

**CHANGES IN THE LEGAL
AND INSTITUTIONAL ENVIRONMENT
OF THE LABOUR MARKET**

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INTRODUCTION

The main objectives of the employment policy of the Hungarian Government are raising the employment rate and addressing inactivity. To attain these goals concerted and coordinated government actions are needed that tackle both social and economic objectives: fighting unemployment, insecurity and social exclusion, strengthening human dignity and promoting a better use of available human capital and thus increasing performance. Improving the employment situation assumes increasing labour demand and a growing supply, and that expanding businesses find employees with the knowledge and skills they need. To this end, employees and job-seekers should have the opportunity to acquire the knowledge and skills that they need on the labour market (*Ministry of Employment and Labour 2004a*).

In the light of the above, the Ministry of Employment and Labour (MoEL) set its own objectives as follows:

- Promoting the creation of new jobs and employment opportunities, enhancing foreign direct investment, a gradual reduction of labour costs, strengthening the employment capacity of small and medium-sized enterprises, creating a stable financial and legal environment to enhance the security of smaller employers.
- Reducing the costs of employing disadvantaged people and low-wage earners by cutting employers' contributions: new forms of employment subsidies to non-standard forms of employment (i.e. part-time work, telework, etc.) are introduced to promote the employment of people at a disadvantage on the labour market, with special attention to those combining family and working life.
- Promoting adaptability to changes on the labour market so that both workers and firms can respond in a flexible manner to economic challenges (this involves the subsidies, services and programmes of the Public Employment Service, a comprehensive review and amendment of the legal framework, most importantly the Labour Code and the Act on Promoting Employment and Support for the Unemployed).
- Promoting human resources development to ensure quality labour supply for the knowledge-based economy, an on-going adaptation to economic, social and technological changes. This includes the continuous development of human capital, lifelong learning, and the improvement of the labour market information system, as well as planning and forecasting.

– Improving availability and access to training, services and employment subsidy schemes for people excluded or at a risk of exclusion from the labour market, improving the efficiency of labour market measures.

1. SUPPORT FOR JOB CREATION AND JOB MAINTENANCE

As of 2004 new tax incentives have been available for business development and investment, which also contribute to raising the employment level. Eligibility criteria for the tax relief for business development and investments were reduced from 10 billion HUF to 3 billion (in disadvantaged regions from 3 to 1 billion). The same tax relief applies for job creation regardless of the amount of investment if at least 300 new jobs are created (150 jobs in disadvantaged regions) and at least 20 per cent of the new employees are career starters.

The Ministry of Employment and Labour also takes part in directly generating employment. In February 2004, with funding from the central budget of the Employment Sub-fund of the Labour Market Fund, the Ministry published a call for proposals to support job creation investments. The non-refundable subsidy supported investment in infrastructure, purchase of machinery, equipment, technology, and the acquisition of real estate. The amount of the investment subsidy for a new job was 0.8 million HUF, 1 million HUF if the vacancy was filled by an unemployed person, and 1.2 million HUF in disadvantaged regions if an unemployed person was hired for the job. The basic amount of subsidy was 80 million HUF, for investments in disadvantaged regions or regions undergoing economic restructuring, the maximum amount was 160 million HUF. In the case where more than 300 jobs were created these amounts were increased by 10 million HUF.

According to article 18, section (4) c of 6/1996 (VII. 16.) Ministry of Labour decree on job creation subsidies, one of the eligibility conditions for the subsidy is that the beneficiary accepts the proviso to maintain the jobs created with the subsidy together with the jobs registered the month prior to the application on a continuous basis, for a minimum of 3 years.

The 31/2004 (XII. 21) MoEL decree restricted the eligibility for the job creation subsidy: those employers who have been found guilty of breaching the provisions of the regulation on labour inspection regarding the establishment, termination and cancellation of employment contracts and have been subject to a penalty of more than 100,000 HUF are excluded from the subsidy.

The decree also modified the obligations related to job maintenance. Rules already require that recipients of the support maintain the subsidized jobs for the duration of the subsidy and the following period of equal duration. This amendment introduces further restrictions by prescribing that

not only the subsidized jobs should be maintained during this period but all jobs, in the case of firms with more than one division, jobs in all divisions in the given county. This prevents the situation where employers lay off workers in other jobs or divisions for operational reasons during the disbursement of the subsidy.

2. PROMOTING THE SPREAD OF NON-STANDARD FORMS OF EMPLOYMENT

In the old Member States of the European Union nearly half of the employees work in non-standard forms of employment, including self-employment, part-time and fixed-term employment. This figure was approximately 40 per cent ten years ago. In Hungary, similarly to the other new Member States, these forms of employment are less widespread (around 25 per cent). The gap is widest in part-time employment that is explained on the supply side by the low earnings, and on the demand side by the relatively higher labour costs in comparison to full-time employment. For the time being fixed-term contracts that provide an opportunity to avoid severance payments are less prevalent, however this gap is closing rapidly. In most new Member States the share of agriculture in employment is significant which results in a relatively high proportion of private entrepreneurs. It is a generally observed trend that the share of private entrepreneurs (micro enterprises, self-employed) among those in employment is higher in less developed economies, and with the growth of GDP/capita it begins to decline in correlation with an increase in wage- and salary earners. There is a contrary process however: the replacement of employment contracts by lower-cost service contracts with self-employed (often hiding “real” employment) in certain professions and sectors; also a widespread practice in Hungary.

2.1 Tele-work

The most recent form of non-standard employment is tele-work. The characteristics of tele-work are that work is carried on outside of the firm’s premises, using information technology and equipment (computers) and the employer and employee are in contact using IT. In 2002 in the EU15 10 million people, 13 per cent of those in employment worked in tele-work: half of these as employees and the other half as self-employed. Certainly the fact that on average 40 per cent of the EU15 population use the Internet plays a role in this. In Hungary however, according to the Labour Market Survey carried out by the Central Statistical Office (CSO) 24.5 thousand people or 0.6 per cent of those in employment did tele-work on a regular basis, and another 41.5 thousand or 1.1 per cent of those in employment occasionally.

This form of employment is still at an initial phase in Hungary, which is also indicated by the fact that Parliament adopted the legislation of tele-work on 26 April, 2004. This added among others a new chapter on tele-work to the Labour Code.¹ According to the new legislation a tele-worker can be defined as an employee who carries out activities that fall within the scope of the enterprise, outside the premises of the employer, using ICT tools for both producing and sending the output. The Act stipulates the issues to be covered in the employment contract for tele-work.

Moreover, the amendment of the act on personal income tax defines the deductible expenses for tele-work with a view to promoting its spread, additionally special provisions on tele-work are added to work safety regulations.

In the information society, an increasing share of jobs is based on information and communication technologies, which favours the spread of tele-work. Why is tele-work beneficial for employers? It is fast and economical to operate; allows cost-cutting (overhead costs); ensures better organisation, an optimal use of resources, and a wider pool of expertise; has the potential to improve competitiveness and quality of service by allowing a 24-hour (virtual) stand-by.

The Chamber of Commerce and Industry of Veszprém County converted four regular positions into tele-work jobs with a Government grant designed to promote tele-work in 2002. The programme led to the conclusion that if a job is carried out by tele-work it means a reduction of the annual operating cost by 553 thousand HUF/employee. To install a new standard job with the latest IT equipment costs approximately 580 thousand HUF, while a new tele-work job costs 850 thousand HUF. The extra costs for the latter include the cost of individual internet connection and internet-based phone calls, the installation of a virtual private network and higher printing costs in the absence of network printing options. However, transforming an existing job into a tele-work job costs only 270 thousand HUF, an investment that provides a return in 6 months (*Kiss* 2004a).

Based on the positive experiences, the Ministry of Employment and Labour launched a grant programme for complementary wage subsidies for firms creating new tele-work jobs and for public administrative bodies transforming regular jobs into tele-work jobs as part of the administrative reform process. The pilot programme targeted the creation of 1,400 tele-work jobs with a total available funding of 300 million HUF provided by the 2004 central budget of the Labour Market Fund.

What are the advantages of tele-work for employees? The individualised working conditions; flexibility and independence; the possibility to balance private life and work; and a better access to employment for people

¹ Act XXVIII of 2004 on the Amendment of Employment-related Legislation (Labour Code, Act on the Personal Income Tax, Act on Labour Inspection, Employment Act), in force as of 1 May, 2004.

with disabilities. Probably this explains that the demand for tele-work jobs is roughly five times higher than the supply.

2.2 Seasonal Employment

In Hungary each year a considerable number of migrant workers – mainly ethnic Hungarians from the Trans-Carpathian region of Ukraine and Transylvania region of Romania – find seasonal employment in labour-intensive agricultural activities. Last summer opposition members of the Hungarian Parliament put forward to the Government a legislative proposal on promoting the seasonal employment of migrant workers in order to alleviate seasonal labour shortages.

Behind this proposal was an existing demand by farmers and agricultural enterprises for seasonal labour. Even though they regularly reported the vacancies to the Public Employment Service, they had difficulties finding workers because unemployed people were reluctant to take the jobs they offered. At the same time contracting a migrant worker was rather lengthy because of work permit and visa applications. Often by the time all documents were obtained the season was over and the workers were no longer needed.

The Government however did not accept the opposition's legislative proposal, but came up with an own solution. The Minister for Employment and Labour as of May 1, 2004, the date of Hungary's accession to the EU eased the conditions for the seasonal employment of migrant workers in the agricultural sector.² The deadline for issuing a work permit is reduced to 15 days, and the vacancy has to be reported 15 days prior to the application for the permit. The permit can be issued upon an assessment of the labour market situation (needs-test). The visa and work permit are issued for a certain period within which the seasonal migrant worker is allowed to take up employment more than once, for limited periods. With the seasonal work permit for agriculture migrant workers can work altogether up to 150 days per year, and with the seasonal residence visa they are entitled to multiple entries. The permit indicates the employer, the job and the duration of employment. Seasonal work permits for the agricultural sector are registered by the Employment Office. Seasonal work can also be carried out as temporary agency work.

2.3 Temporary Agency Work

Until this year temping could be carried out only by profit-oriented firms. While at the same time experience in developed market economies has proved that temporary agency work can be effectively used as an active labour market measure to facilitate the integration of the long-term unemployed into the world of work (*Storrie* 2002:59).

² 21/2004 (IV. 28.) MoEL decree on the Amendment of 8/1999. (XI. 10.) Ministry of Family and Social Affairs Decree on the Issue of Work Permits for Foreign Workers in Hungary.

The first steps have been taken towards the implementation of this approach in Hungary as well. First, in April 2004 the Labour Code, the Act on Public Interest Organisations and the Act on Promotion of Employment and Support of the Unemployed (Employment Act) were amended to allow non-profit, public interest organisations to offer temporary agency work for disadvantaged people.³ The act in question added a new sub-heading to the Employment Act (16/B §) laying down the legal basis for supporting the employment of unemployed people in the framework of temporary agency work.

The detailed provisions were laid down in article 16–17 of the amended 6/1996 (VII. 16.) MoEL decree, which entered into force at the beginning of 2005.⁴ This stipulates that public interest organisations are entitled to support if, according to their founding document, they provide training and employment services for disadvantaged people, and hire unemployed people for temporary agency work. A further condition is that at least 50 unemployed persons (school leavers or unemployed persons registered by the PES for at least three months or older than 50) are hired for a minimum period of 200 days. In the case where the organisation cannot organise their leasing during this period, it must provide training upon agreement with the labour centre. The subsidy covers up to 50 per cent of the total wage costs (including contributions) as specified in the fixed-term contract, but cannot be higher than the 150 per cent of the minimum wage and statutory social insurance contributions.

3. CENTRAL EMPLOYMENT REGISTER

To replace the so-called “labour certificate” (service log) abolished in the early 1990s, the Ministry of Employment and Labour has long envisaged the creation of a central employment register. The database became operational as of May 1, 2004 with the simultaneous amendment of various acts.⁵

The Central Employment Register was established with a view to increasing the legal security of employees, improving the transparency of the labour market, strengthening labour inspection, and producing the data required by Community legislation.

The register is directed at recording the forms of employment that fall within the scope of the Labour Code together with the related employer and employee data. To ensure the adequate operation of the register, the establishment or termination of the employment relationship must be immediately reported to the body administering the register, namely to the Employment Register Centre of the Employment Office.

The Government adopted the decree on the reporting obligations of employers on April 15, 2004. The register includes the following:

³ Act XX. of 2004 on the Amendment of Certain Acts Related to Temporary Agency Work. In force from May 20, 2004.

⁴ 31/2004 (XII. 21) MoEL Decree on the Amendment of Certain Ministerial Decrees Related to Employment, in force from May 1, 2005.

⁵ Act XCIV of 2003 on the Amendment of Acts Related to the Establishment of the Central Employment Register, adopted by the Hungarian Parliament on November 11, 2003, entered into force as of May 1, 2004.

- personal data of the employee (name, name at birth, sex, mother’s name, place and date of birth), social security number, citizenship, and a personal password to access the data account;
- the tax number of the employer or, in the case of private entities, the tax identification code, name, address, and a password to access the data account;
- start date and end date of the employment contract.

The data in the register can be accessed by the following bodies and authorities:

- the pension and health care fund bodies in order to inspect the compliance of employers with the reporting obligations of the social security legislation, and to decide about entitlements, payments and review;
- social administration bodies in order to decide eligibility for the allowance of the long-term unemployed;
- the national tax authorities in order to inspect the declaration and payment of taxes and contributions, such as the pension, the health-care, the social security, the employees’ and employers’ contributions;
- the National Labour and Work Safety Chief Inspectorate and its county (and Budapest) inspectorates to check employers’ compliance with the reporting obligations on establishment and termination of employment relations;
- the offices of the Public Employment Service to check eligibility for unemployment benefits;
- the Immigration Authorities and the Immigration Authorities for the verification of data required for certain tasks prescribed by the law.

Moreover, the data can be used for statistical purposes and both employers and employees can access their own data account with the personal passwords, or can request information. The regulations on the generation and distribution of passwords are laid down in 18/2004. (IV. 25.) MoEL decree.⁶

In principle, both the employers’ and the employees’ side of the National Interest Reconciliation Council supported the idea of creating a central employment register. “However, Ferenc Rolek the vice president of the National Association of Employers and Industrials claimed that the register only increases the administrative burden of businesses because they have to continue separate reporting for social security. He considers it unnecessary to create a new, parallel register, and argues that restricting the inspection of existing reporting obligations towards social security would have been sufficient (initially the Central Employment Register imports relevant data from the 2002–2004 databases of the National Directorate for Pension and the National Health Insurance Fund)” (*Vitéz* 2004).

⁶ 18/2004. (IV. 25.) Ministry of Employment and Labour Decree on the Rules of the Generation, Distribution and Use of Passwords for the Central Employment Register, in force since May 1, 2004.

It is envisaged that the CER will be an effective tool to combat undeclared work (*MoEL* 2003).

To this end, when the Register was launched the Government offered the possibility for the regularisation of undeclared workers.⁷ The legislation provides that in the event that employers who employed undeclared workers between January 1 and April 30, 2004 decide to regularize their contracts (i.e. report them to social security and start paying contributions) by July 31, 2004 they are exempt from the payment of fines. This period was extended until mid-2005 by an almost unanimous (with one abstention) decision of Parliament on the amendment of the Act on taxes and contributions on June 14, 2004.⁸ It was claimed that the period originally given for regularisation was too short and did not leave enough time for employers to prepare for increased costs. Therefore the new deadline was expected to encourage more employers to “legalize” their employees. In the situation where they declared their workers – except those whose employment terminates by June 2005 – to the relevant authorities and start paying the required taxes and contributions, they are exempt from fines for illegal employment and the retrospective payment of taxes and contributions.

4. MEASURES TO IMPROVE THE LABOUR MARKET SITUATION OF DISADVANTAGED GROUPS

In the short run, employment can be boosted by the labour market integration of those groups of working age that are not present on the labour market. One of these groups are persons on parental leave. Even though child care allowance and child care support recipients are allowed to take up part-time employment up to an average of 4 hours/day on a yearly basis, most of them do not use this possibility. A main reason is the lack of part-time positions since this type of contract is relatively more costly for the employer than full-time workers. This is primarily the result of the flat-rate health care contribution which does not take into account working hours. Nevertheless this obstacle was dismantled as of January 1, 2004 when employers were exempted from the payment of the monthly amount of 3,450 HUF of the flat-rate health contribution in the situation where they hire child care allowance or child raising support recipients for part-time work. The same incentive applies for the hiring of the long-term unemployed over the age of 50.⁹

In 2004, another new legislation entered into force as well, which provides significant incentives – also retrospectively – for active ageing, namely prolonging employment after reaching the statutory retirement age.¹⁰ Those remaining in employment were previously entitled to a bonus however it was considerably less generous: they had to spend at least a full year in employment after reaching the retirement age of 62 to become entitled to a 0.3

7 Article 12 of Act XXVIII of 2004 on the Amendment of Employment-related Legislation. Adopted by Parliament on April 26, 2004, in force since May 1, 2004.

8 Act LVIII. of 2004 on the Amendment of Act XCI. of 2003 on Taxes, Contributions and Other Budgetary Payments. The act was adopted by Parliament on June 14, 2004.

9 See Article 7, points (1) a), c) and h) of Act LXVI of 1998.

10 See article 12 and 21 of Act LXXXI. of 1997 on Social Security Pensions and article 12. of the 168/1997. (X. 6.) Government Regulation.

per cent monthly pension rise. As a result of the new rules the monthly rise increased to 0.5 per cent. Thus, as of January 1 2004, those who continue working after reaching the retirement age are entitled to a pension rise of 0.5 per cent following each period of 30 days spent in employment.

As of January 1 2004 the tax relief for firms with less than 20 workers and employing people with disabilities has increased considerably: the amount which can be deducted from the tax base doubled compared to the previous year and currently is equal to the amount of the minimum wage.¹¹

The same amendment also modified the regulations on the value-added tax (VAT) refunds of purchases from state subsidies or normative support. This adversely affected around 100 special firms – where at least 60 per cent of the employees are disabled – that are entitled to state subsidies based on their revenues. According to the new VAT regulations, only 50 per cent of the previous VAT refund can be claimed.

The sheltered organisations, in cooperation with relevant trade unions, announced the establishment of a strike committee with the purpose of calling attention to the problem and to initiate negotiations with the representatives of the Government.

The Government was willing to tackle the problem, but the amount necessary for the compensation of the social firms, approximately 3–4 billion HUF, could not be made available before the end of the first quarter. Based on these resources, a new regulation was accepted that provides the possibility for the financial compensation of losses arising from the new VAT rules for firms with altogether nearly 40 thousand employees with disabilities by the end of 2004.¹²

Based on Article 19 of the Employment Act, the Rehabilitation Sub-fund of the Labour Market Fund provides subsidies for investments related to the employment of people with disabilities, or the expansion of existing facilities, or other developments. Funding is awarded through open competition. Funding can be obtained for the following purposes:

- the creation, upgrading or maintenance of workplaces for vocational rehabilitation in a regular work setting, or
- the creation, upgrading or maintenance of sheltered workplaces in special firms, or
- the purchase and upgrading of equipment facilitating the employment of people with disabilities.

These subsidies enjoy considerable popularity: last year 542 firms applied for funding, out of which labour centres approved 349 applications, which created altogether 2461 new jobs (*MoEL* 2004:6).

Although the general objectives of the subsidy are still valid for the future, certain modifications are necessary to define more clearly the aims and the activities for which the support can be used. The following requirement

11 See article 7 (1) v) of Act CXVII. of 1995. on Personal Income Tax.

12) 12/2004. (IV. 16.) joint MoEL-Ministry of Health, Social and Family Affairs-Ministry of Finance Decree on the Amendment of 8/1983. (VI. 29.) Joint Ministry of Health-Ministry of Finance Decree. In force since April 1, 2004.

seems crucial: that it directly helps the employment of persons with a disability, takes into account individual needs, complies with regulations on the accessibility of the built environment, takes into account up-to-date workplace safety regulations and that it has a significant impact on production, services or working procedures.

These criteria appear in Article 8 of the MoEL decree which entered into force at the beginning of 2005.¹³ It replaces the previous system of funding for the maintenance of workplaces with a dual subsidy scheme:

- Limited (so-called *de minimis*) subsidies can be provided for firms on the open jobs market that employ people with disabilities in mainstream settings. This subsidy is easy to access with a low own contribution. The upper limit of funding does not concern non-profit employers.¹⁴

- Employers creating or upgrading sheltered workplaces can receive high intensity employment creation subsidies on the basis of Article 6 of the 2204/2002/EC regulation. Facilities and investments should nevertheless be maintained on a permanent basis and operated according to the original objectives for at least 5 years.

The Government adopted a programme for the social integration of the Roma population in the spring of 2004 which also stipulates objectives for the Ministry of Employment and Labour.¹⁵ These include among others the launch of labour market insertion programmes that combine training and work practice for the young unemployed, the positive discrimination of Roma applicants in labour centres when hiring new staff, and the improvement of the public work programmes to help participants to enter and remain on the open labour market.

For public work programmes a total funding of 4 billion HUF was available in 2004 which covered the employment costs of 12–13 thousand persons along the following objectives:

- improvement of the employment situation and living conditions of the long-term unemployed and disadvantaged people, particularly the Roma population – a national programme with a budget of 1.306 billion HUF;
- public work programmes in the seven disadvantaged regions with a total budget of 1.08 billion HUF (Nógrád and Bács-Kiskun counties took part in the national programme, while Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg, Békés, Jász-Nagykun-Szolnok and Somogy counties designed joint programmes with the participation of the county territorial development councils and the MoEL. Development councils supplemented the funding with their own resources.);
- public work programme within the framework of Vásárhelyi-Plan with a budget of 0.5 billion HUF;¹⁶

13) 31/2004 (XII. 21.) MoEL decree on the Amendment of Certain Ministerial Decrees in Relation to Employment, in force from 06. 01. 2005.

14 According to 69/2001/EC Regulation by the European Commission on the Application of the Articles 87 and 88 of the EC Treaty to *de minimis* State Aid, the maximum amount of subsidy for enterprises cannot exceed the equivalent of 100,000 Euros over a period of three years. International transport, and agriculture and fisheries companies are not eligible for *de minimis* funding for the production, processing and sales of products.

15) 1021/2004. (III. 18.) Government Resolution on a Government Strategy and Action Plan to Promote the Social Integration of the Roma Population.

16 The Vásárhelyi-Plan aims at the improvement of the flood-protection system of the Tisza-river through major infrastructural developments.

- public work to support the motorway construction programme with a budget of 0.25 billion HUF (which was supplemented by the National Motorway Holding with an additional 0.3 billion HUF).

Furthermore, in May 2004 a forestry public work programme was launched that carries out the maintenance of hiking trails, pruning, waste collection and general forestry works in the 19 state-owned forestry companies supervised by the National Privatisation and State Holding Company. The programme gave priority to those forestry companies that are located in the Eastern part of the country. It provided temporary employment for nearly 1500 long-term unemployed persons from mid-June until November. The forestry companies applying for funding were obliged to organize preparatory training for the participants and maintain some of the jobs for at least 3 months after the end of the programme. Workers were recruited mainly among Roma people between the ages of 25 and 45 who were registered as unemployed for at least 6 months and lived in under-privileged settlements. The forestry public work programme received a total of 0.75 billion HUF public funding out of which 0.56 billion was provided jointly by the Ministry of Employment and Labour and the Ministry of Agriculture and Rural Development, and 0.2 billion HUF by the National Privatisation and State Holding Company. Public funding was supplemented by the resources of the forestry companies. (*Muhari* 2004).

5. VOCATIONAL TRAINING AND ADULT TRAINING

Lifelong learning (LLL) is one of the priority areas of the European Union with a dual objective: on the one hand promoting education for active citizenship and, on the other, improving employability. The link between competitiveness and high quality human capital as a precondition of strong economic performance is universally acknowledged. The following data give a good illustration of the Hungarian labour market:

- Each year approximately 140 thousand young people leave the education system and enter the labour market. The number and share of those in secondary and tertiary education has increased significantly. Compared to the 56 per cent of a decade ago, currently 77 percent of pupils in the adequate age groups study in secondary schools that allow them to continue their studies at the tertiary level.

- There is a considerable and unmet demand for skilled labour, whilst the share of those in vocational training has dropped from 44 to 23 per cent. The drop-out rate is highest among vocational school pupils, and even those who finish school successfully often lack adequate professional skills and knowledge. The drop in student numbers was not followed by a decline in the number of institutions, vocational training is fragmented, difficult to manage and does not respond to the needs of the labour market.

– At the same time the number of full time tertiary students has increased by more than 150 per cent since 1990. Currently 22 per cent of the cohort between 18–22 is enrolled in tertiary education, nevertheless the age of students increasingly goes beyond 30. The programme offerings of the higher education institutions do not respond to the demand of the economy and the labour market, and there are considerably more students in academic than in practice-oriented programmes.

– The role of evening, part-time and distance education has gradually decreased in primary education, and has changed in secondary education as they are more widely used for second qualifications. They are however very popular in higher education.

– One third of qualifications prepares the individual for blue-collar jobs, two thirds for white-collar jobs, while the jobs market demand is exactly the opposite.

5.1 Changes in the Financing of Adult Training

In response to the above issues the Government introduced the normative funding of adult training with the amendment of Act CI. of 2001 on Adult training (Adult Training Act) as of January 1, 2004.¹⁷ According to the provisions of the Act, the normative state subsidy – the amount of which is defined in the act on the annual state budget – is provided to adult training institutions for the following activities:

- a) the training of adults acquiring their first qualification, but only if it is listed in the National Qualifications Register;
- b) the general, vocational and language training of adults with disabilities.

Only those adult training institutions are entitled to the normative state subsidy that have accreditation and a valid funding agreement with the Ministry of Employment and Labour.¹⁸ In the situation where the target groups are disabled adults, not only the institution but also the training programme should be accredited in order to qualify for the normative funding.¹⁹

The amendment of the Adult Training Act introduced some further changes as of January 1, 2004:

- defined the composition of the National Adult Training Council and the Adult Training Accreditation Committee;
- transferred the task of the registration of adult training institutions from the National Public Education Evaluation and Examination Centre of the Ministry of Education, to the Public Employment Service;²⁰
- included lifelong learning and human resources development activities both at regional and national levels among the competences of the regional training centres with a view to promoting equal opportunities.

17 Act CVI. of 2003 on the Amendment of Act CI. of 2001 on Adult Education. In force since January 1, 2004.

18 The rules of the accreditation of adult training institutions and programmes are laid down in Government Decree 22/2004. (II. 16.).

19 The detailed rules of the procedures and requirements of accreditation are stipulated in MoEL Decree 24/2004. (VI. 22.); the accreditation fees are regulated in MoEL Decree 23/2004. (VI. 22.).

20 The detailed provisions on the registration of adult training institutions are laid down in 48/2001. (XII. 29.) Ministry of Education Decree as amended by the 5/2004. (II. 24.) MoEL Decree.

Regional training centres are public bodies financed from the central budget and under the direction of the Minister for Employment and Labour.

As a result regional training centres:

- take part in the implementation of training programmes to promote employment and support the creation of new jobs;
- participate in international adult training programmes and in the preparation and implementation of human resources development programmes supported from European funds;
- organise and design training courses to improve the employability of adults at a disadvantage;
- create networks of distance learning to facilitate access to non-formal education.²¹

5.2 The Employment-focused Strategy of Adult Training

The Government adopted the Employment-focused Strategy of Adult Training on June 10, 2004. The main objective of the strategy is to support workers who seek to renew their knowledge and skills so as to keep their jobs or acquire new qualifications that are demanded on the jobs market. In trades characterised by labour shortage, adults can obtain their first qualifications free of charge. People above 50 can additionally obtain a second qualification free of charge. The Government set the target of having 1 million adults/year involved in some form of adult training by 2006. Hungary is considerably lagging behind in language and IT skills, and in the management and problem-solving competences of the labour force. These problems however should be tackled in order to remain competitive in the enlarged European Union. It is not acceptable that merely 14 per cent of the adult population can speak English and 13 per cent German. There are approximately 2 million personal computers in the country, and even though the number of those with access to the Internet increased by 50 per cent in the past two years, it is still not sufficient because in a few years most of the workplaces will be digitalized.

5.3 Changes in the Financing of Vocational Training

Act LXXXVI. of 2003 on Vocational Training Contribution and the Development of Education entered into force on January 1, 2004.²²

The Act has increased the monthly stipend for apprentices in firms from 30 per cent of the minimum wage to 50 per cent. The objective is to create incentives for vocational school pupils to do their apprenticeship in a real industrial environment, because currently the majority spend their apprenticeship period in school workshops where they encounter simulated

²¹ Non-formal education is defined as education or training organized by the employer, social or other organisations that takes place outside the institutional framework of education, by the initiative of the individual, and not leading directly to any formal qualification.

²² Adopted by Parliament on November 10, 2003.

circumstances. The amendment of tax provisions also serves this purpose by increasing the tax relief for enterprises taking on apprentices: their tax base can be reduced by 20 per cent of the statutory minimum wage as of January 2004 for each apprentice. This is a considerable increase in comparison to the 6000 HUF allowed in previous years.²³

There are also incentives for vocational schools to allow their pupils to undertake, at least partly, their apprenticeship at enterprises following the completion of general introductory courses. Therefore as of September 2004, vocational schools are entitled to 140 per cent of the previous normative state subsidy for each pupil in the first year, and 60 per cent in the second year of apprenticeship, paid from the state budget. In addition, schools are entitled to 20 per cent of the normative subsidy even when pupils do their apprenticeship at enterprises and not at school workshops.

6. DEVELOPMENT OPPORTUNITIES AND INSTITUTIONAL CHANGES FOLLOWING ACCESSION TO THE EUROPEAN UNION

After accession to the European Union on May 1, 2004, Hungary became eligible to Structural Funds assistance as well. Funding can be used for the objectives set out in the National Development Plan, the strategic document for the period of 2004–2006. The Ministry of Employment and Labour coordinates the implementation of the Human Resources Development Operational Programme (HRDOP), one of the five operational programmes. The Programme was drawn up by the MoEL in cooperation with the Ministry of Education, Ministry of Health, Social and Family Affairs, the Ministry of Children, Youth and Sports Affairs, and the Ministry of Informatics and Telecommunications.

The HRDOP, which has the largest share of funding among the operational programmes, supports the development of employment, education, training, social services and the health care system. The HRDOP has a total budget of 191 billion HUF, which equals to 750 million Euros (*MoEL* 2004a).

6.1 The Human Resources Development Operational Programme

The strategic objectives of the Human Resources Development Operational Programme are threefold: raising the level of employment, improving the competitiveness of the labour force and the promotion of social inclusion. These include the following priorities:

1) *Active labour market policies*

Objectives: to help the unemployed to return to the labour market, to prevent long-term unemployment, and to promote the labour market integration of young people and women.

²³ Act XCI. of 2003 on the Amendment of Legislation on Taxes, Contributions and Other Payments into the State Budget. Adopted by Parliament on November 10, 2003.

Available budget: 41 billion HUF.

Intervention fields:

- supporting active labour market policies;
- modernisation of the Public Employment Service;
- promotion of the labour market participation of women and the reconciliation of work and family life.

2) *Fight against social exclusion by promoting access to the labour market*

Objectives: improving the employment opportunities and labour market situation, and promoting the social inclusion of disadvantaged people (Roma people, the long-term unemployed, people with disabilities, early school leavers, people with low levels of education, addicts and those living in the most disadvantaged areas.

Available budget: 22 billion HUF.

Intervention fields:

- ensuring equal opportunities for disadvantaged pupils in education;
- promoting social inclusion through the training of professional working in the social field;
- improving the employability of disadvantaged people, including the Roma.

3) *Promoting Lifelong Learning and Adaptability*

Objectives: supporting different forms and level of education and training, including pre-school, elementary, secondary and adult training as well.

Available budget: 58 billion HUF.

Intervention fields:

- promoting the development of skills and competences necessary for lifelong learning;
- developing the content, methodology and structure of vocational training;
- developing the structure and content of higher education;
- training promoting job-creation and the development of entrepreneurial skills;
- developing the system of adult training.

4) *Developing the infrastructure of education, social services and health care*

Objectives: to promote the development of the infrastructure of education, social services and health care.

Available budget: 60 billion HUF.

Intervention fields:

- developing the infrastructure of education and training;
- developing the infrastructure of services supporting social inclusion;
- development of health care infrastructure in disadvantaged regions;
- IT development of health care in disadvantaged regions.

The Operational Programme complements national funding and programmes. It is implemented predominantly through open grant programmes and so-called central programmes carried by centrally appointed public bodies. The first calls for proposals were published during February-March in 2004 and following this are published each year once or twice until 2006. The central programmes were launched in the first half of 2004.

The institutions responsible for the utilisation and management of the European Union Structural Funds and the Cohesion Fund assistance and their tasks are laid down by 1/2004. (I. 5.) Government decree.²⁴

The HRDOP is implemented by the HRDOP Managing Authority (MA) set up within the Ministry of Employment and Labour. The MA is responsible for the adequate implementation of the OP in accordance with the regulatory framework, and the efficient and concentrated use of financial resources based on sectoral and inter-sectoral partnership. To ensure effective implementation and transparency, the MA cooperates with stakeholders, social partners and representatives of the target groups. It ensures compliance with Community policies and horizontal principles both by the bodies involved in the implementation and the recipients of Structural Funds assistance. Furthermore, in close cooperation with its partners, it strives to ensure coherence between Community and national policies. The MA designs and introduces one- and multilevel grant schemes, organizes training, provides consultancy and technical assistance for project generation and implementation, and enhances sectoral absorption capacity through the thorough implementation of its communication strategy. It is responsible for the overall financial management and implementation of the three-year programme, and also for any modifications of the budget based on the decision of the Monitoring Committee and in accordance with relevant regulations²⁵ (*MoEL* 2004d).

The Managing Authority delegates certain tasks to the so-called intermediary bodies. The intermediary bodies involved in the implementation of the Programme are the European Social Fund Department of the National Employment Office, the European Social Fund National Implementing Agency Public Company (ESF NIA), the Ministry of Education Fund Management Directorate, the Ministry of Health, Family and Social Affairs Structural Funds Programme Office and the Hungarian State Treasury. The 1/2004 (I. 5.) Government decree confers the right of appointment of intermediary bodies and the delegation of tasks into the scope of joint decrees of relevant ministries.

²⁴ 1/2004. (I. 5.) Government Decree on the Institutions Responsible for the Utilisation and Implementation of Structural and Cohesion Funds Assistance.

²⁵ The main decision-making body of the Operational Programme is the Monitoring Committee that is comprised of government and non-governmental representatives. The Monitoring Committee supervises the effective and efficient implementation of the Programme.

6.2 EQUAL Community Initiative Programme

The EQUAL Community Initiative Programme offers the opportunity to develop innovative labour market policy approaches and tools in the Mem-

ber States of the European Union in line with the European Employment Strategy. EQUAL aims to combat all forms of discrimination and inequalities in connection with the labour market through developing and testing innovative approaches and methods in trans-national cooperation.

Between 2004–2006 the Hungarian EQUAL Community Initiative Programme supports innovative initiatives which foster the training, job access and employment of disadvantaged people – those who are excluded from the labour market or experience difficulties in accessing employment due to discrimination related to gender, ethnic origin, disability or age, low schooling, lack of qualifications or lack of job experience.

Priority themes:

- 1) Facilitating access or return to the labour market for people at a disadvantage (available budget: 3.7 billion HUF).
- 2) Promoting lifelong learning and inclusive work practices which encourage the recruitment and retention of those suffering discrimination and inequality in connection with the labour market (available budget: 3.4 billion HUF).
- 3) Reducing gender gaps and supporting job desegregation (available budget: 0.716 billion HUF).
- 4) Supporting the social and vocational integration of asylum-seekers (available budget: 0.268 billion HUF).

The Hungarian EQUAL Programme is implemented by the Managing Authority established within the Ministry of Employment and Labour (also responsible for the HRDOP). The work of the Managing Authority and the elaboration and implementation of development partnerships is assisted by a national support structure, the EQUAL National Programme Office set up within the National Employment Public Foundation.²⁶

6.3 Alignment with EU regulations

Three of the employment subsidies set out in the 39/1998. (III. 4.) Government decree on the compensation of costs of commuting and support to workforce recruitment qualify as state aid according to articles 87. and 88. of the EC Treaty. These are the following:

- commuting costs,
- the recruitment of workers, and
- the transportation of workers.

Accordingly, the provisions of the 69/2001/EC (12. 01. 2001) Commission regulation on the *de minimis* state aid should be applied for these subsidies. The Government decree 256/2002. (XII. 13.) and its subsequent amendment stipulated all three of them as *de minimis* state aid.²⁷ Therefore recipients of these subsidies should submit a written declaration on the total amount of transfers received during the previous three years.

²⁶ See 9/2004. (IV. 7.) joint MoEL Decree on the Tasks of the Employment Office in the Implementation of the Human Resources Development Operational Programme between 2004–2006 and its Appointment as Intermediary Body, and the Appointment of the National Employment Public Foundation (OFA) as National Support Structure in the Hungarian EQUAL Community Initiative. In force since April 12 2004.

²⁷ 230/2004. (VII. 31.) Government Decree on Assistance to Compensate Commuting Costs and on the Amendment of 39/1998. (III. 4.) Government Decree on Assistance for the Recruitment of Workers. In force as of April 2004.

Given the fact that state aid legislation concerns enterprises only, the provisions of the 69/2001/EC regulation should not be applied in the case where the recipients of employment subsidies are public bodies financed from the state budget or non profit organisations (foundations, associations, public companies, public foundations, public boards).

The amendment of the 30/2000 (IX. 15.) Ministry of Economy decree took place in 2004²⁸ with the aim of reviewing the statutory cost categories for the outsourcing of services by the Public Employment Service. This was justified by the fact that these categories were already well below real prices when they were adopted in 2000 and were further devalued by the inflation and new VAT regulations.

28 Article 2 of the 31/2004. (XII. 21.) MoEL Decree on the Amendment of Certain Ministerial Decrees in Relation to Employment, entered into force on May 1, 2005.

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