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Inflation and counter-inflationary policy measures: The case of Hungary

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INFLATION AND COUNTER-INFLATIONARY POLICY MEASURES:

THE CASE OF HUNGARY

Tamás Szemlér¹

ABSTRACT

Hungary has a history of high inflation rates. After the transformation period inflation reached up to 35% in the early 1990ies. Since then, economic policy measures contributed to significantly lower inflation and during the mid-2010s it was even close to zero. Inflation rates have begun to rise even before the war in Ukraine, however, the rise of inflation accelerated in 2022 leading to a (year-on-year) inflation rate (HICP) of almost 19% in August 2022. The rise in energy prices hit Hungarian households especially hard, since the government's "overhead reduction" program (a measure to shield households from the development of the energy prices introduced in 2013) had to be modified. Among the measures that were introduced to cushion the effects of inflation on households were various forms of price caps, e.g. for food prices, energy prices (electricity and gas, only up to a certain threshold) and fuel prices. Regarding the wage setting process one has to keep in mind that trade unions are rather weak in Hungary and only around one in five persons work at an establishment where a collective wage agreement is in place.

¹ Budapest Business School, Faculty of Commerce, Hospitality and Tourism.

INFLATION AND COUNTER-INFLATIONARY POLICY MEASURES: THE CASE OF HUNGARY

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Abstract

Hungary has a history of high inflation rates. After the transformation period inflation reached up to 35% in the early 1990ies. Since then, economic policy measures contributed to significantly lower inflation and during the mid-2010s it was even close to zero. Inflation rates have begun to rise even before the war in Ukraine, however, the rise of inflation accelerated in 2022 leading to a (year-on-year) inflation rate (HICP) of almost 19% in August 2022. The rise in energy prices hit Hungarian households especially hard, since the government's "overhead reduction" program (a measure to shield households from the development of the energy prices introduced in 2013) had to be modified. Among the measures that were introduced to cushion the effects of inflation on households were various forms of price caps, e.g. for food prices, energy prices (electricity and gas, only up to a certain threshold) and fuel prices. Regarding the wage setting process one has to keep in mind that trade unions are rather weak in Hungary and only around one in five persons work at an establishment where a collective wage agreement is in place.

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¹ Budapest Business School, Faculty of Commerce, Hospitality and Tourism.

Introduction

Inflation is a key economic indicator everywhere. Hungary is not an exception: since the systemic changes more than three decades ago, it has been many times in the focus of attention (not only of experts). After the transformation in the early 1990s, it rose to 35% in 1994, and it has been curbed as a result of an overall economic policy package, including also a more than six-year long period of crawling peg (between 1995 and 2001). After 2000, inflation in Hungary slowed gradually (with an overall downward trend), and by the mid-2010s was close to zero. Since then, however, the trends have reversed. The increase in inflation has become especially tangible since 2021, and this development has been dramatically strengthened in 2022, after the Russian invasion of Ukraine. This paper presents the main tendencies, causes and consequences, including government measures as well as the outlook for the near future.

Inflation in Hungary

This section provides an overview of some key inflation indicators: beyond the consumer price index and the harmonized index of consumer prices, special attention is given to food and energy price indices; the recent development of core inflation is also presented.

Consumer price index and harmonized index of consumer prices

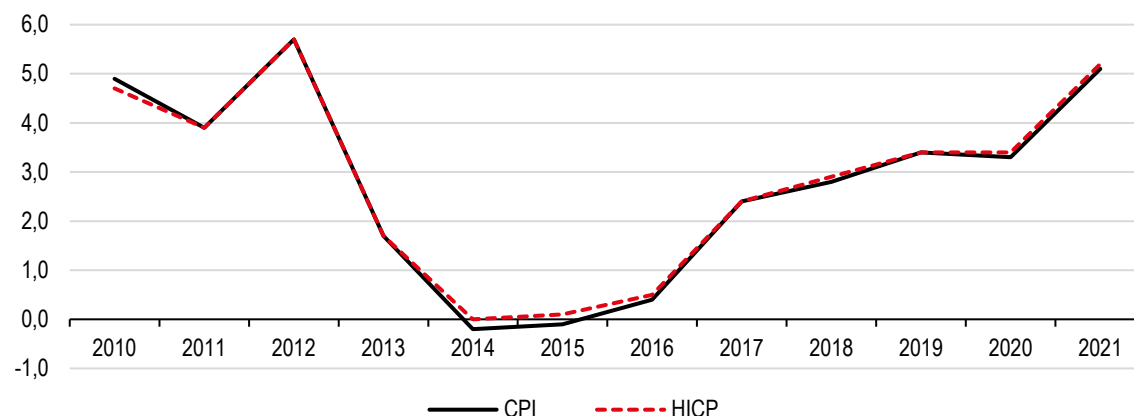
The consumer price index (CPI) in Hungary has been under 3 per cent during the period 2013-2018, in the years 2014-2015 below zero, in 2016 just above zero. This has been in line with the inflation target set by the National Bank of Hungary (3%, +/- 1 ppt), or even undershot it – inflation has been at a low or at an extremely low level. However, it has begun to increase visibly in 2017, but it remained moderate until 2020 (3.3%). In 2021, CPI was 5.1 per cent – it meant that, for the first time since 2012, it has surpassed 5 per cent. The harmonised index of consumer prices (HICP), including also the consumption of foreigners in Hungary followed a very similar path throughout the period, not showing major differences until 2021.

Table 1 CPI and HICP in Hungary
annual rate of change %, 2010-2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CPI	4.9	3.9	5.7	1.7	-0.2	-0.1	0.4	2.4	2.8	3.4	3.3	5.1
HICP	4.7	3.9	5.7	1.7	0.0	0.1	0.5	2.4	2.9	3.4	3.4	5.2

Source: Central Statistical Office, n.d. a, n.d. b.

Figure 1: CPI and HCPI in Hungary
annual rate of change %, 2010-2021



Source: Central Statistical Office, https://www.ksh.hu/stadat_files/ara/hu/ara0001.html,
https://www.ksh.hu/stadat_files/ara/hu/ara0003.html.

Today, when the war of Russia in Ukraine is regarded as a major reason for high inflation rates, it is worth emphasizing that the acceleration of inflation has clearly begun well before February 2022. The increases that have been clearly visible in 2021 were due to the effects of the COVID-19 pandemic and/or the post-COVID situation: the problems experienced with supply chains, the shortage in some key parts (microchips) for key industries, and the uncertainty of the situation in certain geographical areas (e.g. the return of drastic measures (lockdowns) in some regions of China).

In the case of Hungary, on top of the problems in the world economy, domestic factors also played an important role in the development. Before the elections in April 2022, the government has taken many costly measures in order to smoothen the effects of the unfavourable changes in the world economy. In the sense that the government party has won the elections, it was a success. However, the spending realised during the months preceding the elections has further narrowed the path for potential manoeuvres of the government. The conflict with the European Union (regarding the rule of law) and the suspension of EU funds had no direct effect (tangible for the average citizen) on Hungary before the elections, but after that, these factors have also made the situation more difficult.

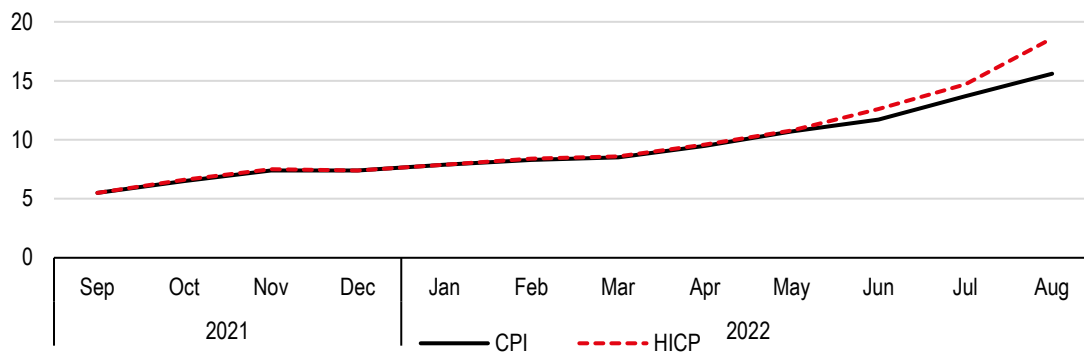
Bearing all that in mind, the increase in 2021 was, however, very limited compared to what happened since then. As a consequence of the war (added to the already existing increasing trend), prices have begun to rise sharply. In August 2022, the CPI surpassed 15 per cent and Hungary produced one of the highest figures in the EU, exceeding by far the Eurozone average for the same month. It is important to note the increasing, and thus unusually big difference between CPI and HICP values: beyond the increase in housing prices (which has been, as in many other countries of the region, spectacular in the last few years, but, as we can see it, did not cause a significant difference between the two indicators), the reason for that is the specific price cap on fuel for Hungarians (starting on the 1st of August, only for individuals – see the details later, in the subchapter on government measures to slow down/freeze inflation). By August the difference between CPI and HICP has reached 3 percentage points – a huge difference from the 0 or 0.1 percentage points' difference experienced until May 2022.

Table 2 CPI and HICP in Hungary,
annual rate of change %, September 2021-August 2022

	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022
CPI	5.5	6.5	7.4	7.4	7.9	8.3	8.5	9.5	10.7	11.7	13.7	15.6
HICP	5.5	6.6	7.5	7.4	7.9	8.4	8.6	9.6	10.8	12.6	14.7	18.6

Source: Central Statistical Office, n.d. c, monthly rapid reports on prices available from the page.

Figure 2: CPI and HCPI in Hungary
annual rate of change %, September 2021 - August 2022



Source: Central Statistical Office, n.d. c. (monthly rapid reports on prices available from the page).

Food and energy prices from 2010 to 2021

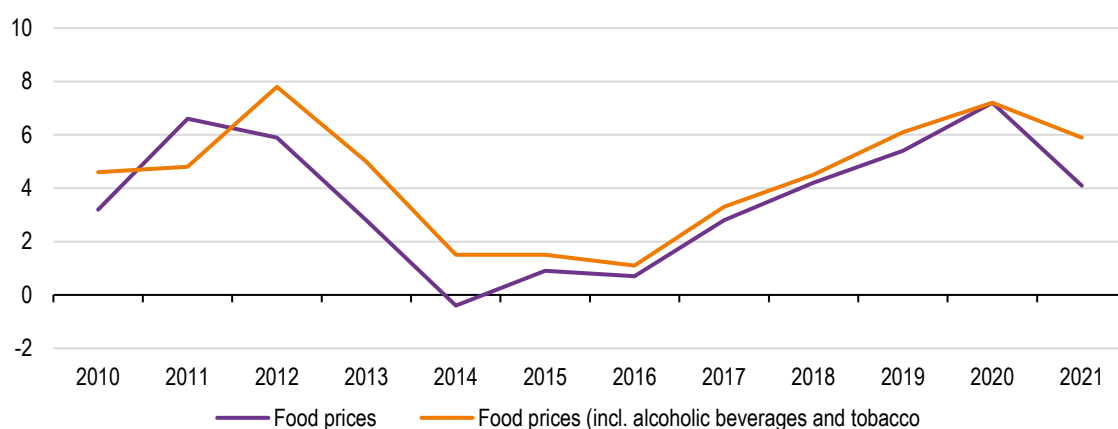
Food prices have followed a path that was similar to that of overall inflation in the period 2010-2021, with some differences in various years. It is interesting to note that including alcoholic beverages and tobacco, food prices have shown a bigger increase than without these items. This difference is mainly due to the gradual increase of excise duties on alcoholic beverages and tobacco products during the period (the graduality was intended to avoid more sudden and bigger price increases in the case of these products).

Table 3 Development of food prices in Hungary
annual rate of change %, 2010-2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Food prices	3.2	6.6	5.9	2.8	-0.4	0.9	0.7	2.8	4.2	5.4	7.2	4.1
Food prices (incl. alco- holic bever- ages and tobacco	4.6	4.8	7.8	5.0	1.5	1.5	1.1	3.3	4.5	6.1	7.2	5.9

Source: Central Statistical Office, n.d. d.

Figure 3: Development of food prices in Hungary
annual rate of change %, 2010-2021



Source: Central Statistical Office, n.d. d.

The development of energy prices during the same period has been much more interesting. As a result of the so-called “overhead reduction” programme of the government, introduced in 2013, the costs of some energy items for households have decreased, and, later on, stayed stable until (and including) 2021. The programme’s political objective was to demonstrate that the government was able to shield the Hungarian citizens from world market price changes – in fact, it was so until 2021, as domestic energy prices did not react to price changes (in any direction!) on the world market. This situation – artificial in the sense that the behaviour of the consumer did not (as it could not) follow the (world) market developments – has led to a special situation in which these users did not feel the effects of world market energy price changes, thus were not urged to save energy or modernise their energy supply systems.

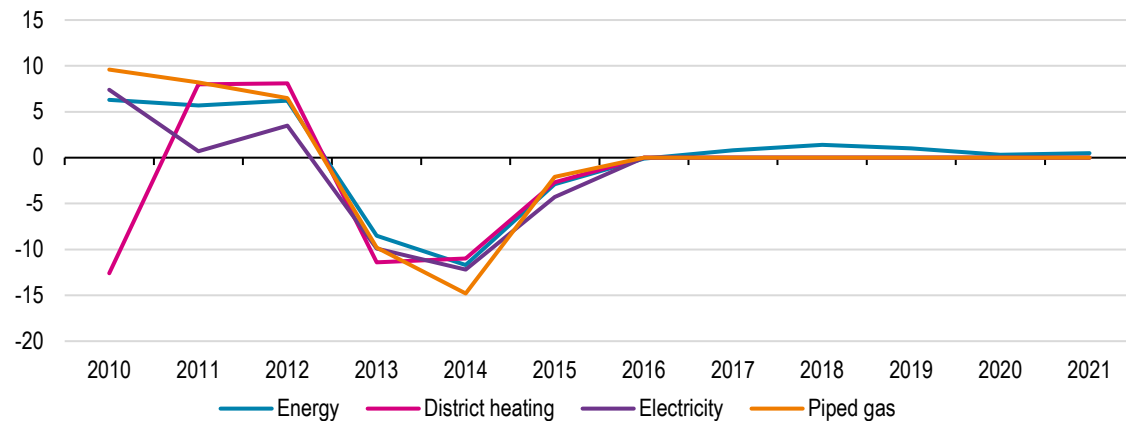
This had far-reaching consequences: gas continued to be the major source of heating (despite a certain progress in the share of renewable energy). On the real estate market, considerations related to energy consumption or energy efficiency did not play a major role. Energy consumption has thus increased without the possibility of directly reacting to world market price developments. The effects of the abrupt changes that occurred in 2022 have been much more painful than they would have been without this artificial mechanism.

Table 4 Development of household energy prices in Hungary,
annual rate of change %, 2010-2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Energy	6.3	5.7	6.2	-8.5	-11.7	-2.9	-0.1	0.8	1.4	1.0	0.3	0.5
District heating	-12.6	8.0	8.1	-11.4	-11.0	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	7.4	0.7	3.5	-9.9	-12.2	-4.3	0.0	0.0	0.0	0.0	0.0	0.0
Piped gas	9.6	8.2	6.5	-9.8	-14.8	-2.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: Central Statistical Office, n.d. d.

Figure 4: Development of household energy prices in Hungary
annual rate of change %, 2010-2021



Source: Central Statistical Office, n.d. d.

Food and energy prices in 2022

The year 2022 has brought a significant change in the development of food prices. The pace of the increase in food prices has begun to accelerate already in 2021, so it cannot be regarded simply as a consequence of the war. Of course, the war has added other factors that have reinforced the already existing tendencies; by August 2022, the increase in food prices in 12 months has exceeded 30 per cent, and, as of early October, there are no signs of trend change: as long as energy prices are high (and continue to increase), the trend of increase in food prices is not likely to reverse, despite the fact that, according to FAO statistics, global food prices have followed a decreasing trend in the last six months.

Regarding energy prices, the “overhead reduction” programme had still its effects, but significant changes entered into force on 1 August 2022: the reduced (subsidized) prices apply only for a certain quantity of energy (gas, electricity) per month; above that quantity, a dramatically higher price (e.g. in the case of household electricity a 7 times higher price) has to be paid. The currently available statistics cannot reflect the effects of this change, but these will be visible in the figures of the following months – not only for households, but also for enterprises and institutions (according to news articles, electricity can be even 12-24 times more expensive than before, depending on the results of individual negotiations with traders).

The fact that enormous changes occur, puts into the foreground the question of consumption reduction. The issue can concern households and provide an incentive to reduce their consumption, becoming thus more environment-conscious, as well. However, the really big question is that of public institutions and the government and municipalities that are responsible for the functioning of these institutions.

Municipalities prepare plans for the management of the energy crisis during the winter. By early October 2022, several municipalities have already announced their plans for the temporary closure of some of their institutions, among them sports facilities (e.g. swimming pools) and cultural institutions (e.g. theatres, libraries, museums) and the reduction of their energy costs in other ways (e.g. limitation of illumination of buildings, public spaces during the nights). There are municipalities where schools are

reorganised: now they share the building of one of them (in morning and afternoon shifts) and thus reduce the energy costs related to the other school building(s).

The situation also influences the conditions in public institutions – from ministries to schools. The temperature in public institutions – if there is a need for heating – cannot be over 18 °C. Several institutions have already introduced strict energy-saving measures, ranging from forbidding the charging of personal electronic devices in the office to planning the closure of dormitories (about the latter one, there is currently a debate between the universities and student self-governments, as such a change affects students' life – especially in the case of students who also work but originally do not reside in the municipality where they study and where their dormitory is).

In many institutions (as well as enterprises) the wider use of home office appears as an option; the readiness and the openness varies from institution to institution. Regarding home office, the question of compensation also arises (home office means more energy consumption at home), but no overall solution has been elaborated, the conditions may vary to a great extent (including at the moment also the version in which there is no compensation).

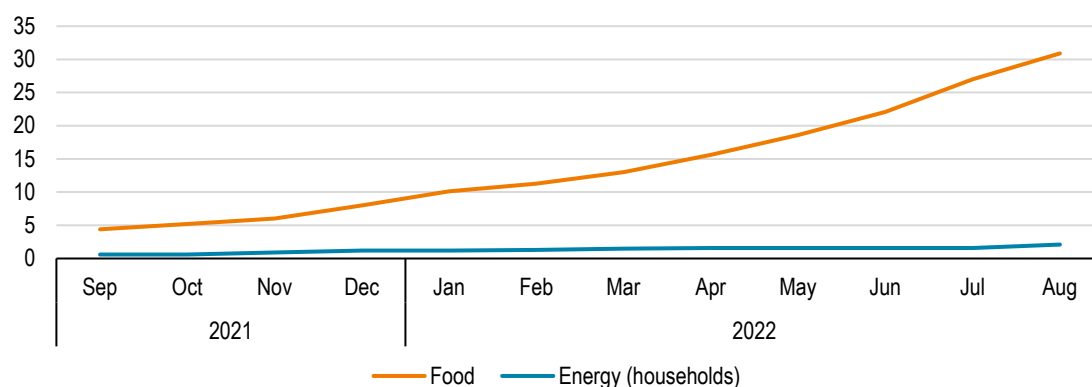
Regarding the private sector, several actors had to take serious measures, ranging from changing the opening time to temporary closure (e.g. spas, hotels) or even final closure (e.g. hotels, among them also some big ones). By early October, the list of facilities concerned and measures applied becomes longer every day.

Table 5 Food and energy prices in Hungary,
annual rate of change %, September 2021-August 2022

	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022
Food	4.4	5.2	6.0	8.0	10.1	11.3	13.0	15.6	18.6	22.1	27.0	30.9
Energy (house- holds)	0.6	0.6	0.9	1.2	1.2	1.3	1.5	1.6	1.6	1.6	1.6	2.1

Source: Central Statistical Office, n.d. c.

Figure 5: Food and energy prices in Hungary
annual rate change %, September 2021 - August 2022



Source: Central Statistical Office, n.d. c.

Core inflation

It is important to emphasize – especially, if one takes into account the rhetoric often used by the Hungarian government – that price increases are by far not entirely directly related with the war. As we have already seen it, the increase in inflation has started well before the Russian invasion. In addition to that, if we examine the latest available data on core inflation – which, by definition, does not contain the price increase for the products we discussed in detail (energy, food) –, we can see that the increase is substantial here, as well. This means that there are also longer-run effects behind inflation, and, in this respect, even a sudden change (the end of the war) would have limited effects. There are structural problems that have accumulated during a good decade (at least), which have been aggravated by the pre-election extra spending.

Table 6 Core inflation in Hungary

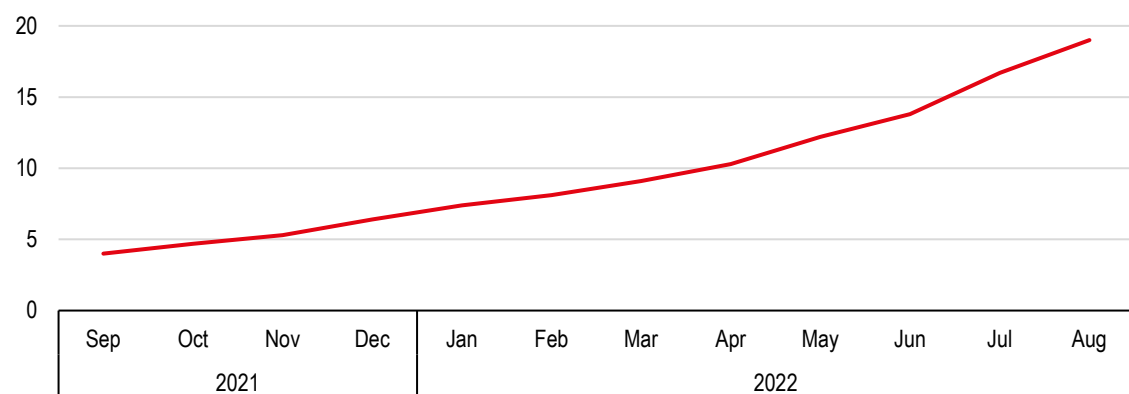
annual rate of change %, September 2021-August 2022

	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022
Core inflation	4.0	4.7	5.3	6.4	7.4	8.1	9.1	10.3	12.2	13.8	16.7	19.0

Source: Central Statistical Office, n.d. c (monthly rapid reports on prices available from the page).

Figure 6: Core inflation in Hungary

annual rate of change %, September 2021 - August 2022



Source: Central Statistical Office, n.d. c (monthly rapid reports on prices available from the page).

The situation that EU transfers are not available for Hungary has its effects on the exchange rate of the HUF. In 2022, the Hungarian currency has become 14.6 per cent weaker with regard to the EUR, and 33 per cent weaker with regard to the USD (as of early October 2022; see Pénzcentrum, 2022). While the situation of public finances looks fragile (as long as the transfers cannot flow to the country), the situation is not likely to improve.

It depends on the results of the negotiations, whether this problematic will remain there on the long run and will continue to influence inflation; for the moment, it is an important factor in price increases, given the high degree of openness of the Hungarian economy.

Wages and profits

In this section, we discuss wage and corporate profit developments, with special emphasis on changes in longer-term trends in 2022 as well as already visible reactions

Wages

In the first half of the 2010s, the average gross wage has shown a moderate increase in Hungary, which was not always enough to compensate inflation. After 2015, the increase of the average gross wage has become stronger, and this trend prevailed until 2021. The increase of the gross average wage in this latter period has become considerably higher than the inflation rate.

Table 7 The development of the average gross wage in Hungary,
annual rate of change %, 2010-2021

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1.3	5.2	4.6	3.4	3.0	4.3	6.2	12.9	11.3	11.4	9.7	8.7

Source: Central Statistical Office, n.d. e.

For 2022, we have wage data for the period of January-June. According to this data, the average gross wage has increased by 18 per cent compared to the same period of the previous year. Considering the increase in consumer prices (comparing the same periods: 9.4 per cent), the real increase of the average gross wage was 7.9 per cent. (Central Statistical Office, 2022). The labour shortage, characteristic in many sectors is an important factor in this development; however, the increase is unevenly distributed among sectors. Not only business sectors, but also some segments of the public sector (e.g. the army) have experienced a considerable increase in wages – other segments, however, do suffer from low wages, shortage of workforce and, as a result, overburdened employees. The present crisis in the education sector is the most striking example for that and shows the results of a long-term mismanagement.

It is, of course, a question, how long-lasting the effects of these increases will be. In many cases (especially in the public sector) they meant steps that have been due for a long time. Once these steps taken, it is a question when the next adjustments will come – and this is an especially important question in the light of the present inflation trends.

The question and the future response to it are also interesting from the point of view of imbalances on the labour market. If some – mainly business – sectors will continue to drain the workforce from other ones, these imbalances will likely increase. Together with the continuing outward migration as well as structural problems of the Hungarian education system, the effects of these changes can have serious long-term distorting effects.

A new phenomenon is that some firms pay a one-time extra amount to their employees, thus trying to compensate them for the high increase of (first of all, energy but also other) prices. Here again, the possibilities of various firms do differ from each other to a great extent. Thus, although for the time being, in many cases we can speak about a one-off amount, the effects of these differences can contribute to the increase in differences between them.

Corporate profits: recent developments

Regarding corporate profits, there have been some traditional gaps in Hungary, characterizing the 2010s and being present also today. First, there was a gap between profits of foreign-owned and domestic enterprises; as a result of relatively low profits, domestic enterprises could spend less on wages and other items, thus they had an unfavourable situation in the race for employees, that has become characteristic in the same decade in Hungary. But this divide – established on the basis of overall figures – covers another, at least as important one, namely, the differences between a competitive (in many cases, also internationally competitive) relatively big domestic enterprises, and the small and microenterprises (regarding the latter, in many cases existing only for the reason of optimizing taxation).

The pandemic has hit hard all enterprises, but, of course, those with lower corporate profits have suffered more. In some sectors (tourism, restauration) many enterprises have closed. After the shock of COVID-19, in 2022 (from August 2022) it is the dramatically increasing energy (gas and electricity) prices that hit (also) the entrepreneurial sector very hard, the consequences will be seen in the next weeks and months.

Companies in the energy sector are in a special situation: as a result of the price increases, their revenues (and profits) have sharply increased in 2022. The introduced price caps do not directly concern all these firms; in the case of fuel, it is mostly the operator of the fuel station that is concerned by the negative price margin; in the case of electricity and gas, reduced prices apply today for only a part of consumption. In the case of MOL (Hungarian oil and gas company), the situation has clearly become better than before, while in the case of MVM (responsible for electricity and gas provision), the sharp increase in prices related to the part of consumption (households' consumption beyond the limit for capped prices, other consumption (private and public firms, institutions) where the price cap is not applied, has partially compensated for the losses stemming from other factors.²

A specific step of the government was the introduction of a so-called tax on "extra profit" (windfall tax), without a clear definition of what "extra profit" means in this context. However, a very precise description on the tax and on the circle of enterprises that are hit by them has been provided in government decree 197/2022 (4 June 2022) (Government of Hungary, 2022).

According to the decree, in order to be able to preserve the balance of public finances, extra taxes have been introduced. Regarding financial institutions, the rate of the tax is

² „Second-quarter net income of Hungarian oil and gas company MOL rose 60% year-on-year to HUF 298 billion as revenue growth outpaced the increase in overall costs, news agency MTI reports, citing an earnings report released ahead of the opening bell on Friday. Excluding discontinued operation - MOL has agreed to divest its U.K. upstream assets - net income increased 40% to HUF 249.5 bln. Total revenue rose 76% to HUF 2.495 tln. Cost of raw materials and consumables climbed 76% to HUF 1.857 tln, but total operating expenses increased just 67% to HUF 2.129 tln. Operating profit jumped 160% to HUF 365.9 bln. (...) The operating profit of MOL's upstream business rose to HUF 200 bln from HUF 32 bln in the base period. The operating profit of the downstream business climbed to HUF 258.1 bln from HUF 104.7 bln. The operating profit of the consumer services division slipped to HUF 6.3 bln from HUF 39.4 bln. MOL acknowledged that EBITDA of the consumer services business "collapsed" in Q2 due to fuel price regulation in various countries in Central and Eastern Europe and because of a retail tax in Hungary." (Budapest Business Journal, 2022). MVM (the state-owned Hungarian company dealing with electricity and gas provision) has increased its from HUF 1082 bn to HUF 2429 bn, but the net revenue has decreased from HUF 28.3 bn to HUF -81,1 billion in the first half of 2022 (year-on-year data) (MVM Energetika, 2022).

10 per cent in 2022 and it is expected to be 8 per cent in 2023, it should be paid according to the net revenue calculated on the basis of the report on the previous tax year. A financial transaction duty (0.3 per cent, max. HUF 10 000) is also introduced. Insurance companies have to pay an extra insurance tax. Extra taxes apply for various groups of energy providers, details of calculating the mining fee also change.

Other sectors/items hit by the decree include air transport, trade of pharmaceuticals, communication, retail trade and company cars. It has to be noted that the tax on “extra profit” is in no way related to high profits of the companies hit by it; in most cases – the clearest among them being the situation of airlines – these companies have been severely hit by the pandemic, thus speaking about “extra profits” in their case (whatever is meant by that) in the preceding years does not correspond to reality.

The tax has caused many debates, the most publicised among them being the tax on air transport. The CEO of Ryanair has harshly criticised the measure – among other reasons, based on the already mentioned fact that the company had no profits (especially not “extra profits”) during the pandemic. The company has transferred the burden to the passengers who had to pay the extra fee. As a consequence, a procedure has been launched, and in the end, Ryanair has to pay a consumer protection fee of 300 mn HUF (ca. 0.75 mn EUR). Since then, Ryanair has announced the cancellation of some routes from Budapest and announced that there will be less flights on other routes from the Hungarian capital.

According to the calculations of the government, altogether 2.06 billion EUR income is expected from the newly introduced windfall profits taxes in the next two years. A large part (760 million EUR) of this revenue is expected to come from energy sector companies (Sgaravatti, Tagliapietra, Zachmann, 2022). The overall picture of the energy sector is complicated by the fact that state ownership is by now significant in it. Therefore, increasing profits (stemming to a great extent from the differences between the new prices and the market prices) enrich the state sector; the “correction” of these high profits takes place to a great extent within the state sector itself, while the profits are further financed by (the great part of) the final users (consumers) of energy.

Measures taken by the government to slow down/freeze inflation

Fuel price cap

On the 15th of November 2021, the government has fixed the maximum retail trade price of Euro 95 and diesel fuels; the maximum is 480 HUF (ca. 1.3 EUR then, ca. 1.13 EUR now (7th of October 2022)), well below the market prices. The same cap for the wholesale price has been introduced on 28 February 2022. The so-called “fuel price stop” was first announced to last until 15 February 2022, then it was prolonged first until 15 May 2022, later until 1 October, and (as the last step until now) until the 31st of December 2022.

Car owners using these types of fuel have thus not been directly confronted with the increasing market prices. This could be seen in data on fuel consumption: it remained high during the summer, however, data in September have already shown a clear decrease; this is a clear sign of the effects of the increasing prices in general: as a result, an increasing number of people limit the usage of their cars, despite the price cap on fuel.

An interesting differentiating effect of the price cap used is related to the ageing car park of Hungary: the average age of the cars used in Hungary has followed an increasing trend in recent years and has reached 15 years by 2022. This means that a considerable part of cars are older than that; from this point of view, the fact that the price cap on petrol is limited to the basic Euro 95 E10 fuel (containing a relatively high share of “green” components) means that those who own very old, cheap cars for which this type of fuel cannot be used pay market prices for E5 (Euro 98 or Euro 100) petrol – it means extra high prices for a relatively or absolutely poor part of the society.

Fuel stations – especially those that were not members of chains of big brands – face serious problems. Also, big chains have problems; some of them temporarily closed some of their fuel stations; at many fuel stations (both in individuals, small chains, and big chains) quantity limitations apply (regarding the quantity available at the limited price).

There were some important modifications of the measure in the latest months. From 27 May, only cars with Hungarian documents (traffic licences) can be filled up at the fixed price, all other cars (with foreign documents) have to pay the market price (exceptions for countries that provide a fixed price for Hungarian or all cars persist). The effects of this modification (together with the increasing market prices) can be clearly seen in the divergence between CPI and HICP figures since then.

On 1 August 2022, another, even more important change has taken place: since then, the fixed price is available only for private cars. This means that company cars (including, among others, lorries, ambulance cars, but also cars of persons who use it in their small enterprise and the car’s documents show it as a company car) have to pay the market price. Exceptions apply only for taxis and agricultural machines. This modification has meant a sudden and significant burden for the enterprises; in fact, they have to face high market prices after being “shielded” from it (and also from its rapid, but still gradual increase) for almost three quarters; the abrupt change on 1 August was a shock for their previous calculations.

Food price cap

The government, with the already introduced slogan of “defending the Hungarian families” has introduced a “food price-stop”, meaning fixing the prices of some selected basic food items on 1 February 2022; these measures have been announced to last until 1 October 2022, the deadline has recently been extended until 31 December 2022 (Government of Hungary, n.d.). The price of the following food products has been fixed in the way that a price ceiling has been established at their (normal) price level on 15 October 2021:

- granulated sugar;
- fine wheat flour (BL 55);
- refined sunflower cooking oil;
- pork leg;
- chicken breast, chicken leg-back, chicken back, chicken tail, chicken wing tip;
- ultra-high temperature heat-treated cow’s milk with 2.8% fat content.

These measures – as it can be seen from food price indices – could not impede the rise of food prices. In several cases and places, they have the effect that the products whose

maximum prices are fixed are not or scarcely available; shops apply quantity restrictions on the purchase of these products.

Energy prices

Regarding energy, a very specific scheme (“overhead reduction”) has been in force since 2013, causing – as we could see it in the development of energy prices – a divergence from market prices. Though the measure has shielded households (and, with some differences in the mechanism, also other end users), in the turbulences of 2022 it could not be maintained in the form it had been previously, therefore the changes hit all users very hard.

Still, for households, there are some “shields” remaining. As part of a complex package of measures³, from 1 August 2022, the following limits have been introduced:

- 1) Regarding electricity, a household/end user not using more than 2523 kWh/year (210 kWh per month) can get access to it at the same price as before. However, for the quantity beyond this limit, a much higher (about 7 times higher) price has to be paid.
- 2) A similar schedule applies to piped gas: the yearly limit here is 1729 cubic meters or 59132 MJ (this latter value is important because the calorific value of piped gas can be different in different regions).

Of course, there is a harsh debate on these changes in Hungary: the difficulties caused by the sudden change means very high extra costs for many people. As a reaction to this, the government has eased the conditions for wood cutting (raising thus concerns of many people regarding the environment) and guarantees fixed prices for max. 10 cubic meters of firewood per household.

Beyond individuals, institutions, local governments etc. face a serious challenge as well: in their case, as I wrote earlier, the price increase can be even bigger. In a number of cities and towns there are already plans to lock down theatres, sports facilities, libraries etc. in case the situation could not be handled in another way, there are debates (and various plans) about introducing online teaching, omitting the autumn break and add its days to the winter break, introducing the 4-day working week (currently not supported by the government), etc.

There are also debates about the current prices: while the government still states that in Hungary, they are still the lowest (or among the lowest) in Europe, many sources debate this statement. The artificial prices made possible by the present form of the overhead reduction measures for a certain quantity of energy consumption are among the lowest in Europe, but the prices applied beyond that quantity are among the highest in Europe (see the monthly reports of the Hungarian Energy and Public Utility Regulatory Authority). It is also clear that the prices applied since 1 August are also higher than market prices – with this, the already mentioned profits of energy firms are also higher.

³ The government’s plan on energy security – announced at the same date (13 July 2022) that the government declared a state of energy emergency – also includes the intention to increase domestic natural gas production to 2.0 billion cubic meters and the search for additional sources of gas. The exports of energy resources (including firewood) are banned; domestic production of lignite is increased. A lignite-fired power plant near the Matra mountains will be reopened; the work of the Paks nuclear power plant is planned to be extended (here, however, much depends on decisions on eventual new sanctions against Russia) (Xinhuanet, 2022).

It is important to note that among the components of energy prices paid by the final user (energy price distribution price, energy tax, distribution tax), energy price has traditionally had (and still has) a small share in Hungary; energy and distribution (value-added) taxes have a very high share in European comparison. This again contributes to the solid profit of energy firms.

Reaction of social partners, discussions, potential results

The reaction of social partners is not unified or agreed upon (due to the changes in the system of negotiations during the last decade – right now, as it has already been mentioned, we know that several firms provide bonuses or rise wages earlier than planned before – but there is no general pattern. According to the 2020 data of the Central Statistical Office, in 2020 only 18.5 per cent of the employees had a workplace where a collective agreement has been in force (the trend is decreasing: in 2015, this share was 20.6 per cent). It is also interesting that 23.8 per cent (compared to 22.1 per cent in 2015) did not know whether such an agreement was in force at their workplace – thus, the real coverage can be somewhat bigger, but this latter figure also shows the relatively low importance attributed by many employees to the mechanism (Central Statistical Office, n.d. f, n.d. g).

As all the Visegrad countries, Hungary has today “a decentralized, horizontally and vertically not well-coordinated bargaining system with a limited impact on working conditions” (Szüdi, 2021, p.6). Trade unions are weak; however, in Hungary, works councils can negotiate with employers. Since 2010, most of the social dialogue is going within the enterprises, on a collective (work council) or individual level.

On the macro level, there is the National Economic and Social Council (since 2011), providing a general forum for debates, taking into account not only strictly economic, but also other (first of all, social) aspects. Beyond that, there is the Permanent Consultation Forum of the Competitive Sector and the Government (since 2011); among other things, the minimum wage is agreed upon at this forum. For public employees, the National Public Service Interest Reconciliation Council (since 2002) plays an important role on the macro level in discussing employment conditions, including wages. The Consultation Forum of Public Utilities Enterprises (since 2018) provides a forum for the discussions of representatives of trade unions, employers and the state. On the sectoral level, there are Sectoral Dialogue Committees; however, the number of sectoral collective agreements in Hungary is low (19 altogether); as we have already seen, most of the bargaining process takes place within the enterprises (Kardos, 2021).

This way, we can have information on changes from individual news or surveys. According to a recent survey by Edénred Magyarország (carried out early September 2022 with 127 leaders or HR managers), 44 % of companies with over 500 employees have realised a wage increase in the case of all of their employees; for the companies with 100 to 500 employees, the share is much higher, 90 %. 93 % of the respondents said that (further) increases would be necessary this year, but only 27 % have concrete plans for such a step (Varga, 2022).

Of course, as some of the enterprises face very serious difficulties, it is also important to find the way to help them survive this critical period. This is why it is important that by August 31st, “The European Commission has approved an amendment to an existing Hungarian scheme to support companies in the context of Russia’s invasion of Ukraine. The

amendment was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022, and amended on 20 July 2022, among other things, to increase the limited amounts of aid to companies affected by the current crisis or by the subsequent sanctions and countersanctions. The Commission approved the original scheme in June 2022 (SA.103089). Hungary notified the Commission of its intention to amend the scheme to increase the maximum amount of aid to:

- (i) €62,000 per company active in the agriculture sector;*
- (ii) €75,000 per company active in fisheries and aquaculture sectors; and*
- (iii) €500,000 per company active in all other sectors. In addition, Hungary notified an overall budget increase by approximately €459 million (HUF 180.85 billion). This will bring the total budget of the scheme to approximately €1.58 billion (HUF 623.22 billion).*

The Commission found that the Hungarian scheme, as amended, remains necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State, in line with Article 107(3)(b) TFEU and the conditions set out in the Temporary Crisis Framework. On this basis, the Commission approved the amendment under EU State aid rules.” (European Commission, 2022).

The above approval is an important one; however, the really big issue regarding the economic conditions in Hungary is that of access to EU funding in general, in the framework of the EU budget and the Next Generation EU programme. Until there is a positive decision on that (which is at the moment far from being sure), the uncertainties caused by the suspension of the transfers harm all actors of the Hungarian economy.

Concluding remarks

The development of inflation in Hungary in the last 12 months has followed in many aspects the international trends, while there are also difference. The same is true for the reactions to the situation: some policy responses are in line with those applied in other countries, while some of them are not. This is, of course, due to the differences in the – both economic and political – situation of the countries.

It is clear that the current wave of inflation has begun earlier than 2022. Still, the communication of the Hungarian government presents the process as a result of the war, and, in particular, of the wrong reaction of „Brussels“. It is very important to see – and the data help us in it – that this communication does not correspond to the reality. Of course, the war and its consequences have aggravated the situation, but if we do not concentrate on the original roots of inflation, we have little chance to find the remedies.

In Hungary, many measures taken most recently limit the functioning of the market. While in some cases these measures provide a certain shield (to at least a part of the population) against bigger shocks, the fact that energy prices in Hungary (established by energy companies, with a high degree of state involvement) are far above the current global market prices, modifies this picture to a great extent: other economic actors (a part of individuals, but also municipalities, enterprises, institutions) have to shoulder an extra burden in financing them.

It is very clear that the long-run distortion of prices has also contributed to the present situation as the development of the markets (but also, as we have seen: the development

of other non-market measures (prices)) have shocked all economic actors. A general return to market rules – with well-founded and refined treatment of specific situations – is a crucial step towards the normalization of the situation. Sooner or later, such a return will follow anyway – the later, the more painful.

The consequences of the present situation can be extreme for the economy: every day, there are news about closures of establishments – the list is broad, ranging from hotels via culture and sports facilities to parts of education institutions (e.g. dormitories) – the economic effect of these steps will be crucial (for growth, employment, the revenue of the employees directly or indirectly concerned). This is a very clear downward spiral right now.

In this situation, reaching an agreement with the EU on deblocking the financial transfers to Hungary, is of crucial importance. For this, however, a clear and also credible change in Hungary's approach to many issues related to the rule of law are needed. In fact, there is even more at stake than just the (of course, very important) finances: it is about the country's commitment towards a community, about sharing a certain minimum of fundamental values. While the negotiations early autumn 2022 give some ground for optimism (at least on the technical level), domestic developments (including the official reactions to teachers' and pupils' demonstrations) as well as the manoeuvring regarding the country's position towards Russia do not always contribute to the strengthening of a positive European image of the country.

Table 8: Summary Tick Box, Hungary

Reduced energy tax/VAT		
Retail price regulation	✓	energy for households (gas, electricity) for the average consumption and below some basic food items fuel (right now, for Hungarian individuals only)
Wholesale price regulation	✓	fuel
Transfers to vulnerable groups	✗	
Mandate to state-owned firms	✗	
Windfall profits tax/regulation	✓	Specific extra taxes on firms in the following sectors/items: financial institutions, assurance companies, energy providers, mining fee, air transport, trade of pharmaceuticals, communication, retail trade, company cars
Business support	✓	support to companies in the context of Russia's invasion of Ukraine
Other	✗	

Source: Author's own summary.

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