Hungary's wage growth slowdown continues

Recent data suggests that the pace of wage growth is slowing further, with real wage growth sitting around the historical average. This represents a significant drop from double-digit growth a year ago, so consumers may feel that their financial situation is deteriorating. This could also have a negative impact on economic growth

Commuters in Budapest, Hungary. The big question this year is whether consumer confidence can recover amid a perceived weakening in relative financial conditions

8.5%

As expected

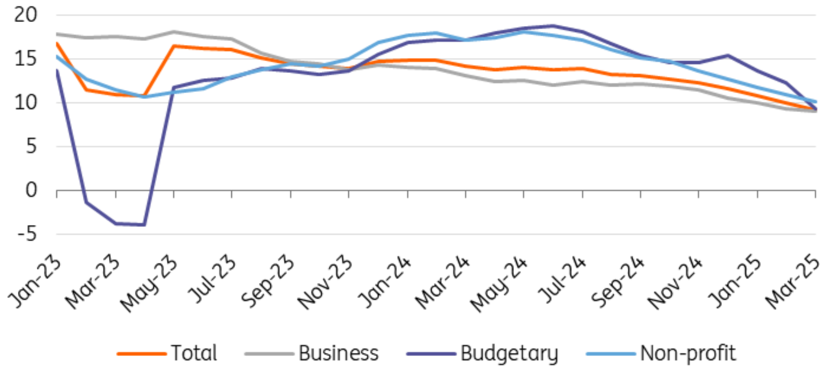
Average wage growth (March)

ING Forecast 8.5% / Previous 9.3%

The slowdown in wage growth in the Hungarian economy continued in March, according to the latest data released by the Hungarian Central Statistical Office (HCSO). While this was slightly weaker than market consensus expected, the figure of 8.5% is in line with our forecast. The last time wage growth slowed to this pace was around 2020. More importantly for the real economy, alongside the gradual erosion of wage growth, high inflation has kept the change in purchasing power low.

In March, the real value of average net wages increased by 3.5% year-on-year. This is broadly in line with the historical average and is therefore not problematic in itself. However, the resulting change in real earnings from the combination of high inflation and high nominal wage growth is undesirable in the long term. Compared to the double-digit increase in purchasing power between late 2023 and late 2024, this slowdown is likely to signal a deterioration in consumers' financial situations, even though the rise in purchasing power is normalising from an unsustainably high level.

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

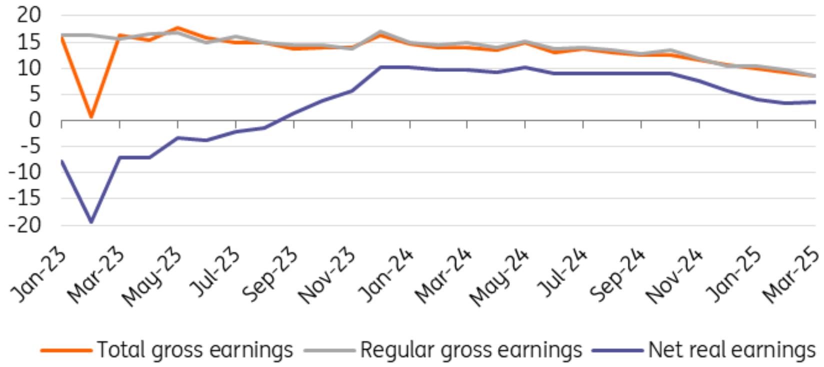


Source: HCSO, ING

Examining the March data in more detail reveals that it has been a long time since the three main sectors of the national economy have been so closely aligned. The public, private and non-profit sectors all recorded wage growth of around 8.5% YoY.

While the pace of wage growth has slowed in all sectors, this has been more pronounced in the public sector, which has seen a decline from the previous norm of a growth rate of 15–20%. Within the corporate sector, wage growth slowed more significantly in waste management and energy. In industry, trade and logistics, the gradual slowing trend continued. Wage increases of close to only 1% in healthcare suggest that the impact of previous wage settlements is fading.

Nominal and real wage growth (% YoY)



Source: HCSO, ING

As far as this year is concerned, the wage dynamics in March are already quite revealing, but it is still worth waiting for the April indicator. In recent years, a significant number of companies have moved to setting wages in spring (March–April). It will therefore only be possible to be more certain about wage developments this year once the first three or four months have passed.

Overall, we expect average wage growth of around 8% across the economy in 2025. Downside risks include weak business confidence, falling job vacancies, and a more general easing of labour market tightness. These factors are more likely to result in a stronger moderation of wage dynamics.

With average inflation expected to reach 4.7%, the rate of real wage growth for the year as a whole could be around 3.2%, so it will fall back to close to the historical average. The big question this year is whether consumer confidence can recover in a situation where the perceived change in relative financial conditions is weaker than in the past year or two.

Additionally, a series of government interventions could have the unintended consequence of further discouraging consumers. One pessimistic outcome would be the accumulation of additional savings and the reinvestment of existing savings. Failing to increase the consumption rate would clearly pose a negative risk to the current economic growth forecast of around 1.2% for this year.

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