

HIGH INEQUALITIES AND DISTORTIONS REMAINING

Hungarian Wages

Pál Belyó
June 2020



Real income per capita and real wages are experiencing a continuous increase since 2012, having reached pre-financial crises levels again in 2014 and 2015 respectively.



In other words, the wages of the best-paid 428,000 employees are equal to the wages of other almost 2.8 million people.



In 2019, i.e. before the Corona-crises, approximately two thirds of the Hungarian population said to be financially unprepared for any unexpected expenses.

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An analyses of Hungarian wages before the Corona-crises

The Yearbook has been funded with support from the Friedrich-Ebert-Foundation (Friedrich-Ebert-Stiftung / FES) in Budapest. Within the frame of its research activity started more than a decade ago, Policy Agenda (PA) has given priority to analyses of the world of labour. This is the third publication of a series, which aims at giving a summary of the events and related research conducted during the preceding year. With the support of the FES, PA carried out different studies among others on subsistence level and minimum social income and on unexpected financial expenses, people may face.

The wage system in Hungary remains distorted and the significant inequalities that had established themselves in the past could not be reduced significantly. The impact of the interventions into the labour market is currently the most burning issue. Low competitiveness of the country and the considerable differences internally, among the national and foreign enterprises, cause major economic and social problems. Statistics on employment indicators of the past four years report a spectacular improvement and in the past three years, there was a special improvement in the primary domestic labour market. The unemployment rate in Hungary is one of the lowest ones in the EU. The total number of persons employed was 4,520,000; this is 0.8% (38,000 persons) more than the year before. The number of workers in the public employment scheme was 108,000 in the last trimester, 17.9% less than the year before. The number of active unemployed was 155,000 in the fourth quarter, this is 7.2% (12,000 persons) less than the year before and in 2019, the number of registered job seekers was 3% less than the year before.

Based on the KSH (Central Statistical Office) statistics for the year 2019, "the national average gross wage of full time employees was 367,800 HUF in companies with at least 5 workers, in budgetary institutions and in non-profit organizations, which are also important from point of view of employment, and 378,100 HUF without the workers in the public employment scheme." Net earnings without allowances were 244,600 HUF, with allowances 252,100 HUF. Both the gross average wages and the net wages without the allowances were 11.4% higher than in the same period of the previous year and the net average wages with benefits were 11.5% higher than in the same period of the previous year. Comparing the development

of the HUF exchange rate and the increase of the minimum wages in the past years, we see that foreign (not HUF-based) enterprises practically employ their workforce at the same wage level. Although the "median wage" reflects reality more precisely, it is officially not available. However, calculations and estimates can be made with figures from the personal income tax returns. Accordingly, the gross median wage in Hungary was 240,000 HUF in February 2019.

Our figures show that out of a total of 4.4 million employees, 3,130,000 earn less than the average wages calculated by the KSH. Calculated with the median gross wages: out of 100 workers, the median wage of 69 workers is lower than the average wages, the related number for the private sector is 73 workers.

WAGES, MINIMUM WAGES AND LABOUR SHORTAGES¹

The wage level development is one of the core indicators of the labour market. The mandatory minimum wage increase introduced in 2019 affected approximately 1.1 million workers in the national economy: 43% are affected by the mandatory wage increase, 21.4%, i.e. 443,000 workers, by the minimum wage increase and 21%, i.e. 436,000 workers, by the guaranteed wage minimum increase.

In total, 879,000 employees receive a (mandatory) wage increase in the **business sector** and between 230.000 up to 250,000 employees in the public sector (workers in public services). It needs to be noted, that wages slightly above the minimum level had to be increased, too, as the new mandatory wage minimum was above this wage bracket. However, the self-employed – one million persons – and ca. 150,000 workers in the public employment scheme are not included in the mandatory wage increase!

¹ Source: Analysis of WAGE MINIMUM prepared by the Ministry of Finance on the basis of statistics of KSH

Figure 1

Hard to stay afloat on a hungarian salary – Earnings of Hungary's 4.4 mill workforce

Source: UNCTAD

INCREASING WAGES, WAGE INEQUALITIES AND WAGE LEVEL

The development of the wage level, and consequently, the income situation of the employees, have been a priority of the national economic policy for many years. In the database of the National Tax and Customs Authority, there are 5,046,000 tax returns for the year 2017 and 5,078,000 for 2018. In the personal income tax (PIT) declarations for 2018, 795,000 taxpayers did not have any income from employment. These taxpayers made their PIT declarations in relation to other income sources.

The data in the analysis by Policy Agenda have shown that in 2018, the upper tenth of the income scale, those with the highest wages, had the same amount of earnings as two-thirds of the workers at the lower end of the wage system (65%). In other words, the wages of the best-paid 428,000 employees are equal to the wages of almost 2.8 million people at the lower end of the wage system.

This is a clear and a major discrepancy for 2018, similarly to the year before: the total earnings of 65% of workers living on employment income and other types of earned income is equivalent to the earnings of the top 10%. The possibility of having access to other types of earned income did not mitigate the volume of wage inequalities in 2018 either.

In 2018, there were 309,000 employed persons who paid a membership fee to the unions and/or to the chamber. This is 7.2 % of the total workforce – 0.2% less than in 2017. The approximate estimates for contribution payers have shown that while there were between 305,000 and 307,000 union members in 2017, a year later, in 2018, there were 300,000 up to 302,000 organised employed persons in Hungary.

The government introduced a new career model in different areas of the public sector. At the same time, the problem of labour shortage, in certain areas even the decline in the quality of services, are widely discussed problems. Wages in state owned companies have been increased by 61% since 2010. This is 4 percentage points less than in the private sector. According to wage statistics from 2019, the increase of gross wages in the private sector is stronger than the increase of the minimum wage. The slight catching-up of the wages in the public sector with the private sector however, has stopped. In spite of considerable increases of wages and salaries before, state owned companies struggle with serious operational problems.

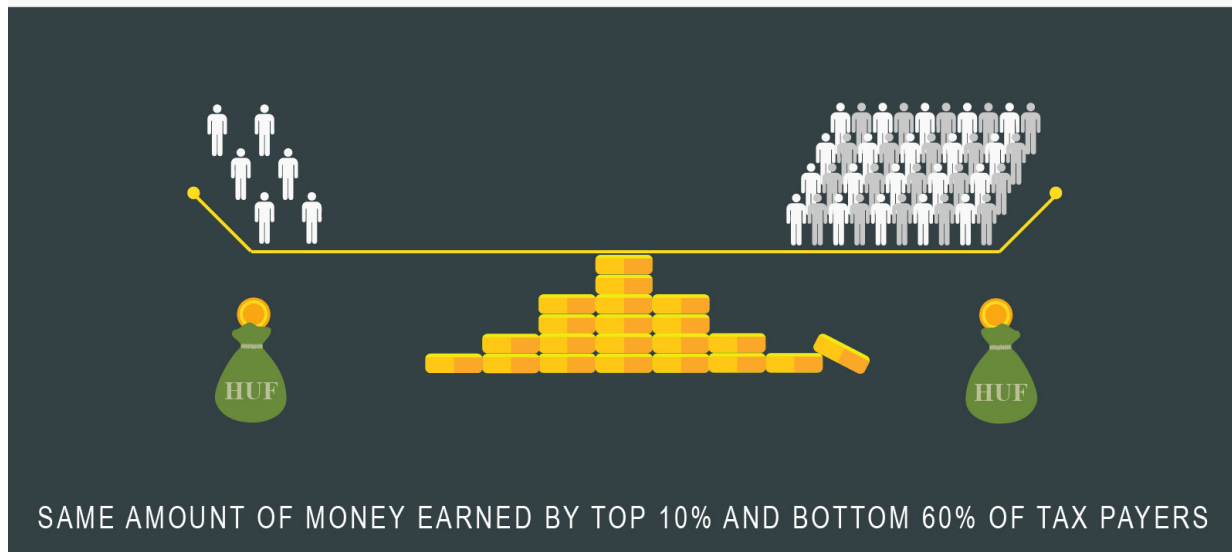
OUTLOOK 2020

The wage agreement approved at the end of 2019 by employees' and employers' organisations and the government at the Consultation Forum for the Private Sector sets out an increase of 8% both for the minimum wages and for the guaranteed wage minimum and the recommendation for a general wage-increase was 8%, as well. This will mean that the gross minimum wage, 149,000 HUF, and the guaranteed wage minimum, 195,000 HUF, will be raised from 2020 to 161,000 HUF and 210,000 HUF, respectively.

SUBSISTENCE LEVEL AND MINIMUM SOCIAL INCOME (LIVING WAGE)

The level of minimum subsistence is of vital importance for employees and for the households. Policy Agenda has prepared the relevant calculations and estimates since 2015. According to the analyses, the average monthly value of subsistence calculated per one consumption unit was

Figure 2
Out of balance: Hungarian wages



Source: UNCTAD

94,820 HUF in 2019. Based on calculations, the value of the subsistence level is 274,978 HUF in a typical household comprising of two persons of working age and two children. The average subsistence in such a family is 68,745 HUF/capita. In 2019, the per capita values calculated for the different household types varied from 58.500 to 94.800 HUF.

Since 2018, we also calculate the so-called minimum social income (living wage). This is the necessary income to meet essential needs and to afford – in a rational system – the consumption of goods and services that at a given level of economic, social and cultural development have become a mass demand. With a certain reallocation, it also allows savings for extraordinary events. Based on the preliminary subsistence level figures, in 2019 the average monthly value of minimum social income per one consumption unit was 121,350 HUF.

The value of the subsistence level for the different types of households is the number of consumption units per household types multiplied by the average value per consumption unit. The calculated value of the subsistence level for a typical household comprising of two persons of working age and two children, is 351,915 HUF.

UNEXPECTED EXPENSES

With the support by the FES, Policy Agenda conducts systematic research on specific features of the income of households. Data of the surveys have shown that households need in the order of 476,000 HUF to cover minor unexpected expenses. With this amount available, the budget of households would not collapse and the family could avoid asking support from external sources. Defined in 2019, the amount of 476,000 HUF is substantially higher than the amount of 297,000 HUF from the year

before. In this respect, there are significant differences between the types of settlements. While households in Budapest would need 580,000 HUF, the required amount is only 471,000 HUF in small towns and villages. A difference of 23% (the same in 2018), cannot be explained only by the prices, rather by the level of material welfare. Overall, approximately two thirds of the Hungarian society say to be financially unprepared for any unexpected expense. Notably, figures have shown that the population of Budapest is among those with the weakest sense of financial security.

A CRITIQUE OF THE STARTING PENSION AND THE PENSION SCHEME

The situation of pensioners is one of the most critical problems of the Hungarian society. At the beginning of 2019, 2.584 million people, 26.4% of the total population, received pensions or corresponding retirement benefits in Hungary. The budgetary expenditure for pensions and corresponding retirement benefits in the 2019 was 3.451 billion HUF, 16.8% of the total planned expenditure, equalling with 7.9 % of the GDP. With the continuous supplements and add-ons, the monthly amount of pensions and corresponding retirement benefits grew to 124,175 HUF. Non-governmental organizations assess the methodology and the volume of the annual supplements and add-ons and see the necessity of a comprehensive pension reform.

THE DISRUPTIVE IMPACT OF MINIMUM WAGE INCREASE REMAINS

For Hungarian trade unions, the system of minimum wages is a major achievement and a guarantee which, even under the current conditions, remains to be a “European

value". In the private sector, this process is directly constructed and – with the inherent regular increases – it defines the wages and salaries of about 800,000 workers fundamentally. The spill over effects of the wage increase made themselves felt in the past years. Since 2016, the guaranteed wage minimum increased by more than 50% and it had an impact on the operations (even on the existence!) of hundreds of thousands of micro and small enterprises.

Clearly, employees are less interested in bargaining for higher nominal wages because of the low inflation expectations, i.e. higher inflation expectations may seriously alter the relation of wages and inflation.

Settled practices have shown that fighting for better working and wage conditions for the whole workforce of a corporate group leads to better results than bargaining on the basis of the local conditions only. For the unions, it is also important to extend the results of collective bargaining to the suppliers of large companies, too. Another key issue for unions is to raise the minimum hourly rates to 60 % of the EU average, in line with the stipulations of the

Social Charter. (The EU average is currently close to 12 €. German companies lag behind by only three Euros, the Hungarian companies pay a "proud" hourly wage of 2.60 € [842 HUF].)

TRADE UNIONS – STATE OF PLAY 2019

There is a decrease in the number of union organisations and a great number of small unions, organising mainly at the workplace level and with only a handful of members. Based on the membership fees collected, only 24 unions reported a revenue exceeding 50 million HUF. With a slight decrease in membership strength, in 2018 the total amount of fees collected was higher. The national organisation rate is 9%. Based on estimations, the share of organised employees in the public sector is higher than the national average, standing at around 14%.

For more and detailed information on Hungary's Trade Union System, see this publication: [Corona macht es einfacher – Arbeitnehmerfeindliche Eingriffe ins ungarische Arbeitsrecht](#)

ABOUT THE AUTHOR

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