

## FOREWORD

The *Hungarian Labour Market Yearbook* series was launched in the year 2000 by the Institute of Economics of the Hungarian Academy of Sciences with the support of the National Employment Foundation. The yearbook presents the actual characteristics of the Hungarian labour market and employment policy, and provides an in-depth analysis of a topical issue each year. The intention of the editorial board was to deliver relevant and useful information on trends in the Hungarian labour market, the legislative and institutional background of employment policy, and up-to-date findings from Hungarian and international research studies to civil servants, staff of the public employment service, municipalities, NGOs, public administration offices, education and research institutions, the press and the electronic media.

It was an important focus for the analyses and data published in the yearbook series to serve as a good source of knowledge for higher education as well, on the various topics of labour economics and human resources management. The yearbook series presents the main characteristics and trends of the Hungarian labour market in an international comparison based on the available statistical information, conceptual research and empirical analyses in a clearly structured and easily accessible format.

Continuing our previous editorial practice, we selected an area that we considered especially important from the perspective of understanding Hungarian labour market trends and the effectiveness of evidence-based employment policy. Based on the decision of the editorial board, this year's 'In Focus' revolves around the labour market situation of youth. The yearbook is broken down into five main sections.

### **1. The Hungarian Labour market in 2018**

The labour market in 2018 was essentially characterised by surplus demand; the mobilizable labour force potential has shrunk significantly compared to that of the previous year. In this context, public employment quotas have been further reduced by the government in order to encourage those formerly working in this manner to enter the primary labour market instead. The expansion of the number of those in employment continued in 2018, however, the rate of the expansion was slower than that of the previous two years. Based on the labour force survey of the HCSO, the annual average number of those in employment changed to 4,470,000, exceeding that of a year before by 1.1 percent, that is, by 47,000 (in contrast with the 1.6 percent growth in 2017 and the 3.4 growth in

2016). The number of students fulfilling the criterion of being employed has grown significantly, compared to the low base. The growth of the employment rate of students was driven mostly by an increase in wages caused by an excess demand for labour (and a trend of rising costs of living for those living in separate households – especially housing costs); however, working while studying is still less widespread in Hungary than in most Northern and Western European countries. The labour force potential (the supply) is comprised of the unemployed, and the inactive who want to work – in EU terms, the so-called underemployed, and within the particularities of the Hungarian labour market, public workers. (The latter can be considered labour force potential only from a primary labour market perspective, as they are included in the group of those registered as employed.) In 2018, all of the above categories shrank in number significantly, causing the labour supply to decline further. In 2018, the labour force potential still significantly exceeded the number of job vacancies despite the decrease, but the geographical (and possibly the structural) mismatch is still quite significant. An equalisation could be facilitated by the intensification of domestic migration, however, this is seriously hampered by the fact that housing costs are the highest in the places where employment opportunities are the best. The excess demand for labour and government measures related to wages have resulted in a significant increase of wages, with an increase rate that is marginally below that of the previous year.

As a result of the COVID-19 epidemic that appeared in Hungary in March 2020, the favourable labour market processes were spectacularly broken. The average monthly number of persons employed was already 56 thousand less in March than in the previous month and 22 thousand less than in March of the previous year. Although at the time of writing these sentences, it is not yet known for sure how much unemployment officially increased in April 2020, an estimate can be made using the relationship between the number of Google searches and the number of the registered unemployed.

## **2. Youth in focus**

The chapters of *In Focus* review the main aspects of the labour market situation of youth from secondary education to the first job. Chapter 1 presents the main trends of educational attainment and employment of the past fifteen years. Chapter 2 analyses the competencies obtainable in school, the choice of school, and the development of early school leaving. Chapter 3 examines the channels through which youth leaving school are able to obtain their first work experiences. Chapter 4 analyses the negative effects of early difficulties on the rest of the career path, and the extent to which low local labour force demand and high commuting costs contribute to the unemployment of youth. Chapter 5 presents the extent to which employment policy tools and services available to youth are able to mitigate or prevent youth unemployment. Chapter 6 pro-

vides a short review of the educational and labour market disadvantages experienced by Roma youth. Chapter 7 examines the skills demanded by employers, how the labour market values the knowledge of fresh higher education graduates, and the extent to which workplace training or training conducted parallel to work may bridge skill gaps. Finally, chapter 8 reviews the occupational and geographical mobility of youth.

In past years, the employment rate of youth increased, while the rate of those not in education, employment, or training decreased. This could make the transition from school to work appear seamless, however, the details presented in In Focus will nuance the picture. This is because the primary explanation for improving indicators is not the smooth functioning of the institutions assisting the transition. Rather, it is that the majority of better educated youth can find jobs within a short time without state assistance, while a substantial part of the undereducated find short-term job opportunities with wage subsidies or as public workers. An element of youth who leave school early, after the completion of the eighth grade of elementary school, are “lost” either in public employment or without a job, and do not receive substantial assistance either to finish their studies or to enter the primary labour market. Parallel to the rise of the employment rate, the rate of those participating in full-time education or training started to decrease, and the attainment level of the fresh graduate age groups stopped increasing. Additionally, policy steps with regard to public education and higher education do not support the development of general skills either.

The further improvement of the labour market situation of youth may be hindered in the long run by two circumstances: On the one hand, as demand moves towards non-cognitive skills, even a part of fresh graduates considered educated will not be able to fulfill employers’ requirements, while this may be even more marked in the case of those with lower educational attainment. On the other hand, youth who found jobs easily during the upswing period but whose basic skills are weak will be, in the future, less able to adapt to employers’ demands changing due to technological development. Considering its existing capacities, it is difficult for the state employment service to provide them with adequate support to fill the gaps in their skills and find long-term employment. These issues may affect the generations who enter the labour market in a potentially unfavourable economic climate even more gravely.

### **3. Labour market policy tools (June 2018 – May 2019)**

This chapter summarizes the main legislative changes in connection with labour market policies between June 2018 and May 2019.

The amendment to the vocational training act introduced the possibility of closed-system electronic long-distance training with effect from 1 January 2019. As of January 2019, a chancellery system has been introduced in vocational training centres within the competence of the Ministry for Innovation and Technol-

ogy – following the model already in place in higher education. The chancellor is a senior manager in charge of the institution, appointed by the minister in charge of the vocational training field. The Vocational Training and Education (VET) Innovation Council was established in September 2018, with the main objective of providing a regular platform for dialogue between the government and the main agents of the vocational training system. In March 2019 the government approved a document that contains the “Vocational training 4.0” strategy. According to this, from September 2020, the four-plus-one-year training structure of vocational grammar schools (*szakgimnázium*) will be replaced by the five-year training model of technical grammar schools (*technikum*), while secondary vocational schools (*szakközépiskola*) will be transformed into three-year vocational training schools (*szakképző iskola*). In dual vocational education and training, apprenticeship contracts will be replaced by student employment contracts.

Due to the new regulations in effect as of 1 January 2019, the pensioners’ cooperatives system lost its financial purpose, since pensioners in their own right who are in employment as defined by the Labour Code are not under insurance obligation, and thus are exempt from paying pension contributions and the health insurance contribution in kind, and are only obliged to pay personal income tax on their wages – in the same way as if they received remuneration as members of a pensioners’ cooperative of public interest.

With the raising of the minimum wage, the amounts of the related benefits have respectively also grown. And with regard to labour market services, new applications may be submitted within the framework of the Széchenyi 2020 scheme, and this time, businesses may apply with plans related to the development of labour market adaptability, the strengthening of social responsibility, and the expansion of their role as service providers as well.

Throughout the past year, the aims of active employment policy were the reduction of public education, the encouragement of lawful employment, supporting entrepreneurship, supporting those raising small children to enter the labour market, the encouragement of the creation of jobs, supporting the establishment of workers’ hotels, and the development of labour market adaptability.

The amounts of the minimum wage and the guaranteed minimum salaries continued to increase in 2019. Additionally, a new law on social contribution tax entered into force, discontinuing the former health contribution tax and prescribing a social contribution tax with a universal rate of 19.5 percent. The rate of the tax has been lowered by 2 percent as of July 2019. The range of social contribution tax relief options has shrunk by several factors, and a new tax relief option has been introduced, available for the employment of new entrants into the labour market.

The cafeteria system has also been renewed: as of 2019, the Szép card is the only type of benefit in kind available. The range of certain defined benefits has

also been reduced, and the tax exemption of several forms of benefits has been discontinued.

As of the 1 January 2019, the amendment of the Labour Code approved in December 2018 entered into force. The amendment raises the duration of the working time banking from 12 months to 36 months in the case of collective agreements, and also establishes that, based on a written agreement between the employee and the employer, a maximum of 150 hours of overtime (that is, “voluntary overtime”) may be ordered each calendar year, on top of the overtime specified previously.

#### **4. Statistical data**

This chapter, in the same structure as in previous years, provides detailed information on the major economic trends, the characteristics of the population, labour market participation, employment, unemployment, inactivity, wages, education, labour demand, regional imbalances, migration, labour relations and welfare benefits of the period since the political transition, and presents an international comparison of certain labour market indicators.

The data presented in the chapter have two main sources: on the one hand, the regular labour-related institutional and population surveys of the Hungarian Central Statistical Office: the Labour Force Survey (LFS), institution-based labour statistics (ILS), and the labour force account (LFA). On the other hand, the register of the National Employment Services and its data collections: the unemployment register database (NES REG), short-term labour market forecast (PROG), wage tariff surveys (WT) and the Labour Relations Information System of the Ministry for National Economy (LRIS). More detailed information on these data sources is available at the end of the statistical section. In addition to the two main data providers, data on old age and disability pensions and benefits was provided by the Central Administration of National Pension Insurance. Finally, some tables and figures are based on information from the online databases of the Central Statistical Office, the National Tax and Customs Administration and the Eurostat.

The tables and figures of the chapter can be downloaded in Excel format following the links provided. All tables with labour market data published in the Hungarian Labour Market Yearbook since 2000 are available at the following link: [http://adatbank.krtk.mta.hu/tukor\\_kereso](http://adatbank.krtk.mta.hu/tukor_kereso).

#### **5. The Hungarian labour market, pocket edition**

Continuing the initiative we started last year, we have compiled a collection of figures related to the theme of In Focus, based on Hungarian data, which makes the development of the labour market situation of youth over time easily understandable, via long time series figures.

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