

Geographical consequences of the economic crisis in Hungary

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Abstract

The new world economic crisis affected the regions of Hungary not equally; moreover it seems to be rather spatially concentrated for the present. The aim of the paper is to discover these regional differences and to evaluate their reasons and consequences.

To catch the fast change of economic performance only few indicators are appropriate: in the examination monthly data of unemployment on settlement level, as well as company cutback data collected from press announcements were processed. According to results so far the largest recession can be seen right in more developed regions. In the Northern part of Transdanubia large companies and their suppliers in the export-oriented manufacturing industry – which were established in the last 10-15 years – suffered the highest reduction in economic performance, so thus also the number of unemployed is rapidly increasing in these regions. The recession is not significant in traditionally backward regions. Interestingly, the crisis is taking effect in the direction of one important aim of regional policy, the regional equalisation. However the change is still not gladsome, since it is not the consequence of catching up of backward regions but the result of the recession of the more developed. Only differences between Budapest and the rest of the country will be increased, since it seems that the economy of the capital is less influenced by the recent crisis. Henceforward also the spatial diffusion of the crisis can be expected.

Key words: recession, Hungary, spatial pattern, unemployment

JEL Classification: R11

1 Introduction

Global recession caused especially heavy downturn in Hungary, also in comparison with countries joined to EU after the Millennium: just after Baltic states, the sharpest shrinking in the volume of GDP in 2009 is expected in Hungary, moreover no growth is forecasted even in 2010 [1]. Increasing unemployment and inflation, decreasing investments, output, export and internal demands are other well-known signs of the recession, and domestic financial problems are magnifying the slump.

Similarly to the global phenomena, some elements of the crisis have general effects by affecting the whole society and economy, on the other hand others are rather spatially concentrated. Branches linked to geographic space – first of all manufacturing – can result regional disparities in effects of recession similarly to other countries [2, 3], also in Hungary. This paper aims to discover these regional differences and spatial patterns. Does recession bite the most developed regions in Hungary, or the underdeveloped parts of the country suffer more? Budapest concentrates financial services, which are among the sickest branches, but how much has the capital of Hungary and its surroundings been affected? Moreover it is an important question, whether this pattern is stable or rather altering in time, and therefore how regional differences will change in the future. The answers will be useful for policy makers, since regional characteristic of recession have to be taken into consideration.

To catch this fast and recent change of economic performance only few indicators are appropriate. In this examination monthly data of unemployment on settlement level, as well as company cutback data collected from press announcements were processed. In order to

catch the most important changes in spatial pattern clearly, unemployment data were aggregated on LAU-1 level, which matches up with 174 subregions in Hungary.

2 Company cutbacks

Since data on companies' intention of cutbacks become public, a unique occasion is offered to analyse regional effects of the crisis. Since the location of the affected companies are easy to be identified, in most cases cutbacks can be linked to local units. The number of dismissals can be applied as a good indicator of shrinking economic performance, and hence the geography of the recession can be outlined.

Methodological limits

It seems to be worth to gather company cutback news from press announcement, and observe which settlements are the most affected by the recession. Layoff data of companies with more than one resident place were shared among locations according to the content of press announcements or for lack of this information according to the distribution of workforce. Companies having countrywide networks (banks, insurance companies, MOL – the Hungarian oil company) and some firms in construction industry are rather unlocalisable hence can not be depicted on the maps cutbacks.

Collected data are not suiting the statistical methodology of data collection from all points of view. One of the reason is that cutbacks of only larger companies have news value; making redundant a few employees in a small firm is not released in press. From October 2008, when the crisis really started to affect Hungary until September 2009 data of approximately 250 companies with an affected population of 40 thousand employees were collected into this database, while Hungarian Public Employment Service registered 140 thousand increments in jobseekers during this period.

Other important limit is that exact date of dismissals and precise number of concerned employees is not known and the information is not controllable – as a result of the methodology of data collection. The results are showing, however, apparent signs of shrinking economic performance, because these larger companies play an important role in employment, and give significant proportion of Gross Domestic Product, and the intention on cutback may be adequate to grab the decrease of output. Therefore announcements were also taken into account, which did not happen indeed, since getting governmental support to save workplaces (for example the Borsodchem chemical company in Kazincbarcika or a meat-processing firm in Gyula). This modification does not alter the fact of the crisis, therefore the original number was taken into consideration.

Spatial dispersion of cutbacks

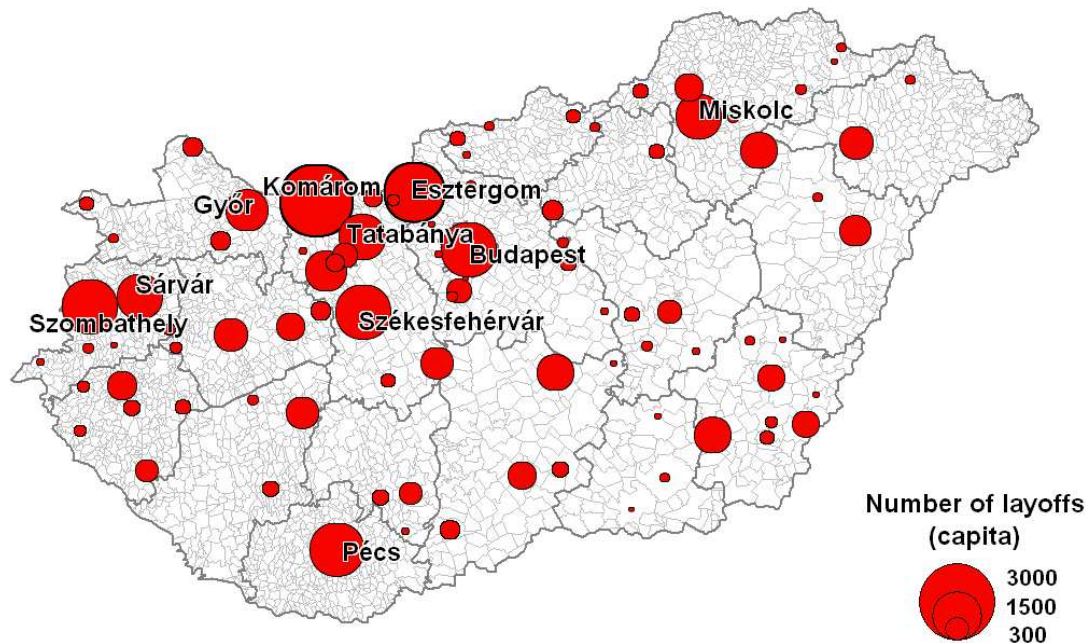
In pursuance of the up to now collected information, companies suffer the higher decrease mostly in developed parts of Hungary, which region was the winner in the former upturn in the second half of 90s [4, 5]. In the north-western part of Transdanubia in last 10-15 years established exporter companies in manufacturing and also their suppliers had to cut their production or dismiss a lot of employees, or sometimes had to wind up the complete company. Komárom-Esztergom, the best performing county in industrial production per capita met with the heaviest losses: among others Nokia in Komárom, Suzuki in Esztergom and Sanmina in Tatabánya made a heavy cutback (*Figure 1 a*).

A remarkable change could have been seen at the end of February, when the concentration of cutbacks has been dissolved. News dealt not only with the industrial centres of Transdanubia, but also with eastern cities, where larger firms appeared to go downturn (*Figure 1b, and 1c*). After February the numbers started to decrease, caused by the introduction of the programme of saving workplaces. On the other hand, companies recognised that many costs arise with

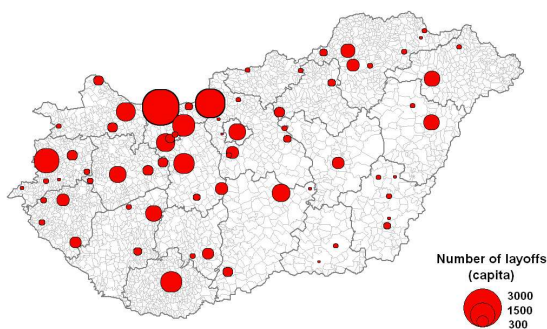
cutbacks, so they tried to survive until the end of recession with reduction of wages and working hours.

Figure 1: Number of dismissed employees according to press announcements

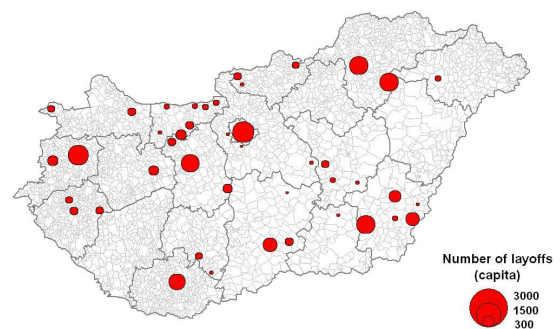
a) from 20. Sep. 2008 to 20. Sep. 2009



b) from 20. Sep. 2008 to 20. Febr. 2009



c) from 20. Febr. 2009 to 20. Sep. 2009



Source of data: electronic issues of Hungarian press, collected by the author

Untouched regions

It is worth to observe, which parts of Hungary are not affected by the recession. Underdeveloped regions in outer peripheries along north-eastern, eastern and southern borders, similarly the inner peripheries in Southern Transdanubia and the Great Plain without bigger city are out of news. The lack of manufacture activity seems to be a fortune in Lake

Balaton Region and other touristic destinations. During the last decade Lake Balaton Region was not able to keep up with the most developed north-western regions [6].

No doubt, the most important regional phenomenon is the unaffected situation of the capital and its surroundings. The number of dismissed people is really low in Budapest, compared not only to its dominant role in economy, but even to its weight in population. Presumably its special role in the country and its economic structure cause this unique situation! This would not be changed even if the dismissals of companies with countrywide networks (e.g. banks) were calculated in Budapest.

3 New wave of unemployment

The most feared sign of the crisis from the viewpoint of the society is that the unemployed workers' number and their proportion are suddenly increasing. Writings appeared in the press deal with two important topics. First of all arises the question: when will the economic turn be happen, namely when will culminate the number of unemployed workers'? Secondly, it is important to know that who – which social group, people of which areas, which economic sector – will be influenced the most by unemployment? Policy makers need to use this information in managing the asset of the crisis adequately.

Methodological considerations

According to the international practice the data collection on unemployment is made by two different methodologies in Hungary, in two different institutions. The Hungarian Central Statistical Office (HCSO) prepares and provides Labour Force Surveys according to the concepts and definitions of ILO quarterly. In line with this survey, jobseekers are registered in the Public Employment Service (PES), according to the prevailing Hungarian laws. This register was developed to operate the systems used for the treatment and assessment of the unemployed people, therefore the definition of jobseekers depends on the country's all-time employment policy and on the rigorousness of the provision system. (All in all, PES database results larger numbers, than the Labour Force Survey.) Using, and temporally or spatially comparing these data is limited from many viewpoints due to the frequent changing of the laws. After all, the forthcoming analysis is based on the PES records of jobseekers, because of the more detailed temporal and regional data. PES release the number of jobseekers monthly for settlements, while Labour Force Survey is published only quarterly, at best on county-level.

General processes

The first question about the lowest point of the crisis, namely the peak of the unemployment, can be examined monthly, since PES makes available the registered number of jobseekers monthly. According to the register, unemployment was on the peak in April (at about 569 thousand jobseekers were registered, and the ratio of jobseekers to the economically active population was 8,5%). Analysing a longer period, after the transformation of regime this is the second wave on the curve, which depicts the number of unemployment, since the situation was deteriorating so quickly previously only at the beginning of the 1990s.

A rush downturn began in 2009 January (*Figure 2*); a mild decrease in the number of jobseekers was registered in May, but it did not mean the real turning point. Namely the demand on workforce changes seasonally in some branches (e.g. in agriculture, constructing and tourism), so the peak of spring (in March or April) is normal. Comparing the number of jobseekers to the value of the previous year, when the crisis was not yet appeared, the gap became more and more wider. In May the one-year change of jobseekers was already 33% that means an overflow with 140 thousand registrations, which is the widest difference not only in value but also in proportion since the beginning of downturn.

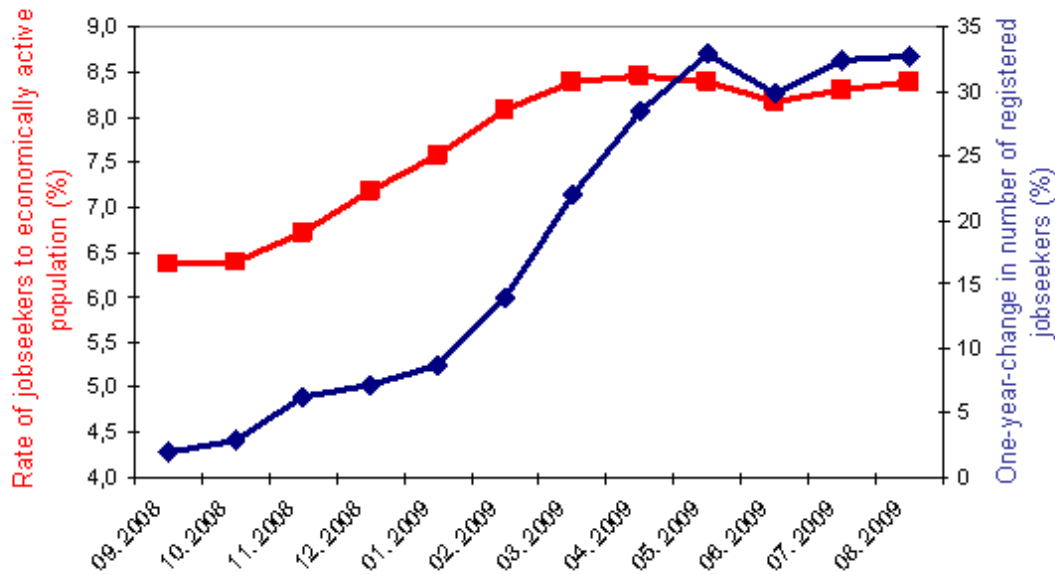


Figure 2: Increase of unemployment in Hungary during the global recession

Source of data: National Public Employment Service

Some kind of improvements appears on the graph only in a June, but in July school-leavers worsen the statistics again. However, the sum of registered jobseekers and also the rate of growth were stagnating at a high level in summer, moreover according to the prediction of the PES, demand on workforce did not get better, and the crisis on labour market still keeps on.

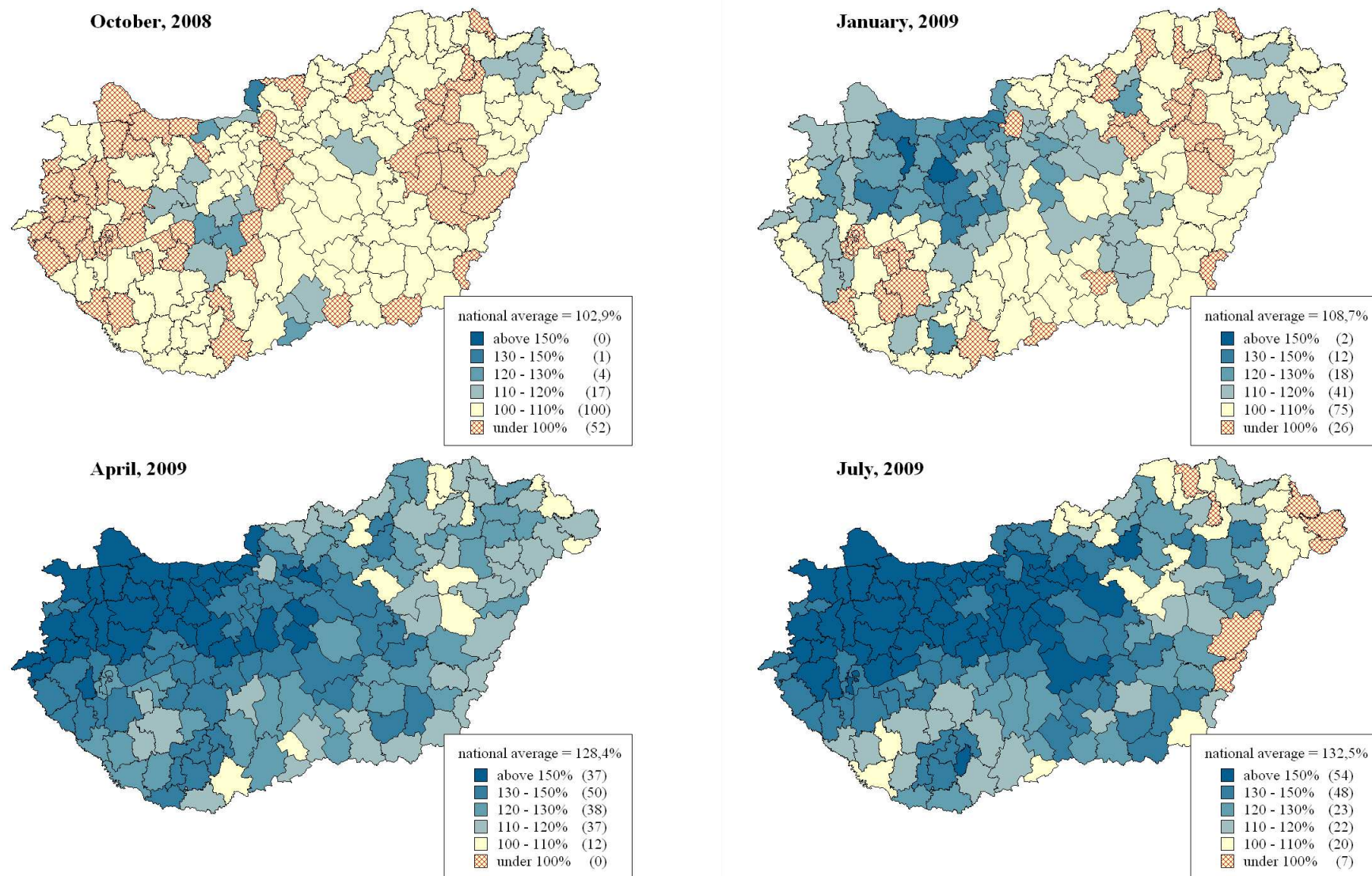
Regional differences

Regional differences of unemployment are linked tightly to the recession of economic growth and to the cutbacks of companies. No wonder that according to the statistics of PES the number of unemployed, or precisely the number of jobseekers were increased the most fearful rate in regions of export-oriented manufacture, where the highest level of foreign investments were realised in the second half of the 90s, namely on the north and north-western parts of Transdanubia (*Figure 3*).

On the other hand, if we were just look a converse map of development, the situation was deteriorating hardly in the country's backward areas. The so-called “BB-axis” (a line connecting Balassagyarmat on the Slovakian border to Békéscsaba on Romanian border) marks a definite dividing line also in the geography of the recession: in subregions located in the eastern part not so significant increase can be detected, what is more, in several underdeveloped subregions (these are marked with grids) the one-year change in number of registered jobseekers has been decreased. Similarly, the southern part of Transdanubia and the Great Plain is not much affected.

As the time goes, less and less subregions remain in the best categories, where the effects of the crisis were not perceivable. In these regions local offices of the Public Employment Service do not experience any increase in the number of registered jobseekers. Unemployment was diffusing spatially as a result of the general effects of the global crisis, such as loss in demand and lack of credits.

Figure 3: One year change in number of registered jobseekers



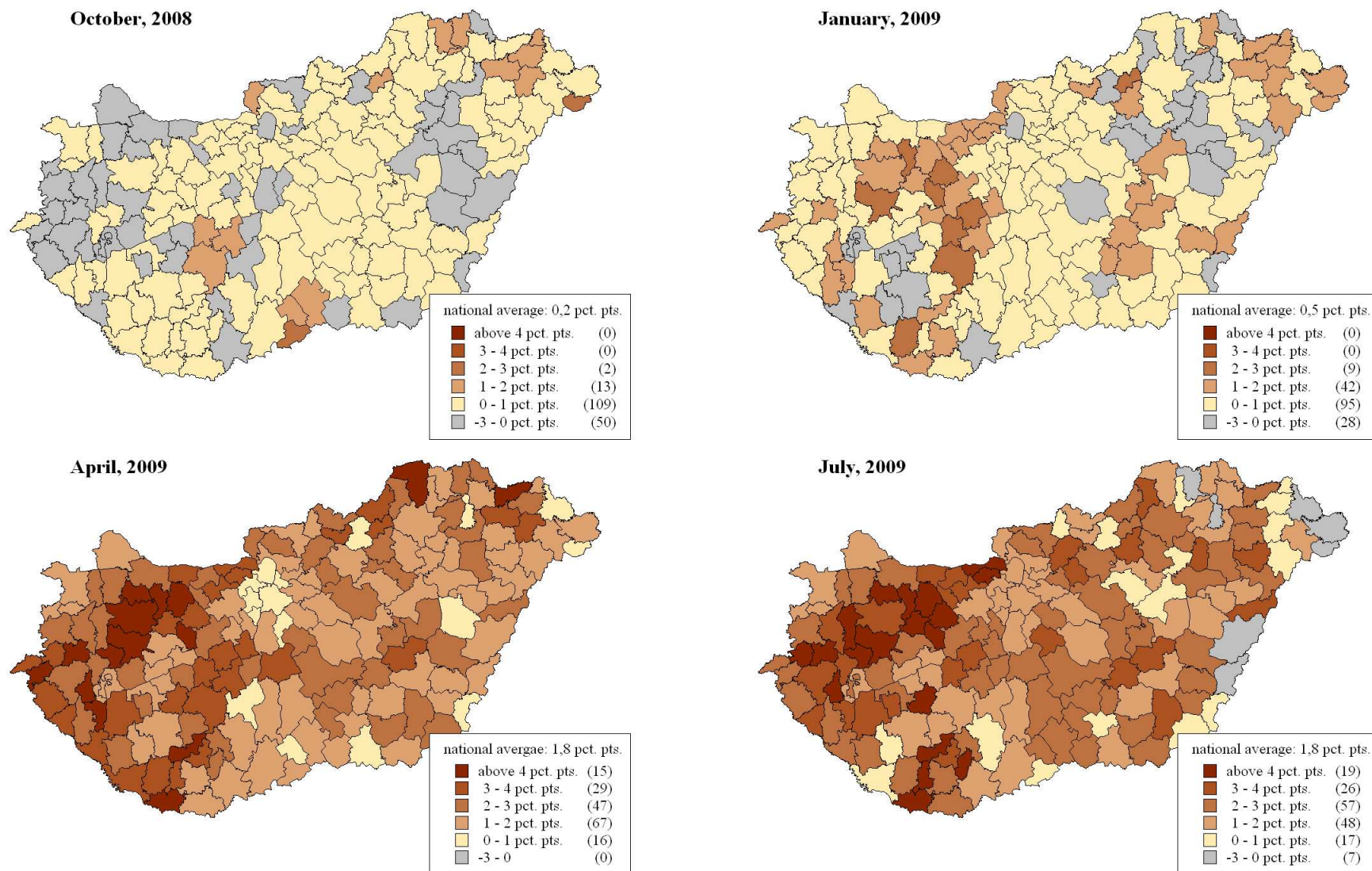
Source of data: National Public Employment Service

The above-mentioned rate of growth, however, depends on what the starting basis was. A small number of people becoming unemployed results a large percentage increase in subregions where the rate of jobseekers to the economically active population was low. This may caused overstated worsening in labour market, first of all in the Northwestern and in the Central Region, where the unemployment rate was relative low before the crisis. So it is worth to analyze the absolute change of unemployment rate (*Figure 4*). (Since unemployment rate defined by ILO can not be calculated at subregional level, the rate of jobseekers to the economically active population was applied.)

Maps start darkening spectacularly, so the rate of jobseekers compared to the same period of the previous year started to grow increasingly from March. The one-year-change rose with more than 3 %points in more and more subregions. The effect of the crisis is not bound to the export-oriented industrial companies and their districts anymore, but increasingly more also to other regions and all branches. After a more detailed view on the series of maps we may complement our earlier statements:

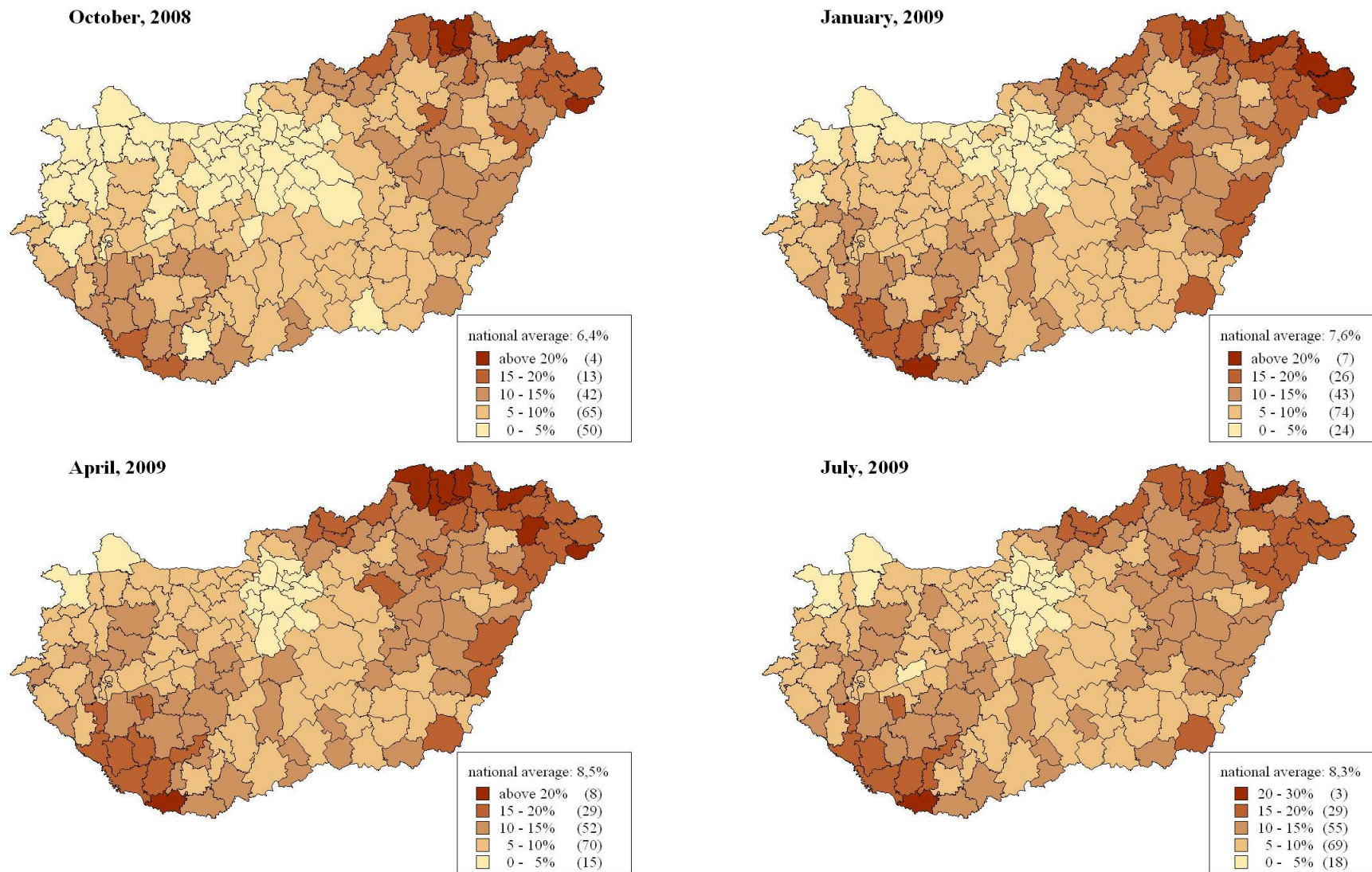
- The crisis started to affect the more developed areas of North-western Transdanubia, but the most affected subregions are in local inner peripheries: in the middle of a triangle surrounded by the capital, the M1, M7 motorways, the Lake Balaton and the western border.
- Among real looser regions there are also underdeveloped parts of Hungary located in the East.
- There is only a slight change experienced in the capital and in its direct neighbourhood, although the untouched zone is continually narrowing. The labour market of this area seems to be not shocked. Although in May the number of jobseekers is one and a half times more than one year before, but the rate of jobseekers changed not so remarkable: it increased with 0,9 % point, from 2,2% to 3,1%.
- Lake Balaton Region seems to be in more advantageous situation. According to spring assumptions, during the recession higher proportion of the Hungarian population would have an inland holiday.

Figure 4: One year change in rate of jobseekers in October 2008, January 2009, April 2009 and July 2009



Source of data: National Public Employment Service

Figure 5: Rate of the jobseekers to the economically active population



Source of data: National Public Employment Service

The effects of the above reviewed changes can be summed up with the last map series (*Figure 5*), which depict the unemployment rate. The character of the transformation may appear familiar to an expert reader, since the spatial diffusion of unemployment passed off likewise after the transformation of the regime: it was diffused to the whole country from some initial focal points, only Budapest and its surroundings remained as islands with favourable position, while after the recession the problem of high level unemployment became shrunk into these focal points (the process is similar to a tidal wave.) The present recession is now still at the spreading phase of the wave, the minimal improvement in summer can not be considered as a turning point. Similarly to the first wave at the beginning of nineties, a wave of regional equalisation can be observed recently again, since the highest growth rates of jobseekers linked to the more developed subregions. (The standard deviation of the rate of jobseekers was 68% in 2008 September, which decreased to 52% until 2009 July, at subregional level.) The difference is still considerable between the unemployment waves of the two periods. It can be seen from the two introduced map series that the economic crisis did not repel the areas standing on the weakest foot now onto slope, from which the turning back is almost impossible. The crisis set out from areas, which can be called more developed and became general diffused from these regions. Moreover, unemployment will certainly not draw back to its starting level after the crisis, but will rather be returning to the previously observed original spatial configuration again. The problems will be enclosed into the socially and economically disadvantaged regions, and into the inner and outer peripheries of the country. We shall notice that the jobseekers' proportion in more advanced areas is still lot lower now, on the peak of the crisis, than in these backward districts!

5 Conclusions

The crisis decreases the regional differences of development in Hungary, which was in itself a positive process. This was, however, not the result of the progress of backwards, but the shrinkage of the most developed regions. Increasing disparities are only expected between the Central Region and other parts of Hungary, since general effects of the recession has not so significant influence on the labour market of Budapest. However, the forthcoming upswing will possibly not just restore previous level of regional differences, but may result that the chances of less competitive regions to catch up will worsen. While eastern regions are suffering with longer lasting and deeper troubles, governmental programmes are concentrating rather on more visible phenomena.

Acknowledgements

This paper was prepared by the support of Deák Ferenc Scholarship. The author is also thankful for the Hungarian Chamber of Commerce and Industry Research, Institute Economic and Enterprises.

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