

PREFACE

The Institute of Economics of the Hungarian Academy of Sciences, with the support of the National Public Employment Foundation, commenced in 2000 the annual publication entitled *The Hungarian Labour Market – Review and Analysis*, which contains a review of the current developments in the labour market and employment policy, as well as an in-depth analysis of a subject area within the topic. The editorial board endeavoured from the outset to provide experts working in government, colleagues working in organizations of the employment service, local governments, non-governmental organizations, educational institutions, and research institutes, and employees of the written and electronic media with relevant and useful information regarding Hungarian labour market processes, the legal and institutional environment of employment policy, and the latest results of Hungarian and international labour market research. This year, we once again compiled a publication that details the characteristics of Hungarian labour market processes and their interrelations in an easily understandable, transparent structure based on the available statistics and on both theoretical and empirical research. In each chapter, we have understandably placed an emphasis on the presentation and analysis of the labour market consequences of the economic crisis. The publication consists of four main parts.

1. The Hungarian labour market in 2009/2010

The global crisis that erupted in the fall of 2008 was followed by a recession that lasted until the middle of 2009, bringing about a sharp decline in production and consumption, and a contraction of external and internal markets. During this same time period, the national income of the countries in the European Union decreased by 5–8 percent as compared with earlier years. The Hungarian economy reached its lowest point in the second quarter of 2009, when GDP decreased by 7.5 per cent compared to the same time period of the previous year. The second half of the year was characterized by a moderate decrease, then, in the first quarter of 2010 GDP commenced a slow increase. The expansion is influenced by two opposite factors: on the one hand, the main engine of growth was direct and indirect – through our main export partner, Germany – export sales to the far Eastern markets. On the other hand, the growth of the economy was hindered by the contraction of internal demand experienced in the previous time period.

The employment rate of the 15–64 year old population grew continuously, though moderately, up to 2003, then, following a slight dip, stabilized around 57 percent. As a result of the crisis, the 56.7 percent rate seen in the fourth quarter of 2008 decreased to 55.5 percent by the last quarter of 2009, and continued to fall to 54.5 percent by the first quarter of 2010. In 2009 and 2010, the evolution of employment in the public sector was also influenced by new entrants employed within the *Pathway to work* program. Overall, however – not taking the effects of public work unrelated to the crisis into account – similarly to the competitive sector, though to a lesser degree, unsupported employment in the public sector decreased as well.

At the onset of the crisis, we observed that between 2008 and the first half of 2009, most job losses were experienced by skilled workers, especially in the western and north-western regions of the country. During all of 2009 and the first half of 2010, the regional differences decreased, but as the full effect of the crisis evolved, with a 1.5 percentage point fall in overall employment, the disadvantage of skilled workers remained. Since firms adapted to decreasing demand by cutting back hiring to a large extent, a significant part of the damage of the contraction was seen in the employment of the young, and especially the young who were new entrants to the labour market. As the crisis developed, the ratio of part-time workers within the employed increased noticeably, but by the beginning of 2010, due to the beneficial processes in the real economy, this situation changed. For women, the labour market was much more beneficent during the crisis; their employment rate not decreasing during the winter of 2009–2010 to the same extent as that of men. With the onset of the crisis, firms functioning in the more developed, industrialized regions (Central-, Western-Transdanubia) announced mass layoffs. Later, as the recession spread from the manufacturing sectors to other areas of the economy (services sector), the proportion of mass layoffs increased in the southern and eastern regions of the country. The difference in the employment opportunities of men and women is also due to the regional concentration of the different sectors and the occupations associated with them.

In addition to the quantitative adjustments in employment, wages also changed significantly in 2009 and the beginning of 2010. The initial contraction was dampened by the fact that wages in the competitive and public sectors both decreased in the months following the onset of the crisis. At the start of 2010, however, wages in the public sector were increasing once again. By 2009, the higher than 10 percent (both gross and net) average nominal wage advantage of the public sector, observed even at the commencement of 2009, had disappeared. In 2009, average earnings in the public sector decreased well beyond the level due to seasonal fluctuations, as the 13th month's pay was abolished or replaced by smaller premiums distributed throughout the year, there were no annual pay rises, and the share of low-pay employment increased as a result of the expansion of public employment programmes.

The government also intervened in the size of wage costs directly, an important tool in this being the decrease in employer contribution requirements introduced in a limited fashion in 2009, and then comprehensively from the beginning of 2010. The tax wedge decreased further in 2010, especially at the level of the minimum wage, due to the abolition of the fixed rate health contribution. This – because of the higher wage elasticity of unskilled labour – may lead to an expansion in employment similar in extent to that seen as an effect of the 2009 employer contribution decrease.

Government policy measures had a direct effect on the demand for labour. The *Pathway to Work* program was not originally aimed at tackling the crisis, but workers losing their jobs because of the crisis also became eligible by the end of 2009. A number of new support programs implemented with the specific objective of relieving the crisis and saving jobs also had an effect on labour demand. The demand for skilled labour may have been increased by the new two-bracket, tax base maximising tax scheme introduced in January 2010, which reduced the tax burden of taxpayers near the centre of the wage distribution.

As well as the decline in the employment rate which began in the fourth quarter of 2008, the recession was also reflected in a significant worsening of unemployment figures. The unemployment rate – as defined by the ILO and measured by the Hungarian Central Statistical Office – rose steeply from its typical pre-crisis value of about 7.5 percent to over 10 percent in 2009, then following its peak of 11.9 percent in the first quarter of 2010 settling at 11.2 percent in the second quarter. Even though the number of unemployed has still not decreased significantly, it is quite a positive phenomenon that the restructuring of the labour market is taking place among the economically active populations while the size of the inactive population remains essentially constant – disregarding seasonal fluctuation – or only slightly increasing. After 2009, however, the proportion of long-term unemployed began to increase, which suggests that the chances of finding employment again for members of this ever-increasing group have worsened during the crisis. In addition to the interventions mentioned above, the evolution of unemployment was also influenced by the absence of government actions. Although the crisis clearly significantly increased the burden on the Hungarian Employment Service, the government failed to boost the resources needed for the operation of its job centres, an action which, other than Hungary, was only experienced in Luxemburg.

2. In Focus

In this year's issue we analyze the effect of the crisis on the labour market and on households. As we were coordinating the contents, we thought it important to study not only the direct, short-term labour market effects, but also the indirect, long-term processes that are realized through the households and reproduction of labour. The labour market phenomena of the crisis cannot be understood

fully without taking into account the reactions of households and firms. In the first chapter of *In Focus*, *János Köllő* analyses the evolution of employment, unemployment, and wages in the first year of the crisis. The model-based analysis of the changes in the number of employed, the average paid workhours, and the gross hourly wage – and the relationship between them – is at the centre of the study. The study by *Péter Elek* and *Ágota Scharle* takes account of the European and Hungarian policy measures introduced with the goal of dampening the impact of the economic downturn. *András Semjén* and *István János Tóth* give a brief overview of firms' responses to the crisis based on firm data.

As a deviation from studies that use comprehensive data representative of the entire business sector, *Dorottya Boda* and *László Neumann* use a different methodology. They summarize the results of two empirical studies which analyze the effect of the crisis on firm management mainly based on firm interviews.

The data-rich study of *Irén Busch* and *György Lázár* demonstrates the main characteristics of an important subset of firm human resource measures – major layoffs. After an introduction of the legal background the authors compare the evolution of announced layoffs and registered unemployment over the last 10 years, then examine the developments between October of 2008 and June of 2010 in greater detail.

The study by *Hajnalka Lőcsei* analyzes the effect of the crisis on regional inequalities in unemployment using the database of registered jobseekers. Based on the speed and type of the changes, she divides the time period between the fall of 2008 and the summer of 2010 into four sections, and describes the evolution of the spatial expansion of unemployment for each of these.

The regional analysis is completed by two short studies. The study by *Albert Faluvégi* examines how the crisis affected the most disadvantaged microregions more closely. The issue of commuting is an important component of the evolution of employment differences. *Tamás Bartus* analyses the relationship between commuting time and the rural-urban wage difference. The most important finding of the study is that in disadvantaged regions, the estimated costs due to time lost commuting reach and surpass the wage increases that can be achieved. Due to the lack of recent data, the longer study of *András Semjén* and *János István Tóth* also attempts to draw conclusions based on earlier analyses regarding the effects of the crisis on unreported employment. Their conclusion is that the economic crisis probably led to unreported or concealed work becoming more widespread and higher in volume during the last two years.

The effect of the crisis on households stands at the centre of the last section. The micro-simulation analysis of *Katalin Gáspár* and *Áron Kiss* examines how the income position of households in different situations changed as a result of layoffs in the first year of the crisis. Using the labour force survey of the CSO, they estimate the likelihood of job loss of employees based on their individual characteristics, and then analyze the income effects of job loss based on house-

hold budget surveys. The study of *István György Tóth* and *Márton Medgyesi* is composed of two main parts. First, they demonstrate the long term evolution of main indicators of the income distribution based on the Tárki household monitor survey, with a special focus on the changes between 2007 and 2009. The second part of the study details subjective living difficulties, the indebtedness of households and their difficulties paying off their loans. The brief study by *Zsuzsa Kapitány* is related to the latter topic, which demonstrates the changing consumer behaviour of households in the real estate and mortgage market. The study discusses the effect of the crisis on households acquiring loans and specifically mortgage loans, the evolution of late payments, as well as on the real estate market and real estate construction based on data from the Hungarian National Bank, the Hungarian Financial Supervisory Authority, and the Central Statistical Office.

Due to the unique nature of this year's *In Focus*, we felt it necessary to break with our tradition and include a summary at the end of the section, which was prepared by the editor, *György Molnár*. In this, we aim to provide an overview of the most important results of the studies in the *In Focus* section.

3. The legal and institutional environment of the labour market

This year, we provide an overview of the legal and institutional environment of the labour market in a new form. We diverge from the practice of previous years, when we emphasized the *changes*, including their causes, motivation, and effects. Instead, we state the currently applicable laws, focusing on the most important aspects, and – to provide easier understanding of the conditions – *we summarize the main characteristics of benefits in standardized tables*. This is attached as an *appendix* to the detailed analysis.

We review the legal and institutional environment of the labour market in five sections. The first chapter introduces the income replacement benefits of jobseekers, while the second chapter takes account of the active labour market policy tools, services, and programs the rules of which are included in the Employment Act. These can be applied for through the Public Employment Service (PES). The third chapter discusses the labour market tools that are regulated outside of the Employment Act, but managed by the PES. The fourth chapter deals with the forms of support that are outside the scope of both the Employment Act and the PES. Finally, the fifth chapter describes the governance and financing of Hungarian employment policy.

The main characteristics of both active and passive support can be found in standardized form in the *appendix* of the section, the most influential part of which is *Table F7*. This contains the eligibility and usage criteria of the employment and training subsidies regulated in the Employment Act and in other regulations. The many types of subsidies are categorized according to their function, and grouped in the following way:

- wage and contribution subsidies,
- forms of public employment,
- training support,
- assistance for the creation of new employment opportunities,
- assistance for job safeguarding and management of layoffs,
- mobility support,
- other (support of services and programs),
- most important SROP-programs.

4. Statistical data

In line with the structure developed in previous years, this chapter gives detailed information regarding the characteristics of basic economic processes, population, labour market activity, employment, unemployment, inactivity, wages, education, labour demand, regional differences, migration, industrial relations, and welfare provisions. It also provides an international comparison of a few labour market indicators. Breaking from the tradition of previous years, we do not show data pertaining to the topic of the *In Focus* section, in this case, the labour market effects of the economic crisis, in a separate chapter, since these effects can be ascertained in the tables mentioned above.

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