



Corporate reactions to the raise of the minimum wage and the guaranteed minimum wage

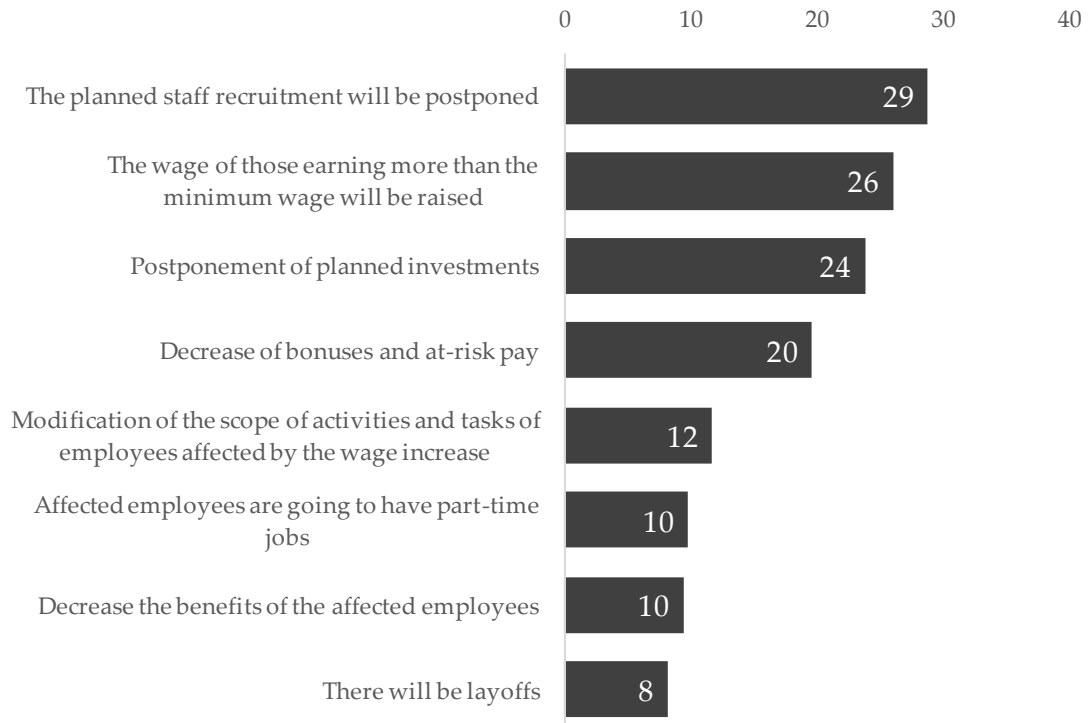
This brief analysis is to study what steps Hungarian corporations have already taken or plan to take in 2017 concerning minimum wage raise and the increased guaranteed minimum wage for the skilled workforce. In the analysis eight taken or due steps in 2017 will be examined: (1) to avoid wage disparity those earning beyond the level of minimum wage will also have a wage increase; (2) planned staff recruitment will be cancelled; (3) there will be layoffs; (4) planned investments will be postponed; (5) the scope of activity and tasks of those employees affected by the wage increase will be modified; (6) the affected employees' employment will become part-time employment; (7) the benefits of the affected employees will be cut; (8) variable pay/at-risk pay will be decreased (bonuses, on-target earnings).

This study used the survey results of the business climate research of IEER (Institute for Economic and Enterprise Research) conducted in April 2017; during this research more than 3200 corporate leaders provided answers to the research questionnaire.

According to the findings the most frequent corporate reaction to the January 2017 increase of minimum wage and of the guaranteed minimum wage for the skilled workforce was the postponement of planned staff recruitment; this option was chosen by nearly 29% of the respondents. The second most widely chosen option was to increase the wages of those who earn more than the minimum wage (to prevent wage disparity); approximately one quarter (26%) of the respondents mentioned this.

The postponement of planned investments was mentioned also by nearly one quarter (24%) of the interviewed corporations. The decrease of at-risk pay is planned or has already been accomplished this year by one in five companies. Approximately one in ten companies has changed or plans to change the scope of activity, the tasks of the affected employees, will employ them in part-time jobs, will reduce their benefits or will make some employees redundant.

Figure 1: The rate of those enterprises where the aforementioned steps have already been taken/will be taken as a result of the increase of minimum wage and that of the guaranteed minimum wage in 2017, percentage



Source: IEER 2017

Results demonstrate that due to the wage increase about one in five companies (22%) modify their business strategy: they postpone the earlier planned investments or planned staff recruitment. 13% of the enterprises plans to modify employment conditions: these companies have already taken or will take the following steps: layoffs, modification of scope

of activities and tasks, or moving people affected by the wage increase from full-time to part-time jobs. The rate of those enterprises that choose to cut benefits and at-risk pay of the employees affected by the wage increase is above 10%.

Figure 2: The rate of those enterprises where the aforementioned steps have already been taken/will be taken as a result of the increase of minimum wage and that of the guaranteed minimum wage in 2017, percentage



Sources: IEER 2017

The study of corporate background characteristics demonstrates that the aforementioned reactions are mostly common

at micro-enterprises, companies owned solely by Hungarian citizens, enterprises operating in the sector of economic services, and companies without export activity.

Table 1: The rate of those enterprises where the abovementioned steps have already been taken/will be taken as a result of the increase of minimum wage and that of the guaranteed minimum wage in 2017, according to headcount category, percentage

	x-9 employees	10-49 employees	50-249 employees	250-x employees
To avoid wage disparity the wage of those earning more than the minimum wage will also be raised	27	15	93	98
The planned staff recruitment will be postponed	45	9	2	1
There will be layoffs	13	2	1	0
Postponement of planned investments	38	7	1	0
Modification of the scope of activities and tasks of employees affected by the wage increase	13	4	46	0
Affected employees are going to have part-time jobs	20	2	1	0
Decrease the benefits of the affected employees	16	4	1	1
Decrease of at-risk pay	35	5	1	1

Source: IEER 2017

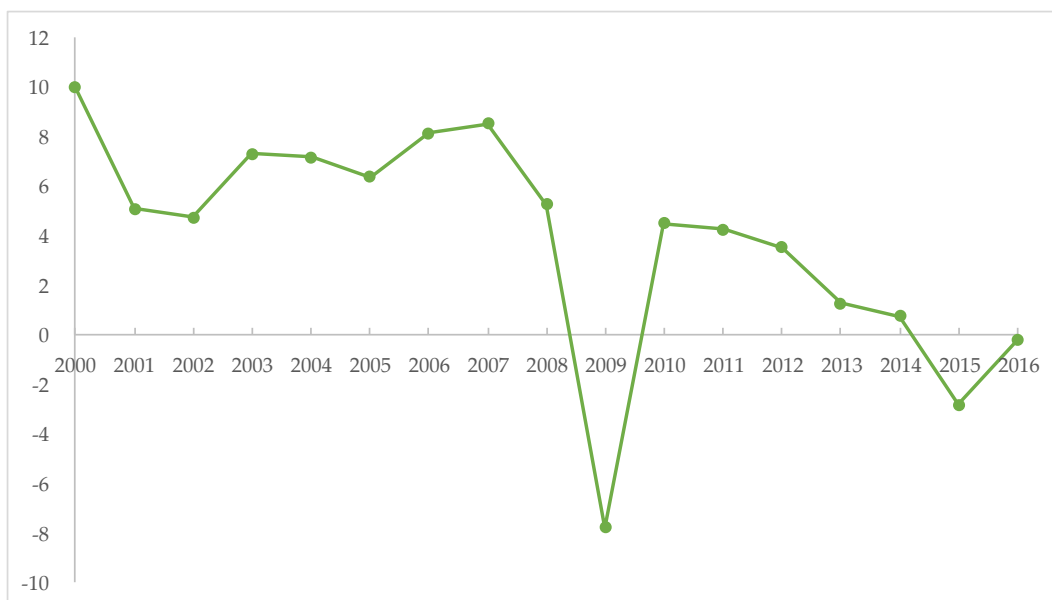
Characteristics of the Russian economy

In this brief analysis, the current Russian economic characteristics are demonstrated through macroeconomic indicators, and the Russian-Hungarian trade relations are also examined. The Russian economy had a crisis due to the decline of the oil prices and the sanctions against the country that started in 2014; at the end of 2016 a slow recovery could be observed. The economic performance is still highly dependent on the oil trade which means a risk for the country. Russia's long-term growth potential regardless of the currently expected short-term boom is not significant, primarily because of the low and decreasing productivity.

The annual rate of the Russian GDP growth can be seen in Figure 1. In Russia from 2002 the rate of the GDP growth increased until 2007 apart from a slight decrease in 2005. In the following two years there was a significant relapse due to the economic crisis: in 2009 there was a 7.8% decrease in the GDP

compared to the previous year. In 2010 the economy started to grow again, but the growth rate has been decreasing since then. In 2014 when sanctions were introduced against the country and when oil prices significantly declined the Russian GDP dwindled again. In 2016 the decreasing tendency changed.

Figure 1: The annual rate of the Russian GDP growth (2000-2016, %)



Note: yearly growth rates

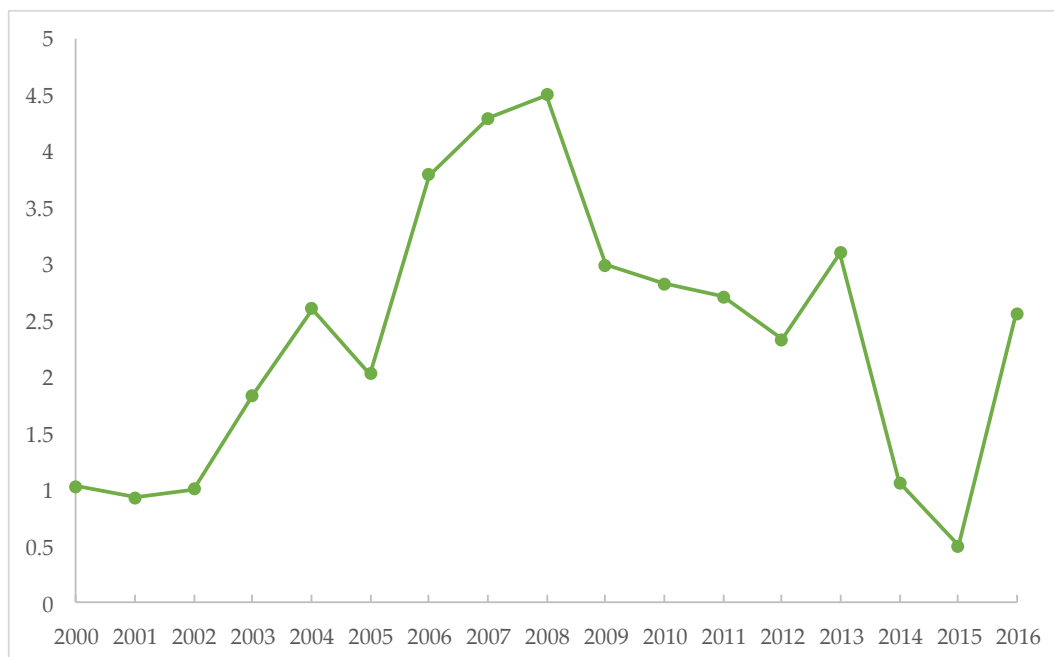
Source: The World Bank DataBank, <http://bit.ly/2t1nsRH>

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The characteristics of the foreign direct investments (FDI) in the Russian economy can be found in Figure 2. The net inflow of foreign working capital between 2000 and 2004 was mostly increasing, and then in 2005 the ratio of FDI to the GDP decreased. After that till 2008 the FDI in Russia had a steady growth. But after this period, apart from the 2013

increase the ratio of the FDI to the GDP decreased. The 2014 value was even lower than that of 2009 following the crisis. The privatization that took place in the energy market last year seemed to be a positive step, and it can be seen in the 2016 statistics, which was far more favourable than before.

Figure 2: The net inflow of foreign direct investments (FDI) into Russia (200-2016, GDP, %)

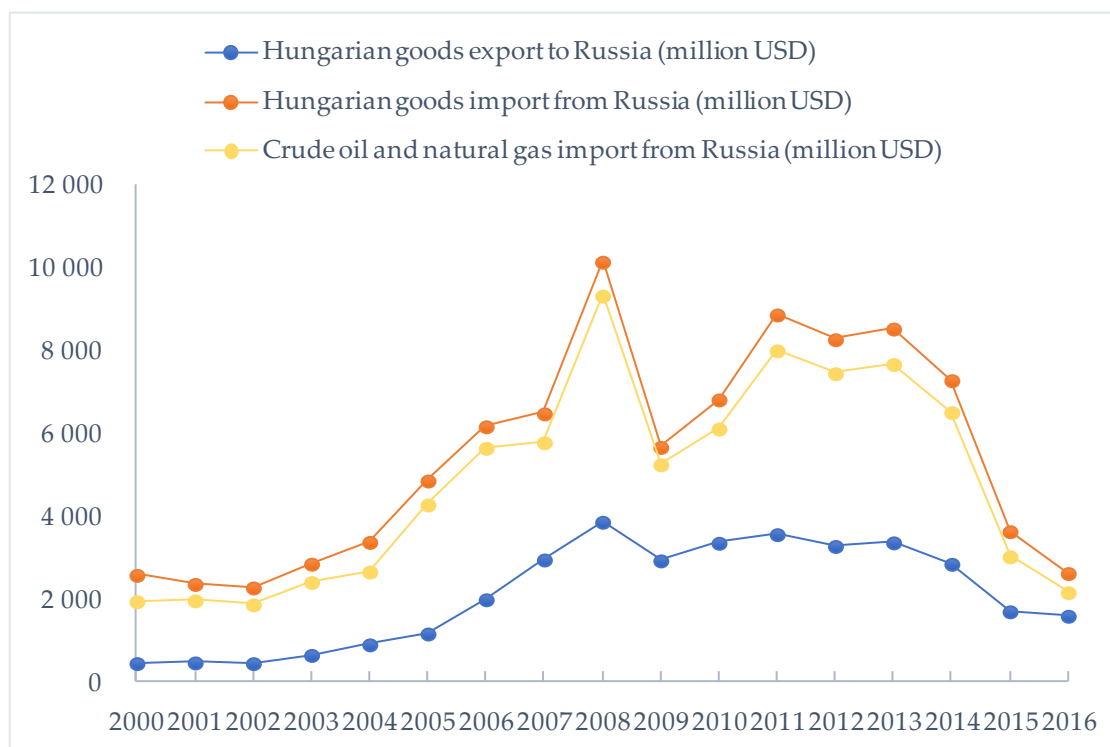


Source: The World Bank DataBank, <http://bit.ly/2tluwuZ>

Figure 3 demonstrates the data that characterize the export and import trade relations between Hungary and Russia. From 2000 both exports and imports evidently show a growing tendency. After the 2008 peak in 2009 the economic crisis had a negative impact on trade relations. After the crisis, the Russian import started to grow significantly which became stable at the approximate level of 7-8 billion dollars. In 2015 this value suddenly halved. This phenomenon was probably generated by the shocks of low oil prices (oil being the most important import

item of all) and economic sanctions. The figure demonstrates that the energy trade is the most significant element in the Hungarian imports from Russia (e.g. in 2015 it was 83%). After the crisis, there was some slight increase in exports, but in 2015 the rate of exports to Russia significantly decreased by one billion dollars. The data do not demonstrate the incipient recovery in 2016; the data just show that the previous decreasing tendency came to a halt.

Figure 3: The Hungarian foreign trade relations with Russia between 2000 and 2016



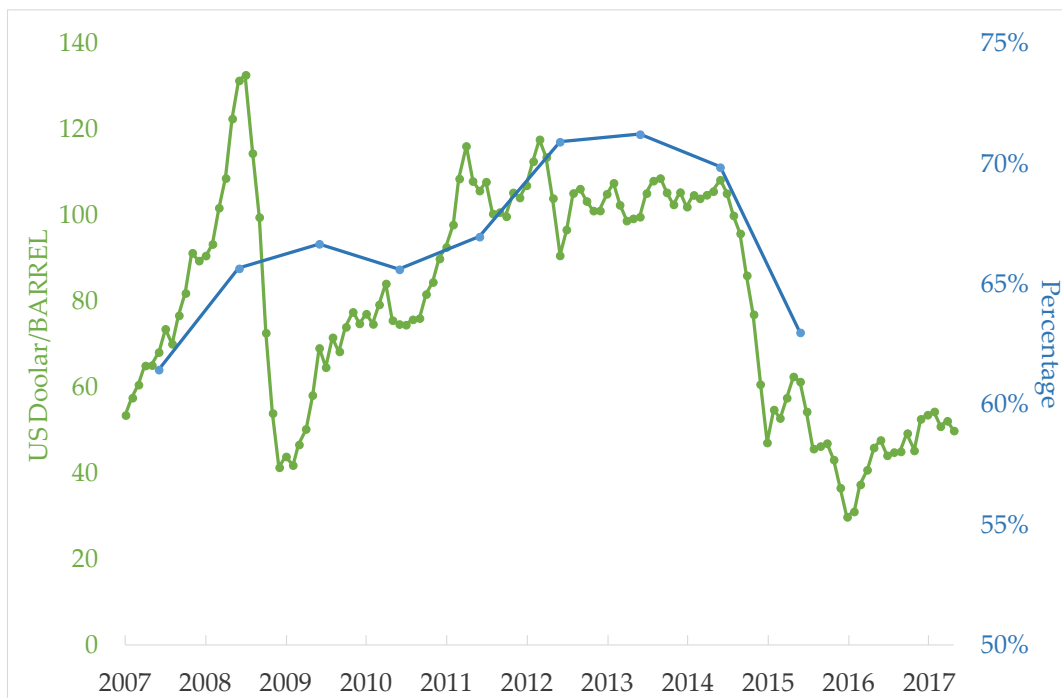
Source: HCSO, <http://bit.ly/2smxBGt>

Note: “The foreign trade statistics observe the value of the deals in Hungarian forints at parity price (imports at CIF, exports at FOB). The CIF (Cost, Insurance and Freight) value is the market price of the commodity at the border of the buyer’s country (importer) including the shipping costs to the border of the country and the shipping insurance fees. The FOB (Free on Board) value is the market price at the border of the seller (exporter) including the shipping costs to the border of the country and the shipping insurance fees.” (<http://bit.ly/2tluxip>)

In our analysis, the declining tendency of the volume of the Russian trade has already been highlighted. This tendency has a strong correlation with the oil price which is demonstrated in Figure 4. After the crisis, the world market price of the oil was around 100 dollars per barrel until 2014; currently it is about 40-50 dollars. That is the reason why the profitability of the oil export declined. Oil export amounted to 65-70% of the Russian world export in the recent years. The most recent datum is from 2015 which is 63%.

According to the World Bank analysts in the upcoming years the oil price is expected to grow again, and this external condition could have a favourable impact on the Russian economy.

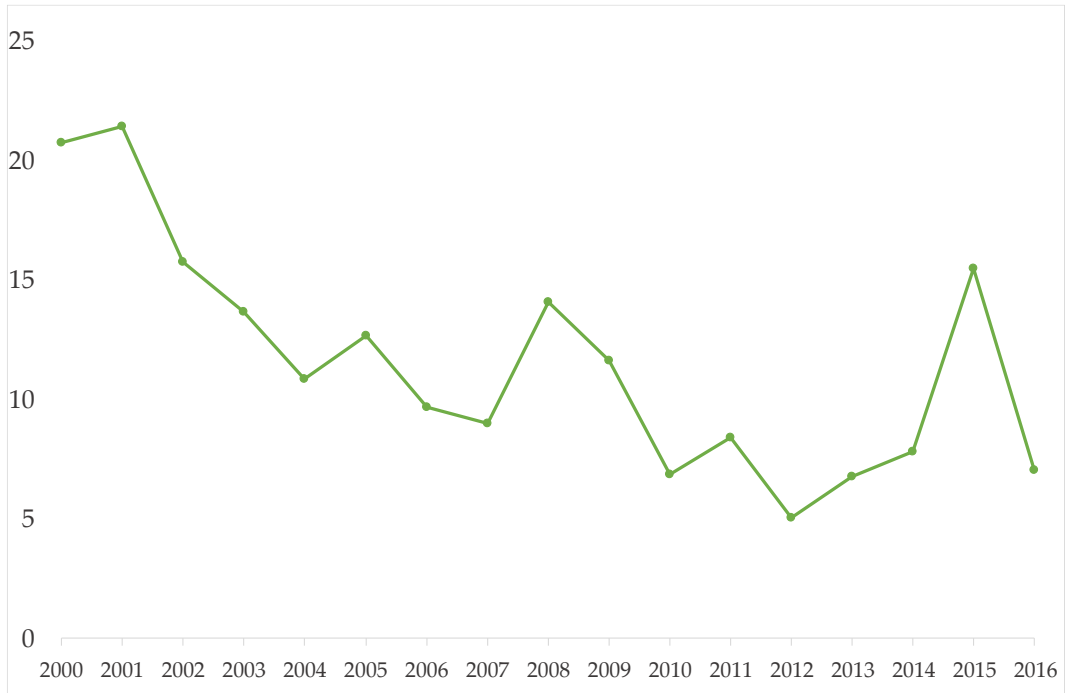
Figure 4: Trends in the average oil world market price per barrel (left axis) and the ratio of the Russian oil export to its total commodity exports (right axis)



Source: The World Bank, <http://bit.ly/1XgG1rA> and <http://bit.ly/2txyq3u>

Inflation tendencies should also be taken into account. Figure 5 demonstrates the characteristics of the price index of products that target final consumption in Russia. Apart from the unfavourable economic tendencies detailed above the increasing inflation can also mean a serious risk after the 2014 period. By 2016 the intervention of the Central Bank of Russia was successful in decreasing the rate of price increases.

Figure 5: The Russian consumer price index



Source: The World Bank, <http://bit.ly/2sst4qR>

International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Jun)	5.7%	5.7%	5.7%
Germany	Manufacturing Purchasing Managers Index	(Jun)	59.3	59.0	59.5
	IFO Business Climate Index ¹	(Jun)	115.1	114.4	114.6
France	INSEE Business Climate Index ²	(Jun)	106		105
	Unemployment Rate	(Jun)	4.4%	4.4%	4.4%
USA	CB Consumer Confidence Index	(Jun)	118.9	116.0	117.6
	Manufacturing Purchasing Managers Index	(Jun)	52.1	53.0	52.7
China	Manufacturing Purchasing Managers Index	(Jun)	51.7	51.0	51.2

<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

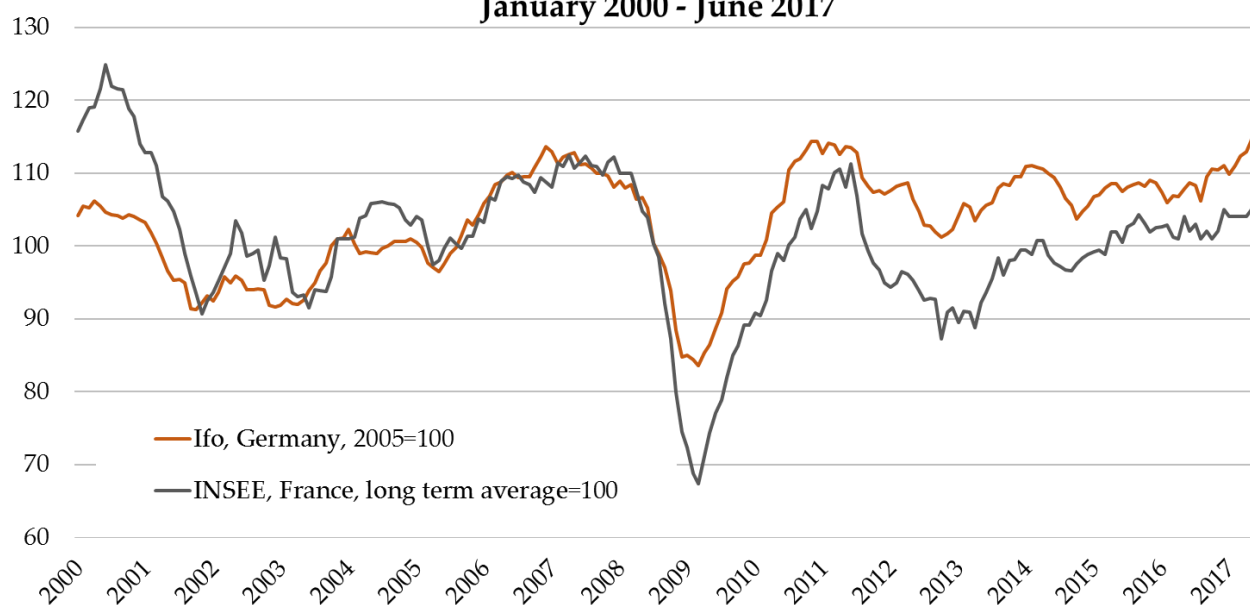
² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

Source of the remaining data: <http://worldeconomiccalendar.com>

The performance of the German economy continued to perform strongly in June. The manufacturing purchasing manager index (PMI) has increased compared to the previous month and the expectations, while the level of unemployment has not changed since May. The IFO business climate index after reaching its highest point in years continued to increase in June as well. The French INSEE business climate index has improved compared to the previous month. In the United States the CB consumer confidence index after a fall in May, has improved compared to the last month and to the expectations. The manufacturing PMI, however, performed worse than expected in June, and the unemployment rate was slightly higher than in the previous month. The Chinese manufacturing PMI has continued to increase in June.

Long-term changes in business confidence indices

**Business confidence in Germany and France,
based on the Ifo and INSEE business climate surveys,
January 2000 - June 2017**



Source: www.cesifo.de, www.insee.fr

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