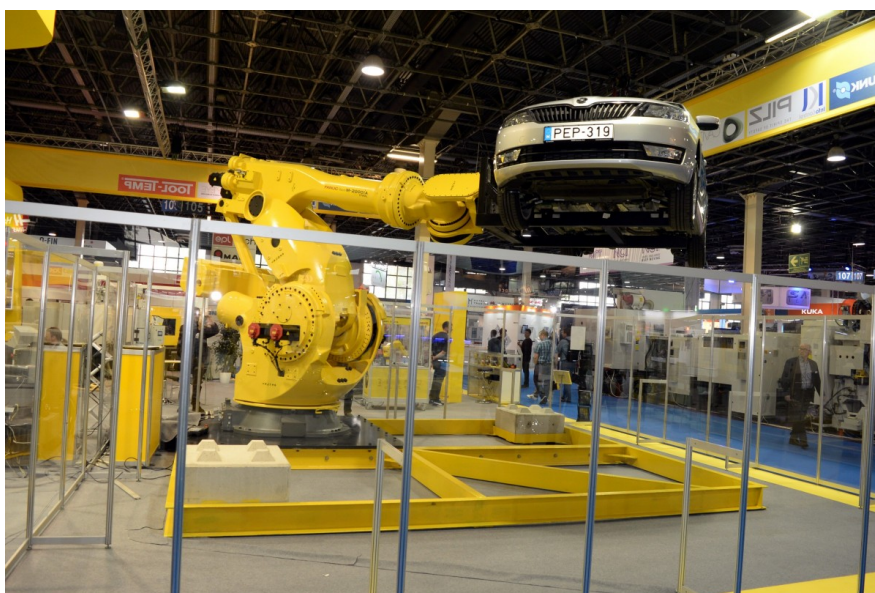


## Hungary: Technical factors slow wage growth

Wage growth slowed a tad in May, but still remained strong. Labour shortages have already impacted wages in some sectors

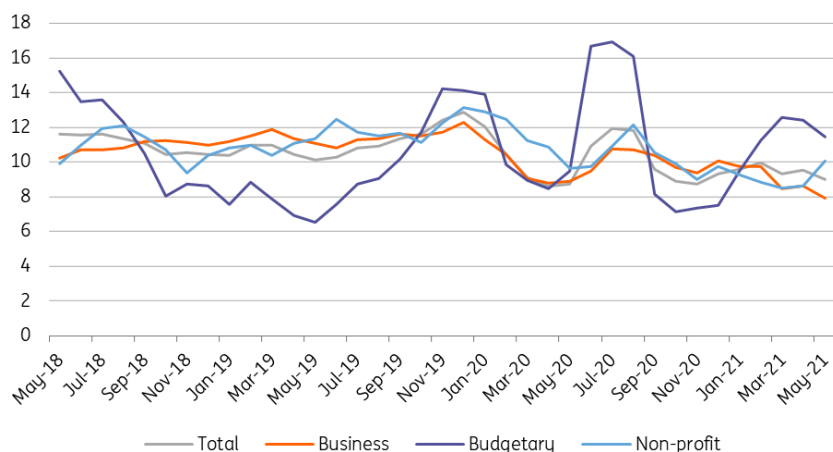


An industrial robot machine in action at an exhibition in Hungary

Both gross and net average earnings came in significantly higher than what they were a year ago, although the pace of increase slowed somewhat in May. The 8.2% year-on-year wage growth is more or less in line with this year's trend as the main drivers have remained the same.

The most important factor behind the impressive wage dynamics continues to be wage settlements in the public sector (for doctors, judges, prosecutors and employees of nurseries). As a result, annual salary increases maintained their double-digit pace, at 10.6% in May. In contrast, the rise in wages in the private sector recorded more of a slowdown, although the 6.7% YoY wage rise can be seen as strong, especially taking into consideration that this year's growth in the minimum wage was only 4%.

## Wage dynamics (3-month moving average, % YoY)



Source: HCSO, ING

Wages rose well above average in the manufacturing sector, as well as in water supply and waste management. With more and more manufacturers facing growing order books, the labour shortage is becoming more of an issue, pushing wages higher. Meanwhile, in the vast majority of service sectors, the rate of wage growth was rather close to or below the average. There is one clear exception: the arts, entertainment and leisure sector, where the reopening caused labour market friction and this translated into significantly higher wages (18.8% YoY).

The same cannot be said about the hospitality sector, yet. It seems that employers were able to fill vacancies in a hurry before the full reopening in June - employment in this sector increased by 40% YoY in May. We expect the labour shortage will only show up in wage growth from June. Furthermore, the bulk re-employment of those earning less than the average wage also impacts the average gross (and net) wage in the national economy through the composition effect. A higher share of low-earners means a negative impact on the average. This may also have played a role in the slowdown in wage dynamics in May.

Looking ahead, we expect a further slight moderation in wage dynamics in the short term. The primary reason for this may be the composition effect. After the reopening, employment is set to jump significantly in those sectors (tourism, hospitality, entertainment) where employees are earning well below the average, so dragging down average wages. However, expanding earning opportunities due to rising labour shortages may offset some of this negative impact. In addition, of course, the effect of public sector wage settlements will be felt for the rest of the year. For 2021 as a whole, we still expect wage growth to be around 9% on average.

## Author

### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

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