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Beyond the continuous increase of real wages the government will improve further the livelihood of families next year

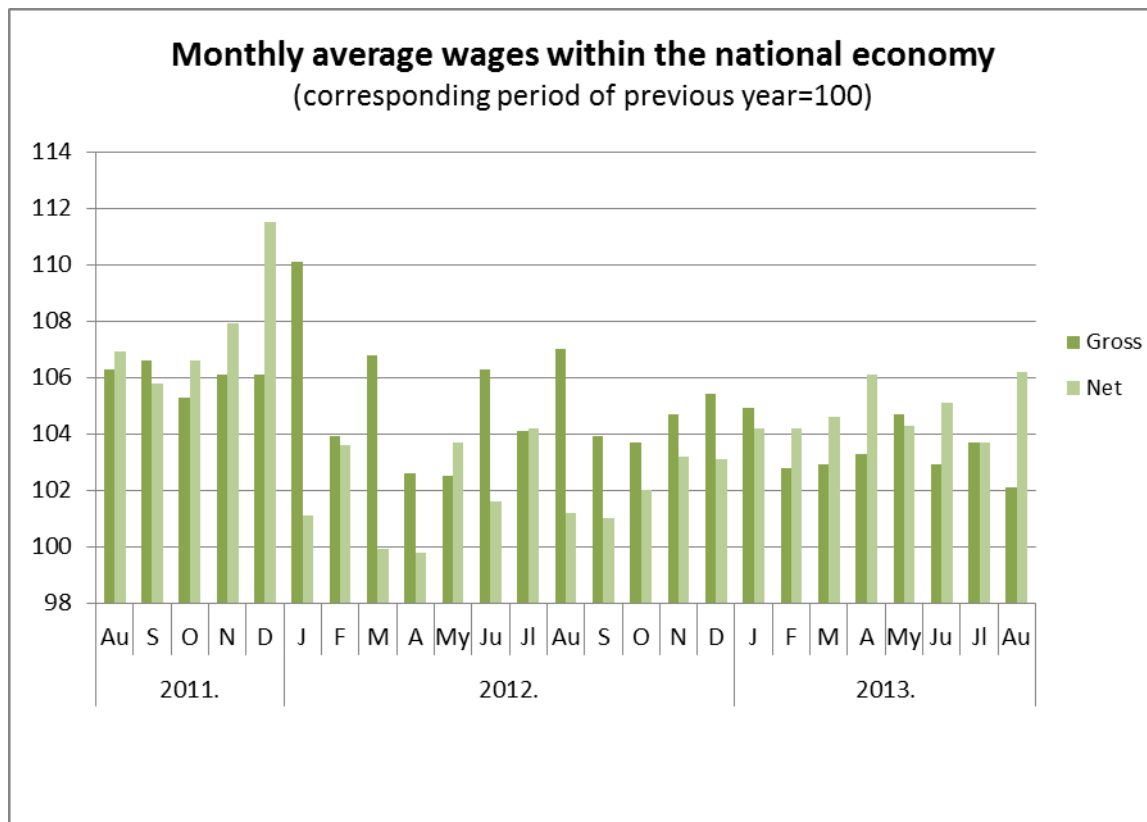
In the eighth month of the year, wages increased by 4.8 percent in real terms, thus the positive trend in place since the beginning of the year is continuing. According to the report of the Hungarian Central Statistical Office (KSH), **in January-August 2013** gross and net average wages within the national economy were 3.4 percent and 4.8 percent higher, respectively, year-on-year. **Parallel to benign inflation growth of 2.1 percent, wages gained 2.6 percent in real terms in the observed period.** The latest favourable data also imply stronger purchasing power which is expected to lead to higher consumption that, in turn, will translate into economic expansion.

In January-August 2013, the gross average wage of full-time employees was HUF 227 900: private and public sector employees (excluding public work employees) earned on average HUF 238 900 and HUF 221 800, respectively. The average wage of public work employees was HUF 77 300.

Net average wages excluding family tax allowances were HUF 149 300 within the national economy, which constitutes an increase of 4.8 percent year-on-year. Net wages in the private and public sectors (excluding those of public work employees) were higher by 5.1 percent and 5.6 percent, respectively. **Thus, wages in real terms were up in both sectors, while within the entire national economy real wage growth totalled 2.6 percent in the period January-August 2013.**



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Source: KSH

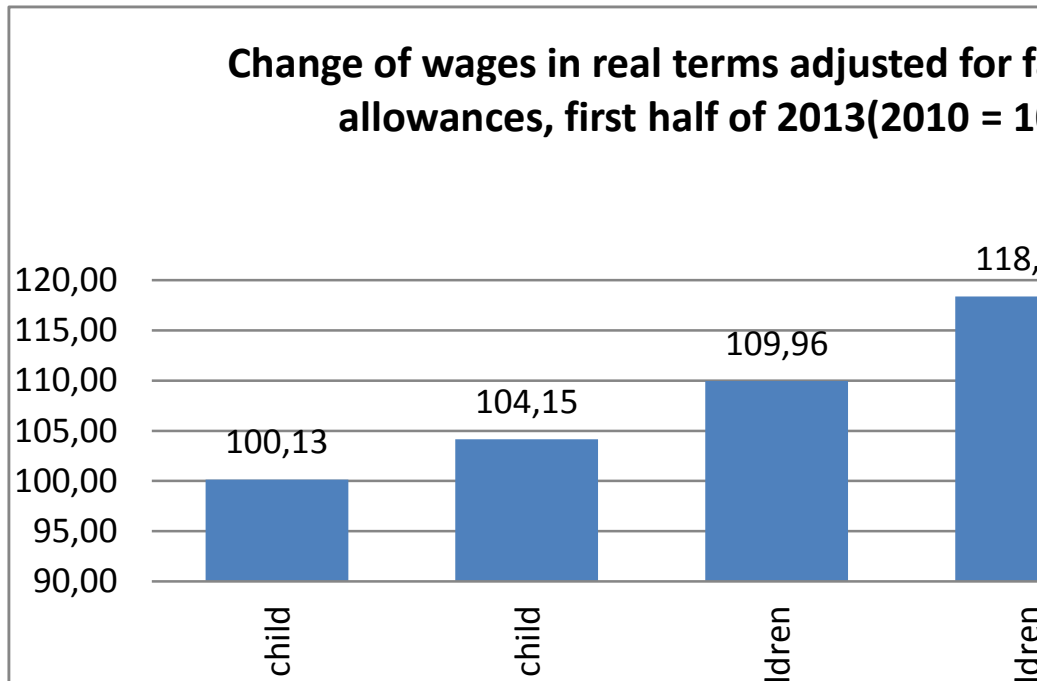
Regarding monthly data, the gross average wage of full-time employees within the national economy was HUF 224 846 in August, up by 4.7 percent compared to August 2012. **Net wage – at HUF 147 275 – gained 6.2 percent in comparison to the corresponding period of the previous year.** Taking into account an inflation rate of 1.3 percent in August, **wages in real terms were up by 4.8 percent.**

In light of KSH data, **the monthly gross and net average wage of employees at private enterprises increased by 3.8 percent and 5.5 percent, respectively, compared to August 2012.** The monthly gross and net average wage of employees at budgetary institutions was 9.9 percent and 11 percent higher, respectively, in comparison to August 2012.

The upward trend of wage growth in real terms can also be observed regarding incomes adjusted for family tax allowances. The Hungarian Government has recently introduced and implemented a proportionate, flat-rate family-friendly tax system which acknowledges extra



efforts and thus stimulates work while it concurrently awards those who are willing to have children.



Source: Hungarian Central Statistical Office (KSH), Ministry for National Economy (NGM)

The above diagram also clearly shows how large the impact of the tax system is on the changes regarding the real incomes of families. It appears obvious that **between 2010 and the first half of 2013 wages in real terms adjusted for family tax allowances increased by some 18 percent for families with three or more children.** The wage increase in real terms for one and two children was 4.15 percent and almost 10 percent, respectively. This has been the consequence of the flat-rate personal income system thanks to which, as a whole, some HUF 1500bn have been left at households over the past three years. **In addition, as a result of the family tax allowance element of the system, some HUF 180bn per year – thus some HUF 500bn over three years – have been left at families.**

However, the Government is committed to providing further assistance for low-income families. The Ministry for National Economy has lately submitted to Parliament the 2014 tax bill. **2014 will be the year of tax cuts for low-income families, as next year's tax regulations will significantly lower the tax liabilities of these families.** One central element of the bill is



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the introduction of family tax contribution subsidies aimed to boost willingness to have children. **As of 2014, families with the lowest incomes are entitled to deduct family tax allowances from healthcare and pension insurance contributions and thus 260 thousand families are anticipated to gain some extra income: compared to this year, people within the lowest income brackets will earn HUF 53bn more.**

Thanks to the new tax regulation, a parent with two children who earns the minimum wage – for example – will receive more than HUF 4000 extra income per month, while this amount will be HUF 16 thousand for three children. A teacher with three children and professional experience of 6 years will earn some HUF 25 thousand per month next year.

The Government also aims to improve families' living conditions by several small amendments, accordingly, other subsidies will also be introduced to assist the purchasing of a first home and to cover the shortfall resulting from the tax-exempt status of the remittance of foreign currency debt. According to the proposal, capital or asset transfer as well as financial gain owing to the termination of joint estate between spouses will be duty-exempt. In addition, those who purchase their first home – irrespective of their age – are entitled to an automatic, 12-month period for paying property duty instalments without extra charges.

The elaboration of the regulations of the Job Protection Action Plan, effective since the beginning of 2013, **aimed at enabling employers to provide jobs with the most optimal conditions possible for the most vulnerable segment of the labour force.** Thanks to the Job Protection Action Plan, **Hungarian employers at issue retained altogether HUF 75bn,** as they applied for allowances for more than 730 thousand employees during the summer months and **this tax incentive has effectively helped safeguard the jobs of almost three-quarters of a million people.** In light of the latest data, in August employers benefited from tax breaks for the employment of 135 thousand young people, while such incentives facilitated the legal employment of 225 thousand unskilled workers, 330 thousand people close to the retirement age, 30 thousand people who stayed at home with a small child and 17 thousand other jobseekers. The recently submitted bill -- in addition to low-income families -- intends to ease the strain on businesses: as of next year, several subsidies and reduced red tape will lower the burden of domestic enterprises.



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Thanks to the prevailing financial equilibrium and the improving performance of the Hungarian economy, Hungary has reached a point where **no large-scale measures are required within the domestic tax system. Consequently, the tax policy of 2014 will rather focus on long-term, stable, predictable and confidence-boosting devices.**