# Wage outflow remains strong in Hungary

The pace of average wage growth in Hungary remains exceptionally high, but we have seen a gradual cooling in the private sector. For 2024 as a whole, we expect real wages to grow by 7%, which in turn poses an upside risk to services inflation

People in Budapest

**13.5%**

Average wage growth (Apr)

ING Forecast 13.3% / Previous 13.9%

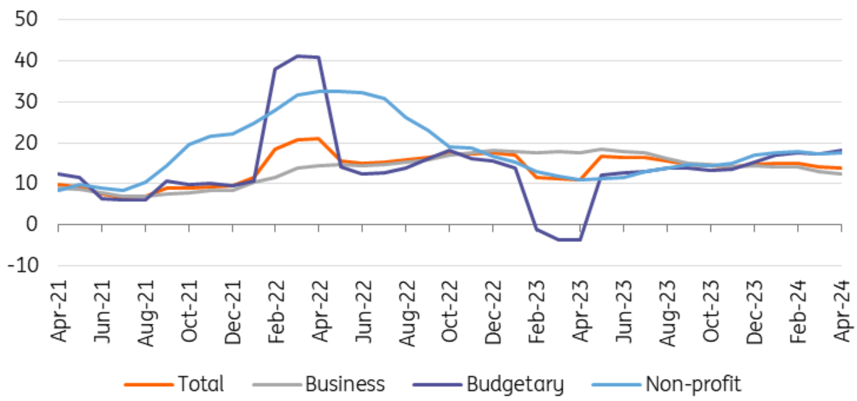
Higher than expected

The latest figures from the Hungarian Central Statistical Office (HCSO) continue to show that wage outflows in the Hungarian economy are surprisingly strong. In April, average wage growth was 13.5% year-on-year (YoY), with almost no deceleration compared to the previous month. This is still very dynamic, even compared to the levels we saw at the beginning of the year. What makes this dynamic growth surprising is that it exceeds the 10% increase in the guaranteed minimum wage (for skilled labour) and brings us closer to the 15% increase in the standard minimum wage (for unskilled labour).

In addition, various business surveys earlier this year showed that company managers and HR departments were more likely to agree to a wage increase of between 5 and 10%. But reality seems to have rewritten those plans. Although we are seeing an ongoing easing of the tightness in the labour market, employers do not appear to be regaining the upper hand in wage negotiations, as workers have been able to negotiate higher than employer-planned wage increases.

Another factor that may have contributed to average wages in the national economy rising at this pace is the retreat of the shadow economy. This is broadly reflected in the budget's labour-related tax revenues.

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

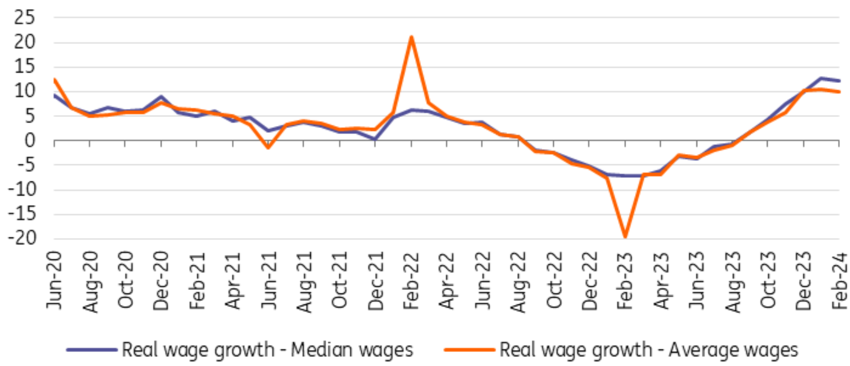



Source: HCSO, ING

Looking at the sectoral breakdown, the truth is that the high average wage growth is mainly driven by wage settlements in the public and non-profit sectors. In both cases, the increase in teachers' salaries is very pronounced. While the annual wage growth rate in the public sector has jumped to almost 20%, the non-profit sector has remained above 17%, with some deceleration.

In contrast, the year-on-year wage growth rate in the private sector, which better reflects market trends, has been slowing steadily since the beginning of the year, and the year-on-year index stood at 11.6% in April. Of course, this remains still well above expectations at the beginning of the year that wage dynamics in the private sector could fall into single digits by the spring.

## Nominal and real wage growth (% YoY)




Source: HCSO, ING

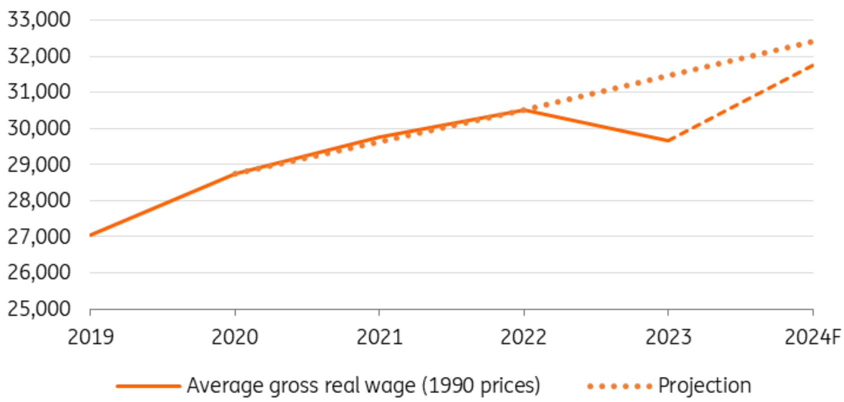
Although high wage dynamics can trigger positive changes in the real economy, they also signal risks on the inflation front. Based on year-to-date releases, we believe that private sector wage growth could now be maintained at around 10% for the rest of the year. Considering the higher wage growth dynamics in the public and non-profit sectors, this could lead to an average wage increase of around 12% for the economy as a whole.

This, combined with an easing of household cautiousness and stronger demand, could also increase the pricing power and willingness of price hikes in businesses, raising the issue of possible wage-push inflation. So, in addition to monitoring services inflation, the central bank must also consider wage developments in future interest rate decisions, in our view. However, it already identified this as a pro-inflationary risk in the June briefing.

At the private sector level, a few subsectors have experienced particularly robust wage growth. These include mining, water and waste management, construction, and real estate. The number of employees in the first two sectors has increased significantly, which is likely driving up sector averages due to higher wage demands from new entrants. In the construction sector, new orders and a pick-up in industrial investment appear to have boosted demand for labour, leading to rapid wage growth. In comparison to the end of last year, the number of employees in this sector has increased by just over 2%.

It is also worth noting that the wage gap between average and median wages has narrowed further. This is presumably due to the impact of the minimum wage increase and the trend towards below-average wage growth in sectors with higher earnings. Furthermore, the growth in regular earnings has been dynamic, suggesting that one-off payments did not have a major contribution to the high pace of wage growth in April.

## The level of average gross real wage (1990 CPI adjusted HUF)




Source: HCSO, ING

Given that inflation has already begun to increase, while the average wage growth rate has remained relatively stable, real wage growth on an annual basis remained high at 9.5% in April, after a slight deceleration. In light of these developments, we anticipate that wage growth will continue to further moderate (mainly in the private sector), while inflation is expected to move higher.

For the year 2024 as a whole, we anticipate wage growth to average approximately 11.5-12.0%, with further substantial upside risks. Given our expectation of average inflation at around 4.1% in 2024, this will likely result in a real wage growth rate of around 7%. While this appears to be a robust figure, it would only indicate that the purchasing power of average wages would be approximately 4% higher than the level of average gross real wages in 2022, given the decline that we've seen last year. In other words, there appears to be a process of catching up following the decline in 2023.

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