THE HUNGARIAN LABOUR MARKET IN 2017

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ECONOMIC BACKGROUND

Hungarian GDP increased by 4.1 percent in 2017 compared to the previous year. The accelerated growth was mainly influenced by the favourable interest rate environment, the expanding lending and the large-scale availability of EU resources. The GDP growth has its roots basically in the increasing domestic consumption, which was also reflected in the import dynamics exceeding the export growth. Nevertheless, the structure of the economic growth was balanced: on the production side manufacturing, construction and service sectors – within predominantly commerce and ICT sectors – performed exceptionally well while on the utilization side consumption and gross fixed capital formation contributed to the expansion to the largest extent.

Over the past year the volume of investments increased by 16.7 percent, which was the second fastest growth rate since 2000 (*HDB,* 2018). Favourably, the investment boost was large scaled and characterized all sectors of the national economy except for the administrative and service supporting sectors, the latter of which rather stagnated. The volume of investments has grown in all other sectors and investments in education achieved the fastest growth (67.1 percent), which – taking into consideration its long-term labour market impact – is a highly positive phenomenon.

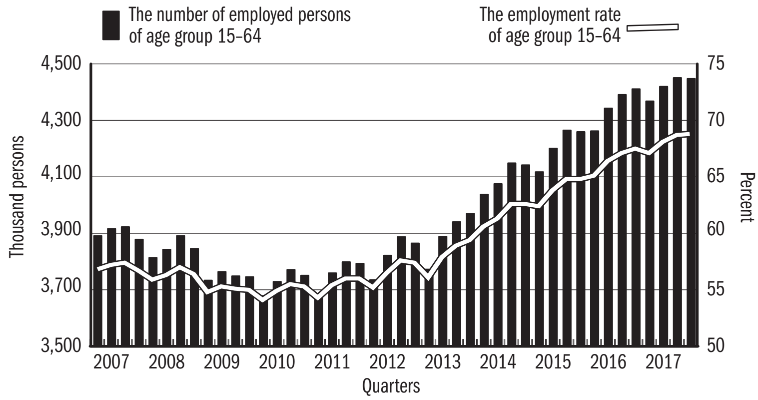
In 2017 the economic environment in total – especially the relatively dynamic economic growth and the unfavourable demographic trends – made the labour market tight and employers faced growing recruitment challenges, which resulted in the improvement of the bargaining position of employees in several sectors.

LABOUR FORCE SUPPLY AND EMPLOYMENT

According to the results of the representative data collection of the Hungarian Central Statistical Office (the Labour Force Survey, hereafter CSO LFS) in 2017 the annual average number of employed[1] reached 4 million 421 thousand (*Figure 1.*), which represents a further significant increase of 1.6 percent compared to the previous year. In the course of the year, however the pace of the employment growth has continuously slowed down due to the shrinkage of the labour force potential thus the annual growth was considerably below the 3.4 percent increase of 2016.

1 According to the definition of the CSO LFS employed is a person who worked at least one hour during the reference week, or was temporarily absent from a job. Maternity leave means temporary absence, however in the current accounting scheme only those persons are classified as employees in this group who effectively carry out gainful activity in addition to the use of maternity benefit – independently from the fact of whether or not they have a job.

Figure 1: The number of employed persons and the employment rate of age group 15–64, 2010–2017



Source: *CSO, LFS*.

In 2017 one of the sources of the supplementary labour force was the 'additional' age group remaining at the labour market due to the gradual increase of the retirement age while the other source signified those individuals who belong to the category of the labour force potential in a broader sense namely the unemployed, the inactive who want to work and public workers. The number of working pensioners and students also increased although this growth was well below government expectations. The modifications on the entitlement criteria of child-care benefits also contributed to the expansion of the labour force by establishing a financial interest in an early return to the labour market. The – pretty much insatiable – demand for additional labour force represents though a greater and greater challenge in several fields of the economy.

The question is – if this and the growing labour costs hinder the establishment of new production capacities in Hungary and if it encourages – and if so to what extent – the spread of new technologies substituting human labour. In addition to the 'traditional' reasons for labour demand – which hits certain fields especially hard – the increasing solvent demand as a consequence of the dynamic real-value growth of wages in 2017 – also contributed to the need for additional labour force potential (both in the commercial and service sectors).

As a result of the multiannual favourable trend the Hungarian employment rate of the age group 20–64 (which was 66.7 percent in 2014) reached 73.3 percent in 2017[2] exceeding the EU average by 1.1 percentage points as published by the Eurostat. The employment rate of males was 81 percent i.e. 3 percentage points higher, while the 65.7 percent employment rate of women was 0.8 lower than the EU28 average. As regards the employment rate – during a short decade – Hungary became a member of the middle-ranked countries from a country lagging behind. This sharp increase, however – in addition to the growing number of the employed – also had its origins in the shrinking

2 The target for 2020 is 75 percent.

number of the working age population which is the denominator of the employment rate and which thus explains the 0.8 percentage point improvement from the 1.8 percentage point increase in 2017 compared to the previous year.

After the strong growth in the number of public workers over the past few years – which contributed significantly to the improvement of the employment rate – their number stagnated in 2016 and – in accordance with the government's intention – has already decreased in 2017 (*Table 1*).

Table 1: Evolution of the number of employed by certain important aspects

	Number of employees (thousand pers.)		Change	
	2016	2017	thousand persons	percentage
Total				
Male	2,362.5	2,417.3	54.8	102.3
Female	1,989.1	2,004.1	14.9	100.7
Type given in the LFS				
Primary labour market, domestic	4,014.3	4,117.8	103.4	102.6
Public employment	220.9	194.0	–26.9	87.8
At foreign site	116.4	109.6	–6.8	94.2
Region				
Budapest	840.3	845.3	5.0	100.6
Pest	565.6	578.0	12.4	102.2
Central Transdanubia	487.9	498.7	10.8	102.2
Western Transdanubia	457.0	469.6	12.6	102.8
Southern Transdanubia	370.7	369.3	–1.5	99.6
Northern Hungary	466.6	474.8	8.1	101.7
Northern Great Plain	613.9	631.1	17.2	102.8
Southern Great Plain	549.5	554.8	5.2	100.9
Status				
Employed persons	3884.4	3964.4	80.1	102.1
Member of business partnerships and co-operatives	148.0	156.8	8.8	105.9
Self-employed entrepreneur, independent and helping family member	319.3	300.2	–19.1	94.0
Age group				
15–24	301.1	302.6	1.5	100.5
25–39	1,569.4	1,550.8	–18.6	98.8
40–59	2,207.0	2,267.2	60.2	102.7
60+	274.1	300.8	26.7	109.8

Source: *CSO, LFS*.

Besides this – at least among members of the households covered by the CSO labour force survey – fewer persons worked abroad than in the previous year. Therefore, the number of the employed in the domestic primary labour market increased by 2.6 percent i.e. by 1 percentage point more than the total number of the employed. The improvement of the employment rate of men was more remarkable than that of women supposedly because the gradual increase of the retirement age affected the expansion of the female labour force less intensively than men due to the early retirement opportunity exclusively for women after 40 years of employment.[3] A sign of the slight increase of in-country labour mobility is that the employment increased more intensively in regions where the labour reserve was below average.

After the dynamic increase of the past years the number of foreign-working Hungarians stagnated in 2016 and slightly decreased in 2017 (*Table 2*).[4] Similarly to the five years earlier household survey three-quarters of the foreign-working population reported Austria or Germany as the country of work. The majority of households of those working in Austria is situated in the counties at the Western border of Hungary and had frequently moved there from another part of the country explicitly with the goal of working abroad. The typical 'cross-border commuter' is a man, young or middle-aged with a vocational or vocational secondary qualification and has a job in the industrial, construction or possibly in the catering sector in the target country.

Table 2: The number of persons who reported a foreign workplace in the labour force survey of the CSO by target country, 2017 (thousand persons)

	Austria	Germany	United Kingdom	Other	Total
Total	49.3	32.9	10.7	16.7	109.6
Gender					
Male	36.7	26.1	7.4	13.0	83.2
Female	12.6	6.8	3.3	3.7	26.4
Age group					
15–29	9.1	7.1	3.9	3.5	23.6
30–49	31.3	19.0	5.1	10.9	66.3
50–74	8.9	6.9	1.7	2.3	19.7
Highest qualification					
At most primary	4.5	3.6	0.5	1.8	10.4
Secondary (without secondary school graduation)	21.6	17.4	2.6	5.2	46.7
Secondary (with secondary school graduation, without vocational qualification)	8.3	3.5	2.1	2.2	16.1
Secondary (with secondary school graduation and vocational qualification)	8.8	5.9	2.0	4.3	20.9
Tertiary	6.1	2.6	3.6	3.3	15.5
Sectoral classification of the employer					
Industry, construction	17.4	20.6	2.2	7.3	47.5
Commerce, transportation, logistics	9.4	4.8	2.5	3.3	20.1
Accommodation and catering	11.1	3.5	3.8	2.3	20.7
Other sectors	11.4	4.0	2.2	3.7	21.3

Source: *CSO, LFS.*

3 Since its introduction in 2013 to the end of 2017 the benefit was utilized by nearly 200 thousand individuals, which means that the female labour force potential decreased annually by 30 thousand on average.

4 Information in the Hungarian labour force survey contains information only regarding those foreign-working individuals of whom – as of household members – the recorded households provided data. The number of those Hungarians who work abroad but are not covered by the labour force survey cannot be taken into account additionally because the adjusted population model – as the framework of the weighting of the LFS – could count only with that part of foreign-working Hungarians who are revealed in administrative databases, i.e. the population that should be used for multiplication could have been already calculated into the number of Hungarians working abroad.

The other data source on the number of foreign-working Hungarians are migration statistics published by the Eurostat and provide an additional perspective to the topic. In 2017 more than 300 thousand Hungarians between the age of 15–64 (i.e. active aged from a labour market perspective) were recorded by the labour force surveys of different EU Member States (*Table 3*).[5]

Table 3: Number and employment rate of Hungarians living in other EU Member States

	2010	2016	2017
Number (thousand persons)			
Born in Hungary but lives in another EU country, aged 15–64	145.2	323.7	339.3
Hungarian citizens aged 15–64 living in other EU countries	114.8	312.6	321.1
Of which			
– Aged 20–64	112.4	303.5	307.6
– Women	60.7	158.6	168.0
– With primary educational attainment	16.3	43.9	55.1
– With tertiary educational attainment	36.7	104.2	106.2
– Employed	90.7	252.9	261.7
Employment rate (percent)			
Hungarian citizens aged 20–64 living in other EU countries	74.0	80.5	80.5
Out of which			
– Men	82.7	89.1	89.5
– Women	66.3	72.0	72.4
– With primary educational attainment	62.9	75.9	74.5
– With secondary educational attainment	73.2	80.1	80.8
– With tertiary educational attainment	79.0	81.0	82.6

Source: *EU-LFS* (Eurostat database).

In 2017 in contrast with the outcomes of the Hungarian survey indicating the dominance of males among Hungarians working abroad the narrow majority of the foreign-working population were women according to the foreign surveys and, in addition the proportion of the highly-educated was even higher than the Hungarian average. There were differences in the share by target country too: 46 percent of Hungarian employees recorded in foreign surveys worked in Germany, 22 percent in the United Kingdom while Austria with 15 percent was only the third target country.

89.5 percent of men at the age of 20–64 were in employment, which is 8.5 percent higher than the employment rate according to the records of the Hungarian survey. Although the employment rate of women recorded in the surveys of other EU countries was below that of men it exceeded significantly the performance presented by the Hungarian LFS of the CSO. Even more interesting is the fact that while the outcomes of the LFS show that although less than 54 percent of persons aged 20–64 with at least primary qualification were employed this rate was 74.5 percent according to foreign surveys.

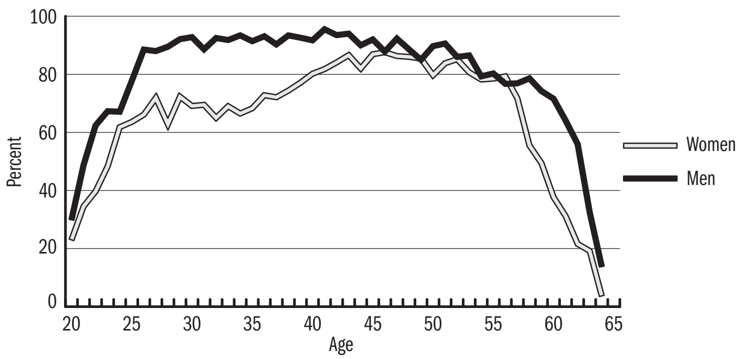
The majority of Hungarians living in another EU Member State changed country of residence due to labour market reasons, therefore their employ-

5 The overlap between the two populations, namely those who reported a foreign workplace in CSO LSF and Hungarian citizens in the registers of other EU countries is only partial. A part of the former group is in fact daily commuter and therefore do not fall under the scope of the labour force surveys of other EU countries. Another part is those who, due to the long distance, also have foreign residence or are more challenging to reach than in general (for example due to the reason of community type housing or because they do not speak the language of the target country properly). Persons without a Hungarian household relation or who moved abroad with their families frequently occur exclusively in the surveys of other EU countries. This difference could be demonstrated by the example of the United Kingdom where the labour survey of 2017 registered six times more Hungarian workers in the UK than the Hungarian register.

ment rate is significantly higher in all important breakdowns than the domestic one. According to foreign surveys the number of Hungarians working abroad increased significantly by 30–50 thousand persons annually – from a low basis – between 2010 and 2015. This increase was among the fastest ones in the European Union. In 2016 labour emigration already declined remarkably and has apparently stopped in 2017 although the decrease indicated by the LFS of the Central Statistical Office in this segment is still not demonstrable.

The European Commission in its country report of 2017 provided an overall picture on the Hungarian employment policy too (*EC,* 2018) and as well as appreciating the improvements of labour market indicators also had some critical remarks. These – among others – related to the disproportionately low labour market participation of the low-skilled, women, the disabled and the Roma although the employment of these groups also showed some improvement. Even in 2017 a significant part of Roma and low-skilled people worked in public works, which was severely criticized by the European Commission from the beginning especially due to its less effective and sometimes even counter-productive nature in labour market integration.

Figure 2: Employment rate of men and women at age 20–64 by age group, 2017 (percent)



Source: *CSO LFS*, data of 2nd quarter of 2017.

The gender gap in employment of the age group of 20–64 was 15.3 percentage points in 2017 – slightly exceeding the EU average. The *EC* report (2018) links this phenomenon to the low participation rate of children under 3 in formal child-care. As presented by the figure on the employment rate by age group the employment rate of Hungarian women evolves in line with the employment rate of men only until their mid-twenties then in the period of childbearing age it lags significantly behind.[6] The employment rate of women in their mid-forties reaches again the employment rate of men but the steep fall due to retirement starts two-three years earlier than that of men. By maintaining the current retirement rules the gender employment gap is not ex-

6 This problem however has its roots probably not only in the lack of nursery places. According to a supplementary survey of the labour force survey of 2014, three-quarters of women entitled to child-care benefit wished to spend the entire eligibility period at home with their child by taking the traditional view (consciously or under circumstances) created by the possibilities of the previous decades that it is the best for the child if the mother provides them with personal care at home until kindergarten-age. This approach is the least characteristic of women with a tertiary qualification, whose career development could be hampered by the long-term absence and for whom returning to the previous job could mean higher financial gain than average.

pected to decrease even if more women with young children decide to spend a shorter time on child-care leave than the maximum period.

Related to the gender employment gap the fact also has to be mentioned that part-time employment among women is one of the lowest in the EU and other forms of employment which could facilitate the reconciliation of work and family life (e.g. teleworking, flexible working time and zero hours contract) hardly exists. Although it is true that the proportion of women on shift work is around, while the share of women working regularly or occasionally Saturdays and Sundays is below, the EU average.

Labour market expansion affected all social groups unrelated to qualification level though labour market chances of the less-educated (with a primary qualification) are still considerably less favourable. In 2017 53.9 percent of persons with a low level of education at age 20–64 were employed, which is a significant improvement compared to the 36.1 percent employment rate in 2010. Nevertheless, this value is still almost 20 percentage points below the employment rate of persons with a secondary qualification. (In addition, the public works programme has the strongest impact on the employment rate of the lowest qualified. Without this, the increase of the employment rate compared to 2010 would have been 4 percentage points less.) The employment rate of persons with a higher than primary qualification exceeded, while that of persons with maximum primary qualification lagged behind, the EU average.

The gender employment gap also depends on the qualification level. The gap is the narrowest between men and women with the Baccalaureate. In addition, in the first part of the period between 2010 and 2017 the employment rate of women at this qualification level even exceeded the employment rate of men. The gap is the widest in the population with at least a lower secondary qualification, however the growth of the employment rate (compared to 2010) of both genders was the most rapid at this education level. (Note, that the data do not include public workers.) In 2017 more than 60 percent of men aged 20–64 (including public workers in total 64.7 percent) were in employment while the employment rate of women was 38.9 percent (and 45.4 percent including public workers).

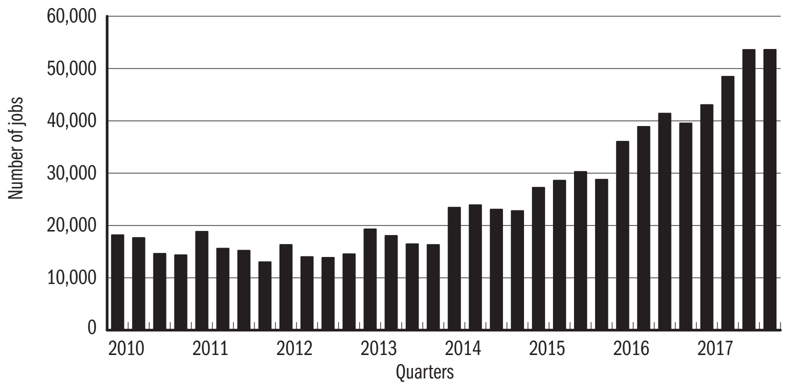
LABOUR DEMAND AND LABOUR FORCE POTENTIAL

By the continuous decline of the domestic labour reserve and the hardly changing numbers of Hungarians working abroad labour demand of the economy has further increased in 2017. This – besides the expansion of the production capacities as well as the housing and general construction boom – was influenced by the long-time unseen increase of incomes (and the proportionally growing consumption). According to the aggregated outcomes of the Job Vacancy Survey[7] of the CSO the non-profit and the public sec-

7 Besides the CSO-data collection based on common European provisions, another data collection exists with the purpose of monitoring the evolution of labour demand of the economy. In reporting labour demand to the National Employment Service (as data collector), mainly those employers have an interest who wish to hire workforce in a supported form (this, typically takes two-thirds of the reports) or those who search workers for low-qualified jobs (and therefore see a chance to find them among registered job-seekers). As these two observations indicate quite different demand structures, consistency between the two neither in trends nor in volume necessarily exists. For example, in the last month of 2017 the number of vacancies in the register of the NES was 123.2 thousand which is highly above the number estimated by CSO. Although, while the number of vacancies reported at CSO continuously increased, the number of vacancies in the NES register was 11 percent less than in the same period of the previous year.

tor reported already 70 thousand job vacancies on annual average in 2017, 23 percent higher than in 2016. The number of current job vacancies or job vacancies of the near future (for which employers have already taken steps to fill – for example by advertisement) at business sector enterprises with at least five employees was 43.1 thousand in the first quarter, 48.5 thousand in the second quarter and already 53.6 thousand in the third and fourth quarters of 2017 (*Figure 3*).

Figure 3: The number of job vacancies in the business sector



In the fourth quarter of the previous year the number of job vacancies has shown a nearly 36 percent surplus compared to the same period of the previous year, which also means that the number of job vacancies increased at a similar pace than in the last year. In the last quarter of the past year 2.5 percent of the business sector jobs were unfilled. Compared to the number of employees in certain sectors the number of job vacancies was the highest in the administrative and service supporting sector (5.2 percent) followed by the manufacturing sector (3.2 percent) and the IT sector (3.1 percent). In manufacturing – hiring the largest number of employees within the national economy – the number of job vacancies reached nearly 22.3 thousand in the 4th quarter of 2017, which means an increase of 49 percent compared to the same period of the previous year.

In the past few years the number and proportion of unfilled jobs has continuously increased in Hungary but also in the EU as a whole. In the 4th quarter of 2017 2 out of 100 jobs was unfilled in the EU28 countries, however the situation varies significantly among Member States. The proportion of unfilled jobs is high in countries with a low unemployment rate while the number of job vacancies is low in countries still facing post-crisis challenges. The highest proportion of job vacancies within the EU occurs in the Czech Republic where 4.4 out of 100 jobs were unfilled in the 4th quarter of 2017. This was followed by Belgium (3.4 percent), then Germany (2.8 percent) – which at the same time is the main target country of Hungarian migrant workers. In Germany, this means almost one million unfilled jobs despite the fact that 1.5 million – partly economic – refugees arrived in the country presumably with the purpose of work. At the opposite side of the scale stood Greece facing stable economic constraints and where only 0.1 percent of the jobs was unfilled in the given period. The rate of unfilled jobs was 0.7 percent in Spain and 0.8 percent in Bulgaria and Portugal. Although the proportion of job vacancies in Hungary was medium-high it was one of the two-three countries where the number of unfilled positions showed the most intensive growth in 2017 (and in the previous year).

The extended definition of labour reserve includes the unemployed, the inactive, who want to work, the underemployed and public workers. In 2017 all of these categories – connecting to the labour market with various strengths – were characterized by a decrease. Labour reserve in total (without the underemployed) was slightly above a half million (*Table 4*). In the event of strong labour demand the underemployed are able to find a full-time job easier and the 'unemployed' status could also be transformed easier to 'employed'. Therefore, the number of persons in these two categories has decreased significantly. In the case of public workers, the change was the result of a targeted governmental intervention while the number of those inactive who want to work but in reality, do not carry out any job-search activity decreased only to a smaller extent.

Table 4: Evolution of the number of the employed and the potential labour reserve, 2010–2017 (thousand persons)

	2010	2016	2017	2017	2017	Change 2017/2016
	men and women total			women	Proportion of women (percent)	Men and women total (percent)
Employed total	3,732.4	4,351.6	4,421.4	2,004.1	45.3	101.6
Out of which:						
– underemployed	59.2	50.6	40.4	24.1	59.8	79.8
– public worker	72.5	220.9	194.0	105.7	54.5	87.8
Unemployed	469.4	234.6	191.7	96.0	50.1	81.7
Out of inactive:						
– wants to work but is not disposable	10.3	6.9	6.8	3.3	49.1	98.6
– wants to work and is disposable	200.8	128.5	120.6	63.9	53.0	93.9

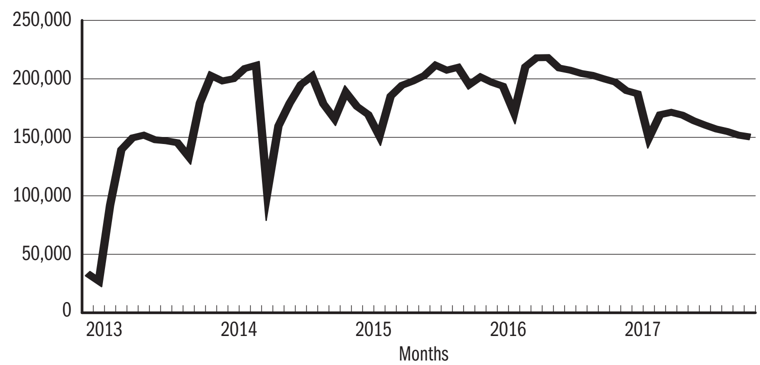
Source: *CSO LFS*.

The underemployed – who work part-time due to the lack of an available full-time job and also meet the criteria of disposability – are taken into account as part of the labour reserve in the EU. In spite of the low number of part-time workers in Hungary and the fact that it is not easy to find such a job, nearly one out of five part-time employees was underemployed according to the answers provided in the LFS. The decision on working other than full-time is usually influenced by a combination of factors, therefore it is not possible to know what proportion of underemployed would accept a full-time job if offered. Due to this reason and because the only option in this case were to be the extension of their working time, this category may be ignored by the recording of the labour reserve.

In 2017 the largest group within the labour reserve were public workers. In line with the transformation of the unemployment benefit system and the expansion of public works schemes their number increased substantially between 2013 and 2015. In 2016 the increase slowed down but the number of public workers still remained 223.5 thousand on an annual average – 15.3 thousand more than in the previous year. However, in 2016 the government explicitly expressed the intention to speed up the transition of public workers into the primary labour market through administrative measures on the one hand and establishing incentives (i.e. the widening of the gap between the minimum wage and the public employment wage) on the other hand.

The reduction of the number of PWS participants has already started in 2017 (*Figure 4*) and in line with this the number of public workers decreased by 40 thousand at an annual average compared to the previous year. (While the number of those who reported themselves as public workers in the LFS decreased somewhat slighter.) Another change was that the number of public workers was less cyclical in 2017. As labour demand has been continuously growing the decreasing number of public works jobs did not influence unemployment statistics.

Figure 4: Evolution of the number of public workers, 2013–2017 (thousand persons)



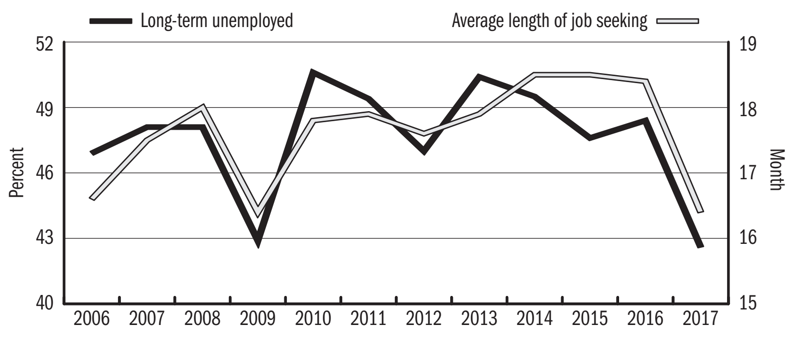
Source: *CSO* monthly labour statistics.

Primarily those persons were able to leave public works who were better qualified or lived in settlements with better transport links or more job opportunities. The former aspect resulted in a further decrease of the (already low) average educational attainment of public workers and made it more and more difficult to find the appropriate workforce for the more qualified positions (e.g. site managers) within public works. As regards the importance of PWS territorial differences remained significant: in counties (and small regions) with a less favourable labour market situation its weight is still considerable while in better situated areas PWS ensures work opportunity and an income exceeding the amount of social benefit for those who – for some reason – cannot find a job or could enter into a job after combating serious obstacles in the primary labour market.

The most closely linked segment of the labour reserve is the unemployed according to the definition of the ILO. Those, who although they do not work and do not have a job from which they are temporary absent want to work and take steps in order to find a job, and in the event that they find one, there is no obstacle, which could hamper them to start working. Albeit the decrease of unemployment started to follow employment growth with some delay after the financial crisis it was quite intensive in recent years. In 2016 the number of unemployed was half the number existing in 2013 while in 2017 the number of unemployed in the LFS was below 200 thousand – for the first time in the history of the survey since 1992. At an annual average level 95.7 thousand men and approximately the same number of women were unemployed. Thus, the unemployment rate of men was 3.8 percent while that of women 4.6 percent. Thereby the Hungarian unemployment rate became among the four lowest ones of the EU.

The growing labour demand could shorten the period between the job loss and the replacement. In Hungary, a further incentive is that the eligibility period of the insurance-based unemployment benefit is unprecedentedly short in the EU. In 2017 the average length of the unemployment period became 2 months shorter however the average length is still equal to 16.4 months and 42.6 percent of the unemployed are long-term unemployed (*Figure 5*).[8]

Figure 5: Proportion of long-term unemployed and average length of unemployment



Source: *CSO LFS*.

8 In the past ten years the long-term unemployment rate has never been so low except for 2009 when – due to the mass-influx into the unemployment register as a consequence of the economic crisis – the number of newly registered unemployed became suddenly extraordinarily high.

Another important information source on the number of unemployed is the administrative register of job-seekers. A certain section of the unemployed do not search for a job effectively (however through the registration the client declares that he/she is ready to accept a job opportunity offered by the labour office), therefore do not fall under the unemployed category according to the labour force survey based on the ILO definition. Furthermore, another smaller element of jobseekers carries out some kind of gainful activity and therefore is considered to be employed. The number of registered job-seekers – in addition to the labour market situation – is highly influenced by the national characteristics of the benefit system. Therefore this definition is clearly not suitable for international comparison but is essential to gain exact knowledge for the understanding of the domestic labour market situation. In 2017 the number of registered job seekers further decreased but the change was more moderate than the decrease of the unemployed according to the ILO definition – the reason behind this is probably that a significant element of public workers switch regularly between registered job-seeker and public worker categories. The annual average number of registered job-seekers was 283 thousand from which 29.6 thousand were career-starters. (The number of job-seekers was 313.8 thousand in the previous year.) The proportion of those registered job-seekers who are not eligible for any kind of benefit decreased (to 46.8 percent in 2017 from 49 percent in 2016) while the proportion of those eligible for a limited period of unemployment benefit (unemployment assistance) remained more or less unchanged in the previous years.

In past years a part of those inactive who are capable and also would like to work were 'absorbed' by the public work system, therefore only slightly more than 120 thousand persons belonged to this category in 2017. The reasons why individuals who would like to work yet do not search for a job are various. The answer chosen by the majority of persons was that they did not expect the job search to be successful. This reason was mentioned by 47.5 percent of men and 35.2 percent of women which – even by growing labour demand – could be a real fear in the case of those having less favourable labour market characteristics than average. This was followed (by 17.5 and 12 percent) by the answer 'waiting for the recall of the former workplace' which in most cases probably was the expression of the intention to re-enter into public work. In the case of women 'caring responsibilities' was an equally serious reason, while in the case of men the share of answers was more or less equal among the further options given in advance. Beside the structural mismatch between labour demand and supply, there were significant geographical differences in the distribution of job vacancies and the labour reserve in the broader sense in 2017 (*Figure 6*).

Figure 6: The Proportion of job vacancies and the labour reserve* by regions, 2017

* Labour reserve – in addition to the unemployed and the inactive who want to work – also includes public workers. Annual average data, 2017.
Source: *CSO LFS*, and *CSO* job vacancy statistics.

EARNINGS

The significant, 6 percent growth of real wages in 2016 was followed by a further 13 percent wage increase in 2017. The direct and indirect effects of the government measures as well as the favourable economic trends and the growing competition for labour force all contributed to the fastest wage growth of the past decade. The 15 percent increase of the minimum wage and the 25 percent increase of the guaranteed wage minimum were the most powerful government measures in their effect. Wages in the lower wage segments of the business sector were directly influenced by the minimum wage increase while in higher wage segments it contributed to the increase through the demand on retaining the former wage proportions. The consequences of the drastic increase of the minimum wage were controversial in the public sector.

The wage increase was realized in the earnings of the lowest earners at the bottom of the public-sector wage grid – typically in positions with a vocational qualification requirement (and therefore with an eligibility for the guaranteed wage minimum of 161 thousand HUF). Institutions with a lack of resources however, created the margin of the wage increase by cutting back different wage supplements and benefits thus the increase of the basic salary did not necessarily mean a similar increase in earnings at the same time. Another negative consequence of the minimum wage increase was that it prevailed over the salary items in the career system (where wages depend on the length of seniority) causing overlaps among certain items. This impact was especially strong in the case of salary items of jobs with secondary qualification requirements. A further increase of the minimum wage is among the plans of the government.[9]

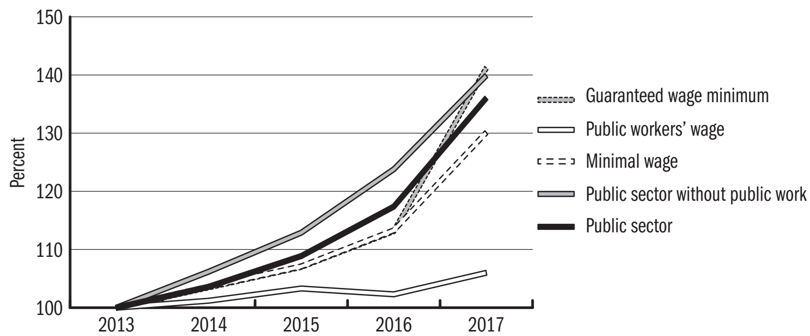
The increasing minimum wage caused difficulties for less efficient companies or companies hiring employees with lower additional value producing capac-

9 In 2018 the minimum wage increased by a further 8 percent and the guaranteed wage minimum by 12 percent.

ity because they have to put up financial resources for the growing labour costs. If they fail employees could only be hired in public work (with a salary more and more below the minimum wage) which system – even if in decreasing volume – the government counts upon over the long-term. In addition, this phenomenon could speed up the terminating of companies with a low level of profit which ones, however are important from a local community perspective (such as shops in small settlements – of which more closed down in 2017 than in previous years). Due to the further increased labour demand the minimum wage growth did not have a considerable crowding-out effect in 2017.

Besides the increase of the minimum wage the selective wage re-arrangement of public sector employees also continued, although there are still areas where wages have been unchanged for almost a decade. In 2017 the evolution of the number of public workers did not substantially influence the pace of salary growth (without public workers the growth rate was 0.4 percentage points lower because the number of PWs participants stagnated and their wage also remained unchanged). In 2017 however, there was a 20 percent decrease in the number of PW participants leading to a 'surplus' of 1.2 percentage points in the growth rate of wages. This decrease contributed to the wage dynamics of the public sector – where 90 percent of public workers are hired – by 2.9 percentage points. The growth rate of the wage increase of public sector employees – without public workers – exceeded the growth rate in the business sector only by 1.6 percentage points (and within the regular salary part only by 0.2 percentage points). There was a modest increase in the public employment wage in 2017 too however its proportion compared to the minimum wage decreased even more significantly than in the previous years (*Figure 7*).[10]

Figure 7: Growth rate of gross salaries (2013 = 100 percent)



Source: Monthly labour report.

The additional financial source for the wage increases was ensured by the decrease of employers' labour costs (i.e. social contribution tax rate decreased from 27 to 22 percent) and the cutback and unification[11] of the corporate tax rate which is only linked indirectly to labour costs. (This latter however had

10 In 2017 the public employment wage increased to 81,530 HUF from 79,155 HUF (valid in 2015 and 2016) while the guaranteed wage minimum increased to 106,555 HUF from 101,480 HUF. The wage of site managers – slightly above the general public employment wage – increased by a similar proportion.

11 From 2017 the former rates (10 percent up to 500 million HUF of the positive tax base and 19 percent above 500 million HUF) were modified uniformly to 9 percent regardless of threshold.

only a limited effect on the expenditure savings of small and medium sized enterprises.) Another modification in the taxation system also contributed to the financial viability of the wage increase which, originally did not serve this goal. In 2017 the reduction of the VAT on certain food products was followed by a similar decrease in catering but its impact was not reflected in catering prices. This phenomenon was mostly explained by the wage growth (as a reaction on the growing minimum wage as well as the intensifying competition environment). Although the reduction is able to counterbalance the deterioration of competitiveness as a consequence of the dynamic wage increase in the short-term, the impact of this measure is only limited.[12]

The interim statistics on wages[13] in the business sector cover companies with at least five employees, which in total hired 2.08 million persons in 2017.[14] The growth rate of gross salaries was 11.6 percent overall. Within the earnings of blue-collar workers they increased by 14.9 percent to 221,3 thousand HUF and of white-collar workers increased by 8.6 percent to 444,7 thousand HUF. The unusually considerable difference between the wage dynamics of the two basic groups (moreover in favour of blue-collar workers) originated partially in the increase of the minimum wage and the guaranteed wage minimum. The wage increase was also connected to the fact that employees of the nearly 200 state-owned enterprises received a wage increase of 13–14 percent as a first step of the triannual agreement on wage development. Such large companies as the National Railway Company (MÁV), the Hungarian Post, the Volán (national bus company) or regional water providers were also among the enterprises concerned by the agreement. The growing bargaining power of employees is indicated by the fact that the number of strikes with the aim of enforcing wage demands also increased. (Although the number of such actions still remained low.)

In 2017 the highest-level wage increase among business sector-dominated sectors of the national economy was taking place in real-estate and water and waste management (17.6 and 15 percent). The other considerable growth of earnings ensued in the accommodation and food service sectors (14.2 percent). In this growth – besides the increase of the minimum wage – the intention of tackling labour force problems of the sector also played an important role.

Administration and service activities sectors were characterized by an increase above average (14.3 percent). The rate of the wage growth was around average in the most important sectors from a labour market perspective; such as manufacturing, commerce and repair of vehicles and motorcycles, however there were significant differences at sectoral or company level. In the commercial sector employees of foreign-owned chains (Lidl, Aldi, Auchan and partly Tesco as a result of enforcements in strikes) were provided a salary well-above average. At the same time, smaller companies even faced difficulties to ensure the financial source for the increased wage minimum. Conversely, the increase

12 In spite of the reduction of the social contribution rate the hourly labour cost increased by 10 percent in 2017.

13 The data of micro enterprises is attached to this with the method of additional estimation based on tax declarations once a year, therefore this data becomes available only at the end of 2018.

14 From 2018 the continuously up-dated register of the NTA provides the framework for the weighting of the interim institutional labour data collection. The calculation of the number above is already based on the same method.

remained well below-average in the information and communication sector (6.5 percent) and in financial and insurance activities sector (8.2 percent) in those two sectors of the national economy where average wages are exceptionally high (510.7 thousand HUF and 561.6 thousand HUF monthly).[15]

In 2017 the subsistence of more than one-fifth of employees (including public workers) was ensured by the public sector. Thus, government measures affecting the wage of public sector employees strongly influence the rate of the wage increase in the national economy as a whole. Taking into consideration that three out of four public sector employees are women this influence is even stronger on the wage position of women. An overall wage arrangement with a common approach was not carried out although there were smaller measures in all the three sectors of the national economy – all of them characterized by the dominance of public bodies – which through their carry-over or current year effect contributed to the increasing rate of the wage growth.

Therefore, there are certain fields in the same sectors of the national economy where considerable wage development had been carried out in the last period and others, where salaries did not change at all. Above all, this is typical for public administration, defence and compulsory social insurance sectors. Here, as part of the agreement on the 50 percent wage increase until 2018 police and defence officers were provided with an increase of 5 percent from 1st July and, in addition those employees who were previously not subject to wage re-arrangement also received an additional allowance. As from 1st January 2017 earnings of the employees of the National Tax and Customs Office (NAV) increased by a further 5 percent while the wages of the employees of county and capital level government offices increased too. The decision on the average annual wage increase of 5 percent of judicial employees between 2016 and 2018 was also approved. Thus, salaries of employees in the public administration, defence and compulsory social insurance sectors increased in total by 14 percent compared to the previous year.

The most important factor of the 8.8 percent wage increase of educational employees was the multiannual wage arrangement of lecturers and researchers in higher education which commenced in the Autumn of 2016. Besides this, in line with the life-career model of pedagogues in public education introduced in 2013 an average increase of 3.5 percent was also foreseen to 2017. The wage arrangement linked to the life-career model follows a typical pattern: a significant part of the wage increase concentrates on the first year while in the following years smaller increases are divided proportionally. The disadvantage of this system is, that once the wage arrangement process terminates the significant impact of the first-year wage increase is hardly noticeable anymore – as was also underlined by the reactions of the pedagogue society.

In 2016 and 2017 wage correction measures targeted primary health and social care sector employees. After several smaller corrections, the wage ar-

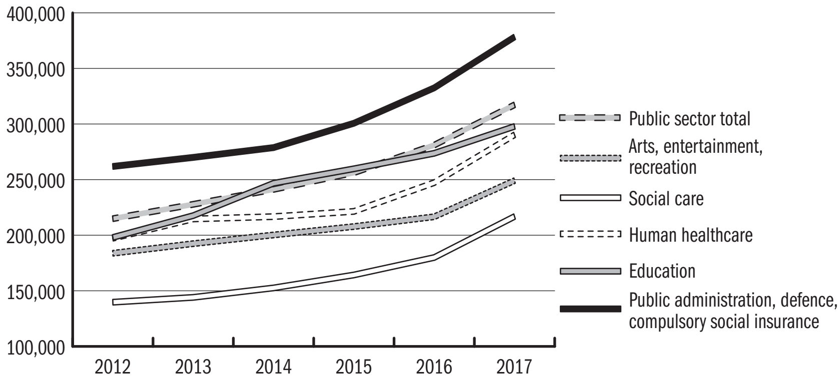
15 Intellectual occupations are strongly overrepresented in both sectors of the national economy, which partly explains the high average wage.

rangement started in the second half of 2016 and therefore – as a basis value – also influenced the wage increase. As from November 2017 the wage of medical specialists and hospital-pharmacists rose by 100 thousand HUF while colleagues without a specialist exam were eligible for a wage increase of 50 thousand HUF. Besides this, the earnings of health care professionals increased by 12 percent on average. The arrangement also abolished several smaller anomalies in certain grades (e.g. kindergarten teachers with a tertiary qualification came under the wage category of pedagogues). For a significant element of social sector employees, the wage arrangement however solely meant that their wage was increased to the amount of the guaranteed wage minimum.

The gross average salary of employees in the human health sector – without public workers – exceeded the wage level of the previous year by 17.4 percent, while the increase in the social care sector was 20.5 percent. From January 2017 20 thousand employees of the cultural sector were also provided with a wage increase of 15 percent on average, however in most cases this only achieved the amount of the wage minimum guaranteed by law.

The evolution of the gross salary of public sector employees in the most important sectors is illustrated by *Figure 8*.

Figure 8: The evolution of gross earnings in the public sector in the most important sectors of the national economy (without public workers, thousand HUF)



Source: *CSO*, Monthly labour report.

In 2017 the wage of employees in the non-profit sector – which role in terms of employment capacity remains below the two other sectors – increased by 10.6 percent compared to the previous year. (The data do not include public workers.) Employees of public institutions and non-profit organizations fulfilling state-delegated tasks whose salary decreased as a result of the changes of personal income and social contribution taxation in 2011 and 2012 are eligible to request a compensation payment (which is not included into the salary). As a result of further wage corrections and the change of the labour force the number of employees eligible for compensation decreased from nearly 400 thousand in 2012 to approximately 100 thousand in 2017. The monthly average amount of the compensation was 8,700 HUF.

Besides wages other work income forms part of the employees' earnings too. Its main form is the so-called fringe benefits – in Hungary usually referred as cafeteria.[16] In 2017 no major change was carried out in the rules on cafeteria benefits and the upper limits of the preferential taxation also remained unchanged. (200 thousand HUF/year for public sector employees and 450 thousand HUF/year for employees at other types of employers.) Based on this, employers did not have an interest in the rearrangement of its proportion within work income. This, and the fact that in some cases the source of the minimum wage increase was realized by cutting back cafeteria benefits at the same time resulted in the situation that the 7.6 percent growth rate of the other work income remained well below the level of the wage increase. This means that the proportion of other work income decreased within the total work income. The annual average of other work income of full-time employees was 186 thousand HUF in the business sector and 178 thousand HUF in the public sector, however there are large differences behind the average even in the case of employers in the same economic sector.

The amount of the net earnings depends on the current legislation on taxes and contributions. In 2017 the sole change influencing net salary substantially was that tax credit after two children further increased: parents raising two children could deduct their monthly tax-base by 100,000 HUF per child instead of 83,300 HUF per child in the previous year. Tax credits of parents with one and three or more children remained unchanged: parents raising one child could diminish their tax base by a monthly amount of 66,670 HUF while with three and more children by 220,000 HUF per child. *Table 5* presents the evolution of net and real earnings taking into account the family tax credit in 2017.

Table 5: Net and real earnings calculated with the family tax relief, 2017

Number of dependent children	Calculated net earnings/person/month (HUF)	Net earning	Real earning	Share of employees by household (percentage)
		Change compared to 2016		
0 child	193,659	12.6	10.0	54.1
1 child	201,999	12.8	10.2	22.4
2 children	230,815	13.7	11.1	17.1
3 children or more	249,235	11.7	9.0	6.4
National economy total	205,431	12.8	10.1	100.0

Source: Monthly employment report and micro simulation model with the use of the data of Household Budget and Life Circumstances Survey.

The growth rate of the net average wage without family tax credit was 12.9 percent – corresponding to the increase of the gross wage – therefore average

16 According to the Hungarian definitional framework work income means wage and other work income together which equals to the definition agreed in international practice.

net earnings in the national economy (without public workers) equalled 206,7 thousand HUF. Besides the 2.4 percent increase of the consumer price index the real value of salaries was 10.3 percent higher than in the previous year.

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