Hungary re-introduces the 13th month pension as part of its response to COVID-19

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Starting in January 2021, Hungary will gradually re-introduce the 13th month pension, an extra month of benefit for pensioners, which was granted between 2003 and 2009 but was withdrawn in the wake of the economic crisis.

Description

The COVID-19 pandemic reached Hungary somewhat late and the authorities had some time to prepare. An Operational Group was set up on 31 January 2020, weeks before the first reported case or the first death were announced (on, respectively, 4 and 15 March). Consequently, the total number of deaths remained low in comparison with other EU countries (61.0 per million people as of 23 July 2020).

The shock of the sudden halt of economic activities affected various parts of the economy differently, depending on the sector, form of employment as well as the age and educational level of employees. The number of people in employment decreased by 2.2% from February to May (and by 2.9% from February to April).

Following the classification of the Bruegel economic think-tank (Anderson 2020), but updating their numbers (Madár 2020), the immediate fiscal measures taken by the government amounted to about 3.2% of GDP (of which one measure, worth 0.3% of GDP, had been announced before the COVID-19 crisis). The package includes extra health-related expenditure (1.6% of GDP); tax waivers and an extension of cash benefits that were due to expire (0.8% of GDP, of which 0.3 percentage point [p.p.] would have been relinquished without the pandemic); wage subsidies including the Hungarian version of the German Kurzarbeit (0.7% of GDP); and subsidies for technological change and training (0.2% of GDP).

Deferrals of payments, such as credits, loans and lease payments, as well as taxes and social security contributions that were not waived but in principle should be paid back later, amount to 7.7% of GDP. Finally, other liquidity provisions and guarantees, such as credit lines provided through national development banks and the National Bank, preferential loans and capital programmes to support business investments and fend off potential hostile takeovers in strategic sectors, extended the response package by an additional 6.8% of GDP. Payment deferrals and liquidity provisions are spending envelopes that will not necessarily be depleted. Also, an Economic Defence Fund (*Gazdaságvédelmi Alap*) is to finance public investment programmes equivalent to 2.0% of GDP. However, these projects are mostly unrelated to the pandemic and were initiated before it broke out.

In addition to these programmes, there have been regulatory changes aimed at increasing labour market flexibility (extending the timeframe within which working hours can take place); or simplifying and speeding up administrative processes (such as accelerating VAT reimbursements).

As reflected by the composition of the rescue package, and in line with its declared goal of building a "work-based society", the government's response focused on maintaining demand for labour rather than supporting consumption. Specifically, the government expressed their intent not to extend the duration of unemployment benefit, 90 days, or introduce new benefits (but increased the budget for the public works scheme and offered subsidies to the unemployed for six months of reservist training with the defence forces).

There is one notable exception to this strategy: the gradual re-introduction of the 13th month pension, an extra month of benefit. Pensioners will receive one week of benefit in January 2021 in addition to their regular allocation. This amount will be increased to the equivalent of two weeks' benefit in 2022 and three weeks' benefit in 2023. Starting from 2024, pensioners will be paid a full month's extra benefit every January.

Outlook and commentary

The crisis has affected different age groups to a differing extent. To date, employment has been impacted, rather than prices, so younger cohorts have been harder hit. It seems questionable, therefore, whether the major social policy tool used, i.e. an extra month of benefit for pensioners, is the most appropriate one. The measure can be seen in the light of two contextual factors.

First, the relative income position of pensioners deteriorated significantly in a short period of time between 2015 and 2019. Between 2012 and 2015, the average monthly benefit oscillated around 67% of average net wages, but then fell by 13.9 p.p., from 67.6% in 2014 (www.ksh.hu 2.5.21i table) to 53.7% in January 2019 (KSH, 2019). This was true for the statistical category of all pension-type benefits. Old-age benefits still stood at 59% of the average net wage in January 2019. This rapid fall was mostly due to wage dynamics. Pensions in payment are indexed to prices, so pensioners' income rises at a different rate from that of workers, whose purchasing power increases as their wages grow. Wages typically increase faster than prices. The gap widens throughout a person's retirement and it widens especially quickly when real wages grow fast. This is what happened between 2015 and 2019, when real net wages increased by nearly 40% (www.ksh.hu 2.1.47 table).

However, even if the rationale for the 13th month pension was to partially compensate pensioners who did not benefit from the surge in real wages, it should have been limited to current pensioners. The benefit formula that establishes new pensions re-values past eligibilities by a nominal net wage index. Consequently, future pensioners will collect the fruits of the recent real wage growth. They do not need compensation, if indeed the 13th month benefit is such a compensation.

The alternative interpretation of the extra benefit is related to the political cycle. The first fifteen years after the restoration of democratic institutions in 1990 was characterised by a strong electoral cycle for pension benefits. In every year preceding general elections (that is, in 1993, 1997, 2001 and 2005), real benefits grew faster than in the previous year, and in every election year (1994, 1998, 2002, 2006), except for 2006, benefit growth even speeded up, followed by a lesser increase (or at times outright decrease) in the year after elections (Gál and Tarcali, 2008). Consecutive governments saw this as a way to attract a large group of voters. The predecessor of the new extra benefit was one such tool. Hungary has had a 13th month pension before. Keeping the promise made in their election campaign in 2002, the then-new government introduced the extra benefit between 2003 and 2006 in a similar, gradual way. However, as the economic crisis unfolded, the benefit was first capped in 2008 and finally withdrawn altogether in 2009. After 2006, the political cycle, although not smoothed out altogether, lost its significance.

The spending cycle seemingly proved impractical. All incumbent governments that oversaw a full electoral pension cycle lost the election; and, with one exception (2010), all of those not using this tool won a second term. Yet, the reappearance of the 13th month benefit may signal the return to spending competition in Hungarian politics.

Further reading

Anderson, J. et al. (2020), "The fiscal response to the economic fallout from the coronavirus". Bruegel, Brussels.

Gál RI, Tarcali G. (2020), "Pension reform and intergenerational redistribution". In: Gál, RI, Iwasaki, I and Széman, Z (eds.): *Assessing intergenerational equity: an interdisciplinary study of aging and pension reform in Hungary*. Akadémiai, Budapest.

KSH (Hungarian Central Statistical Office) (2019), "Nyugdíjak és egyéb ellátások" [*Pensions and other pension-like benefits*]. KSH, Budapest.

Madár, I. (2020) "Úgy megváltozott a kormány koronavírus-mentőcsomagja, hogy szinte már rá sem ismerni" [*The rescue package of the government has changed so much it is hard to recognise*]. Portfolio, Budapest.

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