

How long can Hungary hold out?

September 21, 2011, 4:30 pm  Hungarian version

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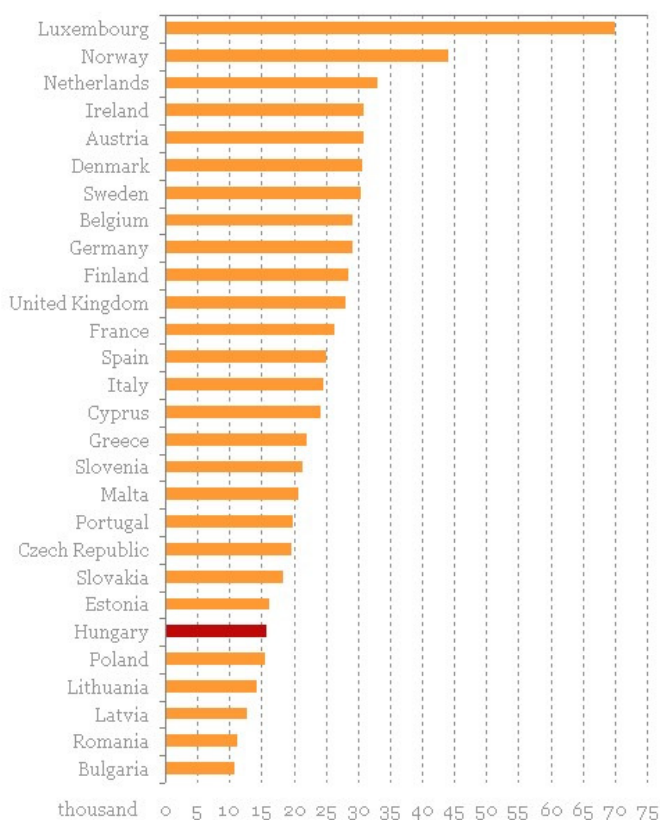
The Hungarian state is one of the most overexpanded economies in Europe compared to the capacity of the employees and their employers - shows an ongoing research of Corvinus University of Budapest (CUB). The research answers what is the link between Luxembourg, Hungary and Norway and which debt index is led by Greece, Italy and Hungary in Europe. Economist David Szebeni, lead researcher, suggests the use of a new indicator to measure the rate of government debt.

From Portugal to Romania

The joint research of CUB Departments of Economic Policy and World Economics concentrated on the government revenues and the gross government debt, but for comparability reasons a smaller group of countries has been designated (based on GDP per capita) in order to place Hungary in a team with similar "weight-class".

This usually helps with coming to more relevant conclusions. Of course this field contains a lot member states of the EU's eastern enlargement with the exception of Portugal. (The country group: Czech Republic, Slovakia, Poland, Estonia, Latvia, Lithuania, Hungary and Romania.)

GDP per capita (PPP, 2010, in euros)



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"All data, GDP, wages, revenues and public debt were taken into consideration with use of purchasing power parity, because our target was to better understand the real capacity of each country. We postulated that - with the exception of some mini states - value is mainly created by work, so financing

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of the state is the employees' and their employers' burden in the end. That's why we tried to examine the government revenues and debt from employment's point of view," said Zombor Berezvai researcher.

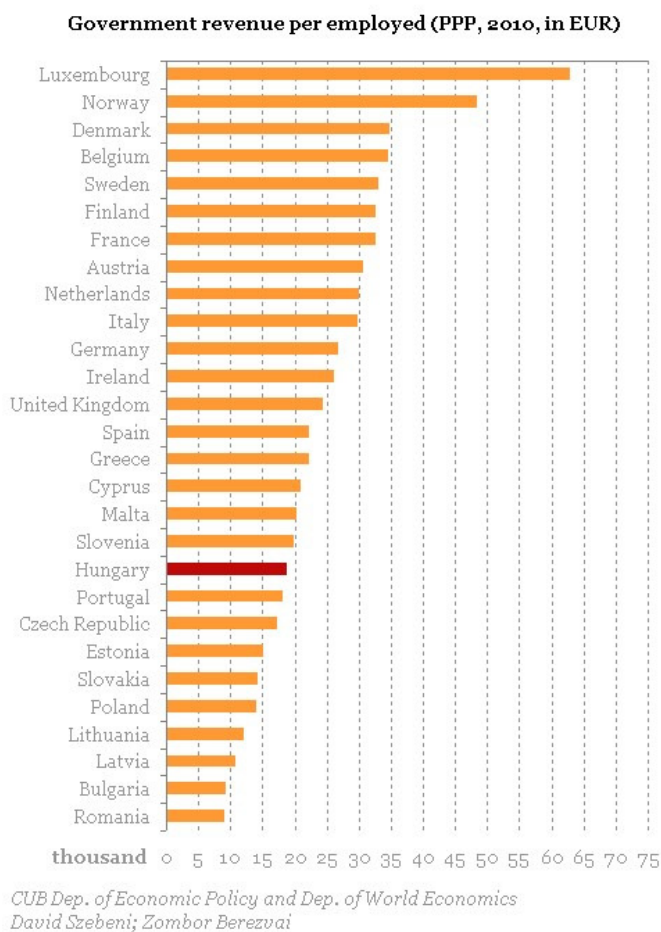
Moderated revenues?

We can have a better look at the appetite of each government if we summarize the annual revenue of the social security funds, the central and local governments.

According to these calculations, Luxembourg and Norway are able to get the most valuable slice of the cake, while Bulgaria and Romania, with a value of EUR 9.000, cash the lowest amount of government revenues per employed person. Hungary's value (EUR 18,491) seems moderate at first.

On the other hand, a more attentive reader can realise that Hungary takes the first place in its own country group (selection based on GDP per capita). This fact is a reflection of the low Hungarian employment rate.

Nevertheless, by having a deeper insight, it turns out unambiguously that the Hungarian state's self-discipline is only an illusion.



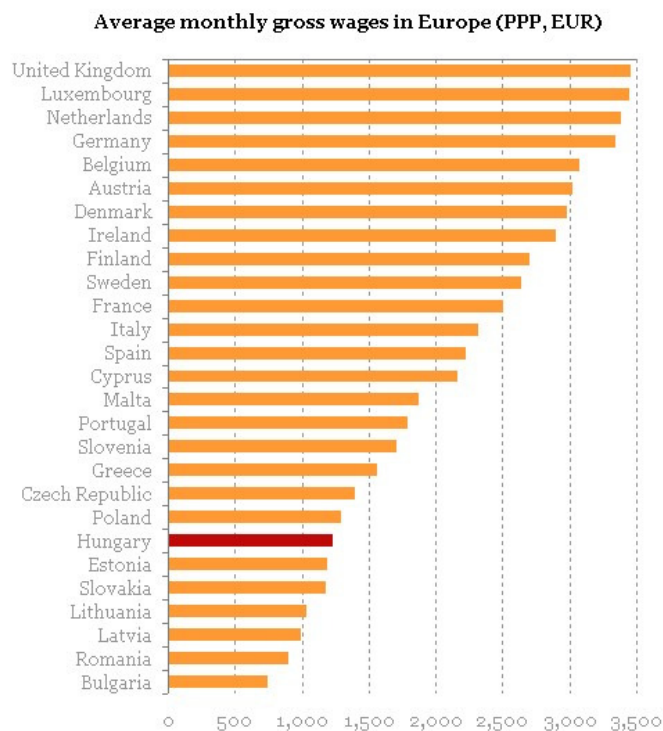
Hungarians don't make so much, do they?

"As regards the average gross wages (in PPP), Hungary is in the lowest quarter among 29 European countries. It is only Slovakia from the Visegrad group which hasn't left behind Hungary, and this can't last too long either because Slovakia has higher GDP per capita value than Hungary even now. Unless they become an extremely unbalanced society, the average wages will follow the GDP soon.

In most of the cases we use special gross wages calculated by the OECD because they take into consideration the taxes and social contributions paid by both the employers and employees.

This is the cost of employment, the price which shows the worth of somebody's work. Of course we have to set aside the distortions caused by the public sector," said lead researcher Szebeni.

realestate(283) commission(279) credit_line(244)
orbán(196) budget(189) hungarian_quotes(183)
analyst(175) deficit(156) mnb(140) ksh(135)
debt(130) politics(128) interviews(123)
statistics(119) ákk(118) matolcsy(111) mol(106)
survey(104) research(103) central_bank(103)
auction(99) poll(96) gdp(96) tender(95) huf(92)
bond(80) growth(77) exchange_rate(74)
telecom(74) eur(67) chf(60) base_rate(58)
infringement(58) fellegi(56) simor(55)
treasury_bill(55) interest_rate(55)
monetary_council(54) forint(53)
earnings_report(53) mihaly_varga(52) rating(50)
inflation(48) otp(47) repayment(44) mpc(44)
instant(40) richter(40) ecb(40) usd(39) erste(39)
yield(39) cpi(39) conference(38) barroso(37)
bse(37) austerity(35) airline(34)
magyar_telekom(34) legislation(34) market(33)
recession(33) malév(32)
consumer_price_index(31)
financial_transaction_tax(31) cohesion(30)
pharmaceutical(30) bailout(29) edp(29)
quarterly(28) moodys(28) carrier(27) fitch(27)
rogán(27) industrial_production(26) nomura(26)
telekom(26) citi(26) investment(26) egis(26)
downgrade(25) attard_montalto(25) fuel(25)
raiffeisen(24) magyar(24) banks(24)
employment(23) excessive_deficit_procedure(23)
issuance(22) gárgyán(22) bank(21)
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parliament(20) rehn(19) vat(19) shortfall(19)
lázár(19) independence(19) surplus(19) bkv(18)
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fund_manager(16) junk(15) export(15) gki(15)
manufacturing(15) bankruptcy(15) lending(15)
jobless(15) court(15) oil(15) real_estate(15)
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import(9) subsidy(9) default(9) goldman_sachs(9)
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telenor(9) szijjártó(9) simplified_entrepreneurial_tax(9)
vodafone(9) dividend(9) lmp(8) washington(8) nmhh(8)
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financial_accounts(5) stability(5) excise(5)
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At least the government's expectations are huge...

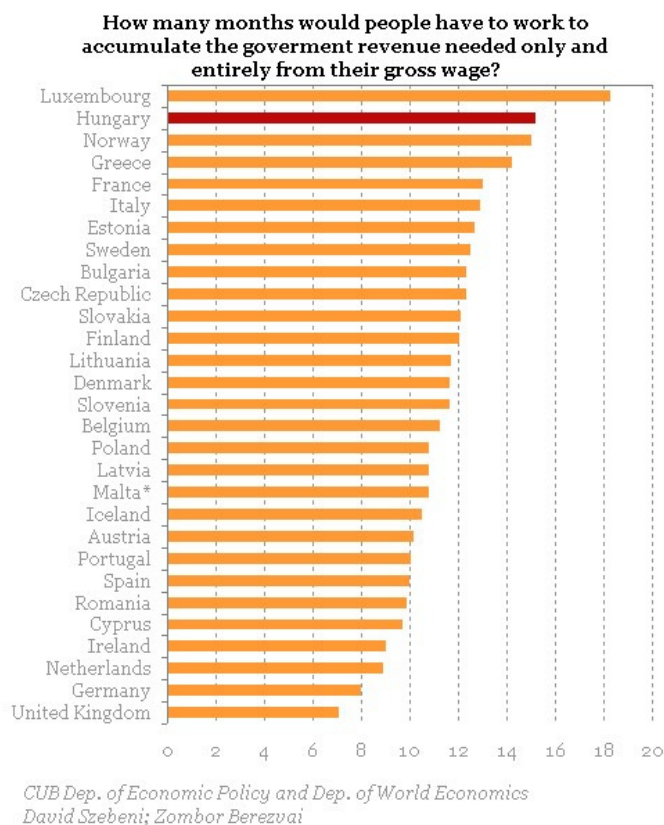
We can get an interesting classification in case we count the number of months needed to pay the whole sum of government revenues per employed if it had to be financed only and entirely by the average gross wages.

In such a classification Hungary finds itself unbelievably among the top 3 countries in Europe. The result is 15 months in Hungary and in Norway while it extends from ten to thirteen months in the countries similar to Hungary.

The main reason is that the Hungarian state is oversized when it comes to the central government revenues (only Luxembourg and Malta have more central government revenues per employed).

As regards the social security funds, Hungary finds itself in the upper third, while the amount of local government revenues qualifies the country for a value closer to the European average.

In the emerging country group (consisting of countries with Hungary-like GDP per capita) Romania has the lowest value of 9.8 months and Estonia is the second highest with 12.6 months.



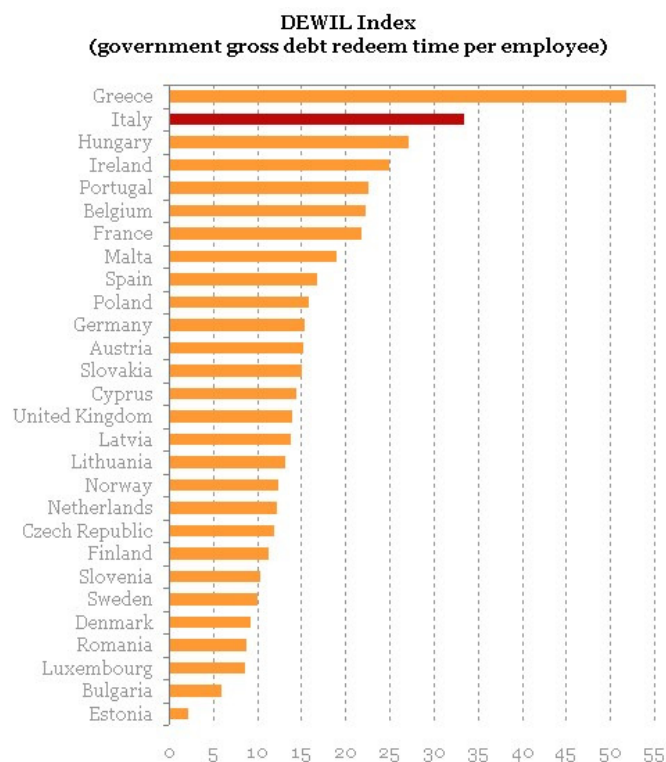
Summarized: The Hungarian employment rate isn't the only one which is below the average, but the Hungarian gross wages as well. Moreover, a significant part of this gross wage is taken away by the extremely high tax wedge meant to appease the government's hunger.

"Of course, it's a theoretical indicator. Not all of the revenues come directly from living labour, just think about different kinds of profit taxes or taxes on interest and dividends. The classification is interesting after all. Luxembourg is a tiny state, its outlier data is the consequence of the special structure of economy there, which is based on financial and legal services. On the other hand, Hungary doesn't have any excuses why it collects the most from the society, compared to the possibilities of the employees," explains Zombor Berezvai.

DEWIL

The research pays attention to the issue of government debt too, which is demonstrated by a new indicator (DEWIL). This index is actually a ratio. If we divide the gross government debt per employed person (purchasing power parity) by the average gross monthly wage (PPP), we can see how many months' work would free us theoretically from the government debt.

Accordingly, the name of the index is the abbreviation of the English expression: Debt-Wage Index of Liberty.



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The DEWIL index truly shows different European debt situation than the usual "debt in percentage of GDP" graphs suggest. One thing is undisputable though: Greece is the vulnerability champion (51 months) as a result of its enormous debt. The surprising fact is that Hungary takes the third place (27 months) after Italy (33 months). The emerging economies oscillate on a large scale from a short 2 months (Estonia) to 22.5 months (Portugal).

"In my opinion, this index is a useful addition to the usual 'debt in percentage of GDP' indicator. It helps us with understanding in a better way how can be a country more indebted GDP wise without heavy problems, while others can't even beat a relatively lower debt," Szebeni said.

"We can have better look at the complicated picture, as even Germany, Ireland, France, Belgium and Portugal are in worse debt situation GDP wise than Hungary, meanwhile all of them have better position at DEWIL. The last three years in Ireland brought wartime-like budgetary deficit and 96 % of GDP debt (from a low value of 25 %)."

"But the truth is, there are countries with more difficulties, if we take the wages and the number of employed people into consideration. Too high DEWIL means that a country is suffocating because of disproportioned government debt compared to the capacity of the society. This leads to hell of consequences, as suggested by the index name," warns Szebeni.

Methodology notes:

Source of data: Eurostat, OECD: Taxing Wages 2009-2010. (OECD 2011), National Statistical Institute Bulgaria, CyStat Statistical Service, Latvijas Statistika, Statistics Lithuania, Romanian Statistical Office, CUB calculations.

The data are for year 2010 except Maltese gross wage (2008). Base of purchasing power parity conversion is official 2010 Eurostat exchange rate for EU27. Some national gross wages can be different than the majority of datasets because of different OECD and national methodology. As a result Bulgarian, Cypriot, Latvian, Lithuanian and Romanian gross wages may be higher with the use of OECD methodology.

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