China-CEE Institute
中国—中东欧研究院

ISSN: 2560-1601

Vol. 11, No. 3 (HU)

October 2018

Weekly Briefing

Hungary Social briefing:

Public services and Home Saving: Reforms in Hungarye

Csaba Moldicz

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

1052 Budapest Petőfi Sándor utca 11.

+36 1 5858 690

office@china-cee.eu

china-cee.eu

Public services and Home Saving: Reforms in Hungary

The following briefing focuses on two reform measures deeply influencing the quality of life of the average Hungarians:

1. first, digitalization of the public sector is meant to improve the public services quality and the efficiency how they are provided to citizens leasing to saving public funds.

2. secondly, the reform of the home savings market and other type of savings will also influence financial stability and freedom of Hungarian families. (This week, the first steps to modernize and reform these markets have been taken by the government.)

The briefing is going to show us, how these seemingly disconnected reform elements support each other and why they can be regarded as parts of a broader social and economic strategy of the Hungarian government that intends to achieve more financial sovereignty and have more freedom for implementing better adjusted social policies.

1. Public services and digitalization

The scope and quality of services provided by the public administration is crucial in every country, since it not only allows for a better life of the average citizen, but it also exerts a considerate impact on the country's competitiveness as low-quality services constrain economic growth, condemn the country to poverty in the long run. One element in particular seems to be important to economic advancement of the nations and this is to provide a level playing field to both domestic and international businesses and create a beneficial environment that is able to attract foreign capital and technology in form of investment and secure domestic savings for the domestic economy.

In the last years, there have been several attempts to modernize this sector in Hungary; reforms started with the Magyary-programmes in 2011-2013. Afterwards, a broader framework was set up; the so-called Public Administration and Public Service Development Strategy (PAPSDS), that covers a longer seven years period, adjusting to the European Union's development cycle (2014-2020).

However, the modernization of this sector has always been sensible issue since modernization often means less labor in the sector and in earlier periods, mainly before 2010, the excessive public sector often served to hide and mitigate severe and persistent employment problems of the private sector. However, the growing demand for workers in Hungary has created a new situation in recent years, in which now the measures of the public administration reform can exclusively focus on economic factors, and other (social) factors must not be taken into consideration since the private labor market is to able to absorb laid-off, former civil servants. The Hungarian government seems to have seen the chance coming to implement modernization measures in this sector right now.

Last week, the Policy Agenda published its analysis on the results of the former public administration reforms. The report focused on the period between 2008 and 2017. According to the published data, the number of governmental sector employees grew from around 245.000 to 560.000 employees. Along with that, expenditures rose from 1.014 to 2.392 billion HUF a year. It must be made clear, that the sudden rise mainly comes from restructuring the public sector, which means that after 2010 operation and management of health care- and educational institutes – formerly managed by local governments and communes – were taken over by the government, and that was the crucial factor leading to the sudden rise of the employee numbers of the governmental sector in Hungary.

As we could see in our earlier analysis on economic and social trends in Hungary, the labor market has been booming in the last years, the private sector most likely will absorb laid-off workers easily. The first news of lay-offs in the ministries and their institutions came out in early August, 2018. Then Mr. Gulyás, the Minister of the Prime Minister's Office told the press that around 15-20 percent of the labor force in the ministries and their institution will be laid off, that means circa 14.000 people. It is worthwhile remembering when Mr. Varga, the Finance Minister put his budget plans for 2019, he underlined that civil servants' salaries would be raised the next year, however, the aggregate expenditures on their wages wouldn't change. That is only feasible if the number of civil servants could be cut. For the being, the exact manner and direction of the public sector reform is not clear. The Trade Union of Hungarian Civil Servants and Public Employees argues that around 100.000 civil servants are absent in the system given the amount of work, while National Association of Entrepreneurs and Employers maintains that around 100.000 people could be channeled from the public sector into the private labor market when considering the efficiency enhancing effects of digitalization. Considering growing international competitiveness, the second argument is more likely to get the support of the Hungarian government. One could also add that digitalization not only saves public funds, but it also allows for more convenience of the citizens.

As it is now, the final elements of the reform are not clear, however, there is not confirmed information about the public administration reform in the media as well. The news portal Index.hu claims to have gained access to information regarding this issue. (According to the new portal, the program would comprise of five important elements: (1) social contribution tax allowances for those laid-off from the public sector and being above 60 years; (2) support for those who would like to start a small, family-business; (3) re-training programs for former civil servants guiding them into professions, where the lack of labor is obvious and persistent; (4) former civil servants would be eligible to attend other re-education programs as well; (5) free labor market services could be offered to former civil servants.) As we underlined before, this information is not confirmed, and we cannot rely on them as a basis for our analysis. however, these elements seem to fit into the social and economic policy approach of the government, that focuses on strengthening competitiveness of the Hungarian economy now more than ever before.

2. Reform in the Market of Home Savings and Other Savings

This week, the Hungarian government adopted a law proposal that abrogated the state subsidy on the home saving schemes. In the original scheme, every year 72.000 HUF state subsidy was provided to those who saved 20.000 HUF a month. At maturity, favorable credit could be added to the savings – equity and interest rates. No surprise, these saving forms were the most popular ones in Hungary until now. In the Hungarian Parliament, it was argued, that the banks reaped extra profit from providing these saving forms. It must be also added that around 13 percent of the population saved money this way, since the state subsidy could reach 30 percent, which is much higher in similar constructions of other European countries (varying between 8 and 18 percent).

In our opinion, that is no coincidence, that the State Debt Management Agency's CEO when arguing, that Hungary was doing well when it comes to state bonds purchased by residents, he also added that in private pension savings the country is lagging behind other European countries. Details are not known yet, however their proposal was put forward to the government. As for the state bonds share owned by residents, the CEO underlined, that this ratio was 2.3 percent in 2012, and it climbed to above 25 percent end of 2017!

To further encourage citizens in saving, the Central Bank of Hungary intends to set up a guarantee fund for the voluntary saving funds. Mr. Windish, the Deputy-Governor of the MNB stressed in an interview to the Portfolio.hu, that by now the voluntary saving funds have reached an asset size of 1.417 billion HUF and other segments of the financial markets (such as equity market, private pension saving funds, bank deposits etc.) are already being protected by other guarantee funds, thus it would make sense to extend this system of protection to the voluntary health care, pension and self-help funds. Pursuing sector-neutrality principle, the amount guaranteed by the MNB would be 100.000 euro per person, as it is case in other segments of the financial market.

3. Summary

To sum it up, it stands to reason that measures regarding home saving funds are tightly connected to the MNB plans to guarantee the voluntary saving funds. With this set of measures and coordination of policies, Hungary could further improve its financial sovereignty and reducing its reliance for foreign financing. At the same time, when implementing these new rules to the financial sector, speculation with home saving subsidies could be reduced, savings of Hungarian families could be used for the right purposes and public money saved.

Similar goals will be achieved by the public sector modernization, even though the final elements of the reform programme are not clear yet. In this framework of polices, on the one hand competitiveness of the Hungarian economy could be further improved by achieving higher standards regarding basic public services, on the other hand public money could be also saved by focusing on digitalization of the public sector while providing access to better public services to Hungarian citizens.