

## Hungary: Potential labour reserve shrinks to new low

The unemployment rate stands at 3.6%, in line with full employment. And the potential labour reserve has fallen, pushing companies to spend more on wages and capex



Source: Shutterstock

**3.6%** Unemployment rate

Consensus (3.6%) / Previous (3.6%)

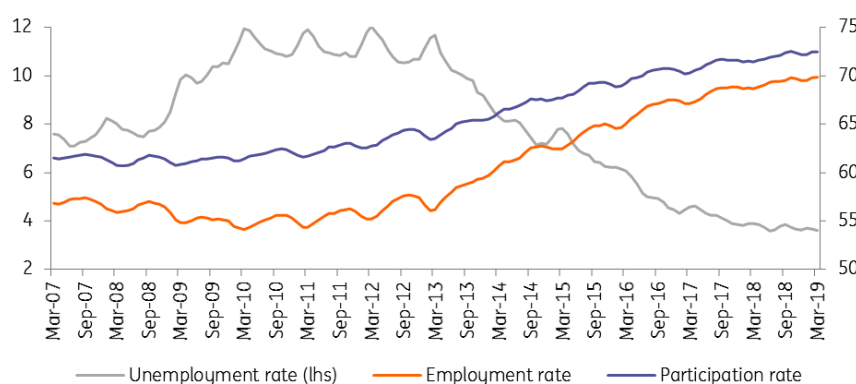
As expected

The unemployment rate of the 15–64 age group was at 3.6% in March 2019, showing a 0.3 percentage point drop compared to a year ago. In this respect, the unemployment rate has remained stable for nearly 12 months, suggesting that Hungary has reached full employment—taking into consideration the recent structure of the labour market.

All of the major labour market indicators suggest we are at the peak and can expect only marginal improvements going forward. However, the positive trend has continued on the primary labour market while the number of fostered workers (who are working in state-financed, low skilled jobs

for less than the minimum wage) decreased to a multi-year low of 120k. For reference, the number of unemployed people is at a record low 166k.

## Labour market trends (%)



Source: HCSO, ING

Looking forward, due to the significant decrease in the potential labour reserve, we see hardly any significant improvement in 2019. According to the latest report by the Hungarian Central Statistical Office, the labour reserve dropped by 50k from a year ago to 310k (out of which 10% is underemployed, so they've already been counted in the participation rate). Against this backdrop, we see the unemployment rate stabilising around 3.6%, as long as economic policy fails to address the geographical and skills mismatch between supply and demand in the labour market. A positive result of the tight labour market is that the continued labour shortage will push companies to increase their capital expenditures, thus enhancing productivity, while they offer higher wages to keep or hire labour.

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