



2017 was a year of robust earnings growth in Hungary

In the period January-November 2017, on average earnings increased markedly in Hungary. Growth has been fuelled by several factors. The wage agreement concluded in November 2016 and the strong impetus it had given to the economy coupled with pressing labour shortages caused wages to rise dynamically. In the observed period, the earnings gap between the poorest and the wealthiest counties has slightly narrowed. Experts predict that this year's earnings growth rate will be similar to the increase seen in 2017.

According to the latest data published by the Hungarian Central Statistical Office (KSH), in November 2017 gross and net earnings averaged HUF 323 000 and HUF 215 000, respectively, constituting growth of 13 percent year-on-year.

In the month of November, the highest gross earnings were paid for financial and insurance activities (HUF 550 000) and information and communication (HUF 502 000), while the lowest gross earnings were registered in the field of human healthcare and social services (HUF 204 000) as well as accommodation and catering services (HUF 194 000).

Consumer prices grew by 2.5 percent compared to November 2016, and thus earnings in real terms were up by 10.3 percent year-on-year.

In the period January-November 2017, the compound average of monthly gross and net average earnings was HUF 294 000 and HUF 196 000, respectively, which shows an increase of 12.8 percent year-on-year.

As the amount of family tax allowance was raised for families with two children, the monthly net earnings in these families increased by another HUF 8000.

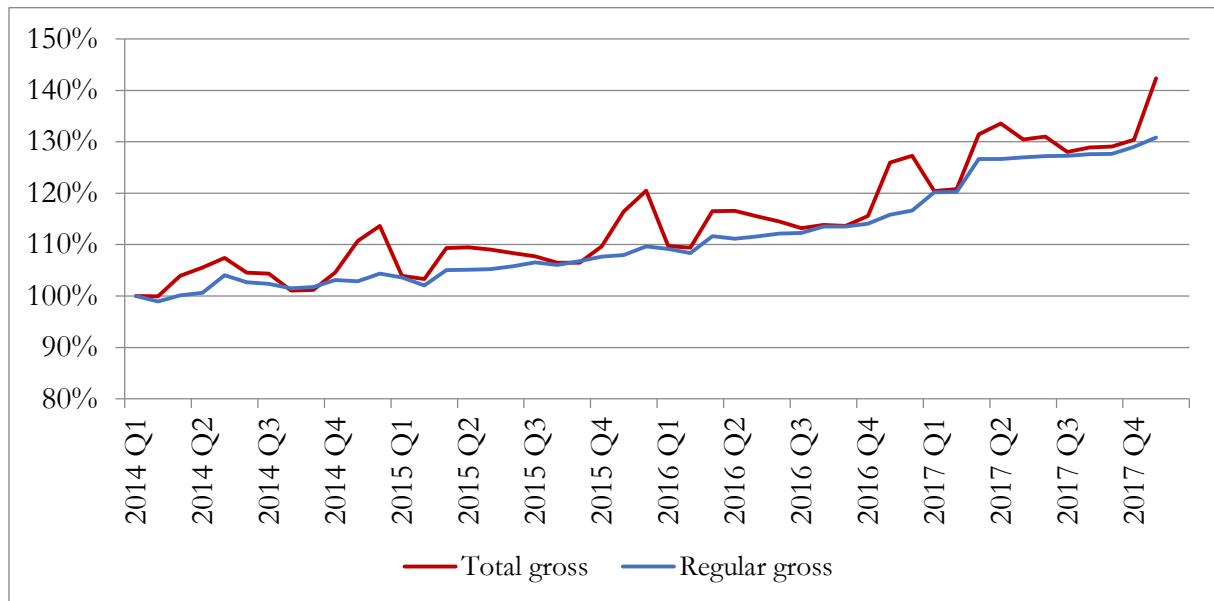
In the period January-November 2017, the public sector saw the largest year-on-year earnings growth, 16.1 percent, while earning growth averaged 11.4 percent at enterprises (with at least five employees) and 10.8 percent at NGOs.



MINISTRY
FOR NATIONAL ECONOMY

As Minister for National Economy Mihály Varga has pointed out, the above-10 percent real earning growth means that people who earned their living from work had extra income, on average, worth more than one month of earning last year.

Fig 1.: Change in total gross and regular gross earnings (2014 Q1 = 100%)



Source: Hungarian Central Statistical Office (KSH)

The analysis of earning growth **by counties reveals that in Q1-Q3 2017** people employed in Budapest had the highest monthly average gross earning, HUF 370 000, 27 percent higher than the national average. On the other end of the scale was Szabolcs-Szatmár-Bereg County with an average gross earning of HUF 203 000, equalling 70 percent of the national average. However, this was also one of three counties where earnings growth (15.6 percent) exceeded the country-wide average whereas the rate of earnings growth was the lowest in Budapest (11.1 percent).

In November 2016, a **six-year wage agreement** was signed by the Government, employer and employee associations. The deal initiated a substantial increase in the lowest wage categories: a 15-percent hike for the minimum wage (for unskilled workers) and a 25-percent hike for the guaranteed minimum wage (for skilled workers), besides a 5-percentage point reduction of payroll taxes in the year 2017. For the year 2018, the agreement stipulated another wage hike round: 8 percent for the minimum wage and 12 percent for the guaranteed minimum wage, as well as an additional payroll tax reduction of 2 percentage points. The reduction of the rate of corporate



MINISTRY
FOR NATIONAL ECONOMY

income tax from the former 10 percent and 19 percent to a flat rate of 9 percent was another pillar of the deal.

In the Hungarian economy, the **issue of retaining labour force has become just as important as maintaining the number of jobs**, both critical factors for sustainable economic growth. The key to solving this issue lies in accelerating the convergence of real wages with the wage levels of advanced EU member states. The increase in the lowest wage categories has been having a ripple effect on wages higher up the job hierarchy. Acute labour shortages observed in certain sectors have been also pushing up wages. The Government has provided assistance for enterprises to raise wages and fund wage hikes from the savings resulting from lower corporate income tax. Rising wages have been boosting consumption which in turn has been fuelling growth of the entire economy.

In the course of 2017, Hungary benefited from the global economic upturn. **Several sectors within the national economy have managed to expand**. Growth has been underpinned, besides the favourable international economic environment, by the massive amount of EU funds of the programming period 2014-2020 funnelled into the economy.

In the period January-October 2017, the volume of industrial output grew by 5.4 percent year-on-year. This exceeds the EU's average pace of growth and it is a very good growth figure within the V4. In the initial ten months of 2017, the volume of construction sector output rose by 28.4 percent year-on-year. The employment rate in the age group of 20-64 years was 73.2 percent, and thus the indicator has edged closer to the 75 percent target set for the year 2020. This figure is already higher than the EU average, and within the region only the Czech Republic has a significantly better indicator.

Besides the wage agreement, earning hikes for certain public sector jobs and the employees of state-owned public utility companies had a major effect on the earning trend.

Gross and net earnings are expected to gain some 10 percent again this year, thanks to those measures of the aforementioned wage agreement which are scheduled to be introduced this year as well as to persistently high labour shortages. The economic outlook continues to be



MINISTRY
FOR NATIONAL ECONOMY

favourable: the growth trend is predicted to remain in place, and this may generate further employment growth.