



## **Weekly Briefing**

**Hungary Social briefing:**  
**Labor Market Measures of the Hungarian Government and**  
**its Real Social-Economic Environment**  
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## **Labor Market Measures of the Hungarian Government and its Real Social-Economic Environment**

In the last years, the performance of the Hungarian labor market was one of the biggest success stories of the Hungarian economic policy. The positive changes must be of course interpreted in the framework of the word economy, aging population and technological changes however, it is certain that the new approach to the economic policy after 2010 largely contributed to rising employment and income levels in the Hungarian economy. The implementation of proper policies decreased the unemployment rate as well. At the same time there are voices arguing that labor shortages have become more and more a real burden on the Hungarian economic growth slowly, but it can be also argued that labor shortages are only caused by a slow corporate adjustment to the new reality. And the labor market problems are rather about the problems that firms are struggling with, than the labor market itself.

Regardless the real causes for the strong labor market performance, it definitely supported the parliamentary victory of the governing party in April 2018. That is one of the reasons why this briefing again looks at the labor market, the other reason is that there are obvious tensions in this market, which must be addressed by government measures adequately, thus the briefing investigates new measures related to social, labor market issues.

The Hungarian Central Statistical Bureau published its data on employment, unemployment rates and wages, salaries end-June 2018. The data cover the period between January and May 2018. By and large trends show positive changes. In the period March-April 2018, the number of jobless persons fell to 172 thousand, thus the unemployment rate dropped to 3.7 percent (by 0.7 percentage points). The difference between male (3.5 percent) and female unemployment rate (4.0 percent) is still significant. The drop in the unemployment rate by the age group 15-24 was the largest, which is no surprise,

since these unemployment rates are still high when comparing them to other age groups. The decrease in the unemployment group 55-64 was also large, it could decrease from 4 percent to 2.5 percent. The drop is significant, if considering that the initial unemployment rate was not that high. Even in the age group 25-54 a drop in unemployment rate can be witnessed: the rate fell by 0.5 percentage points to 3.5 percent. The extent of decrease in the age group 55-64 is remarkable since this is the age group where people least can be mobilized due to health issues and lack of skills or outdated skills. Thus, it can be concluded that government measures were successful in increasing labor market participation rate in this age group.

During the same period, wages and salaries significantly grew in the Hungarian economy. In January-April 2018, both gross and net wages / salaries were 12.4 percent higher than the same period of the previous year. This change is traceable to the minimum wage raise by 8.2 percent and the significant raise in the guaranteed wage minimum by 12 percent. In many cases, wages and salaries of public workers in large public services companies were also increased.

As a result of these positive changes, the Hungarian employment rate was 73.8 percent in the first quarter of 2018. This figure is slightly above the EU-average, and it is significantly higher than the Polish and Slovakian employment rate, but it is definitely below the Czech figure. The target set by the Europe 2020 Strategy is 75 percent, the Hungarian employment rate will have most likely reached the target by 2020.

In order to achieve the employment goals, the Hungarian government announced new measures regarding the labor market and other social issues this week. The state secretary for employment and corporate relations, Mr. Bodó underlined that those who are able and willing to work, will be given a chance to do so, and the public budget for 2019 and tax laws amendments were prepared to achieve this goal. He emphasized that the government set the goal in 2010 to achieve full employment. Since then, the number of employees grew by 750

thousand and the unemployment hit a historic low. In the first quarter of 2018, wages in the public sector rose by more than 10 percent and the rise will continue in 2019 as well. He summarized the main points of policy changes in this era:

- in 2019, wages of police officers and soldiers will be raised by 5 percent, thus compared to 2015 the aggregate rise will be around 50 percent;

- after November 2019, the wages in public health sector will grow by 8 percent;

- the public budget will settle the salaries and wages of government officials and civil servants in 2019 as well.

- in 2019, the employee social security tax rate will be cut by 2 percentage points (from 19.5 to 17.5 percent);

- tax benefits will rise to 40 thousand HUF in the case of families with 2 children;

- in order to encourage the labor participation of pensioners, they won't have to pay employee social security tax and other contributions from 2019 on, when they are still active in the labor market.

- tax benefits effective after the first January of 2019, will target more specific social groups, such as new entrants in the labor market, working mothers raising 3 or more children, workers in agriculture or in jobs, that don't require special qualification, civil servants and disabled people.

The state secretary underlined the government would like to activate around 500 thousand people entering the private sector labor market. The different groups they target are pensioners, youth after leaving, finishing school, civil servants and Hungarians that would like to come back from Western European countries and settle in Hungary again. Policy measures to increase labor market participation, has grown more and more important in recent years, however it is not only because of the targeted social goals, but also the growth

potential of the Hungarian economy that otherwise would be constrained if labor supplies could not be further increased.

In 2014, there were around 38 thousand vacant jobs in Hungary that could not be filled due to labor shortage and/or qualified labor force. The same figure was almost 80 thousand in Q1 2018! (Most of the vacant jobs can be found in the manufacturing sector.) At the same time, there are economists that point out that there cannot be any labor shortages in a labor market which is built on demand and supply. Labor shortages tend to prevail if the wages and salaries are not adjusted to the real market conditions. In other words, vacant jobs can be filled when the earned incomes and other incentives reflect the market conditions.

Thus, they conclude recent labor shortages observed in the Hungarian labor market can be only viewed temporary. One of the clear reasons why working abroad, in particular in Western European countries is still attractive to many Hungarians, can be found in the wide gap between Hungarian and European wages. End of 2017, the net average wage was 622 euro in the Hungarian economy, while the EU-average net wage was 1.520 euro in the same period. Although price levels are obviously higher in these countries, much of the prices of products and services are shaped and influenced by global market conditions. That means differences in wage levels are not levelled off by differences in price levels. Thus, there is plenty of room for catching-up regarding Hungarian wages and salaries, even if one considers lower productivity levels in the Hungarian economy, the differences don't disappear.

If considering the problems of the Hungarian wages, it should be added, that differences between Hungarian micro- and small firms and Hungary-based multinational firms are huge, and the former group of firms face the risk now that they won't be able to pay increasing wages, since they cannot manage the finances while the later group still can afford the growing wages and the problems reflect rather the weak wage bargaining power of Hungarian employees.

To sum it up, the tensions observed in the Hungarian labor market in recent months, mostly originate from problems of the firms to hire people, however, one would jump to the conclusions by saying only scarcity of labor force can be blamed for these labor market problems. Obviously wage levels don't reflect market conditions adequately, and the firms have to adjust themselves to the new market situation by raising wages and streamlining the firm, rationalizing management decisions, investing in more machines, equipment and technology. In other words, in our opinion, the problems of the labor market show an emerging new economic development path of the Hungarian economy, and the need for restructuring the Hungarian economy. It can be also argued, that policy measures aiming at increasing labor supply, are adequate, but they don't solve long term problems. Measures related to increasing the supply of skilled labor and improvements in laborers' skills seem to be more important in the long run.