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## The Hungarian economy and labour market

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# The Hungarian economy and labour market

(by Ildikó Ékes)

## ***Economic development***

After the dynamic growth until the end of 1990s - when gross domestic product (GDP) increased at an annual rate of around 4% to 5.5% - the economic growth slowed down. In this decade the growth rate has been between 3-4 %. This had much to do with the economic depression of world economy. The accession to EU in 2004 had a positive effect on the economic performance of the country in that year, but from 2005 the growth rate went again below 4%. In the first three quarters of 2007, macro economic development showed the worst picture since ten years. GDP increased only by 1,3%. It was the consequence of the two packages of restrictions introduced by the government in September 2006 and January 2007.

### **GDP between 2000-2007**

(%)

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007 (Jan.- Oct.)</b>
<b>GDP</b>	3.8	3.5	3.4	4.6	4.1	3.9	1.2

Source: HCSO

Nevertheless, real wages has always had a lag to economic growth in the last about two decades. Real wages only achieved their level of 1989 in 2002 when the increase of the average wage was extremely high due to a 50% increase of wages of a group of civil servants (those working for health care and education). The correction of wages in these economic branches was very urgent since the civil servants in these branches had a backwardness compared to the wage level of the employees in competitive sector and also to the wage level of civil servants working for other state entities.

However not only the wages of civil servants were almost frozen from the end of 2003 but their number has been decreased continuously. The budgets of state financed institutions were reduced and more institutions were closed down. As part of the budget restrictions there were also tax reductions linked to credits on buying and building houses, payment to private pension funds etc.

2006 and 2007 became the years of strongest restriction since 1994. After the election the Prime Minister and the victory of the Hungarian Socialist Party (he was also the Prime

Minister before the elections) was made known, the economy has been in a very bad situation and within a few weeks the (partly) new government launched a so-called restriction package. The main parts of this package are:

- 10-20,000 public servants were or are going to be dismissed from the central and local administrations,
- more primary schools has been closed down or down together therefore about 20,000 teachers have been discharged from state financed schools (still now the state finances about 90 percent of institution in education in Hungary),
- salaries of civil servants have been frozen in 2007 they got earlier the half of the 13th month salary instead of a rise,
- the social contribution paid by employees has been increased with 3.5% in two steps,
- the social contribution of lowest wages has been doubled (supposing cheat behind the too many persons employed on minimum wages),
- the government stopped the price's control of gas and electricity therefore its prices grow about 50% within 5 months.

All of these strongly influence both the development of our economy, labour market, wage level and real wage.

### ***Labour market***

One of the greatest problems of Hungary is the low rate of labour market activity. At the end of 1990s the number of employed lessened with more than one million persons than ten years ago due to economic and political changes that were accompanied with depression in the industry and some other branches of economy. In 1999 the growth of employment rate was the highest when it jumped to 3.1%. Since then employment was effectively a kind of stagnation. From year to year its rise has been under 1%. In some years stagnation turned to slight decrease.

The low activity rate has two roots. One is that employment declined very quickly in Hungary after the full employment of the socialist era in the early 1990s. Although employment rate started to grow in the years of economic recovery, it had a time lag and its rate of growth has never reached the rate of economic growth. However, the increase in employment seemed to slow markedly in 2000. A very low growth rate and stagnation has been characteristic on our labour market since then.

### Employed persons between 1999-2007

Period	Number of employed	Change compared to the former year	
	(000s)	(000s)	%
1999	3791.5	116.8	103.2
2000	3829.1	37.6	101.0
2001	3844.5	15.4	100.4
2002	3870.6	26.1	100.7
2003	3921.9	51.3	101.3
2004	3900.4	-21.5	99.5
2005	3896.5	-3.9	99.9
2006	3930.0	33.5	100.9
2007 (3 <sup>rd</sup> quarter)	3947.0	17.0	100.4

Source: HCSO

Another root of the problem originates partly from the ageing society and partly from the pension system. The latter contributed to a high inactivity rate while:

- Retirement age was relative low (below 55 for women and 60 for men) until 1997.
- At the beginning of 1990s there was a special pension scheme for those who were near to retirement age. The scheme gave an opportunity to escape unemployment for old employees in a period when unemployment grew from zero to 600 thousand.
- In this period, many people also tried to avoid the unemployment by going on disability pensions. Owing to it, the number of disabled pensioners increased by about 200 thousands from about 500 thousand to 700 thousands.

Presently the employment rate is only 57.3% much lower than the EU average. The employment rate is extremely low among the youth (between 15-25 age). Employment rate also depends on education level.

### Employment rates by ages and education

Age	Primary school	Skilled worker	Secondary school	University
19-24	25.5	62.1	27.3	65.8
25-29	45.5	74.1	71.8	82.7
30-44	50.6	79.4	82.0	88.3
45-50	51.6	73.3	83.8	92.6
51-54	48.2	66.9	75.2	89.2
55-60	30.3	51.6	54.7	73.1
60-	2.2	12.3	8.5	22.1

The statistics on the Hungarian labour market have shown contradictory phenomenon in the recent past. Though employment did not grow, the number of unemployed also decreased since the end of the last decade. The major factor in falling unemployment was a reduction of the length of the unemployment benefit and as a consequence a decline in the number of persons entitled to unemployment benefits.

In Hungary, long-term unemployment is very high (about 50%) when compared to other developed countries. In September 2007, the average length of unemployment was 17 months. But unemployment figure does not reflect the real situation from two reasons. Many people do not register for unemployment because they lost their confidence to get a job with help of these offices. On the other hand many other have employment in the underground economy. The reality of these reasons is supported by facts. Partly if the number of employed is calculated on the basis of time used on paid work about 200 thousands employee is missing compared to official statistical figure. Partly in the 3<sup>rd</sup> quarter of 2007 the number of unemployed reached 307 thousand but the number of registered vacant jobs fluctuated between 13-23 thousands.

## Number and change of unemployed (1999-2007)

Period	Number of unemployed	Changes compared to previous year	
	Thousand	Thousand	%
1999	284.8	-28.3	91.0
2000	262.5	-22.3	92.2
2001	234.1	-29.6	88.8
2002	238.8	4.7	102.0
2003	244.5	5.7	102.3
2005	303.9	59.4	107.2
2006	317.0	13.7	104.3
2007 3 <sup>rd</sup> quarter	307,0	-10,0	96.8

Source: HCSO

There was a turn in the trend of unemployment in the recent part. During the accession to EU our unemployment rate was one of the lowest among EU and accessory countries. However unemployment rate started to grow in Hungary in the recent past and it was 7.2% in 3<sup>rd</sup> quarter of 2007 and passed the EU average.

The budget of a Hungarian average family is based on two earnings. Therefore many women work. But the employment rate of women has been traditionally lower than those of men. It was the same with unemployment. In recent years, the unemployment rate of women started to grow owe to the change in the pension system. The minimum age of old-age pension for women was increased from 55 to 62. Therefore, women have to participate in the labour market much longer than before. As a result not only the proportion of employed women has grown but their unemployment rate increased as well. Subsequently in 2005 there was a change in the gender proportions of unemployment ratio. In the years before this rate was much lower among women. But in 2005 the rate became higher among women than men. In 2006 and 2007 the unemployment rate of women increased together with employment rate. The reason is the number of persons in active age.

**Employment and unemployment rate by sex**  
(In age between 15 and 74)

(%)

Year	Employment rate		Unemployment rate	
	Men	Women	Men	Women
2000	56.8	43.0	7.0	5.6
2001	57.1	43.1	6.3	5.0
2002	57.1	43.3	6.1	5.4
2003	57.6	44.3	6.1	5.6
2005	57.4	44.2	7.0	7.5
2006	58.0	44.4	7.2	7.8
2007 (3 <sup>rd</sup> quarter)	64.7	51.0	6.7	7.9

Source: HCSO

**Wage**

The growth of real wage has had a great lag to that of GDP as it was mentioned before. Therefore now our GDP is about 60% of EU average but the wage is only 40% of those of EU. Because of this lag Hungary only reached to the real wage level of 1989 in 2002. But 2007 is a year of shocks. This year the fall of real wage level was the worst since 1994.

**Changes in gross and net average wages, consumer price index  
and real wage (1989-2006)**

(%)

Year	Average wage of employed		Consumer price index	Real wage
	Gross	Net		
	Previous year = 100			
2000	113.5	111.4	109.8	101.5
2001	118.0	116.2	109.2	106.4
2002	118.3	119.6	105.3	113.6
2003	112.0	114.3	104.7	109.2
2004	106.0	105.6	106.8	98.8
2005	108.8	110.1	103.5	106,4
2006	108.1	107.5	103.7	103.6
2007 (Jan.- Oct.)	108.1	101.7	108.3	93.9

Source: HCSO

Nevertheless there are great discrepancies hidden behind the national average wage and its growth. The level of earnings depends strongly on economic sectors (public or private), economic branches, size of organisations, and ownership.

Here I have to mention that our statistics differs from those applied in Western countries. International statistics give information on wages of blue collar workers in manufacturing. But we calculate the so called national wage that contains all wages and salaries of employed - among them the salaries of managers. I did researches on the effects of managerial salaries on the national average wages. The result was that managerial wages have increased the national average wages with more than 10 %.

In Hungary the wage is traditionally low in services (health care, catering, hotel industry, etc.) Within it size and ownership also determine earnings. Big companies and mainly multinationals pay higher wages (nevertheless much lower of those paid in their home countries) than smaller firms and domestically owned companies. On the other hand in the multinationals and other big companies, it is usually the managers more than the other employees that benefit from the higher-wage levels.

But evaluating the wage rank one have to keep in mind that so called hidden (untaxed) economy is extended in our country. According to my former researches about 80% of SMEs pays additional not registered income to employees.

Finally I also have to mention the changes of social security system that is now in the focus of interest. Formerly wages in Hungary (and in the other countries of the region) were low because central state has added to them social services (health care and education services) formally free of charge (financed from taxes and social contributions).

But the government already introduced and still wants to introduce new measures in health care and education sector. From January people have to pay co-payment in health care when meeting the doctor in addition to the social contribution they have paid for them without making corrections in wage level. This also decreases the real wages. In high education the government intends to introduce school-fee at state financed universities, high schools. The sum of school-fee for a teaching year will be equals approximately a monthly net average wage. Since the number of students increased quickly in the last years (the reason is the lack of job without profession or trade) this measure will badly affect the budget of many families with average income. There is a fear in the society that talented children from low income families will not be able to take their degrees.

Some other developments in health care also give room for uneasiness in the society.

- 60.000 hospital beds have been terminated though health condition of Hungarians is one of the worst in Europe. Therefore the distance between the home of the patient and the hospital increased in many cases.
- Staff from closed hospitals should move to other hospitals (in many cases far from their home, or worse salary) or change their profile. Therefore physicians and nurses will likely go to work abroad for a much better wage instead of moving to other hospitals here. This may result in serious shortage of workforce in health-care.
- Hungary's health care system has been financed through the state owned Health Insurance Fund. Funding comes from social contribution of employers and employees. Important part of the health-care reform would be to establish new health care insurances. But if profit oriented organizations were involved in the social insurance they only would channel the money from state to services. They would not increase the money spent on the health services but lessen it with their costs on the one hand. Therefore it would not solve the shortage of money in the health care that is the main reason behind changes. It is likely that the private insurance funds might select the patients and more people might be left without services on the other hand.