

**INSTITUTIONAL ENVIRONMENT  
OF THE LABOUR MARKET  
BETWEEN SEPTEMBER 2011  
AND AUGUST 2012**

**IRÉN BUSCH  
ZSOMBOR CSERES-GERGELY  
LÁSZLÓ NEUMANN**



## INTRODUCTION\*

The chapter on the institutional environment of the labour market was presented in a new format for the first time last year and again this year it will also follow a similar structure. Our aim was to describe policy interventions using the same set of categories – which also allows temporal and international comparisons (*Busch–Cseres–Gergely*, 2012). The categories were based on the *Labour Market Policy* (LMP) classification of Eurostat and the LABREF database of the Directorate General for Economic and Financial Affairs (DG ECFIN), European Commission. Interventions are categorised in the following groups (the numbering of sections throughout this chapter follows the numbering below).

### LABOUR MARKET POLICY (LMP) INTERVENTIONS

#### Services

1. *Employment services*

#### Measures

2. *Training*

3. *Job rotation and job sharing*

4. *Employment incentives*

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6. *Direct job creation*

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8. *Out-of-work income maintenance and supports*

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### LABOUR MARKET RELATED POLICY MEASURES, EXCLUDING LABOUR MARKET POLICIES

10. *Labour taxation*

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13. *Old age and disability pensions system – disability supports*

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15. *Migration and mobility related measures*

16. *Institutions for the management and evaluation of employment policy*

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*Target groups of labour market policies (LMPs)*

*Policy measures with an indirect effect on the labour market*

The chapter provides an overview of all labour market policy interventions that entered into force in the period studied—the period between September 2011 and August 2012. The current chapter builds on last year’s overview, therefore it does not present the definition of categories or the expected impact of interventions, and neither does it discuss the *status quo* in most cases. An exception is the section on the revised Labour Code that provides a detailed discussion about the significance of the changes. Related legislation is provided in a separate section with a view to accurate referencing and access – this is especially important for the in-depth understanding of changes. Similarly to last year, changes are discussed in relation to each of the categories. There is a new addition to the chapter: a section on the financing of employment policy and this is presented at the end of the main text. This section provides an overview of the main methodological challenges of estimating the budget of employment policy and data for 2011. The objective remains the same: to provide an instrument to those who are seeking to understand and analyse changes rather than evaluate the policies. Although a number of policy makers were consulted in different areas, the main source of information remains the *Hungarian Official Journal*, as well as the collection of [current legislation](#).

## LABOUR MARKET POLICY MEASURES

The foundations of the Hungarian labour market policy were laid down by Act IV of 1991, commonly known as the Employment Act. The policies set out by the Act are commonly referred to as employment policy measures in the Hungarian technical terminology.

### Services

#### 1. *Employment services*

A) Services of the National Employment Service (NES, in Hungarian: Nemzeti Foglalkoztatási Szolgálat, NFSZ)

There were no changes during the period studied; the government decree on the statute of the NES reaffirmed its role in terms of the provision of services. All services were available at local job centre offices throughout the period studied.

B) Other activities of the National Employment Service

The role of the National Labour Office (in Hungarian: Nemzeti *Munkaügyi Hivatal*) was amended to include, in addition to its existing responsibilities, labour inspection, occupational health and safety and tasks that the Act on Adult and Vocational Education and Training originally had delegated to the Adult and Vocational Education and Training Body (for changes related to vocational training see Section 2). In parallel to these changes a significant layoffs at the

affected institutions took place: the total number of staff was reduced by 239 in 2012. There were significant changes in the role of the employment service and local job centres as well. For example job centres are now responsible for managing community service for offenders who have committed misdemeanour offences.

#### *Main legislation*

Government decision 1413/2011 (1 December) on the re-structuring of employment services; Government decree 111/2011 (4 July) amending certain government decrees on the role and responsibilities of municipal and county government offices; Government decree 323/2011. (28 December) on the National Labour Office and the role and responsibilities of the public bodies under its management; Government decree 324/2011 (28 December) amending certain government decrees relating to the establishment of the National Labour Office; Ministry for National Economy decree 42/2011 (2 December) on the sphere of responsibilities of (Budapest) county job centres; Ministry for National Economy (MfNE) decree 3/2012 (10 February) amending certain ministerial decrees relating to the establishment of the National Labour Office; Ministry of National Development decree 19/2012 (26 April) amending certain ministerial decrees relating to the establishment of the National Labour Office; Government decree 250/2011 (1 December) amending certain government decrees relating to the implementation of occupational health and safety legislation; Act XXXI of 2012 amending Act II of 2012 and certain relating acts on misdemeanours, misdemeanour procedure and the registration of misdemeanour and certain acts relating to disaster protection.

*On-line resources:* [munka.hu](http://munka.hu)

### Active labour market policy measures (LMP measures)

#### 2. *Training*<sup>1</sup>

The financing and institutional framework for vocational education and training changed significantly as of January 1, 2012. In the new regulatory framework, contrary to the previous system, employers cannot spend the vocational training contribution on the training of their own employees. At the same time, however a significantly larger amount of European Union financing was made available for workplace training – see also Section 10 on taxation and the section on the financing of employment policy at the end of the chapter. Vocational training contribution provides financing for vocational education and training as well as vocational-type training programmes in schools or in the adult learning system for up to 100% of the costs. The revenues also finance public capital investment for vocational education and training (for example construction workshops) and stipends for apprentices in shortage occupations. The remaining sum is allocated to vocational education and training institutions via a decentralised system of tenders.

<sup>1</sup> This section is based mainly on *Odrobina* (2012).

*Changing financing and institutional arrangements in vocational education and training*

*Renewed OKJ  
– detailed rules  
and content for modules*

The financing of school-based training also changed: the previous cost-based system is being replaced by normative block-funding – 440,000 forints per student per year in 2012. The rate is to be set by the budgetary act each year.

The rate of the income replacement allowance payable to job seekers taking part in training has changed and it will be paid according to the public works wage rather than the minimum wage.

The National Register of Qualifications (in Hungarian: Országos Képzési Jegyzék, OKJ) was revised. The aim was to streamline the system and eliminate overlapping vocational qualifications as well as creating a solid foundation for basic skills. In line with the modular character of the OKJ, the list and content of each module was published in relevant government decrees. The content of vocational qualifications is set out by ministerial decrees based on these modules.

#### *Main legislation*

Act CLXXXVII of 2011 on vocational education and training; Act CLV of 2011 on the vocational training contribution and the development of vocational education; Government decree 280/2011 (20 December) on normative funding rates for apprenticeships and other discounts that can be used to calculate the rate of the vocational training contribution; Government decree 150/2012 (6 July) on the National Register of Qualifications and governmental procedures for the revision of the National Register of Qualifications; MfNE decree 27/2012 (27 August) on the vocational and examination requirements of vocational qualifications under the authority of the minister for national economy.

*On-line resources:* [munka.hu](http://munka.hu); [tkki.hu](http://tkki.hu)

### *3. Job rotation and job sharing*

There were no changes in the area of job rotation and job sharing.

### *4. Employment incentives*

The most important change in the area of employment incentives was the transformation of the Start schemes, previously financed by the contribution of employees and offering targeted contribution assistance. Although Start-extra and Start-plus cards issued earlier remain valid, after 1 January, 2012 only Start Bonus and Start cards can be issued. Eligibility and the claims process for the new schemes are similar to those of previous Start schemes.

To be eligible to claim a Start Bonus card individuals must:

- be registered as job seekers for at least three consecutive months leading up to their claim, or
- take up paid employment within a year (365 days) after claiming parental benefits or carer's allowance, or
- take up paid employment after the first birthday of their child while still claiming child care allowance, and

*Changing Start cards*

- be out of work, and
- aged under the retirement age, and
- not be in possession of a valid Start, Start-plus or Start-extra card.

The Start Bonus card provides a tax allowance for employers from the social contribution tax that replaced the national insurance contribution. The rate of the tax relief is 27% of the pre-tax wage and this can be applied to wages up to 150% of the minimum wage in the first year of employment. Employers can draw on the tax relief if the employment period is longer than 30 days and the working time is no less than four hours per day.

The card is valid for one year after the date of issue, but up to the retirement age of the card holder. Individuals who have claimed parental benefits or carer's allowance are eligible to claim a Start Bonus card more than once – under certain conditions stipulated by the regulation – after each period they have claimed any of these benefits (i.e. if they were on parental leave more than once etc.). However people who are using a Start Bonus card while claiming child care allowance cannot be issued a new card after its expiry if they remain in employment after the payment of their child care allowance had ceased.

In terms of wage subsidies, both the scope of eligible employers and employees was extended. Social cooperatives are newly eligible employers that can receive assistance of up to 70% of the pre-tax wage. Some of the previous restrictions on the eligibility of employees were lifted: people under 25 years do not need to be new entrants to qualify for wage subsidy, people registered as job seekers for six months or longer do not have to undergo a work readiness test and the category of long term jobseekers for 24 months has been abolished. However, jobseekers who live with their family are only eligible if the other family members are not in employment.

A new form of subsidy for workers with partial work capacity introduced in 2012 was the *rehabilitation card* that exempts employers from the social contribution tax on wages of up to twice the minimum wage. People who were receiving group 3 disability pension or regular social assistance on 31 December 2012, or were assessed as suitable for vocational rehabilitation or employment with long-term subsidy after 1 January, 2012 are eligible for the card. People within five years from state pension age and those who were receiving group 1 or 2 disability pension on 31 December, 2012 are not eligible.

As of 1 July, 2012 people with partial work capacity who are self-employed or individual members of a business are also exempt from the payment of social contribution on their income.<sup>2</sup> Its rate is equal to the discount provided by the rehabilitation card. It should be noted that as of 2012 the assistance is paid on the basis of potential employability for employees, however for employers in the latter group it is paid according to the degree of impairment.

As of 2012 employers with a minimum of 25 employees must meet the employment quota for disabled workers as opposed to the previous limit of 20

*Wage subsidies  
– more people will access  
and be eligible for them*

*Contribution relief  
for people with  
partial work capacity*

<sup>2</sup> And further groups set out by the Act as eligible.

*Job protection and creation: no changes.  
Wage compensation*

employees. Workers with partial work capacity are counted in the quota if their loss of work capacity is at least 50% or the degree of their Whole Body Impairment is not less than 40%. For any unfilled quota employers must pay a penalty of HUF 964,500 per position per year.

There were no changes in the area of job protection and job creation subsidies. However a number of new tax credit schemes were created to counter the effect of new income tax regulations that can be regarded as a form of job protection subsidy because they have a similar effect – although they are implemented differently. The intervention protects those already in employment and keeps the non-employed out of the labour market through the effect of expected pay increase that prevents wage adjustment. This is discussed in more detail in Section 14 on *wage negotiation and wage regulation*.

#### *Main legislation*

Government decree 69/2012 (6 April) on assistance to maintain the real value of wages (wage compensation assistance), and amending the Government Decree on the expected rate of wage increase to maintain the real value of wages in 2012 and the value of non-wage payments that can be included in this.

*On-line resources:* [munka.hu](http://munka.hu)

### *5. Sheltered employment and vocational rehabilitation*

There were changes in both the regulation and institutional framework of vocational rehabilitation and health impairment assistance in the period studied.

People with partial work capacity who have been found suitable for vocational rehabilitation by the comprehensive assessment, can qualify for rehabilitation assistance. This new form of assistance replaces a range of previous benefits including the rehabilitation allowance, disability and accident-related pensions, regular social assistance, temporary assistance and the health impairment allowance of miners – see also Section 13 on old age pensions.

The National Office for Rehabilitation and Social Affairs (in Hungarian: Nemzeti Rehabilitációs és Szociális Hivatal, NRSZH) was established on 1 January, 2011 and is responsible for the accreditation of companies employing people with partial work capacity and the administration of public assistance and subsidies (in the case of wage subsidy for vocational rehabilitation this is limited to technical assistance).

On 1 July, 2012 a network of new rehabilitation management authorities was established under the supervision of the NRSZH and under the scope of municipal and county government offices. Their area of competence are identical with those of government offices (includes Pest county in Budapest). Tasks previously carried out by three different authorities (NRSZH, government offices and jobcentres) have been delegated to the new rehabilitation management authorities from 1 July, 2012. National Pension Insurance directorates remain responsible for the payment of rehabilitation benefits.

*New network of institutions: rehabilitation management authorities*



The 19 rehabilitation management authorities operate in approximately 100 local offices (customer services) with 620 staff. Their main objective is to help people receiving rehabilitation assistance to return to the labour market. They provide the same range of services that the employment service provides on the basis of Ministry of Economy decree 30/2000 (15 September). For job brokerage services they use the database of job centres.

People claiming rehabilitation assistance must take part in public works if their health status allows. Vocational rehabilitation and sheltered employment are financed from wage subsidy and cost compensation appropriations set out in the budget act. These were 11.7 billion forints and 24.5 billion forints respectively in 2012. The NRSZH will be the beneficiary of the new SROP Project 1.1.1 that will be implemented in cooperation with the rehabilitation management authorities. The other EU-funded programme – that is coming to an end – is still managed by the employment service.

#### *Main legislation*

Act CXCI of 2011 on assistance for people with partial work capacity and the amendment of certain acts; Government decree 327/2011 (29 December) on procedural rules for assistance to people with partial work capacity; Ministry of Human Resources decree 7/2012 (14 February) on comprehensive assessment; Ministry of Human Resources MHR decree 8/2012 (21 February) on vocational rehabilitation experts; Government decree 95/2012 (15 May) on the National Office for Rehabilitation and Social Affairs and the responsibilities and jurisdiction of rehabilitation management authorities under its management; Government decree 238/2012 (30 August) amending Government decree 177/2005 (2 September) on public assistance to the employment of people with partial work capacity.

*On-line resources:* [nrszh.kormany.hu](http://nrszh.kormany.hu); [kormany.hu](http://kormany.hu)

#### *6. Direct job creation*

The largest active measure of current Hungarian labour market policy – similarly to the previous year – is employment in public works (see also Section 16 on financing and funding priorities). This includes short- and longer term public works, national public works projects and Start-work demonstration projects at the level of small regions. The main features of the programme remained by-and-large unchanged apart from working time which increased more than four hours per day in the majority of projects in 2012 – based on experiences from 2011. It also includes mobility assistance for public works as well as assistance for businesses to employ people claiming out-of-work assistance [the actual Hungarian benefit is called “foglalkoztatást helyettesítő támogatás” (fht), translated as Employment Replacement Support]; however neither of these has been claimed (in the first case the incomplete regulatory framework might have contributed to this). Public works programmes continue to be managed

*The fine tuning  
of the public works scheme  
continued*

by the Ministry of the Interior, the Ministry for National Economy is responsible for managing the public works appropriation of the National Employment Fund (in Hungarian: Nemzeti Foglalkoztatási Alap, NFA; previously the Labour Market Fund, LMF in Hungarian: Munkaerő-piaci Alap, MpA) and undertaking financial commitments, and job centres are responsible for the contracting and payment of public works employers and employees. Funding comes from the public works appropriations of the National Employment Fund, and the appropriations of the SROP 1.1.2/1.1.4 programmes – for related training programmes. The demonstration programmes that had started in 2011 continued in 2012: in the 94 small regional Start-work demonstration programmes more than 1,600 settlements and approximately 66,000 workers participated in the first eight months of the year (National Labour Office data). There are seven different types of public works programmes that local councils can take part in:

- 1) Agricultural projects – animal husbandry, crop cultivation or both (provision of machinery, seedlings, polytunnels etc. for participants),
- 2) Maintenance of dirt roads used for agricultural purposes,
- 3) Drainage,
- 4) Clearing up illegal landfill sites,
- 5) Organic and renewable energy production (for example switch over to bio boilers, the production of grass, shrub and log briquettes etc.),
- 6) Maintenance of public roads,
- 7) Winter and other “meaningful” employment (for example preservation, drying and pickling of vegetables and fruits, making pasta, maintenance of local council buildings etc.).

Agricultural programmes run throughout the year while other programmes typically last for five months. One person can participate in only one programme at a time. The deadline for local councils to set up new Start-work demonstration projects was extended until 1 July, 2014.

Changes in legislation make it possible for Start-work demonstration projects (mainly agricultural projects) to become self-supporting and establish social cooperatives, and under certain conditions equipment purchased in demonstration projects can be transferred to social cooperatives. Currently the aim is to establish social cooperatives over the next two years; the elaboration of details is still underway. There are approximately 300 social cooperatives in Hungary and around 40 demonstration projects might become self-sustaining and turn into social cooperatives in the future.

#### *Main legislation*

Act I of 2012 on the Labour Code; Government decree 375/2010 (31 December) on assistance for public works programmes; Act CVI of 2011 on public works and on the amendment of public works related and other legislation; Government decree 169/2011 (24 August) on the Employment and Public

Works Database; Government decree 170/2011 (24 August) on wage setting and guaranteed wage in public works employment.

*On-line resources:* [belugyminiszterium](#); [nfsz](#)

### 7. Start-up incentives

There were no significant changes in the regulation of start-up incentives.

*On-line resources:* [munka.hu](#)

## Supports

### 8. Unemployment (job seeker's) benefits and assistance

There were significant changes in the characteristics and rates of job seekers' and social benefits awarded after 1 September, 2011 – this was discussed in detail in last year's volume of the *Hungarian Labour Market* (Busch–Cseres-Gergely, 2012, Table 2). Changes in the current period mainly resulted from changes in related regulations, such as increases linked to changes in the statutory minimum wage or minimum pension. Nevertheless the rate of out-of-work assistance and regular social assistance (RSA) was reduced and eligibility criteria for job seekers' allowance were tightened. Eligibility criteria for pre-retirement job seeker's allowance were somewhat relaxed. The situation at the end of the period is summarised in *Table 1*.

*Minor changes  
in the conditions  
of job seekers' benefits*

**Table 1: Main characteristics of job seekers' and working age benefits, as at 30 August, 2012\***

Type of assistance	Eligibility criteria	Rate
Job seeker's allowance (paid for a minimum of 36 and a maximum of 90 days)	At least 360 <i>qualifying days</i> within three years** 10 <i>qualifying days</i> correspond to one day of benefit payment	Sixty per cent of the wage on which labour market contribution is paid but up to 100% of the minimum wage on the first day of benefit payment: 93,000 forints/month, 3,100 forints/day
Pre-retirement job seeker's benefit	Within five years from pensionable age, has received job seekers' allowance for at least 45 days and exhausted entitlement and within three years from eligible age, has enough qualifying years for old age pension and is <i>not receiving any pre-retirement benefits, perpetuity for retired ballet dancers and benefits for ex-miners</i> .	Forty per cent of the minimum wage: 37,200 forints/month, 1,240 forints/day.
Out-of-work assistance	People of working age can qualify for this if they are not eligible for regular social assistance. At least 30 days of employment or participation in labour market programmes, accepting any job offers regardless of the level of qualification required and keeping their own local environment tidy, if required by the local council.	<i>Eighty per cent of the minimum old age pension</i> , 22,800 forints/month
Regular social assistance	No significant changes	Depends on family income <i>but up to 42,326 forints/month, if family member is receiving out-of-work assistance the maximum amount of RSA can be 19,526 forints/month</i>

\* Italics indicate changes from 2011.

\*\* Qualifying days are any days in employment, self-employment or as an individual member of a business provided that contributions have been duly paid.

The following minor changes are entering into force:

- 1) The period for calculating eligibility for job seekers' allowance has been reduced from five to three years. Claimants must have at least 360 qualifying days within this period.
- 2) In the eligibility criteria for unemployment assistance the term "employment" is being replaced by the more general "qualifying period".
- 3) Any unpaid leave over 30 days for the volunteer military reserve force is taken into account when establishing eligibility for job seekers' allowance. The payment of the allowance is suspended for the duration of the volunteer military service.
- 4) Job seekers' allowance can be paid from the day when the claim was submitted even if the employee terminated the employment or was dismissed for misconduct. Previously, payment in these cases could only start after 90 days.
- 5) If the job seeker is looking for work abroad, the payment of the assistance does not need to be terminated. The reason is that this is not possible under current regulations: job seekers are required to inform the employment service that they will be looking for work abroad at least 21 days in advance. Therefore eligibility will be exhausted within less than three months of their stay. This time is not sufficient to get to the first meeting set out in the cooperation agreement.
- 6) Temporary assistance for migrant workers can be paid for up to 60 days instead of 180 days.
- 7) To be eligible for pre-retirement job seekers' allowance job seekers must have received job seekers' allowance for 45 days rather than 90 days.
- 8) If a job seeker is not receiving any pre-retirement assistance (previously early pension), perpetuity for retired ballet dancers or benefits for ex-miners, they are entitled to pre-retirement job seekers' allowance. The National Employment Service notifies the pension authority regarding this. In the future these payments will no longer be called "assistance" but provision.
- 9) If the remaining amount of the job seekers' allowance is paid as a lump-sum for job seekers who obtain employment while claiming the allowance, the rules that were in force when the allowance was awarded must be applied.

*Main legislation*

Paragraph 1 Article 44, Paragraph 1 Article 52, points e), f), h), i), j) Article 53, points g), h) Article 54, Article 48 of Act CXCI of 2011 on assistance for people with partial work capacity and the amendment of certain acts, Articles 25–26 of Act CLXVII of 2011 on the abrogation of early pensions and on pre-retirement provisions and professional allowance.

*On-line resources:* [munka.hu](http://munka.hu)

### 9. Early retirement

Early retirement with state pension is no longer possible in Hungary from 1 January, 2012. Early retirement pensions were replaced by non-pension benefits – for more details see Section 13 on old age pensions.

### Mixed interventions (complex programmes)

This policy combines a range of interventions for participants. These programmes are typically funded from European Union sources and are implemented under Priority 1 of the Social Renewal Operational Programme (SROP) that includes projects 1.1.1, 1.1.2 and project 1.1.4. These are briefly summarised by *Busch–Cseres–Gergely* (2012) and detailed descriptions can be found in the Operational Programme's Action Plan. Legal changes only affected the financing of projects and they are discussed in detail in the section on the financing of employment policy at the end of this chapter.

#### Main legislation

Government decision 1013/2011 (19 February) on the approval of SROP Action Plan for 2011–2013; Government decision 1094/2011 (13 April) amending certain development-related government decisions; Government decision 1230/2011 (5 July) on involving the National Tax and Customs Administration (NTCA) as a beneficiary in the implementation of SROP priority project 1.2.1 and amending SROP action plans for 2007–2008 and 2009–2010; Government decision 1276/2011 (10 August) amending SROP Action Plan for 2011–2013 and SROP Action Plan for 2011–2013; Government decision 1453/2011 (22 December) amending SROP Action Plan for 2011–2013 and Social Infrastructure Operational Programme Action Plan for 2011–2013; Government decision 1235/2012 (12 July) on Priority 1 and 2 for SROP Action Plan 2011–2013; Government decision 1282/2012. (6 August) on the reallocation of resources within priorities 3 and 5 of SROP Action Plan for 2011–2013.

On-line resources: [munka.hu](http://munka.hu)

## LABOUR MARKET RELATED POLICY MEASURES

### 10. Labour taxation

There were various changes in the regulation of personal income tax that could potentially affect the labour market. The most important change was that the single-rate personal income tax effectively became a dual-rate system. The tax rate is 16% if the gross annual income is under 2,424,000 forints. If the gross annual income is more than this, then the same 16% rate applies but the taxable base is 127% of the gross annual income. Thus, there are *de facto* two personal income tax rates: 16% and 20.3%. The latter corresponds to the universal income tax rate in 2011 so overall the tax rate for people earning less than 2.424 million forints per year decreased. However, given that tax credits were abol-

*De facto two-tiered  
personal income taxation*

*Tax relief for those who are letting and renting properties at the same time*

ished the tax burden on people on lowest income increased, while it reduced progressively for those nearer the upper end of the tax band.

Those who are both letting and renting properties can deduct the rent they pay from their rental income. This might promote geographical mobility by reducing the tax burden on people who manage to let their difficult-to-sell properties. It is difficult to predict the effect of the decision that exempted housing subsidies from taxation in 2012: if the subsidies will be directed mainly to house buyers then it will reduce mobility, however if they support renting, it might have a positive effect on mobility.

There were other changes in personal income taxation that were indirectly related to the labour market such as the introduction of Széchenyi leisure card and Erzsébet voucher schemes.

*Increase in simplified business tax*

There were changes in the rules of simplified business tax. The tax rate rose from 30% to 37% and now businesses with a maximum revenue of 30 million forints per year – previously 25 million forints – can opt into this scheme. After these changes the simplified business tax is even more beneficial to slightly larger micro-enterprises with a low cost-ratio.

*Centralised funding for vocational education and training*

There were various changes in the payment of vocational training contribution, particularly the different ways to fulfil this obligation. All those who are subject to this tax can pay directly – the rate is 1.5% of the taxable income base. Since 1 January, 2012 only companies organising practical training for their employees can reduce their contributions by 440,000 forints/person/year. It is no longer possible for companies to deduct the amount spent on training of their employees from the contribution. At the same time more grant funding was made available to micro, small- and medium-sized enterprises for vocational education and training as well as adult learning in the framework of SROP Project 2.1.3.

*VAT increased from 25 to 27%*

The top rate of the value added tax increased from 25% to 27% on 1 January, 2012. On the one hand, this might reduce demand for goods and also labour demand. On the other hand it shifts tax burden away from labour to consumption that, on the contrary, might increase demand for labour.

*Employer's contributions replaced by a tax*

Contributions increased somewhat on 1 January, 2012: the single pension contribution rose from 9.5% to 10%, the health services contribution increased from 3% to 4% (see *Table 2*). Employers' contributions became a social contribution tax – the rates remained the same. The significance of this change is that whereas contributions confer an entitlement to receive a social benefit or service, taxes are unrequited payments. Tax revenues are general revenues and go to the central government budget, while revenues from contributions go to earmarked funds.

Health services insurance contribution must be paid by people who are ordinarily resident in Hungary and do not have a valid health insurance or are not entitled to free health care services; the self-employed and members of

businesses who are getting a pension. This was 6,390 forints/month or 213 forints/day in 2012.

**Table 2: Contributions paid by employers and employees, social taxation**

	Percent	
<b>Social security tax and contribution paid by the employer</b>		
Social security contribution tax	27.0	
Early retirement insurance contribution*	13.0	
<b>Paid by the employee</b>		
Pension contribution**	10.0	
Health care and labour market contributions	health services insurance contribution	4.0
	health-related benefits insurance contribution	3.0
	labour market contribution	1.5

\*Twenty-five per cent of the early retirement contribution is paid by the central budget therefore the effective rate for employers and the self-employed is 9.75%. Only certain occupations are subject to this contribution.

\*\* For both members of private pension funds and others. The upper rate of the contribution is 21,700 forints per day.

Income tax rules already favoured higher earners with multiple children in 2011; however this has been embedded in legislation since 1 January, 2012. The definition of family is set out in the law and it is also stipulated that the public should share the burden of bringing up children via two main instruments: tax reliefs for families and reduced rate contributions for parents returning to work after parental leave.

#### *Main legislation*

Act CLV of 2011 on vocational training contribution and the development of training, amended by Act LXIX of 2012 on taxation. Rules on personal income tax, payment of taxes and contributions and simplified business tax were amended by Act CLVI of 2011 on the amendment of taxation-related laws. Act LXIX on 2012 on taxation provides for the tax exemption of housing subsidies. The cardinal laws that stipulate the principle of burden sharing for families with children are: Act CCXI of 2011 on the protection of families and Act CXCIV of 2011 on Hungary's economic stability. Government decision 1067/2012 (20 March) on social cooperatives sets out provisions for reduced rate contributions for the employees of social cooperatives.

*On-line resource:* [nav.gov.hu](http://nav.gov.hu)

### *11. Other transfers*

#### *Parental leave arrangements*

In addition to taxation, family benefits are also set out in the act on families. The law stipulates that the state must contribute to the costs associated with pregnancy and caring for children aged less than three years, and to the cost of educating children.

*Separate act  
on supporting families*

*Policy statement  
and nursery fees*

<sup>3</sup> The actual fee is based on the operating cost of the organisation. There is no statistical data on newly introduced fees, newspaper reports suggest between 100–220 forints per day, less commonly 500 forints.

The most significant change was that nurseries are allowed to collect fees from 15 January, 2012. This fee is intended to cover the difference between the income from normative state subsidy and the actual operating cost of the nursery; however it is capped at the per capita income for each family.<sup>3</sup> Families must declare their income and local councils can award exemptions. Families with three children or more are exempted from nursery fees by law.

There were no government-funded capital investment programmes to create new infrastructure for nurseries, however SROP Project 2.4.5 provided funding for the development of day care for children below three years of age, and regional operational programmes also supported the development of nurseries.

#### *Main legislation*

Nursery fees are regulated by Government decree 328/2011 (29 December) on fees for child welfare and child protection services and the assessment of eligibility.

\* Written by: László Neumann

*Categories of organisational flexibility*

#### *12. Contractual terms of employment and changes in the Labour Code\**

The literature on the sociology of organisations distinguishes two main dimensions of labour flexibility (*Atkinson and Meager, 1986*):

- 1) *Numerical flexibility*: that can be internal or external, or differently, from the perspective of labour market transitions, flexible hiring and firing, or flexible working time patterns,
- 2) *Functional or organisational flexibility*: qualitative changes to the use of labour (for example job rotation for workers with multiple skills, training of workers, improved work processes etc.).

In addition to balancing *flexibility and security (flexicurity)*, that is a key element of the European Union's employment strategies, financial or wage flexibility is also considered as an important factor in the wage adjustment of companies from the perspective of labour economics. Furthermore it is worth considering whether flexibility arrangements respond to the needs of the employer (as in the above examples) or the needs of workers as well (for example family-friendly working time arrangements, workforce development, work-life balance etc.).

#### *What is their impact on employment?*

From a labour market perspective the two main factors of employment legislation are protection from dismissal and strengthening the position of workers in wage bargaining. These two are not unrelated either, and generally the law might cover both individual and collective employment rights (and thus have an impact on the opportunities of workers' organisations). Strict employment legislation might encourage some employers – those who are negatively affected by stricter rules – to take up undeclared employment that is outside the scope of labour legislation. At the same time as the increased likelihood of illegal or semi-legal employment, weaker sanctions for informal or illegal employment



practices are themselves sources of flexibility that must be considered in addition to the analysis of legislation (*Tonin, 2009*).

Hungarian labour laws were considered as one of the most flexible by European standards or even compared to other countries in Eastern Europe already in the mid-2000s (*Köllö and Nacsá, 2005*). This is also confirmed by comparative analyses of *employee protection* indicators that mainly focus on protection against dismissal of workers (including associated costs and procedural aspects) (*OECD, 2009, Venn, 2009*).<sup>4</sup>

#### *Situation in August, 2011*

Although the Labour Code that was in force until mid-2012 had been adopted in 1992, regular amendments by successive governments ensured that it responded to changing political and economic needs. The range of issues that could be regulated by collective or individual agreement according to the needs of employers was increasing after 1995, weakening the strong legal protection of workers. Minor changes in legislation during the economic crisis also increased flexibility (for example the ratification of reduced working time, extending the reference period for working time accounts – the period over which the number of hours worked can be averaged to calculate the total working time – changing the rules on “orderly labour relations”, etc.). These changes aimed to protect jobs during the economic downturn as well as facilitate participation in public procurement for companies. However, these amendments originally intended as transitional measures were made a permanent part of labour legislation by the new Government after 2010.

Before the reform of labour law in 2012 – in a way predicting its future direction – the amendment of the old Labour Code entered into force on 1 August, 2011. This allowed the extension of the probationary period to up to six months if approved by a collective agreement. There were also changes in the regulation of annual leave. If a worker could not fully use their annual leave allowance in a given year due to individual circumstances (such as illness) that lasted for six months or longer, then the remaining days could be carried over to the following year and used within six months – rather than 30 days as in the previous system. Also in the previous system, annual leave could be taken in more than two instalments only if this was requested by the worker. After 1 August, employers can also make this decision if it is justified by their business interest; although workers are still entitled to at least a continuous period of 14 days of annual leave each year. The most contested element of the amendment was whether overtime must be paid or can be compensated by time off. In the previous system the latter was only allowed if both parties agreed or it was set out in relevant regulations (collective agreement), but from 1 August – until the new Labour Code came into force – employers had the possibility to make a unilateral decision regarding this. Nevertheless the length of time-off provided must be at least of equal duration to the overtime work.

*Labour market flexibility was not endangered by the protection of workers in Hungary*

<sup>4</sup> Hungary's ranking on these indicators does not suggest at all that the level of protection would jeopardise labour market flexibility. According to the OECD's Employment Protection Index in 2008 there were only 10 countries that had higher overall labour market flexibility than Hungary. Hungary's score of 1.82 is smaller (indicating more flexibility) than the OECD average of 2.11 and Poland's 2.01, Slovakia's 2.45 or the Czech Republic's 3.0. For detailed flexibility rankings of Central-Eastern European countries by different indicators see *Tonin (2009)*.

*The amendment of the old Labour Code entered into force on 1 August, 2011*

*Transposition of the EU directive on temporary agency work*

On 1 December 2011 the amendments transposing the European Union Directive 2008/104/EC on temporary agency work came into effect. The two main changes of the Directive concern the temporary nature of agency work and the equal treatment of temporary agency workers. These issues were highly controversial and debated for a long time in the EU and the provisions of the Directive will have a significant impact on the operation of temporary-work agencies in Hungary. As regards the temporary nature of agency work, the Hungarian legislator took maximum advantage of the provisions and set the maximum duration of temporary agency work undertaken by the same user at five years including any renewal or new assignment within six months from the end of the previous assignment, regardless of the temporary-work agency. Temporary agency workers are entitled to the same basic working and employment conditions, including pay and other benefits that would apply had they been recruited directly by the company to occupy the same job. The only exemption from this during the first 184 days of employment is when the temporary agency worker has a permanent contract of employment with a temporary-work agency and continues to be paid between assignments, or is considered absent from the labour market for an extended period of time, or is assigned to work for a company with majority ownership by the local council or a non-profit public benefit organisation. (The latter essentially covers temporary agency work within public works employment that was re-regulated by a government decree in September 2011.)

*Situation between September 2011 and September 2012*

*The main objective of the new Labour Code: increasing the flexibility of employment*

The main development of this period was, undoubtedly, the adoption of the new Labour Code in December 2011. Major work on the re-conceptualisation of labour legislation was commissioned by previous governments before the crisis; however, for political reasons this has never reached legislative stage. It was argued that the need for a new Code was justified by changes in the structure of the economy since 1992 (the dominance of private ownership, the share of small- and medium sized enterprises, the spread of atypical forms of employment, increased demand for flexibility) and the failure to meet the original legal and policy objectives from 1992 (expanding the playing field of collective agreements). The new law was also justified by tasks arising from the harmonisation of EU law, and its Preamble even refers to the European Commission's Green Paper on Modernising Labour Law in the 21<sup>st</sup> century based on the EU's Lisbon Strategy (EC, 2006) as well as academic debates and legal solutions in Member States. These highlighted legal measures necessary to create flexible employment conditions while maintaining the social security of workers.

The main direction of the Labour Code that entered into force in 2012 – similarly to the amendments of the old Labour Code – is aimed at increasing the flexibility of employment; however it also creates a new conceptual framework for this. Although the Government published the proposal in June, consulta-

tions with trade unions were protracted.<sup>5</sup> The act – that was also amended by the act on transitional provisions adopted in June 2012 – entered into force on 1 July, 2012, however certain provisions only apply from 1 January, 2013.

In terms of legal theory, the main innovation of the new law is that it shifts the approach of the regulation from public to private law. This breaks the traditional protective function of labour law that aimed to balance out the asymmetric bargaining positions of the two sides of an employment relationship and at protecting workers in the weaker market position. Therefore the new Labour Code allows more scope for collective and individual agreements and by default these can even be unfavourable for employees. (In the old act this was the exception, only in exceptional cases could these agreements be unfavourable for employees.) On the other hand, where the act provides for minimum standards (for example the limit for compulsory overtime), these standards were lowered. Thus in terms of flexibility of employment, the only limitations are those provided by Hungary's international commitments (EU directives, ILO agreements). The possibility or prohibition of deviation from the provisions of the law by collective agreement or individual employment contract is highlighted in a separate article at the end of each chapter in the Labour Code.<sup>6</sup>

The detailed overview and interpretation of the Labour Code is beyond the scope of this chapter, and there is also an abundance of literature – aimed at facilitating the application of the law – published since the new Code entered into force.<sup>7</sup> (This seems necessary, though the new law from a legal technical point is admittedly – even by its critics – better than the old one, it can hardly be considered user-friendly. A number of earlier provisions are not set out in detail and their applicability can only be inferred from other articles, the justification of legislation and related legislation – such as the general principles of conduct or the Civil Code.) Therefore this analysis concentrates on flexibility measures that are relevant from a labour market perspective and follows the typology of labour flexibility in the literature on the sociology of organisations presented earlier. The description highlights only the main elements of provisions, it does not aim to provide a detailed description of legal conditions, nor does it discuss the potential impact of the implementation of the new law.

With regards to the flexibility of individual employment, the new law makes it easier to change the quantity of labour (external and internal numerical flexibility). In terms of recruitment, the already mentioned extension of the probationary period is a measure – in principle available to both employers and employees – that allows the termination of employment without justification and consequences. The new Labour Code retained the earlier provision that the maximum length of the probationary period allowed by a collective agreement can be six months. The employment contract must give details of the length of the probationary period, and in the absence of a collective agreement this can be up to three months. If the probationary period is shorter than this, it can

<sup>5</sup> The social dialogue process will be discussed later (for more details see Tóth, 2012).

*Re-conceptualisation of labour law: private law approach instead of public law*

<sup>6</sup> The possibility of deviation is also pointed out by trade union commentators (for example Czuglerné, 2012, Schnider, 2012).

<sup>7</sup> Various textbooks (Gyulavári, 2012) and manuals (for example Horváth, 2012; Pál et al. 2012; Bankó et al. 2012) provide a detailed interpretation of the act. The latter can be purchased in an electronic format that is regularly updated (Complex labour law e-commentary). Furthermore, readers with a general interest in labour law might find useful information on some thematic websites such as the blogs of Gábor Kártyás and others, and publications targeted at specific groups – employers, employees (Bodnár, 2012; Kártyás and Takács, 2012).

*The new act mainly facilitates quantitative changes in the workforce*

*Separate chapter on atypical employment*

be extended – once – by mutual agreement, however the total length of the extended probationary period should not exceed three months.

Employment contracts can pertain to full- or part-time, as well as fixed-term or permanent employment. The new Labour Code does not state how many times a fixed-term employment contract can be extended, however its length in total should not exceed five years. A new, family-friendly provision allows employees to reduce working hours by half until their children reach the age of three. A new feature of the law is the incorporation of atypical forms of employment (part-time on-call work, job-sharing, working for multiple employers, tele-work, home-based work, simplified employment or casual work). The law regulates a broader range of these by allowing the parties to agree on a number of issues. Temporary agency work remains to be a special type of employment where only the nature of the work or job and basic pay must be agreed in advance, information about the location of work and other working conditions can be provided later.

From the perspective of labour market flexibility the revised regulation of the termination of employment by the employer is of key importance. It is not accidental that during the preparation of the new law this was the area that came under attack the most and legislators were forced to change their proposals in a number of areas, such as the prohibition and protection from dismissal or termination of employment without justification. Groups that were under prohibition or protection from dismissal remained in the new law as a result of compromises however detailed regulations changed significantly. (For example the rule that allows employers to dismiss members of these groups due to issues relating to the ability of the employee or the operation of the employer might offer loopholes.) At the same time the new law also allows employers to dismiss workers during different forms of unpaid leave (illness, parental leave, caring for relatives etc.). In these cases the notice period starts after the employer has returned to work. The statutory notice period is 30 days and it increases according to the length of service. However, a new provision is that if the employee initiates the termination of employment, the notice period does not increase, it remains 30 days. Although the basic rules of collective dismissal did not change, the rights of trade unions in relation to it did change: employers are not required to consult the trade union even in the absence of a works council. For temporary agency workers the notice period was changed to 15 days as opposed to the previous regulation that provided for 30 days if the duration of employment reached one year.

*Less costly and easier to dismiss workers*

In addition to the limitations and procedural rules of dismissal, its costs to employers are also relevant. Apart from costs associated with the notice period, the most important cost is redundancy pay. Statutory redundancy pay decreased somewhat. The law still stipulates that redundancy pay is three to six months' pay, but the length of service is calculated as the period up to the first

day of the notice period rather than the last day. Furthermore, while redundancy pay was based on average pay previously, in the current system it is based on the absence pay that is often lower because it excludes non-salary payments (premiums or bonuses). According to the new law employees are not entitled to redundancy pay if they have been dismissed on the basis of discipline or their skills and which are unrelated to their health status. The additional redundancy pay for older workers was reduced from three months' pay to between one and three months based on the length of employment. As a general rule the length of the notice period and the amount of redundancy pay can be increased by collective agreement, however this is prohibited in publicly owned companies.

A special aspect of the costs associated with dismissal, although a highly relevant one from the perspective of everyday practice, is the legal consequences of unfair dismissal. According to the old law if the court established that the dismissal was unfair the employee could be reinstated in their original job. This has no longer been a general requirement in the new law since July and it is only possible under specific circumstances. The legislators argued that this was justified by the general experience that most employees did not want to return to their job and asked for compensation instead. Employers who were found guilty of unfair dismissal had to pay compensation and salary to employees up to the entry into force of the court ruling. In practice, due to delays in court procedures, this could amount to years of pay. The new Labour Code drastically reduced the amount of pay for unfair dismissal to up to 12 months' absence pay.

The new regulation of working time and time off helps the flexible adaptation of employers. On the one hand, the new law extended the possibilities for employers to adjust working time in response to changes in demand. Therefore the new regulation extended the upper limit of compulsory overtime to 250 hours from 200 hours. A collective agreement – similarly to the previous regulation – may allow even more: up to 300 hours. The work schedule must still be notified at least a week in advance and given to the employee in writing. However, the new law allows employers to change the schedule up to four days prior to a given day if there are unforeseen circumstances in their operation. The regulation of the reference period did not change, however irregular working time patterns can be introduced using “working time banks”, a new tool that allow employees – similarly to a reference period of four to 12 months – to average their weekly working hours over a longer period of time. Such reference periods of “working time banks”, however, can be started flexibly, even in consecutive weeks. This creates a flexible working time bank that allows employers to manage working hours on a “quasi-rolling” basis. The new Labour Code introduced the concept of “unbound” working time that allows employees to set their own working pattern. This must be authorised by the employer in writing and justified by the nature or requirements of the job.

*Risks associated with unlawful dismissal: compensation instead of continued employment – lower than previously*

*Reference period to facilitate more flexible working time management*

“Unbound” working time is when an employee is managing on average at least half of their own weekly working time. Employees working in a flexible pattern are not required to fill in time sheets.

The additional annual leave for parents with children was retained in the new Labour Code and both fathers and mothers are entitled to this. Fathers are also entitled to five days of paid paternity leave that must be used within two months of the birth of their child.

In addition to the extent of flexibility, its cost is also an important regulatory consideration. Therefore the law changed the regulation of pay rates related to different working patterns. Flexible working might be disadvantageous to some workers because they are not entitled to compensation or pay for overtime. More importantly, new regulations were introduced for night and shift work pay rates. According to the new Labour Code additional rates must be paid by employers that operate on a multiple shift basis which means that they operate for at least 80 hours per week. This means that they must employ at least two shifts of full-time (40 hours per week) workforce. Overlapping shifts – when two eight-hour-long shifts are overlapping – are not considered multiple shifts. In multiple-shift operations workers are entitled to a wage supplement of 30% for work between 6pm and 6am, if they work regularly in variable shifts. Those who do not work shifts are entitled to a 15% wage supplement for any night work if its duration is more than one hour. The wage supplement for afternoon shifts was abolished. For work on Sunday during regular business hours (for example in the retail sector) workers are entitled to a wage supplement of 50% rather than 100%. Organisations that operate on a continuous basis are not required to pay a wage supplement for work on Sunday. The wage supplement for working on public holidays was reduced from 200% to 100%.

The wage supplement for overtime (irregular working time) is 50% and – as a step back from a previous amendment – it can only be compensated by time off based on individual agreement or specific provisions. The wage supplement rate for on-call working is 20%, and for standby work it is 40%. The new Labour Code allows parties to agree a flat-rate pay that includes the basic wage and supplements for shift work, on-call or standby work. This does not need to be set out by a collective agreement; it can be based on an individual agreement between the employer and the employee. This not only reduces the administrative burden but also might reduce wage costs. An extreme example would be people who are paid the statutory minimum wage working night shifts or Sundays. According to the provisions of transitional legislation, under the same working conditions the flat-rate pay must not be lower than the monthly average pay of the employer in the previous year. Nevertheless – in the long run and in the case of new entrants – this creates a strong bargaining opportunity for employers to reduce wage costs.

Some other provisions of the new law also offer – limited – opportunities for wage adjustment and even a reduction in pay. On the one hand for time away from work employees must be paid an absence pay rather than the average pay. The absence pay might be lower than the average pay because it does not include certain elements of pay. On the other hand the new law allows employers to withdraw their unilateral written or verbal promise of a wage increase (if it had not been included in a contract) if important changes in their operation would make this very difficult to fulfil or would put an unreasonable burden on the employer.

The legislator also aimed to reduce the financial risk of employers: employees who either “take payments or valuables from third parties or pay them money or hand over valuables as part of their job” must pay a deposit. This cannot be more than one month’s basic pay. The increased liability of workers for damages arising out of negligence is also intended to minimise employers’ risks. According to the law that was in force on 30 June, 2012 this could be up to 50% of the average monthly pay. In the new legislation – as the main rule – this can be up to four months’ absence pay but a collective agreement can provide for a diversion in both directions and it can be increased to up to eight months’ absence pay. The same liability provisions apply for inventory shortages. On the other hand the new law reduces employers’ liability towards employees, for example they are exempt from liability if they provide evidence that the damage was caused by circumstances outside their control and it would have been unreasonable to expect them to avoid or avert the circumstances in which the damage has arisen.

The Labour Code has always had provisions for certain forms of functional flexibility; nevertheless the new law simplifies work outside the scope of the employment contract such as the re-assignment, posting and transfer of workers. The new law uses the concept of employment outside the scope of the work contract for work in a different job, location or for a different employer. Under certain conditions an employer can order workers to perform work outside the scope of their employment contract; however its annual maximum duration was reduced by the new law. While in the previous system this could reach 110 days per year, or even longer under a collective agreement, the new Labour Code allows a total of 44 working days or 352 hours, nevertheless a collective agreement or individual employment contract might provide differently.

To some extent the different types of employment contract mentioned previously also facilitate flexibility: job sharing, employment by multiple employers and part-time on-call work. The last one is particularly interesting because the legislator tried to transfer an existing practice of “zero-hour contract” from Western Europe to Hungary, thus the new law is not only responding to employers’ demands but actively tries to promote the introduction of atypical forms of employment. Nevertheless forms of employment that are considered

*Indemnity:  
reduced financial  
responsibility for employers*

*Simpler rules for  
work outside the scope  
of employment contracts*

8 According to various surveys employers in Hungary provide less training to their employees in comparison to other European countries (*Eurofound*, 2012). Apart from the legislative framework, workplace training is also influenced by financing conditions. In this respect, the fact that vocational training contribution can no longer be used to finance local workplace training is clearly a negative development because the Government is using this to centralise the management of vocational education and training.

*Employers must take employees' interests into "reasonable consideration"*

*Sectoral rules on essential services during industrial action*

*More flexible employment also in the public sector*

innovative in the sociology of work literature, organisational learning and conditions for in-work training and professional development are somewhat neglected by the new law – this was no different in the old Labour Code. In-work training and professional development is only regulated in relation to study agreements and contrary to earlier practice, employers are not required to provide leave for workers participating in formal education – except those in primary and lower secondary education.<sup>8</sup>

An inherent characteristic of employment is the hierarchical relationship between employer and employee. A number of provisions of the new Labour Code reinforce this hierarchy. For example employees' conduct must reflect the trust of their employer to perform the duties of the job. According to the justification of legislation this is "the new quality measure of work", a general – therefore extending beyond the scope of work – principle of conduct that naturally follows from the nature of employment based on trust. Alongside this, the legal consequences for a breach of the employment contract were revised in the act. As a general rule, sanctions can be set out by a collective agreement, however if there is no collective agreement, they can be stipulated in the employment contract. At the same time the legislator aimed to counterbalance the weaker bargaining position of individual employees by prescribing a new requirement of conduct for employers: they must take into "reasonable consideration" the interest of the employee and should not cause "disproportionate harm".

The Labour Code – similarly to the old one – allows for sectoral regulations in separate acts. These are most likely in transport and health care, however a new provision is that they are not limited to the regulation of working time and time off but also have provisions for industrial action, i.e. the level of essential services and the emergency measures that the government can introduce. For example in public transport 66% of services on local and commuter routes and 50% on national and regional routes must be operated during industrial action. The provisions on health care emergency situations were incorporated into the act on water supply and adopted in December 2011.

The act on civil servants tries to introduce some flexibility into public sector employment. A number of measures facilitate flexible employment: the amendment of appointments, temporary employment outside the scope of appointment, temporary transfer, assignment, posting, assignment due to government interest, permanent transfer etc. are all regulated by the act. The implementing decree sets out detailed rules for the working time and time-off of civil servants, tele-working, and public holidays. (The scope of the act covers civil servants at both the local and central levels of public administration, the armed forces and civil servants employed by other authorities. It should be noted that separate acts and implementing decrees regulate the employment of judges, prosecutors, professional and contract soldiers but these are not presented here.) There is a separate implementing decree on the qualification requirements for



civil servants and detailed disciplinary rules and procedures. The act stipulates the general rules of employment in civil service, including principles of conduct, working time, pay, promotion and conflict of interest and termination of employment. Among the general principles of conduct, the act states that civil servants must refrain from any actions, even outside their working hours, that might lead to a loss of confidence. The act also stipulates that the employment of a civil servant must be terminated if their performance is not adequate or they have lost the confidence of their superior. According to the act, the loss of confidence can be related to the actions or work performance of the civil servant, it should be factual and evidence should be provided. The employer must state the reasons for the termination of employment and in legal disputes the employer has the burden of proof to show that these have been real and objective.

There were no new general regulations for public service employees (such as workers in public education, health care and social services), who make up the majority of the workforce in the public sector. The only – and far from insignificant – exception within public service was health care where new sectoral legislation was introduced with a range of sector-specific flexibility provisions: on-call working, voluntary overtime etc. After 1 March, 2012 employers can unilaterally impose up to 16 hours per week on-call work, however working longer than 12 hours per day in the health care sector must always be considered “voluntary overtime”, though it is paid. On the other hand the act gives an exemption from the application of wage supplement regulations of the new Labour Code in this sector. Otherwise – according to estimates of a trade union in the sector – employees in the health sector would see their pre-tax pay cut on average by 8,000–12,000 forints per month.

#### *Main legislation*

Act CV of 2011 on the amendment of certain labour related and other legislation for the purpose of legal harmonisation; Act I of 2012 on the Labour Code; Act LXXXVI of 2012 on transitional measures and legal amendments in relation to the entry into force of Act I of 2012 on the Labour Code; Government Decree 135/2012 (28 June) amending certain government decrees in relation to the entry into force of the new Labour Code; MfNE decree 17/2012 (5 July) amending certain ministerial decrees in relation to the entry into force of the new Labour Code; Government decree 136/2012 (28 June) amending Government Decree 375/2010 (31 December) on state subsidies for public works employment and Government Decree 171/2011 (24 August) amending certain government decrees in relation to public works employment; Act CXL of 2011 amending Act XXXIII of 1992 on the legal status of public servants; Ministry of Interior decree 37/2011 (28 October) implementing provisions of the Act XXXIII of 1992 in certain agencies and public bodies under the supervision of the Minister of the Interior; Government decree 373/2011 (31

December) appointing agencies to perform occupational health and safety tasks; Government decree 273/2011 (20 December) on the rates of occupational health and safety fines and procedures for imposing fines; MfNE decree 1/2012 (26 January) on orderly labour relations and ways to demonstrate this; Act CXCIX of 2011 on civil servants; Government decree 29/2012 (7 March) on qualification requirements for civil servants; Government decree 30/2012 (7 March) on working time and time off for civil servants, administration holidays, responsibilities of civil servants and employers and on tele-working; Government decree 31/2012 (7 March) on disciplinary procedures against civil servants; Government decree 45/2012 (20 March) on provisions relating to personal documents of civil servants, personal documents and labour registration of other employees in public administration, civil service register, collection of statistical data on civil service, and reserve of civil servants; Act V of 2012 and transitional legislation and legislation being amended or repealed in relation to the act on civil servants; Act CLXXVI of 2011 amending certain health care related legislation; Act LXXIX of 2012 amending certain health care related legislation; Act CLXII of 2011 on the legal status and remuneration of judges; Act CLXIV of 2011 on the legal status of the chief prosecutor, prosecutors and other employees of the prosecution service, and career path in the prosecution service; Act CXCII of 2011 amending Act XCV of 2001 and other acts on the legal status of professional and contract soldiers in the Hungarian Army; Act CLXXXIV of 2011 amending Act XLIII of 1996 on professional members of the armed forces in relation to the coordination of civil service career paths and amending certain labour-related legislation; Act CCIX of 2011 on water utilities.

### *13. Old age and disability pensions – disability supports*

#### *Abolition of early retirement*

Retirement before the statutory pension age was abolished in Hungary after 1 January, 2012. The relevant act, given its complexity, will not be presented here in detail, only the most important provisions will be highlighted. It addressed three main areas: early retirement, retirement before statutory pension age, and other pensions such as artists' pensions. Retirement before the statutory pension age was available for workers in hazardous occupations or members of the armed forces, while early retirement was available for anyone who had enough qualifying years. Existing early pensions were re-classified as pre-retirement benefits – in the armed forces for example early pensions that were awarded on the basis of disability were transformed into a service allowance. These are paid to those who have already been awarded a pension.

The rights of people in early retirement changed in a number of ways: in terms of their legal status, they are no longer pensioners and therefore they are not entitled to benefits and tax reliefs available for pensioners, most importantly reduced-rate contributions for those who are working. Similarly to people in

early retirement in the previous system, they must not work while they are receiving benefits. However, unlike old age pensioners, they can claim job seekers' assistance but in this case their benefit is suspended. The regulation provides for strict penalties for those who work illegally while claiming benefits: they must pay back one year's (or the total amount, whichever is higher) benefit paid to them. The benefit will be stopped and cannot be claimed again.

The Government appointed the Minister for National Economy to work out the details of the new system of pre-retirement benefits for hazardous and special occupations; however this did not happen before the final draft of this manuscript was completed.

Pensions and other pension-like benefits increased by 0.5% on 1 January 2012.

#### *Main legislation*

Act CLXVII of 2011 repealing early old age pensions and setting out provisions for pre-retirement benefits and service allowance; Government decision 1356/2011 (21 October) on elaborating the conditions of provisions replacing early retirement; Government decree 333/2011 (29 December) on provisions before the pension age, procedural regulations for service allowance, perpetuity for retired ballet dancers and benefits for ex-miners, and amending related government decree, Government decree 335/2011. (29 December) on the increase of pension and certain other benefits as of January 2012; Government decree 354/2011 (30 December) on entitlement to social security provisions and private pensions and the amendment of Government decree 195/1997 (5 November) on the implementation of Act LXXX of 1997; Government decree 60/2012 amending certain government decrees related to pension insurance and social provisions (repealing early pensions). The principles of old age pensions are set out in Chapter 6 of (cardinal) Act CXCV of 2011 on Hungary's economic stability.

*On-line resources:* [onyf.hu](http://onyf.hu)

#### *Disability pensions – disability supports*

Alongside the transformation of old age pensions, the system of disability pensions also underwent changes. Disability pensions were replaced by benefits for people with partial work capacity. To qualify for these benefits the health status of the claimant must be 60% or under and they:

- have had social insurance for at least 1,095 days during the five years prior to application,
- are not in employment;
- are not receiving regular financial assistance.

The benefit can take the form of rehabilitation assistance if the claimant has been found suitable for vocational rehabilitation (see Section 5 on this) or disability assistance if they are not recommended for vocational rehabilitation. Claimants must be awarded disability assistance even if they are suitable for

vocational rehabilitation but they are no more than five years from the old age pension age.

*Main legislation*

Act CXCI of 2011 on assistance for people with partial work capacity and the amendment of certain acts; Government decree 327/2011 (29 December) on procedural rules for assistance to people with partial work capacity.

\* Written by: László Neumann

Structural characteristics  
of wage bargaining

14. *Wage bargaining, wage regulation and interest representation\**

*What is their impact on employment?*

The impact of wage development on macroeconomic processes – including employment – heavily depends on the characteristics of wage bargaining: 1) the level of collective wage agreement (national, sectoral, or company), 2) to what extent collective agreements limit individual wage bargaining (for example with pay scale agreements), 3) whether it is possible to deviate from higher-level agreements at the local level, 4) the number and characteristics of workers covered by collective agreements, and last but not least, 5) where individual market-based agreement is possible independently from higher-level agreements. The effect of regulation also depends on whether it facilitates or hinders the adjustment of wages in relation to the equilibrium – influenced by other factors –, the sectoral structure of the economy or its integration into the world economy. Therefore there is no single optimum model (*Calmfors*, 1993).

A special institution of wage regulation is statutory or contractual minimum wage that sets the minimum level of pay – even for different groups of workers. Generally this has a negative effect on employment, but if the employer has a significant market power it can be neutral (*Manning*, 2003). Another common type of government intervention is the extension of an autonomous sectoral collective agreement to all employers of the sector.

*Situation in August 2011*

Hungary has a dual system of wage negotiation. Pay for public servants and public sector employees – depending on education attainment and years of service – is set out in tariff tables in the relevant acts and it is part of the state budget. On the contrary, in the business sector wages are set freely – apart from the minimum wage already mentioned above – in a decentralised negotiation. Trade unions have a low membership in Hungary, and instead of sectoral wage negotiations found in several Western European countries, wages are typically influenced by company collective agreements (although there are some sectoral wage agreements too). However, their impact on wages is not significant (*Neumann* 2001), and they are more common in companies that operate in highly concentrated markets or are publicly owned (*Kertesi and Köllő*, 2003). (This topic, among others, is discussed in more detail by *Mariann Rigó* in the section *In Focus – II* of this volume.)

The lowest level of pay is set by the minimum wage that has been different for skilled and unskilled workers since 2006. From 2011 there have been two additional lower rates for public works employment. Until 1 January, 2011 the minimum wage was set through tripartite (employee, employer and government) negotiations in the National Council for the Reconciliation of Interests (in Hungarian: Országos Érdekegyeztető Tanács, OÉT). The Council also issued tripartite recommendations for pay increases each year, however after the Council was abolished these ceased to exist too.<sup>9</sup>

#### *Situation between August 2011 and August 2012*

Twenty-twelve was the first year when national wage negotiations were entirely conducted in the new negotiation structure, in which the Government, following consultations with social partners, decides independently about the minimum wage and the minimum wage for skilled workers. Although the new Labour Code allows the Government to set different levels of minimum wage for certain groups of workers depending on the characteristics of sectoral and regional labour markets, this did not happen in 2012. According to the Government decree the lowest basic pay for full-time employees must be no less than 93,000 forints per month. The two-tiered minimum wage was retained. The guaranteed minimum wage for full-time workers with at least secondary education or a secondary vocational qualification must be 108,000 forints per month. (The Government Decree also sets out the weekly, daily and hourly minimum wage.) The significant rise of pre-tax minimum wages (19.2% and 14.9%) aimed to offset the effect of changes in labour taxation, nevertheless the net value of the minimum wage for skilled workers still declined slightly. (As has been mentioned previously, tax credits were abolished on 1 January, 2012 and the contributions paid by employees went up by one percentage point.)

Pay in public works was also set by a government decree for 2012: for full-time unskilled work this was 71,800 forints, for skilled work 92,000 forints per month. Compared to the previous year the increase was considerable here too, and in 2012 the pre-tax public works pay for unskilled workers was 77.2% of the relevant minimum wage, and for skilled workers this was 85.2%. (These changes meant a net increase of 4.6% of the unskilled public works pay and a two per cent decrease of the skilled workers). Overall, although the advantage of skilled workers decreased slightly, there was still a wage-tariff type minimum wage system with four categories.

Due to changes in labour taxation the nominal net pay of those earning less than 216,806 forints per month would decrease. To prevent this, in addition to the increase of the minimum wage – and following the previous year’s indirect intervention – the Government also set the so-called expected rate of pay increase. The government decree provides a detailed list of the rates of necessary pay increase to maintain the net value of wages between 59,000 and 216,805 forints per month (in a table format, with 37 rows). The expected pay increase

<sup>9</sup> According to data on wage increases above the rate recommended by the OÉT – wage drift – and wage increases falling short of the lower values from that period show that tripartite recommendations had a significant role in “orientating” lower level wage negotiations and wage setting, thus they were the starting point for the arguments of both trade unions and employers in collective bargaining (Koltay, 2000).

*Four categories of minimum wage including public works employment*

*The Government set out the rate of “expected pay increase” for low-paid workers in 2012 too*

10 The calculation of wage compensation is based on the same logic as that of the tax credit, which has just been phased out. Up to pre-tax earnings of 75,000 forints per month, the tax relief is 21.5% but no more than 16,125 forints. For wages over 75,000 forints, the 16,125 forints should be reduced by 14% of the difference between the actual earning and 75,000 forints. Thus, those earning more than 185,000 forints per month before tax are no longer entitled to the compensatory tax relief in 2012.

*Subsidies for employers that implement wage compensation*

includes the increase of the minimum wage and guaranteed minimum pay and the increase of non-salary payment; however these can cover up to 25% of the expected pay rise. The decree also stipulates that some wage supplements must be taken into account, such as the wage supplement for shift work (but not the wage supplement for overtime). Employers that employ low-paid workers and implement a pay increase can claim a tax relief on the newly introduced social contribution tax; however to qualify for this all permanent employees must receive a pay increase. The tax relief was designed in such a way that the employers' burden would only increase by up to five per cent per employee.<sup>10</sup>

From 1 January, 2012 the labour inspectorate must also check whether a company has implemented the wage compensation requirement for at least two thirds of the workforce. If the labour inspection finds that the pay increase has not been implemented for employees earning less than 300,000 forints per month, the inspectorate will issue a decision. Although no fine will be imposed, the employer will be placed on the list of companies "without orderly labour relations" published on the inspectorate's website. The employer can still implement the expected pay increase. Therefore, even if in a slightly weaker form, the previous year's sanction that threatened employers with a ban from public procurement and public subsidies had they not implemented the wage compensation remained in effect. However in 2012 employers that implement the pay increase for at least two thirds of the workforce can qualify for public subsidies.

In addition to the normative support and sanction, the Government also supported employers that implemented the wage compensation through a grants system. Funding was available for businesses that were unable to implement the wage increase despite the normative subsidy. The policy targeted businesses with a labour intensive operation and a predominantly low-paid workforce. According to the relevant government decree employers qualified for support to implement the wage compensation for workers earning less than 215,000 forints per month. The subsidy covered up to three percentage points of the expected pay increase and social contribution tax payable on this for 12 months and it was paid to the employer by the job centre in no more than two instalments. Other qualifying conditions included that the average yearly headcount must not be lower than that in 2011 and that the employer must not implement a reduction of the working time for more than 20% of the workforce in 2012. These conditions proved too strict in practice: the programme had a budget of 21 billion forints, however only 5.9 billion forints worth of subsidy was claimed. The employment service received 4,094 applications out of which 4,006 were funded. According to a communication from the Ministry for National Economy the 5.61 billion forints contributed to the pay increase of more than 124,000 employees – and helped more than 146,000 workers to retain their job.

The scope of legislation on expected pay increase does not cover the public sector, organisations operated by churches or workers in simplified employment. Separate regulations set out the requirement of wage compensation for public sector and church employers – although to a lesser extent than in the private sector because in these cases it should also be taken into account whether an employee or their spouse qualifies for family tax credit. Thus, only simplified employment was left out of wage compensation – and of course the self-employed who were not entitled to tax credit either. Nonetheless, wage compensation affected millions of employees (based on preliminary data from the National Tax and Custom Authority businesses claimed tax relief for approximately 980,000 employees, approximately half of those potentially eligible by January),<sup>11</sup> and its budgetary impact can only be estimated. More reliable data was made available by the Hungarian National Asset Management Inc. (Magyar Nemzeti Vagyonkezelő Zrt.) on companies with majority public ownership. In these companies wage compensation affected a total of 80,000 workers and cost 22 billion forints in 2012. According to tax regulations and the new Labour Code the system of wage compensation will continue into the coming years. As stipulated by the Labour Code “the Government has got the authorisation to issue a decree on the rate of pay increase required to preserve the net value of monthly wages under 300,000 forints”.

The increase of the minimum wage and guaranteed wage minimum as well as the wage compensation had a significant impact on wage development in the public sector. In the public sector basic pay is regulated by the law and pay rates for each grade – which depend on qualification and years of service – are set out in statutory pay scales. Employers can deviate from pay scales to some extent (in the case of public servants for example, only upwards); however the majority of organisations in the public sector do not have the financial resources to pay a larger number of their staff higher wages. In the public sector a wage increase would predominantly mean the increase of tariff wages; however this has not happened since 2006 and in the meantime the 13<sup>th</sup> month pay was also taken away. The reason behind a slight nominal increase in public sector pay, despite these developments, has been that the minimum wage and the guaranteed wage minimum must be ensured in the public sector too. This pushed slightly upwards the bottom half of the salary bands. (To a lesser extent pay also increased because of automatic promotions between grades due to length of service or staff gaining new qualifications.) Among public sector employees, who make up the majority of the workforce in the public sector, 62 out of the 140 wage tariffs had to be substituted by the minimum wage or the guaranteed wage minimum. For example even in Grade E7 that is the grade for workers with a tertiary vocational qualification (but higher education) someone with less than 20 years of service would only receive the guaranteed wage minimum for skilled workers. Therefore it is not surprising

<sup>11</sup> Óriásit bukkott a költségvetés a bérekompensáció miatt (Huge budget losses due to wage compensation) FN24, 24 March, 2012.

*Public sector: despite a pay freeze nominal pay rises as a result of the minimum wage increases and wage compensation*

*The health care sector was an exception: pay increase as a result of junior doctors' action*

that both employers and trade unions have been complaining about the compressed pay scale.

Some sectors in the public sector have had their own pay scales for some time, for example higher education. A separate pay scale was introduced in the health care sector as a new measure in 2012. The reason behind this was the wage demand of junior doctors that was accompanied with high profile actions (for example junior doctors en masse deposited their resignation letter), and they successfully used the increasing migration of doctors from Eastern Europe to give weight to their demands. (There had been similar actions by doctors in the Czech Republic and Slovakia too.) The Government's reaction was twofold: on the one hand they incorporated provisions limiting the possibility of industrial action in the health care sector into a legislative proposal – on a completely different issue – that was being discussed at that time. On the other hand, they started negotiations with the representatives of junior doctors. (From the perspective of industrial relations, it was an interesting development that instead of the traditional trade unions in the health sector, the newly formed Hungarian Association of Junior Doctors (Magyar Rezidens Szövetség) – that was originally conceived as a professional body – represented the doctors in the negotiations.) As a result the Government published a decree in March 2012 on “the possible wage development of certain health care professionals in 2012” and then in June the “health care omnibus act” provided for “the retrospective and progressive wage increase for health care workers”. This introduced a tiered increase for doctors depending on their basic pay. The rate of the increase was 65,800 forints per month for those earning less than 350,000 forints and then progressively reduced to 10,000 forints per month for those earning 450,000 forints or more. The law provided for a smaller scale pay increase for other health care professionals as well as those with a non-health related degree in the specialist care sector; in total approximately 86,000 employees saw their basic pay increase. Furthermore, the Government pledged to increase the self-employed family doctors' “card fee” – a flat rate fee family doctors receive for each patient who is registered with the surgery. However, the approximately ten thousand health care professionals in the primary care sector and – due to the sectoral scope of the law – those working in similar jobs but in social care will not receive a pay increase.

*The number and coverage of company-level wage agreements is declining*

Together with legislation and national agreements – at least in the business sector – sectoral and company-level collective wage agreements should have a prominent role in wage setting arrangements in principle. Although on paper both the old and new labour codes promote collective agreements in the business sector, in reality their role in wage setting is increasingly weak. As has been highlighted previously, sectoral wage agreements have always been uncommon and their coverage of companies and workers remained moderate. In the system of collective bargaining that developed in the nineties, company-level agree-



ments had a more dominant role, and yearly wage agreements were predominantly framework agreements on the rate of pay increase. Tariff agreements – similar to collective agreements in Western Europe and North America – were rare (Tóth, 2006). Although in the early- and mid-nineties, during times of high inflation, wage agreements had a significant role, in the past decade the role of company-level agreements that provide a large degree of autonomy and flexibility to the management of companies has been declining both in terms of numbers and coverage.<sup>12</sup> Unfortunately, the main reason behind this has been the increasing interventionist wage policy of the Government. Company and sectoral wage agreements in low-pay sectors also declined prior to the point at which the rise in the minimum wage took up the resources available for pay increase (i.e. 2000–2001 and 2006–2008). It was not only the crisis that limited the room for manoeuvre for companies, also wage compensation introduced as a result of recent changes in labour taxation implied that there is hardly anything to agree on locally in low-paid sectors (as well as the public sector). There were further factors that reduced the likelihood of local wage agreements: first, the restrictive regulation of industrial action introduced in 2010 (industrial action is typically used to give weight to wage demands), and second the stipulation of the new Labour Code declaring that publicly owned companies cannot deviate from the provisions of the Labour Code even with a collective agreement.

2011 was a turning point in social dialogue in Hungary: the National Council for the Reconciliation of Interests (Országos Érdekegyeztető Tanács, OÉT) was abolished together with other parallel bodies such as the Economic and Social Council (Gazdasági és Szociális Tanács, GSZT) and the Forum for Economic Coordination (Gazdasági Egyeztető Fórum, GEF). They were replaced by a high-profile body, the National Economic and Social Council (Nemzeti Gazdasági és Társadalmi Tanács, NGTT) that clearly did not aim to continue the intensive social dialogue. From the earlier system of social dialogue, only the National Council for Public Sector Dialogue (Országos Közszolgálati Érdekegyeztető Tanács, OKÉT) has been working on a continuous basis, although the influence of trade unions was hardly noticeable during the legislative boom of the public sector reform. While the supercharged legislation continuously adopted new laws affecting “the world of work”, trade unions were losing ground in social dialogue (and to lesser extent, employers’ organisations too). Understandably, trade unions were looking for the opportunity of dialogue, and through the International Labour Organisation (ILO) they successfully put pressure on the Government in the consultation of the new Labour Code. However, despite this, the Government only agreed to consult a selected group of social partners: on the side of trade unions they first consulted the League (Liga) and Workers’ Councils and then included the National Confederation of Hungarian Trade Unions (Magyar Szakszervezetek

<sup>12</sup> See data from the *collective agreement register* operated by the National Council for the Reconciliation of Interests, National Labour Office (Országos Érdekegyeztető Tanács, Nemzeti Munkaügyi Hivatal).

*New platform for national social dialogue in the business sector with fewer partners and without legal guarantees*

Országos Szövetsége, MSZOSZ). The employers' side was also limited to three confederations (the National Confederation of Entrepreneurs and Employers (Vállalkozók és Munkáltatók Országos Szövetsége, (VOSZ), the National Confederation of Employers and Industrialists (Munkaadók és Gyáripárosok Országos Szövetsége, MGYOSZ), and the National Confederation of General Consumer Cooperatives and Trading Companies (Általános Fogyasztási Szövetkezetek és Kereskedelmi Társaságok Országos Szövetsége, Áfeosz-Coop Szövetség). The first consultation that ended in a compromise was on some of the provisions of the new Labour Code that were particularly unfavourable for employees and trade unions, and then there were substantive consultations on some of the technical aspects of 2012's wage compensation arrangements (Tóth, 2012). During the selective, *ad hoc* consultations the concept of a new, permanent platform – the Business Sector and Government Permanent Consultative Forum (Versenyszféra és a Kormány Állandó Konzultációs Fórumának, VKF) – was born. The members of the new forum were the six social partners and the Government. The agreement setting up the new Forum was signed on 22 February, 2012. The main forum for consultation is the committee meeting that takes place as necessary but at least once every six months. Its members are the Prime Minister, the state secretary responsible for employment policy, the chief representatives of trade unions and employers' organisations, and the head of the Monitoring Committee. The Monitoring Committee is designated as a standing body to provide technical assistance to the work of the Forum. The main objective of the Forum is to discuss issues of national relevance that the founding agreement lists in seven categories.<sup>13</sup> The Government – according to some sources – decided to provide a 100-million-forint operating grant to each member to ensure adequate capacities for participation in the Forum's work. The smaller operating grant and the more limited membership – three trade union and six employers' confederations were left out – are not the only differences in comparison to the National Council for the Reconciliation of Interests. The Forum has no legal status (for example guaranteed participation in the legislative process) and institutional background, and despite the ambitious Agreement, it does not seem to discuss all of the issues listed there.<sup>14</sup> In addition to consultations behind closed doors, it seems that the Prime Minister continued his representative (and presumably informal) meetings with two selected trade union chiefs and the president of the Hungarian Chamber of Commerce and Industry (Magyar Kereskedelmi és Iparkamara, MKIK).

Therefore in the new national social dialogue instead of permanent forums and broad participation, a routine of *ad hoc* negotiations was developed with the participation of a limited number of actors selected by the Government. On the side of the business sector, it seems that the Hungarian Chamber of Commerce and Industry had a prominent role at the expense of traditional employers' organisations. A new feature was the appearance of alternative in-

13 *Megállapodás a Versenyszféra és a Kormány Állandó Konzultációs Fórumának létrehozásáról és ügyrendjének megállapításáról.* (The agreement establishing the Business Sector and Government Permanent Consultative Forum).

14 The work of the Permanent Consultative Forum is not public either; therefore information can only be obtained indirectly from participants.

terest representations for employees. Some of them used adequate tactics to create pressure, circumvent traditional forums and successfully negotiated with the Government (e.g. Hungarian Association of Junior Doctors). However the alternative movement launched by the armed forces in 2011 achieved nothing with its demonstrations. Furthermore the compulsory quasi-chamber system introduced in the public sector (the Hungarian Faculty of Public Service and the Hungarian Faculty of Security Forces, Magyar Közzszolgálati Kar és Magyar Rendészeti Kar) and by the regulation of local trade union activity which is even more restrictive than in the business sector (for example employers are no longer required to deduct the membership fee from members' pay and transfer them to trade unions, they do not have the obligation to provide infrastructure for trade unions etc.) the Minister for the Interior effectively made the operation of trade unions impossible and it also seems deprived them of the majority of their members.

Considering that Hungary has developed a system of decentralised collective bargaining and collective agreements are also a precondition for increasing flexibility, the new regulation of the scope of local trade unions and collective agreements is an important development both in the context of employment contracts and wage regulation. As far as trade unions are concerned, an important change was that Act II of 1989 regulating their activity and legal supervision was repealed as of 1 January, 2012. The two new acts that replaced it require trade unions to renew their registration and make the necessary organisational and procedural changes approved by their membership. The most important changes in the life of local trade unions were brought about by the new Labour Code: the scope of legal protection and working time allowance for trade union officials were drastically reduced. According to the new rules establishments/premises with an average headcount of up to 500 employees in the previous year can have only one protected trade union official, establishments with 500–1,000 employees can have two; establishments with 1,000–2,000 employees can have three, four for up to 4,000 and five for more than 4,000. Protected trade union officials are entitled to reduced working time and they are given time off for the duration of consultations with the employer. However, according to the new rules they are no longer entitled to time off for participation in training for trade union officials. The total yearly working time allowance was reduced: they can reduce their working time by one hour per month for each two trade union members employed by the same employer. These provisions have been in force since 1 July, 2012 therefore working time allowances had to be adjusted accordingly for the rest of the year. According to the new Labour Code unused time allowances cannot be redeemed by the employer therefore local trade unions with larger membership (and indirectly sectoral trade unions and confederations) might suffer a significant loss of income.

*Revised regulation  
of local trade unions and  
collective bargaining*

*Overall the law weakens the bargaining power of local trade unions, particularly in the public sector where they traditionally have been strongest*

The new Labour Code also represents a radical retrograde step in the rights of trade unions. They lost their right to information and consultation – the right in certain cases and on certain issues now belongs exclusively to works councils. Employers are only required to provide information or consult trade unions if this has been initiated by the trade union. Trade unions' right to veto was also repealed (that could be used to suspend the implementation of – a limited scope of – unlawful measures by employers). In the future, trade unions will not be part of the electoral commission for works council elections. The provision that trade unions can only sign collective agreements jointly and therefore each employer can have only one collective agreement has not changed. The new act stipulates that the membership of the trade union must reach 10% of the total workforce so that it can participate in the negotiation of a collective agreement. Therefore in larger, predominantly national companies trade unions representing special groups of the workforce or smaller units might be excluded from collective bargaining. The law puts significant limitations on collective bargaining in publicly owned companies: they must not deviate from the rules on notice periods and redundancy pay, and the working time must not be shorter than that set out by the Labour Code unless in order to reduce or prevent a health hazard. Overall, the changes weaken the local bargaining power of trade unions, particularly in the public sector where they had been strongest.

The act – according to its justification – intends to give a greater role to works councils in the regulation of employment relationships. Works councils can sign works agreements and quasi-collective agreements – the latter only in the absence of a sectoral collective agreement or local trade unions. However, such quasi-collective company agreements must not regulate pay which is generally the most crucial issue in collective bargaining. Furthermore members of works councils must remain neutral during industrial action. At the same time works councils' right to co-decision – rather weak in Hungary anyway – has been restricted by the new law and they can no longer prevent the sale of welfare and social infrastructure. Sanctions for employers for failure to provide information or lack of consultation have been abolished and therefore – according to some – the regulation of works councils has become soft and unenforceable. The protection of works councils' members by labour law has become weaker and now only the president is entitled to this. However a positive development has been the introduction of a holding-level works council for holding companies.

*Public service: mandatory membership in new workers' representation*

According to the provisions of the act on civil servants a new self-governing public body – the Hungarian Faculty of Public Service (Magyar Kormánytisztviselői Kar) – was established on the 1<sup>st</sup> of July to represent the interests of civil servants. All civil servants automatically become members of the Faculty. According to the law its responsibilities include the representation of professional interests, upholding the prestige of the civil service, consultation on

legislation affecting the employment and working conditions of government officials, conducting ethics procedures, establishment of a prize, organising professional conferences and the provision of welfare, social and other services for its members. The operation of the Faculty is overseen by the Prosecution Service. Also on the 1<sup>st</sup> of July the Arbitration Commission for Government Officials (Kormánytisztviselői Döntőbizottság) was to resolve employment-related disputes in the civil service. Similar provisions apply to security forces where the Hungarian Faculty of Security Forces was established. Formally the legislation does not impact on the existence and rights of trade unions, however it remains to be seen how the parallel interest representations will work alongside each other.

#### *Main legislation*

170/2011 (24 August) on wage setting and guaranteed wage in public works employment; Government decree 298/2011 (22 December) on statutory minimum pay (minimum wage) and guaranteed minimum pay; Government decree 319/2011 (27 December) amending Government decree 170/2011 (24 August) on wage setting and guaranteed wage in public works employment, Government decree 169/2011 (24 August) on the Employment and Public Works Database, and Government decree 355/2009 (30 December) on the permit free employment of third country nationals in the Republic of Hungary; Act XCIII of 2011 on the National Economic and Social Council; Act XCIX of 2011 amending certain acts promoting the pay increase of low-paid workers; Act CLVI of 2011 on the amendment of taxation-related laws; Government decree 213/2011 (14 October) amending Government decree 138/1992 (8 October) on the implementation of Act XXXIII of 1992 in the public education system and Government decree 20/1997 (13 February) on the implementing regulations of Act LXXIX of 1993; Government decree 299/2011 (22 December) on the expected rate of pay increase to safeguard the net value of wages and the rate of non-salary benefits that might be included in this; Government decision 1013/2012 (26 January) on the preparation of employers' compensation to facilitate the safeguarding of the net value of wages in 2012; Government decree 69/2012 (6 April) on assistance to safeguarding the net value of wages and amending Government decree 299/2011 (22 December); Government decree 20/2012 (22 February) amending Government decree 371/2011 (31 December) on the compensation of employees in the public sector or in services of public interest in church provision in 2012; Act XXI of 2012 amending certain laws in relation to the implementation of expected pay increase and employment; Government decision 1504/2011 (29 December) on the provision of additional resources for the one-off payment of health care workers entitled to wage supplements; Government decree 371/2011 (31 December) on the compensation of employees in the public sector or in services of public interest in church provision in 2012; Government decision 1071/2012

(22 March) on possible directions of wage development for certain health care professionals; Act LXXIX of 2012 amending certain health care related acts; Act CLXXV of 2011 on the right of association, on public interest and the operation and funding of non-governmental organisations (Non-governmental Act); Act CLXXXI of 2011 on the court registration of non-governmental organisations and related procedural rules.

*On-line sources:* [munka.hu](http://munka.hu)

### *15. Measures related to migration and mobility*

From December 2011 the basic pay of workers employed holding the EU Blue Card must be higher than the minimum wage. The lowest pay must be no less than 150% of the previous year's average pay in the particular sector where the third-country national is employed. Only a few professions were exempt from this rule where the rate was set at 120%. The result of this rule might be the filtering of foreign workers – it is only worthwhile employing foreigners with significantly above average performance due to the higher cost. Thus, indirectly, it also means that Blue Card holders are not competing for jobs with low-skilled workers. However, this only applies to lawful employment. If foreign labour is significantly cheaper than locals, then this measure might increase the likelihood of illegal employment.<sup>15</sup>

#### *Main legislation*

Ministry of Interior decree 26/2012 (16 May) on the amendment of certain migration-related ministerial decrees; Government decree 81/2012 (18 April) on the amendment of migration-related government decrees and government decrees implementing Act XXVII of 2012.

### *16. The institutions of management, financing and evaluation of employment policy*

The transformation of the institutional system of employment policy continued at a slower rate in 2012 with changes in the tasks and agencies of the National Labour Office already discussed above, as well as the expansion of the scope of government measures in relation to employment policy.

During this period the Government approved Priority 1 and 2 of SROP that finance the majority of employment policy measures. In addition to a number of other projects, it approved the funding and classification as a “priority project” of SROP's largest project, project 1.1.2. As a result of the 2012 state budget and a series of amendments of SROP, the share of passive measures was reduced within the budget of employment initiatives while more funding was allocated to public works, training and certain complex programmes (this is discussed in more detail in the section at the end of the chapter).

There were various events related to active ageing and inter-generational solidarity in 2012. The National Strategy for Social Inclusion (Nemzeti Társadal-

*Minimum wage for EU Blue Card holders*

<sup>15</sup>The practical relevance of this measure is very limited because the Blue Card is not very popular. “In the first half of 2012 no EU Blue Cards were issued. On 30 June, 2012 there was only one valid EU Blue Card in the register that was issued in Hajdú-Bihar county.” (NFSZ, 2012.)

mi Felzárkóztatási Stratégia) was adopted in 2012; although this is not directly an employment policy issue, it is related to employment policy due to the large number of disadvantaged people.

In terms of public policy making there were some important conceptual changes that might have an impact on employment policies as well. One of these is the establishment of the National Office for Economic Planning. Although the activities of the Office are not directly related to employment policy, they include “providing support for human resources policy development”. There was no information about the work of the Office prior to the submission of this manuscript.

The new National Reform Programme adopted in the framework of the Europe 2020 growth strategy in the spring of 2012 is the latest employment policy document of the Government. The document – largely based on Széll Kálmán Plan 2.0 – confirms earlier employment targets (75% for 20–64 year olds), highlighting the objectives also presented here, such as increasing activation, the expansion of employment in public works, increasing the flexibility of employment, strengthening the dual system of vocational education and training. Unlike previous programmes, this one has not been approved by a Government decision. Reviewing the implementation of the previous Reform Programme the European Commission proposed strengthening the capacities of the National Employment Service, the development of pathways out of public works employment and increasing the share of personalised programmes.

*The Big book of reforms – the Hungarian way to growth and employment leading to sustainable development* was published giving an overview of the main changes since the Government’s entry into office. Employment policy is discussed in Chapter 5.

The Government joined the international initiative Open Government Partnership and as a result, the public can learn more about the details of governmental decision making. Parliament adopted the act on the re-use of public data, informational self-determination and freedom of information. These provisions – in theory – will facilitate access to data for governmental impact assessment and analysis and also secondary analysis of the data by third parties. Although further details are not known, this is also facilitated by the progressive set of provisions put forward by the government decree on strategic governance. Although, unfortunately, this exempts a number of areas (such as budget, spending of EU funding) from the requirement of in-depth impact assessment, in general it puts forward clear and progressive principles.

#### *Main legislation*

Government decree 248/2011 establishing the National Office for Economic Planning; Government decision 1408/2011 on measures related to the establishment of the National Office for Economic Planning; Government decree 38/2012. (12 March) on strategic governance; Government decision 1089/2012

(2 April) on the Hungarian programme for the European year of active ageing and inter-generational solidarity; Government decree 1430/2011 on the National Social Inclusion Strategy and governmental action plan for the implementation of the Strategy in 2012–2014; Government decree 169/2011 (24 August) on the Employment and Public Works Database; Act XXV of 2012 on informational self-determination and amending Act CXII of 2011 on freedom of information; Act LXIII of 2012 on re-using public data; Government decision 1171/2012 on tasks related to re-using public data; Government decision 1227/2012 (6 July) on Hungary’s participation in the international initiative Open Government Partnership; Government decision 1246/2011 (8 July) approving funding for SROP 1.1.2 priority project “Improving the employability of disadvantaged populations (De-centralised programmes in convergence regions)”; Government decision 1235/2012 (12 July) setting Priorities 1 and 2 of the 2011–2013 Action Plan of the Social Renewal Operational Programme. *On-line sources:* [kormany.hu](http://kormany.hu)

## Centres of gravity in the financing of employment policy in 2011–2012\*

ZSOMBOR CSERES-GERGELY

The above has discussed policy changes in Hungary without analysing the impact of individual measures on the development of employment policy. No matter how effective a policy instrument is in theory, it will only be effective in practice if it receives adequate emphasis in the policy. This is influenced by a number of factors in implementation: the actual political and economic environment, the operation of the organisations concerned and the level of funding [these issues are addressed in detail by *Fazekas and Scharle* (2012) and *ÁSZ* (2012)]. This section aims to explore – to the extent it is possible with the use of publicly available data – how the allocation of financial resources reflects the emphasis on different policy objectives. Only labour market measures discussed in sections 1–9 will be addressed here and the non-labour market measures presented under sections 10–16 will not be included in the analysis,

even though these might have a larger impact on behaviour than employment policy, and their costs might also be comparable (a general tax cut would be an example of both). This decision is based on methodological considerations: there might be different ways of assigning spending to employment policy and the method might depend heavily on the objectives of the analysis.

### *The difficulty of identifying sources of finance*

Currently, labour market policies can be financed exclusively or jointly from national or European Union development funds. This duality has implications for planning, monitoring and reporting as well. There are interventions that are implemented on their own (for example the Start contribution relief schemes) while other interventions are implemented as part of a complex programme (for example wage subsidies for disadvantaged people). One intervention might have one or more “measures” that are identical in terms of content but might differ in terms of implementation. This also means that one type of intervention might be found at various places.

\* I would like to thank *Irén Busch, Judit Nagy, Balázs Rombányi and Sándor Ádám* for their comments on the draft chapter. Any remaining errors or inaccuracies are my sole responsibility.



Considering that the basic unit of policy is not individual measures – which might be numerous – but types of measures, costs should also be considered at this level. To this the reporting of individual measures and types of financing should be harmonised, first of all – in order to improve clarity of data – to ensure that they refer to the same time period and consider to what extent operating costs of organisations can be included in the cost of projects. Basically, the task proposed by *Marczell and Romhányi* (2010) for the goal-oriented reform of the state budget should be carried out for employment policy. However, it is only possible to cover all relevant areas if all sources of finance are taken into account and all types of intervention are identified within projects. Although programme evaluations are different in terms of their final objectives – that is the opposite of what we are trying to do here – there are some similar steps involved, for example disaggregating programmes into smaller, comparable units. These elements can then be combined into more homogenous units. As will be shown, this is not possible on the basis of currently available public data. Therefore, the main question is what conclusions can be drawn on the basis of available data using the second best method.

One of the main sources of funding for employment policy is the central budget of Hungary. The budget appropriations are set out in the Budget Act\*\* and the actual expenditures are presented by the Budgetary Discharge Act. For the real time analysis of employment policy only the appropriations can be used, however some caution is necessary because planned and actual spending might be significantly different (as in 2010). Both acts discuss the budget in the same detail, and they are the most detailed publicly available documents.

The objectives and strategy of employment policy are described in various documents as illustrated by Figure 1 of *ÁSZ* (2012). The budget is not structured according to policies but according to institutions and its relevant sections can complement the Gov-

ernment's economic policy documents that often lack information on spending. Interventions can appear in the document on their own or combined with other interventions, assigned to institutions or separately. Although its structure would allow it however the authors of the budget do not seem to be interested in improving the transparency of policies. Information about the planned and actual expenditure of interventions in the general ledger accounts is not available to the public. Generally, the budget combines all interventions in a single unit, the National Employment Fund (in Hungarian: Nemzeti Foglalkoztatási Alap, NFA, previously the Labour Market Fund, LMF in Hungarian: Munkaerő-piaci Alap, MpA), which is ring-fenced and managed separately, although there have been some changes here. For example the operating costs of the National Employment Service (NES) were previously part of the LMF, but this is no longer the case. This is due to the activities of the NES and some management considerations. On the one hand the tasks of the NES changed considerably as a result of the merger of occupational health and safety as well as the creation of the new network of rehabilitation authorities. On the other hand putting government offices in the centre makes it increasingly difficult to identify the actual operating cost of the network even in the absence of any major changes in work organisation.

#### *The budget for employment in 2011 and 2012*

The budget of NFA is presented in Chapter LXIII of the budget act. *Table A1* presents actual spending for 2011 from the Budgetary Discharge Bill and appropriations for 2012 from the Budget Act, where necessary adjusted for minor changes during the year.

Some well-known policy instruments can be easily identified in the table: wage subsidy type employment incentives (contribution discounts and the normative subsidies of SROP 1.2), direct job creation by public works programmes (Start work), some of the training subsidies (vocational training and adult learning subsidies), and cash benefits to job seekers as part of LMP subsidies (job seekers' benefits). Further items are however mixed – in the case

\*\* The term "2012 budget" refers to Act CLXXXVIII of 2011 on Hungary's budget for 2012.

of employment and training subsidies even their name suggest the duality of objectives. According

to this table the budget for the employment policy was around 300 billion forints in both years.

**Table A1: NFA (previously MpA) spending in the budget, harmonised data**

	Amount (billion forints)		Share (percentage)		Increase
	2011	2012	2011	2012	2012/2011
Active measures	30.923	31.600	10.9	10.3	2.2
Employment and training subsidies	25.775	25.600	9.1	8.3	-0.7
Reimbursement of contribution discount	5.148	6.000	1.8	2.0	16.6
Vocational training and adult learning subsidies	27.921	23.483	9.8	7.6	-15.9
Expenditure on passive measures	125.765	58.700	44.3	19.1	-53.3
Job seekers' assistance	124.543	57.000	43.9	18.5	-54.2
Transfer to Pension Insurance Fund	1.222	1.700	0.4	0.6	39.2
Wage guarantee payments	5.363	6.000	1.9	2.0	11.9
Operating costs	0.087	0.300	0.0	0.1	246.0
Start Employment Programme (2011: public works)	59.800	132.183	21.1	43.0	121.0
Retention balance and risk management allocation	0.000	2.000	0.0	0.7	
EU pre- and co-financing	33.500	53.367	11.8	17.3	59.3
SROP 1.1 Employment services and assistance	19.754	37.900	7.0	12.3	91.9
SROP 1.2 Normative employment incentives	9.775	8.500	3.4	2.8	-13.0
EU co-financing for employability and adaptability	3.971	6.967	1.4	2.3	75.5
Other	0.304	0.0	0.1	0.0	
<b>Total</b>	<b>283.662</b>	<b>307.632</b>	<b>100.0</b>	<b>100.0</b>	<b>8.5</b>

Note: 2011 data are final numbers from the budgetary discharge while 2012 indicated planned expenditure at current value. In 2011 the Fund was called the *Labour Market Fund*, in 2012 the *National Employment Fund*. At the end of January, 2013 one euro was equivalent to approximately 290 Hungarian forints.

Source: Bill on the "Implementation of Act CLXIX of 2010 on the 2011 budget of the Republic of Hungary" (budgetary discharge, Annex 1) Act CLXXXVIII of 2011, *Hungarian Official Gazette*, Year 2011, number 161, p. 39 337.

Nevertheless the NFA does not include the total budget of the employment policy; however based on the institutional structure of the employment policy other sources can be identified in other parts of the state budget. As has already been mentioned, since 1 January 2011 operating costs have no longer been included in the NFA, such as the operating costs of the National Employment Service. The appropriation for its central coordination unit, the National Labour Office, can be found under Heading 4, Chapter 15 of the Ministry for National Economy (p 39,313) – the structure is less relevant here, however the budget of 4.7 billion forints is and should be added to the above sum. The implementing bodies

of the NES are made up of local job centres that now operate as part of government offices and thus they are not listed separately in the budget. They are part of the 107-billion-forint appropriation under Heading 8 (Chapter 10) of the Ministry of Public Administration and Justice but their share is not known and would be difficult to calculate. The budget of the former Employment Service, minus the NLO, that amounted to approximately 20 billion forints might help to estimate their current budget. Similarly the operating cost of the State Secretariat for Employment Policy could be included here (if it were known, but it is not because it is not listed separately in the 6.8 billion forints appropriation under Head-

ing 1, Chapter 15), or the State Secretariat of Public Works in the Ministry of Interior (again cannot be identified within the total budget of 3.8 billion forints of the Ministry), or the approximately 0.4 billion budget of the National Employment Public Non-profit Ltd. Of course the list could continue and include for example the operating grant (0.5 billion forints) to the Hungarian Chamber of Commerce and Industry that plays an important role in vocational education and training, or the 4.5-billion-forint budget of the István Türr Training and Research Institute that takes part in the training and education of public workers, or more importantly the National Office for Rehabilitation and Social Affairs and related rehabilitation authorities with their budget of more than 4 billion forints. Although this is not an exhaustive list – due to the uncertain status of some institutions, it cannot be exhaustive – it identifies the most important missing items. If these are all included then the nationally financed employment policy budget was approximately 340 billion forints in 2012.

The share of employment policy within the state budget increased only slightly by 2012 but its structure changed significantly. In 2011 a large part – just over 40% – of the budget was made up of passive benefits. In second place was public works with approximately 20% of the budget and lastly the share of other active assistance, vocational training and EU-funded complex programmes was around 10%. This changed in 2012. In addition to a moderate increase in the share of complex programmes and a similar decline in the direct financing of vocational training, the planned share of passive benefits and public works switched places. Nevertheless it would be premature to make any final conclusions about changes in the weight of vocational training: as will be shown, the sum available for similar purposes in SROP 2.1.3 increased to a similar extent, and this might not be a coincidence.

Although *Table A1* and its discussion include the EU-funded programmes of the NFA, it does not list all of these sources. The spending of EU funds is based on operational programmes such as the Social Renewal Operational Programme (SROP). Opera-

tional programmes are broken down into priorities and each priority includes measures and projects. There are a number of projects in the operational programmes that have primary or secondary objectives related to employment policy. This is especially the case for SROP – Priority 1 and 2 include projects that are clearly and directly based on employment policy instruments. Projects under Priority 5 combine social policy and employment policy objectives. In principle, there might be employment policy elements in the Social Infrastructure Operational Programmes (SIOP) as well, that is closely related to SROP.

It is related to the administration of projects, however it is of key importance here, that two groups can be distinguished based on funding. In some projects (they are the majority) funding closely follows the availability of money, and there are projects that are pre-financed by the NFA (Mpa) before the availability of EU funding, therefore the money appears in its budget. Although these projects in Priority 1 are large in terms of their budget, nevertheless they do not cover most of the policy budget. When considering these, we need to take into account the fact that due to the system of pre-financing and the reimbursement of money later, appropriations in a given year might be related to a completely different project phase.

Apart from SROP and SIOP, it is not possible to rely on the title of projects, there needs to be some form of content analysis to decide whether there are employment policy related projects in other operational programmes as well. Here the simplest method was used: we searched for the strings “foglal” (“empl\*”) and “munkahely” (“job”) in the text of action plans that set out the content of operational programmes at the level of projects and listed the projects where the title or the description contained either or both of these terms. Of course, this method has its weaknesses, however for a more detailed analysis all calls for proposals should be reviewed individually. This method revealed that there are projects with employment policy objectives in Priority 2 and 3 of the Economic Development Operational Programme (EDOP) and also in regional (plan-

ning regions) operational programmes. Although the latter do not identify employment policy objectives explicitly, they highlight the importance of job creation. The Environment and Energy Operational Programme (EEOP) and the Transport Operational Programme (TOP) do not contain any form of the words *job* or *employment*. Projects identified using

the above method are presented in *Table A2*. The first column displays the code of the project and the last column provides a brief description. The projects of regional operational programmes are not included in the table because the share of employment policy compared to other projects would be even more difficult to identify.

**Table A2: Labour market programmes outside the NFA (MpA) financed by the EU; maximum amount of commitment according to indicative resource allocation (billion forints)**

OP priority, interventions	April 2011				December 2011, total	August 2012				Abbreviated name/reference in the action plan
	11	12	13	total		11	12	13	total	
Priority 2, EDOP				54.0	54.0				54.0	
2.1.3				45.0	45.0	15.0	15.0	15.0	45.0	Complex technology development and employment
2.2.4				9.0	9.0	3.0	3.0	3.0	9.0	SME job creation
Priority 2, EDOP				27.0	27.0				27.0	
3.3.2				27.0	27.0	9.0	9.0	9.0	27.0	Competitiveness programme, “... wage costs of new workers”
Priority 3, SIOP				6.0	6.0				6.0	
3.2.1				6.0	6.0	6.0			6.0	“The project aims to improve the effectiveness and efficiency of active labour market policies...”
Priority 1, SROP				118.3	126.7				158.5	
1.1.1	21.7			21.7	11.7		11.7		11.7	Rehabilitation and employment of people with partial work capacity
1.1.2	60.0			60.0	86.0	86.0	20.0		106.0	Decentralised complex programme for disadvantaged people
1.1.4	5.0			5.0	5.0	5.0	2.0		7.0	1.1.2 Central Hungary region equivalent
1.2.1	8.5			8.5	7.4		14.5		14.5	Start Plus and Extra
1.3.1		7.0		7.0	3.0		3.0		3.0	NES development
1.4.1	1.5	1.5	1.5	4.5	4.5	1.5	5.0		6.5	Assistance to community-based employment projects
1.4.3	2.0	2.0		4.0	4.7		4.7		4.7	Employment pilot programmes
1.4.5	1.4	1.0	1.0	3.4	1.4		1.4		1.4	Employment pacts
1.4.6	2.0	1.2	1.0	4.2	3.0		3.0		3.0	Transitional employment in the construction industry
1.4.7							0.7		0.7	Professional development related to employment programmes
Priority 2, SROP				109.8	116.9				130.1	
2.1.2	9.0			9.0	13.0		13.0		13.0	Foreign language and IT competencies
2.1.3	2.5	3.3	2.0	7.8	21.0	7.8	13.2		21.0	Workplace training
2.1.6	19.8			19.8	20.1		20.1		20.1	“Studying again”
2.2.1	4.7			4.7	4.7		5.6		5.6	Development of the content of vocational training
2.2.4	0.9			0.9	0.9	0.9			0.9	Cross-border cooperation
2.2.5							4.5		4.5	Development of vocational training institutions
2.2.6							1.4		1.4	Training and professional development of teachers in vocational education and training

OP priority, interventions	April 2011				December 2011, total	August 2012				Abbreviated name/reference in the action plan
	11	12	13	total		11	12	13	total	
2.2.7						11.4			11.4	Developments related to the dual system of vocational training
2.3.4	20.0	20.0	20.0	60.0	18.0					Supporting hiring in SMEs
2.3.4.A						8.5			8.5	Supporting students with study agreements
2.3.4.B						1.2			1.2	Professional development of tutors
2.3.6.					6.9	6.9			6.9	Supporting business start-up among young people
2.4.3.D					15.0	15.0			15.0	Development of social economy
2.4.3.E						0.8			0.8	Development of non-government organisation in the social economy
2.4.5	2.0	2.0	2.0	6.0	8.0	10.4			10.4	Development of day care provision for young children at the workplace
2.4.8					3.8	3.9			3.9	Health and safety at work
2.5.3					3.9	3.9			3.9	Economic and social cooperation
2.6.2	1.6			1.6	1.6	1.6			1.6	Support to non-governmental service providers
Priority 5, SROP				30.8	32.6				32.6	
5.1.1	2.0			2.0	2.0				2.0	Supporting projects in multiple disadvantaged small regions
5.3.1		4.9		4.9	3.3				3.3	Enabling and development of independent living skills for people with low employability
5.3.1-B-1					1.5				1.5	Work-based training of Roma people in the social care and child welfare system
5.3.1-B-2	1.4			1.4	1.4				1.4	Work-based training of Roma people in the social care and child welfare system
5.3.2		1.1		1.1	0.1				0.1	Technical and methodological assistance to the programme "Supporting the social and labour market re-integration of homeless people who are sleeping rough"
5.3.3.	2.0			2.0	2.1				2.1	Supporting the social and labour market re-integration of homeless people who are sleeping rough
5.3.8.	19.4			19.4						
5.3.8-A					9.6				9.6	Motivational training and support services to improve the labour market prospects of the most disadvantaged
5.3.8-B					7.3				7.3	Motivational training and support services to improve the labour market prospects of the most disadvantaged
5.3.9					2.0				2.0	Study partnerships to improve employability
5.3.10					3.3				3.3	Enable/motivational training, support services to prepare the most disadvantaged to successfully take part in traditional training/employment programmes
Total without 1.1 and 1.2				250.0	253.0				269.0	
Total				346.0	363.0				408.0	

Source: April 2011 figures: 1094/2011 (13 April), changes: Government decision 1453/2011 (22 December) and Government decision 1235/2012 (12 July), and the Action Plans of the *New Széchenyi Programme* for the other SROP priorities and action plans.

In order to link *Table A2* to the budget, at least the planned schedule of spending should be available for each identified programme; however this was not the case. Although relatively detailed information is available about projects funded from EU sources and they can also be closely followed up to the publication of calls for proposals, very little is known about actual spending particularly in the disbursement phase. The Action Plans for the period 2011–2013 set out the indicative annual budget for each project – the figures for each amendment of the action plan are displayed in the middle columns of *Table A2*. However, these data do not provide any information about implementation either. On the one hand, this is natural: actual spending depends on many unforeseeable factors, including the timing of calls for proposals and the submission of projects. On the other hand, this is limited by the type of documentation that does not record the disbursement following – sometimes years after – contracting. Although actual implementation is closely monitored by the National Development Agency, the information is not published. According to experts, this information is not included in Monitoring Reports that are not public documents either. Instead, data aggregated by priority are reported. This is an additional difficulty for projects that are no longer included in the current action plans because although payment is still on-going, new contracts for implementation are not signed. Thus, there is no information about costs of individual projects even after their conclusion. Therefore there is limited knowledge about the implementation of larger units. Assuming that the available budget will be spent and items carried over are disregarded, one might argue that the total budget available for labour market policies is at least 90 billion forints per year larger than that estimated on the basis of the state budget. This is a considerable sum in itself, but compared to the budget of approximately 340 billion forints, it is very significant: nearly its quarter. Therefore the estimated sum for labour market policies is around 430 billion forints that is 40% higher than that based only on NFA sources.

Even if we cannot analyse the schedule and the current policy structure – mainly due to items carried over in the budget – the action plan gives an accurate picture of policy changes. Columns 2–5 reflect the situation in April 2011<sup>\*\*\*</sup>, then two changes show the effects of the comprehensive amendment of SROP and TIOP in the winter of 2011, and amendment of SROP Priority 1 and 2 in the summer of 2012. The contribution of other operational programmes is set at 87 billion forints. The total available budget increased by about 50 billion forints as a result of these changes which is mainly due to the nearly 20 billion forints increase two times in the budget of complex project 1.1.2, and on the other hand, to a lesser degree, the increase in funding available for Start schemes, vocational training, workplace training, including additionally some new schemes. Finally there are a fairly large number of new schemes in areas related to the social economy, day-care for children etc. The sum originally available for the modernisation of NES was significantly reduced, or rather re-allocated to SIOP Priority 3.2.1, and funding available for vocational rehabilitation in Project 1.1.1 was also reduced. The programme supporting SMEs to hire new workers (SROP 2.3.4), which was originally allocated 60 billion forints, was scrapped. Also for projects that retained all or most of the original budget, there was some re-allocation of resources, typically from 2011 to 2012 – this might have been due to unsuccessful calls for proposals or difficulties of co-financing.

### *Conclusions*

Hopefully the above has shown the type of information that would be needed for a detailed overview of the budget for labour market policies. Firstly, taking stock of labour market spending in the state budget

<sup>\*\*\*</sup> At the beginning of 2011 SROP had two general revisions in January and April as a result of government decisions 1013/2011 (9 January) and 1094/2011 (13 April). Then there were various minor amendments such as changes in priorities 3, 4 and 6. The table indicates this version.

(this is nearly happening), and details on the main budget titles. The latter would be partly doable on the basis of treasury accounts. Projects funded by the EU pose more of a problem. Here a more detailed analysis of their content would be necessary, similarly to other types of projects, and of an adequate scale so that all potential sources are considered. On the other hand, actual figures would be necessary that indicate not only the planned but the actual

cost of projects. This would be the only way to find out to what extent employment policy applied different types of measures.

Nonetheless, it is not without purpose to collate all available information because it provides an approximate picture of the role of individual measures in employment policy – changing over the years – and thus it helps to show the real significance of interventions.

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