China-CEE Institute
中国—中东欧研究院

ISSN 2939-5933

Vol. 45, No. 3 (HU)

November 2021

Weekly Briefing

Hungary social briefing:

Hungarian labor market conditions compared to the OECD and the EU taking the long-term view

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Hungarian labor market conditions compared to the OECD and the EU taking the long-term view

In economic crises, we usually look at changes in GDP growth and only then at labor market indicators. However, it might be more useful to look at the social costs of the economic crisis than to focus only on GDP changes, as the economy can also grow without creating new jobs. This phenomenon is often referred to as jobless growth. In the fourth wave of the pandemic, we can ask ourselves how the long-term characteristics of the Hungarian labor market have developed and how they compare with the OECD and EU averages.

Introduction

After the economic and political transition of Hungary in 1990, the Hungarian labor market was characterized by low employment. This was the result of a labor market policy that promoted early retirement schemes as a means of reducing extremely high unemployment. As a long-term effect of this short-term oriented measure, the potential growth of the Hungarian economy was stifled for three decades by the low utilization of the country's human resources. After 2010, government policies targeted these labor market problems in Hungary, which were exacerbated by an aging and declining population. The labor market problems not only affect potential growth but also the sustainability of pension systems in Hungary. This briefing looks at certain labor market indicators, that specify the quality and quantity of work and labor productivity in OECD and EU comparisons.

Employment, unemployment rates

In the last social briefing, we showed that Hungary's unemployment rate (2021 September: 3.6 percent) is well above the EU average (2021 September: 6.7 percent). Even in regional comparison, unemployment is relatively low. Among the 11 Eastern European EU members, only the Czech Republic (2.6 percent) and Poland (3.4 percent) had lower unemployment rates than Hungary in September.

The OECD average unemployment rate was 6.0 percent in August 2021. Hungary's unemployment rate for the month was 4.2 percent, which is again much better than the OECD average. When looking at the countries that performed better than Hungary, a clear pattern emerges, with export-oriented economies with a strong focus on manufacturing playing in the top league when it comes to labor market conditions. Korea, Japan, Germany, the Czech Republic, the Netherlands, and Poland have better unemployment rates, which also suggests that Hungary's efforts to strengthen its manufacturing sector are an appropriate long-term strategy.

In the second quarter of 2021, the average employment rate in the OECD was 67.4 percent, while this indicator was 72.9 percent in Hungary. In this case, there is no clear pattern regarding the more successful countries, as we also have countries in this group where manufacturing is not the strength of the economy. France and the United Kingdom could be considered as examples, in both countries services (tourism, banking) have traditionally been strong sectors and their share of employment is also significant.

While in the last social briefing we focused on how the Hungarian employment rate looks like in the Visegrad countries, let us now take a look at the EU context. Based on Eurostat data, we can see that Hungary's performance (78.8 percent) in the second quarter of the year was above the EU average (72.8 percent) in terms of employment. The Czech Republic, Germany, the Netherlands, and Sweden are the countries in the EU with better performance in this area. As we can see, the group of successful countries is dominated by export-oriented economies, in each case the export of manufactured goods is also a dominant feature.

Working hours and productivity

How much time people spend working each year or each week is a crucial factor because, in addition to labor productivity, economic performance depends to a large extent on the hours spent working. According to the OECD, Hungary is one of the countries where the number of average weekly working hours is relatively high. In 2020, the average weekly working hours in Hungary was 40.1 hours. Among the 31 OECD members, Israel, the United States, Turkey, New Zealand, Iceland, and Greece are the countries where this average is higher than in Hungary. We should add that the Covid 19 pandemic has strongly affected this number of working hours in several EU countries, while in others the impact is limited, moreover there are countries where the number of employees has decreased. (See table 1!)

Table 1. Change in the actual number of hours worked from Q1 to Q2 2021					
Ranking	Country	Percentage	Ranking	Country	Percentage
1.	Greece	18.0	14.	Lithuania	2.5
2.	Slovakia	12.4	15.	Finland	2.5
3.	Ireland	10.8	16.	Romania	2.3
4.	Portugal	10.2	17.	Hungary	2.2
5.	Denmark	8.5	18.	Germany	1.4
6.	Spain	7.6	19.	Poland	1.4
7.	Italy	6.6	20.	Slovenia	1.1
8.	Czechia	6.5	21.	Sweden	0.9
9.	Croatia	6.4	22.	Luxembourg	-0.2
10.	Cyprus	5.8	23.	Bulgaria	-1.3
11.	Malta	4.6	24.	Estonia	-1.7
12.	Austria	4.3	25.	France	-2.2
13.	Latvia	3.3	26.	Netherlands	-2.8
-	EU average	3.0	27.	Belgium	-3.6
Source: Eurostat					

The dataset also includes real minimum wages, and the data are from 2020, but we know that there will be a significant increase in minimum wages from 2022 onwards. The data before that date reflects the country's level of economic development. Their relatively low level has helped maintain the country's attractiveness to foreign capital investment and strengthened its international competitiveness. The country's international competitiveness is strengthened by the fact that trade unions are far less dominant in wage negotiations in Hungary than in the average of OECD countries. According to the OECD, trade union density in Hungary is low; only Estonia (6.0 percent) and Lithuania (7.4 percent) have a lower figure than Hungary (8.3 percent) among OECD countries. A slightly different picture emerges when looking at collective bargaining coverage – in contrast to the previous indicators, it also includes people who have not joined the trade union, although the outcome of collective bargaining also affects their working conditions. This indicator was 21.8 percent in Hungary, while the OECD average was 32.1 percent. This shows that the process of wage bargaining has a relatively large impact at the level of trade unions and business associations.

But it is clear that the robust growth of the Hungarian economy has created other needs for economic development, and the domestic component of GDP growth has become an increasingly important element for future development higher minimum wages can boost the economy significantly. We should add that average wages also increased between 2010 and 2020. During this period, average wages increased by 17 percent (at constant 2020 prices).

Table 2. Change in GDP per hour between 2015 and 2021 (percentage)	
Poland	19.6%
Slovak Republic	12.7%
Hungary	12.1%
OECD	7.9%
Czech Republic	7.8%
EU27	4.3%
Euro area	3.7%
Source: OECD	

Labor productivity is measured by the OECD as GDP per hour worked. The indicator shows how efficiently labor is combined with other factors of production. A look at the trends shows that GDP per hour worked in Hungary increased by 12.1 percent between 2015 and 2020, while the average change in the OECD was 7.9 percent, in the EU27 4.3 percent and in the eurozone 3.7 percent. At the same time, we also find two countries from the region - Poland and Slovakia - where the increase in GDP per hour was more significant. (See Table 2!) A similar positive trend can be seen when we measure GDP per hour worked in current USD (PPP). While this indicator stood at USD 33.2 in 2012, it averaged USD 41.4 per hour worked in 2019. It must be added that there is still room for growth due to the country's status as a laggard, as this 41.2 USD is far from the countries at the top. (Ireland is the best performer in the world at USD 110.9 in 2019).

Summary

Based on the labor market indicators studied, we can conclude that the Hungarian labor market has not only improved rapidly in recent years but has also adapted quickly to a new environment created in the pandemic-hit global economy. As far as long-term trends are concerned, we should highlight the improvement in the employment rate, which previously limited the potential growth of the Hungarian economy. At the same time, we could observe that labor productivity improved rapidly, i.e., there were not only quantitative but also qualitative improvements. In terms of employment and unemployment rates, the catching-up process has been completed, as Hungarian indicators are better than the OECD and EU averages. However, the catching-up process in labor productivity will take some time before Hungary comes close to the EU or OECD average. This is the point at which we can understand why the Hungarian government has focused its labor market policy and other accompanying measures on technological improvements leading to better labor productivity figures.