

## 8. THE OVERALL PICTURE. MAJOR CONCLUSIONS OF “IN FOCUS”

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The seven extended and five brief studies included in *In Focus* undertook to map the labour market effects – in a broad sense – of the crisis relying on the available results of Hungarian empirical research efforts. The authors attempted to widen the scope of their inquiries with the aim of bringing into focus the group of households in the centre of the process of the reproduction of labour. Their efforts were to some extent constrained, however, by the criterion of evidence-based research. The most recent data available at the time of writing the papers covers the first half of 2010 for some of the topics, but only 2009 for most of them. In some cases the only information available is even older. In the absence of suitable data, we were forced to relinquish our original plans of discussing changes in household consumption and their relationship to the labour market. For some of our topics – the evolution of real wages, for instance – it was not possible to make evidence-based international comparisons. As the crisis is not quite over yet, it is often impossible to decide whether it is the crisis or the pre-crisis Hungarian fiscal consolidation measures that can be held responsible for the observed phenomena. We have similarly no way of knowing whether recent changes in various processes constitute a turn in the trend or are simply temporary fluctuations.

Despite having to face all these constraints, we are confident that our studies provide a reasonably comprehensive and diversified picture of the impact of the crisis on the Hungarian labour market. Rather than presenting new results, this closing chapter of *In Focus* attempts to sketch an overall picture by simply summarising the most important conclusions of the 12 studies and pointing out the links and parallels between them.<sup>84</sup>

### Labour market responses to the crisis

The public and the private sectors adjusted in diametrically opposed ways to the changes in the economy brought about by the crisis, i.e., the decrease in demand and the contraction of the credit market. While the public sector typically responded by wage cuts, the private sector tended to reduce the workforce (see the introductory chapter by Mónika Bálint, Zsombor Cseres-Gergely and Ágota Scharle; and Chapter 1 by János Köllő). That is, any figures applying to the economy as a whole aggregating the two sectors may be seriously misleading. The drop in public sector wages is primarily explained by the retraction of the 13th month pay and the suspension of pay increases. In this sector, therefore, there are no significant structural changes awaiting explanation (Köllő).

<sup>84</sup> In doing so, some sections of the original texts are cited word for word or almost word for word, but while the source of the ideas is mentioned, quotation marks are omitted for the sake of readability.

The studies in *In Focus* accordingly turn most of their attention to processes observed in the private sector.

János Köllő's model estimations based on corporate panel data lead to several interesting conclusions beyond the dominance of workforce downsizing. Decreases in staff size and wages were more pronounced than average among companies with predominantly male employees. This result suggests that companies involved in production and typically employing male workers fared worse than average both in terms of employment and with respect to wages. Interestingly, the data paints a different picture of major layoffs: women were marginally more likely to be affected by this form of job separation (Busch & Lázár, Chapter 3).

Returning to the results of János Köllő's models, changes in workforce size had a relatively strong, while changes in working time had a relatively weak relationship with company size. With the companies ranked from smallest to largest, there was a steady increase in the extent of workforce reduction. With respect to working time, only the largest companies stood out: they implemented more extensive cuts. One explanation may be that the extent of dependence on export demand varied with company size. (Let us remember that the estimations are based on data for the first year of the crisis.) The relative employment advantage of small companies was substantially greater in manufacturing than in other sectors. Citing, once again, the results of Busch & Lázár's study, half of the workers displaced through major layoffs, which typically affected large enterprises, were made redundant in the manufacturing industry, which is almost two and a half times the share of manufacturing in overall employment.

In terms of the changes in workforce size, the construction industry and real estate businesses did not differ significantly from manufacturing: these three experienced the heaviest cuts in employment. The labour force statistics were considerably more favourable for the water, energy and transport industries, financial services, personal services, private health care and agriculture. Workforce reductions were of a smaller scale at public sector companies than at private firms, and companies having collective agreements also lost fewer jobs than average.

Wages increased more at companies employing a larger share of workers on the minimum wage than at other firms. There was, however, virtually no change in real wages at wage levels unaffected by the regulations on the minimum wage. During the first year of the crisis, companies in the business sector left wages essentially untouched. In the rare cases where there was a change in the average wage, this had no systematic relationship with industry, geographical region, company size, ownership, labour force composition or the presence/absence of trade unions.

The analysis of working time cuts suggests that this tool of cost saving did not spread beyond the group of companies receiving job preservation support.

Within-company changes in employment and in wage rates were independent of each other, just as the changes in employment and in working hours were.

Further details are added to this picture – especially with respect to wages – by Semjén & Tóth in their brief report 1.B) supplementing Chapter 1. The authors discuss the results of a corporate survey conducted in three cycles (in March 2009, June 2009 and March 2010), in which company managers were interviewed about adjustment strategies in response to the crisis. These strategies of course include measures unrelated to the labour market. In the second and third cycles, around 80 per cent of companies mentioned the freezing or lowering of wages and other forms of labour compensation as crisis-relief measures. While at the beginning of 2009 relatively few companies resorted to job cuts, in July 2009 the proportion of companies implementing layoffs was over 40 per cent. The incidence of job cuts returned to a substantially lower level by January 2010. The option of part-time employment or reduced working hours was chosen by a relatively small, but gradually increasing, percentage of companies. Qualitative interviews cannot, of course, provide information as to the extent of any of the implemented measures. Comparing these observations with János Köllő's results, we may conclude that employment reduction measures affected a smaller number of the companies but were substantially more drastic than wage-related measures. It is also reasonable to assume that managers regarded the policy of keeping real wages level by suspending regular pay increases or reducing their usual rate as a crisis-relief measure. It is worth noting, however, that among the respondents of the 2010 cycle, the strategy of reducing wages and other compensation or keeping them level was, retrospectively, far more likely to be seen as an efficient measure than was downsizing (15 *versus* 4 per cent). Of all possible strategies, working time reduction was the least likely to be listed as an efficient measure, which may explain its infrequent incidence.

As a brief detour, it is worth mentioning that companies typically implemented a number of different crisis-relief measures in parallel (with non-labour market reactions included). The measures included quick solutions (such as improving liquidation indicators, cost reduction and credit conversion) as well as proactive actions with long-term effects (such as search for new markets, organisational restructuring or altering production structure). Companies did not seem to develop a special unified crisis-relief strategy. One pattern that emerged from the data is that export companies tended to introduce a wider range of measures than non-export firms [brief report 1.B) by Semjén & Tóth].

Returning to the question of employment, the data from the Hungarian Central Statistical Office (HCSO) Labour Force Survey shows that the key explanation for the decrease in employment rate is that companies did not hire new employees to fill positions vacated through a natural process. The probability of exiting employment displayed a rising trend between 2006 and

2009, but did not soar during the crisis. The not much faster than usual rate of job separations was accompanied, however, by difficulties with *fast re-employment*, which led to a substantial increase in unemployment. Presumably, this strategy of downsizing – i.e., avoiding major layoffs – was one of the reasons why the soft tools of adjustment, wage and working time reduction, were given less weight (Köllő).

The conclusions drawn from the labour survey are corroborated by Busch and Lázár's data in Chapter 3, which relies on obligatory announcements of major layoffs. In the time series of major layoffs, only one quarter stands out (the first quarter of 2009) while the total number of layoffs in 2009 is barely more than the values observed in 2003 and 2004. Also, there were fewer job separations during the first half of 2010 than there had been before the crisis. The sharp increase in the number of registered unemployed is explained at least as much by the decline in outflows than by the increase in inflows.

In their analysis of labour policy reactions to the newly emerged situation, both János Köllő's chapter and Elek & Scharle's associated brief report 1.A) come to the conclusion that the top priority of the Hungarian government – similarly to other countries in the region – was to prevent a surge in unemployment by preserving and boosting labour demand. Jobs in the public sector were protected by the introduction of wage reduction measures while in the private sector the primary means of supporting job preservation was the expansion of employment subsidies (Köllő). In 2009, the reduction of wage costs, specifically the lowering of employer contribution rates, constituted one third of government spending on labour demand stimulation. This tool has the disadvantage of overly broad targeting as it can affect jobs other than those that are at risk and are worth saving. It was, however, a necessary step in the restructuring of the Hungarian taxation system, which was needed independently of the crisis (Elek & Scharle).

The increase of about 110 thousand people in the number of workers benefiting from job preservation subsidies and public works programmes was achieved at the expense of other employment support programmes (wage subsidies for those returning to work from unemployment or from maternity leave and for new labour market entrants, training programmes and business start-up support) (Köllő). The neglect of these active employment tools – especially of training – was virtually unique to Hungary among both the EU and the OECD countries. Also unique was the Hungarian decision to reduce substantially the staff of the Public Employment Service. The strategy of short-time employment substantially reduced the number of job separations in several countries. In Hungary, slightly less than 1 per cent of employees participated in such a programme, which is about the average international level but the efficiency of this tool proved to be far lower in Hungary than its average efficiency in other countries. (Elek & Scharle).

It should be mentioned in this connection that about half of the workers displaced through major layoffs and participating in unemployment programmes received operative employment services. The share of those benefiting from active employment schemes was merely 13 per cent (Busch & Lázár).

The number of those becoming unemployed greatly exceeded the number of participants in job preservation or public works programmes (most of the latter having been unemployed for a while as specified by the conditions of participation in the *Back to Work* programme). Considering the social consequences, it is especially distressing that there was a significant increase in the number of unemployed workers not receiving individual support, when a growing proportion of the same population – especially recently displaced workers – wanted to return to work or were actively involved in job search (Köllő). In most EU member states, unemployment compensation was relatively high to begin with and was now further increased in some of the countries. The period of entitlement to wage-proportional unemployment compensation is exceptionally short in Hungary compared to the rest of Europe (Elek & Scharle).

Decisions in this area were heavily constrained by Hungary's poor budget position quite independently of the crisis. It remains questionable, however, whether the policy focusing on job preservation and public job creation was well suited to the task of minimising social losses.

Boda and Neumann's interview data on a small number of companies (Chapter 2) cannot be generalised to the entire private sector but the authors' findings provide illustrative examples for the conclusions of quantitative analyses, large-scale surveys and model estimations. They further have an exploratory value, providing ideas for future surveys. Among the companies included in the case studies, the majority of job separations were limited to temporary ancillary workers hired from agencies at "peak times". Permanent contract staff were only laid off at companies typically employing unskilled workers and regularly relying on the tools of quantitative flexibility. The oversupply of labour in the market allowed quality substitutions, and workers of relatively insecure status (those on fixed term contracts, working pensioners and those past the statutory retirement age) were the most likely to be discharged. At the same time, companies made better use of the skills of staff with several years' experience at the company and qualified to perform a variety of tasks. The case studies included large automobile manufacturers and it was these that implemented layoffs of the largest scale.

The analysis of corporate major layoffs supports these observations. More than 40 per cent of workers displaced through major layoffs had no more than primary education, which is 10 percentage points higher than their proportion among the unemployed and 30 per cent higher than their proportion among the employed population. While the probability of secondary school graduates being displaced through major layoffs corresponded to their share among

the employed population, the position of qualified skilled workers contrasted with that of primary school educated employees: the former were significantly underrepresented among major layoff job separations. Comparing occupations, assembly line assemblers were far ahead of all others in the major layoff ranking with other elementary workers coming next (Busch & Lázár).

The company case studies also reveal that the various forms and possibilities of working time management were strongly related to the technology used at the factories (Boda & Neumann). Most of the companies introduced a working time account system before the crisis, which – unlike in the case of American and West European examples – unilaterally benefits the employer. This tool permits the flexible use of working time but to what extent its possibilities are exploited is difficult to trace in official statistics.

The crisis presented a new kind of challenge for corporate trade unions and works councils. They had to abandon the bargaining strategy they had followed since the mid-1990s focussing almost exclusively on pay rises and employee compensation packages. The protection of jobs now came to the forefront. (As shown by János Köllő's chapter, they had certain success in this effort.) It is worth noting that, among the case studies, the practice of regular consultations between the management and the trade union or works council was only observed at multinational companies with foreign owners. The trade unions and works councils have relatively little power, i.e., they are in a weak bargaining position compared to their West European counterparts. At multinational companies, the central management coerces competition between the company's factories with similar technologies and roughly equivalent expenditure. "Positive compromises" were mainly reported by the trade unions of companies relying on skilled labour and yielding high added value (Boda & Neumann).

### **The impact of the crisis on regional inequalities**

Several mentions have been made of the individual phases of the crisis as it spread in Hungary, and the evolution of unemployment figures. In Chapter 4, Hajnalka Lócsei discusses this question along the two dimensions of time and space. The duality of the Hungarian economy emerging in the wake of the system change, which manifests itself in corporate productivity and in the presence of foreign capital, also has some spatial implications. The country is divided into two parts: the one in the more favourable position is competitive, capable of adjusting to new circumstances and exploiting new possibilities, while the other is relatively underdeveloped, fails to attract significant foreign capital and falls further and further behind. The main thread running through the study is the question of the effects of the recession brought on by the crisis on the spatial developmental structure of the Hungarian economy.

The period from autumn 2008 to summer 2010 can be divided into 4 phases: 1. October 2008 – January 2009: onset of increase in (registered) unemploy-

ment; 2. January 2009 – June 2009: drastic rise in unemployment; 3. June 2009 – February 2010: continued but slower increase; 4. February 2010 – August 2010: gentle decline in unemployment.

During the first phase, the steepest increase in the number and percentage of job seekers was observed in the northern and northeastern parts of Transdanubia, which had previously been a stronghold of industrial production. Within this area, the crisis hit hardest in regions where the majority of workers commuted to manufacturing sites in nearby towns or cities. This phenomenon is related to the observation mentioned above that export-oriented companies were more likely to be affected by the crisis. (This is also corroborated by Busch and Lázár's data on major layoffs.) Some of the heaviest losses were, however, experienced by micro-regions situated in other, less developed parts of the country. This becomes especially clear if we replace the growth index of unemployment by a measure of changes expressed in percentage points, since underdeveloped micro-regions were characterised by a far higher initial unemployment level.

It is worth comparing these findings with the results of Albert Faluvégi's brief report 4.A) showing that between the third and fourth quarters of 2008, the 33 most disadvantaged micro-regions suffered a substantially steeper overall increase in unemployment (3.8 percentage points) than did the group of disadvantaged (0.5 percentage points) or the group of relatively developed (0.2 percentage points) micro-regions. This breakdown of the data shows that the marked increase in unemployment characterising the micro-regions of North- and West-Transdanubia was offset by the developed micro-regions in other parts of the country.

Returning to Hajnalka Lőcsei's study, in the next phase of the period the effects of the crisis were no longer limited to the surroundings of export-oriented manufacturing plants but spread to a growing number of industries and regions while still remaining concentrated along the internal periphery of northwest Hungary. During this phase, proximity played an important role as the effects of layoffs at one or another large company propagated throughout the area. There was little change in the capital city or its surroundings and the Lake Balaton area was also spared although the "untouched" zone steadily contracted.

During the third phase, when changes in the number and percentage of job seekers are primarily determined by seasonal effects, the spatial structure of the rise in unemployment remained relatively stable. The effects of the crisis were, however, increasingly felt in Central-Hungary, which is explained by the fact that the economy of the capital is dominated by the service sector, where most losses were suffered later than in export-oriented industrial sectors. The only areas not showing a decline were the most underdeveloped internal and external peripheries of the country, where unemployment figures were already very high at the start. In some micro-regions, in fact, there was an improvement, perhaps as a result of public works programmes.

In line with the above pattern, Albert Faluvégi's analysis, ending with December 2009, shows that while unemployment rose steadily throughout the year in the relatively developed regions of the country, some improvement could be observed in the most disadvantaged micro-regions in the first half of 2009 (although the figures did not reach their pre-crisis level) and the unemployment curve stabilised in the second half of the year. As a result of these processes the unemployment rate among the most disadvantaged micro-regions first increased from about 2.3 times to 2.7 times the national average by the end of 2008, and then decreased to 1.9 times the national average by the end of 2009.

During the fourth phase, starting in February 2010, partly owing to seasonal effects there was a decrease in the percentage of job seekers in the agricultural areas of Eastern Hungary, in the regions around Lake Balaton, and in the most disadvantaged regions with the highest unemployment levels (Cserehát, Szatmár and Ormánság). This phenomenon is best attributed to the effects of public works programmes (Lócsei).

All these changes together led to a distinctive regional convergence, which was effected not by an improvement in the circumstances of regions in unfavourable positions but by a steeper decline in the employment rates of relatively developed regions. The convergence process continued in spring 2010 but now, unlike before, the underlying cause was the improvement experienced by relatively underdeveloped micro-regions. Notwithstanding these changes, the spatial structure of unemployment was not significantly altered by the crisis. It remains a fact that unemployment rates are substantially higher than average in the micro-regions of South-Transdanubia and in the micro-regions located east of the Balassagyarmat-Békéscsaba axis, the only exceptions being the labour catchment areas of regional urban centres.

It remains an open question whether this convergence can be maintained in the long term or – since the improvement is not supported by an economic boom – we can expect the gap, which remains considerable and generates social tensions, to stretch further.

On the whole, the percentage of job seekers increases with a decrease in the population size of settlements, but this rule applies less strictly to more developed regions. The various categories of settlements only showed significant differences for the phases of the crisis characterised by either a sharp surge or a sudden dip in the number of job seekers. During the spreading phase, the relatively large regional urban centres typically “delegated” the negative effects to smaller settlements.

The issue of commuting is therefore a key factor in the evolution of regional employment differences. A likely explanation for the local labour market inflexibility of underdeveloped regions is that the populations of their villages incur high commuting costs if they take up employment in towns. The brief report by Tamás Bartus in Chapter 4.B) explores the wage advantage of unskilled workers



living at a given distance from the labour market of an urban centre. The study asks whether the wage returns to commuting cover the costs of travelling to work. The available data suitable for model estimations only covers the pre-crisis period but important conclusions can be drawn from the model nevertheless.

The study looks at the spatial distribution of paid labour opportunities in the local labour market areas of Pécs, Szeged, Debrecen, Nyíregyháza and Miskolc with Győr being used as a control town. The results of the model reveal that average hourly wage rates in villages decrease with the increase of the distance between the village and the regional urban centre. The effects of distance from the centre are strongest in the labour market of Győr, where the wage advantage fully compensates for the costs of even half an hour's journey. In disadvantaged regions, however, the estimated costs of time lost by commuting are equal to or exceed the accessible wage surplus.

### Undeclared employment

The authors of the studies discussed so far drew their conclusions from employment and unemployment data provided by various statistical sources, which, necessarily, prevented them from including undeclared employment in their analyses. The available empirical evidence related to this question is unfortunately limited to the pre-crisis period. In Chapter 5 András Semjén and István János Tóth discuss the results of two population surveys, one ran in autumn 2007 and the other in spring 2008, and attempt to estimate the possible effects of the crisis in connection with undeclared employment. As such, the study raises some fundamental questions in this research area demonstrating the imperative need for repeated cycles of the previous surveys. There is also plenty to learn, however, from the information gained concerning the pre-crisis period.

Within undeclared employment, the authors focus on two types: “cash in hand” (non disclosed payment), which usually supplements legal pay and “invoice payment”, when some of the wages are paid into an employee's business account as if he or she was a subcontractor. Altering the internal structure of labour compensation packages containing both tax compliant and tax evasive elements in favour of the latter may constitute an interesting cost reduction strategy used by companies in addition to those discussed so far.

In spring 2008, one in four workers aged between 18 and 60 received cash in hand or invoice payments during the two years preceding the interview. Both types of payment, but especially cash in hand, were more likely to be received by men than by women. Cash in hand was substantially more frequent among young workers than among older people. In most cases either one or the other payment option was used and the targets of the two payment methods had characteristic distinguishing features: while cash in hand was typically given to workers with at most primary education, invoice payments tended to be made to higher education graduates.

The regional characteristics of undeclared employment show an interesting relationship with the geographical distribution of unemployment. Undeclared employment is considerably more frequent in the counties of eastern Hungary, while it is less frequent than average in western Hungary. In eastern Hungary, 40 per cent of employees and casual labourers received cash in hand or invoice payment. The incidence of undeclared employment is highest among workers performing non-regular jobs (casual labourers and the unemployed). More than half of this population had jobs involving tax evasion by one or another means (usually through cash in hand) during the two years preceding the interview.

Based on the results of their analysis, the authors distinguish a total of 13 categories of change in compensation packages and look at companies' possible responses to the crisis in terms of the ratios of declared versus undeclared employment or employment disguised as subcontracted services. The authors conclude that the economic crisis is highly likely to have been accompanied by an increase in the incidence and quantity of undeclared or disguised employment, as both the majority of viable corporate adjustment strategies and employers' interests point in this direction. There is no doubt, however, that not all evidence converges. In the construction industry for instance – where undeclared labour is far more frequent than in other industries – the volume of production fell substantially more sharply than did declared employment, which suggests that cuts were more likely to affect undeclared employment.

### **The effect of the crisis on households**

The two closing chapters of *In Focus* and a brief report look at the impact of the crisis on households focusing, in the absence of consumption data, on household income. Chapter 6 by Gáspár and Kiss first analyses the panel data of the Labour Force Survey to identify the factors influencing the probability of becoming unemployed during the crisis period. The authors' results appear to show a greater crisis-induced increase in the incidence of job losses compared to János Köllő's figures (see Figures 1.4 and 6.1). As an explanation, we should point out an important methodological difference between the two studies, which follows from their differing aims. While János Köllő used employment to non-employment transitions as data, Katalin Gáspár and Áron Kis disregarded job losses where the worker became inactive rather than unemployed. The latter study therefore explores the income effects of entering unemployment. (Household incomes in 2009 are discussed in Chapter 8 by Tóth and Medgyesi).

Katalin Gáspár and Áron Kis's model includes gender, age, educational attainment, geographical location and economic sector as explanatory variables. The authors conclude that with the exception of the employee's gender, all of the factors have a strong effect on the probability of job loss. The youngest cohort are more likely to lose their jobs compared to older cohorts and the probability of job losses continues to decrease slowly with the advance of age. This

probability also decreases with higher educational attainment. Looking at economic sectors, the construction and the accommodation and food service activities show an outstandingly high job loss probability. The likelihood of job loss is also high in manufacturing.

In the next section of the chapter, the authors link the job loss probabilities among the employed population to the data of the Household Budget Survey of 2007, and using this pre-crisis data, ran a simulation of the rise in unemployment, which is – from the households' point of view – perhaps the most important consequence of the crisis. Household incomes were indexed to 2009 price levels and taxes corresponding to 2009 tax regulations were deducted.

Katalin Gáspár and Áron Kis conclude that the probability of job loss decreases with the increase in household income: job losses in the lowest income decile are almost three times as frequent as they are in the top decile. While the absolute value of the average income loss incurred with a job loss increases with income, the relative income loss is similar across the income groups. In another model, the data was corrected for the fact that job losses would have also occurred independently of the crisis. In this model there were weaker income effects but the distribution of the effect was essentially the same, with only one difference: the relative income loss was somewhat lower for lower income deciles compared to higher income deciles.

The authors also investigate to what extent unemployment benefits (specifically job seeker's allowance and job seeker's support) compensate for losses. The benefits lowered households' relative income losses by 0.4–1.1 percentage points; the level of compensation was relatively stable across the income groups with the exception of the top decile, where it was lower.

In Chapter 7, István György Tóth and Márton Medgyesi analyse Tárki Household Monitor Survey data to show the long-term evolution of the major indicators in income distribution, with special emphasis on the changes between 2007 and 2009. These processes reflect the effects of not only the current crisis but also the fiscal consolidation programmes of previous years. The first phase of the crisis in the second half of 2008 primarily affected those who had significant savings and for some reason had no choice but to realise losses in their savings. The next phase of the crisis reached households firstly through the increases in loan repayment instalments and in the interest on foreign currency denominated loans and secondly through the rise in unemployment. In the third phase of the crisis, the effects were mediated by the cuts in government spending which had public consequences and by the contraction of the government's welfare system.

Between 2007 and 2009, there was a decline in the income position of both the rich and the poor, and household incomes on average lost about 7 per cent of their real value. The decline was, however, substantially greater among the poor: even their nominal income showed a decrease, and the ratio of the top

to the lowest income decile average income grew from 6.8 to 7.2. The relative position of those in the 7th-9th deciles improved however. It is probably the complexity of the change that accounts for the fact that the various inequality indicators show some inconsistencies.

A previous analysis of 2007 data revealed a process of income depolarization whereby the upper middle classes moved down while the lower middle classes moved up on the income scale. The most significant change shown by the most recent data is polarization at the lower end of the income distribution, i.e., an increase in the percentage of low-income households as defined by the decile boundaries of 2005. Looking at employment polarization, the authors conclude that households having at least two workers in the previous period suffered more than any other type of household from the decrease in employment.

The second part of the study looks at household debts and repayment difficulties. One process to consider in this regard is the decrease in household income while the other process is the increase of loan repayment instalments due to exchange rate fluctuations. In her brief report 7.A), Zsuzsa Kapitány shows that in the early and mid-2000s, household consumption behaviour was characterised by a low propensity to save and a preference for consumption on credit and for home ownership investments. As a result, there was a surge in borrowing with an especially sharp increase in foreign currency loans.

The Tárki data reveal that following a period of stability, the proportion of households reporting that they were living in financial need or having financial difficulties increased between 2007 and 2009. Loan repayment difficulties became more frequent especially among comparatively low-income groups. In 2009, 35 per cent of households had debts with a bank or financial institution, which is a 15 per cent increase compared to the beginning of the decade. At the same time, there was a convergence between households at the two ends of the income distribution in terms of the likelihood of having bank loans. While in 2001, the gap between the top and the lowest income quintiles was more than 10 percentage points in terms of the likelihood of having bank loans, this difference completely disappeared by 2009. Among households in the lowest income quintile, the incidence of bank loans started increasing around 2003, and this trend continued uninterrupted for the remainder of the decade. That is, a considerable share of these households joined the loan fever just as the loan opportunities were coming to an end. The increase in the proportion of households taking out personal loans was higher than average among the poor, which is probably explained by their need to overcome financial difficulties.

It could be the case, of course, that the explanation for the convergence is that middle class families that had taken out loans at some earlier date experienced a substantial decline in their income level moving them to the lowest income quintile but it could also be the result of households in the lowest income quintile taking out loans.

Households with bank loans on average paid about a fifth of their total income towards bank loan debts in January 2010. For the lowest income quintile, however, the corresponding figure is 29 per cent. With non-bank loans taken into consideration, the gap between the income groups becomes considerably larger. On average, households paid a quarter of their income towards debts, while the lowest quintile spent 43 per cent of their income on repayment instalments.

In 2009, about 9 per cent of households with loans reported that they could not always afford to pay their instalments. The corresponding proportion was 17 per cent for the lowest quintile.

The Hungarian Financial Supervisory Authority data analysed in the brief report by Zsuzsa Kapitány indicates a substantially higher frequency of loan repayment arrears. The incidence of repayment delays of over 90 days increased from 17.6 per cent in December 2008 to 22.9 per cent in March 2010. There may be a number of factors accounting for the discrepancy between the results. First, a household may have more than one loan and those with more loans are more likely to be in arrears with their repayments. Second, while the Household Monitor Survey data applies to 2009, the Financial Supervisory Authority figures show cumulated values.

The crisis forced households to limit their borrowing substantially, especially their housing mortgage loan borrowing. In 2009, household loan repayments exceeded the value of new loans, and in terms of their nominal receivables and liabilities the household sector had a negative balance.

The credit crisis also led to a slowdown in residential building construction and by 2009 even nominal house prices were on the decline. For most households having a low level of financial assets and a relatively high level of real property assets, the steady depreciation of real property predicts a rapid and significant change in household consumption behaviour.