

FLASH REPORT

30 November 2018

The announcement of recent public sector wage hikes could derail the decline in budget deficit after 2019

- In recent weeks Hungarian ministers announced three waves of public sector wage increases. First, government officials' payroll could increase by 30%, starting from January next year. Second, a new wage trajectory for health care workers was announced as follows: 8% wage hike from July 2019, a 14% wage hike from January 2020, followed by a further hike of 20% in November of the same year, and then an additional 30% in 2021. Finally, a 20% wage increase in the military is due in 2019, and smaller, 5% increases are foreseen for the outer years. Overall, these measures affect roughly 27% of government employment (excluding public work scheme participants). Hence, it seems reasonable to ask to what extent the announcements alter the budgetary forecast.
- In the 2019 budget, the government set aside a HUF 95 bn targeted reserve for wage increases (and some plans were mentioned already in the budget), so part of the recent announcements should not be considered as extra spending. In fact, our calculation suggests that roughly HUF 14 bn could be considered in excess of the originally announced reserves. Consequently, the announcements do not risk meeting the 1.8% deficit target for the next year.
- Nevertheless, the picture changes somewhat from 2020. While the planned 5% annual increases in military wages, as well as the lack of news about further wage hikes for government officials are in line with our previous assumptions, the significant wage increase for health care workers (in our calculation, 22.3% and 33.5% respectively, in terms of annual averages¹) represent extra spending compared to our previous projection, where we assumed 3% wage growth rates for 2020 and 2021 each. As the health care sector makes up roughly 20% of the government wage bill (without public work scheme participants), the announced wage programme could cost 0.2 ppts and 0.6 ppts of GDP in net terms. Consequently, while our no-policy change assumption could have brought a small deficit decline for the outer years, the new measures will bring the headline deficit close to 2.1% by 2021, unless savings measures are adopted.

Table 1 – The effect of recently announced government wage increases on the ESA balance

	2019	2020	2021
Employment affected (health care, government officials, army, thousand persons)	191	191	191
as a percentage of total government employment (w/o public workers)	27.4	27.4	27.4
Government wage growth before recently announced measures, % (w/o public workers)	7.3	3.0	3.0
Wage shocks to total government wage growth, %	0.4	3.8	6.0
New government wage growth	7.7	6.8	9.0
ESA balance, before announced measures	-1.8	-1.5	-1.5
ESA balance, after announced measures	-1.8	-1.8	-2.1

¹ As it was not specified in the announcement, we assume that the 2021 hike will occur from July, given the 20% wage hike in November 2020.

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