from the first dram of the salary, a 5% employee funded pension contribution (matched by a 5% state contribution for gross salaries not exceeding 500,000 drams), the mandatory health insurance contribution introduced in 2026 (4,800 drams per month for gross salaries below 500,000 drams; 10,800 drams above), and a Military Insurance Fund (Stamp) contribution of 1,000 drams per month for

gross salaries below 1,000,000 drams (IMF 2023). At the minimum wage level, the last two components together result in a monthly withholding of 5,800 drams.

Financial value of impact at three thresholds

Table 1 presents the number of employees paid below each proposed threshold, the monthly and annual additional wage fund, the latter's share in the total formal sector wage fund, and the assumed Kaitz coefficient (minimum/average ratio).

Table 1. Costs of increasing the minimum wage compared to the current threshold of 75,000 drams

Source: *Author's calculations based on data from the Statistical Committee of the Republic of Armenia (ArmStat 2026, 2026a) and a log-normal distribution model.*

Recommended minimum wage (drams)	Employees below the threshold	Monthly increment (drams)	Annual increment (drams)	% of labor pool	Kaitz (min./median)
75,000 (current)	61,716	—	—	—	0.34
80,000	72,095	334 million	4.01 billion	< 1%	0.36
85,000	82,973	722 million	8.66 billion	< 1%	0.39
90,000	94,273	1.16 billion	13.98 billion	≈ 1%	0.41

As a result of increasing the minimum wage from 75,000 to 80,000 drams, about 10,400 workers will cross the new threshold, which will require an additional expenditure of 4.0 billion drams per year. Each subsequent increase of 5,000 drams covers an additional 10,900 to 11,300 new beneficiaries, and the cumulative annual additional expenditure rises non-linearly: it reaches 8.7 billion drams at 85,000 and 14.0 billion drams at 90,000. This

convex profile immediately indicates a sharp increase in the log-normal density in the lower percentiles of the wage distribution.

All three Kaitz coefficients remain below the threshold of 0.50, above which, according to international literature, only regular consequences of employment reduction appear. The threshold of 90,000 drams provides a Kaitz coefficient of 0.41, which remains within the low impact range described in the studies (Manning 2021; Neumark 2018). Therefore, no significant negative employment effect is predicted at the macroeconomic level, although it is necessary to take into account the margin of error reservations for the most vulnerable sectors discussed below.

Compared to the total wage bill in the formal sector, the cost of providing the 80,000 and 85,000 dram thresholds is less than 1%, and in the case of 90,000 drams it reaches about 1%. The burden on the state through public sector wages is disproportionately large. In particular, in the case of the 90,000 dram threshold, 558 million drams (45%) of the additional monthly wage bill is covered by public employers, and 688 million drams (55%) by the private sector, with shares computed over the sum of the public and private subsector fits.

Although the public sector provides only 28% of formal employment, it bears 45% of the additional costs. In fact, this is due to the high concentration of low-paid workers in the education and social services sectors.

Beneficiary structure

Table 2 presents the sectoral distribution of the impact of the 90,000 AMD threshold, sorted by the decrease in the absolute number of beneficiary employees.

Table 2. Sectoral impact under the proposed threshold of 90,000 AMD

Source: *Author's calculations based on data from the Statistical Committee of the Republic of Armenia (ArmStat 2026, 2026a). For the sake of brevity, sectors with fewer than 850 beneficiaries are not presented. Public administration (NACE O), finance (K), mining, utilities, transport, agriculture and health together account for the remaining headcount.*

NACE	Sector	Employees below 90 thousand	% of sector	Annual expenditure (drams)	Ownership
G	Wholesale and retail trade	13,123	9.5%	1.80 billion	Private
P	Education	12,593	9.9%	1.58 billion	Highly public
S	Other support services	7,120	23.9%	1.05 billion	Private
C	Manufacturing	6,875	7.6%	929 million	Private
I	Accommodation and catering	6,796	16.8%	924 million	Private
F	Construction	3,860	10.6%	554 million	Private
N	Administrative and support activities	1,985	8.0%	269 million	Mixed
M	Professional Services	1,893	6.7%	265 million	Private
J	Information and Communication	1,096	2.4%	158 million	Private
L	Real Estate	974	11.0%	135 million	Private

The two largest sectors of the formal labor market in Armenia provide over a quarter of the beneficiaries at the 90,000 dram threshold (25,716 of 94,273 workers): wholesale and retail trade

(G) and education (P). The sectors have almost equal numbers of beneficiary workers, but their ownership structure differs dramatically. Workers in the trade sector paid below the minimum threshold are almost exclusively employed in the private sector, while the education sector is predominantly funded by the state. The additional annual expenditure of 1.58 billion drams for the education sector will be directly financed by the state budget, mainly directed towards increasing the salaries of teaching assistants, technical and administrative staff, as well as low-paid positions for teachers.

The highest sectoral vulnerability in percentage terms was recorded in other services (S, 23.9%), as well as accommodation and catering (I, 16.8%). In these sectors, regardless of the small absolute number of employees, the mandatory requirement will severely limit the remuneration of a significant part of the workforce. International research on the implementation of the minimum wage shows that these are the sectors most prone to the transition to the shadow economy, the reduction of working hours, and the expansion of the practice of "envelope" wages, when the legally established minimum threshold approaches the market wage (Khamis 2013, 480; Gindling 2024).

The public administration sector (NACE O) is essentially unaffected. The salary scale of 41,247 civil servants working in state and local government bodies starts at a level significantly exceeding 90,000 drams, and the calculated distribution for this sector (with the most compressed σ=0.325 indicator in the economy) has a negligible mass in the range below the specified threshold. Therefore, in the case of the observed range, the political approach

of identifying the increase in the minimum wage with the increase in the salaries of civil servants is empirically refuted. The state's additional financial burden is actually formed at the expense of the salaries of pedagogical and school technical staff, and not civil servants (Younger and Khachatryan 2017).

To summarize, the main beneficiary of the 80,000–90,000 dram adjustment is the low-wage earner working in education, hospitality, or retail. This structural distribution should be reflected in policy formulation and presentation. Moreover, informal sector workers, who make up about 32% of total employment, are methodologically excluded from this adjustment. The lowest-paid citizens of Armenia, who are disproportionately concentrated in informal employment, subsistence agriculture, or unregistered self-employment, do not benefit from the revision of the formal sector minimum wage, regardless of its size.

Net salary and poverty line (consumption basket)

The political goal of minimum wage revision is usually defined as aligning the minimum threshold with the subsistence level. Ensuring the implementation of this goal in the three scenarios considered is largely determined by the tax wedge between gross and net wages. Table 3 presents the relevant calculations.

Even at the maximum threshold of the studied range, the net income of a person receiving the statutory minimum wage remains about a quarter lower than the official consumer basket in 2023, and the gap with the inflation-adjusted basket in 2026 remains even

wider. Here, the main limiting factor is the 20% flat income tax calculated from the very first dram of income, with the new mandatory health-insurance contribution adding a further 4,800 drams to monthly deductions for all workers in the 18–65 mandatory bracket. For example, the Republic of Moldova, which targets a Kaitz coefficient of 0.50, has been applying an effective 0% income tax at the minimum wage level for a long time (ILO 2020).

Table 3. Net salary size for each threshold compared to the consumer basket

Source: *Author's calculations based on the tax structure of the Republic of Armenia for 2026 (Tavadyan 2026a). Mandatory health insurance (4,800 drams per month for gross salaries below 500,000) was introduced in 2026; the Stamp contribution is 1,000 drams per month at this gross range.*

Gross salary (drams)	Income tax 20%	Pension 5% (employee)	Health. + Stamp.	Net salary (drams)	Net vs. 2023 basket (~80,000)
75,000 (current)	15,000	3,750	5,800	50,450	–37%
80,000	16,000	4,000	5,800	54,200	–32%
85,000	17,000	4,250	5,800	57,950	–28%
90,000	18,000	4,500	5,800	61,700	–23%

This is the main reason why in that economy an ambitious increase in the minimum wage actually leads to a proportional increase in net wages. No such equivalent mechanism is envisaged in the Republic of Armenia.

Focusing solely on the gross minimum wage rate cannot solve the problem of poverty among workers in Armenia. A revision of the wage threshold that maintains the current income tax burden would actually provide a smaller benefit to the target group than implied by the gross rates. Applying an earned-income tax credit or a lower rate on the first 100,000–150,000 drams of monthly wages would significantly increase the effectiveness of the policy, providing a significantly lower financial burden for the state budget than further increases in the gross wage rate.

Conclusion

The minimum wage set at a gross level of 90,000 drams would cost about 1% of the total wage bill in Armenia and would cover about 94,000 formal sector workers. Moreover, the Kaitz coefficient would remain within the low impact range accepted in international literature. Therefore, no systemic risks of employment reduction at the macroeconomic level are predicted under the three scenarios considered.

A disproportionate share of the financial burden falls on the state: it covers 45% of the additional salary fund, almost exclusively through the education sector. In fact, this is a review of the salaries not of civil servants, but of educators and school technical staff, which is precisely what should become the focus of public discussions.

In all three thresholds, the main beneficiary is the low-paid worker in education, retail, hospitality or other service sectors. The sectors with the highest percentage of vulnerability (hospitality and other service sectors) are also those most prone to informal

mechanisms; therefore, enhanced monitoring is required as the wage threshold is raised.

The reform does not address workers in the informal sector, who make up about a third of total employment, including the poorest segments of the workforce. An isolated minimum wage policy cannot completely eliminate the problem of poverty among the working population in the Republic of Armenia.

Under the current 20% flat income tax, none of the considered thresholds aligns net wages with the consumer basket in 2023. A comprehensive approach, combining a moderate increase in gross wages with a targeted reduction in the tax wedge at the bottom of the income distribution, will ensure much higher efficiency than a mechanical increase in gross wages alone.

To analyze the impact of alternative thresholds by sector and ownership form, policymakers can independently estimate costs and net wage changes using the publicly available "Armenia Wage Statistics and Tax Calculator" tool on the tvyal.com/wages platform (Tvyal 2026a).

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Ի՞ՆՉ ՉԱՓՈՎ ԿԱՐՈՂ Է ԲԱՐՁՐԱՑՎԵԼ ՆՎԱԶԱԳՈՒՅՆ ԱՇԽԱՏԱՎԱՐՁԸ. 80,000–90,000 ԴՐԱՄԻ ՄԻՋԱԿԱՅՔԻ ՈԼՈՐՏԱՅԻՆ ՎԵՐԼՈՒԾՈՒԹՅՈՒՆ

Աղասի Թավադյան
Հայաստանի պետական տնտեսագիտական համալսարան
տ.գ.թ., դոցենտ

Բանալի բառեր – նվազագույն աշխատավարձ, աշխատավարձի բաշխվածություն, Կայցի ինդեքս, պաշտոնական հատվածծ, սպառողական զամբյուղ, հարկային ազդեցության բաշխվածություն

Հայաստանի Հանրապետությունում օրենքով սահմանված նվազագույն աշխատավարձը 2023 թվականի հունվարից սահմանվել է ամսական 75,000 ՀՀ դրամ (համախառն) մակարդակում, ինչը ցածր է պաշտոնապես ընդունված սպառողական զամբյուղի կենսապահովման շեմից: Սույն հետազոտությունում քանակապես գնահատվում են նվազագույն աշխատավարձի՝ մինչև 80,000, 85,000 և 90,000 դրամ բարձրացման երեք իրատեսական սցենարների ուղղակի ֆինանսական բեռն ու ազդեցության բաշխվածությունը: Վերլուծությունը հիմնված է ՀՀ վիճակագրական կոմիտեի կողմից տրամադրված՝ պաշտոնական հատվածում գրանցված

784,964 աշխատողի տվյալների նկատմամբ կիրառված լոգ-նորմալ բաշխվածության վրա: Հետազոտությամբ բացահայտվում է շահառուների կառուցվածքն ըստ ՏԳՏԴ (NACE Rev.2) ոլորտների և սեփականության ձևերի: Վիճակագրական տվյալները վկայում են, որ հավելյալ ծախսերի շուրջ 45%-ը կրում է պետությունը՝ գերազանցապես կրթության ոլորտի վարձատրությունների միջոցով:

Միաժամանակ, ցուց է տրվում, որ 20% համահարթ եկամտային հարկի գանձումից հետո տնօրինվող զուտ աշխատավարձը շարունակում է մնալ աղքատության շեմից ցածր՝ դիտարկվող բոլոր երեք սցենարների դեպքում: Ստացված արդյունքներով հիմնավորվում է, որ նվազագույն աշխատավարձի աստիճանական ավելացումը պետք է զուգորդվի եկամուտների բաշխվածության ստորին հատվածում հարկերի նպատակային կրճատմամբ:

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