THE HUNGARIAN LABOUR MARKET IN 2015

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ECONOMIC BACKGROUND

According to preliminary data, the growth rate of Hungarian GDP was nearly 3 per cent in 2015. The impressive growth was to a great extent due to an accelerated usage of EU funds, the strong economic performance of our main European partners and low oil prices, which also made it possible to finance the utility cost reduction programme of the government. About two-thirds of the foreign trade surplus is linked to services, especially to tourism, transportation and to a lesser extent to computing and information technology (*Central Bank,* 2016).

The domestic engine of economic recovery was industry and services on the production side, and exports, in addition to the rise in consumption, on the use side. However, disadvantaged groups and those living exclusively on social welfare and public works do not benefit from increased consumption. Nor was the significant gap in incomes and consumption reduced in 2015. Since such a high influx of EU funds is not to be expected in the long run, the maintenance of growth will become a challenge. Our lag in growth potential compared to other countries of the region increased according to the 2016 country report of the European Commission (*EC,* 2016). The report attributes it to low productivity, the weakness of innovation, insecurity concerning the private sector and special taxes in certain sectors deterring investment.

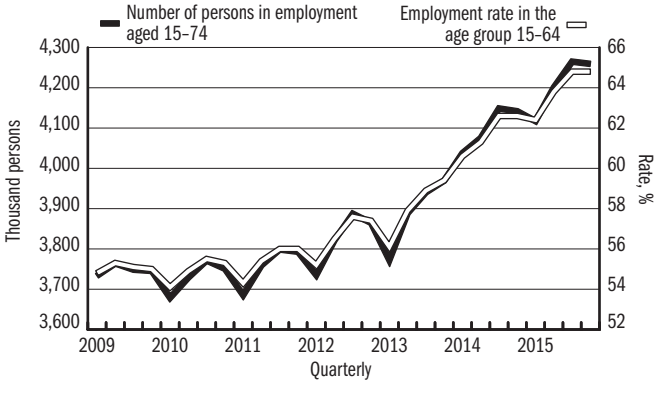
The impressive increase in the employment rate improved the contribution of labour to growth in spite of the adverse changes in the age composition of the population. Significant factors of the changes in employment indicators include the structural reforms of recent years, especially the reform of the unemployment benefit scheme, the expansion of eligibility for public works programmes and the strong restriction on early exit to the labour market. In principle the lowering of the obligatory school age from age 18 to 16 is also included here but its effect is not yet apparent.

The current key sectors maintain a medium development level but the focussed development of fields with high R + D potential is missing – and its prerequisites in terms of training are not fulfilled either. Central European countries, including – and to an increasing extent – Hungary, have to face the negative impacts of labour market migration due to the significant wage differences. It not only results in labour shortages in certain professions but it mainly concerns to a greater extent the professionally experienced and the more entrepreneurial, i.e. those who are also more needed in Hungary. Nevertheless, it is also obvious that the share of those who were unemployed earlier is higher among the commuters than among those employed in Hungary (*Bodnár–Szabó,* 2014).

LABOUR FORCE DEMAND AND SUPPLY

The size of the age group 15–64, constituting the labour force, was 60 thousand lower in 2015 than a year ago, which had both demographic causes (births and deaths) and the negative balance of international migration.[1] The retirement age is raised continuously, and in this way an age group of nearly 150 thousand increases the headcount of those supposed to be present in the labour market. The potential labour supply is further augmented – although less significantly – by two factors: the lowering of the obligatory schooling age to 16 and the elimination of the restrictions on employment whilst receiving child benefits. Thus the improvement of the employment rate in 2015 was partly due to changes in the denominator of the ratio (the fall in the size of the 15–64 age group), while the measures expanding the potential supply increased the numerator (*Figure 1*).

Figure 1: The number of persons employed (left axis) and the employment rate of the age group 15–64 (right axis), 2009–2015



Source: Labour force survey of the *Central Statistical Office* (CSO).

The number of employees had already reached the pre-crisis level in 2013, while in 2014 the labour force survey of the Central Statistical Office (CSO) reported a further significant increase of 208 thousand, about one-quarter of which was due to the expansion of eligibility of participation in public works. In 2015, even though not at the rate of the previous year, the number of those in employment rose further. On a yearly average, their numbers exceeded 4 million 210 thousand, which was 110 thousand higher than the previous year and reached the highest value since the start of the labour force survey in 1992. The employment rate of 63.9% in the 15–64 age group shows a 9 percentage points improvement compared to 2010, the nadir of the crisis (although nearly 2 percentage points of this are attributable to a decrease in the denominator), closing the gap on the European average.[2] The increase

1 Continuous estimation only takes account of registered immigration and emigration when calculating the balance of migration – and considering the free movement of labour within the EU and the lack of consequences of not reporting taking up employment abroad, it is certain to underestimate the number of emigrants.

2 In the third quarter of 2015, the employment rate of the EU–28 in the age group 15–64 was 66.1 per cent, while the Hungarian rate was 64.8 per cent.

– similarly to previous years – resulted from three factors but the significance of these in 2015 was somewhat different from the previous years.

1. The domestic primary labour market has become the most important factor of growth. According to the labour force survey of CSO, 62 thousand more persons found a job here than the year before. This coincides with the labour statistics of institutions[3] which registered a 54 thousand increase in the headcounts of businesses with more than five employees, employing a total of 1,910,000 persons.

The increase in headcounts in manufacturing, the largest branch of economic activity employing 646.6 thousand people exceeded the average of the private sector by 0.2 percentage point; however, changes in headcounts differed widely among sectors. In the automotive industry it increased by an outstanding 7.4 per cent and by 6.2 per cent in the industry group of rubber, plastic and non-metallic mineral product production. At the same time, textile, clothing, leather and leather product manufacturing as well as wood processing, paper production and printing were significant sectors with decreasing headcounts.

As for the sectors with more than one-hundred thousand employees, there was a 3 per cent rise in retail (in spite of the shops staying closed on Sundays) and vehicle repair: this entailed a 4.4 rise in full time employee numbers and a fall in part time employees. Headcounts in the administrative and support sectors grew by 4.9 per cent and in the construction sector by 1.3 per cent compared to the previous year.

Concerning sectors with lower headcounts, accommodation, rental and catering experienced an exceptional rise of 6.6 per cent due to the increase in household purchasing power and the better performance of tourism, while employers with more than five employees in the professional, scientific and technical sector saw an even higher growth of 6.9 per cent.

In the state sector, there were 0.5 per cent more employees in "regular positions" (i.e. not as public works participants), in total 698 thousand, than the year before. Most of this increase happened in public administration, defence and compulsory social security, while healthcare and social welfare experienced a decrease.

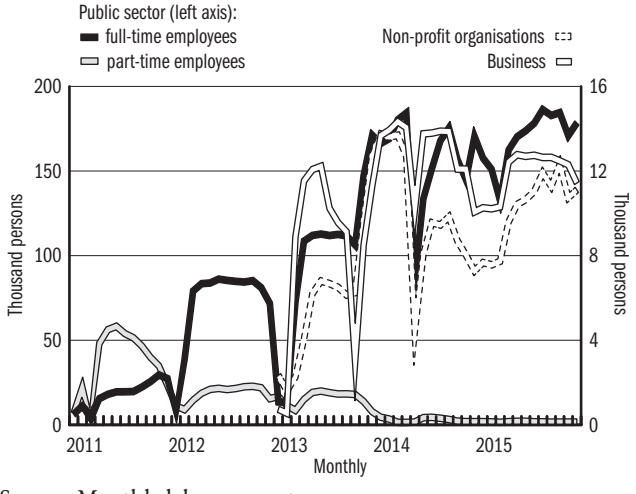
2. Public works significantly contributed to both the expansion of employment in 2015 and the current high level (as well as to the impressive unemployment figures) – although to a lesser extent than in the previous two years (*Figure 2*). According to the labour force survey, an average of 212 thousand worked in this category in 2015, 36 thousand more than in the previous year.[4] The annual report of the Ministry of the Interior in charge of public works programmes includes an average headcount of 208.1 thousand, while according to the data of the Central Statistical Office, 192 thousand participated in public works, a 5 per cent rise on the previous year. The important role

3 The statistics of institutions relies on the number of jobs and not the number of persons employed; however, the two figures are identical among businesses.

4 The headcounts data of CSO, and especially the yearly increase, are higher than the more reliable data calculated from the registry of the Ministry of the Interior. The main reason for this is probably the imprecise recall of respondents (*recall error*). Regular participants to public works, who are usually registered job seekers between the closure of a programme and the start of a new programme do not necessarily accurately remember their status during a specific week, and it is also possible that they also consider themselves public works participants in between programmes. Uncertainty is further increased if instead of the person concerned another adult member of the household provides information.

of public works in the employment rate and indirectly in living standards is even better described by Ministry of the Interior statistics, revealing that in 2015 there was already a total of 348 thousand people participating in public works for at least one day (but typically 6–10 months). More than one-third (36.2 per cent) of the registered unemployed exited the system to enter public works but this share among unskilled workers was over 40 per cent.[5]

Figure 2: The monthly numbers of public works participants in the state sector (left hand axis) and of employees of businesses and not-for-profit organisations (right hand axis) 2011–2015 (thousand persons)



Source: Monthly labour reports.

Although it is obvious that income from public works is higher than the income from employment substitution support (which has been stagnating for years) and helps to maintain basic skills required for working, experience from recent years and several research studies show that it does not open up re-entry to the primary labour market (*Csoba–Nagy,* 2012, *Köllő–Scharle,* 2012, *Cseres-Gergely–Molnár,* 2015). In 2015, 65 per cent of funds aimed at tackling unemployment was spent on public works programmes, while little funding was allocated for programmes more efficiently supporting re-entry to the labour market. The labour market of public works is highly segregated in all respects, including regionally: in December 2015, one in three public works participants lived in either Borsod-Abaúj-Zemplén or Szabolcs-Szatmár Bereg county. Opinions regarding the expansive public works projects are mixed. The most recent country report by the European Union expressed that "The public works scheme has contributed to a fall in unemployment (and improves the employment rate), but it does not seem to sufficiently improve the employability of the participants, ... does not sufficiently support the reintegration of participants into the open labour market. This risks lock-

5 This indicator is the so-called public works rate, comparing the number of public works participants to the total number of public works participants and registered job seekers (*Ministry of Interior,* 2016).

ing participants into the scheme." (*EU,* 2016, p. 3. and p. 46.) Another important critical remark of the report, though only indirectly related to public works, is that the social welfare system is unable to protect the most vulnerable, that education does not help to reduce the gap in social disparities and unemployment benefits are granted for the shortest time in the EU and on average are not enough to assist in finding a new job. The expansion of public works has a significant impact on labour market figures not only in terms of general indicators but also from several other aspects (e.g. employment rate by educational attainment or regions).

3. The third, and less known dimension of employment growth is taking up employment abroad. In the 2015 labour force survey of the CSO, 111 thousand respondents (11 per cent more than the year before) said that they were working in another country, most of them in Austria, and based on their permanent address (counties near the border are strongly overrepresented) a significant part of them is likely to commute or work in seasonal jobs (*Table 1*). Germany came second and typically this is where main earners work while supporting their families at home. The third most important target country is the United Kingdom but obviously only a section of Hungarians working and living there are recorded in the Hungarian statistics. It may be due to the high share of young people, who are not regarded as part of the household by their parents any longer and also due to difficulties in maintaining two homes because of the distance from Hungary.

Table 1: The number of respondents declaring a job abroad in the Hungarian labour force survey

Country	2010	2011	2012	2013	2014	2015
Austria	17,463	22,866	29,820	44,702	44,102	52,684
Germany	11,347	13,682	23,771	28,630	29,723	31,277
United Kingdom	7,662	8,200	8,931	8,293	6,503	9,309
Other EU country	9,549	12,465	12,927	10,973	13,319	12,425
Other country	3,513	4,137	4,940	4,777	6,094	5,362
Total	49,534	61,350	80,389	97,375	99,741	111,057

Source: Authors' calculations based on *CSO* labour force survey.

These three countries together accounted for over 82 per cent of the Hungarians working abroad. This figure is exactly the same as the one regarding Hungarians living for at least one year in the country concerned in the European Labour Force Survey (EU–LFS),[6] but the proportions among the three target countries are markedly different from those presented in the CSO labour force survey. The Austrian survey records less than half the number of Hungarians working in Austria as the number recorded in the Hungarian survey, which proves that a significant part of Hungarians working in Austria are commuters without an Austrian address. As for the Hungarians working

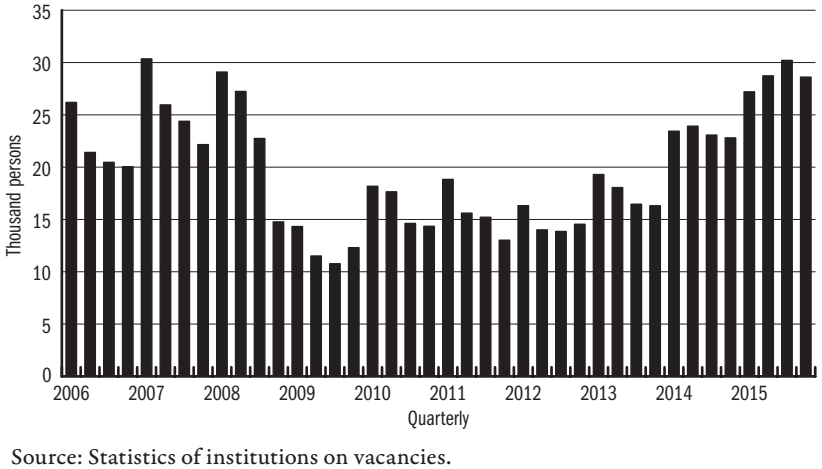
6 The most recent available EU data series is for 2014, thus it is compared to the 2014 Hungarian statistics.

in Austria the data of the two surveys may be added up. The figures of the German labour force survey are more than two and a half times more than the Hungarian survey but the two populations probably overlap to a larger extent than in the case of Hungarians working in Austria, since those working in Germany have to have a residence there. The largest difference between the two data series is in the case of the United Kingdom. While the Hungarian survey indicates a stagnating headcount of 7–9 thousand for the past five years, the equivalent UK statistics reveal four times as many Hungarian employees in 2011 and eight times as many in 2014.

Compared to 2011, the number of Hungarians reporting a job abroad also doubled in the Hungarian labour force surveys, just as it did in the EU labour force surveys between 2011 and 2014. However, in addition to differences between proportions, there is also a considerable difference in absolute terms: while the Hungarian labour force survey signals an increase of 47 thousand, the EU statistics show an increase of nearly 90 thousand between 2011 and 2014. In addition, a study by *Varga* (2015) warns that for medical doctors leaving the profession is an equally serious problem as their finding a job abroad.

The labour demand of businesses has also increased over the past two years. Companies with at least five employees took active steps to fill 1.5 of out of every 100 vacancies. The number of vacancies used as an indicator predicting economic recovery (and the number of jobs to be filled) reached pre-crisis levels. Nevertheless, the number of vacancies over time no longer follows the earlier pattern (involving a high level of vacancies due to retirements in the first quarter, which later gradually decreases), because in 2015 there was a further increase after the first quarter (*Figure 3*).

Figure 3: Vacancies in the private sector, 2006–2015 (thousand persons)

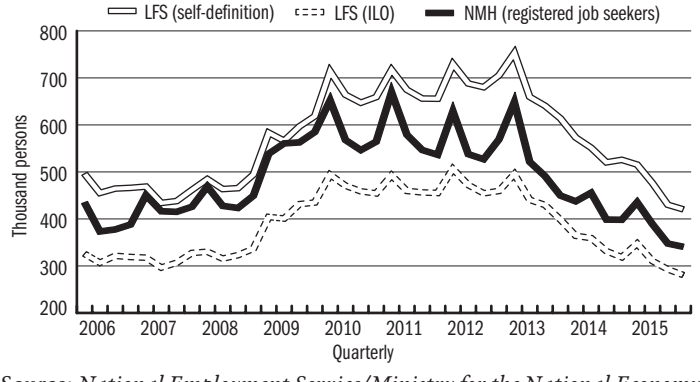


Source: Statistics of institutions on vacancies.

UNEMPLOYMENT AND THE POTENTIAL ADDITIONAL LABOUR FORCE

The fall in the number of the unemployed followed the rise in the number of employees with some delay (*Figure 4*). While the number of employees grew continuously from 2010 and reached pre-crisis levels in 2013, the number of the unemployed hardly changed until 2012. Even the fall that started in 2013 was below what would have been expected on the basis of the employment growth, since the expansion of public works also encouraged some of the earlier inactives to enter the labour market. This continuous influx had finished by 2015 and the number of the unemployed according to the ILO definition declined to a yearly average of 307.8 thousand in the labour force survey of the CSO, which implies a 6.8 per cent unemployment rate. Partly due to the government intervention to increase the employment rate, the Hungarian unemployment rate was now in the most favourable one-third of the European ranking. The number of the registered unemployed decreased from 422 thousand to 378 thousand in 2015 and the number of those defining themselves as unemployed in the labour force survey also fell to the level characteristic of the first half of the 2000s.

Figure 4: The number of registered job seekers, the unemployed according to ILO definition and those defining themselves as such, 2006–2015



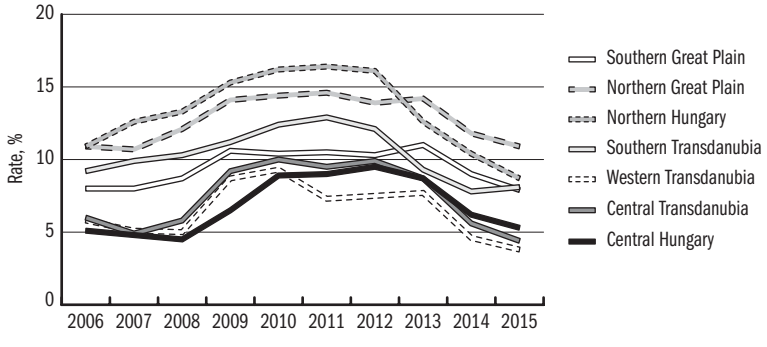
Source: *National Employment Service/Ministry for the National Economy, CSO* labour force survey.

The number of the so-called ILO unemployed continued to decrease from all important aspects. There were on average nearly 20 thousand fewer unemployed men and 16 thousand fewer unemployed women in 2015 than a year earlier. While as a result of the crisis the unemployment rate of men exceeded that of women, from 2013 on the figure has been again higher among women and the difference is increasing. In 2015, the unemployment rate for men was 6.6 per cent as opposed to the 7 per cent for women. The youth unemploy-

ment rate declined from 20.4 per cent to 17.3 per cent but still nearly one in five unemployed is younger than 25. While in many countries youth unemployment results from seeking employment alongside studying, in Hungary the majority of the young unemployed is characterised by early school leaving and a consequent difficulty in finding a job. In spite of the decrease in youth unemployment, the share of NEET young adults (young people not in employment, education or training) is still high.

The number of the unemployed with a maximum of a lower secondary education, similarly to those with a (upper) secondary school leaving certificate, who are also regarded in the labour market as unskilled, hardly decreased in 2015, while the number of those who finished vocational school fell by 13 thousand, and of those who finished vocational secondary school the numbers showed a fall of nearly 10 thousand. The fact that it was mainly those with a vocational upper secondary qualification who benefited from the decrease in unemployment (in addition to higher education graduates, who have an insignificant share in the unemployed) coincides with the finding that the number of employees of businesses employing a large number of persons with these qualification types increased to the greatest extent. The unemployment rate decreased in all regions but – similarly to the employment rate – it did not have an impact on the considerable differences among the regions (*Figure 5*).

Figure 5: Unemployment rates in the regions of Hungary, 2006–2015

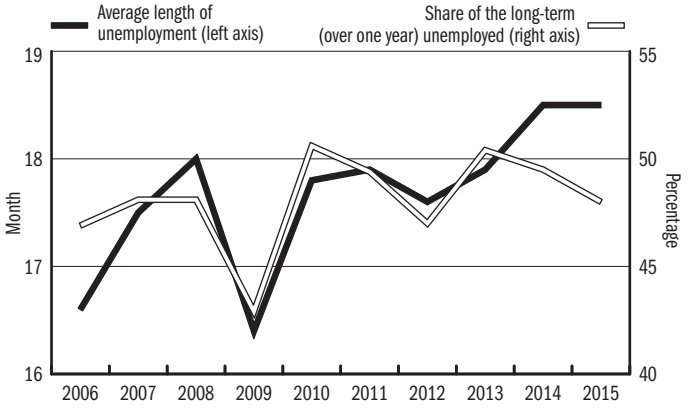


Source: *CSO* labour force survey.

The average length of unemployment was 18.5 months both in 2015 and in the preceding year; however, the share of the long-term unemployed fell from 49.5 per cent to 48 per cent, that is, the length of job-search for the long term unemployed increased (*Figure 6*).

The public works scheme has a stronger and more direct influence on the number of registered job seekers than on the ILO-unemployed. It is underpinned by the fact that in March, when the number of public works participants was the lowest as a result of the end of programmes that had started in the previous year, the number of registered unemployed rose to a yearly peak.

Figure 6: The average length of job-search (right hand axis) and the share of the long-term (over a year) unemployed (left hand axis), 2006–2015



Source: *CSO* labour force survey.

The effect of the reforms of the benefit system in 2011 (cutting back the job seeking benefit period to three months, limiting eligibility for job seeker's assistance to persons having not more than five years to work before retirement, linking income-tested benefits to participation in public works programmes and in other active programs) were already effective by 2014 but did not influence tendencies in 2015. 57 thousand were eligible to job seeker's benefits payable only to those insured, which is roughly the same as in the previous year, while regular social assistance was granted to 5 per cent fewer beneficiaries – the same as the increase in the number of public works participants.

In addition to the unemployed meeting the criteria of formal definitions (e.g. ILO-unemployed or registered job seeker), a considerable number are on the labour market who could (would) become employed if certain conditions were in place. The Eurostat defines potential additional labour force not covered by the ILO-unemployment definition as the following three categories: 1. The underemployed, who work part time but wish to work full time instead, 2. Job seekers unable to start work within two weeks 3. Jobless persons available for work but not seeking work for some reason. The potential additional labour force included 623.4 thousand in 2014 and 535.4 thousand in 2015, including 74.5 thousand who were underemployed. If adding the underemployed to the 460 thousand persons defining themselves as unemployed, the result equals the exact number of the potential additional labour force. The two data series indicate that although in principle there is a nearly half-million surplus on the supply side, yet because of their special circumstances, some of these people can only take up employment with difficulty or indeed cannot take up employment at all.

2 million 48 thousand of the working age population (aged 15–64) were not economically active in 2015 for various reasons, which is 5.9 per cent less than the year before (*Table 2*). The size of the largest category of these, the old age pensioners and annuitants was influenced by the incremental increase of the retirement age, while the size of the group of students was affected – in addition to demographic changes – by the lowering of the compulsory school age and the willingness to enter higher education, which was lower than in previous years. Because of the restrictions on the eligibility to unemployment benefits in cash, the number of those inactive on such payments decreased, while the expansion of the public works programmes and the economic recovery provided opportunities for a larger number of so-called other inactives to enter the labour market.

Table 2: The number of inactives aged 15–64 by gender and the reason for inactivity

	2015			2015/2014		
	male	female	total	male	female	total
Categories	thousand persons			percentage		
Old age pensioner, annuitant	316.6	475.4	792.0	88.4	92.8	91.0
Recipient of childcare benefits	3.1	236.9	240.0	104.0	100.9	101.0
Recipient of unemployment benefits	27.4	22.9	50.3	73.1	66.0	69.7
Students	345.1	343.7	688.8	97.8	98.5	98.2
Recipient of care allowance or orphans' benefit	13.9	33.5	47.4	99.8	111.2	107.6
Other inactive	91.3	138.0	229.3	93.8	90.8	92.0
Total of inactives aged 15–64	797.3	1250.3	2047.7	92.4	95.3	94.1

Source: *CSO* labour force survey.

EARNINGS

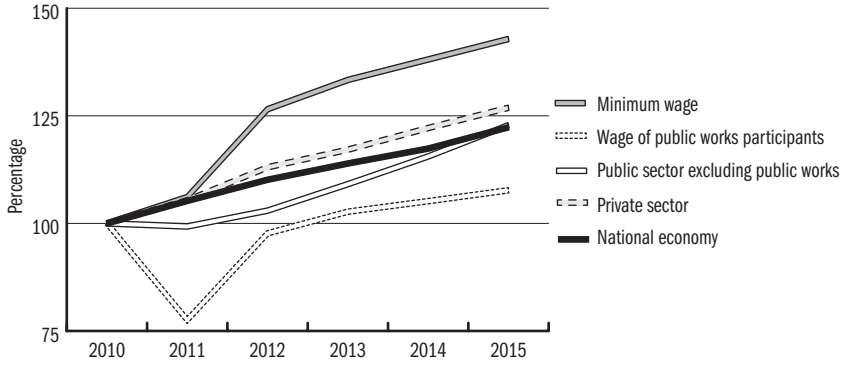
As regards the regulation of earnings, there are three segments of the economy: 1. the private sector, 2. the public sector and 3. public works, which is different in terms of wage determination (wages are solely determined by government decrees).

1. Gross earnings in the private sector (including non-profit organisations and majority-state-owned entities such as the Hungarian Post or the Hungarian State Railways) are shaped by the wage policies and business profits of economic organizations as well as the less significant wage agreements, the only single central intervention being the setting of the minimum wage. (*Figure 7*).

The minimum wage (or rather the guaranteed minimum wage) grew by 3.4 per cent in 2015 (the former to a monthly gross of 105 thousand, while the latter to monthly gross of 122 thousand HUF), which was slightly lower than the 3.9 per cent on average characteristic of the private sector. Nevertheless, av-

erage wages in the private sector and the minimum wage have been increasing at the same rate since 2013. This ensures that the lag of employees working in low-wage professions does not increase, and also that small businesses, where wages constitute only a part of the remuneration, pay taxes and contributions on at least the minimum wage and in this way their employees are entitled to various benefits (sickness benefit, old-age pension) based on increasingly higher contributions. However, the relatively high minimum wage reduces the chances of unskilled, low-productivity job seekers finding employment on the primary labour market thereby forcing them to accept low-paying public works permanently, which basically does not set performance requirements.

Figure 7: Gross earnings and the minimum wage (2010 = 100)

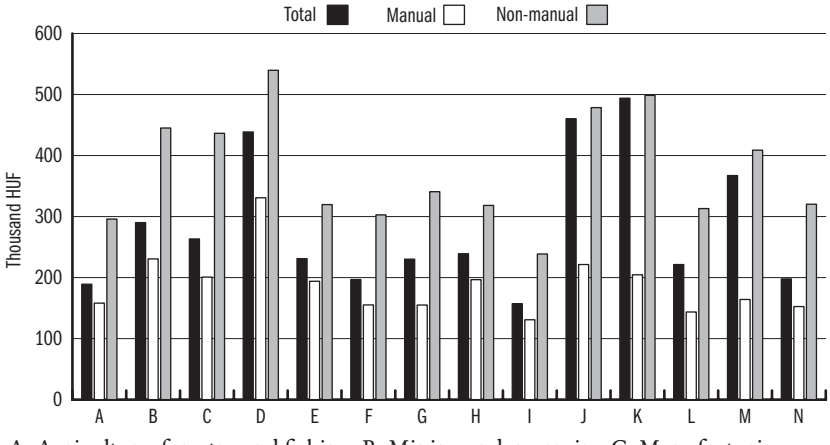


Source: *CSO* institutional labour statistics.

Despite 2015 being a successful year on the whole, the increase in earnings in the private sector was 0.4 percentage point lower than the year before. Similarly to the previous year, the significance of non-regular wage components did not increase. In 2014, in addition to the 3.8 per cent rise in regular earnings, non-regular earnings grew by 10.3 per cent compared to the previous year, while the same indictors were 3.7 per cent and 6.5 per cent in 2015 respectively. In 2015, non-regular wage components, accounting for 8 per cent of total earnings, amounted to 21.1 thousand HUF on average in the segment of the private sector reviewed. Its significance was outstanding in the electricity, gas, steam and air conditioning supply sector (17.0 per cent), in the finance and insurance professions (13.6 per cent) and was even higher in the crude oil processing and coke production sector (19.6 per cent) within the processing industry. As for manual workers, non-regular wage components accounted for 5 per cent of their total earnings, while for non-manual (white-collar) workers it accounted for 10.1 per cent. (The 2.15-fold difference between the earnings of manual and non-manual workers in the private sector in 2015 would only be 2.05-fold if non-regular wage components were shared equally between the two groups.)

In the economic sectors characterised by the dominance or exclusivity of the private sector, the highest earnings are traditionally in the finance and insurance professions, with an average monthly gross salary of 494.0 thousand HUF (*Figure 8*). This is followed by IT and communication (460.3 thousand HUF) and by the electricity, gas, steam and air conditioning sector (438.6 thousand HUF). In the processing industry, where earnings are average, coke production and crude oil processing came first, with an average monthly gross salary of 644 thousand HUF, followed by the pharmaceuticals industry with 440.2 thousand HUF. The latter was four times as high as the average of the lowest paying branch of the processing industry – textile, clothing, leather and leather products manufacturing (160.1 thousand HUF).

Figure 8: Gross earnings in the major sections of the private sector, 2015 (thousand HUF)



A: Agriculture, forestry and fishing, B: Mining and quarrying C: Manufacturing, D: Electricity, gas, steam and air conditioning supply, E: Water supply; sewerage, waste management and remediation activities, F: Construction, G: Wholesale and retail trade; repair of motor vehicles and motorcycles, H: Transportation and storage, I: Accommodation and food service activities, J: Information and communication, K: Financial and insurance activities, L: Real estate activities, M: Professional, scientific and technical activities, N: Administrative and support service activities.
Source: *CSO* labour force survey.

Although working conditions and the characteristics of work are more homogeneous in non-manual jobs than in manual jobs, more or less the same sectoral proportions are seen in manual and non-manual jobs; however, the relative earnings levels in a section also depend on the proportions of the two workforce categories. Thus although the electricity, gas, steam and air conditioning section was only in third place in the ranking of economic sectors in 2015, the gross earnings of both manual and non-manual workers were the highest (331 thousand HUF and 540 thousand HUF respectively). While average wages in trade vehicle repair were below the average of the private sec-

tor both in their levels and rate of increase, several big supermarket chains were forced to raise wages in the last third of the year due to increasing labour shortages. The flight of trade workers mainly resulted from the lower wages due to Sunday shop closure, the extra workload due to increased traffic on Friday and Saturday as well as the draining effect of higher earnings and better working conditions in the processing industry.

2. The public sector, employing 698 thousand people on average in 2015[7] is regulated centrally. The basic elements of the remuneration system[8] established in the 1990s have been unchanged since 2008, while some of the bonuses (such as the guaranteed 13th month salary) have been terminated. Recently there have been frequent wage adjustment measures, often in an ad hoc manner, focusing on certain groups of employees as well as the removal of certain restrictions. Since these changes are partial, occasionally they create tension even within a workplace.

A good example is the introduction of the teacher promotion system, which (although accompanied by significant increase in requirements) noticeably raised teachers' salaries, while the salaries of other staff working in the same institutions did not change. From the autumn of 2013 the salary of teachers, while from July 2015 the salary of law enforcement staff was raised to a great extent. The latter was an average of 30 per cent, which is to be followed by a 5 per cent annual pay rise until 2019, that is, similarly to the introduction of the teachers' promotion system, its effect will continue to be felt in the rate of salary increases of the following years. Several other measures (with less significant effects) have been implemented, typically involving certain groups of social welfare and healthcare workers. These fields have been suffering from labour shortages for years and neither the extent nor the way of implementing the wage adjustment (instead of raising the basic salaries, social welfare workers received a wage supplement in 2014, and extra compensation in 2015, similarly to healthcare workers, neither of which implies long-term commitment) was enough to stop the drain. Low-paying and not family friendly occupations are not popular with young people, therefore the retirement of the large age groups born in the first half of the 1950s (which is accelerated even more by the so-called 40-year rule for female workers), will further aggravate the already serious situation.

As a result of measures of recent years, the difference between the average wages of the private and public sectors has decreased. At a 6.3 per cent rate of increase, the gross earning of public sector employees was 256.4 thousand HUF on average in 2015, not including public works participants. This was only seven thousand HUF lower than the average of the private sector but the differences between the various occupational groups and the lag of public sector areas are still significant. Due to the method applied for wage adjustment, the significance of non-regular wage components also increased in

7 In case of government institutions, where the same person might work at several locations, the actual number of employees is lower than the number of jobs. Compared to the data of the tax authority, there is a difference of tens of thousands.

8 The system is far from perfect: e.g. the promotion levels have not yet been adjusted to the raised retirement age.

the public sector (similarly to the private sector): as opposed the 5.9 per cent increase in regular wages, they showed a 14.1 per cent rise in 2015 compared to the previous year.

As for the important sections of the public sector, the earnings of healthcare workers only increased by 2.3 per cent in spite of the extra compensation at the end of the year. The net salaries of 22 thousand manual workers was below one-hundred thousand HUF (99.1 thousand HUF) and the average pay of 78 thousand, mostly highly qualified non-manual workers was 157.9 thousand HUF. In the social welfare field earnings grew above average but this did not improve the net wage gap (the average net salary of manual workers was 86.1 thousand HUF, while that of non-manual workers was 114.6 thousand HUF). Employment in education was in the mid-range both in terms of average earnings and the rate of increase in 2015 (net salaries were 93.3 thousand and 140.3 thousand at a 5.2 per cent rate of increase), while the field including public administration, defence and obligatory social insurance, employing a total of 255 thousand persons, and with highly heterogeneous activities, experienced a 7.9 per cent increase in earnings. (The increase was especially high for manual workers – 16.2 per cent – owing to a special pay rise for law enforcement officers.) Thus the average net salaries of manual workers rose to 171.8 thousand, while that of the non-manual workers rose to 205.7 thousand HUF.

3. Public works is a different sector in terms of wage determination, since wages are solely determined by government decrees. In 2015, the salary of a "standard" public works participant was defined as 79,155 HUF, the salary of skilled participants working in low headcount positions was 101,480 HUF, and the salary of team leaders was 111,660 HUF. The average gross salary of public works participants was 79,756 HUF, which implies a net salary of 52 thousand HUF. As opposed to the two previous years, in 2015 the salary of public works participants (and consequently their average pay) did not increase as much as the minimum wage (there was an average rise of 2.2 per cent), but the difference is still not enough for a job with a minimum wage to be a real alternative to local public works without real performance requirements.

Fringe benefits – components providing a direct income for workers, e.g. cafeteria – basically did not change compared to the previous year (they amounted to a monthly average of 13.9 thousand HUF in the private sector and 12.3 thousand HUF in the public sector). Sectoral differences in fringe benefits are even higher than in salaries. While annual fringe benefits in the highly paid pharmaceutical industry amount to 730 thousand HUF, in the low-paid social welfare profession they did not even reach 34 thousand HUF.

Similarly to 2014, there were no changes in income tax rates and social security contributions in 2015[9] and in this way net earnings and gross earnings increased at the same rate. Net wages equalled 65.5 per cent of gross wages on

9 The rate of employee contributions increased by 0.5 per cent in 2011 and by a further 1 per cent in 2012 to 18.5 per cent (including 1.5 per cent solidarity contribution, 10 per cent pension contribution and 7 per cent health insurance), and has been unchanged since that time. With the phasing out of the super gross income, the personal income tax became a truly flat rate tax, increasing net earnings for those making over HUF 200 thousand per month and proportionately with the gross income. At the same time the upper threshold of the pension contribution was removed.

average, which is significantly more favourable than before 2011. The main beneficiaries of the tax reforms are obviously the high earners. So that the net salaries of low-paid workers do not decrease because of the phase-out of certain allowances, businesses had to supplement the salaries themselves (although they were eligible for bridging funds). This problem was regulated uniformly in the public sector. As a result of wage adjustment measures and the fluctuation of the workforce the number of employees concerned decreased continuously, but even in 2015 nearly 180 thousand received a monthly average of 9,600 HUF so-called social benefit for this reason (and 9,300 HUF for a few thousands in the non-profit sector), which is not part of the salary but a supplement.

Most of the contribution society makes to the costs of child rearing is through tax reliefs. For families with one or two children it was 62,500 HUF per child monthly until 2015,[10] while for families with three or more children it was 206,250 HUF. From 2014 low-paid employees were able to deduct it from the pension contribution or the healthcare contribution. According to model calculations, in 2015 the net salary of the minority of employees[11] with at least three dependents was 51 thousand HUF higher than that of those (the majority) who were not granted the tax relief. (*Table 3*).

10 From 2016 the allowance per child increases and the system provides a relative advantage for families with two children.

11 The model was based on the 6 per cent share of families with three or more children, although according to the continuous estimation based on the census it was less than 5 per cent in 2015, while the share of those not eligible for the family tax relief increased to over 50 per cent. Nevertheless, changes in the household structure do not have a significant impact on the net amounts by household types.

Table 3: Net and real earnings calculated with the family tax relief, 2015

Number of dependent children	Net earnings/month/person (HUF)	Net earning	Real earning*	Share of employees by number of children (percentage)
		Change compared to 2014 (percentage)		
0 child	158,945	4.2	4.3	48.6
1 child	166,002	4.1	4.2	25.5
2 children	185,827	4.0	4.1	20.0
3 or more children	209,639	3.8	3.9	6.0

* Calculated at the 99.9% consumer price index in 2015.
Source: *CSO* (2016) p. 6, Table 7.

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