

LABOUR MARKET ACTIVITY AND WAGES IN 2007–2008

ZSOMBOR CSERES-GERGELY

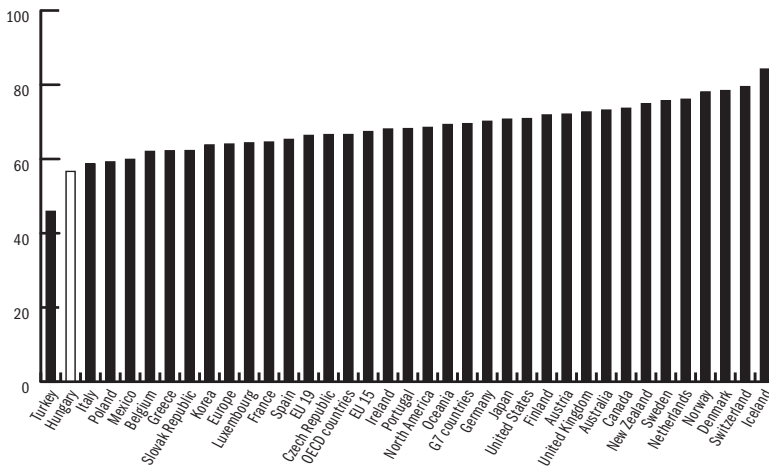
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INTRODUCTION

One distinguishing feature of the Hungarian labour market compared with either the developed Western European countries or the neighbouring ex-socialist states, is the extremely low level of employment. In 2007 the employment rate of the population between 15–64 years of age was 56.7 percent, which is more than ten percentage points below the OECD average. Recently, Hungary's position has deteriorated further, so that now, out of the 29 OECD countries, only Turkey fares worse (*Figure 1*). The deficiencies of the labour market take a huge toll on the individual as well as on society as a whole. The lack of jobs and stable wage earnings lead to poverty, the weakening of social ties, the erosion of knowledge and skills and deteriorating health and life expectancy. The low employment rate also reduces the number of those paying social security contributions and in the long run makes the social security systems impossible to finance. Through poor socialization, the lack of jobs has a negative impact on the entire career of the next generation.

Figure 1: Employment rate of the 15–64 age group in the OECD countries in 2008



Source: OECD Dataset: LFS by gender and age-indicators.

The past few years have witnessed several ambitious government proposals to remedy the situation and expand employment in Hungary. The magnitude of the task at hand is well illustrated by the fact that in order to reach the cur-

rent average employment level of the Western European countries Hungary would need to provide jobs for approximately 680,000 inactive citizens. In order to be on par with Switzerland, at the top of the ranking, or with the North European countries such as Sweden, Norway and Denmark, Hungary would need to increase the number of employees by over 1.3 million. In 2004, during the preparation of the Lisbon action plan the Hungarian government made a commitment to meet the employment objectives for 2010 approved by the European Commission. The objective was to increase the number of employees by 100,000 each year, so that Hungary could reach the employment rate of 70 percent. Contrary to these plans, employment in Hungary only increased by a total of 31,000 in two years. The convergence programme approved by the EU Commission in 2006 already took account of these realities and set much more modest targets for the period 2007–2011 (*Republic of Hungary...*, 2006). The programme projected a GDP increase of 2.2–2.6 percent for 2007–2008 and 4.2–4.5 percent for 2009–2010, respectively. This relied on the assumption that the activity rate would increase by 2 percent for 2009–2010, not specifying how employment and unemployment would change within that overall figure. Nonetheless, the government trusted that the economic development programmes financed by the National Development Plan, and the proposed measures to help the disadvantaged regions would close the gap and that the new employment subsidies for disadvantaged workers would be sufficient to expand employment.

However, the end of 2006 brought a downturn in the macroeconomic environment of the Hungarian labour market. Not least due to the considerable pressure from the European Union, Hungary implemented the restrictive measures proposed in the convergence programme for cutting the budget deficit. Although the austerity measures resulted in improved budget balance indicators, the restrictions also caused far slower economic growth than expected, investments dropped and the growth potential of small and medium-sized firms significantly deteriorated. Gradually it became obvious that even the modest employment objectives of the National Development Plan were impossible to meet.

While no real progress was seen, the global financial and real economy crisis beginning in the autumn of 2008 further reduced the likelihood of future expansion. The country is now faced with the same structural problems but without the advantage of the global economic boom of the previous years. *Table 1* shows that Hungary has not experienced a drop in the GDP as large as in the fourth quarter of 2008, but the decrease was even larger, 6.7 percent in the first quarter of 2009. While construction and agriculture do not seem to be affected by the recession (yet), industrial production acted as a leading indicator of GDP growth: it shrunk earlier and to a greater extent than GDP itself. The slowdown of the previously dynamic growth and the subsequent

contraction of export clearly show that it is the exporting, most importantly manufacturing firms that are affected by the downturn.

Table 1: Selected indicators of the Hungarian economy, 2007–2009 Q1, quarterly data (same quarter of the previous year = 100)

| | 2007 | | | | 2008 | | | | 2009 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| GDP | 102.6 | 101.0 | 100.8 | 100.7 | 101.8 | 102.1 | 101.3 | 97.5 | 93.6 |
| Industrial production | 109.0 | 106.7 | 109.0 | 107.0 | 108.0 | 105.7 | 99.3 | 88.5 | 77.7 |
| Construction | 98.7 | 93.5 | 80.0 | 78.4 | 82.5 | 93.6 | 94.0 | 100.8 | 95.9 |
| Purchase of agricultural produces | 108.5 | 114.2 | 110.5 | 84.6 | 100.2 | 91.6 | 96.2 | 118.5 | 117.2 |
| Export | 119.0 | 117.0 | 116.8 | 110.4 | 113.1 | 109.7 | 100.7 | 91.1 | 83.7 |

Source: HCSO Statdat.

1. LABOUR MARKET PARTICIPATION

Trends in employment and unemployment

Considering only the aggregate indicators of employment and unemployment,¹ it is fair to say that the relatively calm period of 2007 and the first half of 2008 was succeeded by gravely negative trends. Stagnating at a low level since the turn of the Millennium, the Hungarian employment rate ranked lowest among the Visegrád countries by 2008. While the employment rate has significantly increased in Poland, Slovakia and Slovenia over recent years and even the Czech Republic produced some noticeable growth, Hungary has been unable to rise above the level of the past decade (*Figure 2*). The only significant change was seen in 2008 when the employment rate, with no reserves for growth, immediately reacted to the worldwide decrease of market demand. The long run trend is equally characterised by stagnation. Following the modest rise by 300,000 between 1997 and 2000, the size of the employed population fluctuated within the very narrow range of 3,850,000 and 3,900,000 until 2008 (*Figure 2*).

Overall, the employed population grew by 22,000 between 2004 and 2007, and the employment rate consequently increased from 56.8 to 57.3 percent. This gain, however, evaporated in less than a year: as a result of the crisis, the employment rate dropped to the level seen five years ago. Current figures are even worse than in late 2008 and make it clear that the employment effects of the crisis are starting to unfold only in 2009. *Table 2* shows that the 55.1 percent employment rate in the first quarter of 2009 was 1 percentage point less than during the same period last year (56.1 percent). Although data of this frequency are affected by seasonality, comparing changes between two quarters to changes between the same quarters in the previous years allows us to control for this effect to some extent and the conclusion remains un-

¹ In all cases the aggregate activity data shown in this section refer to the age group of 15–64.

changed.² The drop in the number of the employed between the past year's fourth quarter and the first quarter was 114 thousand, almost double the 60 thousand drop between the similar periods of the past year.

Figure 2: Employment rate of the 15–64 population in the Visegrád countries, 2000–2008

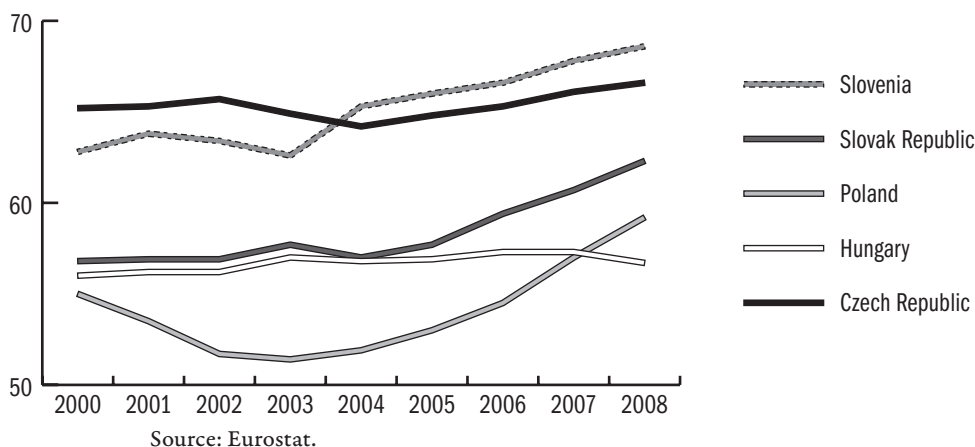


Table 2: Economic activity of the 15–64 population in Hungary, quarterly

| | 2007 | | 2008 | | 2009 | | |
|-------------------|------|------|------|------|------|------|------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Employment rate | 57.7 | 57.1 | 56.1 | 56.5 | 57.3 | 56.7 | 55.1 |
| Unemployment rate | 7.3 | 7.8 | 8.0 | 7.7 | 7.8 | 8.0 | 9.7 |
| Activity rate | 62.2 | 61.9 | 61.0 | 61.2 | 62.1 | 61.7 | 61.0 |

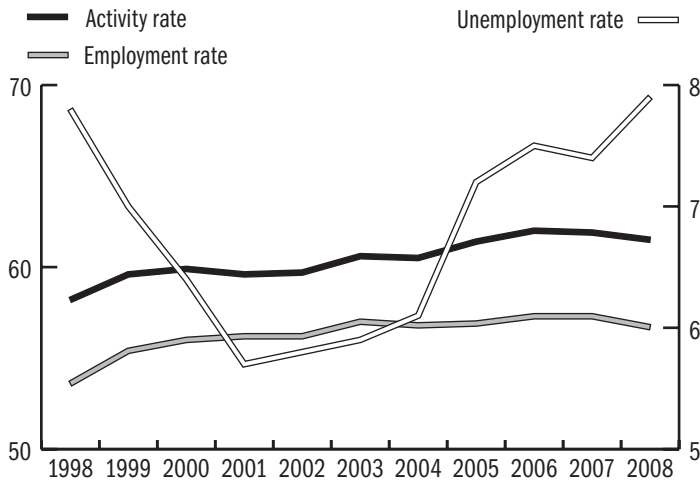
Source: HCSO Statat (LFS).

It is structural deficiencies that lie behind the low and very stable Hungarian activity rate and these are very hard to influence in the short run. A significant increase in employment would require a major development of the available labour force, the renewal of the education system, improvements in the conditions of commuting, and a strong stimulus of labour demand first and foremost through the reduction of the tax burden on labour. In Hungary, low employment is coupled by relatively low unemployment rates and very high inactivity. The exceptionally low job search intensity of the unemployed is mainly due to the low education level of those involved, the lack of job related skills and knowledge, the high commuting costs compared to reservation wages, the underdeveloped transportation infrastructure and, last but not least, poor labour supply incentives within the welfare system. Adaptation to the new situation created by the worldwide economic crisis is not an easy task in any country. Indeed, Eurostat data show that the drop in employment rates was not the largest in Hungary between the third and fourth

2 If we believed that it is only the crisis that makes 2007 and 2008 different, we could say that this is a difference in approach to measuring its effect. Naturally, there are others affecting the Hungarian labour market, most importantly the over-time effects of the austerity measures.

quarters of 2008 – Latvia, for example suffered a 2.5 percentage point loss. Indeed, the 0.6 percentage point drop was exactly equal to the EU-25 average. Unfortunately, no comparable data exists for the first quarter of 2009, so we can not compare that change to international benchmarks. It is expected however, that the structural problems behind the low employment rate will make adjustment more difficult than it would be in the case of a well functioning and flexible labour market.

Figure 3: Trends in labour market activity, 1998–2008



Note: The right scale indicates the unemployment rate.

Source: KSH Stadat (LFS).

After 2004, unemployment began to increase. Expanding employment and increasing unemployment also led to a slight increase in the activity rate (Figure 3). The government preferred to attribute the increasing job search activity of the inactive population to the development of employment services and the improving of job prospects. Unfortunately, the analysis of labour market flows does not seem to support this interpretation. All trends seem to indicate that rather than the increasing job search activity of the inactive, the rise in unemployment has been caused mostly by the growing unemployment among the poorly educated young between 15–29 years of age and college graduates entering the labour market (Fazekas and Telegdy, 2007).

The impact of the budgetary restrictions was barely felt in 2007 and in 2008 – it was hard to separate from the impact of the global crisis. In 2007 and for the most part of 2008, there was little change in the size of the 15–64 population and in either the employed or the unemployed population. The share of firms planning to increase or decrease their workforce did not change significantly in the labour demand prognosis issued by the Public Employment Office.³ The first signs of decreasing labour demand resulting from the fallback

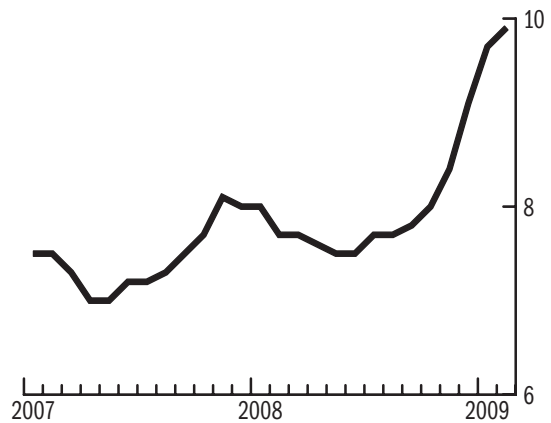
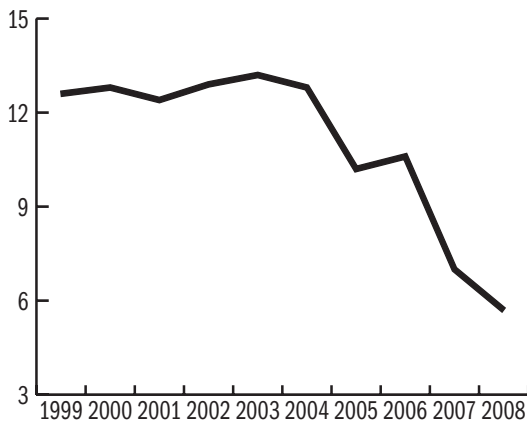
³ See chapter *Statistical Data* in the volume for the data.

of economic growth are now visible. In 2008, the unemployment rate rose well above the previous trend, and instead of the usual seasonal drop in the first months of the new year, it showed a rapid rise to already approach double digits in the first quarter of 2009 (Figure 5). This increase shows a deviation from a trend expected on the basis of past experience by at least 65 thousand. The vacancy rate varied around 10–12 vacancies per 100 job seekers between 2000 and 2005, but started to drop thereafter. In 2008, it reached an all time low value of 5.7 (Figure 4). Although this process had already started before the crisis materialised, it does make it less likely that the labour market can absorb the newly laid off.

Among all labour market indicators, it is unemployment that shows most closely the reaction of the labour market to the drop in demand. Still, it is stock measure and thus does not show the various influences whose combination resulted in this increase. Unemployment increases by companies and businesses laying off employees and decreases through hiring over time. Lay-offs can occur one by one or *en masse* and can vary according to the different characteristics of the employee and the employer. Individuals laid off do not transform into unemployment necessarily and might find a job quickly – but the increase in the unemployment rate does not suggest this to be the case now. Layoffs cannot fully characterise the increase in unemployment, but their evolution is nevertheless indicative of the number of workers that has to be absorbed as a minimum by the labour market.

Figure 4: Reported vacancies per 100 registered jobseekers

Figure 5: Unemployment rate, 2007–2009

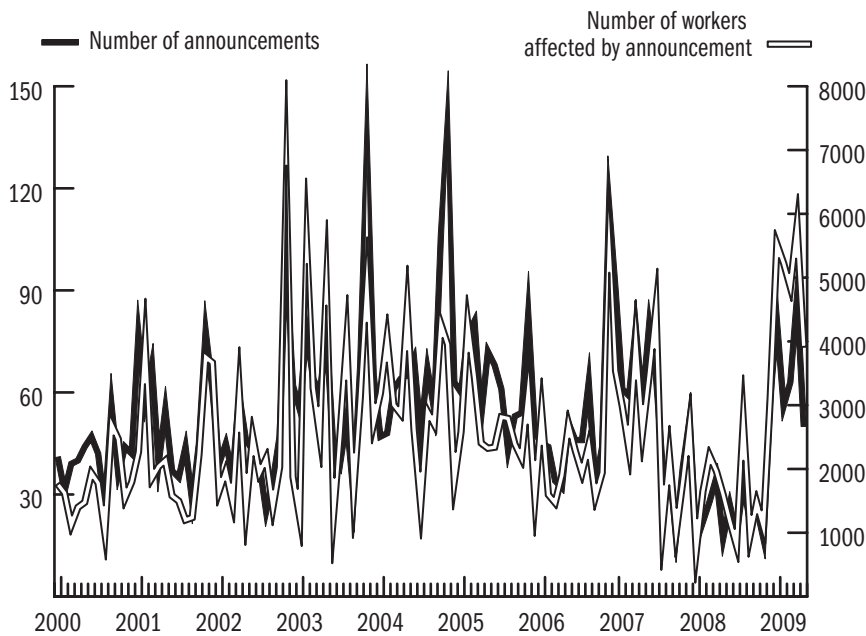


Source: National Employment Office. Source: KSH Stadat (LFS).

Based on data from the Public Employment Service, Figure 6 shows the number of mass-layoffs announced and the number of workers affected by the announcements between January 2000 and April 2009, the latest available data point. The number of mass layoffs announced has increased after

November 2008, and the number of workers affected has increased even more so. Layoffs between November 2008 and April 2009 have affected a total of 28,415 employees, most of whom were working in the manufacturing industry and in the more developed, western part of the country. Although this figure is not low, it can in itself explain only around 40 percent of the increase in the level of unemployment (provided that the probability of transition from unemployment is low). The figure deliberately covers a longer period. By looking at data from 2007 only, it might seem that the increase from the end of 2008 was huge. Looking at earlier data however, it seems that layoffs of this magnitude did occur earlier too, but did not lead to a comparable increase of unemployment.

Figure 6: The number of announced mass-layoffs and the number of workers affected, January 2000–April 2009, monthly



Source: Public Employment Service monthly first releases.

Using individual-level panel data from the LFS, we can take a look at the stability of the unemployment state and the chance of escaping unemployment. Connecting the indicator of economic activity with the same indicator in the next period shows the proportion of individuals who were in a given labour market state in the first period, and were in another in the second period. In other words, we are looking at a set of transition probabilities, such as the probability that someone will be employed in the next quarter given that she or he is unemployed in the current quarter. *Table 3* shows these transition probabilities for the third and fourth quarters of 2008 and for 2007, as a

benchmark. It is interesting to see that prior to 2009, there is no sign of dramatic changes in the labour market. The transition probabilities into unemployment or inactivity have not increased, but decreased. At the same time, “staying” probabilities are higher for all states and also the escape probabilities from unemployment and inactivity have decreased. This indicates a significantly decreased flexibility of the labour market, but also shows that the drop in the unemployment rate was unexpected in the first months of 2009, as there was no increase in the employed-unemployed transition probability prior to that. All this evidence shows, in accord with Figure 4, that until the end of 2008, there was no significant change in turnover of the unemployed, that is the rise of the unemployment rate contributed to a great extent to the increase of the longer-term stock of the unemployed.

Table 3: Transition probabilities between the last quarters of the years 2007 and 2008

| | Employed | Unemployed | Inactive |
|-------------|----------|------------|----------|
| 2007 | | | |
| Employed | 97.21 | 1.19 | 1.59 |
| Unemployed | 15.97 | 77.06 | 6.97 |
| Inactive | 1.81 | 1.19 | 97.00 |
| 2008 | | | |
| Employed | 97.55 | 1.03 | 1.42 |
| Unemployed | 14.43 | 78.95 | 6.62 |
| Inactive | 1.76 | 0.68 | 97.56 |

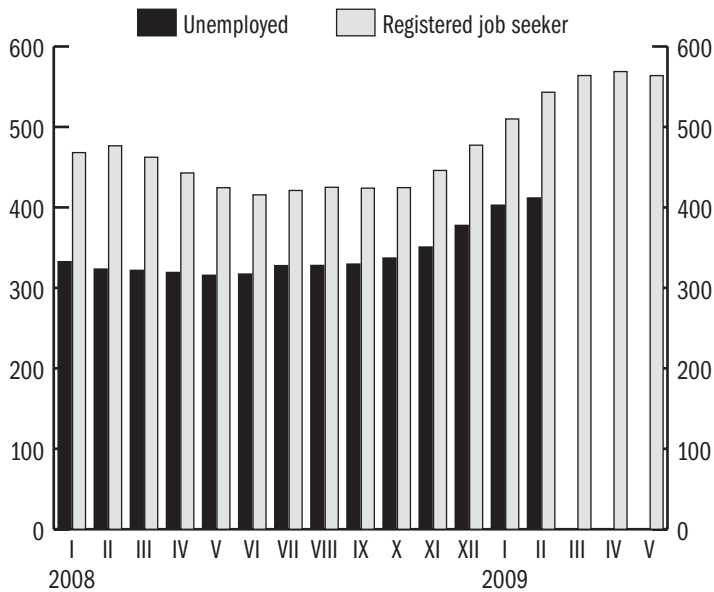
Source: Calculations from HCSO LFS microdata.

The registered unemployed and those characterised by the ILO definition are two overlapping, but distinct populations – there are unemployed persons searching for a job but not registered as such, and there are even more who are registered, but fail to fulfil some of the ILO criteria. Bearing this difference in mind, we can consider the always up to date information on the registered unemployed, extending as far as May 2009. As Figure 7 shows, the number of the registered unemployed has been on the rise since the autumn of 2008 and also after the beginning of the new year, similarly to the number of ILO unemployed. Recent figures show that after an increase of around 50 thousand in 2009, the first slight decrease is visible in May for the first time.

The government’s report on the implementation of the Second National Development Plan published for discussion by the social partners (*Programme...*, 2008) projected an annual economic growth of 2–3 percent and some expansion of employment for the years 2008–2013. Only two months later, the November 2008 inflation report of the Hungarian National Bank was already accounting for the gloomier prospects of world markets and forecast an annual 1–2 percent reduction of employment by 2010. Even the most recent forecasts expect a turnaround only after 2010. By 2008 the fast-

spreading global financial melt-down and the expected consequences in the real economy had made it inevitable for the government to review its previous, very optimistic projections. The National Action Programme submitted to the European Commission in November 2008 for the implementation of the Lisbon Strategy (NFÜ, 2008) calculated on a GDP reduction of 4 percent and forecast an increase in employment only after 2010. In the spring of 2009 the government expected such growth only a year later and, in full accord with the prognosis of the Hungarian National Bank, forecast that the GDP will shrink by 6.7 percent in 2009 and by around 1 percent a year later. Sadly, given the actual GDP growth figures in *Table 1*, this forecast does not seem to be far-fetched.

Figure 7: The number of unemployed defined following the ILO criteria and the number of registered unemployed – in thousands



Source: HCSO Stadat (LFS) and PES data.

Note: the numbers following the ILO definition are three month moving averages starting at the indicated month

As we have seen, today we still have limited knowledge of the relatively slowly unfolding labour market impacts of the economic crisis. The direction of adaptation, however, is determined not only by recent unemployment data but also by the structure of the labour market that has evolved over recent years. For the past 18 months, the Hungarian economy has been characterised by relatively high nominal wage growth. Private sector firms gradually harmonised with the very significant salary increases implemented in the public sector since 2002 (see *Figure 16* below). Based on the evaluation of the Hun-

garian National Bank, this would more likely force companies to respond to decreasing demand by reducing employment. Therefore, we can expect massive layoffs in 2009 and unemployment may grow by over 2 percentage points. The May 2009 inflation report of the Hungarian National Bank estimates that 180,000 people will lose their jobs, primarily in the private sector.

Undoubtedly the layoffs in the private sector will affect not only the number of unemployed but also their composition, which seems to be supported by the fact that the unemployment rate is growing in parallel with dismissals. Earlier the majority of the unemployed were poorly educated people and young adults entering the job market. In 2009, however, the tendency of the previous years is taking a sharp turn: as a result of the increasing number of factory close-downs and lay-offs, the share of skilled workers among the unemployed is on the rise. It is unfortunate that neither the unemployment benefit system nor the labour market organization is prepared for the challenge of this new, and fundamentally different, situation.

Although growing unemployment among the active population is an alarming trend, the low level of Hungarian employment, for the most part, can be explained by low activity. The analyses attempting to uncover the roots of the problem (Köllő, 2005, 2006; Fazekas 2006; Scharle, 2008) primarily attribute the low Hungarian employment rate to the following factors:

- people with poor education represent a large group and their employment rate is very low,
- employment is relatively low among the population aged 15–25,
- employment is also low among older workers aged 55 and older and near the statutory retirement age,
- employment of women is low and especially low among mothers with small children
- employment is extremely low in disadvantaged regions and small settlements.

Looking beneath aggregate trends, we may discover some changes in the employment situation of these groups. Unfortunately, the past two years have presented a deteriorating rather than an improving tendency.

Differences by educational attainment, age and gender

Figure 8 indicates that the exclusion of the poorly educated from the labour market has become more significant over the past two years. The total employment rate rose with the increasing share of educated workers, but employment rates have fallen in all educational sub-groups except for college graduates. Among those with only 8 years of primary and those with vocational education there is a very drastic fallback of 3–5 percentage points (approx. 8 percent). Unemployment has increased primarily within this group since 2004. The unemployment rate for those with 8 years of primary school or less increased

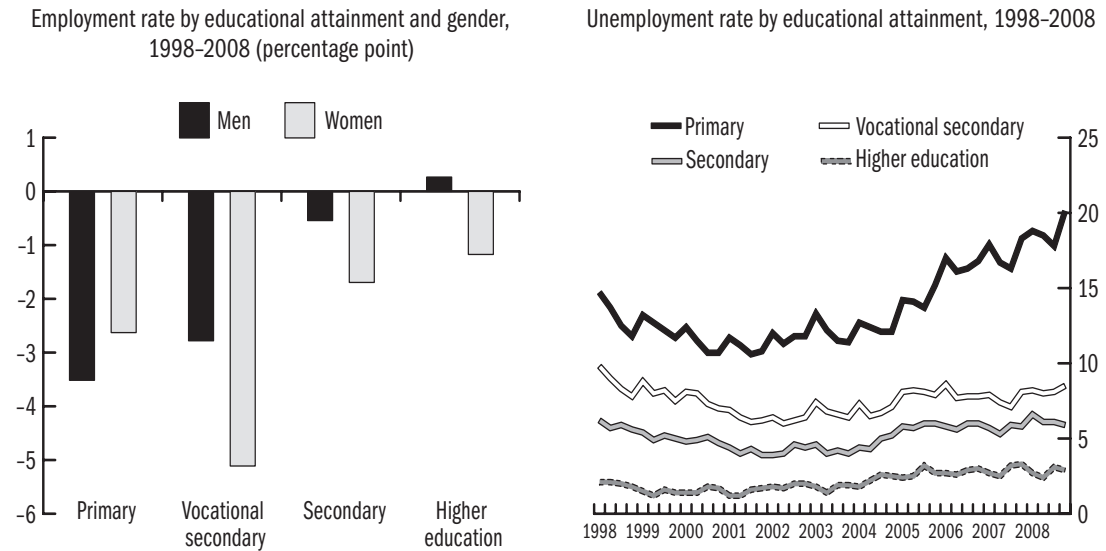
from 12 to 18.5 percent between 2004 and 2008, while the employment rate increased significantly only among college and university graduates.

The outbreak of the crisis has changed the long-term trend to some extent. Following its usual seasonal variation, the number of unskilled and college-educated registered unemployed has increased up to December 2008. Differently from its former cyclical behaviour, the former increased by around 16 thousand and the latter has not decreased but increased by 2 thousand from January to May. This implies that the remaining 36 thousand of the total increase of 54 thousand must be attributed to a rise in skilled, but less than college-educated employment having worked for the hardest hit manufacturing sector.⁴

The expansion of employment shows considerable variation across gender and age groups. The employment rate significantly dropped among young people (15–19 and 20–24 age groups) due to increasing unemployment among poorly schooled new entrants and, more importantly, due to the expansion of higher education. It is mostly men in the 30–50 age group who experienced employment growth. No doubt, the expansion of employment is closely related to the increase in the statutory retirement age: employment increased significantly only in the age group affected. Over the past ten years, the employment rate has grown by over 15 percentage points among women between 50–54, over 20 percentage points among men between 55–59 and over 25 percentage points among women between 55–59 years of age (*Figure 9*).

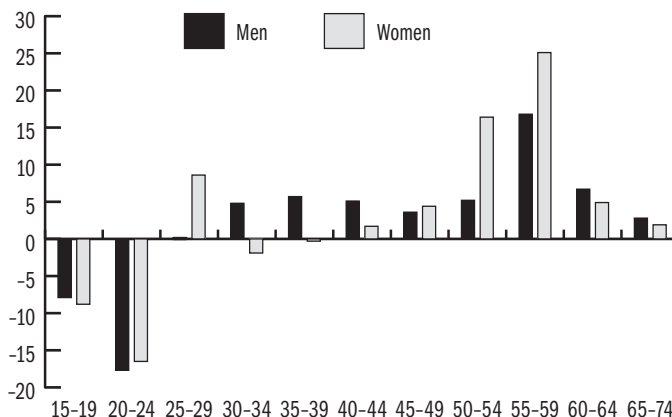
⁴ Note that when looking at the effect of individual characteristics, the difference between registered and ILO unemployment can be even wider than it is on average, due to the potential effect of the characteristics on job search.

Figure 8: Employment and unemployment rate by educational attainment, 1998–2008



Source: KSH Statdat (LFS)

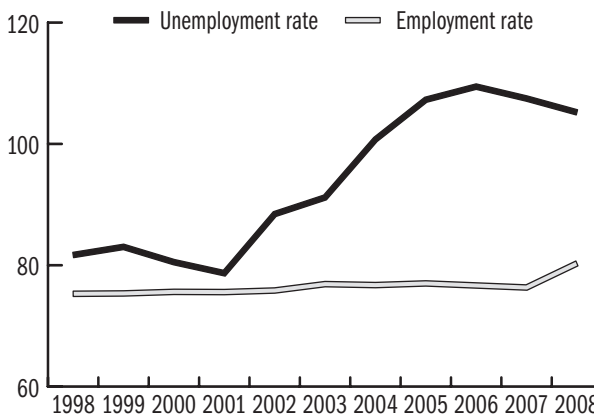
Figure 9: Employment rate differences by age and gender, 1998–2008 (percentage point)



Source: KSH Statat (LFS)

A similar number of men and women have lost their jobs since the crisis began, and no significant change has happened in the employment rate of men and women over the past years. In 2008, 63 percent of the male 15–64 age group were employed, which was 12.4 percentage points higher than the 50.6 percent employment rate among women in the same age group. *Figure 10*, however, clearly indicates the significant change in women’s unemployment over the recent years. In the decade following the change of the political regime, unemployment was 20 percent lower among women than among men. The relative position of women began to significantly worsen in 2001 and since 2006 there has been an improvement. Since 2004 the female unemployment rate has been higher than that of men; this difference was as high as 10 percent in 2006 and even in 2008 there was a 5 percent gap.

Figure 10: Female unemployment and employment as a percentage of the male unemployment and employment rate, 1998–2008



Source: KSH Statat (LFS)

Rising unemployment among women has, in part, to do with the increase of the retirement age for women. Labour market activity, employment and unemployment have all increased in the age groups affected by the increased age limit. Another factor contributing to increasing unemployment among women was the massive layoffs in the public sector over recent years. Between 2003 and 2007, the number of civil servants has been decreasing at an average annual rate of 20,000. Since more women work in the public sector than in the private sector, the dismissals here had a larger impact on women than on men. Both before and since the beginning of the crisis, the economic slowdown has had a larger impact on the private sector and consequently on men, explaining the recent reversal of the earlier trend in female unemployment.

Sectoral and regional differences in employment and unemployment

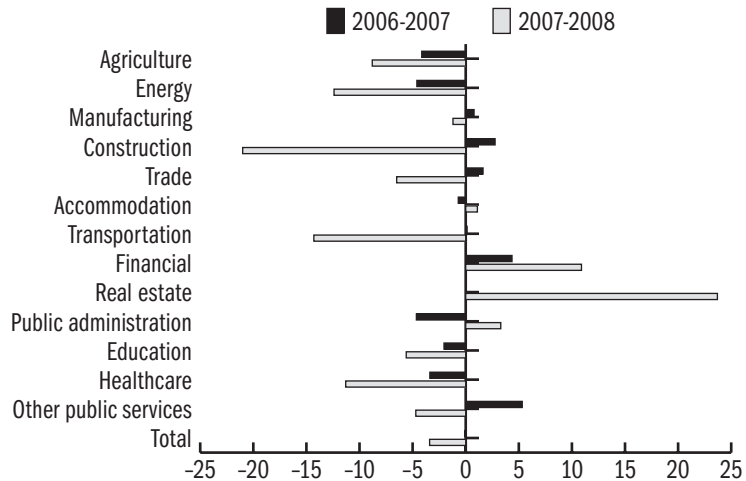
According to the Labour Force Survey of the HCSO in 2007, 88 percent of the total employed population were paid employees. Due to the budgetary restrictions, in 2007 the number of employees in the public sector was reduced by 50,000, which is over 6 percent. This negative trend was somewhat balanced out by the increased employment in the private sector. However, in 2008 the public sector (except for public administration) continued to shrink and unemployment increased even in the private sector in a number of industries. Despite being closely related to the crisis, the real estate and the financial sector were able to close the year with an employment increase of 20 and 10 percent respectively, while the transportation, construction and energy industries suffered a loss of 14, 21 and 12 percent respectively. (*Figure 11*). Although we do not yet know for sure in which sectors the employment loss was the greatest in the first part of 2009, mass layoff figures suggest this to be manufacturing. In April 2009, 60 percent of the firms announcing mass layoffs and 76 percent of the persons affected by them were in this sector.

Disparities in employment and unemployment across regions and small regions have seen little change despite all the government subsidies and EU cohesion grants provided for development goals, substantial job-creation subsidies, and widely used active labour market programmes. Quite the contrary: an even more powerful polarization is visible in the country. Employment was relatively high (55 percent) in Central Hungary and the western and central Trans-Danubian counties while the employment level in the rest of the country was around 43–48 percent in late 2008 (*Figure 12*).

Ironically, it is the crisis which might be the influence with the greatest equalising power regarding unemployment. While registered unemployment has grown by 24 percent in the western part of the country (excluding Southern Transdanubia), the growth was only 6 percent in the remaining part. At the same time, hiring shows a geographically more even distribution. Except

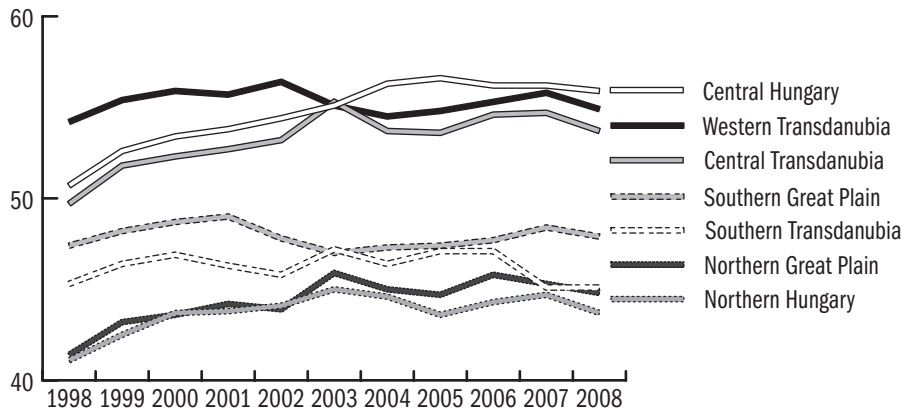
for the Northern Great Plain, the drop in hiring compared to the same months is between 35–45 percent for all regions.

Figure 11: Changes in the number of employees by industry, 2006–2007 and 2007–2008 (percent)



Source: KSH Statat (LFS).

Figure 12: Employment rate in the planning regions, 1998–2008



Source: KSH Statat (LFS)

A more accurate picture of regional disparities emerges from the analysis of small regions or settlement-level data. The unemployment register of the Public Employment Service indicates that in recent years there has not been any significant change in the differences of unemployment rates across sub-regions and between the specific settlement types. *Figure 13* shows the evolution of the relative differences in registered unemployment. With the small regions arranged into deciles based on their unemployment rate, the lines in the fig-

ure indicate for each decile the ratio of the average and the median unemployment rate, thus controlling for fluctuations in the level of unemployment. Apparently, most of the large and stable differences result from the very high unemployment rates of the small-regions that belong to the top two deciles. The relative situation of the top two deciles with the highest rates somewhat improved between 2002–2006 but has worsened over the past two years. 10–11 percent of Hungary’s population live in regions where unemployment is above 20–22 percent (28 percent for the top decile), where estimates put the employment rate of the 15–64 group at 36–50 percent and where no improvement but actually deteriorating employment conditions can be expected.

Figure 13: Variation in registered unemployment across small regions, 1991–2008

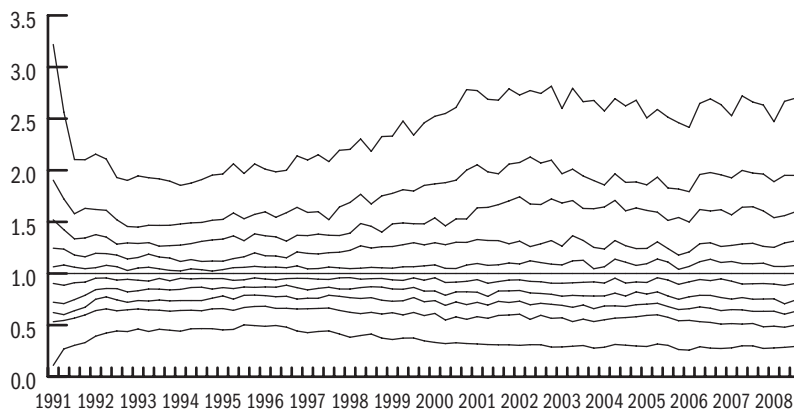
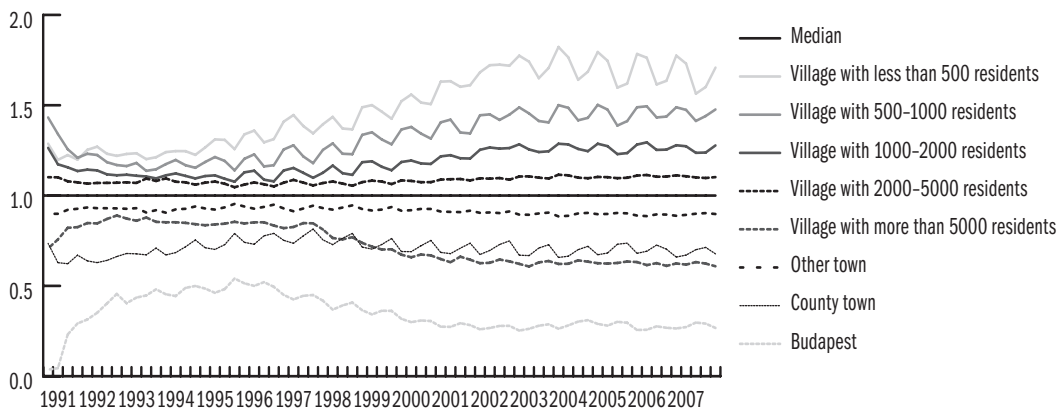


Figure 14: Registered unemployment by settlement type, 1990–2007



Note: the average unemployment rate of the specific settlement types divided by their median unemployment rate.
 Source: MTA KTI employment database.

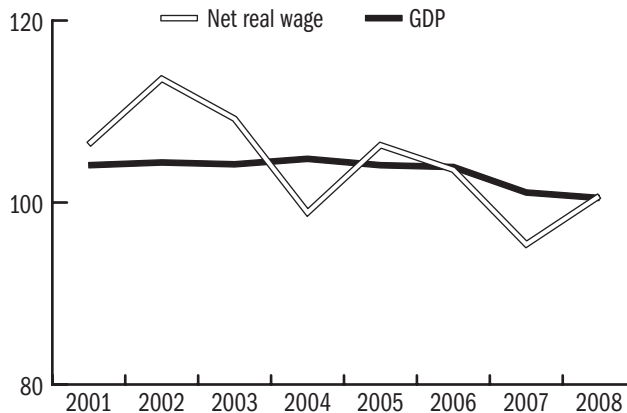
Figure 14 shows the evolution of relative differences in average unemployment rates by settlement type. The discrepancies are stunning. In 2007 the share of

the registered unemployed in the working age population of villages with less than 500 residents was 13.7 percent, while the same indicator was only 2.3 percent in Budapest and 5.7 percent in county towns. The figure shows that the relative situation of settlements with less than 5000 residents worsened in the early 2000s but then somewhat improved in recent years. One should note however that the share of the inactive population is extremely high in the most disadvantaged settlements.

2. WAGES BETWEEN 2001 AND 2008

In 2008 the average gross earnings of full-time employees was HUF 199,000, equal to net HUF 122,000. The gross income of civil servants was 14 percent higher than the earnings of private sector employees. *Figure 15* illustrates the increase of the net real wage and the GDP between 2001 and 2008. As a result of the budgetary restrictions, the decrease was followed by stagnation in 2008. The evolution of wages was in line with the slow-down in GDP growth following the crisis.

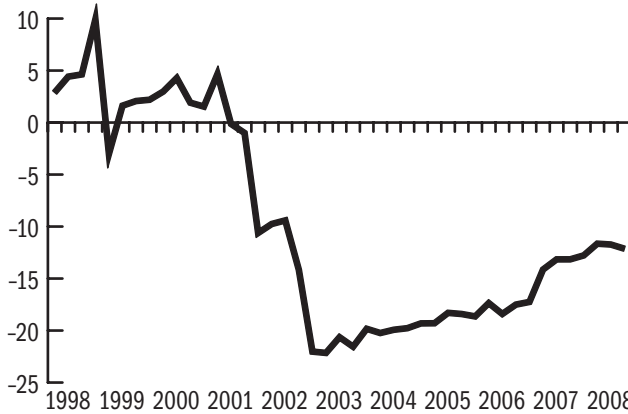
Figure 15: Net real wage and GDP growth, 2001–2008



Source: KSH Statat.

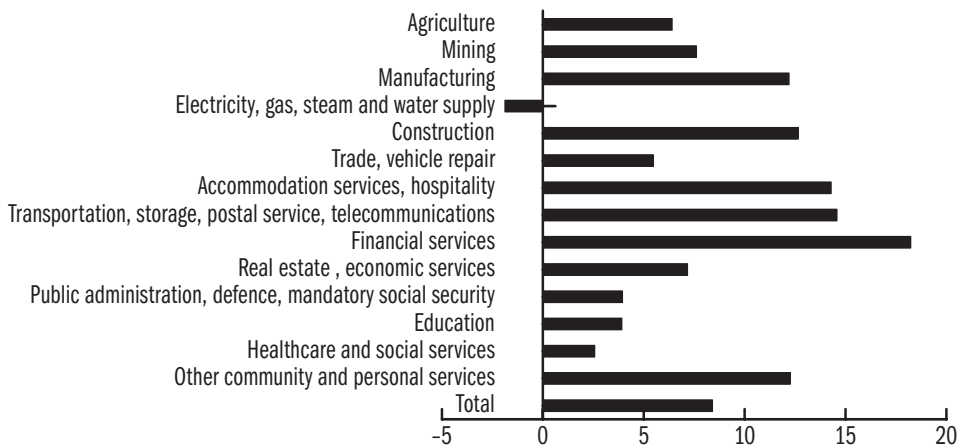
Figure 16 illustrates the increase of the net real wage in the private and the public sectors between 1998 and 2008. It is clear that after the large pay rise in the public sector in 2001–2, wage increases in the private sector have tended to exceed those in the public sector. Hence, the wage advantage of the public sector dropped from 22 percent to 12 percent between 2002 and 2008. The figure does not yet show the impact of abolishing the 13th monthly salary, which would further reduce the advantage of the public sector.

Figure 16: Wage ratio between the private and the public sector, 1998–2008



Source: Inflation report of the Hungarian National Bank. November 2008.

Figure 17: Real wages of employees, 2006–2007



Source: KSH Statdat.

The gender wage gap

In 2007 the average gross income of full-time employees in Hungary was HUF 188,000. For men the average was HUF 202,000 and for women HUF 173,000, showing a sizeable gap in line with the long-term trend. Women’s wages fell 14.6 percent short of men’s in 2007, which is 1.8 percentage point higher than a year before and even above the 2005 figure (13.9 percent) (*PES*, 2008). The gender-wage gap is not unique to Hungary but is typical worldwide. From the very beginning, the European Union have made efforts to establish equal employment opportunities: the 1957 Treaty of Rome included the principle of “equal pay for equal work”; in 1997 equal employment op-

portunities for men and women were included among the directives; in 2003 the European Union issued a directive to reduce wage differences between the genders by 2010.

From 24 percent in 1997, the wage difference between men and women in Hungary had dropped to the EU-27 average by 2002. In 2006 the average salary for women was 11 percent less than for men, which was no major change to the year before but a significant drop compared to a decade earlier.⁵ The salary corrections implemented in the budgetary sector after 2001 were a major factor in reducing the wage difference between men and women since more than half of the public servants (68 percent in 2007) were women (*PES*, 2008).

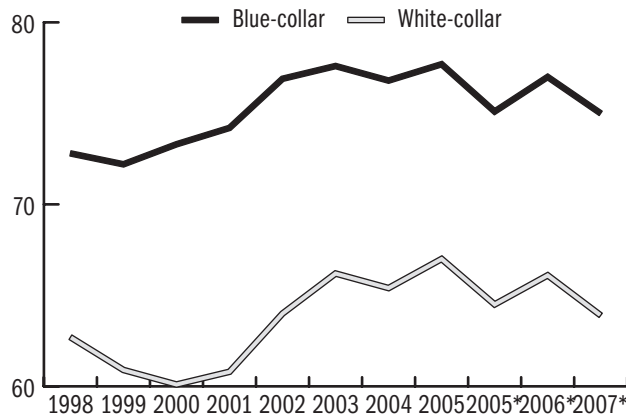
A number of factors contribute to the gender wage gap: variation in the characteristics of the employers (branch of industry, ownership, size, legal form, location, etc.) and in the characteristics of employees (age, educational attainment, employment history, family background, etc.). In addition to the characteristics of the labour market mentioned above, the lower earnings of women compared to men could also result from discrimination in the job market.

Concerning the wage gap by industry, in 2007 women continued to enjoy an advantage in fishing (0.1 percent), construction (15.3 percent) and were paid only a little less than men in mining (4.3 percent) and transportation, storage, postal service, and communication (1.9 percent). It should be mentioned however that the number of women employed in those sectors is relatively low compared to the total workforce and they typically hold white-collar jobs that result in higher salaries than for the blue-collar male workers. The disadvantage of women compared to men is largest in the financial sector (41.7 percent), manufacturing (28.1 percent), and accommodation and hospitality (27.3 percent).

When considering the characteristics of employers, experience shows that the wage difference of women tends to increase with age and wage band, and is also higher for married women compared to their unmarried peers (*Koncz*, 2008). When examining the wage gap in main employee categories, the disadvantage of women is larger within the groups of blue-collar and white-collar workers than combined (*Figure 18*). This is explained mostly by the fact that 56–57 percent of working women are white-collar workers and white-collar men and women tend to earn more than blue-collar workers. The female-male wage ratio for white-collar workers was around 60–67 percent between 1998 and 2007, which is 10 percentage points lower compared to that of blue-collar workers. The larger wage gap of white-collar workers may be attributed to the fact that men are more likely to fill executive positions with higher salaries than women.

⁵ <http://epp.eurostat.ec.europa.eu/tgm/graphToolClosed.do?tab=graph&init=1&plugin=1&language=en&pcode=tsiem040&cr=true&toolbox=legend>. Eurostat, Downloaded: 22 September 2008

Figure 18: Women's gross wages as a percentage of men's, 1998–2007



* Based on the tables presented in the Statistics chapter.

Source: Based on page 127 of *KSH* (2007).

Based on international and Hungarian experience, it is fair to say that beside labour market discrimination and the different characteristics of employees, the gender wage gap is also determined by employment segregation, i.e. female employees are concentrated in certain professions. Such typical female occupations include sales, cleaning, administrative personnel, dressmaking, kindergarten and primary school teachers and caregivers.

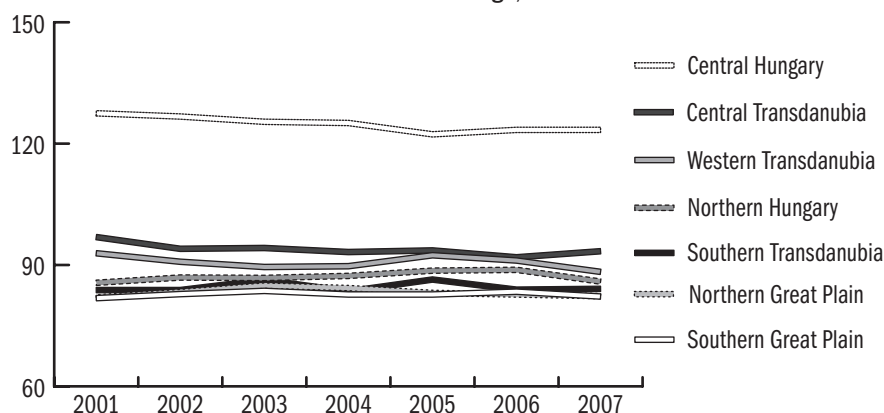
When examining the wage gap across levels of education, data suggest that women with college degrees suffer the largest disadvantage. In 2007, women with three or four-year college degrees had a disadvantage of 30.5 percent while those with five-year university degrees earned 23.6 percent less than their male counterparts. The gap was smaller for those with 2–3 years of vocational education (21.7 percent), 4 years of general secondary education (17.6 percent), 4–5 years of vocational education (16 percent), those with incomplete primary education (12.8 percent) and also for those with 4 years of vocational secondary education (with A levels) (12.4 percent).⁶

Regional wage differences

The decades following the transition to a market economy witnessed a steady rise in the raw wage differential (i.e. differences including composition-effects) between Central Hungary, the Central and West Trans-Danubian region and the rest of the country. From the turn of the millennium these differences began to decrease but over the past two years a slight increase has been visible. In 2007 only the South Trans-Danubian region was able to produce a higher wage increase than Central Hungary (*Figure 19*).

⁶ See chapter “Statistical Data” in the volume for the data.

Figure 19: Average gross earnings as a percentage of the national average, 2001–2007



Source: FSZ Wage tariff record

Table 4: Monthly gross earnings by region

| Region | 2006 | | 2007 | |
|-------------------------------|---------|---------------------|---------|---------------------|
| | HUF | previous year = 100 | HUF | previous year = 100 |
| Central Hungary | 212,001 | 109.9 | 229,897 | 108.4 |
| Central Trans-Danubian region | 157,824 | 106.9 | 173,937 | 110.2 |
| West Trans-Danubian region | 156,499 | 107.4 | 164,378 | 105.0 |
| South Trans-Danubian region | 144,189 | 105.8 | 156,678 | 108.7 |
| North Hungary | 152,521 | 109.1 | 159,921 | 104.9 |
| Northern Great Plains region | 142,142 | 108.4 | 153,241 | 107.8 |
| South Great Plains region | 143,231 | 109.8 | 153,050 | 106.9 |
| Total | 171,794 | 108.9 | 186,229 | 108.4 |

Source: KSH.

The data in figure 9.5 in the Statistics chapter of this volume indicate that the differences by county are even more significant and have shown no decline. An analysis of the causes behind regional wage differences indicate that regional differences in wages, for the most part, are attributed to variations in the composition of the workforce and in the productivity of firms. Once these two factors are controlled for, regional wage differences appear to have significantly declined in the second half of the 1990s, while no significant change has occurred in this respect in recent years.

CONCLUSIONS

Until the second half of 2008, the Hungarian labour market was relatively unchanged compared to previous years both in terms of its structure and its main institutions. The effects of the convergence programme launched in

2006 had taken some time to unfold. During 2007 and the first part of 2008, employment did not change and unemployment did not increase either – low employment, a relatively low level of unemployment, regional disparities and the polarisation of the labour market in general prevailed. Employment increased only in those groups affected by the increase of the statutory retirement age and those with higher education. By the end of 2008 however, the sharp economic downturn set in also in Hungary and the first effects related to the labour-market started to appear.

In the short run, employment policy in Hungary must face the labour market impacts of the global financial crisis. Recent statistics already signal the inevitability of mass layoffs and redundancies. The significant rise in unemployment aggravates the already poor job prospects of the low educated, the young, older workers, and mothers with small children. The public employment service will need to prepare not only for an increase in caseload but also for a change in the composition of the registered unemployed.

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