

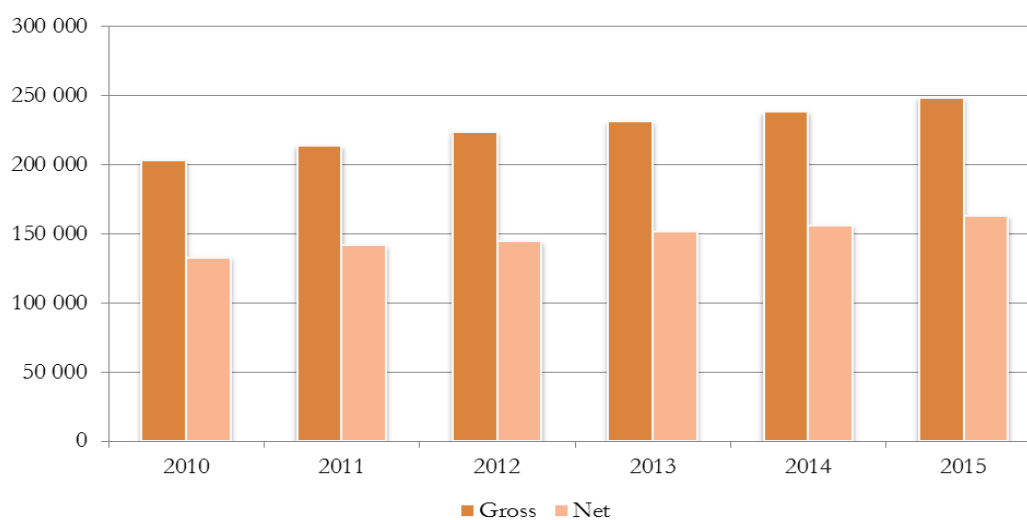
### *Real wages on the rise for some four years in Hungary*

According to the latest data published by the Hungarian Central Statistical Office (KSH), wages in real terms have been rising for the 46<sup>th</sup> consecutive month in Hungary. This steady increase is mainly attributable to tax reductions, low inflation and Government measures (primarily the Job Protection Action). In November 2016, a six-year wage agreement was concluded, a potential driver of further wage growth.

KSH data show that in January-October 2016 average gross and net wages were up by 6 percent and 7.6 percent, respectively, and thus the disposable income of families gained on average one month of extra wage. In the initial ten months of 2016, gross wages averaged HUF 258 300. Significant wage growth was observed in both the private and public sectors. The fact that entitlement requirements for family tax allowances were eased considerably in 2016 has had a major impact on net wages. Income from wages rose by 5.9 percent year-on-year. Minimum wages in Hungary rose from HUF 73 500, a figure effective as of 1 January 2010, to HUF111 000, up by 51 percent, by 1 January 2016.

The average gross and net wage of people in a full-time job was HUF 202 525 and HUF 132 604, respectively, in 2010 (Fig.1.). In 2015, the respective amounts were HUF 247 924 and HUF 162 391. Both gross and net wages increased on average by 22.4 percent in 2010-2015.

**Fig. 1: Average wage of full-time employees, HUF/per head/month**



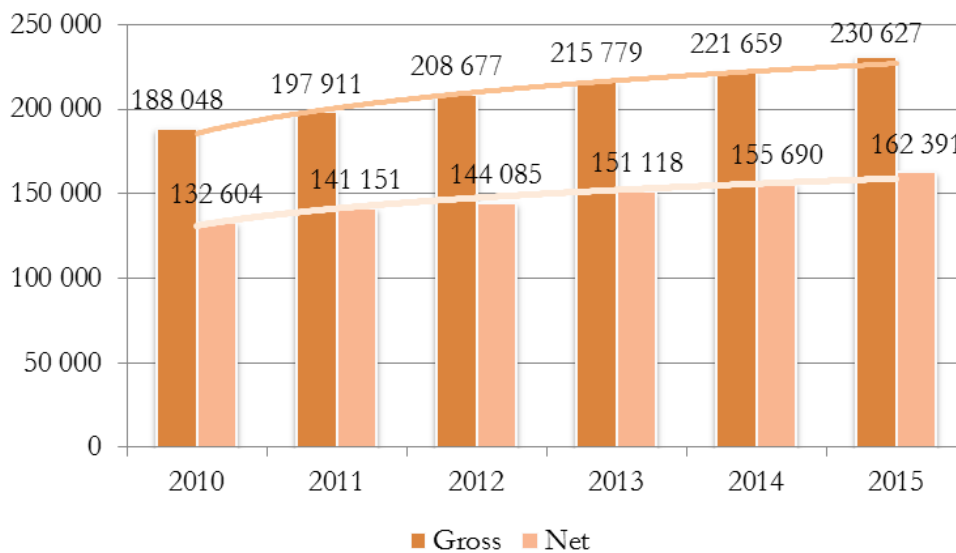
*Source: Hungarian Central Statistical Office (KSH)*



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Fig. 2 shows average monthly gross and net wages within the national economy. In 2010, the average monthly gross wage was HUF 188 048, while in 2015 it rose to HUF 230 627. Similarly, the average net wage rose from HUF 132 604 in 2010 to HUF 162 391 in 2015. In the observed five-year period, these two indicators showed increases of 22.6 percent and 22.5 percent, respectively, within the national economy. Average gross wages for private and public sector jobs rose by 26.2 percent and 14.8 percent. Average net wages in the two sectors were up by 28.6 percent and 9.5 percent, respectively.

**Fig. 2: Average gross and net wages of people employed within the national economy (HUF)**



*Source: Hungarian Central Statistical Office (KSH)*

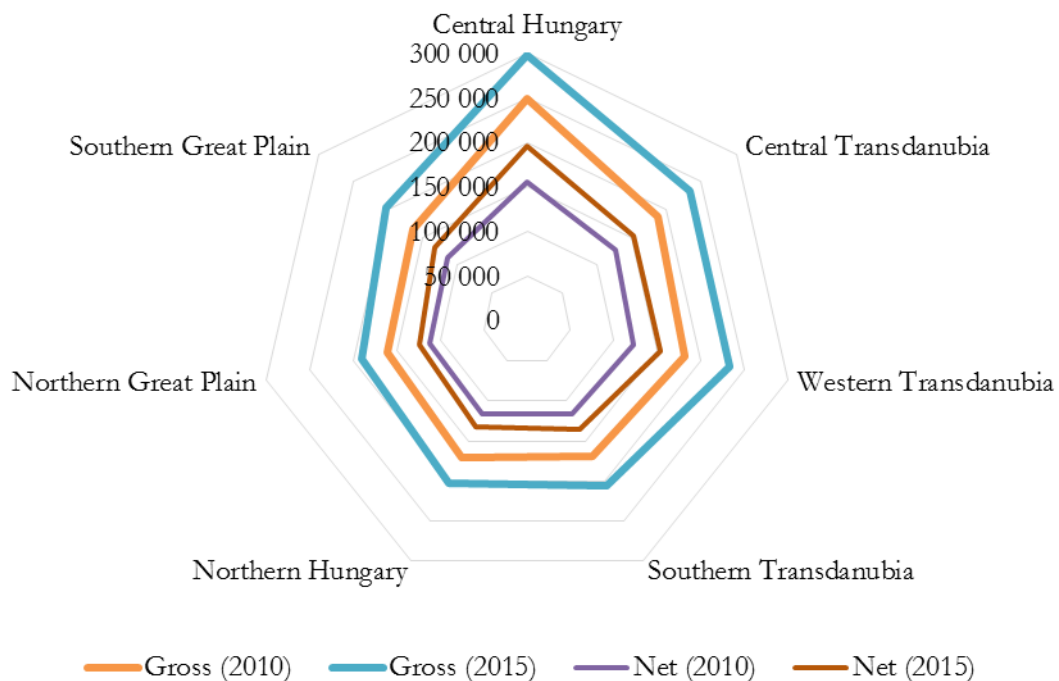
Among economic sectors, the highest average gross wages in both 2010 and 2015 were registered at financial and insurance services (HUF 361 702 and HUF 427 327, respectively). The second and third best-paid jobs in these two years were in the info-communication sector (averaging HUF 337 700 and HUF 415 327, respectively) and in the electricity, gas, steam and air-conditioning supply sector (HUF 306 646 and HUF 364 477). Concerning the rate of growth, the largest increase in gross real wages between the two years was recorded in the sector of administrative and services support activities (36.0 percent), but they were also 35.1 percent higher in the education sector. Another sector that recorded substantial wage growth was agriculture, forestry and fishing, with an increase of 30.6 percent.



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In terms of job location, the largest increase in the average gross monthly wage for full-time jobs in the period 2010-2015 was recorded in Western Transdanubia (29 percent), followed by Central Transdanubia (24.9 percent) and Southern Great Plain (23.6 percent). Central Hungary saw the largest increase in net average wages (25.1 percent), but growth exceeded 20 percent also in Western Transdanubia (24.2 percent) and Central Transdanubia (20.9 percent).

**Fig. 3: Average gross and net wages of full-time employees, by job location (HUF)**



*Source: Hungarian Central Statistical Office (KSH)*

The wage agreement finalized in November 2016 is expected to contribute significantly not only to real wage growth but also to the reduction of employer burdens: by 2022, taxes payable by enterprises will decline by 15.5 percentage points, to a level that can be regarded as competitive in the CEE region. Hungarian wages may reach European averages. As a result of tax cuts and the knock-on effect from the increase of the minimum wage and the guaranteed minimum wage, wages are set to rise overall by 8-9 percent next year. The 15 percent increase of the minimum wage generates extra income of HUF 140 000 per year and head, but the reduction of various taxes is also expected to lift wages in higher-paid jobs.



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It must also be noted as a positive feature that wage increases have in the past four years taken place parallel to employment growth. In 2016, unemployment and employment indicators have reached favourable levels unseen since the regime change. The Government of Hungary has identified as a long-term objective to keep labour force in Hungary and optimize work skills. In order to reach this goal, wages in real terms must close the existing gap with those of the developed members of the EU, but the goal to improve social welfare also requires the increase of material goods in a broader sense: asset and income growth. Statistical data and employer surveys evidently signal that labour market trends are also underpinning wage growth in Hungary. As a counter-measure to safeguard the country's economic competitiveness, the aforementioned six-year wage agreement was accompanied by cuts in payroll taxes and in the rate of corporate income tax. These steps were designed to create sufficient manouvering room for economic stakeholders to increase employee salaries.