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Hungary social briefing:
The fall and rise of the Hungarian labor market?

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The fall and rise of the Hungarian labor market?

Until 2020 the most characteristic feature of Hungary's economic success have been the improving labor market data. The economic crisis triggered by Covid-19 has had a distinctly negative impact on the Hungarian labor market. This social briefing aims to summarize the year 2020 with a focus on the recent trends and fluctuations of the labor market and raises the question of whether or not structural unemployment in the Hungarian economy will increase due to the global pandemic. This is an "eternal question" that we have to ask in the wake of any kind of economic crisis, as the answer to the question is crucial in forecasting social and economic tendencies in the Hungarian society. At the same time, we must be cautious with the answers as the impact of the second lockdown cannot be seen in the data yet, and this time unless there are additional labor market measures, the impact might be more severe than after the April and May lockdown.

I. Introduction

Usually, a distinction is made between frictional, structural, and seasonal unemployment. Growing or falling unemployment, called frictional unemployment can result from seasonal fluctuations in demand in agriculture and construction, this type of unemployment cannot be eliminated. Frictional unemployment results from the fact that there are always people who are "between jobs". It is a natural feature of any labor market, determined by fluctuations in supply and demand. What we can observe in Hungary today is the rise of the third type of unemployment, the so-called cyclical unemployment, caused by a sudden downturn in the economy. The main question is whether this cyclical unemployment will turn into the so-called structural unemployment, which indicates a long-term difference between supply and demand in the labor market. The reason is why it is so difficult to reduce cyclical unemployment is because although the education system adapts to the new market situation, the speed of adaptation is slower than the changes in the labor market so that the trends in the labor market can worsen.

2. Labor market data

Looking at the latest available labor market data, the number of people employed, and the employment rate decreased compared to the previous year. The number of employed persons decreased by 1.4 percent in November 2020 compared to the corresponding period of 2019, while the employment rate was 0.6 percentage points lower than a year before. The peak in the number of employed persons was in May 2019, since then a slow but steady decline has been observed and the difference between May 2019 (4,533 thousand) and the latest data in November 2020 (4,458 thousand) is 72 thousand. We should add that most of the change still comes from the social strata of an aging society and people who withdrew from the labor market because they retired thus are not tracked in these statistics. The unemployment rate for 15- and 64-year-olds was 70.7 percent in August 2020, the highest level in the last two years. In other words, the Covid-19 hasn't necessarily translated into numbers in terms of employment rates.

The effects of Covid-19 can be more easily tracked in changes in the unemployment rate and the number of unemployed persons. The lowest point of the unemployment rate and the number of unemployed persons was in December 2019, while the highest point was observed in May 2020. The difference in the number of employed persons was 100 thousand when comparing December 2019 (140 thousand) and May 2020 (240 thousand), since August the number decreased to 197 thousand. Similar dynamics can be seen in the unemployment rate, the lowest point was observed in December 2019 (3.0 percent) and the highest point in August 2020 (5.1 percent).

We should add that the Hungarian Central Statistical Office collects its data based on the standards of the International Labor Organization, whose definition of unemployment differs from the number of registered jobless people. While the average number of unemployed persons was 199 thousand based on the ILO definition, the number of registered job seekers according to the administrative data of the National Employment Service was 306 thousand people.

The slow but steady improvement in the labor market can be seen in several indicators, the tell-tale sign of structural unemployment is the number of job vacancies, which was at its lowest at 58 thousand in the first quarter of 2020 and rose to 63 thousand in the third quarter. (The third quarter of 2018 was the period when demand was strongest in the last five years, with 87 thousand vacancies.) Clearly, one of the most efficient strategies – if you do not want to lay off employees during the economic downturn – is to hire them part-time instead of full-time. When we compare the number of hours worked in Q3 of 2020 to the data for the corresponding period of 2019, the decrease is 3.9 percentage points. We have also seen that both full-time and salaried workers are now working fewer hours than they were a year ago, while the number of hours worked by part-time workers has increased significantly. In other words, the price of keeping people on the payroll has been a change in the form of employment.

Compared to the rest of Europe, the Hungarian labor market performed relatively well during the year. In October 2020, the unemployment rate was 4.3 percent, while the EU average was 7.6 percent. While this is not the lowest, it is very close to it, as only the employment rates of Poland and the Czech Republic were lower in December. Another long-term indicator of the labor market is the youth unemployment rate, as trends can be persistent and youth unemployment can turn into long-term unemployment. In October 2020, the youth unemployment rate worsened in the EU, with the exception of Hungary and Austria. The lowest rate came from Germany (6.4 percent) and the highest from Spain (41.1 percent) and the EU average was 18.0 percent in October 2020. Hungary's youth unemployment rate was 11.1 percent, meaning that only four countries scored better than Hungary on this indicator.

3. Government measures

Since the problems in the labor market are due to the decline in the demand for labor, government measures have addressed the demand side of the labor market. We can classify 6 types of measures:

1. *Easing tax liability.* Companies could defer their tax payments until the end of September 2020. Of the HUF 52 billion due, about HUF 20 billion was paid later by companies.
2. The reduction of taxes and social contributions in the tourism, catering, hotel industry, and art sectors. About HUF 21 billion was not paid to the state budget as taxes and social contributions.
3. *Wage subsidies.* Over 4 months (until July 2020), the total amount of subsidies was HUF 14.4 billion.
4. *Wage subsidies in research and development.* By the end of July, almost HUF 5 billion had been disbursed in this form of subsidy.
5. *Job creation.* By the end of August 2020, 30 thousand jobs were created this way. In this framework, at least 3 months of employment must be added to the 6 months of subsidized employment.

6. *Other labor market measures.* In addition to the above measures to maintain and create jobs, several measures have been adopted to increase the flexibility of the labor market.

The measures to alleviate the impact of the global pandemic on the labor market were financed from the newly created "Economic Protection Fund", whose financing possibilities amount to HUF 1345 billion.

4. Summary

As we pointed out earlier, the key to understanding the labor market in 2020, is to focus on long-term and structural changes in the demand side of the labor market. The Hungarian labor market adjusted to the new situation and restructured. 26 thousand more people are employed in the info-communications sector, 20 thousand more people in the research, retail, construction sectors, while there are fewer people employed in catering, manufacturing, logistics, and storage. In other words, the whole labor market moved into higher added value segments. We should add that the reversed dynamics of the employment rate (worsening) and the unemployment rate (improving) show that a significant part of the adjustment comes from withdrawal from the labor market and not only from moving into higher added value segments.

It is worth noting that the impact of the second lockdown on the Hungarian economy cannot yet be seen in the data, and due to the dwindling financial resources of firms, they are more likely to reduce the number of workers to survive the second economic downturn than during the first lockdown. The 2020 Inflation Report from Hungarian Central Bank (MNB) also recently warned that the second lockdown wave would worsen labor market conditions and predicted that labor market indicators, particularly the unemployment rate, would not improve significantly until the latter part of 2021. This is the reason why we, unfortunately, must keep the question mark in the title of the briefing, and wait until it becomes clear whether the cyclical unemployment translates into long term and structural unemployment in the Hungarian economy.