

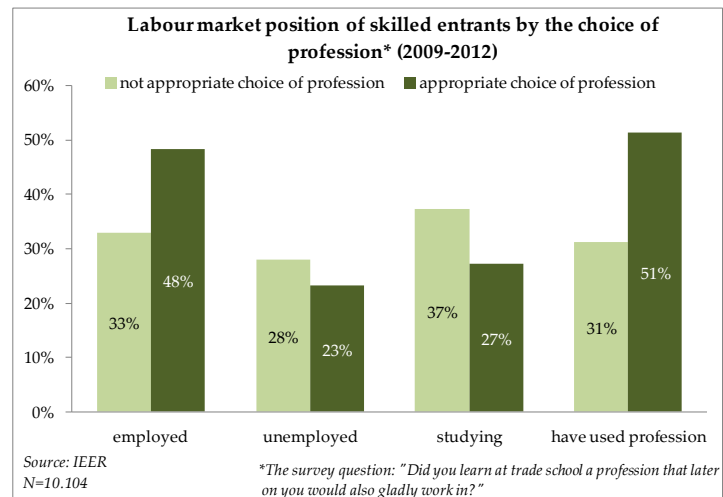
According to the latest study of IEER, making the right choice of skills that meets the personal interests of the student improves the career prospects of qualified vocational school graduates. In addition, good academic results, the knowledge of foreign languages and matriculation also helps skilled young people to succeed in the labour market. In the case of becoming unemployed the effect of family background is important, whilst this risk can be reduced by ambitions for further education, foreign language skills, acquiring good academic results, finishing secondary school with a final exam, and making the right career choice. Further education after learning a profession is beneficial – in the short term it means higher wages, while for the long-term it translates into more stable employment. The acquisition of functional literacy, foreign languages, and study skills is therefore very important for the future success of skilled workers in the labour market.

In a joint research project by the Hungarian Chamber of Commerce and Industry (HCCI) and the Institute for Economic and Enterprise Research (IEER), the beginning of the labour market career of skilled entrants was examined. The main question of the study was that during the nine months following the acquisition of their skills were they able to, or even wanted to, enter the labour market. For every year between 2009 and 2012 a questionnaire survey was conducted on more than 10,000 young people who had acquired a profession from a vocational school or technical school the previous year. The current study of IEER examines the factors that affect the chances and opportunities in the labour market of vocational school leavers in Hungary.

The research results show that the labour market chances of qualified graduates are the most improved if they learned a profession that meets their interests, and which later they can be happy with. Of those with adequate choice 48% were working at the time of the interview while the corresponding figure for those with inadequate professional qualifications was only 33%. For those who had completed their practical training at an outside firm – who had had an apprenticeship contract with a company – it was easier to find a job. Of those who did their practical training only in the school workshop, 41% found a job in nine months while those who did their practical training at an external company this rate was 46%; for those who did both it was 49%. Those with a good vocational school achievement also had better chances of finding a job when they graduated: the average within the group with a job was 3.68 while for others it was only 3.60. In addition, males and those within the engineering profession were more likely to find a job within nine months. The economic crisis had had a strong negative impact on the labour market, which worsened the chances of vocational school leavers every year since 2009.

In the case of the risk of unemployment, the impact of family background is important: children of unemployed fathers or fathers with low educational attainment and often become unemployed themselves. Among those acquiring a

profession in line with their interests the unemployed rate is

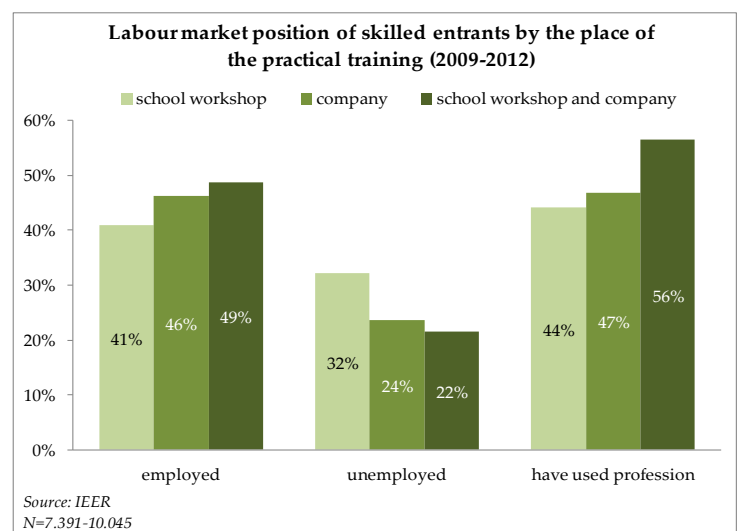
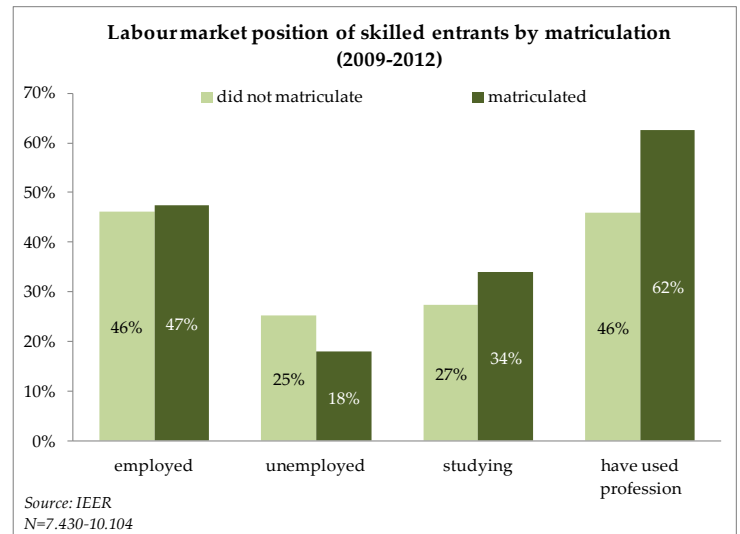


lower (23%) than among those who do not like to work in the profession they acquired the previous year (28%). Unemployment risk is reduced by further education ambitions and also by the knowledge of foreign languages. Of those with foreign language skills 21% were unemployed at the time of the survey while this figure among the respondents who spoke only Hungarian was 30%. Matriculation can also reduce the chances of unemployment: 18% of high school graduates were reported unemployed while for those with only vocational training this rate was 25%. In addition, skilled graduates who did an apprenticeship at a company were rarely unemployed: at the time of the survey the unemployment rate of those who did their apprenticeship at the school was 32%, for those who did it at a company this figure was 24% and of those who did both 22% was unemployed. Good vocational school grade points also reduce the risk of unemployment: the group average of those who were unemployed was 3.52, while for others it was 3.67.

Those engaged in further education after acquiring their profession means that in the short term these young people do not enter the labor market, and are not added either to the data of employed nor to the unemployed. The advantage of acquiring further education in the long run means the ability to do more complex tasks and the availability of higher salary levels. According to the collected data the most well-performing vocational school students chose this path. Of those who speak a foreign language 32% studied further after obtaining their qualifications, for others it was only 21%. Of those who had completed secondary school with a final exam 34% continued their studies, whereas those with only the profession they acquired this rate was 27%. Good vocational school performance also has a positive effect on the chance of further studies: the group average of students continuing their education was 3.67, for others it was only 3.62. Females are more likely to continue their education than males. The chance of further education is reduced if the father has low qualifications and if the young person has learned a profession which he/she would happily work in (the proportion of those continuing their education is 27% in this group, while for the rest this rate was 37%).

The importance of career choices is underlined by the fact that the chances of finding a job or further education (e.g. attending a trade college after vocational school) within the learned profession are very high among those with professions relevant to their interests. Among the latter, the ratio is 51%, for others it is only 31%. Knowledge of foreign languages may also increase the chances of working within the learned profession: 52% of those who speak a foreign language have worked in their profession, while for others it was only 43%. For those with a high school degree 62% have studied or worked in their profession, while for others

this proportion was only 46%. Of the students with an apprenticeship contract, 56% were able to work in their



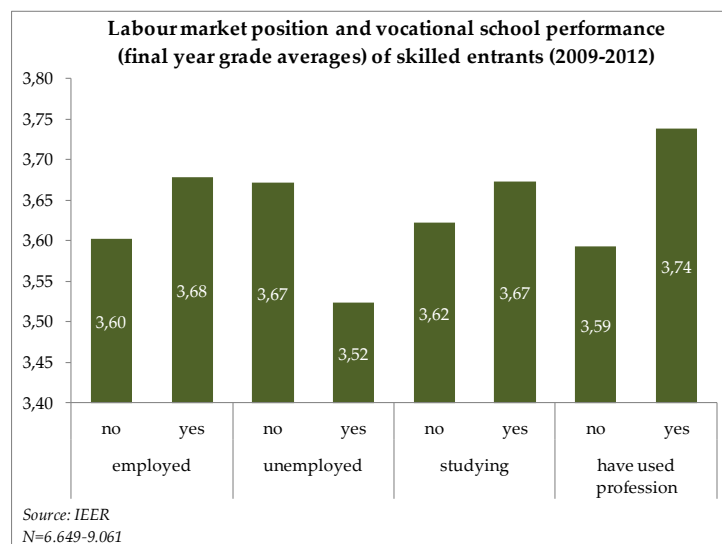
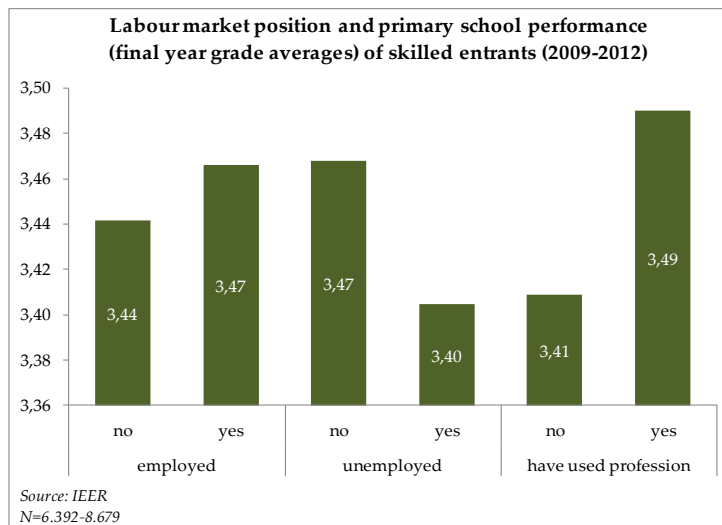
profession in nine months, whereas only 44% of those who attended the school workshop were able to do so. The engineering field also increases the likelihood of working or studying in the learned profession. In addition, a good vocational school performance also has a positive effect on this; the group average of those able to work within their profession was 3.74 compared to 3.59 for others.

According to the results of the IEER survey, therefore, labour market success is in part beyond the control of individual factors. The effect of family background is significant, which is unable to be neutralized by training for the time being. Children of highly educated parents often acquire secondary school and higher level skills, and also enter the labour market with better chances. The status of unemployed fathers often results in the unemployment of their children as well.

The results also draw attention to the importance of practical training and the institution of apprenticeship agreements. Professional practice at companies is beneficial for the future labour market prospects of students: it means familiarizing themselves with the real working environment and at the same time can be an area to build relations that will be important in the future search for employment. That is why it is important to broaden and deepen the relationship between vocational schools and the private sector.

However, several important factors can be influenced by the young skilled entrants themselves. Generally speaking, the chances for getting employed and utilizing the learned profession can be increased by career choices based on individual talents and interests. This calls attention to the importance of elementary school career guidance and career counseling. Individual performance in the course of the studies has a significant impact on the future labour market situation. High school academic achievement, foreign language knowledge and matriculation all improves labour market opportunities. This mechanism prevails, firstly and directly, via employment opportunities and, secondly and indirectly, through further education: according to our data, young people who perform well as students, speak a foreign language, and are ambitious are more likely to continue their education after acquiring a profession. A further advantage of continued education in the short-term is higher wages and in the longer term the capability of acquiring new skills helps to stabilize the labour market situation of the skilled workers.

The data suggest that the acquisition of general knowledge, language learning skills and the capability of acquiring new knowledge is very important for the skilled labour force on the labour market.



Macroeconomic trends: The impact of the Ukrainian crisis on the forint exchange rate

The crisis unfolding in the Ukraine is perhaps the most significant event, both politically and economically, in the last few months. The European Union and the U.S. confrontation with Russia are reminiscent of a cold war atmosphere, with both sides trying to incorporate the Ukraine within their own sphere of influence. The changing political and economic systems are extremely unstable, with effects felt outside of the Ukraine. The events of the following weeks and months may result in a major change for Europe. Its effects are already felt in Hungary: the forint weakened significantly against the euro in February, with the 314 level being crossed several times. The Hungarian Central Bank has a crucial role in this, because despite the weakening of the forint, it continued the series of interest rate cuts.

The risk of bankruptcy is increasing in Ukraine

On 21 November 2013 the Ukrainian government announced that it will suspend its preparation to sign the Association Agreement with the European Union. Due to the announcement month-long protracted and gradually coarsening demonstrations began in Ukraine.

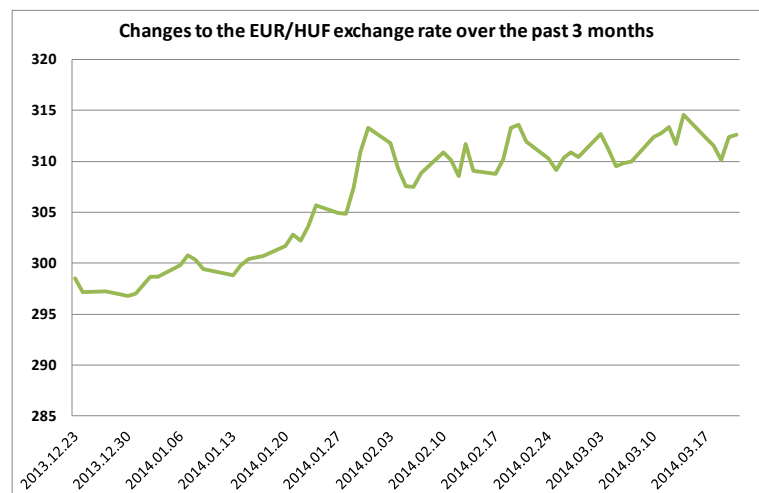
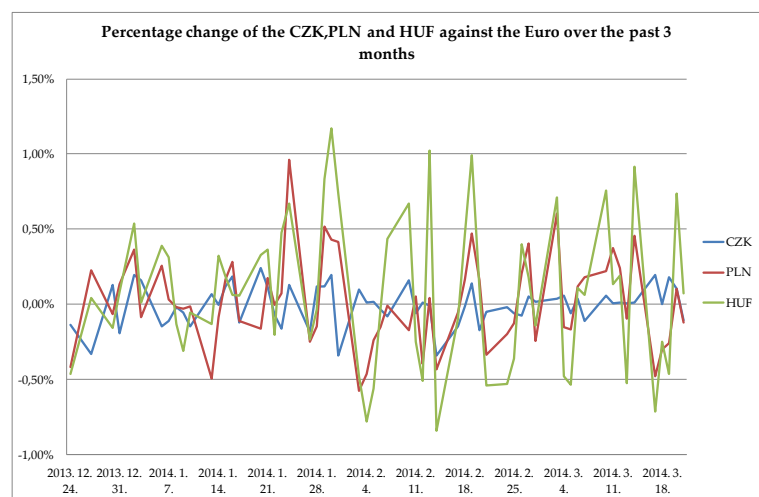
In February 2014 the opposition took power in practice, however the situation is far from being resolved. First, the occupation of the Crimea by Russia solidified a possible risk of (civil) war; meanwhile without external financial help the Ukraine would become insolvent within a short time. The reserves of the Ukrainian Central Bank's foreign exchange fell dramatically, and the markets have started to price in the bankruptcy.

To make matters worse, the population continues to withdraw their deposits from the financial system. In addition, Russia increased the price of gas and there is the possibility of a complete shutdown of gas supplies. Ukrainian state bankruptcy or closing of the gas taps would have serious consequences on Hungary.

The base rate is further reduced in Hungary

Despite the weakening of the forint, the Hungarian Central Bank in February continued with the series of interest rate cuts it had started since August 2012. After the Monetary Council meeting of 25 March the base rate fell to 2.6%, and thereby reached a new historic low. Analysts say the low level of interest rates can easily result in over 320 forints per euro exchange rate because the extra yield of forint-denominated bonds disappeared compared to "hard" currency-denominated bonds.

There was some optimism when the central bank communication noted that if "there is a significant deterioration in the global financial environment" it will not continue to cut interest rates, but even so there may be a sharp increase in the exchange rate in the future.



The forint has suffered the strongest weakening among regional currencies

Primarily due to developments in the Ukraine, compared to the 300 forint/euro level at the beginning of the year, in February it weakened 3.5-4% in just a few days against the euro. In the ensuing weeks, it repeatedly exceeded the 314 level. In the region, the Polish zloty and the Czech koruna also weakened against the euro, but in neither case at the same level as in the case of the forint. After a fall at the end of January, both the zloty and the koruna could strengthen again by mid-February; the forint, however, was unable to break out of the 308 to 312 zone.

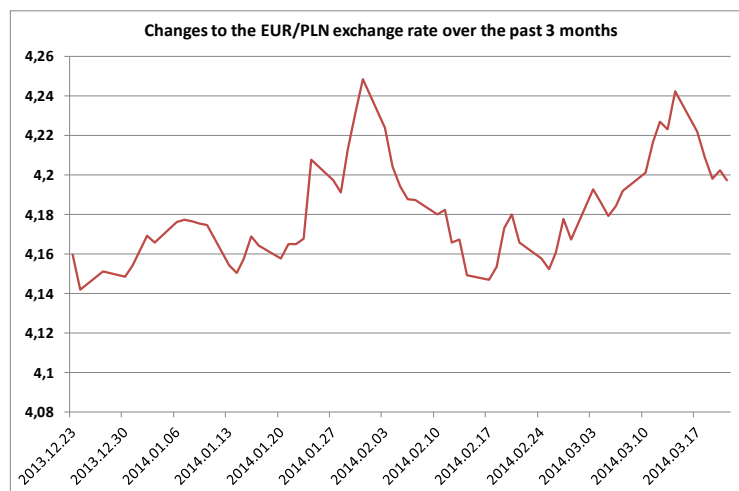
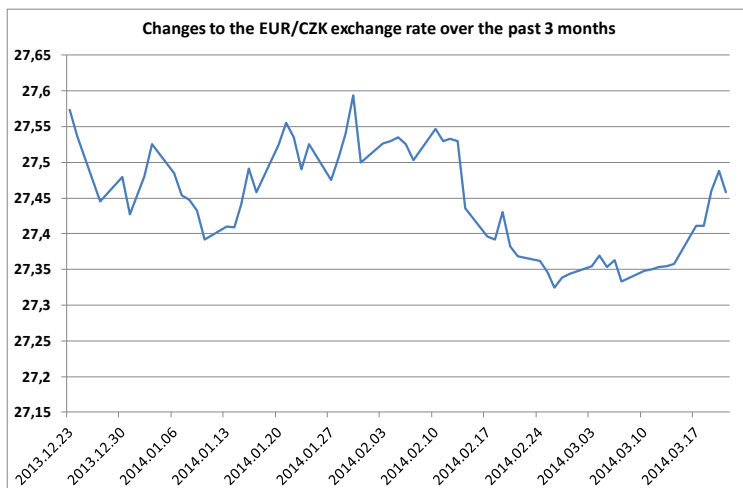
A comparison of the change in the currencies of the three countries reveals that the forint is much more volatile compared to other regional currencies. This is confirmed by standard deviation and range-assessments.

	Dispersion	Sample
CZK	0,0013	0,0058
PLN	0,0031	0,0154
HUF	0,0049	0,0201

Clearly, the Czech koruna fluctuated the least during the period. The zloty has greater volatility, but is still well below that of the forint.

The Hungarian forint is therefore more sensitive to events in the Ukraine compared with other countries in the region, a big part of which is that the central bank base rate is low. With the potential for further interest rate cuts, as well as the aggravation of the situation in the Ukraine in the near future, the forint can easily cross the 320 level as well in the near term.

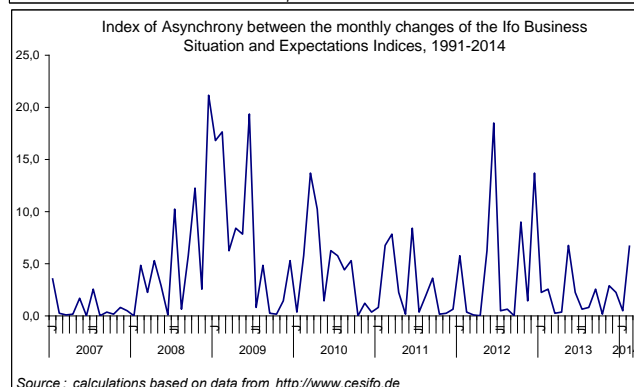
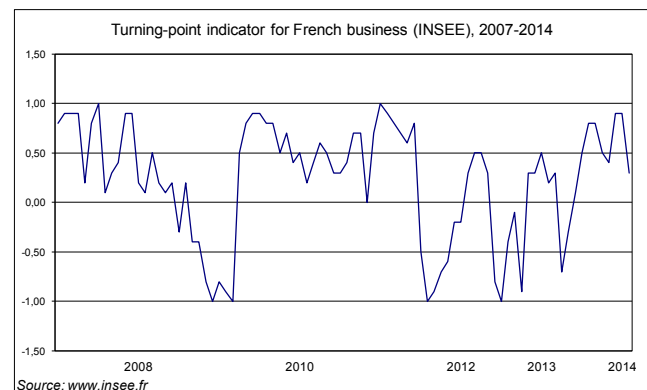
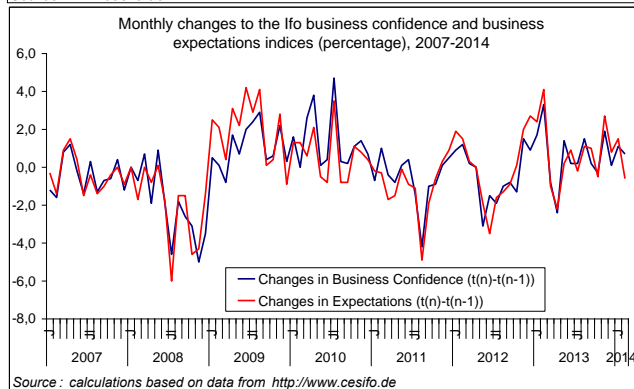
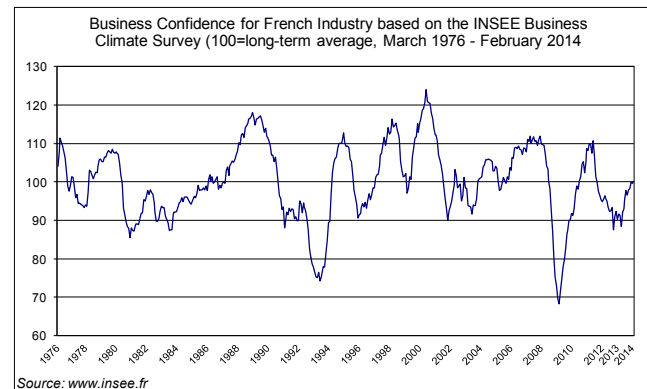
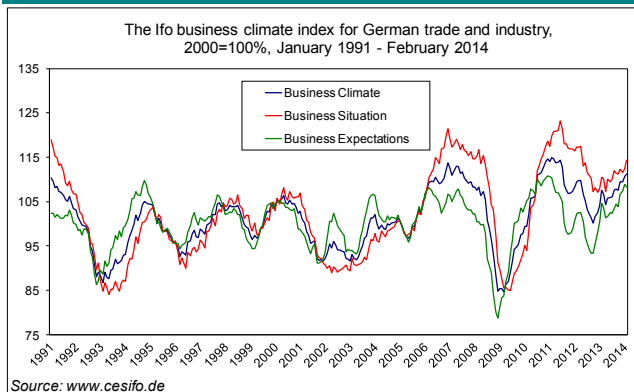
Source: European Central Bank
(<https://www.ecb.europa.eu/home/html/index.en.html>),
index.hu, portfolio.hu



International trends

The Ifo Business Climate Index for industry and trade in Germany continued to rise in February. Assessments of the current business situation were significantly better than last month. Expectations regarding future business developments dipped slightly, but remain optimistic. The gap between the current business situation and the expected developments, as calculated by the IEER Index of Asynchrony, increased in February, hence the business confidence index showed greater uncertainty than in the previous month. According to Ifo analysts, the German economy is holding its own in a changeable global climate. (Source: Ifo, <http://www.cesifo-group.de>)

According to the business managers surveyed by the French statistical office (INSEE) in February 2014, the business climate in industry has not changed compared to the previous month. The composite indicator is stable and stands at its long-term average. The turning-point indicator has weakened compared to January and is now in the neutral zone. The balance of opinion on personal production expectation remains good-biased: it is nearly stable and stands now above its long-term average. The balance on general production expectations, which represents business managers' opinion on French industry as a whole, is nearly stable and keeps standing at a level above its long-term average. (Source: INSEE, <http://www.insee.fr>)



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