

**Labour mobility within the EU in the context of enlargement and the functioning
of the transitional arrangements**

VC/2007/0293

Deliverable 8

The Vienna Institute for International Economic Studies (wiiw)

Country Study: Hungary

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Abstract

Hungary is a relatively 'closed' country, neither outward nor inward migration is really significant. Hungary is among the less important sending countries of the EU's new member states and, as host country, attracts much less migrants in relative terms than the old EU members. Compared to the communist era the mobility in both directions is more significant, but the EU accession has not changed the characteristics of migration in either direction. Most of the immigrants arrive from neighbouring countries and they are typically ethnic Hungarians. This explains the relative importance of naturalisations appearing in highly diverging numbers of foreign born persons and foreign citizens, respectively, in Hungary. Foreign employment is highly concentrated in the Budapest agglomeration and to a smaller extent in Central Transdanubia, both regions figuring as engines of growth in Hungary. The breakdown of foreign employees by branches significantly differs from that of the total employees. Foreigners are over-represented in construction and industry while under-represented in the services sectors. This latter, however may accommodate a substantial part of illegal employment.

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1 Main characteristics of the Hungarian labour market

The macroeconomic framework

The changeover to parliamentary democracy and a market economy fundamentally transformed the Hungarian labour market. The recession that started in 1990 had reduced the Hungarian GDP by about 20% in 1990-1993, and the number of employed decreased by one quarter.¹ After decades of (nominal) full employment under the communist regime, open unemployment appeared; it climbed to close to 12% by 1993. After a short recovery of the economy by 1994 the mounting fiscal and current account deficits necessitated an austerity programme in 1995 which radically diminished the population's living standard through accommodation of household consumption to the reduced economic performance of the country. The stabilization package opened the way for sustainable economic growth and falling unemployment. 1997-2001 was a period of stable growth and rapid

Table 1: Selected economic indicators, 1989-2007

Year	GDP	Employment previous year = 100	Unemployment	Real earnings
1989	100.7	98.2	...	99.7
1990	96.5	97.2	...	94.3
1991	88.1	92.6	...	93
1992	96.9	90.3	9.8	98.6
1993	99.4	93.8	11.9	96.1
1994	102.9	98	10.7	107.2
1995	101.5	98.1	10.2	87.8
1996	101.3	99.1	9.9	95
1997	104.6	100.1	8.7	104.9
1998	104.9	101.4	7.8	103.6
1999	104.2	103.2	7	102.5
2000	105.2	101	6.4	101.5
2001	103.8	100.3	5.7	106.4
2002	103.5	100.1	5.8	113.6
2003	102.9	101.3	5.9	109.2
2004	104.6	99.5	6.1	98.9
2005	104.1	100	7.2	106.3
2006	103.9	100.7	7.5	103.5
2007	101.3	99.9	7.4	95.2

Source: Fazekas and Kézdi (2007), p. 155, wiiw Database.

¹ Foglalkoztatási Hivatal (2006), p. 41.

Table 2: Labour market indicators for selected EU member states and group of member states, 2000-2006

	2000					2004					2006				
	Hungary	EU-15	Czech R.	Slovakia	Poland	Hungary	EU-15	Czech R.	Slovakia	Poland	Hungary	EU-15	Czech R.	Slovakia	Poland
1. Total population (000)	9,924	370,902	10,222	5,377	38,033	9,944	378,805	10,196	5,370	37,601	9,921	382,884	10,265	5,389	37,446
2. Population aged 15-64	6,764	248,387	7,116	3,693	25,739	6,826	252,529	7,231	3,792	26,142	6,816	255,498	7,307	3,862	26,325
3. Total employment (000)	3,844	166,408	4,941	2,102	14,526	3,879	172,043	4,940	2,168	13,795	3,905	176,009	5,082	2,302	14,577
4. Population in employment aged 15-64	3,806	157,530	4,625	2,096	14,155	3,875	163,696	4,639	2,160	13,504	3,906	169,016	4,769	2,295	14,338
5. Employment rate (% population aged 15-64)	56.3	63.4	65.0	56.8	55.0	56.8	64.8	64.2	57.0	51.7	57.3	66.2	65.3	59.4	54.5
6. Employment rate (% population aged 15-24)	33.5	40.5	36.4	29.0	24.5	23.6	40.0	27.8	26.3	21.7	21.7	40.3	27.7	25.9	24.0
7. Employment rate (% population aged 25-54)	73.0	76.5	81.6	74.7	70.9	73.6	77.7	81.4	74.7	68.2	74.2	79.0	82.5	77.2	71.8
8. Employment rate (% population aged 55-64)	22.2	37.8	36.3	21.3	28.4	31.1	42.5	42.7	26.8	26.2	33.6	45.3	45.2	33.1	28.1
9. FTE employment rate (% population aged 15-64)	56.0	58.0	63.2	56.4	:	56.5	58.6	63.3	55.7	50.2	57.2	59.4	64.4	58.3	52.9
10. Self-employed (% total employment)	15.1	14.5	17.4	8.3	27.4	14.2	14.6	18.8	12.3	26.7	12.7	14.4	18.3	13.0	25.7
11. Part-time employment (% total employment)	3.5	17.7	5.3	2.1	10.5	4.7	19.4	4.9	2.7	10.8	4.0	20.8	5.0	2.8	9.8
12. Fixed term contracts (% total employment)	7.1	13.7	8.1	4.8	5.8	6.8	13.7	9.1	5.5	22.7	6.7	14.8	8.7	5.1	27.3
13. Employment in Services (% total employment)	59.8	70.0	56.0	59.3	53.9	62.0	72.0	57.6	60.8	53.9	63.0	72.7	58.2	62.3	53.9
14. Employment in Industry (% total employment)	33.9	25.8	39.1	35.0	26.9	32.9	24.2	38.4	34.6	26.9	32.3	23.7	38.1	33.7	26.9
15. Employment in Agriculture (% total employment)	6.4	4.2	4.8	5.7	19.2	5.1	3.8	4.0	4.5	19.2	4.8	3.6	3.7	3.9	19.2
16. Activity rate (% population aged 15-64)	60.1	69.2	71.3	69.9	65.8	60.5	70.6	70.0	69.7	64.0	62.0	71.7	70.3	68.6	63.4
17. Activity rate (% of population aged 15-24)	38.3	48.2	44.4	46.0	37.8	27.9	47.5	35.2	39.3	35.9	26.8	47.9	33.5	35.3	34.2
18. Activity rate (% of population aged 25-54)	77.3	82.4	88.4	88.4	82.4	77.9	83.8	87.8	88.9	81.9	79.6	84.7	88.2	87.6	81.7
19. Activity rate (% of population aged 55-64)	22.9	40.8	38.2	24.3	31.3	32.0	45.5	45.1	31.7	29.6	34.9	48.4	47.7	36.7	30.7
20. Total unemployment (000)	261	13,533	445	485	2,788	253	14,827	426	483	3,230	317	14,466	372	355	2,344
21. Unemployment rate (% labour force 15+)	6.4	7.7	8.7	18.8	16.1	6.1	8.0	8.3	18.2	19.0	7.5	7.7	7.1	13.4	13.8
22. Youth unemployment rate (% labour force 15-24)	12.4	14.8	17.8	36.9	35.1	15.5	15.9	21.0	33.1	39.6	19.1	15.7	17.5	26.6	29.8
23. Long term unemployment rate (% labour force)	3.1	3.4	4.2	10.3	7.4	2.7	3.4	4.2	11.8	10.3	3.4	3.2	3.9	10.2	7.8
24. Youth unemployment ratio (% population aged 15-24)	4.8	7.7	8.0	17.0	13.3	4.3	7.5	7.4	13.0	14.2	5.1	7.6	5.9	9.4	10.2

Source: European Commission (2007).

modernization and was characterized by one of the lowest unemployment rates in the region. From 2001 on, closely related to political cycles, public deficits began to grow. The irresponsible economic policy of the Orbán, Medgyessy and Gyurcsány governments from mid-2001 on culminated in a crisis by the summer of 2006, necessitating a second austerity programme. This reduced economic growth to 1.3% by 2007 and (after ten years) the unemployment rate amounted again to 8% (see Table 1).

Low activity rate

The main feature of the Hungarian labour market is the relatively low participation/activity rate (see Table 2). It is roughly 10 percentage points lower than the respective indicator of the old EU members. The lag behind the other new EU members in Central Europe is significant as well. The respective indicators of the Czech Republic and Slovakia are similar to those of the EU-15, and only Poland's participation/activity rate is similarly low as Hungary's, nevertheless only after a considerable deterioration over the last few years. In 2005 not less than 34% of the population (male 15-59, female 15-54 years) was inactive (in 1990 only 23.1%). The unique feature of the Hungarian labour market is the high share of 'other inactive' within the pool of the inactive population (those who are not pensioners, students or on child care leave). This segment of the population is twice as large as that of the unemployed. Information on the segment 'other inactive' is limited. An unknown part of these people are engaged in the unreported economy. Among the population aged 15-64, disabled persons took a share of over 5% of the respondents, dependents 2% and those out of work for other reason over 2% in 2005 (according to self-categorization, being asked about their own labour market status).²

The lag compared to the EU-15 is not smaller concerning the Hungarian employment rate either. It has even become bigger since 2000 as the respective indicator for the EU-15 has substantially improved in this period while the Hungarian one only to a moderate extent. Compared to other Central European new EU member states, the results of the comparison are however better than in the case of the participation/activity rate. While the Czech indicator is much better than the Hungarian, Slovakia performs hardly better while Poland worse than Hungary (see Table 2).

Hungary has traditionally been a low-unemployment country among the new members, but with respect to the low activity rate and especially the high share of 'other inactive' in the population this indicator must be treated with caution. Nevertheless, the Hungarian unemployment rate is similar to that of the EU-15. Of the Central European new member states, the Czech Republic's unemployment rate has been similar to the Hungarian one, while Poland and Slovakia have traditionally been economies with high unemployment. In both countries, however, the respective indicator has been improving to a considerable extent since 2000 (see Table 2).

² Fazekas and Kézdi (2007), Table 3.8, p. 166.

The youth unemployment rate as a share in the labour force aged 15-24 has been similar to the respective indicator of the EU-15, but with a deteriorating tendency over the last few years. Compared to the neighbouring new members, the Hungarian record is similar to that of the Czech Republic and much better than those of Poland or Slovakia. Practically the same is true for the long-term unemployment rate (see Table 2).

The services sector's share is lower, that of industry is higher than in the old EU

In the Hungarian economy the share of self-employed is very similar to the respective indicator of the EU-15, a clear indication that the transition to a market economy has been completed in this respect. An other important indicator, part-time employment, is substantially worse than in the more developed old EU members, hinting at the fact that Hungary (just as the Czech Republic and Slovakia) is far behind the highly developed economies in the utilization of this tool of flexibility (see Table 2).

Concerning the main proportions of employment by branches, the share of services has been about 10 percentage points lower in Hungary than in the EU-15; in turn, the share of industry is about 10 percentage points higher, while agriculture's relative importance became similar by 2006. The distribution of employment by main branches is similar to that in Slovakia, while differences are considerable compared to the Czech Republic, where industry is more important than in Hungary, and Poland, where substantially more people are employed in agriculture (see Table 2).

Since 1990 fundamental changes have been taking place in the composition of employed by level of education (see Table 3). By 2005 the share of employed with 8 grades of primary school or less declined from 38% (male) and 43% (female) to 13% (male) and 15% (female) of total employed, clearly pointing to the main 'loser' social stratum of transition. The share of university graduates more than doubled within this period. Differences in educational level by gender are remarkable and growing. Between 1990 and 2005 the share of university graduates and secondary school graduates became substantially higher in the group of female than in that of the male employed.

Table 3: Composition of employed by level of education, in %

	8 grades of primary school or less		Vocational school		Secondary school		College, University		Total	
Year	male	female	male	female	male	female	male	female	male	female
1990	37.6	43.4	30.5	13.4	20.1	31.4	11.8	11.8	100.0	100.0
1995	21.3	26.5	38.5	20.1	25.5	37.1	14.7	16.3	100.0	100.0
2000	16.1	19.1	41.6	20.9	26.7	40.8	15.6	19.2	100.0	100.0
2005	13.0	15.4	40.8	20.2	27.7	40.0	18.5	24.4	100.0	100.0

Source: Fazekas and Kézdi (2007), p. 170.

Considerable regional differences

Finally the regional inequalities must be mentioned. Employment rates (and also unemployment rates, not shown here) differ among the seven Hungarian NUTS-2 regions (see Table 4). Central Hungary (including Budapest) had an employment rate of 63.3% in 2005, only 3 percentage points less than the EU-15 average. On the other extreme, Northern Hungary's respective indicator was 49.5% only, i.e. less than half of the working-age population (15-64 years) had a job. The record of the Northern Great Plain was hardly better than that. Beyond the Budapest agglomeration only the Central and Western Transdanubia regions have featured relatively good (over 60%) employment rates.

Table 4: Regional inequalities in the Hungarian employment rate, 1992-2005

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
1992	62.3	57.7	62.0	57.2	52.2	52.5	57.9	58.0
1996	56.8	52.7	59.3	50.3	45.7	45.6	52.8	52.4
2000	60.5	59.2	63.4	53.5	49.4	49.0	56.0	56.3
2005	63.3	60.2	62.0	53.4	49.5	50.2	53.8	56.9

Source: Fazekas and Kézdi (2007), p. 215.

2 Migration from and to Hungary

2.1 Outward migration

Historical background

Hungary has a history of mass emigration, however, this refers to the period from the 1880s until the First World War. In this period two million persons left the country, mainly for the US. After World War II, in the framework of one-sided or mutual ethnic cleansing, respectively, 200,000 ethnic Germans and over 70,000 ethnic Slovaks left Hungary. From the beginning of the communist rule emigration was prohibited. This four-decade-long period was interrupted in 1956 when, after the fall of the revolution, about 200,000 Hungarian citizens fled; this was the last major emigration wave from Hungary.³ From the early 1960s to 1990 travel to the non-communist abroad was gradually liberalized. Each year a few thousand persons used this opportunity to leave Hungary for good, although emigration itself, as rule, was regarded illegal. With the beginning of the transition to parliamentary democracy in 1989, a law was passed that abolished all restrictions on emigration. Along with the liberalization of outward migration, the

³ Juhász (2003), pp. 1-2.

registration of the later became impossible. Data on Hungarians emigrating are only available from the mirror statistics of the receiving countries.

Changes following the EU accession

With the accession of Hungary to the EU, Hungarian citizens are in principle entitled to work in any other EU and EEA (European Economic Area) member state. Nevertheless, because of transitional measures the completely unrestricted 'freedom of movement' will apply for Hungarian citizens only from 2011. The initial restrictions on Hungarian (and other NMS-8) migrants have been relaxed in several steps since the accession in 2004. Currently 21 EU members and 1 EEA member apply no restrictions on migration from Hungary. The EU members France, Belgium and Denmark, and EEA member Norway have not lifted the restrictions but introduced significant alleviations.⁴ Two EU members, Austria and Germany, and the EEA members Liechtenstein and Switzerland have maintained the restrictions, but in the framework of bilateral agreements these countries (except for Liechtenstein) allow migration under specific conditions.⁵ These four countries will most probably use the opportunity to protect their labour market from migration from Hungary up to 2011.

Hungary among the new EU members with the smallest emigration

We have a relatively clear picture of Hungarians migrating within the EU. Table 5 displays the number of persons of working age from eight new EU member states as registered in other EU member states in the year 2006. The data clearly show that in comparison to other new EU members, the propensity of Hungarians to migrate is fairly limited. Hungary's working-age population amounted to 13.5% of the total NMS-8 working-age population, while the share of Hungarians of working age registered in other EU countries amounted to 6.6% only of the total NMS-8 working-age population in other EU member states (see Table 5). Among the new members it was only the Czech Republic where these proportions were similar to those of Hungary, hinting at a similarly low migration propensity. The last column of Table 5 shows the share of Hungarian working-age population registered in other EU member states in relation to the whole Hungarian working-age population. This is only 1%, substantially less than in any of the other new EU members, except for the Czech Republic (1.1%). Surprisingly this share is much higher in the traditional and more recent 'success stories' of the region, i.e. Slovenia, Estonia and Slovakia (see Table 5).

After the 2004 enlargement, only Ireland, Sweden and the UK opened up their labour markets to the NMS migrants without any restrictions. For this reason it is especially interesting to see how migration from NMS in general and from Hungary in particular developed over the three to four years of unrestricted access in the UK labour market. Nationals of the NMS-8 who wish to undertake employment in the UK for a period of at

⁴ France will fully open up its labour market to the NMS (except for Bulgaria and Romania) as of 1 July 2008.

⁵ Public Employment Service (2008), status 16 November 2007.

least a month are required to register with the Worker Registration Scheme (WRS). Self-employed are not required to register, thus they are not included in the figures. The WRS data of registered NMS-8 nationals show that in the period May 2004 to December 2007 the share of Hungarians was slowly increasing from 2.9% to 4.2% of total NMS-8 migrants.⁶ Nevertheless, the share of Hungarian nationals was much lower over the whole period than the Hungarians' share in the working-age population of the NMS-8 combined. This amounted to 13.5% in 2006, more than three times exceeding the share of Hungarian migrants in total NMS-8 workers taking a job in the UK after the EU enlargement and the successive opening-up of the UK labour market. Among the NMS-8, only Slovenia was more strongly underrepresented on the UK labour market than Hungary.

Table 5: Working-age NMS-8 nationals in other EU countries, 2006 (thousands)

	total population in the home country	working-age population in the home country	distribution by NMS, in %	working-age population in other EU countries	distribution by NMS, in %	share of working-age population in other EU countries, in %
Czech Republic	10,251	7,293	14.2	80	7.7	1.1
Estonia	1,345	917	1.8	16	1.5	1.7
Hungary	10,077	6,932	13.5	69	6.6	1.0
Lithuania	3,403	2,321	4.5	81	7.8	3.5
Latvia	2,295	1,580	3.1	28	2.7	1.8
Poland	38,157	26,892	52.5	645	61.8	2.4
Slovenia	2,003	1,407	2.7	38	3.6	2.7
Slovakia	5,389	3,862	7.5	85	8.1	2.2
Total NMS-8	72,920	51,206	100.0	1,043	100.0	2.0

Source: Maier (2007), Iara (2008), p. 110.

More waiters than bus drivers?

The distribution of the migrant workers' occupations in the UK (top 10 sectors only) by new member states shows considerable differences for Hungary compared to Poland and the group of the other six NMS (see Table 6).⁷ The significance of the most popular sector, administration and business management, is about 10 percentage points smaller than either for Polish or NMS-6 workers. In turn, the relevance of the second most popular sector, hospitality and catering, is 15 percentage points higher for Hungary than for the migrants from other new member states. Hungarian workers are clearly underrepresented compared both to Poland and the NMS-6 in agricultural activities, food processing and manufacturing, while over-represented in health and medical services and entertainment and leisure services. Further, the number of jobs in other than the top 10

⁶ UK Home Office Border and Immigration Agency (2008), for the period May 2004-December 2007, Table 3.

⁷ Due to Poland's overwhelming weight it was expedient to compare Hungary separately to Poland and the rest of the NMS, the NMS 6.

sectors shows that Hungarian nationals' occupations are less concentrated in the top 10 sectors than those of either the Polish or the NMS-6 nationals.

Table 6: NMS-8 registered workers in the UK by sector, December 2007

Sectors	Number of persons			Distribution in %		
	Hungary	Poland	NMS-6*	Hungary	Poland	NMS-6*
Admin., business & management services	7,015	202,145	87,020	29.4	41.1	38.9
Hospitality & catering	8,410	92,745	43,295	35.3	18.8	19.3
Agriculture activities	880	44,770	31,595	3.7	9.1	14.1
Manufacturing	1,115	37,965	16,485	4.7	7.7	7.4
Food/fish/meat processing	430	24,480	12,160	1.8	5.0	5.4
Health & medical services	1,700	22,660	8,975	7.1	4.6	4.0
Retail & related services	1,405	22,855	8,860	5.9	4.6	4.0
Construction & land services	1,000	21,985	7,980	4.2	4.5	3.6
Transport	935	15,860	3,570	3.9	3.2	1.6
Entertainment & leisure services	935	6,780	4,025	3.9	1.4	1.8
Total in top 10 sectors	23,825	492,245	223,965	100.0	100.0	100.0
Other occupations	1,930	16,150	7,570	8.1	3.3	3.4

Note: * NMS-6: NMS-8 less Poland and Hungary.

Source: UK Office Border and Immigration Agency, (2008), Table 11.

Low profile in both traditional Hungarian target countries for migration

Table 7 displays the inflow of foreigners into two traditionally important target countries for NMS migrants, Austria and Germany, before and after the enlargement. These two countries have maintained the restrictions on free movement of labour. In Austria the share of NMS migrants in the total inflow ranged between 9% and 16% in 2000-2005, that of Hungary was 3.6% in 2005, lower than in 2000 or 2001. No special impact of Hungary's EU accession can be observed. In the case of Germany, immigration from the NMS increased substantially, its share in the total nearly doubled (up to 30%). This was, however, mainly the result of the strong increase in the inflow from Poland. The share of Hungarians remained at the pre-accession level, at around 3%.

Certainly all statistical data in this field have to be taken with due caution. The participation of NMS-8 nationals, including Hungarians, in the unreported economy of the other EU member states is a fact, but its extent is unknown.

Table 7: Inflows of foreign population by nationality, distribution by selected countries, 1990-2005

	1990	2000	2001	2002	2003	2004	2005
Austria							
Czech Republic		2.2	2.0	1.0	1.2	1.3	1.3
Hungary		3.8	4.2	2.4	2.6	2.8	3.6
Poland		5.3	4.7	2.7	3.0	6.5	7.1
Slovak Republic		2.9	3.3	2.4	2.4	3.2	3.7
Slovenia		0.8	0.9	0.4	0.4	0.5	0.6
NMS-5		15.0	15.0	8.9	9.5	14.3	16.2
World		100.0	100.0	100.0	100.0	100.0	100.0
Germany							
Czech Republic		1.7	1.6	1.6	1.4	1.5	1.5
Hungary	1.9	2.5	2.5	3.1	2.4	2.9	3.2
Slovenia		0.3	0.4	0.3	0.3	0.4	0.3
Poland	23.8	11.4	11.6	12.4	14.7	20.8	25.5
NMS-4		15.9	16.2	17.4	18.8	25.5	30.4
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD (2007), <http://dx.doi.org/10.1787/015140410036>

2.2 Inward migration

Historical background

After the end of the Turkish occupation (late 17th century) huge depopulated areas were left behind in the central and southern regions of historical Hungary. Mass immigration of Germans, South Slavs, Romanians and other ethnic minorities, and substantial migration within the country characterized the one hundred-year-long reconstruction period. After World War I, roughly one third of the Hungarian-speaking population of the historical Hungary moved outside the newly drawn borders of the country. Ethnic Hungarians from the neighbouring countries became a major source of immigration first in 1919-1923, then after World War II, and most recently after the transition to parliamentary democracy in 1989/1990.

Immigrating ethnic Hungarians

Time series on the inflow of foreigners show that Hungary has remained a relatively unimportant target country of international migration. The annual inflow was ranging between 13 and 22 thousand persons in the period 1996-2005 (see Table 8). The three most important source countries of immigration are Romania, Ukraine and Serbia, each with substantial ethnic Hungarian population. All other source countries are of minor

significance, with migrants below one thousand in any year. It is worth mentioning that China, in some years, was the source of more than 1000 migrants.

Table 8: Hungary: inflows of foreign population by nationality, 1996-2005

Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Romania	4.2	4.0	5.5	7.8	8.9	10.6	10.3	9.6	12.1	10.3
Ukraine	1.4	1.4	1.8	2.4	2.4	2.5	2.1	2.6	3.6	2.0
Serbia and Montenegro	0.9	0.8	1.5	2.5	1.8	1.0	0.4	0.7	1.6	1.3
China	1.8	1.7	1.3	1.2	1.1	0.4	0.1	0.7	0.8	0.7
Germany	0.6	0.6	0.7	0.8	0.8	0.8	0.3	0.4	0.1	0.6
Slovak Republic	0.3	0.3	0.4	0.6	1.0	0.5	0.5	0.4	0.1	0.4
United States	0.5	0.4	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.3
Viet Nam	0.3	0.4	0.5	0.4	0.2	0.1	0.1	0.2	0.4	0.2
United Kingdom	0.2	0.2	0.2	0.2	0.1	0.2	0.3	0.4	0.1	0.2
France	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2
Israel	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2
Japan	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Russian Federation	0.5	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Austria	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.0	0.1
Turkey	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Other countries	2.4	2.4	2.6	2.6	2.4	2.5	2.3	2.5	2.1	1.8
Total	13.7	13.3	16.1	20.2	20.2	20.3	18.0	19.4	22.2	18.8

Source: OECD (2007), <http://dx.doi.org/10.1787/016366311080>

The definition of migrants may be based either on place of birth (home country-born/foreign country-born) or citizenship (home country/foreign). In Hungary this distinction is indeed relevant, as ethnic Hungarian immigrants tend to initiate their naturalization. Table 9 shows the stock of foreign-born population in Hungary, which includes both naturalized immigrants and those who live in Hungary but are foreign citizens. The foreign-born population slightly increased in 1996-2005, and surpassed 330,000 by the end of the period. Even then the share of the foreign-born population remained modest, 3.3% of Hungary's total population; this is lower than the respective indicator in the old EU member states, also somewhat lower than in the Czech Republic (4-5%) and corresponds roughly to the Slovak figure. Due to lack of data no comparison is possible with Poland.⁸ The last line in Table 9 displays the impact of naturalization: the share of foreign citizens in the total population is only half of the share of the foreign-born population.

The participation of migrants in the Hungarian labour market is covered by various statistics; an overview of sources and methodological problems is provided in Hárs (2008).

⁸ International Migration Outlook SOPEMI (2007) <http://dx.doi.org/10.1787/015587767146>

Table 9: Hungary: stock of foreign-born population by country of birth, 1996-2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Romania	141.5	141.7	142.0	142.3	144.2	145.2	146.5	148.5	152.7	155.4
Former Czechoslovakia	41.8	40.3	38.9	37.5	36.0	34.6	33.3	33.4	31.4	32.6
Former Soviet Union	27.8	28.3	29.2	30.2	31.5	30.4	31.0	31.4	32.2	31.9
Former Yugoslavia	33.6	33.3	33.5	34.4	35.1	33.4	30.3	30.7	29.9	29.6
Germany	13.4	13.6	13.8	14.1	14.4	15.3	15.9	16.3	18.8	21.9
Austria	3.8	3.8	3.8	3.8	3.9	4.0	4.2	4.3	4.7	5.4
China	0.7	1.0	1.7	2.6	3.5	3.6	3.8	3.9	4.2	4.5
United States	2.2	2.2	2.2	2.2	2.3	2.1	2.4	2.7	3.0	3.4
Poland	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.9	3.2
France	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.6	2.2	2.7
Viet Nam	0.5	0.6	0.8	1.0	1.2	1.5	1.6	1.6	1.6	1.7
Greece	1.2	1.2	1.1	1.1	1.1	1.5	1.4	1.5	1.5	1.5
Bulgaria	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other countries	12.2	12.8	13.7	14.6	16.1	23.0	26.8	27.8	32.5	36.3
Total	283.9	284.2	286.2	289.3	294.6	300.1	302.8	307.8	319.0	331.5
Total foreign-born population in % of total population	2.8	2.8	2.8	2.9	2.9	3.0	3.0	3.0	3.2	3.3
Memo: non-Hungarian citizens in % of the total population	1.4	1.4	1.4	1.5	1.1	1.1	1.1	1.3	1.4	1.5

Source: OECD (2007), <http://dx.doi.org/10.1787/017437517777> and <http://dx.doi.org/10.1787/015587767146>

Immigrants in the shadow economy

Illegal employment poses a special problem of capturing the role of migrants in the labour market. In 2005 the share of foreign-born labour force made up 1.9% of the total labour force, while this population group constituted 3.3% of the total population. In the same year foreign labour force (those with other than Hungarian citizenship) amounted to 0.8% of the total labour force, while this group's share in total population was 1.5%. These figures hint at an overrepresentation of migrants in illegal employment. Another explanation would be the lower participation rate of migrants – but exactly the opposite is the case, at least for the foreign-born population. Hungary belongs to that minority of OECD countries where the participation rate of the foreign-born population is about 4 percentage points higher than the exceptionally low rate of local-born population.⁹ But illegal employment is even greater than that indirectly reflected in the statistical data. Foreigners arriving as tourists, undertaking occasional jobs, then leaving and returning again, are an important part of the Hungarian world of labour, especially in agriculture, construction and in home care services. No statistics or estimations are available on that segment of foreign employment.

⁹ International Migration Outlook SOPEMI (2007) <http://dx.doi.org/10.1787/014342316600>

Table 10

Country/Group of countries	Number of valid work permits at year-end							
	1996	1997	1998	1999	2000	2001	2002	2003
Romania	8,526	9,478	10,610	14,132	17,235	22,039	25,836	27,609
Former Soviet Union	2,200	3,119	2,833	4,028	5,157	6,460	6,258	7,884
Former Yugoslavia	1,007	982	964	1,238	1,400	1,252	1,120	1,112
Poland	956	1,051	989	544	294	254	255	344
Slovakia	428	425	469	972	2,856	1,788	2,759	5,686
Czech Republic	8	26	21	34	56	79	124	121
EU-15	n.a.	2,162	2,514	2,674	2,374	2,541	2,298	2,200
China	535	684	1,053	1,397	2,054	1,146	1,054	899
Vietnam	132	224	311	435	726	441	322	246
Other	4,971	2,231	2,702	3,015	2,862	2,623	2,674	2,550
Total	18,763	20,382	22,466	28,469	35,014	38,623	42,700	48,651
<i>previous year = 100</i>		109%	110%	127%	123%	110%	111%	114%

Country/Group of countries	Number of valid work permits at year-end, distribution by country in %							
	1996	1997	1998	1999	2000	2001	2002	2003
Romania	45.4	46.5	47.2	49.6	49.2	57.1	60.5	56.7
Former Soviet Union	11.7	15.3	12.6	14.1	14.7	16.7	14.7	16.2
Former Yugoslavia	5.4	4.8	4.3	4.3	4.0	3.2	2.6	2.3
Poland	5.1	5.2	4.4	1.9	0.8	0.7	0.6	0.7
Slovakia	2.3	2.1	2.1	3.4	8.2	4.6	6.5	11.7
Czech Republic	0.0	0.1	0.1	0.1	0.2	0.2	0.3	0.2
EU-15	n.a.	10.6	11.2	9.4	6.8	6.6	5.4	4.5
China	2.9	3.4	4.7	4.9	5.9	3.0	2.5	1.8
Vietnam	0.7	1.1	1.4	1.5	2.1	1.1	0.8	0.5
Other	26.5	10.9	12.0	10.6	8.2	6.8	6.3	5.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Public Employment Service (2008),
http://www.afsz.hu/engine.aspx?page=stat_kulf_munkavall_mo-on, and own calculations.

Labour permit, registration, green card

The registration of foreign employees distinguishes between two basic categories: EU/EEA citizens and citizens of other countries of the world. Citizens from countries outside the EU/EEA need a labour permit. The regulations of employment of persons from EU/EEA countries were more complex but have recently been simplified significantly. From January 2008 no labour permit is needed for persons with at least secondary education or a skill arriving from any EU/EEA country. Employers are obliged to report the number of employees from EU/EEA countries even if no labour permit for them is required. That will help create an overview of foreign employment from this year on, but looking backward to the years 2004-2007 the picture is not so clear.

On the basis of reciprocity no labour permit was required for citizens of the UK, Ireland and Sweden after Hungary's EU accession on 1 May 2004; from May 2006 the same applied for

citizens from Spain, Portugal, Greece, Finland, from November 2006 for those from Italy, from May 2007 for the Netherlands.¹⁰ Those citizens of the old EU countries who came from a country where a labour permit was still required for Hungarian citizens and reciprocity applied, could apply for a green card and take a job in Hungary on the condition they had already one year continuous employment in Hungary. Employees from the new member states (2004 enlargement) did not need a labour permit but they were required to register. Employment of citizens from Bulgaria and Romania was, from January 2007 until the end of 2007, conditional on permission, except for a particular group of professions. The Public Employment Service warns that a substantial part of foreign employment does not appear in the statistical data.

Table 10 displays foreign employment in Hungary by sending countries in the pre-accession period (1996-2003). The number of work permits continuously increased in this period and more than doubled within seven years. About half of the work permits were issued for Romanian citizens, 11-17% for migrants from successor states of the former Soviet Union. From 2000 on the share of Slovaks increased and surpassed 11% in 2003. Migration from the old EU was still significant in 1997 and 1998 (11% of the total work permits).

EU accession had no impact on immigration

On the last day before Hungary's accession to the EU, the number of valid work permits was 55,710 (see Table 11). The combined number of different kind of permits allowing foreigners to be employed in Hungary increased by 15% by the end of the first year in the EU, that was exactly the same as the average growth rate of labour permits issued in 1996-2003. It is remarkable that in 2005 and 2006 this number practically stagnated, i.e. EU accession apparently slowed down inward migration. Distribution of migrants by sending countries has changed. While Romanian citizens further on constitute about half of the migrants, Slovak citizens' share jumped to one quarter by 2006 and that of migrants from Ukraine rose to around 12-14%. Based on 2007 data of the four various sorts of new work permits the inward migration might have further slowed down last year.¹¹

The case of liberalizing immigration from Bulgaria and Romania

Although Hungary called for an immediate opening of the EU-15 labour markets before its accession in 2004, only a few years later it made a U-turn in this respect and became the only new member which did not intend to liberalize migration from Bulgaria and Romania upon their accession to the EU in 2007. The argument was that Hungary had accepted that most of the old members had restricted inward migration from the new members in 2004. Caution is justified with regard to the labour market situation and the unemployment rate. Bulgaria and Romania have a greater migration potential than any

¹⁰ France will be treated alike as of 1 July 2008.

¹¹ Public Employment Service (2008)

of the new members that joined in 2004.¹² This is all the more peculiar as representative bodies of employers and employees argued for an immediate and complete liberalization and saw no reason for caution.¹³ All in all, Hungary partially opened its labour market for migrants from Bulgaria and Romania, initially in 219, then by Summer 2008 in 247 professions. 2007 data on migration show that the skill structure of the migrants from Romania did not improve with the partial opening: the high share of unskilled migrants remained unchanged and the labour shortages in certain professions were not eased by new arrivals from Romania.¹⁴ Finally, probably as a consequence of a re-thinking of risks related to lifting barriers to migration from Romania and Bulgaria, Hungary joined the other new members abolishing remaining restriction on migration from these two countries as of January 1, 2009.

Uneven geographical distribution of migrants

Distribution of migrants by geographical regions is highly uneven. In 2007 nearly two thirds of the foreign workers were employed in Budapest and its agglomeration (Central-Hungary), close to 20% in the dynamically developing region Central Transdanubia. The other five regions are underrepresented in foreign employment.¹⁵ For comparison: Central Hungary delivers 46, Central Transdanubia 10% of Hungary's GDP.¹⁶ In terms of economically active population 32% of the total falls on Central Hungary and 12% on Central Transdanubia.¹⁷

¹² Interview with a responsible official of the Ministry of Labour, Online medium Index, 06.09.2006 as cited by Hárs (2008)

¹³ Hárs and Neumann (2007).

¹⁴ Hárs (2008).

¹⁵ Op. cit.

¹⁶ Central Statistical Office (2005) p. 176, own calculations.

¹⁷ Central Statistical Office (2005) p. 45, own calculations.

Table 11: Stock of labour permits, registrations and green cards for foreign citizens in 2004-2006

Country	Permit valid on 30.04.2004	Valid at end of 2004				Valid at end of 2005				Valid at end of 2006				
		Permit	Registration	Green card	Total	Permit	Registration	Green card	Total	General permit	Seasonal agricultural permit	Registration	Green card	Total
Country														
EU-15	2,244	1,739	-	284	2,023	1,775	3	496	2,274	1,596	-	7	707	2,310
EU-10	7,495	1,758	10,699	-	12,457	-	15,932	-	15,932	-	-	17,893	-	17,893
of which:														
Poland	328	92	466	-	558	-	638	-	638	-	-	940	-	940
Slovakia	7,003	1,619	10,109	-	11,728	-	15,106	-	15,106	-	-	16,659	-	16,659
Other European	42,740	45,854	11	1	45,866	40,420	15	4	40,439	40,124	123	14	5	40,266
of which:														
Romania	32,229	35,221	3	1	35,225	30,939	6	2	30,947	29,238	115	5	2	29,360
Serbia Mont.	1,134	1,082	-	-	1,082	1,297	4	-	1,301	1,658	-	3	-	1,661
Ukraine	8,670	8,823	6	-	8,829	7,567	5	-	7,572	7,664	6	6	-	7,676
Non-European	3,231	3,528	1	-	3,529	4,196	4	9	4,209	4,145	-	1	-	4,146
of which:														
China	791	894	-	-	894	1,086	-	-	1,086	1,240	-	-	-	1,240
Unidentifiable	-	2,257	-	-	-	-	-	-	-	-	-	3	8	11
Total	55,710	55,136	10,711	285	63,875	46,391	15,954	509	62,854	45,865	123	17,918	720	64,626

Source: Public Employment Service, (2008),
http://www.afsz.hu/engine.aspx?page=stat_kulf_munkavall_mo-on and own calculations

Industry and construction absorb most of the foreign labour

In an overview of foreign employment by economic branches, including 95% of foreign workers in 2005, we can see that the breakdown of foreign workers by branches differs substantially from that of the total employment in Hungary and there are diverging patterns by individual source countries as well (see Table 12). Foreigners are remarkably over-represented in construction and to some extent in industry while their share in services other than trade is only a quarter of that of the Hungarian average. Country specific features reveal that migrants from Slovakia work predominantly in industry, those from Ukraine in construction, while those coming from Romania in construction, industry and trade. Nearly all Chinese are engaged in (retail) trade.

Table 12: Foreign labour by branches, 2005 (distribution in %)

Branch	Country of origin						Total Hungary
	Romania	Slovakia	Ukraine	former Yug.	China	Foreign (5)	
Agriculture	9	1	4	11	0	6	5
Industry	20	58	14	32	7	29	24
Construction	35	3	55	14	0	28	8
Trade	17	2	10	15	83	14	15
Other service	6	26	7	7	2	11	40
Public administration	5	3	5	14	2	5	8
Other	7	7	6	7	5	7	0
Total	100	100	100	100	100	100	100
Number of persons	33,875	15,116	8,258	1,543	1,216	60,008	3,901,500

Source: Hárs (2007), Central Statistical Office (2005), .p. 35.

Remittances of foreign employees to their home countries and Hungarian workers from abroad are registered by the National Bank of Hungary, nevertheless only for those with less than one year employment (see Table 3). That means that remittances of migrants proper (with longer than one year stay) are not included and the values registered are accordingly small. As most of the migrants in Hungary arrive from neighbouring countries and travel time back to original location of living is respectively short allowing frequent visits, a considerable part of transfers may take place in cash.

Concerning brain drain there are no statistical data available. Anecdotal evidence points at relevant emigration of Hungarian physicians to old EU members, which reflects the very low salaries of this professional group. Labour shortage reported in the press in professions requiring specific skills coupled with insufficiencies and rigidities of vocational training in Hungary predict an increasing inflow of migrants possessing of these skills.

Table 13: Compensation of employees (less than one year employment), according to balance of payments statistics 1995-2006, in million EUR

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Credit	109	125	172	172	171	238	270	247	219	213	211	252
Debit	97	63	65	53	76	75	94	96	80	87	110	135
Net	12	61	107	119	96	163	177	151	139	126	102	117

Source: National Bank of Hungary (2008),
http://english.mnb.hu/Engine.aspx?page=mnben_fizetesi_merleg&ContentID=0

3 Conclusions

The available figures on migration from and to Hungary clearly show that Hungary is a relatively 'closed' country: neither outward nor inward migration is really significant. Hungary is among the less important sending countries of the EU's new member states and, as a host country, attracts much fewer migrants in relative terms than the old EU members.

Compared to the communist era the mobility in both directions is more significant, but EU accession has not changed the characteristics of migration in either direction.

Most of the immigrants arrive from neighbouring countries and they are typically ethnic Hungarians. This explains the relative importance of naturalizations, shown in the highly diverging numbers of foreign-born persons and foreign citizens, respectively, in Hungary.

Foreign employment is strongly concentrated in the Budapest agglomeration and to a smaller extent in Central Transdanubia, both regions figuring as engines of growth in Hungary. The breakdown of foreign employees by branches significantly differs from that of total employees. Foreigners are over-represented in construction and industry while under-represented in the services sectors. The latter, however may accommodate a substantial part of illegal employment.

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