



Magyar Nemzeti Bank

# WHY IS DOMESTIC CONSUMPTION LOW? — STRUCTURAL CAUSES, CYCLICAL EFFECTS

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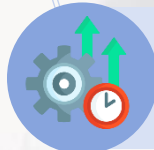
MNB Pareto In-depth Analyses



Our international relative position in domestic consumption per capita is significantly lower than in GDP per capita. Hungarians spend particularly little when it comes to certain areas. There are both structural and cyclical reasons behind this phenomenon.



Hungary has to forego 3 to 4 percent of the income generated within its borders. This is because some of that income is earned on foreign capital and also because of the net interest payments on the country's external debt.



Moreover, the Hungarian economy's productivity and domestic income generation capacity are both low. In the long run, these factors will limit domestic absorption and consumption.



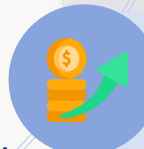
The share of household sector income in gross national disposable income (GNDI) dropped by nearly 10 percentage points in recent decades, and the ratio of wages and salaries is low in international comparison.



Since 2010, the rise in households' disposable income has been one of the most dynamic in the EU. Average gross earnings rank in the bottom third among the EU countries.

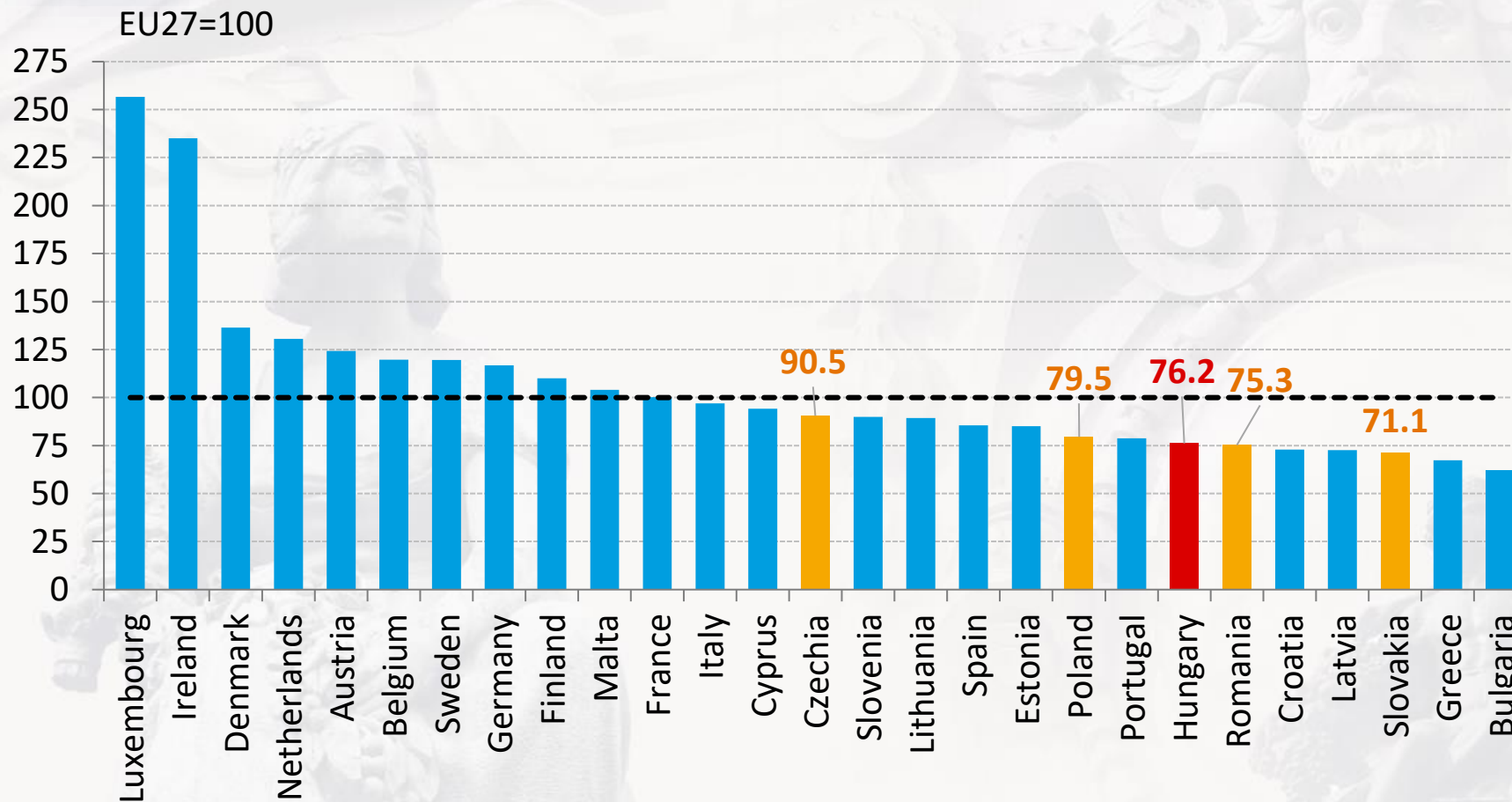


The household consumption rate is low relative to the country's level of development, partly because of low overall consumer confidence and the massive rise in prices on the housing market.



Looking ahead, rising consumption requires economic policies that seek to increase GNI; such policies should focus on boosting domestic productivity and income generation capacity, the sustainable convergence of wages and strengthening long-term confidence.

# HUNGARY RANKED 21ST IN THE EU IN TERMS OF GDP PER CAPITA IN 2022...



GDP per capita is a general but imperfect indicator of economic output and welfare. Based on this figure, **the value added produced by the domestic economy is three quarters of the EU average** in purchasing power parity (PPP) terms.

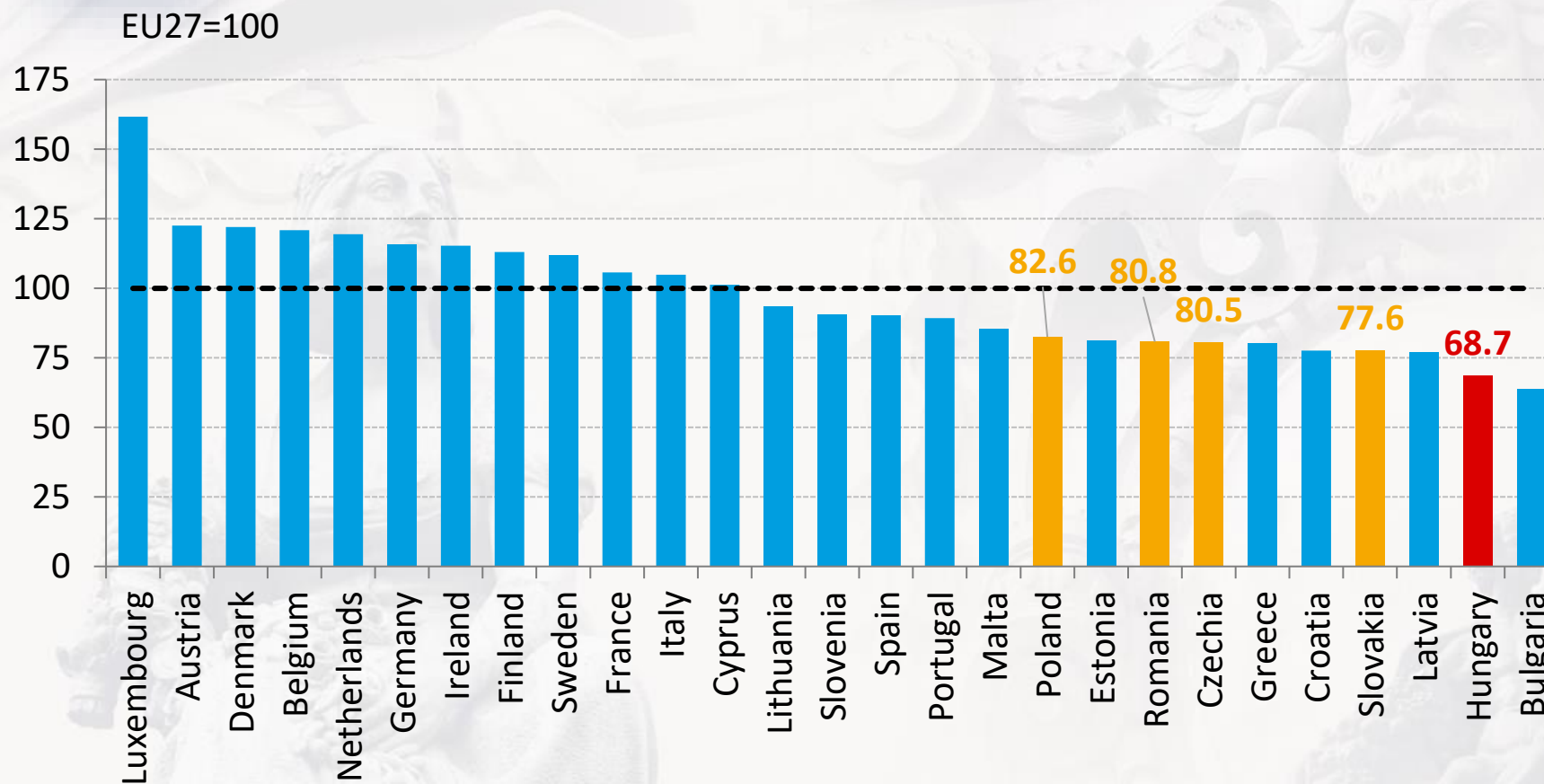
PPP is used to filter out the effect of price differences from the comparison.

## EVOLUTION OF GDP PER CAPITA , 2022

Note | At current prices, measured at PPP.

Source | Eurostat, MNB

# ...HOWEVER, THE COUNTRY'S RELATIVE POSITION IN TERMS OF HOUSEHOLD CONSUMPTION PER CAPITA IS SIGNIFICANTLY WORSE. WE NEED TO UNDERSTAND THE REASON WHY!



**Consumption per capita is less than 70 percent of the EU average.**

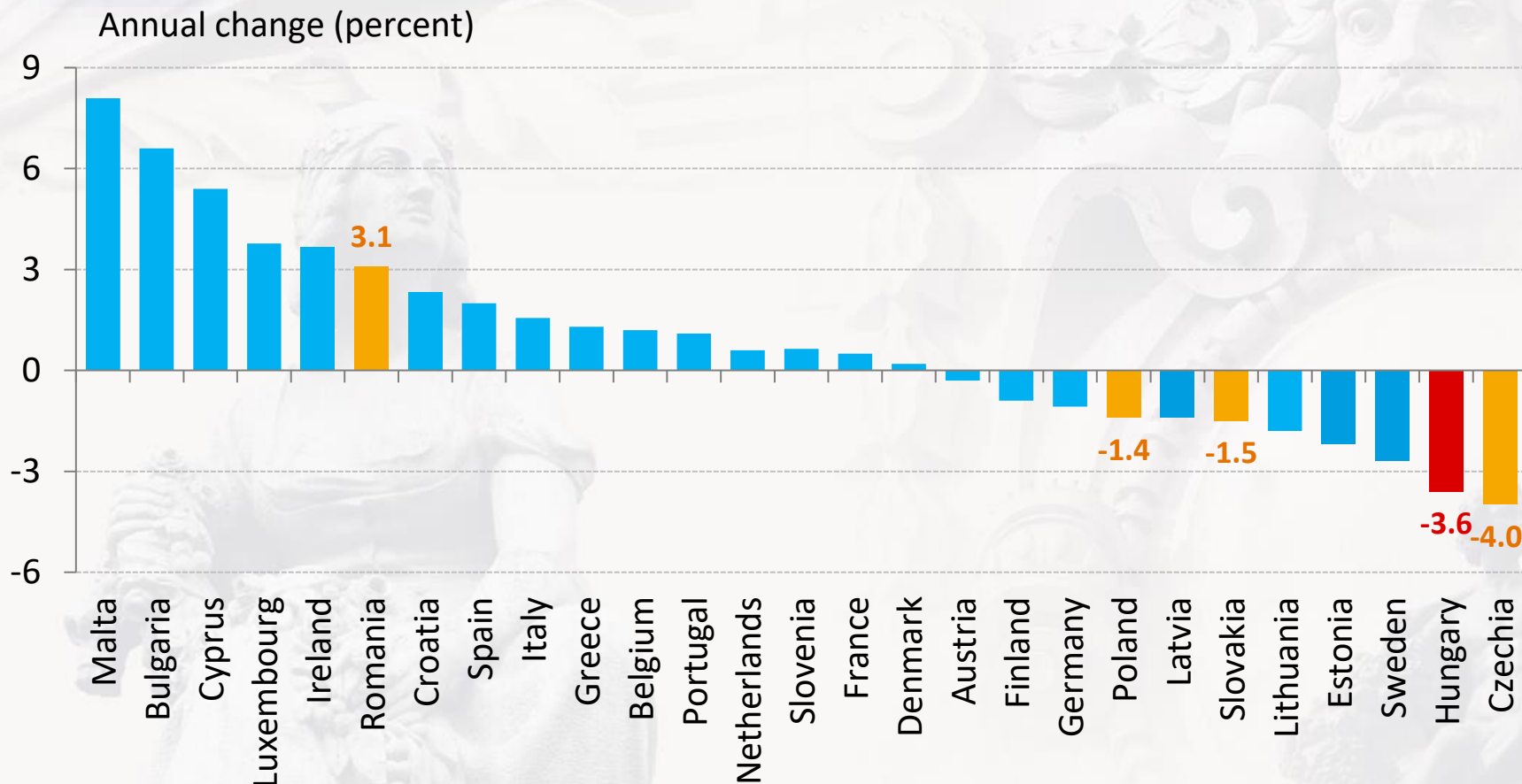
Our analysis aims to give an understanding of the reasons for the difference between value added and consumption per capita.

## TRENDS IN ACTUAL HOUSEHOLD CONSUMPTION PER CAPITA, 2022

Note | At current prices, measured at PPP. Household consumption expenditure including Individual consumption of nonprofit institutions.

Source | Eurostat, MNB

# THE VOLUME OF DOMESTIC HOUSEHOLD CONSUMPTION DROPPED CONSIDERABLY LAST YEAR, WHICH MAY FURTHER ERODE THE RELATIVE POSITION OF THE COUNTRY



Data from 2023 show that the decline in consumption volumes was one of the highest in the EU, which does no favour to Hungary's relative position in consumption per capita.

Real wages and personal disposable income fell due to high inflation. The direct financial as well as the indirect psychological effect (loss of consumer confidence) of this caused consumption to go down.

## CHANGE IN HOUSEHOLD CONSUMPTION EXPENDITURE IN THE FIRST THREE QUARTERS OF 2023

Note | Data adjusted for seasonal and calendar effects.

Source | Eurostat, MNB

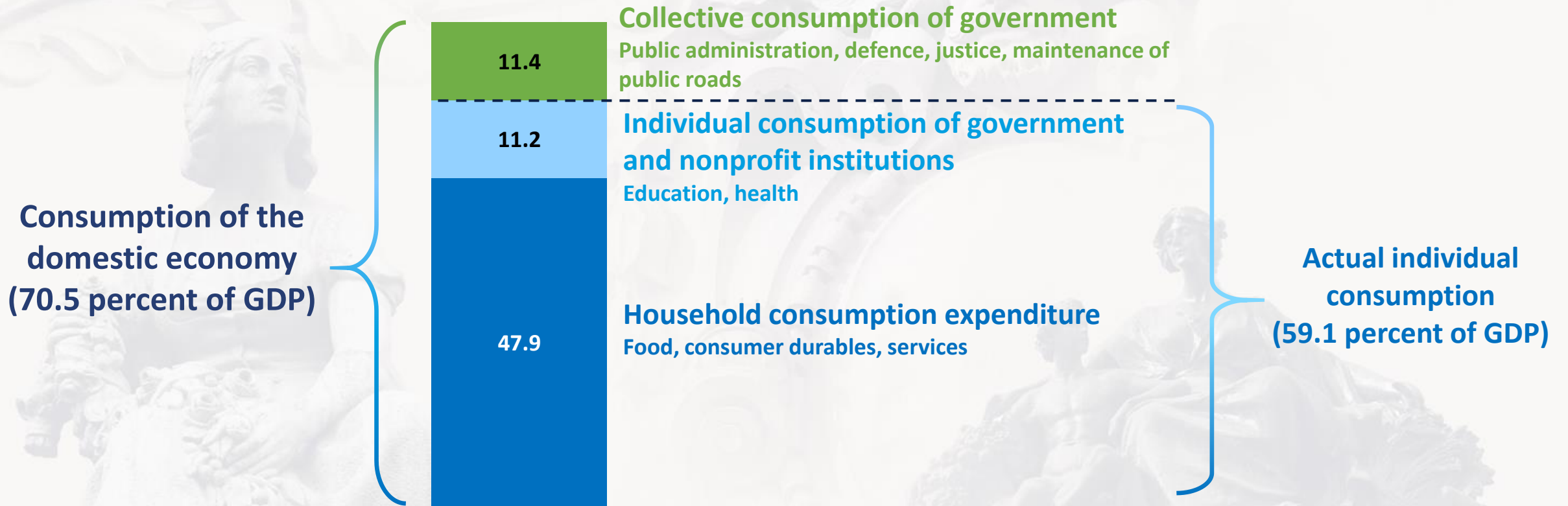
# WHAT CONSUMPTION AGGREGATES ARE MEASURED?

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*100 years for Hungary's  
prosperity*

# WHAT DO WE ACTUALLY MEASURE WHEN WE LOOK AT CONSUMPTION PER CAPITA ?



DISTRIBUTION OF CONSUMPTION ITEMS AS A SHARE OF GDP, 2022

Source | MNB

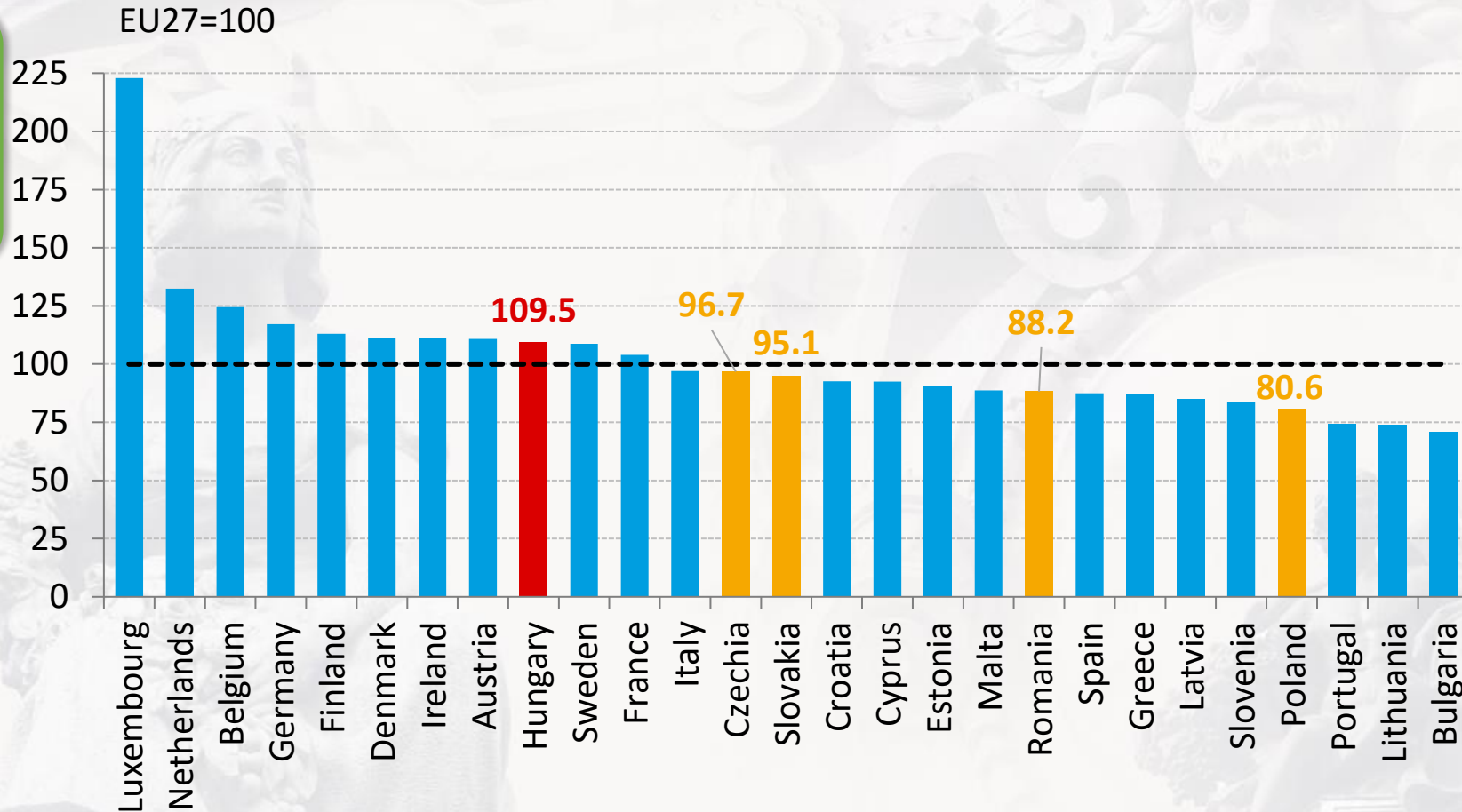
# DOMESTIC COLLECTIVE CONSUMPTION IS HIGH ALSO WHEN COMPARED WITH THE EU



Collective consumption

Individual consumption of government and nonprofit institutions

Household consumption expenditure



**Collective consumption** includes **government-funded** expenses that are **consumed collectively** by members of society (expenditure on public administration, defence, law enforcement, maintenance of public roads, etc.).

**In Hungary, the per capita value of collective consumption, which amounts to almost a tenth of GDP, was above the EU average in 2022 – the only one in the region.**

## TRENDS IN PER CAPITA COLLECTIVE CONSUMPTION, 2022

Note | At current prices, measured at PPP.

Source | Eurostat, MNB



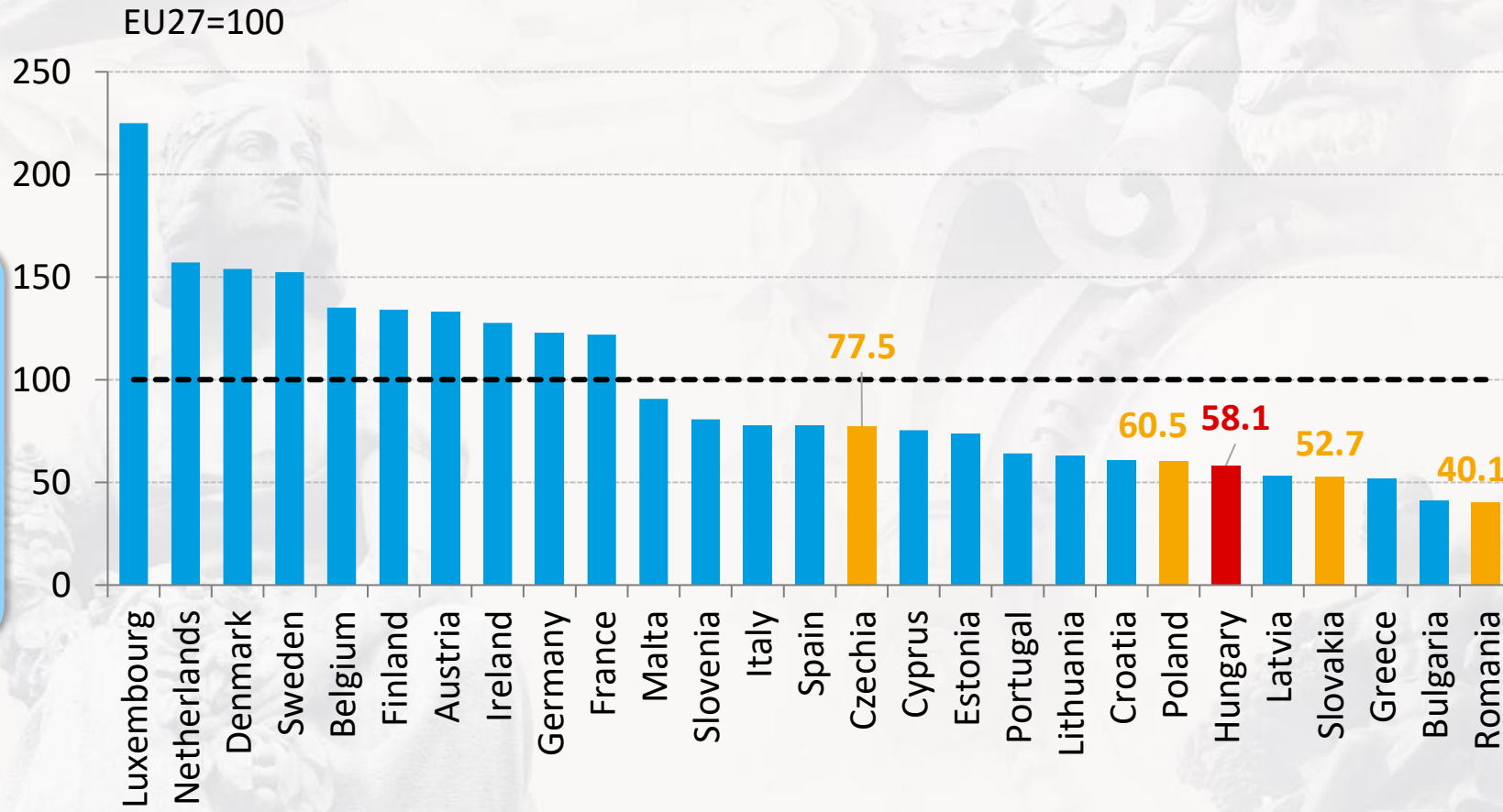
# THOUGH IN THE LOWER THIRD AMONG THE EU COUNTRIES, BENEFITS IN KIND CORRESPOND TO THE REGIONAL AVERAGE



Collective consumption

Individual consumption of government and nonprofit institutions

Household consumption expenditure



**Welfare benefits in kind** are non-financial transfers **financed by government or non-profit institutions** that are **consumed by households at the individual level** (human health, education, social benefits).

**Welfare benefits in kind account for nearly a tenth of GDP in Hungary**, below the EU average, and their **per capita amount equalled 58 percent of the EU average** in 2022 in PPP terms.

## EVOLUTION OF PER CAPITA WELFARE BENEFITS IN KIND, 2022

Note | At current prices, measured at PPP.

Source | Eurostat, MNB

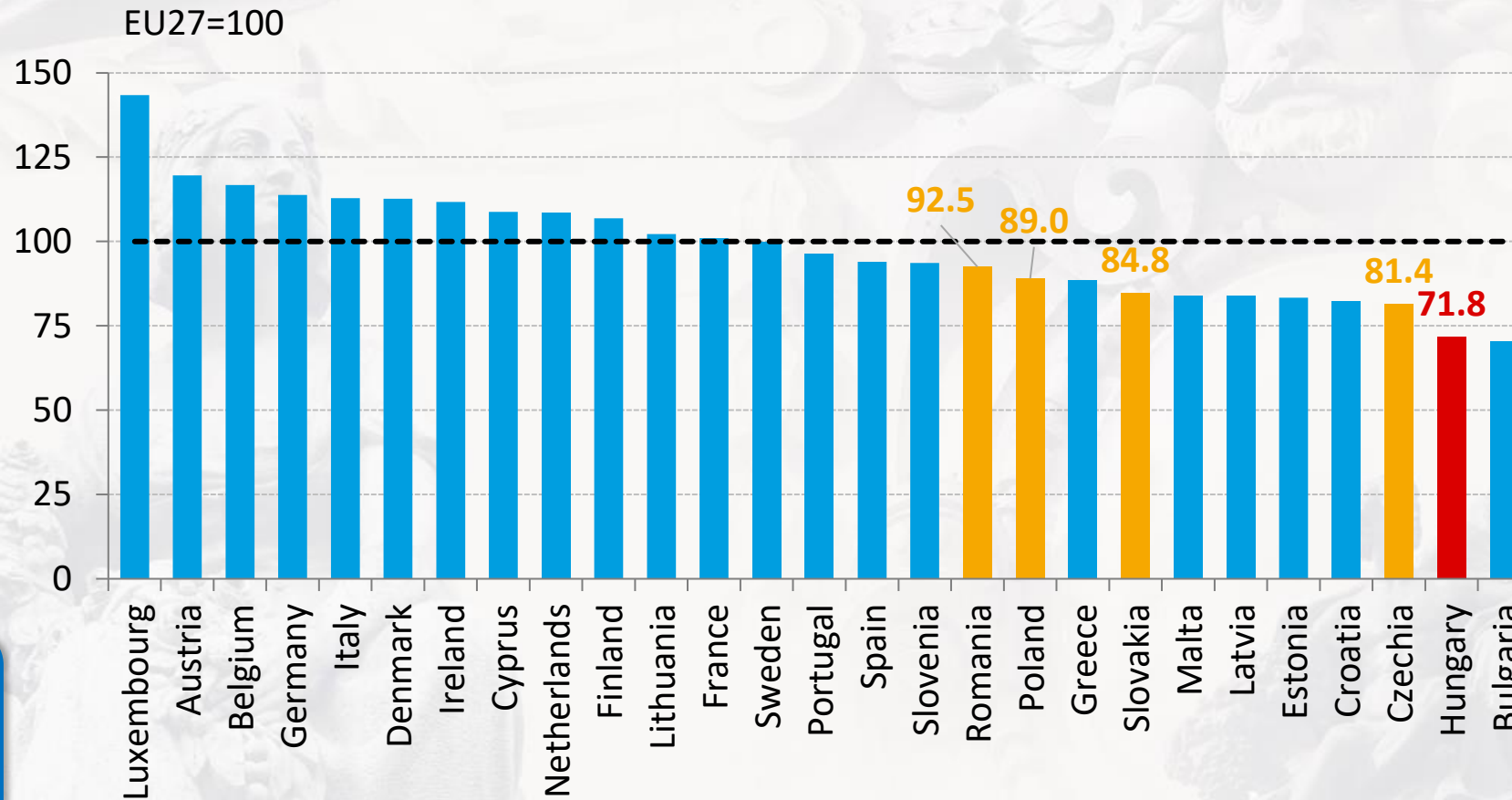
# THE ANSWER FOR THE SHORTFALL IN ACTUAL INDIVIDUAL CONSUMPTION LIES IN HOUSEHOLD CONSUMPTION EXPENDITURE PER CAPITA



Collective consumption

Individual consumption of government and nonprofit institutions

Household consumption expenditure



**Households' consumption expenditure** are expenses financed by themselves spent on the purchase of goods or the use of services.

**This consumption item accounts for almost half of GDP.**

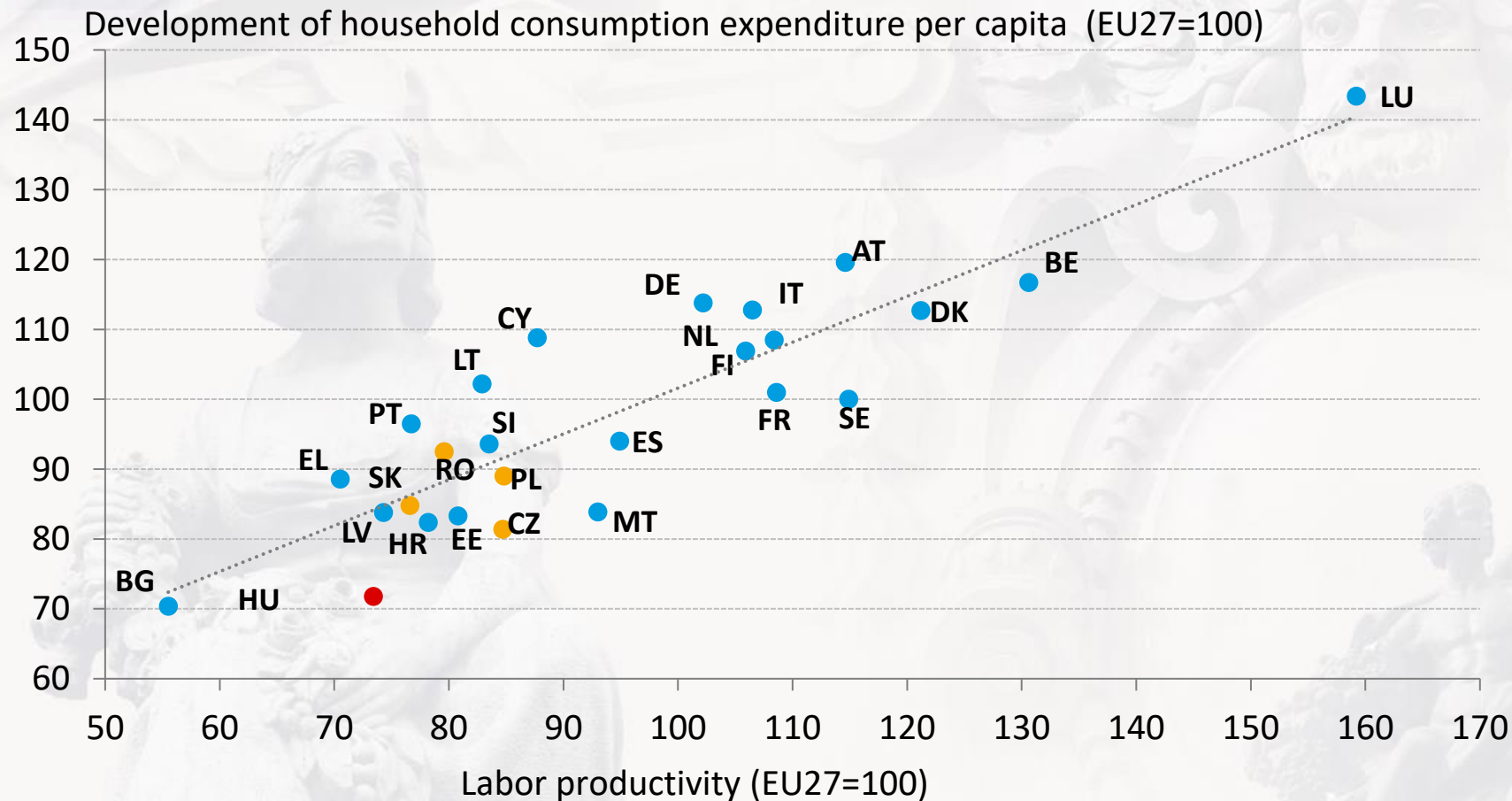
Domestic household consumption expenditure is **around 72 percent of the EU average**, which is much lower than in the other Visegrad countries.

## EVOLUTION OF PER CAPITA HOUSEHOLD CONSUMPTION EXPENDITURE, 2022

Note | At current prices, measured at PPP.

Source | Eurostat, MNB

# HOUSEHOLD CONSUMPTION EXPENDITURE IS ALSO BELOW THE LEVEL WARRANTED BY THE COUNTRY'S PRODUCTIVITY



**Domestic consumption levels are low by EU standards, but are they in accord with the level of productivity?** Data suggest that in most countries, as productivity rises, consumption tends to rise too. The relationship between consumption and labour productivity is illustrated by the regression line in the chart.

**Consumption in Hungary falls behind even the level justified by productivity.** The reasons for this are analysed in the following.

## PER CAPITA HOUSEHOLD CONSUMPTION EXPENDITURE AND TRENDS IN LABOUR PRODUCTIVITY, 2022

Note | At current prices, measured at PPP.

Source | Eurostat, MNB

# HUNGARIANS SPEND VERY LITTLE ON CERTAIN GROUPS OF PRODUCTS



	Food, beverages, tobacco		Clothing, footwear		Household, home maintenance		Healthcare		Transport		Telecomm.		Leisure, hospitality	
	EU 27 =100	Location	EU 27 =100	Location	EU 27 =100	Location	EU 27 =100	Location	EU 27 =100	Location	EU 27 =100	Location	EU 27 =100	Location
BG	63.1	<b>27.</b>	35.9	<b>26.</b>	33.7	<b>27.</b>	63.0	<b>22.</b>	47.4	<b>23.</b>	90.5	<b>17.</b>	33.2	<b>26.</b>
PL	76.6	<b>25.</b>	61.5	<b>24.</b>	39.3	<b>25.</b>	86.4	<b>12.</b>	58.3	<b>21.</b>	50.0	<b>26.</b>	24.1	<b>27.</b>
CZ	88.8	<b>22.</b>	64.1	<b>23.</b>	78.0	<b>14.</b>	40.7	<b>25.</b>	52.6	<b>22.</b>	81.0	<b>20.</b>	94.8	<b>18.</b>
SK	90.6	<b>20.</b>	57.7	<b>25.</b>	85.4	<b>13.</b>	37.0	<b>27.</b>	27.6	<b>27.</b>	78.6	<b>21.</b>	62.3	<b>22.</b>
RO	90.9	<b>19.</b>	74.4	<b>21.</b>	45.9	<b>24.</b>	79.0	<b>19.</b>	45.2	<b>26.</b>	73.8	<b>23.</b>	37.7	<b>24.</b>
HR	107.8	<b>8.</b>	74.4	<b>20.</b>	48.8	<b>23.</b>	85.2	<b>13.</b>	47.4	<b>24.</b>	121.4	<b>6.</b>	99.4	<b>17.</b>
<b>HU</b>	<b>64.7</b>	<b>26.</b>	<b>33.3</b>	<b>27.</b>	<b>34.8</b>	<b>26.</b>	<b>40.7</b>	<b>26.</b>	<b>45.6</b>	<b>25.</b>	<b>47.6</b>	<b>27.</b>	<b>34.9</b>	<b>25.</b>

## PER CAPITA HOUSEHOLD CONSUMPTION EXPENDITURE BY CONSUMPTION GROUP, 2022

Note | At current prices, measured at PPP. The goods and services shown are those in respect of which the country ranks at the very bottom among the EU countries.

Source | Eurostat, MNB

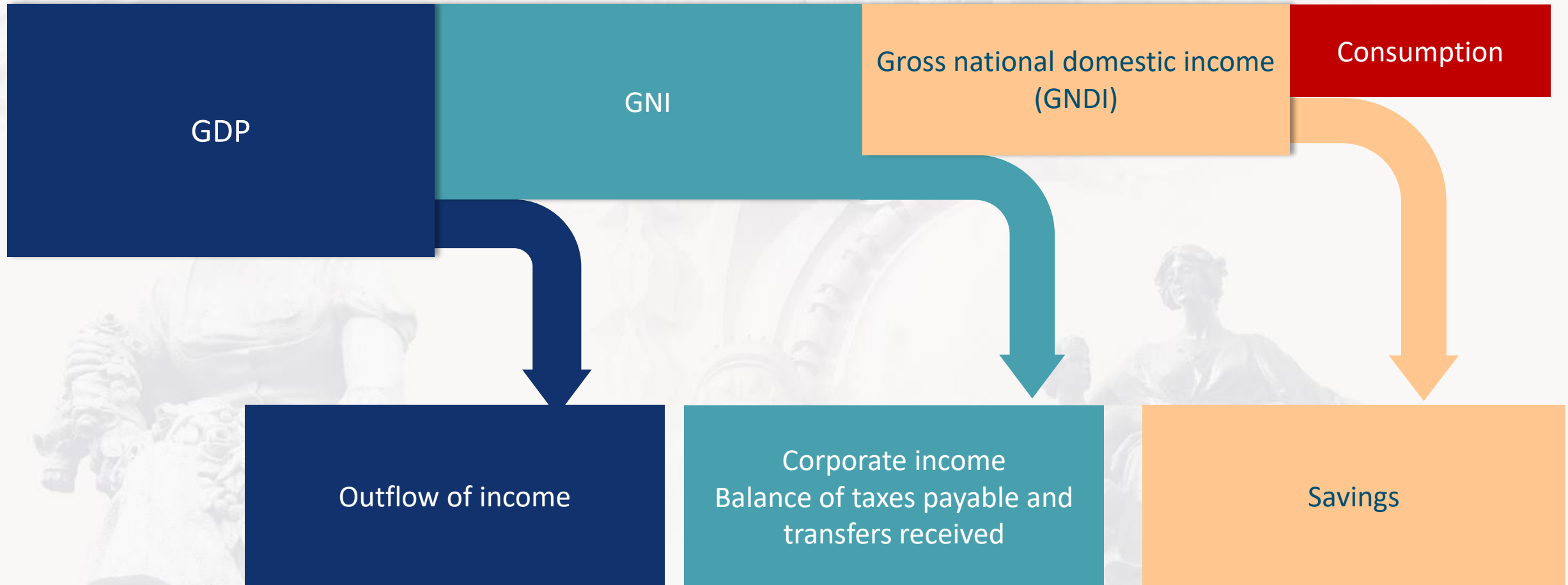


*100 years for Hungary's  
prosperity*

# STRUCTURAL CAUSES OF LOW CONSUMPTION

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# WHAT COULD EXPLAIN THE DIFFERENCE BETWEEN HUNGARY'S CONSUMPTION AND GDP RANKINGS?

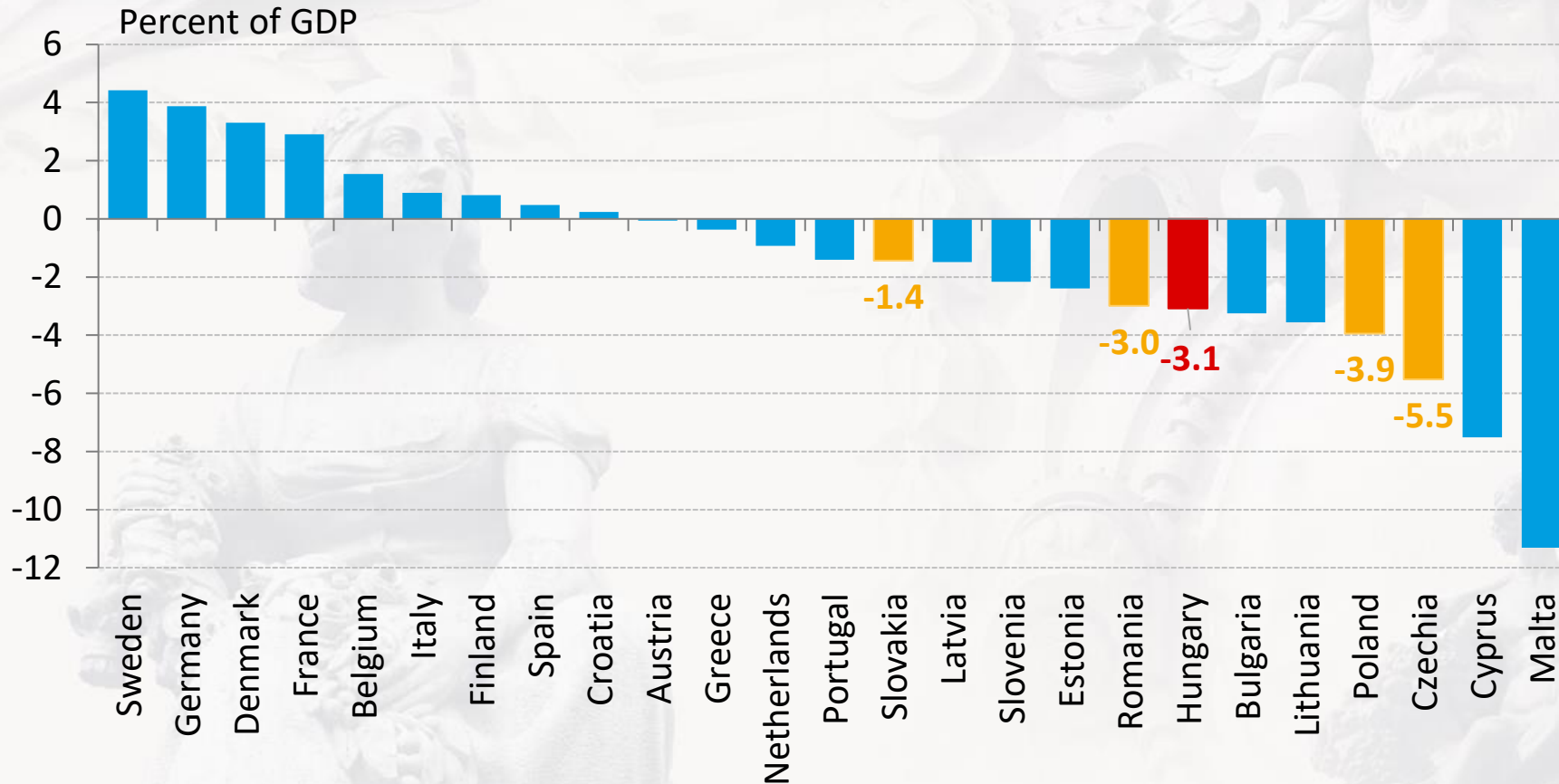


Source | MNB

PROBLEM	HOW IS IT REFLECTED?	CAUSE OF THE PROBLEM
International income distribution	Though not salient, significant GDP/GNI gap	<ol style="list-style-type: none"><li>1. High FDI with low domestic value added</li><li>2. Repeated rise in external indebtedness</li></ol>
Domestic income distribution	Declining and low share of household income in total GNI and GNDI	<ol style="list-style-type: none"><li>1. Low domestic value added → low domestic wages</li><li>2. Weak bargaining power of workers</li></ol>
Distribution of consumption over time	Low consumption rate relative to the country's level of development	<ol style="list-style-type: none"><li>1. Uncertain economic outlook</li><li>2. Price rise in the real estate market</li><li>3. Tensions in the large care and benefits systems</li></ol>

Source | MNB

# PROBLEMS IN EXTERNAL INCOME DISTRIBUTION: HUNGARY HAS TO FOREGO 3 TO 4 PERCENT OF THE INCOME GENERATED WITHIN ITS BORDERS



The distribution of income between countries tells of an East-West divide. **Western countries tend to have more income than the value added produced within their borders.** The main reason is that they place significant amounts of money in other countries through loans and FDI which, in turn, generates income (also) for them.

**Countries that absorb this capital forego, through profits and interests, part of the income they generate** – as reflected in Central and Eastern European data.

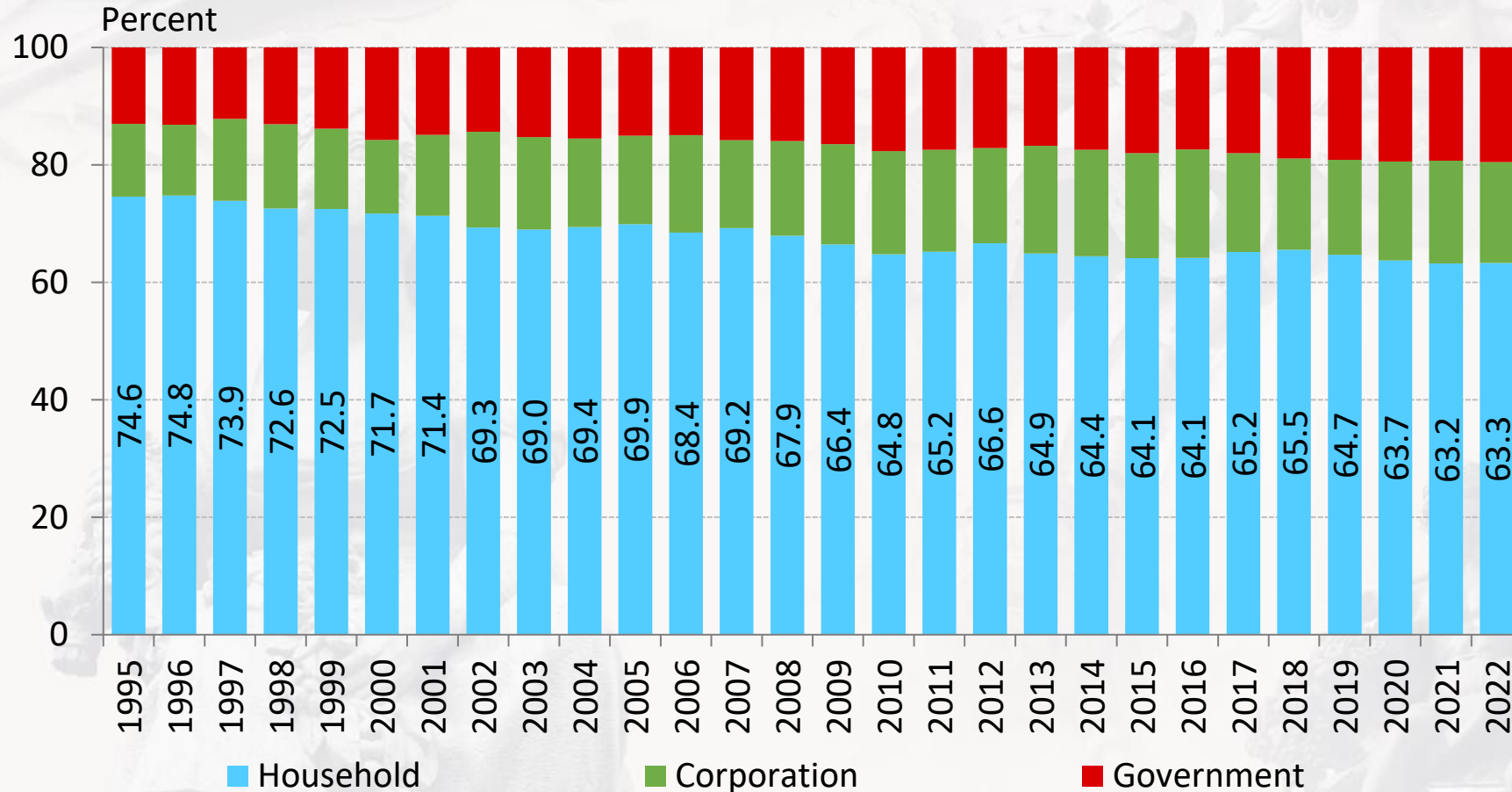
## EVOLUTION OF THE GNI/GDP GAP, 2022

Note | Ireland (-28.2 percent) and Luxembourg (-29.1 percent) are not included in the chart.

Source | Eurostat, MNB



# A SHIFT IN INTERNAL INCOME DISTRIBUTION: INCOME OF THE HOUSEHOLD SECTOR AS A SHARE OF GNI FELL BY MORE THAN 10 PERCENTAGE POINTS



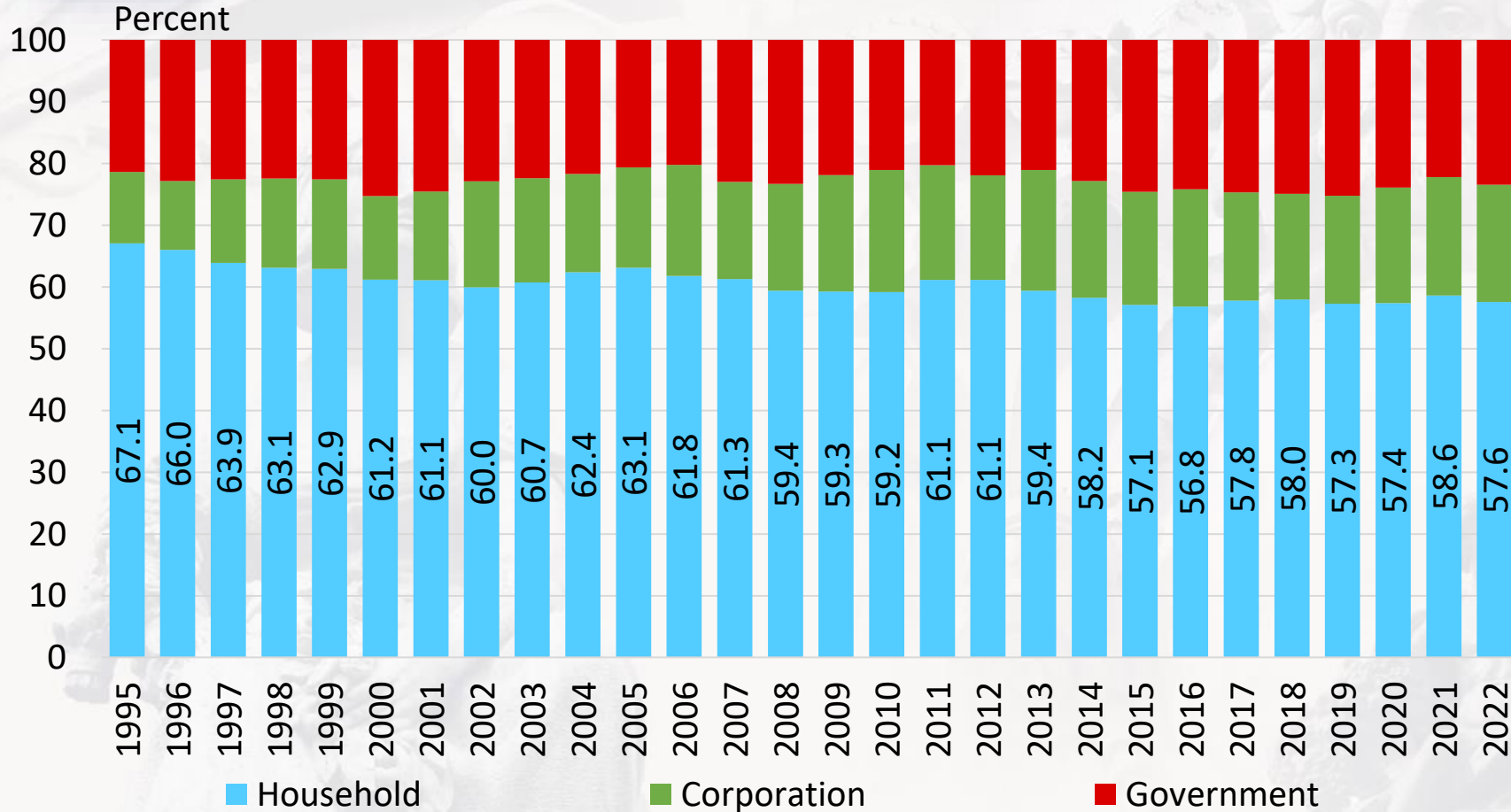
Households account for nearly two-thirds of the gross national income (GNI) generated by the country's resident sectors.

**However, the domestic household sector's share of GNI is less and less.** Household income should provide the backbone of consumption; therefore, its decline **leads to persistently low consumption.**

## SECTORAL BREAKDOWN OF GNI

Source | Eurostat, MNB

# A SHIFT IN INTERNAL INCOME DISTRIBUTION: THE RATIO OF HOUSEHOLDS' DISPOSABLE INCOME ALSO DECREASED

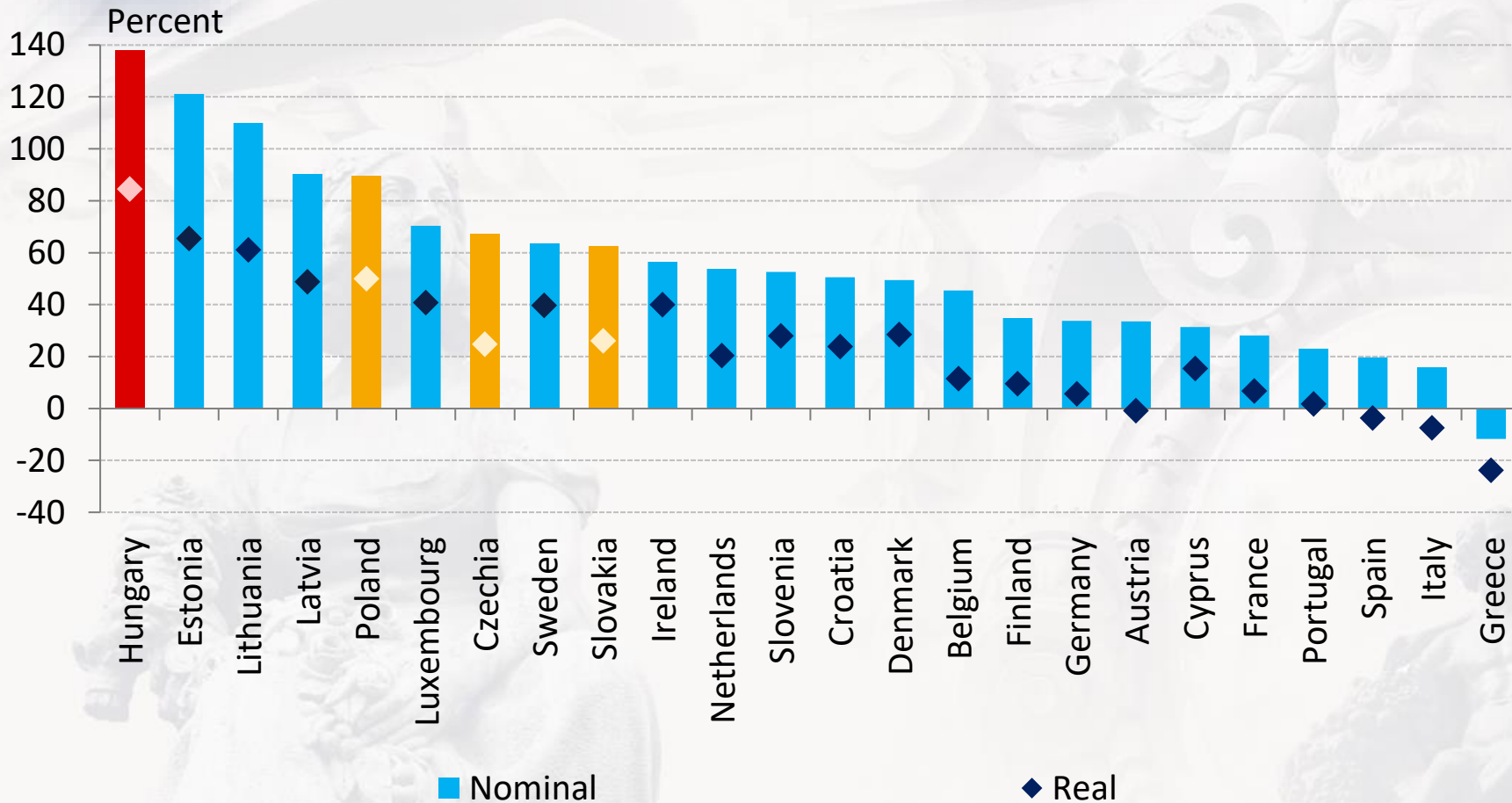


The domestic household sector's share of GNDI also shrank, by some 10 percentage points.

## SECTORAL BREAKDOWN OF GNDI

Source | Eurostat, MNB

# HUNGARY SAW THE FASTEST GROWTH IN NOMINAL AND REAL INCOME...



**The rise in wages is the main driver behind the strong income growth of the past decade.**

**But the rate of growth does not tell the whole story. It is also important to look at the levels.**

## CHANGES IN HOUSEHOLDS' NET PERSONAL DISPOSABLE INCOME IN THE NATIONAL CURRENCY, 2010–2022

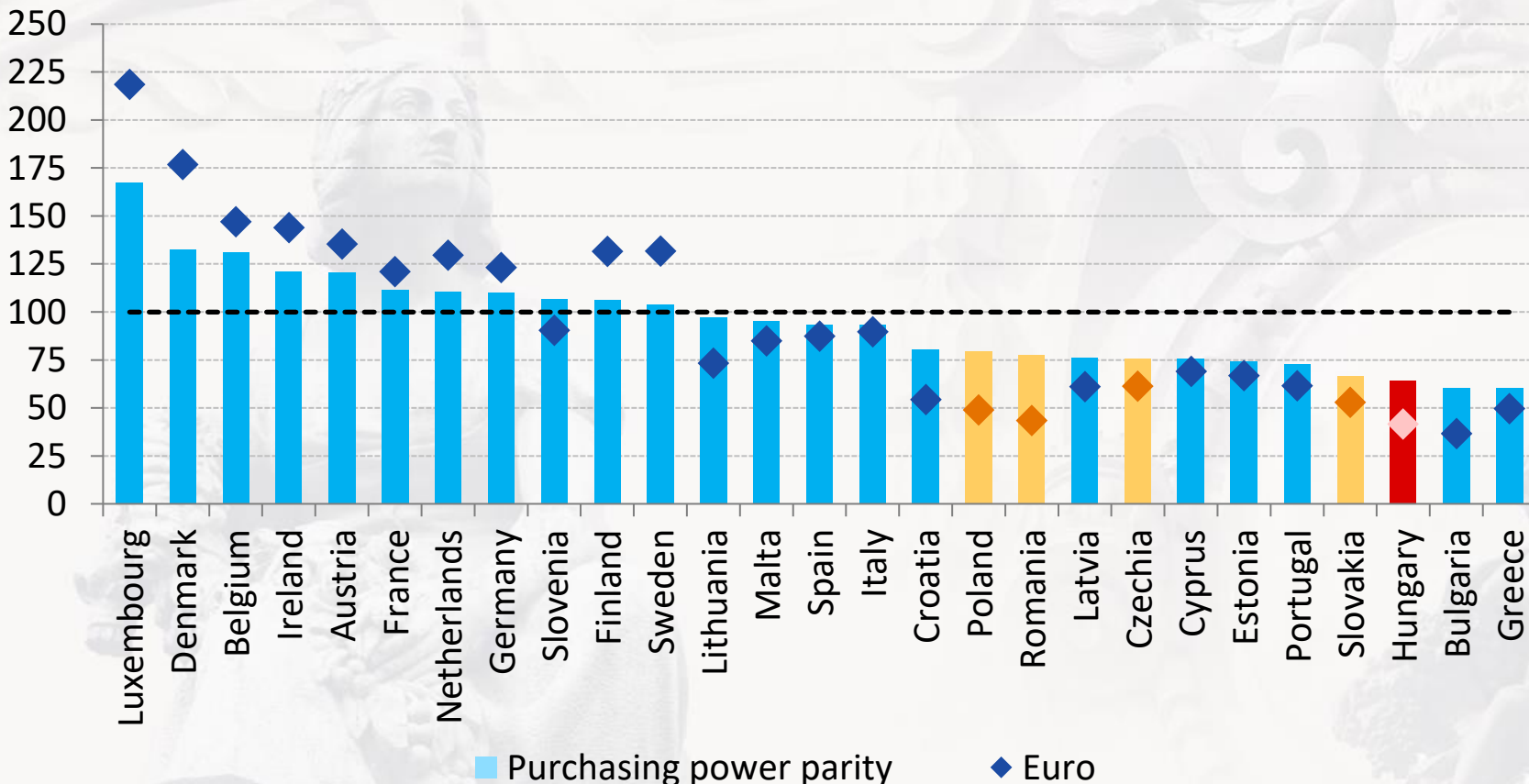
Note | Net personal disposable income. For Austria and Germany, between 2012 and 2022. No data are available for Bulgaria, Romania and Malta.

Source | Eurostat, MNB

# ...BUT THE COUNTRY STILL FALLS BEHIND THE REGIONAL AVERAGE IN TERMS OF AVERAGE GROSS EARNINGS AT PPP



EU27=100



Wage growth had no substantive impact on the level of wages.  
**Domestic workers continue to earn little in international comparison.**

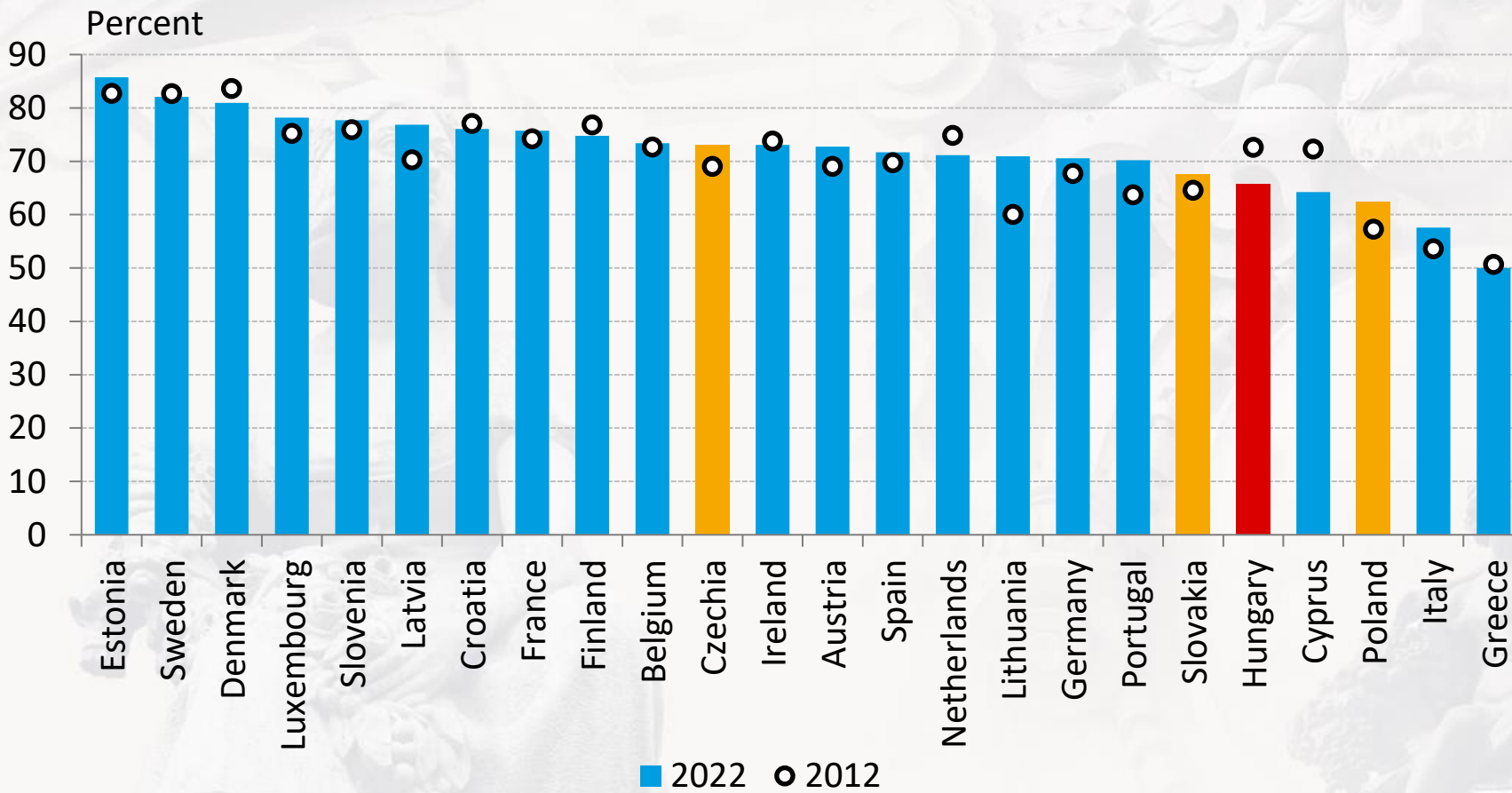
In euro terms, gross domestic earnings on average are less than half the EU average, and equal only its 64 percent even when measured at PPP.

## AVERAGE GROSS EARNINGS IN THE EUROPEAN UNION, 2022

Note | Based on national accounts data.

Source | Eurostat, MNB

# LOW RATIO OF EARNED WAGES RELATIVE TO GROSS NATIONAL INCOME



The wage-to-GNI ratio fell by 6.9 percentage points over 10 years.

Of the countries in the region, only Hungary saw a decrease in this share, which was the fifth lowest among EU countries in 2022.

## EVOLUTION OF THE RATIO OF HOUSEHOLDS' TOTAL WAGES TO GNI

Note | No data are available for Bulgaria, Romania and Malta.

Source | Eurostat, MNB

**Calculation of the labour share is surrounded by statistical uncertainty. National accounts and institutional labour statistics give different pictures of the evolution of the wage share.**

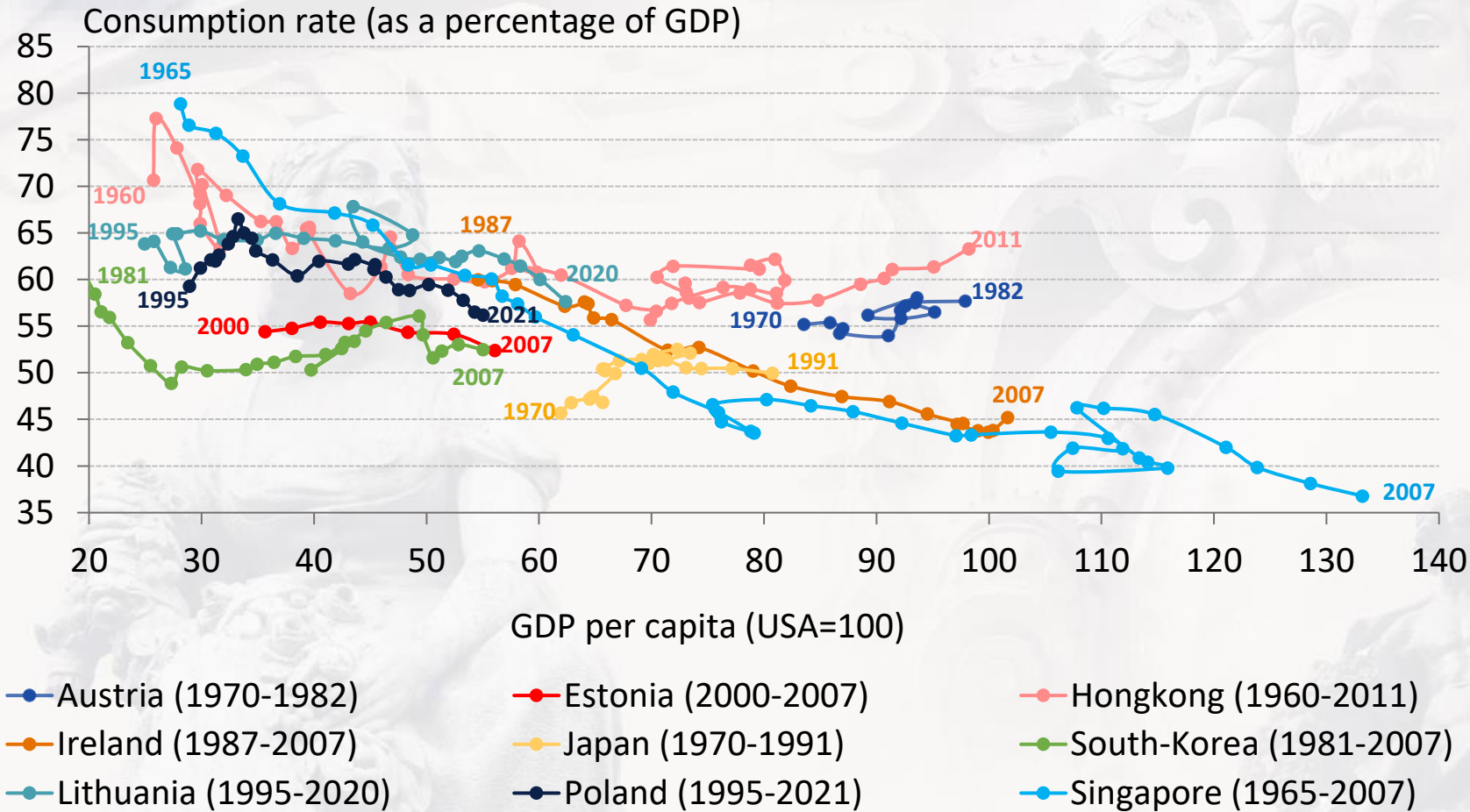
## DIFFERENCES IN STATISTICS ON THE LABOUR SHARE

- Since 2014, institutional labour statistics have indicated a higher rise in wages than the national accounts
- While the wage share has been declining for years according to data from the national accounts, institutional statistics show that it reached historically high levels in recent years

## POTENTIAL CAUSES

- Survey differences (institutional statistics only include declared wages)
- Shrinking shadow economy

# A SUCCESSFUL CONVERGENCE PATH USUALLY ENTAILS A LOWER CONSUMPTION RATE



It is interesting to look at how the consumption rate evolves during economic convergence.

Countries that are deemed to have successfully caught up are those whose development improved by at least 20 percentage points from below 55 percent of the US indicator with high GDP growth.

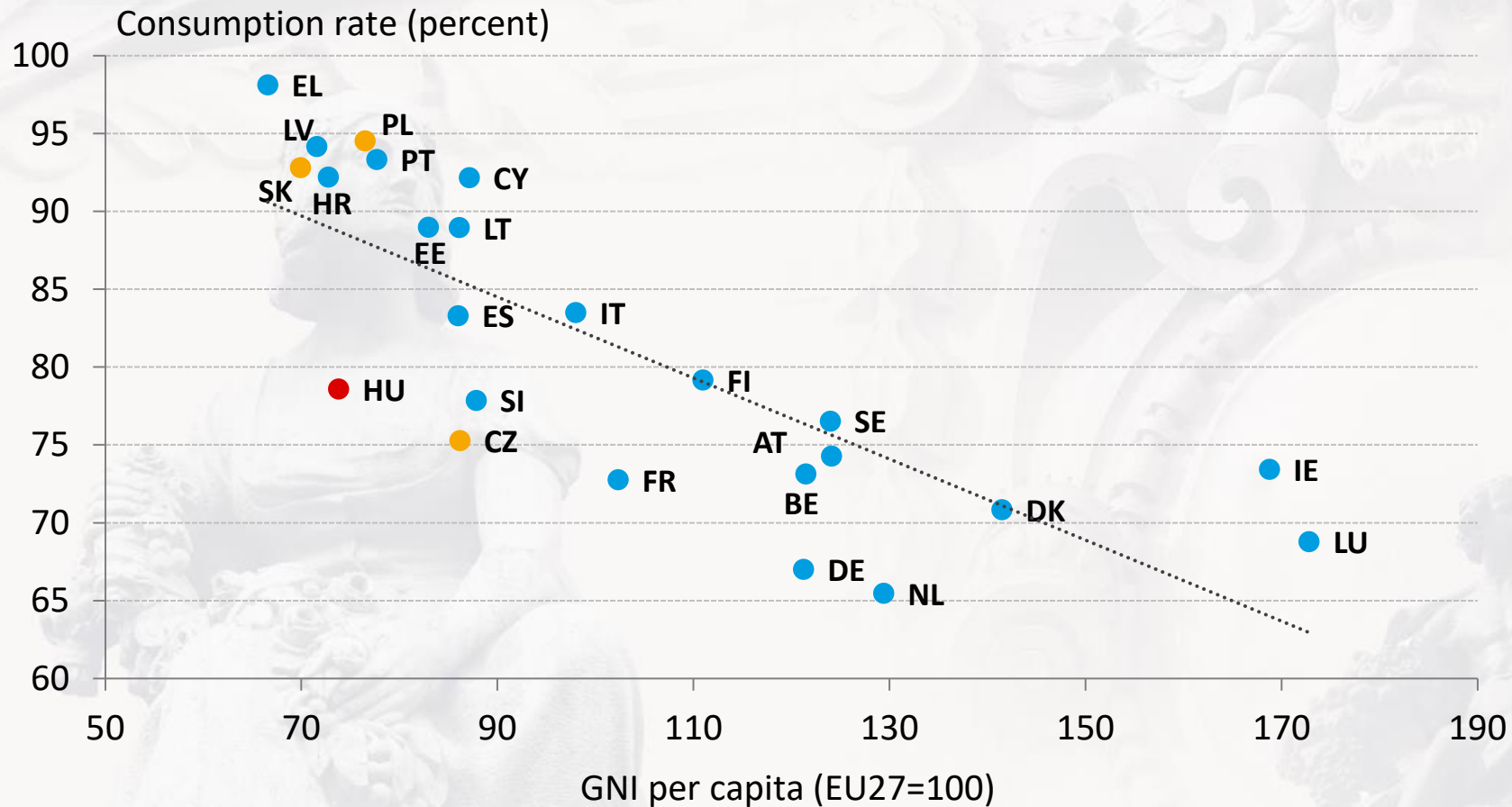
Experience of the past more than 60 years shows that **the consumption rate declines as the economy catches up.**

## EVOLUTION OF THE CONSUMPTION RATE AND PER CAPITA GDP

Note | GDP per capita at constant 2021 PPP prices.

Source | Eurostat, Maddison, MNB

# LOW CONSUMPTION RATE ALSO IN RELATION TO THE COUNTRY'S LEVEL OF DEVELOPMENT



The regression line indicates a drop in the consumption rate in accordance with income growth.

Hungary is well below the line, which means it has a **low consumption rate compared with its level of development.**

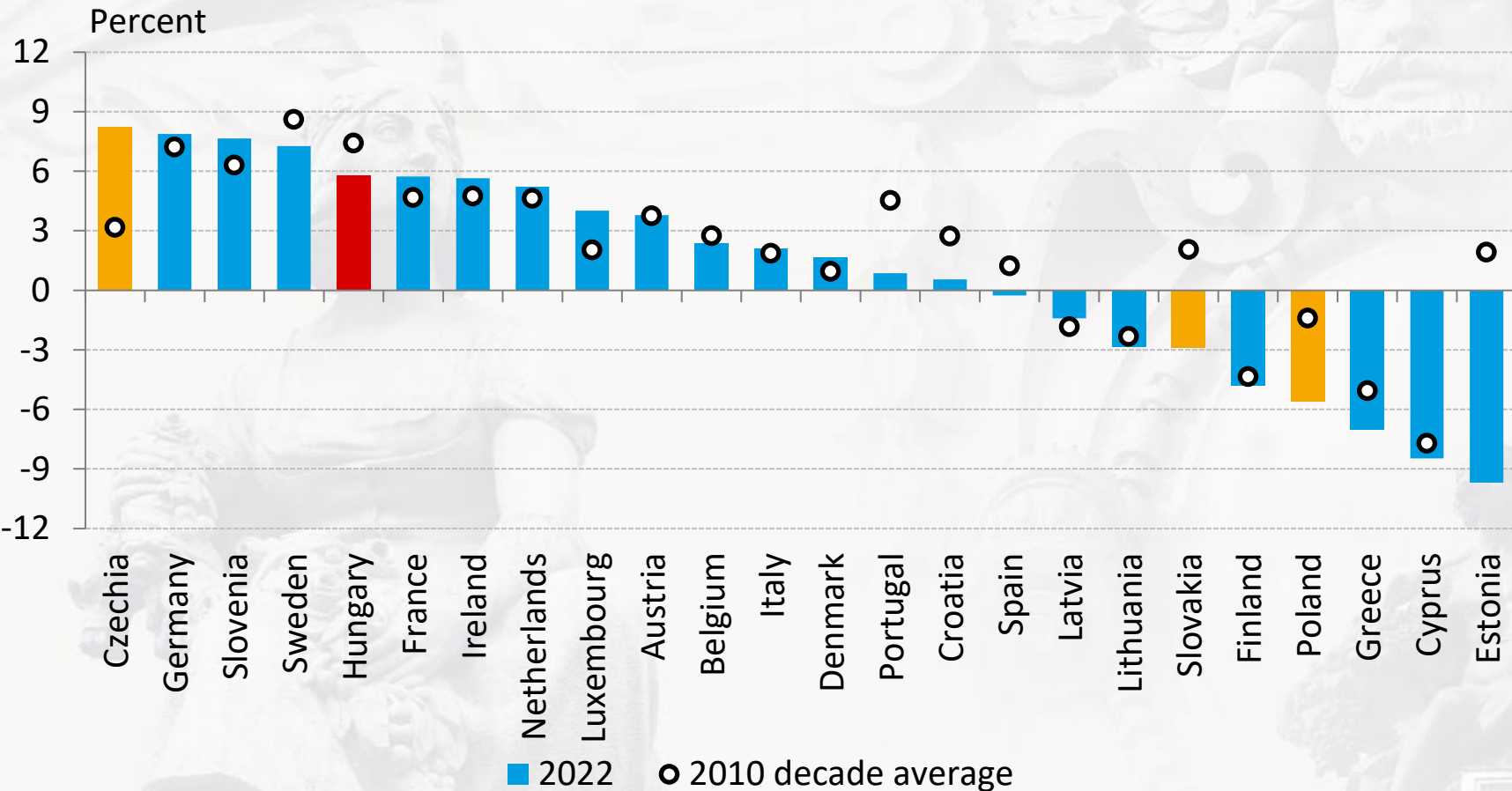
## HOUSEHOLDS' CONSUMPTION RATE AS A SHARE OF GNI AND CHANGES IN PER CAPITA GNI, 2022

Note | No data are available for Bulgaria, Romania and Malta.

Source | Eurostat, MNB



# HUNGARIANS HAVE CONSIDERABLE SAVINGS RELATIVE TO THEIR INCOME



In the period under review, the net saving rate in Hungary was above 5 percent, which is high even by EU standards.

Furthermore, the saving rate is persistently high, meaning it is not merely a cyclical upward trend.

## CHANGES IN HOUSEHOLDS' NET SAVING RATE AS A SHARE OF GNI

Note | No data are available for Bulgaria, Romania and Malta. For Germany and Austria, average for 2012–2019.

Source | Eurostat, MNB

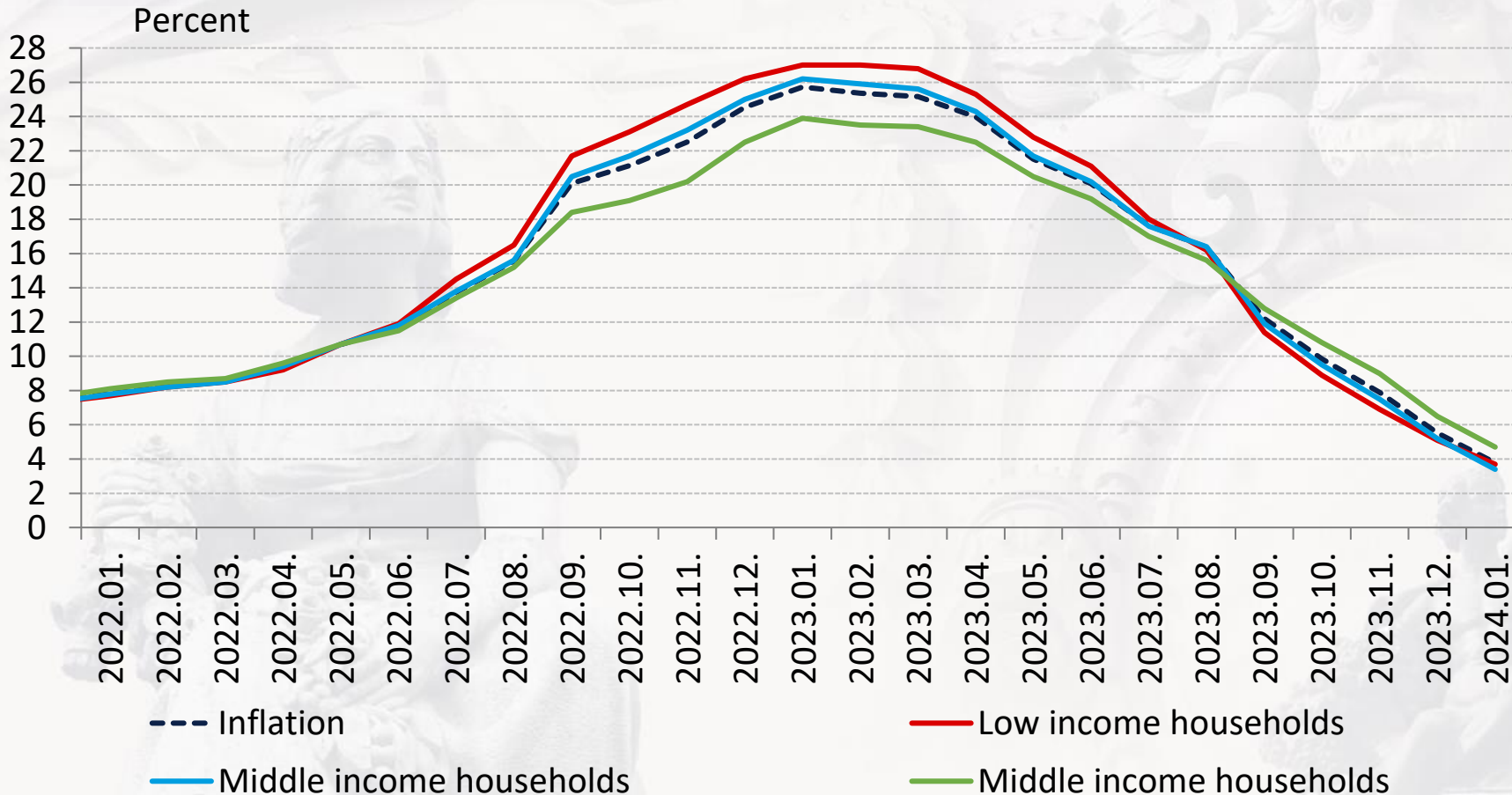
# CYCLICAL CAUSES OF LOW CONSUMPTION

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*100 years for Hungary's  
prosperity*

# HOUSEHOLDS WITH A HIGH CONSUMPTION RATE WERE HIT HARDER BY THE RECENT INFLATION



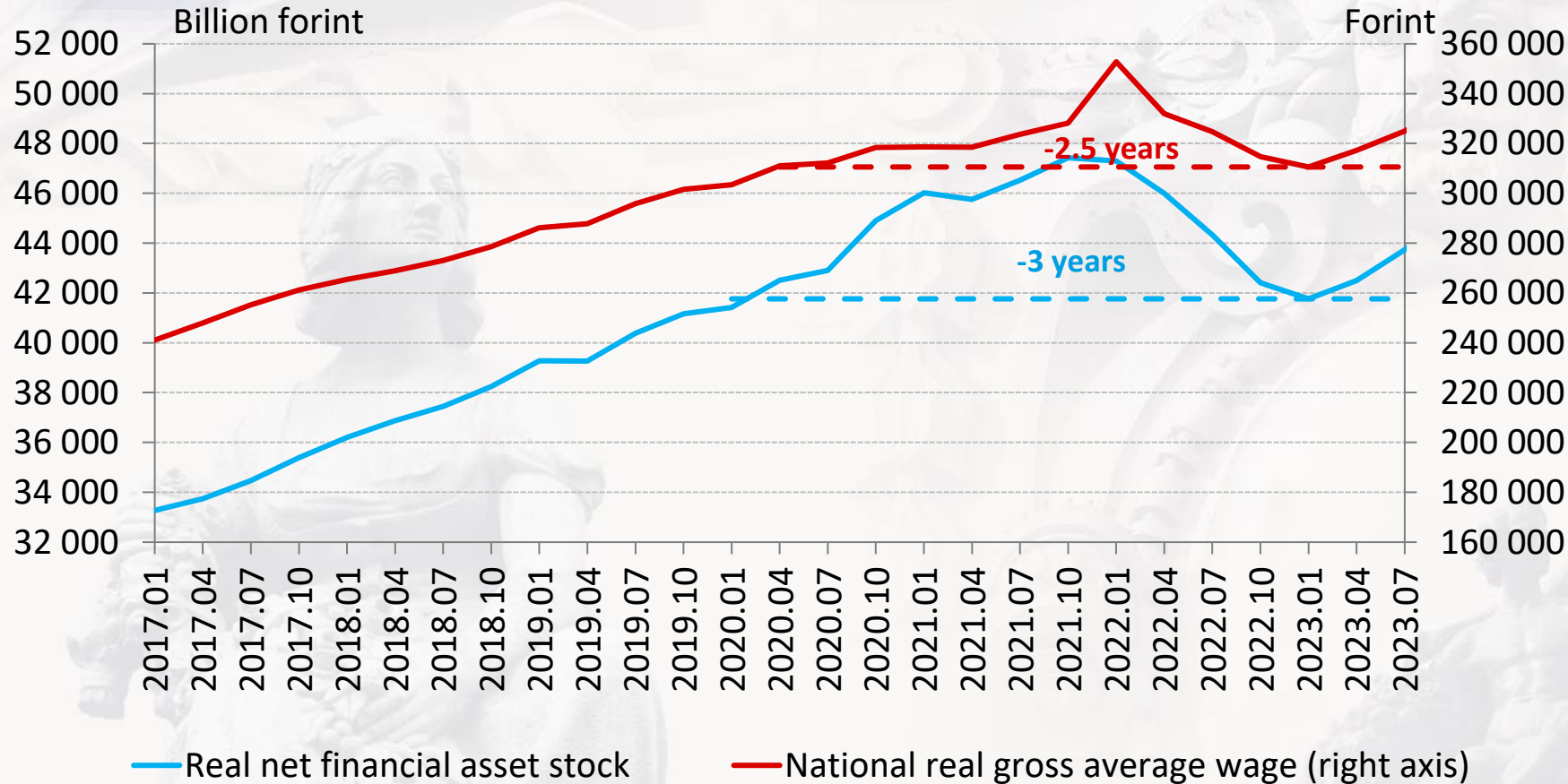
**Lower-income households faced higher than average inflation.** The main reason for this is that food accounts for a larger share of their consumption, the price of which went up the most in Hungary among EU Member States due to the poor competitiveness of the food sector.

**In January 2023, at the peak of inflation, it was 3.1 percentage points higher** for low-income earners than for high-income earners on the basis of their different consumer basket.

## ANNUAL INFLATION TRENDS BY INCOME GROUPS

Source | HCSO, MNB

# REAL WAGES AND REAL NET WEALTH FELL BACK TO LEVELS OF 2.5 TO 3 YEARS EARLIER, CALLING FOR MORE PRUDENCE AND DISCOURAGING CONSUMPTION



**The inflationary surge caused real wages and real net wealth to drop to the level observed 2.5 and 3 years before, respectively.**

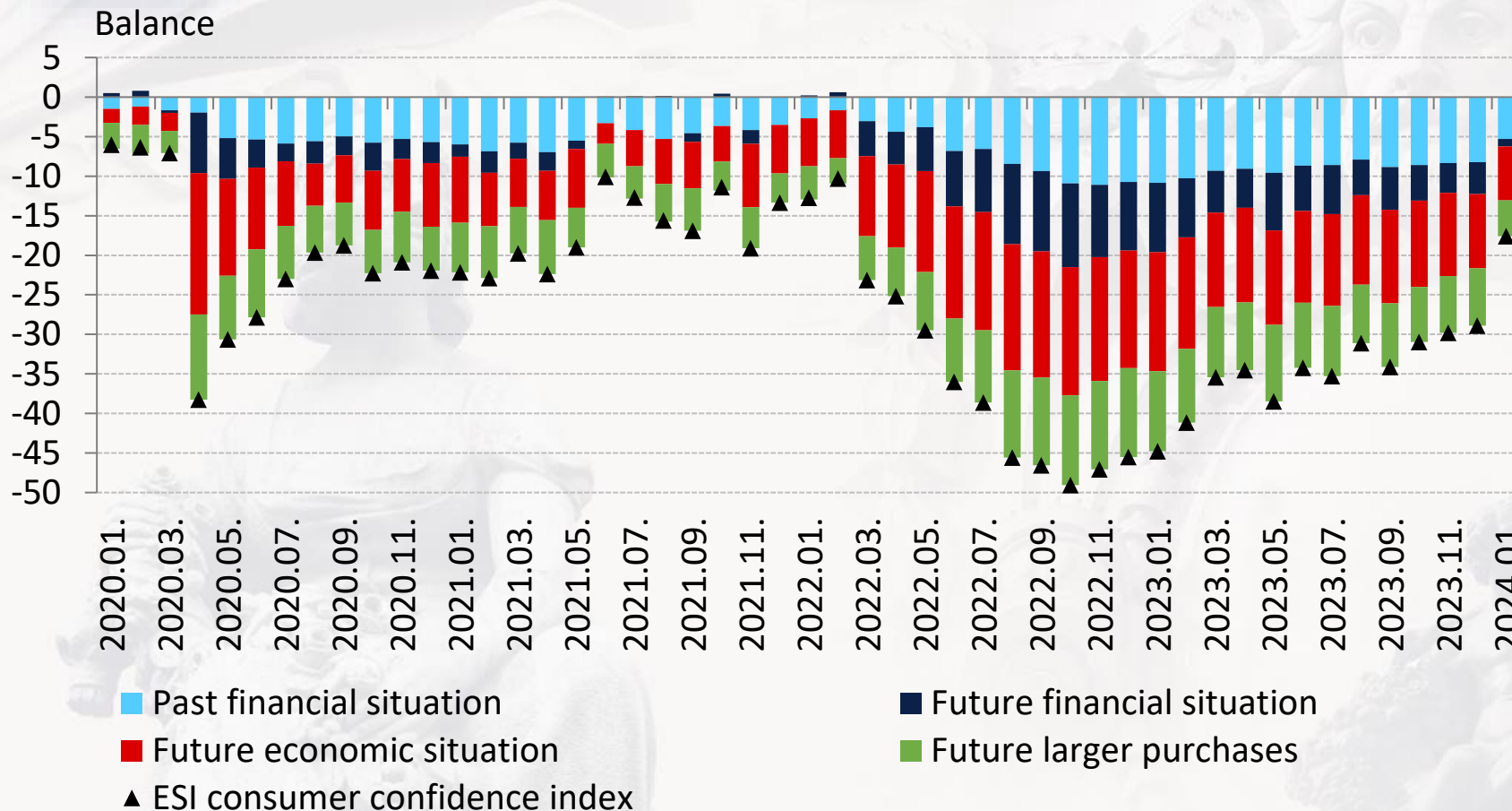
In order to preserve the real value of their financial assets, **households increased their current savings significantly since the end of 2022**, which translated into a decline in consumption.

## HOUSEHOLDS' REAL NET WEALTH AND AVERAGE REAL GROSS WAGES IN THE NATIONAL ECONOMY

Note | At 2010 average prices, quarterly figures.

Source | HCSO, MNB

# HIGH INFLATION DAMAGED CONSUMER CONFIDENCE TO A GREAT DEGREE



**The sharp rise in prices prompted the public to lose more confidence than during the coronavirus pandemic.**

This erosion of confidence discouraged families from spending large sums of money, making them more inclined to save.

**The confidence index improves as inflation abates.**

## EVOLUTION OF THE ESI CONSUMER CONFIDENCE INDEX AND ITS SUBINDICATORS

Note | Data adjusted for seasonal and calendar effects. Each subindicator is assessed for a span of 12 months.

Source | European Commission, MNB



*100 years for Hungary's  
prosperity*

# SUSTAINABLE INCREASE IN CONSUMPTION

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$$\text{GNI} - \text{C} - \text{I} - \text{G} = \text{current account balance}$$



Economic policies need to focus on GNI growth (productivity, domestic value creation)



Investment for sustainable income growth

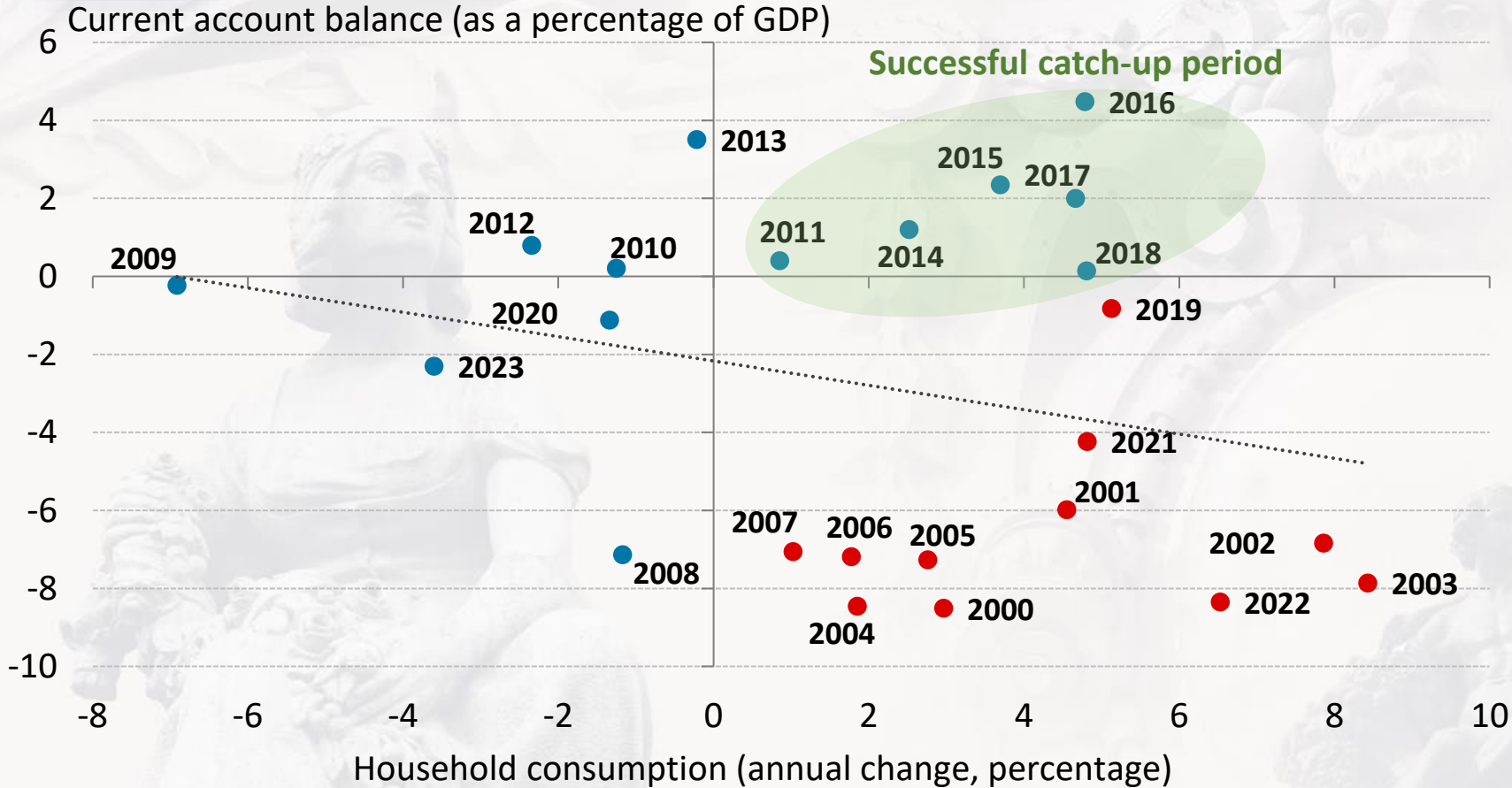


Effective fiscal policy that preserves the balance



It is not possible to boost domestic demand in a sustainable manner to the detriment of the current account

# CONSUMPTION SHOULD NOT BE INCREASED AT THE COST OF THE BALANCE OF PAYMENTS!



Looking at the relationship between household consumption and the current account, success stories of the past decade indeed confirm that **consumption in the long run did not rise at the expense of the current account.**

Nevertheless, consumption in the mid-2000s grew deteriorating the balance of payments.

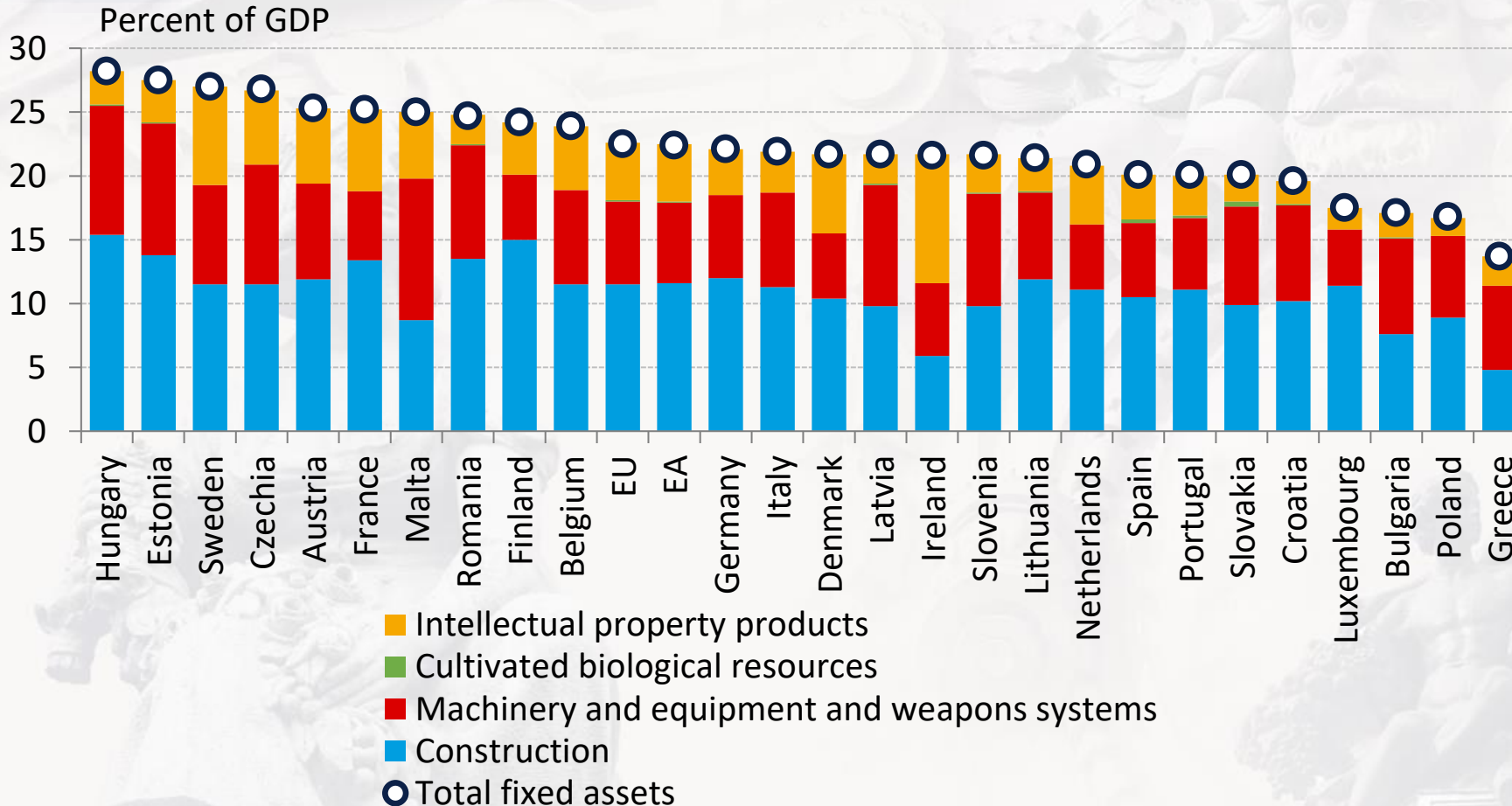
## CURRENT ACCOUNT AND HOUSEHOLD CONSUMPTION TRENDS

Note | For the first three quarters of 2023. Current account for the first three quarters of 2023, based on data from four quarters.

Source | HCSO, MNB



# HUNGARY HAS THE HIGHEST NOMINAL INVESTMENT RATE IN THE EU BUT THE PROPORTION OF SMART PROJECTS IS LOW...



The share of domestic capital projects is high in proportion to GDP, but in structure, they do not meet the requirements of the technological shift.

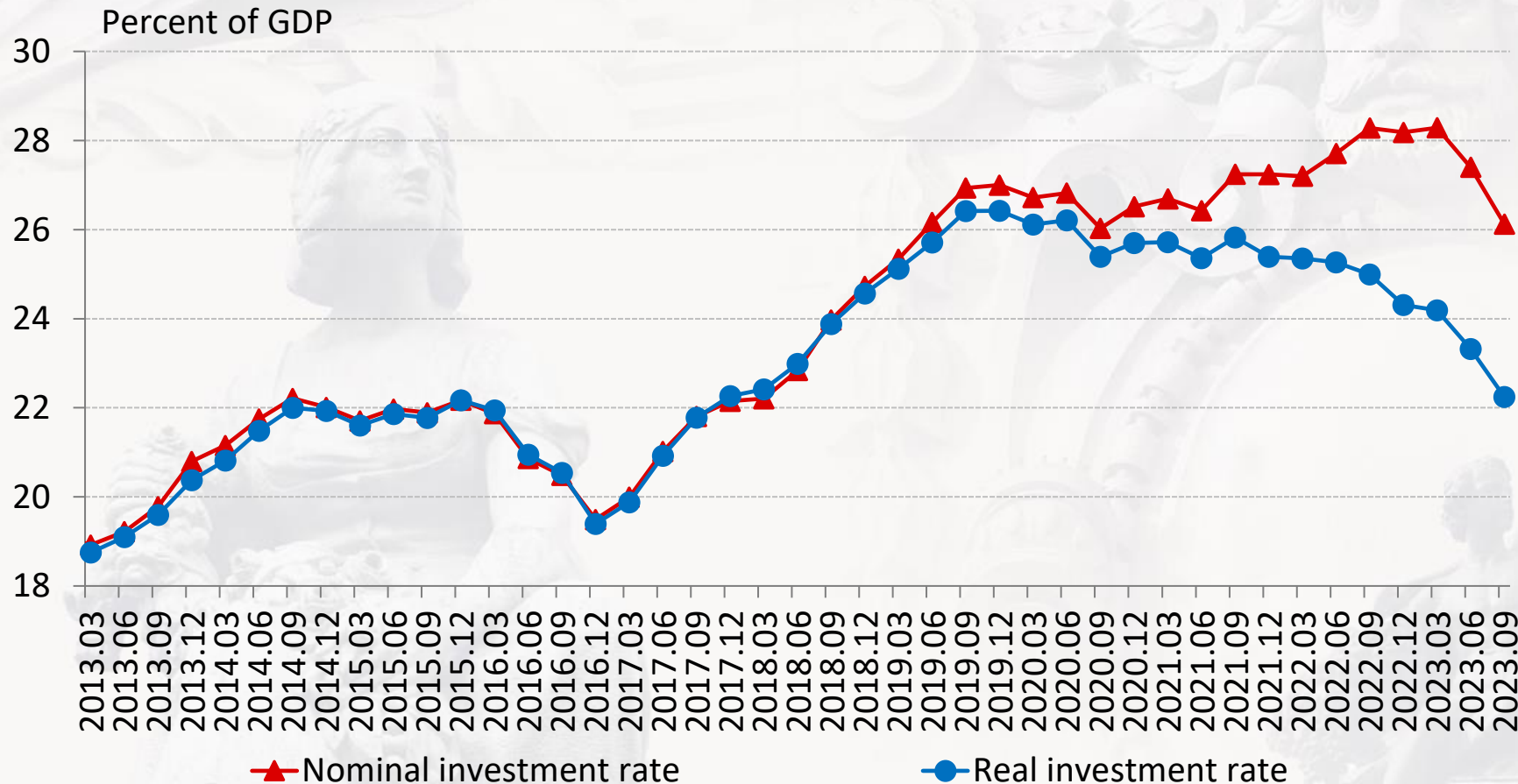
The value of construction projects as a share of GDP is the highest in the EU, while the **share of “smart projects” and investment in intangible assets is low.**

## CHANGES IN THE INVESTMENT RATE AND ITS BREAKDOWN, 2022

Note | No data are available for Cyprus.

Source | Eurostat

# ...AND THE HIGH INVESTMENT RATE IS MAINLY DUE TO CLIMBING PRICES, DRAINING RESOURCES FROM SUSTAINABLE GROWTH



**The high share of capital projects can, for the most part, be explained by price effects.**

Nominal and real investment projects diverged gradually from 2019 onwards, with the real investment rate falling to 22.2 percent of GDP in 2023 Q3, while the nominal rate stood at 26.1 percent of GDP.

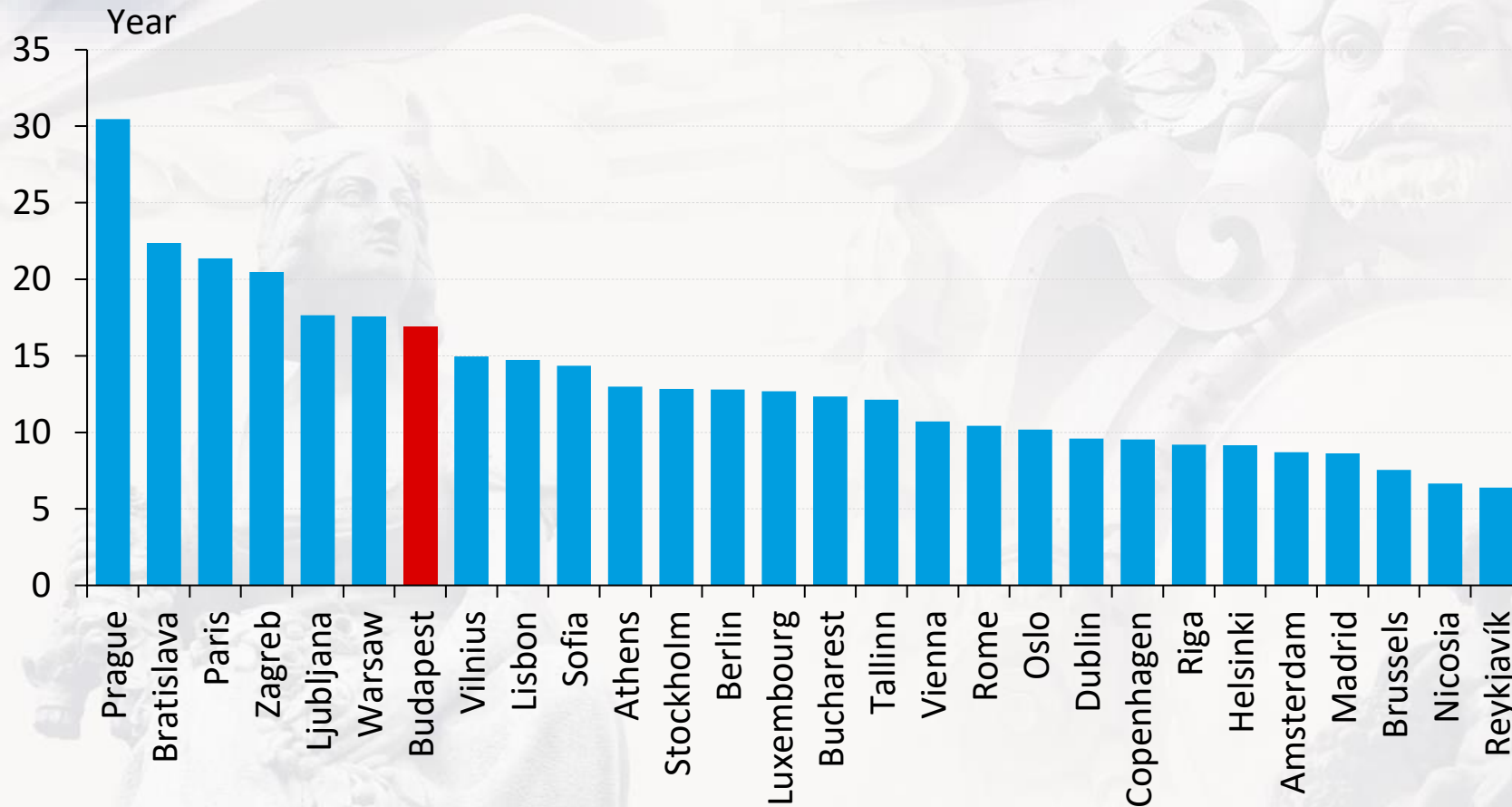
**Expensive projects strip other segments of the economy, including families and also consumption, of resources.**

## TRENDS IN NOMINAL AND REAL INVESTMENT RATES IN HUNGARY

Note | Real investment rate based on 2015 prices. Rolling average of four quarters.

Source | HCSO, MNB

# MUCH OF HUNGARIANS' INCOME IS SPENT ON HOUSING



The house price-to-income ratio shows how many years of income are needed to buy a home.

**In Budapest, it takes 17 years of income to buy a home, which is high in international comparison.**

**Soaring property prices encourage families to save, restraining consumption also in the long run.**

## PRICE-TO-INCOME RATIO IN EUROPEAN CAPITALS, 2023 Q3

Note | The price-to-income ratio is the quotient of average house prices outside the city centre and the average annual net income. Calculations based on homes of 75 square metres.

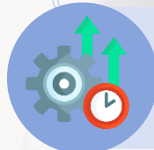
Source | Eurostat, Numbeo, MNB



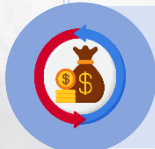
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Hungary has to forego 3 to 4 percent of the income generated within its borders. This is because some of that income is earned on foreign capital and also because of the net interest payments on the country's external debt.



Moreover, the Hungarian economy's productivity and domestic income generation capacity are both low. In the long run, these factors will limit domestic absorption and consumption.



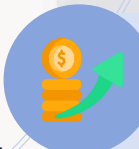
The share of household sector income in gross national disposable income (GNDI) dropped by nearly 10 percentage points in recent decades, and the ratio of wages and salaries is low in international comparison.



Since 2010, the rise in households' disposable income has been one of the most dynamic in the EU. Average gross earnings rank in the bottom third among the EU countries.



The household consumption rate is low relative to the country's level of development, partly because of low overall consumer confidence and the massive rise in prices on the housing market.



Looking ahead, rising consumption requires economic policies that seek to increase GNI; such policies should focus on boosting domestic productivity and income generation capacity, the sustainable convergence of wages and strengthening long-term confidence.

**THANK YOU  
FOR YOUR  
ATTENTION!**

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