China-CEE Institute
中国—中东欧研究院

ISSN: 2560-1601

Vol. 32, No. 3 (HU)

September 2020

Weekly Briefing

Hungary social briefing:
Jobs and Covid-19 in Hungary

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Jobs and Covid-19 in Hungary

The adverse effects of the fast spread of the Covid-19 virus on the economies, especially on the GDP growth rates has never been a question. Never have we since we started measuring GDP growth rates witnessed larger falls in GDP growth rate all around the world than we do now due to the Coronavirus. This comes as no surprise because in most cases we simply put the economies on hold, in other cases (e.g. Sweden), the economy suffered from the fall of global demand. Unemployment rates have also been impacted by the changes, however the extent of the rise of unemployment was not always proportioned to the fall in GDP. These changes show the importance of the economic model (the protection of employees, the access to crisis measures, and subsidies, etc.) implemented. This briefing looks at how the Hungarian labor market responded to the challenges caused by the first wave of the Coronavirus and what policy responses the next wave can likely trigger in the Hungarian economy.

1. The actuality of the question

The question of how to react to the second wave of the Coronavirus without putting the economy on a hold again is burning, since – as we pointed out in the September policy briefing – new Covid cases started increasing immediately after people returned from their vacations and children, alongside with young adults started attending schools and university courses. While the number of new cases was between 10 and 40 in the period of May-July, the number of skyrocketed in September, starting from a low 118, reaching a height of 916 on 12th of September. As a consequence, the number of active cases rose from 500 (July 15, 2020) to 10.280 (September 17, 2020). While writing these lines, 328 people are treated in hospitals. In contrast to the first wave, the virus seems to be spreading mostly among young people, thus the number of death cases is proportionately lower. (The Hungarian death ratio went down from an extreme high 14 percent to 4.4 percent.) Compared to the first wave the number of cases is higher, but as said before the death rate is much lower, giving the Hungarian government a chance to keep the economy open.

2. Hungarian job market data

In July 2020, the unemployment rate was 4.7 percent, which is significantly more than it was in the same month of the previous year (July 2019: 3.6 percent.) However, this number is considerably lower than the EU27 unemployment data average (July 7.2 percent). If comparing Hungarian data to that of other Visegrad countries, Chechia and Poland perform (July 2.9 and 3.1 percent) better than Hungary, while Slovakia's numbers are worse. The sudden rise in unemployment rates happened after Covid-19 reached its highest peak in May 2020 (5.1 percent). The number of jobless people was 224 thousand in April-June 2020, which is by 66 thousand higher than the period before (March-May, 2020), at the same time, if only looking at the data of the last month – June –, the number already shows a decrease by 23 thousand.

A significant threat to this job market situation is that the scheme of short work, which was supposed to overcome the biggest problems after the global pandemic struck the Hungarian job market is about to expire. The expiration of the scheme might force Hungarian firms to lay off a significant number of employees, since the global and domestic demand is still weak.

The Portfolio, a Hungarian business news portal underlines that the Hungarian Central Statistical Office (HCSO) for methodological reasons since Covid-19 hit our country does not categorize everyone who lost his/her job as jobless, but as inactive, since many don't look for a new job for 4 weeks and could not start at their new job within 2 weeks. (These are the criterion of being classified as jobless.) Thus, the Portfolio estimated the number of jobless people much higher (270-280 thousand people) in June 2020 than the HCSO. This number would make for a 6 percent unemployment rate, moreover, if we added the number of workers employed in public work schemes the unemployment rate would reach 7.5 percent according to the estimates of the news portal.

The number of employees was also reduced significantly in the period after the global pandemic hit the Hungarian economy. In the May-July 2020 period, 4 million 439 thousand people were employed on average in Hungary and the employment rate between the ages of 15 and 64 was 59.1 percent. It means that the number of employees decreased by 79 thousand people compared to the same period in 2019. The decrease originates from three sources: 34 thousand people lost their jobs in the private labor market, 25 thousand less people are employed in the public sector and 20 thousand people were laid off in families where family members were employed abroad. It must be pointed out that the HSCO publishes two sets of employment data, the one above, called Labor Force Survey which is based on a survey, and only focuses on whether you are employed in some form. There is another one, the so-called

Administrative Earning Statistic, where only people who at least work 60 hours monthly are mentioned. If taking the second approach, the number of employees plummeted by around 330 thousand people.

2. Public schemes

It is not a surprising reaction from the firms that they not only cut the number of employees significantly, but also reduced the working hours. The corporate response shows that the Hungarian firms believe in the temporary nature of the economic crisis and trust in the positive effects of the public scheme launched by the government in April 2020. According to government data, the scheme protected the jobs of around 270 thousand people until September 2020. The state expects the employment of the workers for 9 months from the firms who apply for financial support within this scheme. 3 months are to be paid by the firm and 6 months by the state. The aggregate value of subsidies was 34 billion HUF and subsidies were applied by 17 thousand firms. It is not surprising but most applications came from tourism, the hotel industry, retail, and manufacturing. When granting money to firms, the Hungarian government tries to pursue economic development goals, since there is a special public scheme for the support of employees in research and development. Until now the government contributed to the salary of around 22 thousand employees in research and development intensive sectors. The combined value of the subsidies was 17 billion HUF, most of the applications were from firms in Budapest, and cities with large universities (Szeged, Debrecen and Pécs). The third public scheme supported the creation of new jobs. In this case, 35 thousand enterprises applied and created 48 thousand new jobs. The combined budget of this scheme was 55 billion HUF, the majority of the applications were from retail, tourism, and the construction sector. Based on the existing schemes, we can point out that the goals of the Hungarian economic development policy are:

- Keeping existing jobs,
- Creating new jobs,
- Focusing on human resources in research and development.

The share of vacant jobs shows how difficult it is for firms to find skilled workforce for the open positions. The higher the number, the more options there are to grab from potential employees. In European comparison, the share of vacant jobs in Hungary was relatively high in the second quarter of 2020. The ratio was 2.1 in Hungary, while the EU27 and the euro area averages were 1.6-1.6 percent. Chechia again overperforms in whole EU (5.4 percent) while the labor market situation is more strained in Poland (0.7 percent) and Slovakia (0.8 percent). Obviously, all aforementioned numbers were higher a year ago, which just shows the detrimental effects of the global pandemic on the labor market.

3. Summary

As the second (most likely stronger) wave of the pandemic seems to hit the Hungarian economy more strongly, the country is in a better position, it is significantly better prepared in terms of health care infrastructure and necessary medical equipment (protective gowns, facemasks, and respirators, etc.) At the same time, no country can afford an eventual second total lock-down leading to the absolute collapse of economic activities. We can see the clear signs of countries trying to desperately maintain economic activities and preserve the jobs everywhere in the European Union. As we can clearly see in the Hungarian case, the job market deserves special attention from the economic development policy, and as long it is financially affordable for countries, it makes sense to (even heavily) subsidize firms to keep people on the payroll. However, after a certain period, the time comes when the economy restructuring phase, in which the newly shaped structure of the economy already reflects the new needs of the world economy must take place. The ‘loser’ sectors of this crisis are most likely to be found in tourism and the hotel industry, while online or offline services that require no social contact with the consumers are to become the winners of the economy. The restructuring of the labor market, and ultimately the education institutes in Hungary is absolutely necessary in order for this painful readjustment process to take place.