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**The Impact of EU accession on labour market development in  
Visegrad Countries**

This paper analyses the impact of EU accession on labour market development in four new member states, Poland, The Czech Republic, Hungary and Slovakia. Central and Eastern European countries (CEECs) has successfully managed during the nineties the painful transition to market economy. They became competitive market economies, with relatively rapid GDP growth and development ratios. Since mid-nineties, economic growth has returned, and growth in the region is exceeding the EU average.

Despite similar post-world war trajectories, CEE countries do not constitute a monolithic group. They have adopted somewhat different labor policies, and had experienced different labour market changes to a certain extent. CEE countries have adopted – again with some degree of variation - the set of policies (passive and active) common to all EU and OECD countries.<sup>1</sup>

One of the characteristics of this development route, that economic growth was mainly due to the dynamism of export-oriented manufacturing sector, which is dominated by foreign owned companies. This pattern of development had also major impact on the functioning of labour markets in the region.

**Labour market trends and economic restructuring in the Visegrad countries**

Labour market underwent the most dramatic changes in the Visegrad countries over the 90s. In the socialist system, full and life-time employment, high activity, scarcity of labour and state regulated income distribution have been the most important features. The transition to market economy in these countries was accompanied by the collapse of state socialist employment model, which included plant closures, large scale lay offs, emergence of massive long term and frequently recurrent unemployment, stabilisation of a high level of labour market inactivity, and

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<sup>1</sup> Riboud, M., Sánchez-Páramo, C. and Silva-Jáuregui, C. (2002) 'Does Eurosclerosis Matter? Institutional Reform and Labour Market Performance in Central and Eastern European Countries in the 1990s', Social Protection Discussion Paper Series No. 0202, World Bank .

growing income and regional disparities.<sup>2</sup> After the deep crisis at the beginning of the 90s CEE countries started to recover from the collapse and set out on the hard way of economic restructuring of their economies. In the labour market the high intensity of job destruction was accompanied by dynamic job creation in the years of transition.

In the following chapters we endeavour to analyse the main characteristics of labour markets in the Visegrad countries in the context of economic restructuring.

## **Hungary**

### **Transition to market economy in the 90s**

The Hungarian economy had to face up with major structural changes during the 1990's. Agriculture's ratio in the GDP has more than halved to less than 4% in this period, while the service sector has become significant in the economy: compared to the other CEE economies services sector in Hungary accounts for almost 70% of total economic output. The economic growth in Hungary is closely linked to the success of the industry and manufacture, which are dragging exports. Supported by foreign investors the industry sector has expanded significantly in recent years and it accounts for almost 30% of GDP.

The decade following transition, can be divided into three distinct periods in Hungary. Based on the evolution of GDP, employment and real wages indicators between 1989-2004 the post socialist era so far can be divided into three periods: transitional crises (1989-1993); economic recovery (1994 - 1997) and catching up leading to the accession to the European Union (1998-2004).<sup>3</sup> The evolution of the Hungarian labour market adequately reflects the different characteristics of the three periods.

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<sup>2</sup> Garibaldi, P. and Brixiova, Z. (1998) 'Labor Market Institutions and Unemployment Dynamics in Transition Countries', Staff Papers 45, IMF .

<sup>3</sup> Halpern, L. - Körösi, G. (1998). Corporate performance in the transition: econometric analysis of Hungarian exporting firms, 1985-1994. In L. Halpern & C. Wyplosz (eds.). Hungary: towards a market economy. Cambridge: Cambridge University Press, pp: 195-202

During the years of transitional crises GDP fell by 17.5 percent in Hungary. One and a half million jobs (25%) disappeared and the employment rate of the working age population decreased from 76 to 60 percent. Large scale job destruction led to a fast increase of open unemployment and massive outflows from employment to inactivity. In the first quarter of 1993, at the bottom of the recession, the unemployment rate was 12 percent and the ratio of long-term unemployed exceeded 43 percent.<sup>4</sup> At the end of 1993 the inactivity rate of the working age population reached as much as 31 percent. Parallel to this, fast deterioration of real wages took place. In 1993 the average real wages were less than 83 percent of the wages paid in 1989.

During the years of economic recovery GDP started to increase and exceeded their pre-transition level in 1999. Hungary followed an export led economic growth fuelled by massive inflows of foreign direct investment concentrated in the manufacturing sector. The improving economic situation had certain positive effects on the labour market as well. The unemployment rate decreased from 11.9 percent to 8.7 percent between 1993-1997 and real wages started to grow in 1997. On the negative side, however, the revival of the economy did not induce growth in employment. The participation rate continued to decrease and had become the lowest among the transition countries. On the other hand, the rapid increase of production together with stagnating employment was a source of the substantial increase of productivity.<sup>5</sup>

This “jobless” type of growth had come to end in 1997. In the following three years the average yearly growth of GDP and industrial production was 4.7 and 13 percent respectively, and the growth of employment recorded a positive 1.4 percent. Between 1997-2000 the unemployment rate decreased from 8.7 percent to 6.4 percent. 1999 was the first year when the number of employed grew significantly (Ministry of Economic Affairs, 2000). Mainly due to fast pre-election wage increases and the direct and indirect effects of the nearly doubled minimum wage, real wages increased by 6.4 in 2001. The salaries of civil servants increased on average by 50 percent from 1st September 2002, contributing to a 13.6 percent real wage increase for the whole

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<sup>4</sup> Wages in the Informal Economy In. The Hungarian Labour Market, eds.: Károly Fazekas and Jenő Koltay, Institute of Economics, HAS, Budapest, 2002 pp. 98-101.

<sup>5</sup> Boeri, T. and Bruecker, H. (2001): Eastern Enlargement and EU-Labour Markets: Perceptions, Challenges and Opportunities ', World Economics,

year. In 2002, the export driven growth of the previous years was replaced by a development stimulated by internal demand. Strong fiscal expansion and state financed infrastructure developments prevented the economy from slowing down but the cost was high: the macro-economic balance of the Hungarian economy deteriorated. The growth of GDP decreased from 3.7 percent to 3.3 percent in 2002 and to 2.6 percent in the first half of 2003. Hungary's export growth slowed down and the inflow of foreign direct investment (FDI) decreased substantially in 2002 with a further deterioration of this trend in the first 6 months of 2003. The labour market reflected these negative tendencies. The employment ratio, which showed a steady increase since 1997, took a reverse direction.<sup>6</sup> The Hungarian economy reached the bottom of the slowdown in the summer of 2003 and growth slightly accelerated since then.

For the past three years Hungarian economy has suffered from the sharp slowdown in the euro-zone, coupled with the negative effects of the strong Hungarian currency in 2001-02. Excessive wage rises mainly in public sector in 2002-03 sustained growth but have contributed to the return of high fiscal and external deficits.

Since the second half of 2003 the economy has been recovering: industrial output was 7.2% higher in January 2004 than a year earlier. GDP grew by a stronger than expected 4.2% year-on-year in the first three months of 2004, the fastest pace of growth since the first quarter of 2001. Industrial productivity improved by nearly 11% compared to the first quarter of 2003. Real gross earnings rose by 1.5% in the Hungarian industry, so better industrial competitiveness can be attributed to this factor.<sup>7</sup>

Selected indicators	macro-economic	2000	2001	2002	2003	Forecasts		
						2004	2005	2006
GDP growth %		5.2	3.8	3.5	2.9	3.3	3.6	4.0
Industrial output (real growth) %		18.1	3.6	2.6	6.4			

<sup>6</sup> Boeri, T., (1997) "Labour Market Reforms in Transition Economies", Oxford Review of Economic Policy, 13, pp. 126-40

<sup>7</sup> Sonda Ipsos 2004

Annual inflation (average) %	9.8	9.2	5.3	4.7	6.5	4.5	4.0
Unemployment rate %	6.4	5.7	5.8	5.9	5.9	5.8	5.8
Total export (USD million)	28,092	30,498	34,337	43,008	+9.1	+10.2	+9.4
					%	%	%
Total import (USD million)	32,080	33,682	37,612	47,675	+8.0	+10.0	+9.0
					%	%	%
Current account balance (USD mn)	-4,034	-4,031	-4,615	-7,329			
Current account balance, % of GDP	-8.6	-6.2	-7.0	-8.9			
Gross foreign debt, % of GDP	64.2	64.9	55.8	62.3	59.4	57.9	56.8
HUF/EUR (annual average)	260.1	256.7	243.0	253.5			
HUF/USD (annual average)	282.4	286.5	258.0	224.4			

*Sources: National Bank of Hungary, Hungarian Statistical Office, forecasts of the Ministry of Finance*

The economic growth in Hungary has stumbled slightly at the end of 2004 due to the modest achievement of the European economy, the strength of the euro compared to the dollar and the high price of oil in the world market. The government expects the boost in economy in 2005 from the expanding exports (estimated increase by 11% compared to the previous year), from the domestic investments (estimated increase by 7,3% compared to the previous year), and from foreign capital inflow. The government counts with a 4,0% GDP growth this year, which accords with the estimation of experts who forecast an increase between 3,7-4,0% for 2004. According to the GKI Economic Research Institute the performance of Hungarian economy will depend considerably from the oil prices and the exchange rate of the US dollar in 2005. According to the Kopint-Datorg the old 15 EU members may count with GDP growth below 2,2% in 2005 while the economy of the new 10 members will slow down slightly reaching at best the previous year's level of 5% of GDP growth on average.

According to the Ministry of Finance inflation in 2005 reaches 4,5% in Hungary while economic experts estimate it between 4,4-4,8%.

The government counts with some increase of real wages (3,5% in 2005) that is shared by major research institutes.

As for domestic investments the GKI forecasts an 8% increase for 2005 whereas the Finance Research Institute estimates an increase of 5,5%.

Currently, income levels and prices are the primary determinants in a buyer's decision to purchase goods in Hungary. In 2000, the average monthly income was around 260 USD per capita, while in 2002 it was 325 USD per month, which is very low compared to that of the EU.

### **Foreign Direct Investment**

Foreign direct investment has been the key in boosting economic performance and remains the driving force behind Hungary's economic success, fuelling its strong export growth and significantly increasing productivity. Since the change in political regime of 1989/90 and the end of 2002, roughly 30 billion EUR flowed into Hungary. About 70% of that amount was invested in the country before the end of 1997, far more than in any other country in East and Central Europe. Most of the capital came from businesses in Germany and the United States. In the latter half of the 1990s, this import of foreign capital gave the Hungarian economy a major boost in approaching international levels, and from 1997 to 2000 it kept the economic growth rate up to 4-5% of GDP/year. The growth rate of 3.8% and 3.3% of GDP in the two succeeding years continued to be high by international comparisons. In recent years the inflow of FDI was enough to balance out the deficit in the current account balance, both protecting the country from debt accumulation, and contributing significantly to paying off existing debts. But, in 2002, FDI was insufficient and failed to cover the shortfall in the balance of payments.<sup>8</sup>

By the end of 2003 Hungary has attracted more than USD 38 billion foreign direct investments, which targeted primarily the electronics, retail, consumer goods, automotives and telecom sectors. Foreign direct investments played an important role in establishing new branches of

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<sup>8</sup> According to data issued by the Ministry of Economics and Transport, Hungary

industries, like the assembly of cars, manufacturing of spare parts for the motor industry, production of parts and components for the electronic industry, etc. They also contributed to the modernization of the Hungarian telecommunications sector, the pharmaceutical and the food industry as well as retail trade.

Changing markets, an influx of foreign capital, and the reorganisation and re-equipping of domestic enterprises changed the structure of the economy, and progress was made in the fields of technological equipment and modernisation of production. This process involved large-scale changes in demands for employees' know-how and skills. Workers with low-level school qualifications, and those who had not learned a trade, or were incapable of changing jobs were the losers of transition. These broad groupings now constitute the long-term unemployed, adding to the inactive working population. Historically, rather large differences have emerged in the level of development of Hungary's various regions.<sup>9</sup> During the period of transformation to a market economy, an important role was played by the overhaul attempts of agriculture and key manufacturing sectors, and by the fact that economic growth took a different shape in each region due to variable infrastructure, economic and labour structure factors, and regional variations in the inward flow of foreign capital. Economic growth is strongest in Central Hungary and Central and Western Transdanubia. The labour market is most favourable and the unemployment rate much lower than the national average in these regions, and a shortage of skilled labour can be perceived, primarily among manual workers who have completed school. Economic growth is less tangible, and the modernisation of the economy is progressing more slowly in the regions of North Hungary, the North and South Great Plain, and South Transdanubia.<sup>10</sup>

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<sup>9</sup> Boeri, T., (1997) "Labour Market Reforms in Transition Economies", Oxford Review of Economic Policy, 13, 126-40

<sup>10</sup> National Employment Office of Hungary,

population reached as much as 31 percent. Parallely fast deterioration of real wages took place. In 1993 the average real wages were less than 83 percent of the wages paid in 1989.

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### **Labour market trends**

With regard to demographic trends similarly to older member states, Hungary also has to face with challenges of decrease of population and an ageing socitey. In 2000 Hungary had a population of 10.005 million. Since the 80s, when the population reached 10.709 million demograchic data show a continuously diminishing trend. As for age groups, while the share of people older than 60 increased to 19.7 percent, the proportion of children declined to 17.1 percent. Over the 1990s the total fertility rate continued to drop, reaching its minimum of 1.29 in

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<sup>11</sup> Housholds, work and flexibility, county context report 2003, TÁRKI



1999.<sup>12</sup> Although this is well below the level needed to keep the population stable, it is not particularly low as compared either to the Central and Eastern European (CEE) countries or to the EU members (Kopasz). On the other hand Hungary has rather high mortality rate compared to the EU. Shorter life expectancy is due to poor health conditions mainly in the age group of 40-65 among men.

There were two important trends in the labour market over the 90s. During the the crisis-ridden transformation period there was a rapid rise in unemployment reaching its peak in 1993 when it was set at 13,6%. Secondly, labour market experienced high outflows to inactivity over the 90s. As a result, unemployment rate fell considerably after 1993 and continued to drop up until 1997.<sup>13</sup> Despite a general improvement in the labour market, the unemployment problems experienced from the outset, i.e. Roma, regional, long-term, and youth unemployment, have not changed sufficiently. The proportion of absentees from the labour market remains high for a variety of reasons. The most important feature of the domestic labour market in 2002 was stagnation – there was no real change in the major trends, in spite of several minor adjustments. Largely balanced rates of employment and unemployment in the seven regions established for planning and statistical purposes conceal considerable and increasing differences between counties, mini-regions and settlements with regard to employment and unemployment indices. Employment data for the mini-regions indicates increased regional polarisation. During the years of transition the extent of such differences has grown considerably and the number of mini-regions with very high or low employment rates has also increased at the upper and lower ends of the scale.<sup>14</sup>

There is a high concentration of both domestic and foreign enterprises in urban regions characterised by skilled labour and a relatively highly developed business infrastructure. Taxes on employment, as well as national insurance and taxation payable by employers and employees,

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<sup>12</sup> Housholds, work and flexibility, county context report 2003, TÁRKI

<sup>13</sup> Ibid.

<sup>14</sup> The Share of Unemployment Benefits Within Household Incomes. In.: The Hungarian Labour Market: Review and Analysis 2002 (ed.: Károly Fazekas, Jenő Koltay) Institute of Economics, HAS and Hungarian Employment Foundation. Társ szerző: Gábor András

which press down wages, were not reduced in 2002, despite being among the highest in Europe. The number of unemployed has gradually fallen in recent years, while the number of those not seeking employment, i.e. the economically inactive, has continued to rise for various reasons. Low levels of employment, relatively low unemployment, and a high rate of inactivity are longstanding features of the Hungarian labour market.<sup>15</sup> According to data from the Public Employment Service, the falling trend in unemployment has stopped in 2002 and has since shown a slow rise on the verge of the global economic boost. The number of registered unemployed surpassed the year earlier levels in each month of 2003. The increase in the number of career-starter unemployed set in earlier – at the end of 2000.<sup>16</sup>

The labour survey of the Central Statistical Office indicates similar trends: the figures now show an increase in annual unemployment for the second consecutive year. Nevertheless, the unemployment rate is still lower than the average in EU countries, with an average rate of 5.9% in 2003, and it reached its lowest level, 5.5%, in the last quarter of the year.<sup>17</sup> Participation in the labour market in Hungary is currently around 10 percentage points lower than the average level in OECD countries, according to the latest revealed data. The employment of youth under the age of 25 continued to fall in 2004 because the time spent in education is still growing.<sup>18</sup>

## **Employment**

Hungarian statistics apply three different sets of criteria. According to the national regulations, working age starts at the age of 15 for both sexes and lasts until 60 for men and 56 for women. (Recently the statutory retirement age was raised to 62 for men and to 60 for women and it is scheduled to reach 62 years for both sexes by 2009.) In 1999, of a population of 10 million, about 6.2 million were in working age. Given the lower retirement age for women, 48.3 percent of women were of working age as opposed to the 51.7 percent ratio of men. Unlike the Hungarian regulations, the EU/OECD consider ages 15-64 as working age. Accordingly, the Hungarian working age population was about 6.9 million in 1999. According to the definition by the ILO,

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<sup>15</sup> Housholds, work and flexibility, country context report 2003, TÁRKI

<sup>16</sup> Halpern, L. - Körösi, G. (1998). Corporate performance in the transition: econometric analysis of Hungarian exporting firms, 1985-1994. In L. Halpern & C. Wyplosz (eds.). Hungary: towards a market economy. Cambridge: Cambridge University Press, pp: 195-202

<sup>17</sup> National Employment Office of Hungary

<sup>18</sup> Central Statistical Office of Hungary

the potential labour force in Hungary was more than 7.7 million between the working ages 15-74

<sup>19</sup> Within the total working age population as defined by the Hungarian legislation, 3,742.6 thousand persons (60.5 percent) were employed. In the population aged between 15-64, the corresponding figures were 3,789 thousand (55.7%). This is a very low level, similar to that of southern European member states. According to the ILO definition, everyone having performed at least one hour of income generating activity the week prior to the interview date qualifies as employed. Since 1992 the Hungarian Central Statistic Office's (HCSO) has regularly carried out Labour Force Surveys (LFS) on the basis of this definition. Accordingly, in 1999 the number of employed was 3,811.5 thousand, only slightly higher than the number in the population aged between 15-64. This can be explained by the low labour market participation of those past retirement age. The activity rate was 64%, while employment rate was 60% in 2004.

The number of employed in agriculture went on to decrease in 2004 only every twentieth employee has found secure sustenance in this sector. Employment grew especially in construction industry, tourism and financial sectors.<sup>20</sup>

### **Unemployment and inactivity**

Hungary experienced one of the largest declines in employment in the CEE countries during transition. Total employment decreased from 4.8 million in 1987 to 3.5 million in 1996. All (net) job destruction took place outside of public administration, health and education. Employment outside those sectors fell from 4 million in 1987 to 2.7 million in 1995, which meant that one third of all jobs were downsized.<sup>21</sup>

Moreover, employment activity in Hungary is supposed to be higher than suggested by statistics for two reasons. First, according to estimations, some 1 million people work in the „black” or „gray” economy. Secondly, the number of agricultural small producers is over 500 thousand, of which only 200 thousand are employed (that is this why it does not increase the number of

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<sup>19</sup> Housholds, work and flexibility, country context report 2003, TÁRKI

<sup>20</sup> Central Statistical Office of Hungary 2005,

<sup>21</sup> Housholds, work and flexibility, country context report 2003, TÁRKI

employed.) Thus the number of employed is estimated between 4 and 4.1 million as opposed to the 3.8 million registered by statistics.<sup>22</sup>

**Incidence of long-term unemployment** Figures of the Labour Force Survey indicate that the ratio of long-term unemployed showed a modest decline over the second half of the 1990s. The share of those being out of job for more than one year was almost 50 percent of the unemployed in 1999. This means a drop of about 5 percent relative to 1996. The corresponding rate for the EU was 47.5 percent (OECD, 2000a). In the EU long-term unemployment has been measured as a percentage of the economically active population since 1998. The so-calculated Hungarian ratio of long-term unemployment –in the population aged 15-64– was 3.1 percent, as opposed to the EU average of 4.9 percent (Labour Research Institute, 2000).

Unemployment rate was 6,1% both among male and female workers in 2004. This trend indicates that the number of those having finished their studies is growing while the situation of elderly with the unification of pension age is becoming independent from gender differences. As for regional differences trends have not changed considerably in recent years. Northern Hungary still took the lead in unemployment with a rate of 9,7% in 2004.<sup>23</sup>

Long-term hopeless unemployment is the severest problem currently in Hungary, which has structural causes.<sup>24</sup> The deep regional divide between Western and Eastern Hungary has been deepening between 2000 and 2003. In Central Hungary, Western Transdanubia the employment rate exceeded 55% 2003, while in Southern Hungary this rate stood at 46-47%. Between the two groups of regions no convergence can be seen, separation seems to be entrenched.

### ***Inactivity***

The number of inactive population was 3.56 million out of which the share of women was 60% in 2004. 54,7% of inactive is pensioner, 20,7% is studying and 7,6% is on child care leave. In comparison to the EU 2,6 million people were neither employed nor unemployed. The majority

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<sup>22</sup> Ministry of Economic Affairs, Hungary, 2000

<sup>23</sup> Central Statistical Office, Hungary 2005

<sup>24</sup> Kertesi G. – Horvath H. – Hudomiet P.: Labour market trends 2000-2003, in: Social report on labour market TÁRKI 2004

does not want to work for various reasons. Regional differences, lack of labour opportunities, unofficial employment forms, preferring pension or other social care types are the main accounts for this high number. With regard to the Hungarian employment age the number of those staying out of the labour market surpassed two million in 2004.<sup>25</sup>

### **Employment by gender and age**

Whereas the population of women in Hungarian population is higher than men the female participation rate is fairly low in Hungary. In 1999, the share of women participating in the labour force was 44.8 percent. The low female participation rates, characterizing all age groups, are due partly to the temporary withdrawal of women on childcare leave from the labour market and partly to the lower retirement age of women. However, these facts cannot fully explain the modest labour market participation of women. Another explanation may be the low incidence of flexible working forms in Hungary.<sup>26</sup> In addition, there is some evidence that women were laid off easier than men in the early 1990s, while there has also been a certain revival of conservative attitudes towards the employment of women (ILO 1997). Gender discrimination is discernable in the labour market affecting women in child bearing age and women with children.

In 1999, the employment rate was highest among those aged 25-54 (ages 25-29: 68.9%; ages 30-39: 74.4 per cent; ages 40-54: 72.3 per cent). The labour market participation of both the younger (ages 15-19: 10.4 per cent) and the older age groups (ages 60-69: 5.4 per cent; 70-74: 1.4 per cent) was noticeably lower. In the course of the transformational recession, older age groups were to a large extent squeezed out of the labour market, often through early retirement and age discrimination on the labour market.

### **Sectoral differences**

Over the 1990s, the sectoral composition of employment underwent substantial shift and by the mid-1990s it became largely similar to the sectoral distribution of employment to that of older member states. 58.9 percent of the employees worked in the service sector, while 34% in industry and a remaining 7.1% in agriculture in 1999,

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<sup>25</sup> Central Statistical Office, Hungary 2005

<sup>26</sup> Labour Research Institute, Hungary, 2000

Agriculture was hardest hit during the nineties. As a consequence of liquidation of agricultural cooperatives, the number of agricultural employees fell dramatically. While the current ratio of agricultural employment (7.1 per cent) is relatively low compared to other Central and Eastern European countries, it far exceeds the EU average of 3.1 percent. The country's dependence on agriculture as a source of employment is even higher than reflected by the ratio of agricultural employment if those holding a second job in agriculture are also counted in. The ratio of service sector employment in Hungary is comparable to the EU average. However, it is important to note that the increase in the share of service sector employment is due to the declining employment capacity of agriculture and industries. Since the late 90s, employment creation went on to increase in service sector. Nevertheless, more than one third of jobs in the tertiary sector came about due to state intervention in such areas like administration, health care and education.<sup>27</sup>

### ***Part-time employment***

In Hungary a very small share of the employed work less than the number of hours usual in a full-time job which means that many would prefer part-time employment. In 1995, despite the drop in real wages, about 10 percent of women in employment reported their willingness to shift to part-time work. More than one-third of the respondents particularly those over retirement age - were part-time workers anyway. Among those rejecting part-time employment 88 percent indicated as a reason that they could not renounce their full-time salaries (Frey 2001).

Surveys carried out by the Labour Research Institute among enterprises present data on part-time employment on a regular basis. According to the 1997 survey, the proportion of employees working shorter hours was around 2.1 percent of total employment, with 1.8 percent part-time workers among them. No significant difference was observed in the following year. As Laky points out, in 2000, the share of those working less than the usual hours went up to 2.8 percent, including 2 percent part-timers (Laky 2001). Labour Force Surveys (LFS) data indicate somewhat higher shares of part-time employment for the period 1996-1999. Part-time work in 1999 accounted for 3.5 percent of total employment, which makes about one quarter of the EU average (16,4%) and is very low compared either to other CEE countries. In the CEE region only Slovakia had a lower rate in 2000. In Hungary women's share in part-time employment was considerably higher than that of men, fluctuating around 70% on a yearly basis. None the less,

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<sup>27</sup> Labour Research Institute, Hungary, 2000

particularities of the Labour Force Surveys do not allow part-time workers to be separated from casual workers. The method used by ILO differs from that of Hungarian calculating measures. According to ILO one hour income generating work done in the week before the survey qualifies as employment but several hours casual work performed every week does not count as part time. Besides, many Hungarian pensioners work part time but LFS ignores national working age also biasing data to compare. Part time employers tend to conceal working hours in order to evade income taxes.<sup>28</sup>

In 2000, for the first time, LFS respondents were asked to declare themselves as full-time or part-time workers. Figures show that only 3.9 percent of employers declared themselves as part-timers (2.9% of men and 5.1 of women). Interestingly, almost half of them (47%) worked more than 30 hours per week. The increase of part timers certainly related to the drastic increase in the minimum wage in 2000. According to Frey and Laky the share of those working shorter hours because they could not find no full time work or could not employed full time (for the lack of assignment) was 13%.

In 2004 the rate of part time employed was 4,4%, which indicate a slight increase compared to the previous years.<sup>29</sup> On the other hand, larger scale of part time employment is not expected in the meadium term due to inflexibility of the market in this respect.

### **Temporary work and self-employment**

LFS registered very small numbers of temporary workers. Mainly those defined themselves as temporary workers who take seasonal work (Laky 2001). The number of temporary workers was 25 000 in 2000. The bulk of temporary workers is employed in agriculture and construction. As for female participation their proportion in business services is significant (Labour Research Instituite 1998).

According to the Labour Force survey self-employment was growing during the 90s. In 1999 self-employment was 411 thousand or 11.1% of total employment. The real number is definitely higher because those working in agriculture are registered by statistics. The bulk of sel-employed

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<sup>28</sup> Laky T: The Hungarian labour market, 2004; [co-authors Ilona Gere et al.] ; [publ. by] Employment Office National Employment Foundation. - Bp. : OFA, 2004. - V, pp: 152, 2001

<sup>29</sup> Central Statistical Office, Hungary

work in individual enterprises or SMS-s. Three quarters of them worked in the service sector. As Laky points out the majority of small enterprises conduct their activities in service sector out of which almost all of them are micro enterprises with no employers.<sup>30</sup>

### **Disadvantaged groups**

Some categories of population are especially hard hit by unemployment: the less educated, females, the young (mainly the age group of the 15-19 yearold), carer starters and the Roma population are mostly exposed to unemployment.

Roma unemployment poses severe problems since the beginning of transition. In socialist era employment rate of Roma men approached (85,2 %) that of the non Roma population (87.7%). Massive lay offs after closure of large manufacturing plants in the aftermath of breakdown of socialist industry hit first the Roma. Since the Roma counted as semi skilled labour they could hardly find work in the restructuring labour market. In order to mitigate social detriments and plight of the Roma, government and EU financed programmes (Phare) were put in place in the 90s.

### ***The less educated***

It is well known that low qualification levels are associated with labour market disadvantage. However, as reported by OECD, higher levels of education confer significant differences between countries in the relative labour market advantage. Hungary is one of the four OECD countries, in which, the gap in labour market outcomes between the highly educated and the poorly qualified is the greatest (OECD, 2000b).

In Hungary, 35.2 percent of the unemployed had maximum eight years of primary school, while the corresponding ratio for active earners was 18.5 percent in 1999 according to the Labour Force Survey. The unemployment rate among those who have completed no more than elementary school was 16 percent compared to only 3 percent for those with higher education.

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<sup>30</sup> Laky T.: The Hungarian labour market, 2004 /; [co-authors Ilona Gere et al.] ; [publ. by] Employment Office National Employment Foundation. - Bp. : OFA, 2004. - V, 152 p



### ***Youth employment***

Youth unemployment in the EU fell from 21.5 percent of 1995 to 17.9 percent in 1999, but is still more than twice as high as the overall unemployment rate. A similar tendency was observed in Hungary over the same period. By 1999 unemployment rate dropped to about 23 percent among the 15-19 year-old, and about 10 percent in the age group of 20-24. The youth unemployment rate (for both age groups) was 12.4 percent, still significantly higher than the 7 percent overall unemployment rate (for the 15-74 year old labour force). The relative situation of young people seems apparently worse than the average and it is particularly so for those aged 15-19 who have seen their share in total employment fall from 3.3 per cent in 1992 to 1.5 per cent in 2000. Their participation rate fell in that same period from 23.0 per cent to 11.7 per cent. This is partly due to demographics: the generation entering the labour market in the 1990s was larger than the previous and subsequent generations (World Bank, 2001). These developments also indicate that it is particularly difficult for young people to enter the labour market, that part of them are equipped with already obsolete or irrelevant education, and that the job-creating capacity of the labour market has been low. However, they do not necessarily indicate a complete deterioration of the labour market position of young people as an important part of the decline in participation is due to increased involvement in education, albeit that this is partially the result of discouragement as well as of the mentioned demographic developments

The proportions of teenagers and young adults among those being out of job for more than 6 months showed an increasing trend over the 1990s. In 1998, Hungary's achievement with ratios of 57.1 and 62.6 percent for teenagers and young adults respectively proved to be among the poorest among countries OECD countries. The corresponding shares were 24.9 for those aged 15-19, and 48.5 percent for those aged 20-24 in the OECD (OECD, 1999a).

### ***Roma in the labour market***

The Roma forms the largest ethnic minority group in Hungary. They represent about 6 percent of Hungary's total population.<sup>31</sup> The Roma population is characterized by low employment rates

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<sup>31</sup> Kemény István (editor): *A cigányok Magyarországon* - MTA Budapest, 1999.

and deep poverty. Nearly 53 per cent of Roma households are in long-term poverty, compared to 7.5 per cent for the total population (World Bank, 2001).

As for registered unemployed about 58.000 were Roma in 1993. According to estimations this number has not changed considerably until 2001. As official unemployment being lowered between 1993 and 2001 the rate of unemployment of Roma rose to 16% from 9%.<sup>32</sup> Over the 1990s, the unemployment rate for the Roma population was extremely high, among other reasons that they were the first to be laid-off during the crisis of the early 1990s. Survey results with respect to Roma unemployment differ very widely. According to the Hungarian Household Panel Survey, carried out by the TÁRKI, unemployment among Roma reached a rate of 55 percent in 1997. Data provided by the survey of Szonda-Ipsos indicate that the unemployment rate among those openly declaring themselves Roma was about 30 percent as opposed to 6-8 percent in the non-Roma population in the same year.<sup>33</sup>

According to the findings of a study, several factors have contributed to the low levels of employment among Gypsies: Low educational attainment, residence in the most disadvantaged regions and discrimination are the main factors determining their chances on the labour market. Education levels of the Gypsies are considerably lower than those of non-Gypsies. The proportion of those Gypsy men having more than primary education is only 20% compared to 60 percent for non-Gypsy men. The distance between Gypsy and non-Gypsy women is even more striking: 10% as opposed to 60 per cent. Although this educational gap might be a source of unequal labour market chances, it is surely not the sole source.

Another reason for the unequal chances might be the unfavorable territorial location of the Roma population. On the one hand, the Roma population is largely concentrated in villages where levels of employment are generally lower. (60% of the adult Roma population lives in villages as opposed to 35% for non-Gypsies.) On the other hand, they live mainly in those regions of the country, which are –irrespective of the type of settlement –the hardest hit by unemployment. Furthermore, the effect of labour market discrimination cannot be ignored. Ethnicity, as a group level filter, is an inexpensive tool to apply when shedding or hiring labour. According to statistical estimations, a 30-year-old Roma man with primary schooling or a lower vocational qualification is (by 15-20 percent) less likely to be hired than a ‘typical’ man of the same age and

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<sup>32</sup> Labour Market programmes for Roma in Hungary, Autonomia Foundation

<sup>33</sup> Housholds, work and flexibility, country context report, 2003 TÁRKI

with similar schooling in the most disadvantageous regions of the country (Labour Research Institute, 2000).

## **Poland**

With regard to demographic processes Poland's population shows a slight rise. In 2002 Poland had over 38,3 million inhabitants and it will continuously rise until 2017 when it will exceed 39 million. The fertility rate is on the level of 1.3. Decreasing fertility is mainly due to the uncertain labour market positions of parents who tend to postpone their marriage age. Demographic processes affected the age structure of Polish society. Currently the job market is saturated with workers born during the population boom. At the same time the number of those in immobility age (33% persons in productive is 45 or over) is growing. The dependency rate (the proportion of people aged 65 or over to the number of persons between the age of 15-64 is 18% but this ratio is expected to rise 50% by 2050 according to forecasts.<sup>34</sup>

The systemic transformation process and the introduction of market mechanisms involved in the labour market have brought about changes in the state and structure of the labour market in Poland. A measurable effect of those changes has been a drop in employment and the appearance of registered unemployment, whose level soon surpassed that of frictional unemployment and became a basic social problem. The situation in the Polish labour market is aggravated by the fact that there are wide regional differences in unemployment that persist despite variations in the level of national unemployment. The administrative reform implemented on 1 January 1999 has introduced a division of the country into 16 new voivodeships in place of the existing 49. The new system of big voivodeships endowed statutorily with a combination of central government and self-government functions was supposed to create conditions for a more effective labour-market policy at the regional scale.<sup>35</sup> The aim of the present article is to analyse changes in the regional differences in unemployment resulting from the transition from the 49- to 16-unit

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<sup>34</sup> Ministry of Economy Labour and Social Policy Report 2003

<sup>35</sup> Boeri, T. and Bruecker, H. (2001) 'Eastern Enlargement and EU-Labour Markets: Perceptions, Challenges and Opportunities', *World Economics*, pp: 277-311

administrative system. The analysis also covers changes in the institutionalization and implementation of labour-market policy at the regional level which followed from the reform.

The rapid growth in the second half of 90s has stumbled in Poland by 2000 owing to the fallback of private investment and the global slowdown. After a sharp slowdown in 2001 Poland experienced a modest recovery in 2002. Real GDP grew by 1.4%, against 1% in 2001. The recovery has been mainly driven by exports, despite the weak growth of Poland's main trading partners. The competitiveness of Polish exports has in part been strengthened by the real effective depreciation of the zloty since mid-2001. In 2002 the strong exports performance resulted in a further reduction of the current account deficit to 3.6% of GDP, which can be easily financed by inflows of foreign direct and portfolio investments.<sup>36</sup> In 2002, inflation continued to decline sharply, with headline inflation falling to 0.8% year-on-year in December 2002. The general budget deficit increased from 3.1% in 2000 to 6.7% in 2002. By the end of 2003, public debt was expected to reach 52%. The growing fiscal deficit and debt, together with high unemployment, are the main economic challenges Polish authorities have to face.

In accordance with the results of the Survey of the Economic Activity of the Population (BAEL), in the 3rd quarter of 2003, the economically active population (i.e. working people +unemployed, persons above the age of 15) comprised 17,044 thousand persons. Compared with the 4th quarter of 2002, a drop by 53 thousand persons or 0.3% was noted. During the same period, the number of working people (13,744 thou.) increased by 0.2% and the unemployment figure dropped by 2.2%. The employment rate for the population aged 15 and over in the 3rd quarter of 2003 was 44.4% and increased by 0.3 percentage point as compared with the 4th quarter of 2002 and similar as compared with the 2nd quarter of 2003. In the 3rd quarter of 2003, the rate of employment, calculated as the share of working people in the total working-age population (18-64 years for men and 18-59 for women), was 56.3% and increased by 0.2 percentage point as compared with the 4th quarter of 2002.<sup>37</sup> The economic activity ratio was 55.1% and went up by 0.1 percentage point as compared with the 4th quarter of 2002 and by 0.4 percentage point as

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<sup>36</sup> Boeri, T. and V. Steiner, (1998) *Wait Unemployment in Economies in Transition: The Case of Poland*, *Konjunkturpolitik*, pp: 287-311

<sup>37</sup> Boeri, T. and Bruecker, H. (2001) 'Eastern Enlargement and EU-Labour Markets: Perceptions, Challenges and Opportunities', *World Economics*, pp: 277-311

compared with the 2nd quarter of 2003. In the 3rd quarter of 2003, the economically passive sub-population, i.e. people outside the working group, decreased by 0.8% and comprised 13,897 thousand persons. Hence the number of economically passive people aged 15 and over was lower by 3,147 thousand persons than the economically active population in the same age group. Since the 4th quarter of 1999, the Survey of the Economic Activity of the Population has been conducted using continuous quarterly observations while public statistical information about the level and structure of unemployment has been gathered on the monthly basis. As at the end of 2003, the number of unemployed persons registered at labour offices was 3,175.7 thousand. Compared with the figure at the end of 2002 unemployment dropped by 41.3 thousands (1.3%). The rate of unemployment was 18,0% and it was the same as the end of 2002.

### **Unemployment**

Main characteristics of Polish unemployment (as the end of 2003): seasonality, which means increases in the numbers of registrations during some and decreases during other periods. Both in 2002 and in previous years, decreases in the numbers of registered unemployed were noted in the months of spring. That was due inter alia to the start of seasonal work in the construction and agricultural sectors, and the beginning of the tourist season. Traditionally, increased registrations occur in the months at the year's beginning and end. In 2003, the number of unemployed was dropping from March on. In November increased registrations 38.6 thousand persons was noted and in December further increased at 78.8 thousand persons was noted.

Differentiation between the regions of the country, which results from both uneven socio-economic development of the regions, their geographical locations and the advancement of restructuring and privatisation processes in the national economy. This is illustrated inter alia by the rate of unemployment. As at the end of 2003, the difference in unemployment rates, i.e. difference between the lowest and highest figures in particular voivodships, was 14.6 percentage points (mazowieckie voivodship –13.7%, warmińsko – mazurskie voivodship – 28,3%).<sup>38</sup>

The economic transformations noted over the recent years concern mainly residents of towns and cities where enterprises are predominantly located. As at the end of 2003, the number of

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<sup>38</sup> Boeri, T. and V. Steiner, (1998) *Wait Unemployment in Economies in Transition: The Case of*

registered unemployed residing in towns and cities was 1,849.9 000 people (58.3% of the total number). Compared with the end of 2002, the urban unemployment figure dropped by 1.4% while rural unemployment decreased by 1.2%. Registered unemployment is dominated by women who constitute 51,5% of the total unemployment figure. At the end of the month under consideration, there were 106 women per 100 unemployed men.

There are 825.4 thousand registered unemployed (about 26%) people aged 18-24. The number of unemployed persons with the graduate status was 157.9 thousand or 5.0% of the total registered figure. At the end of 2003, the labour office statistics included 478.1 thousand unemployed with the right to the benefit who constituted 15.1% of the total unemployment figure. People with the highest qualifications are in the most favourable situation on the labour market. At the end of December 2003, the number of unemployed with higher education was 140.2 thousand persons (4.4%), with registered women being much better educated than men. The duration of unemployment is increasing which is evidenced by a high increase of unemployment among people remaining out of work for more than 12 months. That unemployed group – of 1,666.9 thousand people – constituted 52.5% of the total registered figure. A younger age and better education reduce the risk of remaining unemployed for more than 12 months. Also, the average duration of registered unemployment among men is three months shorter than the figure for women.

### **Employment by sectors**

In terms of employment the public sector employed 32,5% of all workers, while private sector employed 67,5% in 2002. The data show that private sector dominate the labour market, an increase from 50,2% in 1992 to 67,5 in 2002. The most important change occurred in industry sector where the number of workers dropped by 8,9%, and in the service sector with a rise of 0.2%. In the 2nd quarter of 2003 53,3% of employed worked in the service sector while the share of workers in industry and agriculture was 28,5% and 18,2% respectively. Despite the changes labour force structure differs significantly from that of EU member states. In EU the share of employed service sector amounted to 71%, industry 25%, agriculture 4,1% in 2002.<sup>39</sup>

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Poland”, Konjunkturpolitik, pp: 287-311

<sup>39</sup> Ministry of Economy Labour and Social Policy Report 2003, Poland

### **Employment by gender and age**

Employment is closely tied to demographics. The level of involvement of women is much lower than men across all age groups. Employment rate of women was 48,3% (age between 25-54), while it was 57,6% for men in 2002. In the oldest age group (55-64) the total employment rate was 27,9%. Men's share was 35,8% while women's rate amounted to 21,1%. In this age group gradual decline in professional life can be seen. This is due to the fact that elderly face difficulties while searching for jobs in the labour market.<sup>40</sup>

### **Slovakia**

The economy of the Slovak Republic is going through a period of transformation. The Slovak economy has stabilized after the crises in 1998 despite the fact that instability still loomed on the horizon. Slovakia has also introduced structural reforms. Economic growth seemed to get underway on the verge of the millennium (in 2001 the ratio was 3,3%) in both countries. At the same time production remained instable mainly due to the slowdown of the pace of global economy in the first years of 2000. Following the September 2002 elections, the new Slovak government declared its intention to address these weaknesses through an accelerated fiscal consolidation and structural reforms covering the tax system, welfare, pensions, labour markets and the judiciary. Real GDP grew by a robust 4.4%, led by strong household consumption. Core inflation was only 1.9% at year-end. A combination of strong real export growth and declining import growth rate helped a slight narrowing of the current account deficit to 8.2% of GDP, while the general government deficit exceeded 7% of GDP. With present expectations of moderate wage increases and continuing fiscal consolidation, both the external current account and the inflation outlook are likely to continue to improve. At present, reforms are underway in health care, the social sphere and the state and public sector.

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<sup>40</sup> Ministry of Economy Labour and Social Policy Report 2003



Special features of the Slovak economy include as follows:

- a) Low level of GDP and wages (estimated GDP for 2003 at current prices: 1 173 billion SKK, that is to say an estimated growth in GDP of 4% in comparison with 2002). GDP has been rising steadily for the last 11 years. In comparison with other European countries, wages are extremely low. Average earnings in the Slovak Republic are 9 times less (324 EUR) than in France and Germany and so the Slovak Republic is to be found on the lower rungs of the European ladder, ahead of Lithuania, Latvia and Romania. The drop in real wages in 2003 in comparison with 2002 was one of the biggest (1.4%). One of the reasons for this was the implementation of reforms, a particularly high 9.3% rate of inflation, tax reform (increase in consumption taxes), higher VAT rates and price deregulation and liberalisation (power supplies, rents, etc.). It is assumed that this will continue unchanged in 2004. Net real wages will be affected by tax equalisation (19%) a change in VAT rates (from 14% to 19% for foodstuffs and services and from 20% to 19% for other goods). Employees' contributions may reduce except for those being in the retirement pension system, which are to increase from 6.4% to 7%.<sup>41</sup>
- b) Inefficient economy, low productivity and technological backwardness still characterize Slovak economy which is coupled by severe ecological impacts. (result of under-investment in the past).
- c) Lack of business competitiveness and flexibility, inappropriate sectoral structure (the predominance of iron and steel, chemicals, arms industry, etc. results in low added value).

A positive consequence of the transformation of the economy is an improvement in foreign trade, which, for the 1st to 3rd quarters of 2003, contributed 77.4% of GDP, the deficit amounting to only 589 million SKK (following audit, the deficit is estimated at 1.5%). Year-on-year exports increased by 27.9% in 2003. Transport equipment, machinery and electrical equipment contributed more than 50% to exports and the motor vehicle industry increased its contribution to GDP and exports. There was a fall in exports of foodstuffs, textile products, footwear and timber

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<sup>41</sup> Statistical Office of the Slovak Republic,



and chemical products, etc. It is estimated that exports will grow in the future as a result of the transformation of the economy, with an increase in the contribution of the product assembly sectors, the attraction of foreign investment and the development of services.<sup>42</sup>

### **Labour market in transition**

The labour market exhibited a continuing trend towards an increase in employment and a fall in unemployment in Slovakia. Employment increased by 2% in the first three quarters of 2003 in comparison to the same period in 2002, to 2. 162. 500. In the 1st to 3rd quarters of 2003, there was an increase in the number of employees in health care, financial services, public administration and defence, construction, real estate and letting, hotels and restaurants, industry and trade. In comparison with 2002, there was a fall in employment in agriculture, other social services, transport, post and telecommunications and education.<sup>43</sup>

Average recorded unemployment (National Labour Office data) improved steadily during 2003, continuing the trend which had started in May 2002. The number of recorded unemployed in December 2003 amounted to 452 200, a 10% improvement over December 2002. In the last quarter of 2003, the unemployment rate increased again from its lowest point since 1998. The unemployment rate (registered - total number of recorded unemployed) rose slightly in December 2003 to 17%, 1.6% more than in December 2002. The unemployment rate (available – number of recorded unemployed available for work) amounted to 15.56% in December 2003, a year-on-year drop of 1.9%. Only a slight fall in unemployment is anticipated for the years to come.

The Slovak Republic is characterised by marked differences between individual regions. The best position among the eight regions is occupied by the Bratislava region with the highest share in Slovakia's GDP, despite the 2nd lowest number of inhabitants - 599 700 (according to the Statistical Office of the Slovak Republic census of 31.12.2002). This region includes the capital city of Bratislava, which is in a favourable position for economic activity and has a concentration of state and public institutions, universities, banks, a highly qualified workforce and well-

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<sup>42</sup> Centre for Labour, Social Affairs and the Family Slovakia,

<sup>43</sup> Garibaldi, P. and Brixiova, Z. (1998) 'Labor Market Institutions and Unemployment Dynamics in Transition Countries', Staff Papers 45, IMF

developed trade and services. The unemployment rate (registered) here in 2003 was 4.4% on average and the unemployment rate (available) was 3.9%. The situation in the labour market is worst in eastern Slovakia, especially in the Košice region, where the unemployment rate for 2003 was, on average, 24.1% (registered) and 22.1% (available).

### **Gender equality situation and initiatives**

Social change with a substantial impact on women's lives has been accelerating in Slovakia since the beginning of the 1990s, for example in the form of long-term unemployment, the 'feminisation' of poverty and discrimination against older women. A number of surveys have identified the persistence in Slovakia of such aspects of gender inequality as: unequal wages paid to women and men for the same work and work of the same value;

concentration of women in low-paid jobs; major regional differences in terms of equality of opportunity for women and men (not only in employment); a lack of financially and locally accessible services for families with young children, the elderly, the sick and other dependent family members; low participation of women in public and political life; and insufficient gender equality education and the maintenance of traditional gender stereotypes and prejudices. These features, according to research, have a strong negative impact on women and manifest themselves both at work and in family life, notably in the form of a lack of leisure time or the resources required for daily life, stress, health problems, domestic violence and excessive consumption of alcohol.<sup>44</sup> However, the gender equality situation in Slovakia is not entirely negative. The female employment rate in Slovakia has been one of the highest in Europe for decades. The average educational level of women on the labour market is also relatively high and many women are involved in some areas of public life.<sup>45</sup>

Slovakia joined the EU on 1 May 2004 and this has focused attention on proper implementation of equal treatment for men and women at work and on the labour market. Harmonisation of both legislation and practice with EU law has raised new challenges, and EU membership may provide

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<sup>44</sup> Boeri, T., (1997) "Labour Market Reforms in Transition Economies", *Oxford Review of Economic Policy*, 13, 126-40

<sup>45</sup> European Industrial Relations Observatory,

an opportunity for better implementation of existing legislation. Furthermore, equality of opportunity and participation are part of the European employment strategy.

### **Recent initiatives**

A number of measures have been taken over recent years, aimed at improving the position of women over the medium term. A National Action Plan for Women, laying down eight gender equality priorities, was adopted in 1997 as part of the incoming government's programme. These priorities include: creating a suitable environment for individual choices over 'life strategy'; improving women's health; and educating public opinion concerning equality of opportunity for men and women. Subsequent National Action Plans on employment prepared by the government in response (prior to accession) to the EU employment strategy included provisions on enhancing gender equality in the labour market (under the fourth 'pillar' of the EU employment guidelines), such as measures on equal pay, access to employment, vocational education and training, careers and working conditions.<sup>46</sup>

The most recent official document concerning the legislative underpinning and practical implementation of equal opportunities for men and women in all areas of life is a 'Concept on equal opportunities for women and men' adopted in 2001. This document contains a number of recommendations relating to the labour market, public and family life and establishment of the necessary institutional structures. Despite these various programmes, experts believe that there is still a gap between formal declarations of gender equality and its actual implementation, notwithstanding undisputed progress in terms of measures taken. The equality of men and women in employment is explicitly defined in labour legislation, especially in the 2002 Labour Code (Act No. 311/2002 as amended), which is comparable with legislation in other EU countries. However, research indicates that these legislative standards are often not applied in practice. This

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<sup>46</sup> Boeri, T. "Reforming Labour and Product Markets: Some Lessons from Two Decades of Experiments in Europe", background paper for the IMF World Economic Outlook 2004.

is made possible by poor implementation of the law, a lack of awareness of the law and the absence of effective control, including adequate sanctions.<sup>47</sup>

## **Czech Republic**

The Czech economy showed a slow recovery after the recession years of 1997-98 due partly to the structural reforms and the intense influx of foreign investments.

The situation in the labour market of the Czech Republic is marked by considerable regional differences. This is particularly evident when comparing the Moravian regions with, say, Central Bohemia or the capital city of Prague. In Prague, the unemployment situation is traditionally more favourable, thanks especially to its attractive strategic position for foreign investors and its strong provision of services, primarily in the tourist sector. The rate of unemployment reached 10.3% at the end of 2003 (542 420 job-seekers), representing a growth of 0.5% compared with the same period in the previous year. Unemployment has been rising particularly since 1997, when the jobless rate was still 4.9%. The number of job vacancies has also fallen by 50% during the past eight years, so increasing the number of job-seekers per vacancy. A major role in the development of the labour market is also played by developmental changes in individual industrial sectors.<sup>48</sup>

The electrotechnical sector has been enjoying an upsurge, together with optical instruments, rubber and wood-processing. There has also been a large number of investors and considerable growth in the automobile industry. On the other hand, leatherworking, textiles and garment manufacturing have been depressed. The total number of persons in the national economy holding one or a main job fell compared with the third quarter of 2003 by 2 700. The workforce age structure is substantially affected by long-term demographic development, and the year-on-year fall in employment is not expressed equally among all age groups. With the exception of the 30-34-year-old age group, in which the year-on-year employment total rose, there was a fall in

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<sup>47</sup> European Industrial Relations Observatory,

<sup>48</sup> V. Flek and J. Vecernik: *Employment and Wage Structures in Czech Republic*, Praha, 1998 pp: 34-39

the total of jobless people aged 15-54. Whereas the fall in employment in the age range 15-29 was considerably influenced by the increased interest of young people in further education at secondary schools and universities, the fall in numbers of middle-aged workers is, apart from long-term population development, also the result of the current labour market situation. On the other hand, however, there was a large increase in the number of workers in the 55-59-year-old age group. The ongoing shifts in age distribution of workers, with more than a quarter of all employees being over 50, signals substantial changes in the level and structure of employment by the end of the present decade. Employment fell most in Silesian Moravia and the Hradec Králové region and decreased also in most other regions. The number of employed rose somewhat in the Zlín region and also for quite a period of time in the Ústí region.

Employment in the primary sector (agriculture, forestry, fisheries) fell. The decrease in workers in the secondary sector was caused above all by a reduction of employment in the processing industries. The biggest fall in employment was in the metal fabrication and metalworking industries, textiles, the manufacturing of textile and clothing products, non-furniture timber processing and electrical machinery and equipment manufacturing. On the other hand, employment rose in motor vehicle manufacturing, the furniture industry and the manufacturing of synthetic rubber and plastic products. On a nationwide scale, 5% of employed people are engaged in the primary sector, 55% in industry, and 40% in services. Total employment decreased also in the services sector, but individual branches bucked the trend. In the majority of branches employment rose in public administration, defence and healthcare. Within public administration, the biggest employment growth was in the area of public security, law and order, fire-fighting and other rescue services. In view of all factors affecting the labour market in the Czech Republic, we expect an unemployment rate of 10.3–10.5% during 2004.<sup>49</sup>

### **Employment by gender**

In the Czech Republic, 90% of women work full time. This situation has not changed during the last fifty years. The female work force is highly qualified, competent and irreplaceable; therefore the existence of discrimination against women in the labour market is appalling. The main

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<sup>49</sup> Office for Labour and Employment, Czech Republic

problems with regard to women's participation in the labour market may be summarised as follows:

<b>Average unemployment rate in percentage and by age groups between 20-34 years</b>								
<b>Age group</b>	<b>20 - 24</b>		<b>25 - 29</b>		<b>30 - 34</b>		<b>Average</b>	
<b>Year</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>	<b>Men</b>
<b>1995</b>	6.2	5.2	8.5	3.4	5.5	2.6	4.8	3.4
<b>1996</b>	5.6	4.9	7.7	3.3	5.7	2.2	4.7	3.3
<b>1997</b>	7.3	5.7	9.4	3.7	7.5	3.2	5.9	3.9
<b>1998</b>	10.9	7.8	11.6	5	9.8	4	8.2	5
<b>1999</b>	14.7	12.8	14.4	6.6	13.3	6.2	10.5	7.3
<b>2000</b>	13.8	14.5	13.7	6.5	13.6	6	10.6	7.3
<b>2001</b>	13.8	13.7	13	6.6	12.1	5.1	9.9	6.8

The gender wage gap has been steadily growing since the beginning of the 1990s; growth stopped in 2000, but since then there has been no real improvement in the situation.<sup>50</sup>

The difference between female and male unemployment rates has been growing since the beginning of the nineties and the situation hasn't improved since 1997. The biggest difference 1990s between the sexes is in the 24-35 age group, when women either have small children to care for or employers apparently assume that they will have children at this stage of their lives. The real situation in this age group is even worse than the numbers show or lead us to believe. If we take into account the fact that in the Czech Republic women can stay at home for four years and continue to receive parental benefit from the state (approximately 83 Euro per month) then we can understand why they are unlikely to register as unemployed as they would lose their right to receive this benefit. Therefore, it can be assumed that the true level of women's unemployment

<sup>50</sup> V. Flek and J. Vecernik: Employment and Wage Structures in Czech Republic, Praha, 1998 pp: 34-39

in this age group is much higher than officially recorded. These issues also highlight the serious discrimination faced by women.<sup>51</sup>

The Czech Republic has begun to shift resources from passive to more active labour market policies. The government has made the early retirement scheme financially less attractive. Due to the precariousness of public finances the available budget for active policies is rather limited - shifts in budget priorities are called for. The government has embarked upon a comprehensive approach to all short term unemployed and intends to use the expected funding from the ESF to support implementation across the whole country. For this new task the Public Employment Service is currently being modernised.

## **Employment challenges in Czech Republic, Poland and Slovakia**

Employment became unbalanced due to the economic restructuring in Check Republic: unemployment rate has doubled between 1997 and 2000 but it started to stabilize by 2001 (8.1%). Meanwhile, the ratio of long term unemployment has increased to 4.1%. In the worst situation are the uneducated, young adults, child carers, the disabled and Gypsies.

In the Check Republic unemployment rate may grow mainly in the agriculture, mining, metallurgy and railway sectors due to the restructuring of state owned companies.

These reforms – despite all positive outcomes – will further deepen the differences among the developed and disadvantaged regions. The unemployment rate stands at 2.5% in Prague as opposed to some border regions – Most and Ostrava – which is 20% hitting mostly the less adoptive elderly population (above the age 50). Considering the fact that the ratio working in the industry hovers around 40% (the highest in EU 25) the impacts are expected to be long lasting. Demographically seeing the dispersion of Check labour force is very uneven. The number of work force above the age of 50 and the young inexperienced is quite high while the birth rate

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<sup>51</sup> Michaela Marksova Tominova Karat Coalition, Czech Republic

remains quite low too, which may cause serious concerns for the Czech labour market in twenty years.<sup>52</sup>

In the Czech Republic the most important measure to take is the reforming of production and labour market. Work place creation is crucial because industrial restructuring might raise the number of unemployed, impact on youth unemployment offering a plausible solution in an aging society. In Slovakia priority is given to boosting employment, which may be achieved by overall reforms in labour market.

Reducing unemployment is also an important goal in Poland. Reforms in labour market and production are inevitable. In order to accomplish this aim, the Polish government started "Entrepreneurship-Development-Employment" program, which is a medium term employment policy.

Of the countries analysed, Poland has the longest tradition of concluding national accords, dating back to the historic 1980 'Gdansk agreement'. Furthermore, in 1993 Poland's privatisation process began with a successful tripartite accord. In March 2003, the government called for negotiations within the Tripartite Commission for a comprehensive pact on stabilisation and development. This proposal was rejected by the Independent and Self-Governing Trade Union Solidarity (Niezależny Samorządny Związek Zawodowy, NSZZ Solidarność), fearing that it would amount to the unwarranted legitimisation for the left wing 'post-communist' government. The ensuing deadlock was overcome by a suggestion from one of the employers' organisations that the term 'pact' should be replaced with 'agreement', more palatable to NSZZ Solidarność. Following this compromise, NSZZ Solidarność agreed to take part in the preparation of such an agreement, and in May 2003 the negotiations commenced on the key issues of social and economic policy. The original objective of the Polish government's initiative was to achieve a consensus on the key issues of increasing the freedom of operation for businesses, overhauling public finances, reducing the tax burden, setting the principles of privatisation, opening up some public services to the market, and dealing with remuneration in the state budget sector and, last but not least, labour law issues. This complies regulations on collective bargaining and detailed

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<sup>52</sup> Boeri, T.: Reforming Labour and Product Markets: Some Lessons from Two Decades of Experiments in Europe, background paper for the IMF World Economic Outlook 2004.



legal provisions for fixed-term and indefinite employment contracts. These tasks were divided between various teams working within the Tripartite Commission. The negotiations, however, dragged on. Accord was reached on some issues, but not the most significant ones, and certainly falling short of the ambitious goals originally formulated by the government. However, in September, employers' organisations and some trade unions (though not NSZZ Solidarność) did reach a partial agreement on minimum wages, public sector pay increases and cuts in business taxes, which was accepted by the government. With regard to pay, it should be noted that under the present circumstances in Poland, there is little pressure to increase wages, with the exception of the healthcare sector. The most pressing problems in the economy is joblessness, and unions are thus rather modest in their wage demands. The negotiations were further complicated in October 2003, when the government submitted a proposal for overhauling Poland's public finances. The government also announced proposals for new reforms of the public healthcare. Eventually, in December, the Tripartite Commission ended the lengthy negotiations. The government and social partners finally accepted that an overall agreement could not be concluded at present, given the fundamental mistrust between some negotiating parties.

### **Wage developments**

In Czech Republic wages grew due to the good economic stance but extending the labour market is still problematic. In Poland the impact of the minimum wage on the demand and supply of labour is widely debated. New legislation foresees that it should be determined by negotiations within the Tripartite Committee for Social and Economic Affairs. The bill allows until 2005 for a lower minimum wage for new labour market entrants. The government promotes autonomous wage determination in the private sector by the social partners. Indeed, the number of multi-company collective agreements signed increased considerably from 2000 to 2001.

### **Perspectives after EU accession in Slovakia, Poland and the Czech Republic**

In Slovakia, the government had targeted joining EMU in 2007-8. As far as the Maastricht criteria are concerned, currently the state budget debt and the inflation seem to be the most problematic. In its 2003 state budget, the government tried to cut public expenditure as much as

possible. Despite a moderate wage increase for civil servants and public employees, a limited budget for the healthcare system, cuts in various social benefits and the reorganisation of the public administration, the Finance Minister has announced recently that, in the face of macroeconomic problems, Slovakia would probably postpone joining the euro-zone until 2009. At present, it appears impossible in Slovakia to reach a social pact in order to facilitate joining EMU. Over the past two years, tripartite concertation has twice been briefly suspended and no new tripartite general agreement has been signed. In tripartite concertation, trade unions have several times stated that they object to the government's policies to redress economic imbalances and achieve the Maastricht thresholds. Measures such as a recently implemented new VAT system, cuts in welfare provisions and the reform of the pension system have resulted in decreasing incomes in real terms. Another area of conflict is setting the minimum wage, with unions demanding higher increases than the government thinks appropriate. The differences have led the government to change its policy and adopt an automatic mechanism for increasing the minimum wage, so that it is planned no longer to be the subject of tripartite negotiations. The situation has deteriorated to the point that unions have recently initiated a referendum calling for an early general election. This move puts unions directly in the political arena, and the government has criticised them for acting as a political party. Currently, the government intends to change the rules for tripartite concertation.

### **Reforming the tax system and the welfare state**

Policy makers increased continuously the minimal wage in Czech Republic in order not fall in the poverty trap. To keep up with everyday sustenance minimal wage ought to be raised by 20% (for big family that would be hardly enough). On the demand side privat business creates work places mostly for the educated labour while high social burdens on wages hinder the expanding of employment for less educated. Part time jobs are rare, misuse on the employers' side is typical. (over hours, illegal employment etc.

Poland has a high tax burden on labour leading to a substantial tax wedge in particular on low earnings. Measures to reduce labour taxes for employers hiring graduates and for SMEs creating new employment are proposed as part of a package to reduce business taxation. Social contributions are also reduced for graduates and other persons starting their own businesses. The July 2002 amendments to the Labour Code aim at reducing labour costs through a change in the

rules on sick leave provision. The administrative burden is eased for employers with less than 20 employees. Changes to the personal income tax are also envisaged, mainly in relation to revenue generated from business activity. While promoting job creation in particular for the young, these measures do not address the high payroll taxes particularly for low salaries in a systematic way. In the 1990s substantial use was made of pre-retirement allowances. Legislation has been adopted to gradually phase them out. The amount of pre-retirement benefits and the criteria for their granting have been made more restrictive. While unemployment benefit is received only by a minority of the unemployed social assistance may create some disincentive effects. From January 2002 more stringent criteria have been adopted for social assistance allowance to promote active job search rather than passive collection of allowances.

In Slovakia the rise in the wedge in 2001 was alarming. Also the 3.6% difference in tax wedge between the minimum and the average wage is too small to stimulate employment in low productivity areas. Moreover, it is not clear whether future policy will target a reduction in the tax burden on the lower incomes. While budgetary room for manoeuvre is small, reducing the high social contributions is a matter of priority in order to reduce the tax-wedge.

So far, little progress has been made in tackling work disincentives in the social benefit systems. Reforms have been elaborated to increase the gap between low net earnings and benefit levels, but implementation is lagging. The existing social assistance system, which does not take account of substantial regional differences in the costs of living, in particular in housing costs, may contribute to low regional labour mobility despite of huge employment and unemployment differentials. Social assistance needs to be reformed to ensure sufficient incentives to search and take up employment in all parts of the country and to sharpen conditionality on active job search and training and its practical implementation. The programme of the government states that labour mobility will be encouraged by "introducing incentives in the social system, in line with housing and employment policy".

The provisions for early retirement and for sick leave seem to contain strong disincentives to work. The retirement age is set at 53 to 57 years for women and 60 years for men. The Slovak government is currently preparing a major pension reform, which is expected to address labour market related issues of the retirement system.

One of the most interesting policy measures has been an ambitious tax reform. The reform includes a more transparent and simpler tax law, a shift in the tax burden from direct to indirect taxes, and a flat income tax rate. A uniform rate of VAT aims to improve administration and compliance, while leading to a more neutral taxation of goods and services. Lower direct taxation may encourage the legalisation of firms operating in the 'grey economy' as well as heavier foreign and domestic investment. Nonetheless, cuts in welfare benefits have caused widespread protests and may serve as a warning to lessen the pace of reforms.

## **Labor Costs and Productivity**

After 1992, there were impressive improvements of aggregate productivity in Hungary, Poland, whereas productivity growth was sluggish in the Czech Republic (table 2, figures 1-4). As mentioned above, however, productivity growth frequently lagged behind wage increases in other countries as well, indicating declining labor cost competitiveness. Aggregate ULCs (ECU adjusted) rose during the 1990s, especially in Poland and the Czech Republic; for example, productivity lagged considerably behind the growth of nominal ECU wages, whereas ULC growth was much less pronounced in Hungary and Slovenia (part of ULC growth resulted also from appreciating currencies-see figure 6). Table 2 shows that in the period 1994-98 labor cost competitiveness deteriorated in the Czech Republic (ECU-adjusted ULCs grew by 11 percent on average during 1994-98), Poland (7 percent), and Slovenia (4 percent), while it has markedly improved with declining ULCs in Hungary.<sup>53</sup>

In the manufacturing industry (data are available until 1997 only), international ULCs have been growing less rapidly than in the economy as a whole (in the Czech Republic, Poland, and Slovenia), or the ULC's drop in manufacturing was much more pronounced (in Hungary, for example) than in the whole economy. This drop resulted from a generally faster growth of productivity in the manufacturing industry. Developments are extremely uneven across countries and individual branches of the industry. An outstanding feature has been impressive ULC improvements in almost all branches of Hungarian manufacturing after 1992 (ULC in the Hungarian manufacturing industry dropped by 7 percent per year during 1993-97), sharply contrasting with the deteriorating labor cost competitiveness of most industries in the Czech

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<sup>53</sup> World Bank Technical Paper 2003

Republic and Poland, at least until 1996. A startling feature is the remarkable ULC improvements (mainly thanks to huge productivity increases) in transport equipment, electrical and optical equipment industries, highly penetrated by FDI in all CEECs. This provides another piece of clear evidence for efficiency gains brought about by foreign management. A comparison of ULC levels across countries requires internationally comparable productivity level estimates in order to eliminate not only exchange rate fluctuations, but also cross-country differences in the base year price level. There is hardly any literature regarding ULC level estimates for the transition countries.<sup>6</sup> The main problem is certainly posed by the lack of comparable productivity statistics, but reliable data on total wage costs are also difficult to obtain. Hitchens and others (1995) have compared productivity and wages in a sample of manufacturing plants in the Czech Republic and Hungary with that of Germany (separately for East and West Germany). Their sample results show that in 1993 the Czech manufacturing productivity was 18 percent (and the Hungarian 20 percent) of the 1988 West German level when estimated from the value added. Physical productivity was much higher than value-added productivity: 30 percent of the West German level in the Czech Republic and 44 percent of that level in Hungary. These productivity estimates would tentatively imply manufacturing ULCs ranging from 21 percent to 35 percent of the West German level for the Czech Republic and between 24 percent and 53 percent of the West German level for Hungary.

## Summary

In the transitional period Visegrad countries pursued different paths in economic restructuring which generated various labour market solutions and trends. In the context of GDP growth and cost competitiveness and the consistency of macroeconomic policies Visegrad countries succeeded to transform their economies to functioning market economy over the 90s. Compared with the EU-15 average labour costs are around one fifth in the four countries and even using the purchasing power standards (PPS) the difference is halved. In Slovakia labour costs are the lowest due to the lowest monthly wages expressed in Euros and also to personal income taxes, among other three countries. In Poland, Hungary and the Czech Republic different exchange rate and nominal wage developments, differences in wage taxes result in almost identical labour costs.

In recent years the Visegrad countries started to experience - though to different extent - the pressure from wage competition of lower wage countries and costs and the need to increase the value added of their output. This depends on the quality of human and physical capital, influenced among others by R+D expenditures, spending on secondary and tertiary education. In terms of R+D spending Hungary lags behind the Czech Republic, while all four countries are considerably behind the EU-15 average and in the contribution of the private sector to this R+D spending.<sup>54</sup>

Hungary has a strong advantage over the other three countries in labour productivity as its level is by 10-20 percentage points higher than the level in other three countries when compared with the EU-15 average. The gap is due to earlier restructuring, capital intensive investments, which have increased productivity faster than in other Visegrad countries, though in recent years the gap declined due to increased FDI inflows and related productivity increase in the other three countries. Hungary has strong comparative advantage in the flexibility of labour markets. While internal migration is low, long-term and youth unemployment as well as regional differences in unemployment are significant, labour market rules are much more flexible than in other Visegrad countries and more flexible than in the EU-15 countries. This may be an important advantage for future investments, especially if the expected expansion of SME driven FDI materialises after accession.

Poland, Slovakia and Czech Republic have similar or slightly higher tax burden and social security contribution than Hungary. Total tax burden is not significantly different in the four countries: the differences lie mainly in the contribution of direct or indirect taxes and the dead-weight loss caused by taxation. While there has recently been an increasing tax competition in corporate income taxes, Slovakia and the Czech Republic put less burden on personal income taxes, while on average more on indirect taxes than Hungary and Poland.

It is also important to note that there is a tiny difference in social security contributions, as the total rates are equal and the differences among the countries are in the relative contribution rates

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<sup>54</sup> ICEG European Center

of employees and employers. In all four countries both tax rates and social security contributions are high compared with their level of economic development and ability to attract further investments and increase the very low in international comparison employment rates. Within the selected microeconomic factors Hungary has comparative advantage in labour productivity and flexibility of labour markets, while disadvantage in spending on human and physical capital.