

THE REGIONAL EFFECTS OF ECONOMIC CRISIS IN HUNGARY

EFECTELE LA NIVEL REGIONAL ALE CRIZEI ECONOMICE IN
UNGARIA

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Abstract: *The supervening credit crisis in autumn 2008, the deepening world economic crisis in 2009 and the prolonging crisis in 2010 had an effect on the economic processes in Hungary. The territorial aspects of these phenomena have led to the increase of regional inequalities. Crisis has been experienced mainly in the decline in industrial production and the rise in unemployment. While the former has affected mainly the processing industry, the latter has concerned the skilled male workers and the highly qualified employees working in the market sphere.*

Key words: *economic crisis, regional inequalities, unemployment, development plan, Hungary*

INTRODUCTION

The international financial crisis erupting in September 2008 had already reached Hungary in October and its macroeconomic effects had already been observed since November. The financial and economic crisis touched bottom in spring and at the beginning of summer 2009, but the prolongation of crisis was felt until the second half of 2010.

Objective factors (international money market situation) and subjective ones (the country's social-economic situation) played role in the appearance of financial crisis in Hungary then in the deepening of economic crisis (Fenyő M. 2010). The role of these factors can be outlined in the transformation of Hungarian economic structure and the increase in regional inequalities.

Hungary is the 51st state economy in the world and produces only 0.2% of total world GDP. 70% of the country's GDP comes from the Foreign Direct Investments, while the 80% of export and import is transacted by foreign companies (Bernek Á. 2009). For this reason the Hungarian economy is so exposed to the international financial mechanisms. The global financial crisis hit Hungary considerably because the powerful fluctuation of rate and the weakening Forint caused by the risk avoiding financial investors and the declining demand for the Hungarian government securities in the last years (Dános A. 2009).

Crisis has been experienced mainly in the decline in industrial production and the rise in unemployment. While the former has affected mainly the processing industry, the latter has concerned the skilled male workers and the highly qualified employees working in the market sphere. As a consequence the territorial concentration of industrial production capacity and the structural change of the current unemployment can be observed presently. The direct consequences of the crisis go hand in hand with the deterioration in the affected group's life circumstances (Uzzoli A. 2011). At the beginning of the crisis forecasts regarding regional development predicted the moderation of regional inequalities. At present it is clear that regions which were the winners of regime change could pull through the crisis more easily while the lag of loser regions is growing.

MATERIAL AND METHODS

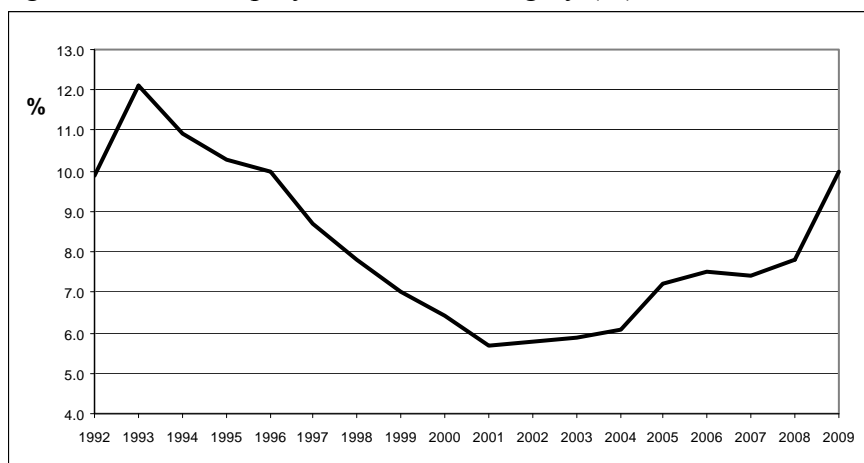
The aim of this study was to give a short review of the appearance of crisis in Hungary on the one hand and to interpret the connection between the crisis and the macroeconomic indexes referring to regional aspects on the other. Working up this topic we used the preceding professional literature and the statistical analysis, we analysed the NUTS2 (region) and NUTS3 (county) territorial levels. The direct and indirect consequences of crisis affected mainly the unemployed people, they are the most exposed to the crisis. This is why this study focuses mainly on the temporal and territorial variations in unemployment. Based on the analogy of the transition period after 1990 our main issue was what kind of structural and regional changes the economic crisis caused in the variations in the Hungarian unemployment.

At the end of the paper we wish to present briefly the current economy development programmes of Hungary which besides trying to correspond to global and European challenges also make an attempt at abandon the consequences of the economic crisis.

RESULTS AND DISCUSSION

At the beginning of the '90s the Hungarian labour market was characterised by the quick deterioration of labour market and the rapid increase in the unemployment rate. Figure 1. shows that the Hungarian unemployment increased very fast within a short period of time after the years of regime change, it touched the bottom (12.1%) in 1993. Between 1993 and 2001 the unemployment decreased constantly and considerably, 2001 was the best year when the index was 5.7%. After 2001 the unemployment rate increased with little fluctuations, but a serious rise has been experienced since 2007, before the crisis. As a consequence of the financial and credit crisis in autumn 2008, the unemployment rate was the highest (more than 10%) in May 2009, but after the second half of 2010 a slow moderation can be noticed.

Figure 1. The unemployment rate in Hungary (%), 1992-2009



Data source: www.ksh.hu

[The Hungarian Central Statistical Office has been reporting Hungarian unemployment data since 1992.]

The majority of job hunters have always been men since the appearance of unemployment in Hungary. The unemployment proportion between the two genders converged substantially from 2004 to 2008, but representative dominance of men can be observed again in this sense after 2009. Currently the Hungarian men's unemployment is 25% higher than those for women.

Causes of unemployment also changed basically in the period of crisis compared to the first half of the '90s. Owing to the regime change employment in agriculture and industry decreased, but the proportion of unemployed entrant professionals with degree has risen since the end of '90s.

People with low education were the obvious losers of the regime change regarding the labour market and the deterioration of life circumstances. In contrast with this phenomenon the present crisis has affected the highly qualified employees working in the tertiary and quaternary sectors. Thus highly educated social groups with better quality of life indexes have appeared among the unemployed in the last decade.

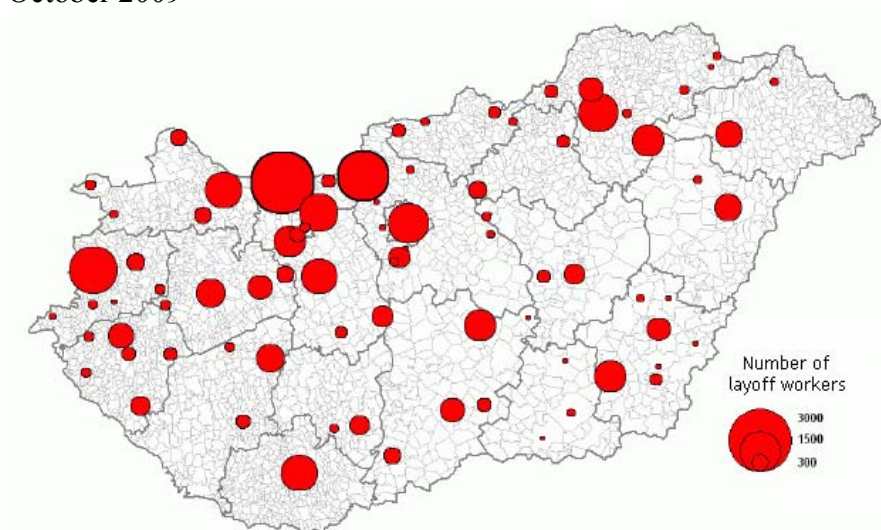
Counties lagging as a consequence of regime change are located in the eastern and north-eastern part of the country (Nemes Nagy J. 2004), but the situation of Somogy and Baranya counties in the western part of the country is also unfavourable compared with the national average. The transition into market economy caused the western-eastern diversification of the country's special structure of unemployment together with the increase in regional inequalities and Hungary's polarised spatial development.

The present economic crisis has primarily affected counties being the winners of regime change (e.g. Győr-Moson-Sopron) and regions in favourable situation (e. g. West Transdanubia). Owing to the redundancy of export oriented companies of processing industry and large companies the increasing unemployment has been observed mainly in the north-western territories from October 2008 (Lócsei H. 2010a). Figure 2. shows that the most dismissals affected the Central and Western Transdanubia regions in the first year of crisis. The capital and its agglomeration, the region of Balaton and the backward territories were among the less affected areas. The number of dismissals was lower in these backward territories (the middle of the Great Plain, Nord Hungary) because of the lack of larger local companies.

However redundancy and unemployment have affected mainly western Hungary being in a better social and economic situation, the spatial structure of unemployment did not change basically.

Studying the distribution of unemployment on county level in 2009 (Figure 3.) we can observe that the highest proportion of job seekers was located in the northern and north-eastern part of the country (Nógrád, Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg megye) where the index was above 13-14%. The better situation of Central Hungary (Budapest and Pest county), north-western Hungary (Komárom-Esztergom and Győr-Moson-Sopron county) and Csongrád county in Eastern Hungary can also be observed.

Figure 2. Number of lay-off workers in Hungary, between October 2008 – October 2009

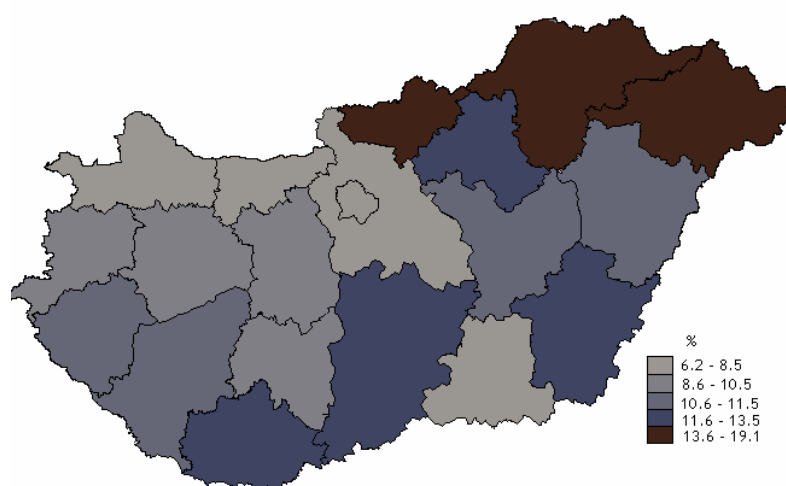


Source: Lócsei H. 2009.

The economic crisis of the former years has rather differentiated the areas in a better situation, deepening the contrast between the capital and rural areas (Lócsei H. 2010b). The long-distance spatial effects of crisis may result in the slight increase of territorial inequalities and in the continuous lag of backward areas. Namely the forecasts formulated at the eruption of

the crisis have not proved themselves to be appropriate predicting that the spatial consequences of crisis would accompany the equalization of territorial differences (e. g. Enyedi Gy. 2009). Actually these forecasts were based on the idea that the crisis would irrevocably cut back the remaining technologies in the backward territories, in this way these areas would be capable to exploit their local resources more efficiently in the long run (e.g. agricultural potential).

Figure 3. The regional inequalities of unemployment rate in Hungary (%), 2009



Data source: Hungarian County Statistical Yearbook, 2009.

In order to mitigate the negative spatial effects of the economic crisis different workplace-preserving programmes started in Hungary in spring 2009. These programmes aimed to moderate the unemployment and to maintain the level of employment and were financed from funds of the European Union (e. g. Társadalmi Megújulás Operatív Program – Operative Programme of Social Reform) and from national resources, using altogether 10 billion Forints (www.afsz.hu). The distribution of these programmes between regions was problematic, because regions in deep crisis have not always been the beneficiaries (Stárics R. 2010).

CONCLUSIONS

The Hungarian government announced the New Széchenyi Plan in the middle of January 2011 and the Széll Kálmán Plan at the beginning of March 2011 in order to create the conditions of the long run economic growth, to eliminate the polarization of spatial development and to avoid a new deep economic crisis.

While the former plan is based on the more efficient utilization of the EU financial resources, the latter plan aims to create the conditions for GDP growth and the stable labour market through the lowering of public debt and the reduction of general government deficit. Both development plans forecast the followings for the first half of 2014:

- the growth of GDP rate from the present 1% up to 4-6%,
- the creation of at least 300.000 new workplaces,
- the reduction of general government deficit below 3% of GDP,
- the lowering of public debt from the present 82% to 65-70% of GDP.

(<http://www.mno.hu/upload/docfiles/1103/szellkalmaninterv.pdf>)

The priorities of these current development plans – the so called take-off points – integrate several economic activities and industrial sectors the development of which could lead to the medium-term appearance of Hungarian products, services and enterprises competitive on both global and European levels.

Thus Health Industry Programme, Green Economy Development Programme, Housing Programme, Development of Business Environment Programme, Science-Innovation-Economic Growth Programme, Employment Programme and Transport-Transit Economy Programme on the one hand harmonize with the strategic objectives of the EU 2020 economic policy, on the other hand are based on the common risk-taking of the Hungarian enterprises, self-governments and state (www.ujsechenyiterv.gov.hu).

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