

**THE HUNGARIAN LABOUR MARKET  
REVIEW AND ANALYSIS  
2008**

THE HUNGARIAN LABOUR MARKET

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KÁROLY FAZEKAS

# **THE HUNGARIAN LABOUR MARKET**

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**2008**

**EDITED BY**

**KÁROLY FAZEKAS**

**ZSOMBOR CSERES-GERGELY**

**ÁGOTA SCHARLE**

**INSTITUTE OF ECONOMICS, HAS  
HUNGARIAN EMPLOYMENT FOUNDATION  
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Mailing address: H-1112 Budapest, Budaörsi út 45.

Phone: (+36-1) 309 26 52

Fax: (+36-1) 309 26 50

E-mail: [nyiri@econ.core.hu](mailto:nyiri@econ.core.hu)

Web site: <http://www.econ.core.hu>

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Authors

JÚLIA VARGA – Corvinus University of Budapest  
ZSOMBOR CSERES-GERGELY – CEU; Institute of Economics – HAS  
ÁGOTA SCHARLE – Ministry of Finance  
GYÖRGY MOLNÁR – Institute of Economics – HAS  
ZSUZSA KAPITÁNY – Institute of Economics – HAS  
MÓNIKA BÁLINT – Institute of Economics – HAS  
JÁNOS KÖLLŐ – Institute of Economics – HAS  
DÓRA BENEDEK – Ministry of Finance  
RÉKA FIRLE – Ministry of Finance  
PÉTER ANDRÁS SZABÓ – Ministry of Finance  
FERENC JUHÁSZ – National Rehabilitation and Social Institute  
MÁRIA AUGUSZTINOVICS – Institute of Economics – HAS  
MÁRIA FREY – National Employment and Social Office  
KÁROLY FAZEKAS – Institute of Economics – HAS  
JUDIT LAKATOS – Hungarian Central Statistical Office  
GYÖRGY LÁZÁR – National Employment and Social Office



## FOREWORD BY THE EDITORS

The series of our labour market yearbooks was launched with the goal of reviewing the main developments in the Hungarian labour market annually and of giving an in-depth analysis of selected issues. The “In Focus” analyses are based on up-to-date results of empirical studies carried out in different fields of the Hungarian labour market. The selection criteria for the topics of these chapters were determined by the editorial board of the yearbook. Two basic principles are followed: the chosen subjects must have crucial relevance for policy making and the authors must be equipped with solid empirical evidence to produce a detailed description of social and economic developments and to reveal causality relations between the outcomes and the determinant factors.<sup>\*</sup>

Experience accumulated through the publication of the previous volumes (eight in Hungarian and six in English) and their reception in Hungary and abroad confirmed that our chosen approach was valid and this gave us the stimulus to enhance both the contents and the quality of the new volumes. This volume consists of four parts.

### 1. Labour market trends in Hungary

The first chapter presents the main labour market trends in Hungary in 2007 which include participation, employment and unemployment rates and information on wages. It is followed by international comparative analysis using the latest available data. In 2007 fiscal austerity measures had negative effects on the GDP growth rate which continues to fall behind regional trends. The slow expansion of the economy was accompanied by a slight decrease in the employment rate, mainly due to employment cuts in the public sector. Below-EU-average participation and employment rates remain the main feature of the Hungarian labour market. The scarcity of employment opportunities for the under-educated part of the population is the main reason for the overall lag in employment. Participation and employment rates of the youngest cohorts and the participation rate of persons aged 55-64 are especially low by

<sup>\*</sup> In Focus parts of the previous volumes discussed the following topics: 2002: I. Wages: A Decade of Transformation, II. Income Support for the Jobless; 2003: I. Labour - the Supply Side, II. Labour - the Demand Side; 2004: Labour Market Inequality and Geographical Mobility in Hungary; 2005: Education and the Labour Market; 2006: Industrial Relations in Hungary; 2007: Wages: New Developments. Each volume can be downloaded from the homepage of the Institute of Economics. – HAS: <http://econ.core.hu/english/pub/mt.html>

international comparison. The reason for the latter phenomenon is that the proportion of retired persons in this group is unjustifiably high. Gender related differences in activity and employment rates have been rising somewhat. In 2007, net real wages decreased both in the public and the private sector, across almost all industries and regions.

## 2. In Focus – welfare provisions and labour supply

The second part of this volume presents analyses of the labour supply implications of welfare provisions. The primary function of social welfare programmes is to redistribute income to achieve a well-defined social objective or to correct market failures. As an unintended side effect, however, some welfare measures act as a disincentive to work. This volume reviews the major welfare programmes in Hungary with the explicit aim of identifying the ways in which they affect labour supply.

There are compelling reasons for paying particular attention to the labour supply effects of welfare provisions. In Hungary, only 57 per cent of the population aged 15 to 64 years are in employment, while the average employment rate is 64 per cent in the EU 27 member states and is over 70 per cent in the Scandinavian countries. Welfare payments contribute greatly to the persistence of a low equilibrium characterized by a low overall employment rate and a high tax burden of social security contributions. Generous welfare spending necessitates high taxes, which, in turn, curbs economic performance. Long-term unemployment or inactivity among the working-age population leads to long-term poverty, social exclusion and poverty transfer from generation to generation. A vicious circle is thus set in motion in as much as these social disadvantages generate the need for ever-increasing welfare spending.

The first chapter of Part 2 reviews the relationship between the labour market and the welfare system, the theoretical labour supply impact of various welfare programmes, and the factors that may hinder the elimination of disincentives in the current system. Chapters 2 to 5 investigate the labour supply effects of four types of benefits: parental leave benefits, means tested unemployment assistance, disability pension and old-age pension. Chapter 6 illustrates the possibility of reducing disincentives through the example of the British *Pathways to Work* scheme. The success of this scheme is not only due to its carefully designed structure but also to the way it was introduced: a carefully constructed process, where the first pilots were followed by a gradual expansion of the programme with a thorough impact assessment – and correction, if necessary – after each step.

The six main chapters of Part 2 are supplemented by several short sections: these scrutinize social effects other than those associated with labour supply and raise questions regarding the success of welfare programmes in fulfilling their primary functions.

### 3. The Legal and Institutional Environment of the Hungarian Labour Market

The first part of this chapter presents an evaluation of the impact of active labour market programmes in the period 2001-2006. It is based on official documents and statistical analyses. It gives an overview of trends on spending in active labour market programmes, describes the changes in the number and personal characteristics of participants in active labour market programmes and additionally covers a regional analysis at county level. It is followed by an evaluation of the most important active labour market schemes such as public work, wage subsidy, training, young entrants' schemes and business start-up subsidies.

The second part of this chapter summarizes the main changes in labour market policies and institutions after 2007. It is the reform of the system of employment promotion that we consider to be the most important step. The organisational structure of the Public Employment Service has also changed: the tasks of the Budapest and county labour centres were transferred to the newly established regional centres. Organizational changes also affected the rehabilitation system. The National Institute for Rehabilitation and Social Assessment was assigned to carry out comprehensive rehabilitation procedures.

### 4. Statistical data

The closing chapter presents a comprehensive collection of statistical data on the Hungarian labour market. It gives exhaustive information on the social and economic developments, such as demographic trends, employment, unemployment and inactivity, wages, education, labour demand and supply, regional differences, migration, commuting and labour relations, together with some international comparisons. Labour market developments broken down to regional level are also included. This chapter offers especially rich information on social welfare in Hungary.

\* \* \*

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