

## THE HUNGARIAN TOURISM AND HOSPITALITY SECTOR IN THE MIRROR OF THE CRISES

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**Abstract:** *The economic impact of the tourism and hospitality sector as an economic system is partly general, similar to other sectors of the economy, and partly specific. At the same time, the sector is a major driving force for macro-economies, with positive effects on various sectors of the economy. Based on an analysis of current statistical data, the study formulates the characteristics of the sector: the share of hotels and restaurants in GDP, the revenue from accommodation fees of commercial accommodation establishments, the evolution of the turnover of guests in commercial accommodation establishments, the average gross monthly earnings of employed persons, etc. Analysing the data for the period under review, 2008-2021, we can see that Hungary started to see some growth in employment and average gross earnings after 2010, but still lagging behind the targets set in 2005. In line with international trends, tourism in Hungary has developed positively in several areas by 2019, reaching or exceeding pre-2008 crisis levels, with overall growth in the sector exceeding the national economy average. However, the sector's performance was also significantly affected by the sharp decline caused by Covid-19 and the war situation in 2022. The aim of the analysis is to present the impact of the international financial crisis starting in 2008 and the Covid-19 epidemic in March 2020, to compare the effects of the two crises on GDP, labour market factors, with a special focus on the accommodation and food services sector.*

**Keywords:** crisis, tourism and hospitality, GDP, employment, COVID-19

**JEL Classification:** G12, G15, G32

### 1. Introduction

Tourism has been a dominant and dynamically growing economic sector worldwide in recent decades. Its importance is recognised and supported by an increasing number of governments. It is also at the heart of EU support policies, such as rural conservation, rural tourism development, environmental measures, etc. The sector is of strategic importance for the Hungarian economy in terms of GDP generation, balance of payments and employment.

The performance of the tourism sector is influenced by a combination of factors. The change is positive if the regular personal income in society increases, if the currency of the country is stable, if employment increases and if the economy grows. On the negative side, tourism growth is affected by a decline in production, stagnating wages, a fluctuating exchange rate, the declining purchasing power of the currency, and various force majeure events (war, natural disasters, etc.).

The study presents the impact of the international financial crisis that started in 2008 and the Covid 19 epidemic that started in March 2020, the evolution of the main economic indicators such as GDP, balance of payments, inflation, employment and wages, the exchange rate of the forint, and in particular the indicators of the accommodation and food

services sector, such as the number of nights spent, the number of commercial accommodation establishments, the revenue from accommodation fees, in both crises.

The important differences between the two crises should also be highlighted. While the 2008 global economic crisis mainly affected the economy, living standards and credit, the Covid-19 epidemic first drastically restricted people's freedom of movement - within a short period of time - and then spread to almost all areas of life. From the outset, the accommodation and catering sector was hardest hit, with entrepreneurs making redundancies and taking forced leave to cushion the significant fall in demand.

The crisis caused by the coronavirus will be behind us by the summer of 2023, but there are still serious repercussions in many areas of the economy, such as an increase in the budget deficit, a fall in industrial production, inflation that is still very high by European standards, a significant weakening of the forint (even if it strengthens for a short period), a fall in consumption, etc. However, we do not wish to go into a deeper analysis of the causal links between the economic situation, which is still ongoing today, and the extent to which the economic situation is a result of the virus and the extent to which it is the result of internal economic processes, measures or external events.

## **2. Material and method**

The international financial crisis has affected all European countries and has also affected the performance of the tourism and hospitality sector, so the statistical data from 2007 to 2022 are used as the database for this research. We have not sought to interpret the concepts related to the subject, but have adopted the terms and categories used in the literature, e.g. tourism-catering, accommodation-catering, tourism, etc.

In addition to the literature on the subject, the main sources used in the research were statistical data published by the Central Statistical Office and the publicly available database of the MNB.

## **3. Crises and their characteristics**

Economic crises and recessions have been a natural part of economic processes for centuries. During economic crises, there is a decline in many areas of the economy, but mainly in macroeconomic indicators such as GDP, employment and industrial production.

The 2008 crisis has had a major impact on the economy and hence on changes in the living standards of the population. The crisis in the US credit and real estate markets was transformed first into a global financial crisis and then into a global economic crisis (Losonczi, 2008). Starting in the United States, the events led to a globalisation-induced economic interdependence, which resulted in a recession that spread, with some delay, throughout the world (Losoncz, 2008).

The Covid-19 epidemic broke out in China at the end of 2019, and by spring 2020 it had spread to almost all countries, plunging the world into an unprecedented health, social and economic 'emergency', with Hungary also experiencing serious disruption. The travel and tourism sector is one of the most affected, with demand globally, regionally and even locally significantly reduced, sometimes completely halted, due to extremely strict travel restrictions such as border closures, closure of restaurants, hotels and entertainment venues. The main features of the two crises are summarised in Table 1.

**Table 1:** Crises and their effects in Hungary

2008-2009	2020-2021
<p><b>Trigger:</b> the US credit crisis <b>Consequence:</b> global financial crisis, then global economic crisis, economic recession</p>	<p><b>Trigger:</b> outbreak of Covid-19 <b>Consequence:</b> restrictions on free movement of people, closure of borders</p>
<ul style="list-style-type: none"> <li>- Increase in the cost of credit, rise in interest rates, collapse of foreign currency loans</li> <li>- Fall in real estate prices</li> <li>- Decline in economic growth (Hungary 3.4%, 7th worst in EU)</li> <li>- Increase in unemployment</li> <li>- Fall in living standards, by income groups</li> <li>- Weakening of the forint exchange rate</li> </ul> <p><b>Tourism and hospitality:</b></p> <ul style="list-style-type: none"> <li>- Reducing service prices (e.g. accommodation)</li> <li>- Decrease in inbound tourism, already in 2008</li> <li>- Low wages</li> <li>- Tourism and catering sector only moderately affected</li> </ul> <p><b>General:</b></p> <ul style="list-style-type: none"> <li>- Measures vary by country, region, slow growth</li> </ul>	<ul style="list-style-type: none"> <li>- Panic buying initially</li> <li>- Serious disruption to health care</li> <li>- Inflation (food, real estate, etc.), interest rate freeze</li> <li>- Labour shortages in several sectors</li> <li>- Despite rising wage costs, real wages fall</li> <li>- Drastic weakening of the forint exchange rate</li> </ul> <p><b>Tourism and hospitality:</b></p> <ul style="list-style-type: none"> <li>- Price increase</li> <li>- Non-payment of wage subsidies</li> <li>- Closures for a few months, even permanently</li> <li>- Drastic wave of redundancies, migration to other sectors</li> </ul> <p><b>General</b></p> <ul style="list-style-type: none"> <li>- Sharp downturn, recession, slow economic growth</li> </ul>

Source: based on own research data, edited by the authors.

#### 4. Results and their evaluation (for example)

One important measure of the impact of the crisis on economic performance is the change in GDP. The data in Table 1 show a significant fall in GDP in 2009 and an increase from 2010 onwards. The performance of hotels and restaurants shows a continuous decline from 2008 to 2013. While GDP growth slowed down in 2020 to only 2%, the performance of hotels and restaurants fell dramatically to 65% of the previous year's level. In 2021, it reached its pre-crisis level of 2019. The sector's share of GDP fell from 1.9% in 2009 to 1.3% in 2020.

**Table 2:** Performance of hotels and restaurants, GDP share, GDP growth rate (2007-2022)

Year	Accommodation and food service activities at current prices, HUF million	Accommodation and food service activities previous year=100%	GDP at current prices, million HUF	GDP growth rate previous year=100%	Share of GDP
2007	450 829		22 142		2,0
2008	<b>446 373</b>	0,99	23 346	1,05	1,9
2009	<b>437 836</b>	0,98	22 548	0,97	1,9
2010	<b>414 280</b>	0,95	23 332	1,03	1,8
2011	<b>401 150</b>	0,97	24 285	1,04	1,7
2012	<b>378 408</b>	0,94	24 409	1,01	1,6

2013	<b>379 477</b>	1,00	25 632	1,05	1,5
2014	456 892	1,20	27 718	1,08	1,6
2015	482 965	1,06	29 459	1,06	1,6
2016	501 282	1,04	30 714	1,04	1,6
2017	599 937	1,20	33 309	1,08	1,8
2018	698 230	1,16	36 642	1,10	1,9
2019	791 514	1,13	40 267	1,10	2,0
2020	<b>513 397</b>	<b>0,65</b>	40 886	1,02	<b>1,3</b>
2021	748 642	1,46	<b>46 716</b>	1,14	1,6
2022	1 126 492	1,50	56 053	1,20	2,0

Source: KSH, 2024

At the economy-wide level, employment increased from 3.83 million in 2008 to 4.63 million in 2023, with a small decrease in 2020 and 2021 (Table 2). The global economic crisis that started in 2008 left its mark on unemployment for almost 5 years, fluctuating around 416-470 thousand people. This negative increase was halted from 2013. Overall, the number of unemployed fell from 416.6 thousand in 2009 to 157.9 thousand in 2019, with a renewed increase in the period of the Covid19 crisis. Employment in the accommodation and food services sector grew slowly between 2009 and 2016, but has been falling steadily since 2017. Nearly 182 thousand people were employed in 2022, 12.4 thousand more than a year earlier, but down from 193.4 thousand before the epidemic. Although the number and proportion of vacancies has decreased somewhat, the shortage of skilled labour remains a serious problem in the sector. An emigration process has started in these years, with many people looking for work abroad or in other sectors due to low wages (Ms Béres, 2021). In 2023, employment levels will not reach the pre-crisis levels of 2019.

**Table 3:** Economic activity of the working age population

Year	Employed, thousand persons	Unemployed, thousand persons	Unemployment rate, %	Employment rate, %	Accommodation and food service activities thousand persons	Change previous year=100 %
2009	3 831,4	416,6	9,8	59,8	157,2	1,0
2010	3 811,4	468,4	10,9	59,6	154,2	0,98
2011	3 833,0	464,5	10,8	60,3	165,2	1,07
2012	3 886,8	470,3	10,8	61,6	168,0	1,02
2013	3 963,8	438,2	10,0	63,3	164,7	0,98
2014	4 155,1	341,1	7,6	67,2	173,2	1,05
2015	4 275,8	306,4	6,7	68,3	189,0	1,09
2016	4 403,7	232,7	5,0	70,9	200,8	1,06
2017	4 489,3	190,6	4,1	71,5	195,5	0,97

2018	4 527,7	171,0	3,6	72,8	185,9	0,95
2019	4 568,5	157,9	3,3	72,2	193,4	1,04
2020	4 518,6	196,1	4,2	71,9	176,9	0,91
2021	4 535,4	192,6	4,1	73,1	169,4	0,96
2022	4 609,1	174,0	3,6	73,3	181,8	1,07
2023	4 626,2	199,9	4,1	73,8	179,5	0,99

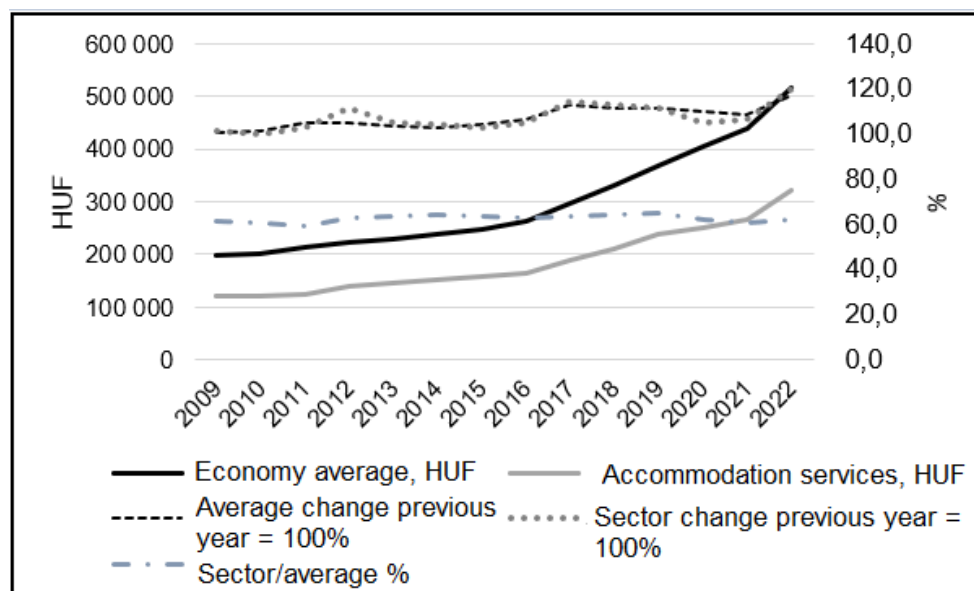
Source: KSH, 2023

According to Fekete-Fábián and colleagues (2022), after the prolonged crisis of 2008, the prolonged decline in the number of registered jobseekers was largely due to market developments and to public policies (e.g. the expansion of public employment, large public investments, etc.), and this positive process lasted practically until the outbreak of the epidemic.

The reduction in employment caused by quarantine would also have been greater if workers in certain occupations and sectors had not been able to switch to remote, usually home-based, work. According to research by Köllő and colleagues (2021), most jobs were lost in services including hospitality and tourism, despite the fact that the number of workers not actually working but not laid off was much higher than average and the number of workers working from home was very high. If this option had not been available to workers, it would certainly have resulted in double-digit employment losses.

The crisis has significantly increased already high income inequalities (Köllő et al., 2021; Barizsné et al., 2021). The job loss rate was much higher among lower educated groups, who were more likely to be exposed to deep poverty, than among graduates.

Average gross earnings in the national economy increased by nearly 2.6 times between 2009 and 2022, to 2.62 times in the accommodation services sector. In 2022, wages in this sector will still be 62.3% of the national average, below the pre-crisis level of 2019 (65.1%). While the annual increase in the average gross wage in the national economy (297,017 HUF) is slightly above 10% from 2017 onwards, the sector will see a 14% increase, but the dynamics will slow down in the following years, with wage growth exceeding 20% only in 2022, which will mean a gross monthly wage in the sector of 321,462 HUF.

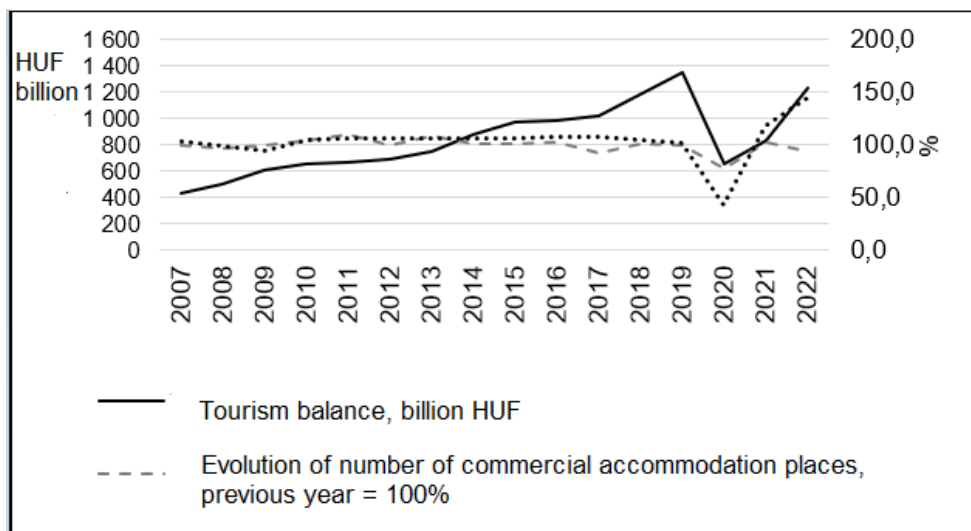


**Figure 1:** Evolution and share of average gross earnings in the national economy and in the accommodation and food services sector

Source: KSH, 2023

The data in Figure 2 show that the number of nights spent in accommodation fell by only a few percent during the global economic crisis, and after 2010 it has steadily increased to pre-crisis levels. The tourism balance has been rising steadily, with minor bumps, between 2011 and 2019. At the same time, the number of overnight stays has increased significantly year on year, and the epidemic has caused a major disruption in this process.

Looking separately at the number of nights spent by foreign and domestic visitors, again there was a decline in both by 2009, with a larger decline for foreign nights. In 2020, both domestic and foreign nights show a significant decline, due to travel and hosting restrictions. The decline was much larger for nights spent by foreign guests.



**Figure 2:** Main data of accommodation and food services

Source: KSH, 2023

In addition to the increase in the number of overnight stays and the number of guests, the continuous weakening of the HUF also played a role in the steady rise in accommodation revenues. In 2020, the performance of the accommodation and hospitality sector declined dramatically due to the already known restrictive measures.

## 5. Conclusions

Both crises caused a downturn in the sector, but the impact of the measures to control the epidemic, which also restricted free movement, was much greater than that of the global economic crisis. In addition, the two crisis periods affected domestic and foreign tourist travel differently. The 2008 crisis hit Hungary later, so the fall in foreign tourism occurred earlier than the fall in domestic tourism, but the decline was similar.

The 2020 crisis affected foreign tourism almost immediately and to a much greater extent. From a territorial perspective, while the global economic crisis did not have any major losers in tourism, Budapest was the biggest loser in the Covid crisis.

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