LABOUR MARKET TRENDS IN HUNGARY, 2007

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INTRODUCTION

Bringing down the large budget and current account deficit were the primary aims of the newly elected Hungarian government in 2006 and 2007. The large fiscal deficit of the country is unsustainable and the government has embarked on a four-year consolidation programme of financial restraint. The immediate revenue increases and spending cuts slowed down growth which is falling behind regional growth trends. In 2006 the GDP growth rate decreased from 4.9 per cent in the first quarter of the year to 3.2 per cent in the fourth quarter. The tendency has continued in 2007 when the growth rate was 2.8 per cent in the first quarter, 1.4 per cent if the second, 1.1 per cent in the third and 0.7 in the fourth *(KSH, 2007d)*. The declining growth rate was accompanied by a slight decrease in the employment rate mainly due to employment cuts in the public sector. At the same time the rate of unemployment remained at 7.1 per cent. In this chapter we present the main labour market trends in Hungary in 2007: the participation, employment, and unemployment rates. We also provide information on wages. In addition we discuss how Hungary performs compared internationally in participation, employment and unemployment using data for 2006 (the latest available international data). This analysis simply presents the most important changes but does not discuss in detail the reasons for, or effects of, those changes.

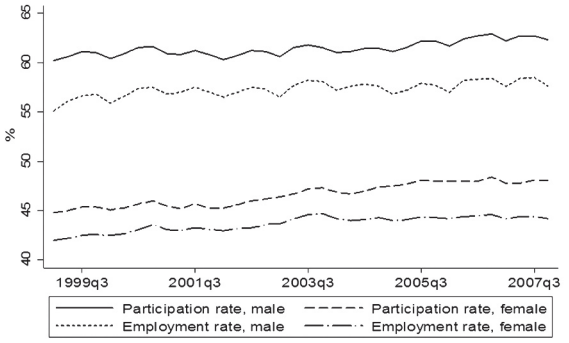
1. PARTICIPATION, EMPLOYMENT, UNEMPLOYMENT

A low participation rate is still the main characteristic of the Hungarian labour market. Of the 7,719 thousand people in the 15–74 year old age cohort 4,238 thousand were active in 2007 which corresponds to a 54.9 per cent participation rate. The participation rate of men in 2007 was 62.5 and the participation rate of women was 48 per cent *(Figure 1)*.

During 2005/2006 there was a minor 0.6 percentage points increase in the participation rate which was partly due to the increase in the number of employed persons. From the befinning of 2006 to the end of 2007 the participation rate decreased by 0.1 percentage points. The number of employed persons increased by 29 thousand in 2006 and decreased by 4 thousand in 2007. The employment rate of men was 58 per cent in 2007 and 48 per cent for

women. The Hungarian activity and employment rate are both still very low if we compare them internationally. In 2006 the activity rate of 15–64 year olds lagged behind the EU15 average by 8.7, the EU19 average by 7.7 and the OECD average by 5.3 percentage points. The corresponding fallback in the employment rate was 7. 3, 6.1 and 5.6 percentage points *(OECD, 2007)*.

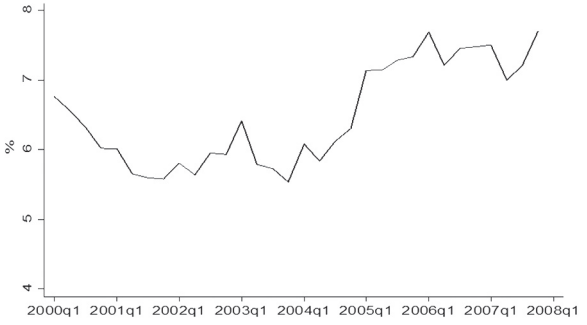
Figure 1: Labour force participation rate and employment rate by gender, 1999–2007



Source: CSO LFS.

In 2006 the number of unemployed persons was about 13 thousand higher than in the previous year, the rate of unemployment also increased by 0.3 percentage points. The increase in the unemployment rate was 1.1 percentage points. In 2007 the number of unemployed remained at 164 thousand with unemployment rate decreasing from 7.2 to 7.1 per cent (*Figure 2*).

Figure 2: Unemployment rate, 2000–2007 (%)



Source: CSO LFS.

Despite the rising trend in the unemployment level the Hungarian unemployment rate is still moderate compared internationally. In 2006 the unemployment rate of the 15–64 year old group was 0.9 percentage points lower than the EU15 average, 1.5 percentage points lower than the EU19 average and 1.3

percentage points higher than the OECD average *(OECD, 2007)*. Nevertheless the relatively low unemployment rates are partly due to the abandonment of job search by the non-employed which was facilitated by the welfare system. Disability pensions and a variety of early retirement schemes absorbed a large proportion of those individuals leaving the labour force. In the 45 to 60 age group over 40 per cent of the non-employed receive disability benefit. The generous family support system, primarily the maternity leave options, have an important impact in the participation rates of women. Women's inactivity rates are more than 80 per cent for households with at least one child aged below three years *(Bálint and Köllő, 2007)*.

The duration of unemployment in Hungary is lengthy. In 2006 only 4.3 per cent of the unemployed succeeded in finding a job within 1 month following their job loss. In 2007 this share was somewhat larger and 4.5 per cent of the unemployed found employment within 1 month. But the proportion of those looking for a job for more than one year increased between 2006 and 2007 from 41.2 per cent to 44.1 per cent *(Table 1)*.

Table 1: Length of unemployment

Length of unemployment in months	2006		2007	
	Unemployed (thousand)	Percentage	Unemployed (thousand)	Percentage
Less than 1 month	13.3	4.3	13.8	4.5
1–3	50.7	16.3	49.4	16.2
4–6	48.3	15.7	44.3	14.6
7–12	69.3	22.5	62.8	20.6
13–18	41.5	13.5	43.3	14.2
19–24	26.6	8.6	26.0	8.5
25 months or more	58.8	19.1	64.9	21.4
Total	308.5	100.0	304.5	100.0

Source: CSO.

2. LABOUR FORCE PARTICIPATION BY DIFFERENT CRITERIA

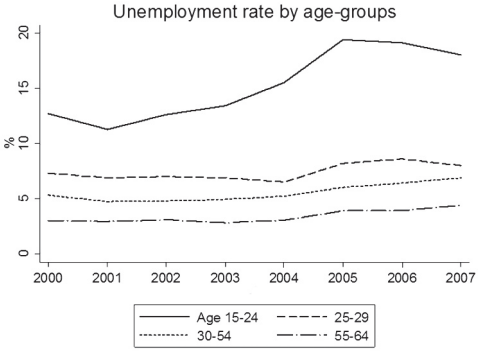
2.1. Differences by age group

Between 2001 and 2005 the youth unemployment rate was growing, but the growth in the unemployment rate of the youngest age group (the section of the population aged between 15 and 24) stopped in 2005 and in 2006 and 2007 there was a very slight decline (Figure 3).

The unemployment rate of those seeking employment for the first time decreased by 0.3 percentage points in 2006 and by 0.9 percentage points in 2007. The unemployment rate of those aged between 25–29 also decreased in 2007 by 0.2 percentage points. The unemployment rate of the youngest age cohorts is strongly influenced by changes in the participation rate among

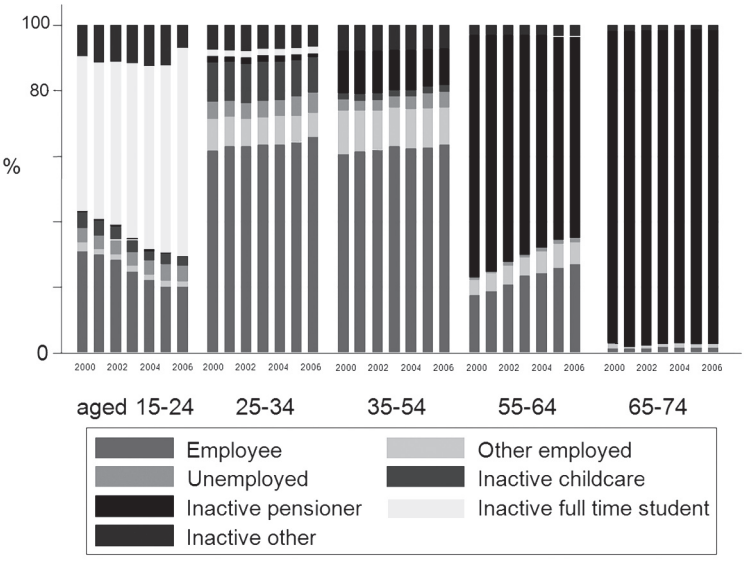
them which in turn is mainly determined by changes in the share of full time students. We look at this in more detail in the following section. Nevertheless in 2006 and 2007 not only the unemployment rate but the number of unemployed persons also decreased in the youngest age cohort. In 2006 the number of unemployed decreased by 2 thousand, in 2007 by 6.5 thousand. No significant changes in the unemployment rate of the other age cohorts could be observed in 2007.

Figure 3: Unemployment rate by age groups



Source: CSO LFS.

Figure 4: Distribution of the 15–74 year old age cohort by activity categories by age-groups, 2000–2006 (%)



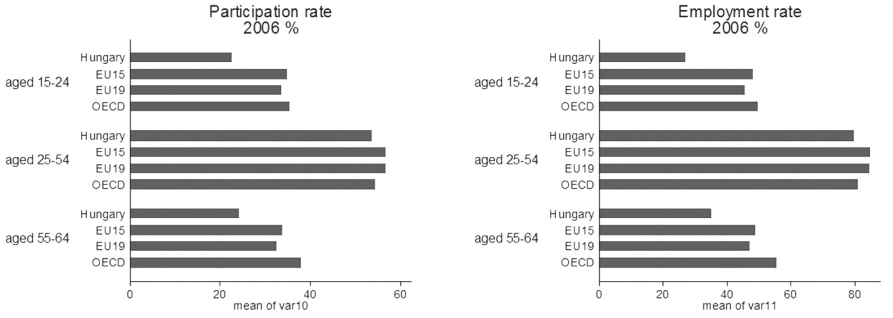
Source: CSO LFS.

Figure 4 shows changes in the distribution of the different age groups by labour market status between 2000 and 2006. The distribution of the youngest age group (aged 15–24) and that of persons aged 55–64 has changed to a greater extent during this period.* While the participation rate for the 15–24 age group has been falling, the rate for the older groups has been rising steadily.

The share of the employed in the 55–64 year old age group has increased year on year and the proportion of pensioners within that group has decreased. The share of the employed (employee and self-employed) increased from 22.2 to 33.5 per cent between 2000 and 2006 and the proportion of pensioners decreased from 74.2 to 61.5 per cent.

This change can be attributed to changes in the pension eligibility age. For men the age of eligibility has been raised from 60 to 62 years and for women the pension eligibility age increased from 56 to 59 years over the period 1998–2003 and will be increased to 62 years by the end of 2009. Nevertheless in spite of these changes the effective retirement age in Hungary is still the second lowest among OECD countries with the average effective retirement age being less than 60 for both men and women.

Figure 5: Labour force participation rates and employment rates by age-groups in Hungary and the EU and OECD averages, 2006 (%)



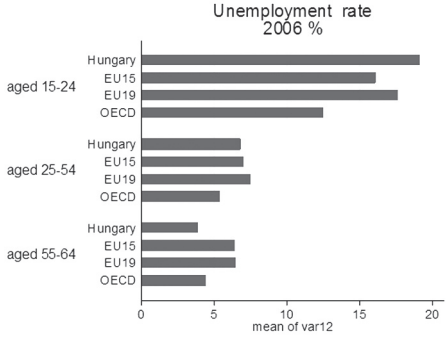
Source: OECD Employment Outlook, 2007.

The employment rate of persons aged 55–64 is still very low by international comparison *(Figure 5)*. It lags behind the EU15 average by more than 10 percentage points and behind the EU19 average by about 10 percentage points. The lag is even higher in the activity rate. The activity rate of the section of the Hungarian population aged between 55–64 was 34.9 per cent in 2006 while the EU15 average was 48.8 per cent, the EU19 average 46.6 per cent and the OECD average 53 per cent *(OECD, 2007)*. The unemployment rate of the elderly is smaller in Hungary than the EU or OECD average *(Figure 6)*. It would appear that the reason for this phenomenon is that the proportion of pensioners from that group is still very high. Those who lose their jobs or who are earmarked for job loss are still able to quit the labour market

* Based on calculations of Mónika Bálint from the CSO Labour Force Surveys.

with the help of early retirement schemes or disability schemes and very few of them are seeking fresh employment.

Figure 6: Unemployment rate by age-groups in Hungary and the EU15, EU19 and OECD averages, 2006 (%)



Source: OECD Employment Outlook, 2007.

Among the youngest group (aged 15–24) the share of employed persons decreased by more than 10 percentage points – from 33.5 to 21.3 per cent in the six year period between 2000 and 2006. During the same period the share of the unemployed decreased from 4.8 to 2.7 per cent among 15–24 year olds, and the proportion of those who are inactive because of child-care decreased from 4.7 to 2.7 per cent. The share of those who are inactive because they are in full time study increased from 46.6 to 63.3 per cent *(Figure 4*). Post 2000 the increase in the share of full time students among the youngest age group was the consequence of the lengthening of the duration of studies and not the further increase in the participation rates in upper secondary and tertiary education. Some changes in upper secondary education after 2000 led to this consequence. In vocational training schools (szakiskola) the duration of studies was extended from 3 to 4 years. The extended programmes started in 1998, so the first cohorts who were studying for 4 years finished their studies in 2002. In vocational secondary schools (szakközépiskola) and general secondary schools (gimnázium) some schools also extended their programmes from four to five years. *Table 2* shows the age distribution of students at the time of obtaining a vocational qualification in vocational schools (szakiskola) and in vocational secondary schools (szakközépiskola) in 2001 and 2006. In 2001 39 per cent of students in vocational schools acquired a qualification before the age of 19, in 2006 only 14.1 per cent of them did. In vocational secondary schools changes were not as pronounced. The share of those students obtaining a qualification before the age of 19 decreased from 72 to 59 per cent.

Between 2000 and 2007 in the youngest age group (15–24 years old) the most important reason for the decline in the activity rate was that because of the extension of upper secondary programmes students spend more years in

school and in part this is the reason for the increasing unemployment rate of this age group. As the number of the active population is sharply declining among 15–24 years old because most of those aged 15–24 are still studying so increasingly only the less able enter the labour market in this age group – those who drop out of education. Thus the rise in the unemployment rate and the decline in the employment rate are partly caused by the growing selection.

Table 2: Age distribution of students at time of obtaining vocational qualification 2001 and 2006 (%)

	Vocational qualification			
	With secondary school leaving examination		Without secondary school leaving examination	
Age	2001	2006	2001	2006
17-19	71.8	59.4	38.8	14.0
20-22	23.3	34.3	47.2	61.9
23-	4.9	6.0	14.0	24.1
Total	100.0	100.0	100.0	100.0

Source: KIR-STAT school data-base.

By international comparison the participation and employment rate of the 15–24 year old population is very low *(Figure 5),* and from 2004 the unemployment rate of those seeking their first job is higher than the EU and OECD average. The activity rate of the Hungarian 15–24 year old age cohort lags behind the EU15 and the OECD average by 20 percentage points. from the EU19 average by almost 20 percentage points. There is a very similar lag behind the EU and OECD averages in employment rates. In 2006 the unemployment rate of the 15–24 year old age cohort was 3 percentage points higher than the EU15, 2 percentage points higher than the EU19 average and almost 7 percentage points higher than the OECD average *(OECD, 2007).*

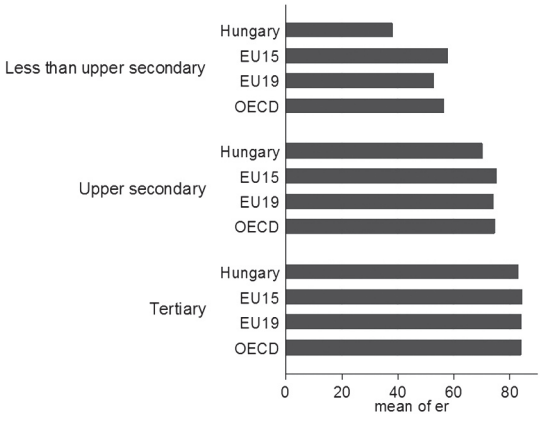
The reason for the low activity rate is that very few students find a job – at least for statistical observation – during their studies and very few of them come onto the labour market. Among the 15–24 years old group those active on the labour market are mainly the ones who haven't succeeded in attaining an upper secondary qualification – the ones who have dropped out of secondary education. Their labour market prospects are very poor because they are lacking experience and qualification. These young people will be present on the labour market for a very long time so improving the possibility of employment for them can be regarded as important for improving overall activity and the employment rate in Hungary

2.2. Differences by educational attainment

The labour market prospects of persons who have attained less than upper secondary education is still very unfavourable in Hungary and one of the most

important reasons for the overall lag in employment is the poor employment possibilities of the undereducated. In 2005 the employment rate of those whose educational attainment is less than upper secondary education was 38.1 per cent which lags behind the EU15 average by almost 20 percentage points, the EU19 average by 14 percentage points and the OECD average by 18 percentage points. The employment rate of those who have attained an upper secondary qualification was 70.4 per cent which was smaller by about 4–5 percentage points than the EU and OECD averages. The employment rate of those whose highest educational attainment is tertiary education was 83 per cent which lags behind the EU and OECD averages by only 1–2 percentage points *(Figure 7)*.

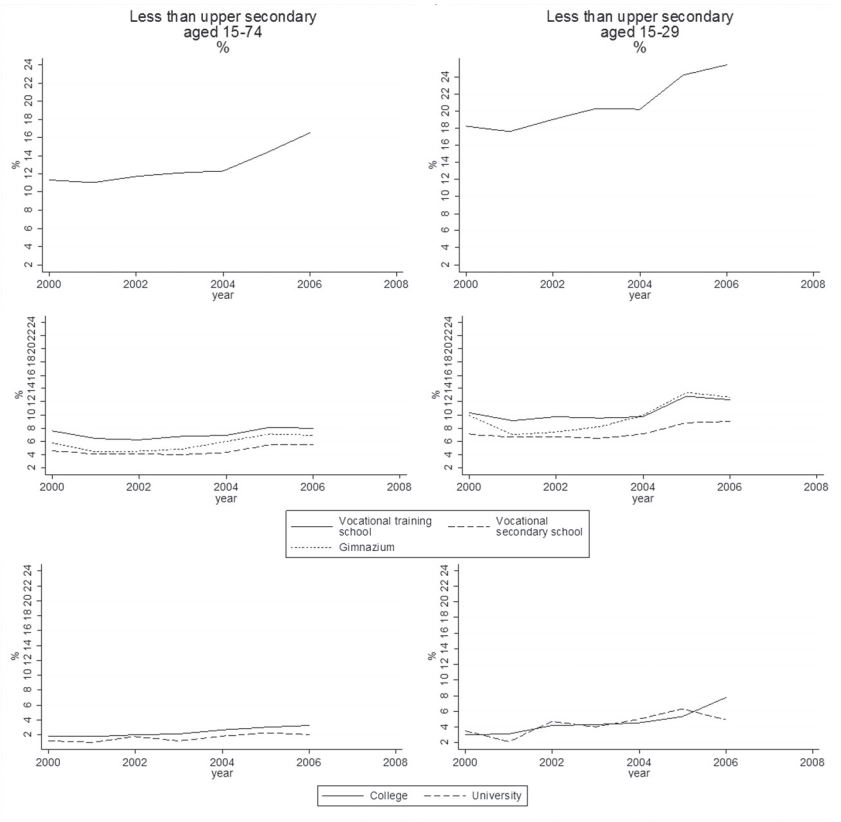
Figure 7: Employment rates by educational attainment in Hungary and the EU15, EU19 and OECD averages, persons aged 25–64, 2006 (%)



Source: OECD Employment Outlook, 2007.

In 2006 and 2007 there was a further decrease in the employment rate of persons who have less than upper secondary education. In 2006, 29.1 per cent of those aged 15–64 with lower secondary education (általános iskola) and only 9.3 per cent of persons whose educational attainment was less than lower secondary education were employed *(KSH, 2007a)*. *Figure 8* shows changes of unemployment by educational attainment for persons aged 15–74 and also for those aged 15–29 at the beginning of their working life. For the 15–74 years old population the unemployment rates decreased slightly for all educational groups (by 0.2–0.3 percentage points) but for those who had not attained upper secondary education. Between 2005 and 2006 the unemployment rate of those whose highest educational qualification is less then upper secondary increased by more then 2 percentage points from 14.3 to 16.5 per cent.

Figure 8: Unemployment rate by educational attainment, persons aged 15–74 and aged 15–29, 2000–2006 (%)



Source: CSO LFS.

Youth unemployment rates are higher for all educational groups than the unemployment rates of the population as a whole. This is a general phenomenon in all countries as the transition from school to work necessitates a longer period for job-searching, also job loss occurs more frequently than in older ages. Nevertheless the differences in the changes of unemployment rates between the younger and older age cohorts in the same educational group may reflect changes in the labour market value of a given education.

The largest difference between the youth unemployment rate and the unemployment rate of the population as a whole can be observed for those whose educational attainment is less than upper secondary level. After 2004 there was a further sharp increase in the unemployment rate of the undereducated and for those aged 15–29 with less than a upper secondary education the unemployment rate exceeded 25 per cent. The extremely bad labour market opportunities for low skilled workers in Hungary have reasons that are complex. High minimum wages reduces the employment opportunities for them. In

Hungary unskilled labour can easily be substituted by capital in the situation where its relative price increases, as empirical results show *(Kertesi–Köllö, 2002)*. Another important factor is the chronic unsolved problem of transportation in a great number of Hungarian villages. These villages are home to many of those with only a low level of education. A considerable proportion of unemployment in Hungary derives from the fact that the wage offered for poorly educated people living in areas with inadequate transport facilities does not cover the costs of the daily commute – not even from a distance of 20–25 kilometres *(Köllő, 1997; Kertesi, 2000)*. Last but not least an important reason for the unfavourable labour market prospects of the young undereducated is that the Hungarian educational system at lower secondary level does not provide even the minimum skills required by the economy.

The unemployment rate of young vocational training school (szakiskola) and general secondary school (gimnázium) graduates has declined to a small extent (by 0.5 and 0.7 percentage points correspondingly), while the unemployment rate of vocational secondary graduates increased by 0.2 percentage points *(KSH, 2007b)*. As for those with a tertiary education embarking on a career the trends from 2004 are diverse for both college and university graduates. Until 2004 there was a small increase in unemployment rates for university and college graduates, but in 2006 the unemployment rate of university graduates decreased from 6.3 to 4.9 per cent while the unemployment rate of those with a college education first starting on a career increased further – to around 8 per cent. These changes suggest that from the growing supply of higher education graduates employers prefer the more educated university graduates and do not support the opinion common in Hungary that higher education expansion has led to the over-education of university graduates. (It is worth mentioning, that with only 20 per cent of the population having received a tertiary qualification Hungary has one of the lowest proportions of highly educated people in this age-group among the OECD countries. The OECD average was 32 per cent in 2006.) *(OECD, 2007.)*

2.3. Differences by gender

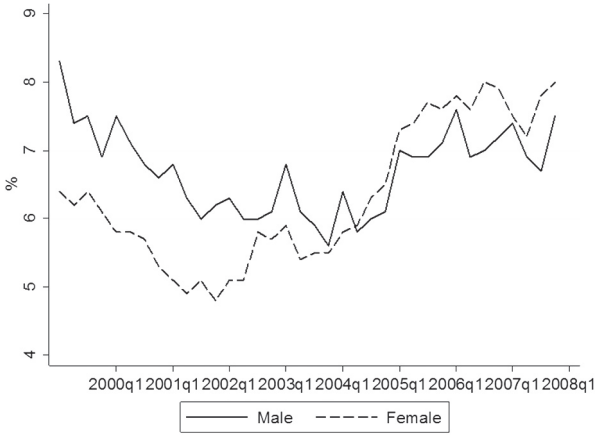
Differences in activity and employment rate by gender have been rising slightly. The activity rate of men aged 15–74 increased from 61.7 to 62.5 per cent between 2005 and 2007 and the activity rate of women increased from 47.8 to 48 per cent during the same period. The employment rate of men increased from 57.4 per cent to 58 per cent in 2006 and did not change in 2007, while the employment rate of women increased from 44.2 to 44.3 per cent between 2005 and 2007

As the activity and employment rate of women is much lower in EU and OECD countries than that of men the lag behind EU and OECD averages is higher for Hungarian men than women. The activity rate of Hungarian men

lags behind the EU15 average by 11 percentage points and that of Hungarian women by 9 percentage points. The fallback in the employment rate is 10 and 7 percentage points correspondingly *(OECD, 2007)*.

Until 2004 the unemployment rate of women was smaller than that of men. Since the second quarter of 2003 the unemployment rate of women was constantly rising. In 2004 it reached that of men and from 2005 the unemployment rate of women exceeds the rate of men *(Figure 9)*. The worsening of women's employment possibilities is connected with employment cuts in the public sector. The number of employed declined year on year from 2004 and as women are represented to a larger extent in the public sector than men, women were more affected by lay offs in the public sector.

Figure 9: Unemployment rates by gender, 2000–2007



Source: CSO LFS.

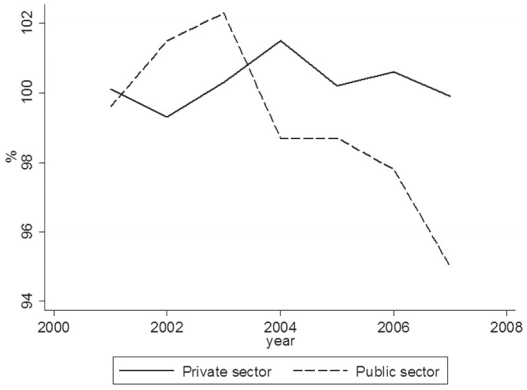
2.4. Sectoral breakdown

From 2004 the share of public employment among all the employed decreased year on year. In 2006 the number of employed in the public sector decreased by 17 thousand and in 2007 by 40 thousand which corresponds to a 2.2 and 5 percentage points decrease. In the private sector the number of employed increased by 11 thousand in 2006 and decreased by 1.6 thousand in 2007 which corresponds to a 1.6 percentage points increase and 0.1 percentage points decrease.

In 2006 in all branches of the public sector (public administration, education, health care) the numbers of employed decreased. In 2007 a very similar tendency could be observed the number of employed in all branches of the public sector decreased, but in education increased. This can largely be explained by the fiscal consolidation program, which includes an employment cut and a wage freeze in the public sector, The decrease in 2007 was 13 per-

centage points in public administration, while the number of employed in education increased by 6.5 percentage points in the same year. There is some anecdotal evidence that the latter phenomenon can partly be explained by local governments' proceedings in the course of which they simply reclassified an element of local administration jobs as education jobs thus reducing the apparent number of those employed in administration and increasing the number employed in education.

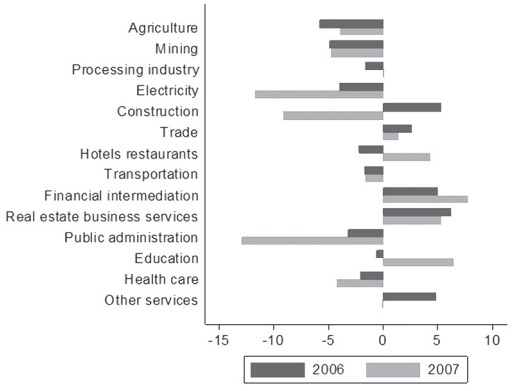
Figure 10: Growth rate of employment in the public and private sector, 2001–2007



Source: CSO LFS.

The greatest increase in employment occurred in financial intermediation – by 0.7 percentage points while in the real estate business service the increase was by more than 5 percentage points. In hotels and restaurants the increase was 4.3 percentage points *(Figure 11)*. The largest decrease in employment could be observed in construction (9 percentage points).

Figure 11: Changes in the number of employed by industry, 2006, 2007 (%)

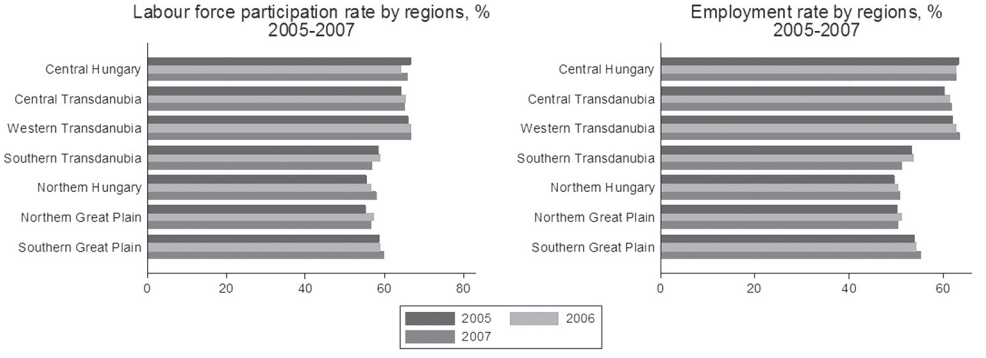


Source: CSO Stadat data.

2.5. Regional differences

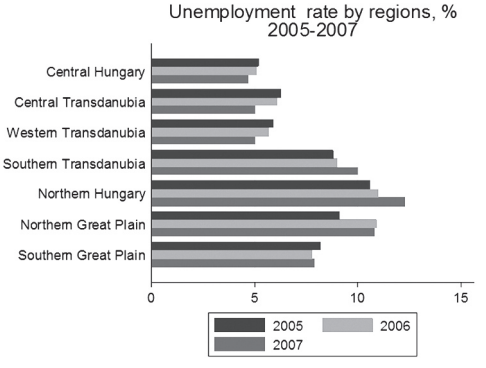
Regional differences in activity, employment and unemployment rates are high in Hungary. The participation and employment rate is relatively high in Central Hungary, Central Transdanubia and Western Transdanubia and low in Northern Hungary, the Northern Great Plain, Southern Transdanubia and the Southern Great Plain. In 2007 after some years of decreasing the differences once again increased. The activity rate increased in the relatively high performing regions and decreased in the low performing ones. The same was true for changes in employment rates. The exceptions were the Southern Great Plain and Northern Hungary which are low employment regions but where both the activity and the employment rate increased in 2007 but only by only by, at most, one percentage point.

Figure 12: Labour force participation rate and employment rate by regions, 2005–2007 (%)



Source: CSO 2005; 2006b, 2007.

Figure 13: Unemployment rate by regions, 2005–2007 (%)



Source: CSO Stadat data.

The increase in the differences in the unemployment rates by regions was much higher both in 2006 and in 2007. The unemployment rates in all high

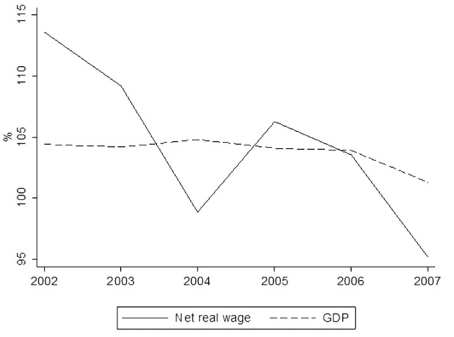
employment regions decreased in both years and increased in all low employment regions. By 2007 in Central Hungary – the best performing – the unemployment rate has decreased to 4.7 per cent while in the worst performing region, Northern Hungary, it has reached 12.3 per cent.

Changes in regional differences show that the strong polarization of the country continued in 2007 and that the government's efforts to level out the differences have not yet succeeded.

3. WAGES

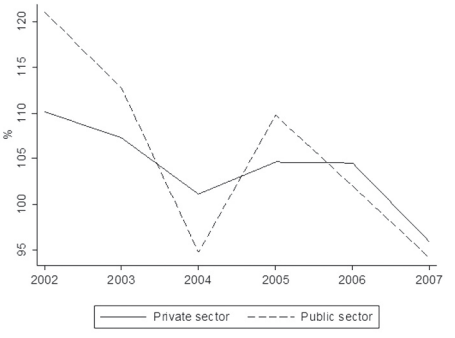
The average gross wage of full time employees was 185 thousand HUF in 2007; the average net wage was 114 thousand HUF. The average gross wage of full-time employees in the private sector was 162 thousand HUF and 174 HUF in the public sector and the average net wage 111 thousand HUF and 124 thousand HUF correspondingly. *Figure 14* shows the growth rate of net real wages nationwide and the growth rate of the GDP between 2002 and 2007. *Figure 15* displays the growth rate of net real wages separately for the private and the public sector.

Figure 14: Change of net real wage and GDP, 2002–2007 (%)



Source: CSO Stadat data.

Figure 15: Change in the net real wage in the public and private sector, 2002–2007 (%)

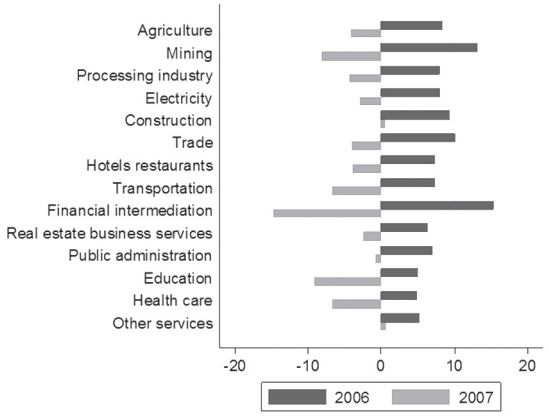


Source: CSO Stadat data.

The growth rate of net real wages was much higher in 2002 and 2003 than the growth rate of the GDP which was due mainly to wage rises in the public sector. In 2004 net real wages decreased as a consequence of a wage freeze in the public sector. But in the following year wages rose again because net real wages in the public sector increased – by about 10 per cent. This was the consequence of a political decision as the government could not risk maintaining a wage freeze in the public sector while parliamentary elections were approaching. In 2006 the growth rate of net real wages was smaller than the growth rate of the GDP. The former was 3.5 the latter 3.9 per cent and in 2007 net real wages decreased both in the public and in the private sector.

In 2006 net real wages increased in all industries. In the public sector the increase was small. In health care less than 1 per cent, in education 1 and in public administration 3 per cent. Net real wages showed the largest increase in financial intermediation. In 2007 net real wages decreased in almost all industries. The greatest increase was in net real wages in 2006 the greatest decrease could be observed in 2007.

Figure 16: Changes in net real wages by industry, 2006, 2007 (%)



Source: CSO Stadat data.

Table 3 displays monthly net wages by region between 2005 and 2007. Raw wage differences are high in Hungary and the gap between regions hasn't narrowed significantly over recent years. Net wages are the highest in Central Hungary and the lowest in the Southern Great Plain. In 2007 monthly net wages increased the most in Southern Transdanubia, but the increase was much similar across regions.

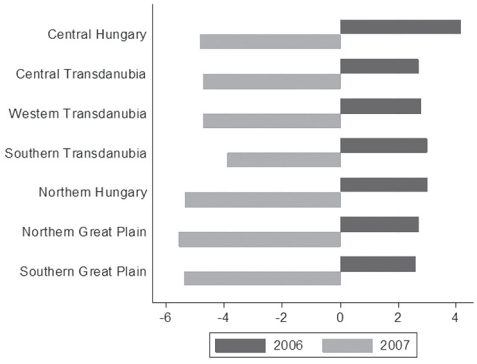
In real terms wages decreased in all regions, the smallest decrease being observed in Southern Transdanubia. The decrease of net real wages for high performing regions (Central Hungary, Central and Western Transdanubia) was smaller.

Table 3: Monthly net wages by region, 2005–2007

	2005		2006		2007	
	HUF	previous year = 100	HUF	previous year = 100	HUF	previous year = 100
Central Hungary	118,430	109.7	128,189	108.2	131,847	102.8
Central Transdanubia	95,961	109.5	102,379	106.7	105,445	102.9
Western Tansdanubia	93,860	109.7	100,282	106.8	103,240	102.9
Southern Transdanubia	91,121	110.2	97,494	107.0	101,201	103.8
Northern Hungary	91,908	110.6	98,380	107.0	100,590	102.2
Northern Great Plain	88,827	110.9	94,800	106.7	96,726	102.0
Southern Great Plain	88,686	109.8	94,534	106.6	96,683	102.2

Source: CSO.

Figure 17: Growth of real net wage by regions, 2006, 2007 (%)



Source: CSO Stadat data.

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