

Hungary: Structural reform required for labour market improvements

Despite the unemployment rate moderating to 3.7%, the numbers support our earlier view that from here onwards there is little room for significant improvement



Source: Shutterstock

3.7%

Unemployment rate

Consensus (3.8%) / Previous (3.9%)

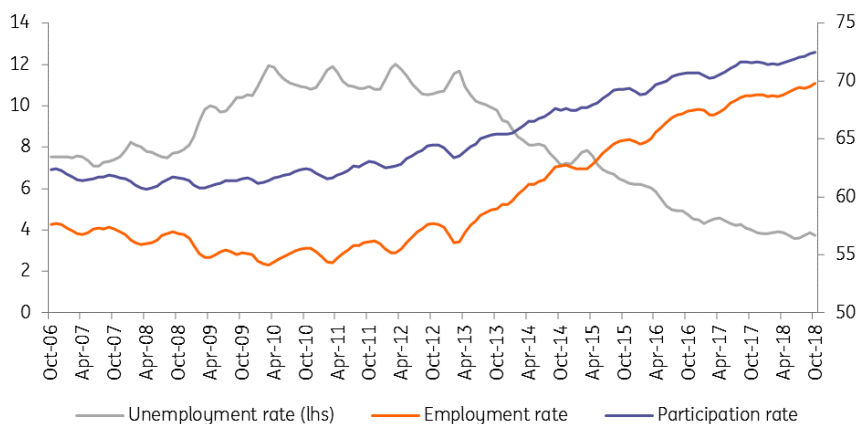
Better than expected

The unemployment rate for 15–64 year-olds decreased to 3.7% in October 2018, marking a 0.3 percentage point drop compared to the same period last year. It's important to note that the October figure matches with the January reading, so if we exclude seasonal effects from the overall picture, we've not really seen any improvement since the start of the year.

According to the statistical office, the number of people in employment in October touched another record registering 4.439 million people, a 0.9% (40k) increase on an annual basis. When it comes to the group of economically inactive, the number dropped below 1.750 million.

Overall, after the record-setting month that was July, in terms of numbers, October also surprised us positively.

Labour market trends (%)



Source: HCSO

Regarding the structure of expansion, the tendencies have remained favourable as the number of employed people in the primary labour market rose by 109k. Even though, the number of those who work abroad slightly increased, the sum of those and the number of fostered workers - low skilled people working in government-financed work schemes decreased.

Looking forward, the pace of improvement is still slowing down due to the narrowing supply side of the labour market. The potential labour force reserve could be around 300k, half the amount of what the statistical office calculated a year ago.

To tap into that reserve and see a further significant improvement, we need to see structural reforms. As we haven't seen any promise on that, we forecast a 3.6% unemployment rate by the end of the year.

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