



Weekly Briefing

Hungary Social briefing:
Briefing on Hungarian Social development in 2017
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1. Population trends and migration in 2017. Long and of short term social developments are mainly determined by the main changes in the population number, incomes leading to social inequality or alleviating social tensions and the change in social – in many cases – workforce policies. **The long-term trend of de-population could not be stopped in Hungary in 2017.** That can easily be demonstrated by the latest Hungarian data on mortality and birth rates. Between January and October 2017, the number of births was 1.2 percent lower than last year October, while the number of deaths increased by 4.9 percent during the same period, thus the natural decrease of the population was 32.798 capita, reaching new highs.

This decrease in population was aggravated by migration to other EU-countries – facilitated by the Single Market of the EU, and speeded up by the Global Financial Crisis after 2008-2009. **Although many ethnic Hungarian in the Carpathian Basin chose double citizenship after 2011, and became Hungarian citizens, only 10 percent of the around 800 thousand new citizens moved to Hungary according to the estimates of the Hungarian Statistical Bureau.** Similarly, there are only estimates and no official figures on the numbers of migrated Hungarians. The different estimates range from 300 to 600 thousand persons. The latest estimate was quantified by the internet-site ‘Portfolio’, which collected data from the different Statistical Bureaus of the EU-members. **This analysis suggested that around 600 thousand Hungarian must have residency in other EU-member states. That would be around 5 percent of the entire Hungarian population!** Even the analysis of the IMF points unquestionably in this direction. According to this analysis, around 500 thousand Hungarian migrated from Hungary in recent years and according to their assessment the rate of migration won’t change soon, i.e. around 30-35 thousand Hungarian are to migrate every year.

The investigation of the ‘Portfolio’ also points out, most of the migrants are young, in other words unfortunately those people migrate and **leave the country**

for good who could stop or at least slow down the de-population trend of Hungary. And at the same time, that is the very generation which could significantly contribute to the public budget – taxes and contributions. That is clear, there is a strong relation between migration and scarcity in the Hungarian labor market as well, since most of the Hungarians in other countries work in business fields and other economic segments – tourism, retail trade, construction and manufacturing – where labor scarcity is most tangible and painful. Although the trend to migration seemed to abate in 2017, it was still one of the most debated and politicized issues, since its long-term effects on the Hungarian society are obvious.

2. Social measures and labor market in 2017. Hungarian social trends can not be analyzed without taking a short look at the labor market policies of the government, since between 2007 and 2017, the composition of government spending has shown a marked decrease in social protection, while spending on economic affairs in sectors – transportation, communications and others – has grown significantly. This evidently mirrors a change in policy of the governments starting in 2010, but continued even in 2017. Based on this policy change, public spending is being directed more and more to growth supporting public investments.

Thus, social policy stands for labor market policy measures in Hungary, since these two policies are intertwined. An important change took place **in 2017**, because of low unemployment and high employment rates, the program **“Road to Labor Market” could be slightly changed, and the focus could turn from incentives to participate in public labor market to measures encouraging private labor market participation.** According to the government’s plan, by 2020 the monthly maximum number of people involved in public works will drop from 224 thousand (2016) to 150 thousand. This process was started in the second part of 2016, the latest data – October 2017 – show 185 thousand public workers. At its peak, March of 2016, the number of public workers was 265 thousand. To ease the shift from public to private labor

market, **the following active labor market measures were also taken in 2017:** wage subsidies, supporting and mentoring participants in public works in a one-year timeframe, support of public workers who want to find employment in the labor market.

In order to further alleviate labor scarcity induced problems, the government of Hungary has made attempts to make employment more attractive to both employers and the employee. **End of 2016**, in the triparty wage negotiations (employers, government, trade unions), the parties agreed on the **reduction of social contribution from 27 percent to 22 percent, which is to be reduced by 2.5 percentage points further in January 2018. In 2017, family tax allowances for earners with two children increased again in 2017, which resulted in the reduction of the tax burden on private persons during the same period.**

3. Revenues and spending affecting incomes and social spending. The abovementioned measures have clear and direct effects on the incomes of Hungarian families. It is a very clear policy of the Hungarian government to shift the tax burden from direct taxes (personal income tax f. ex.) and social contribution to indirect taxes (value added tax f. ex.). It must be underlined, there are no 2017 data, analysts and pundits can only discuss, the latest available data (**published December 2017 by the Eurostat**) are from 2015. But since there are no turns and twists (only slight alterations), and the course of the policy was by and large unaltered in 2017, it is worth analyzing these data briefly. In terms of Gross Domestic Product (GDP), **Hungary spent 20.2 percent on social expenditures, which is well below the EU-average (29.0 percent).** While looking at the benefits by functions, there is only one item above EU-average; **Hungary spent 12 percent of its GDP on family and children protection, while the EU-members only spent 8.6 percent of the GDP on this purpose.** By other functions – unemployment, sickness/ health care/ disability; old age/ survivors, housing and social exclusion – Hungarian spending is well below the average of the EU-members. That is probably one of

the reasons why the share of persons at risk of poverty or social exclusion is higher in Hungary (2016: 26.3) than in the EU (2016: 34.4 percent) The data which were published October 2017 by the Eurostat, also show regional figures; Transdanubia (22.3 percent) and Middle-Hungary (22.8 percent) are in a clearly better position than the Great Hungarian Plain (32 percent)!

Despite the adverse regional trends, it must be underlined that the share of persons at risk of poverty or social exclusion has a very clear downward trend in Hungary. The most important of the underlying reasons for the downward trend has been the very clear increase in salaries and wages in 2017. Average gross wages and salaries were 295 800 HUF in October 2017, which is 12.8 percent higher than in October 2016 – including both public and private labor market segments. Net average wages and salaries rose by 12.8 percent as well. In the private labor market, the increase only reached 11.7 percent, which reminds us of that these positive trends were generated and enhanced by government measures. Thus, it can be stated that the positive labor market trends and the rise in personal incomes visibly counterbalanced the effects of a less generous social spending.

4. Summary. Social issues can be tackled very differently, these approaches can range from the Scandinavian model to the liberal, non-intervening American policy. **The Hungarian approach was transformed in the last years profoundly, and this transformation continued in 2017.** The Hungarian strategy can remind us of a mixture of a libertarian approach and a strong ‘statist’ interventionist approach.

That means: the state doesn’t interfere in social issues too much, since social spending is limited, incomes are less taxed (that is the intention, not the present state), clear incentives are given to boost labor market participation. (‘libertarian approach’) At the same time, the public work scheme also shows that the government doesn’t hesitate to intervene, if it deems it to be necessary. The protection of families – conservative and traditionalist values are clearly can be showed in social measures – is evidently an important and promoted social

goal of the government. These are the areas where the government strongly interferes in social and economic issues. ('statist interventionist approach').

Labor market participation measures were efficient in 2017, they seemed to be a good means to include social layers, that had not participated in the economy, thus social life of the country earlier. **In this sense, the policy – started in 2010 and continued in 2017 – was effective, however the question remains**, how this policy will work out, when domestic economy is on the decline, what happens to those who suddenly will lose their job, how will the system handle the issue. **Other critics point out, that it might be true, the private labor work absorbed labor force surpluses easily in 2017**, but it doesn't mean that there are no regional differences, which were worth considering when cutting the budget of the public work schemes.