

Flexicurity Pathways Hungary

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Flexibility and security on the domestic labour market in the years 2000-2007

Considering the data available on regulation and participation, the general characteristics of the Hungarian labour market between 2000 and 2007 did not show radical changes compared to previous tendencies. Nevertheless, as a result of slow processes, some new elements can still be observed. The most important features concerning flexibility and security are discussed in the following:

- The employment rate increased to some extent, but the 57.3% at the end of the period was still 8 percentage points lower in comparison with the EU average. The low employment rate is not primarily due to high unemployment, but to low activity. The unemployment rate at the end of the period was 7.4%, which nearly matched the 7.1% EU average. However, the number of employed in the 15-64 age group exceeded that of the economically inactive and unemployed people by only a little more than 1 million.
- The atypical forms of employment, especially the 4% ratio of part-time work lagged far behind the European Union average at the end of the period. On the other hand, the popularity of job agencies continuously increased.
- The harmonization of labour market regulations to the general directives of the European Union started before Hungary joined in 2004, and by the end of the period, it was completed in most areas.
- The welfare net of the unemployed weakened, they can count on shorter-term and less generous financial support. However, assistance in employment seeking came to the forefront. Social benefits still remained as a last resort.
- The strictness of regulations concerning the protection of indefinite term workplaces somewhat decreased, the Hungarian flexibility-indicator moved to the top fifth in the European Union. The termination of a fixed-term contract before expiry is still rather difficult, but the ratio of employees having a fixed-term contract remained below the average of the EU.
- In order to enhance employability (and not to protect the given workplace) considerable measures were introduced by the government; several programs were launched to serve this goal. In spite of these, the employment of some groups, such as those with low qualification, or over 50 years of age still meets a lot of barriers; their employment-level remained low.
- The participation of young people in higher education continued to increase in the period discussed, resulting in the higher qualification of those entering the labour market. On the other hand, no upward move in the European Union ranking was achieved in life-long learning. Hungary is still among the bottom countries.
- The high ratio of non-wage expenditures accompanying employment operated against flexibility. In 2007, the employer was obliged to pay a 29% social security contribution after the gross salary paid to the employee (the percentage changed minimally in the period and up to now), to which the other smaller-scale contributions, such as the solidarity contribution, the vocational contribution, the innovation contribution, the rehabilitation contribution, and the health contribution, which is to be paid in one sum. Although the employer could (and can) be exempted from some of these in special cases, for average companies, these mean about another 6% costs of wage expenditures.
- The inflexibility of legal employment is well indicated by the existence of the grey and black economy, the extent of which cannot exactly be estimated, but it is judged to be high

by researchers. From time to time, there have been retaliatory measures introduced; yet, its restriction was not achieved.

Compared to the situation in 2007, 2008 and 2009 show considerable changes in the respect that owing to the budget deficit and the economic crisis, amendments had to be made primarily on the security side. The unemployment rate increased (8.4% at the beginning of 2008), and those having lost their job can count on fewer kinds of support, which at the same time promote labour market inclusion better in their structure.

Flexible and secure contractual arrangements

In Hungary, the fundamental regulations in connection with labour contracts are in the Labour Code (LC). The Labour Code was modified more than 50 times, but only a few times were major changes installed. The last modification occurred on 1 January 2009, mostly in order to strengthen the flexible opportunity of employment. Apart from the Labour Code, the collective agreement, or an agreement between the two parties on company, or sector level can regulate certain issues, and for some cases, there are acts concerning contractual agreement in addition to the LC (see for example the act referring to the book of casual employment). It is not a precondition to the validity of the regulations prescribed by the collective agreement that the individual agreement is beneficial to the employee in all cases. Nevertheless, it is necessary that the two parties do agree with each other. Thus, enforcing measures that are unfavourable to the employees is only possible, if they accept that the given measure contributes to the prosperity of the company in the long run, and thereby increases their welfare as well. In some cases, lengthening the work-time scheme, and making daily but not continuous work legal could be achieved by the employer with the help of the collective agreement.

All paragraphs of the LC contain regulations in connection with the labour contract and employment. In the following, the elements affecting flexibility the most are to be discussed.

i) Issues related to establishing labour relations¹

By default, labour relation is established by a labour contract. The labour contract has to be prepared in a written format, which is the duty of the employer. In the labour contract, parties can agree in any issue. The labour contract cannot be in contradiction with any law or collective agreement, unless in the latter case, the employer and the employee or his/her representative make an agreement. In the labour contract, the parties involved have to conclude the basic salary and the working hours of the employee, the place of work, and other significant conditions of working. The employer is obliged to inform the employee on the work tasks, and the school qualification required to fill the position, unless it is prescribed by legal regulation.

Labour relation, except if agreed otherwise, has an indefinite period. A fixed-term contract can be tied for maximum five years, including extensions. The length of the fixed-term

¹ See Sections I, II and III in Part three of the LC.

contract has to be defined by date or in another appropriate way. In case an official license is needed for establishing the labour relation, the period of fixed-term contract can exceed five years.

The specification of compulsory regulations concerning the labour relation protects the employees with the accurate review of their rights and obligations. At the same time, it means a kind of security for the employers as well, because they can unambiguously demand the tasks described in the contract. Nevertheless, these regulations may make it difficult to introduce measures under new circumstances, although the LC contains some opportunities in this respect as well. It does not qualify as a contract-amendment if the employee, due to the operation of the employer and based on the command of the employer, temporarily completes tasks belonging to another position instead of, or in addition to the original sphere of work (redirection). Redirection cannot be disproportionately harmful to the employee, regarding their position, qualification, age, health condition, or other circumstances.

ii) Ending or terminating the labour relation²

The termination of the labour relation is practically related to the death of the employee, or the cessation of the employer without a legal successor. From the point of view of flexicurity, the termination of the labour contract is much more interesting. A fixed-term labour contract can be terminated only by agreement, or by extraordinary notice (in case of malpractice at work). In any other case, the wage must be paid to the employee until the expiry date of the contract, for a maximum of one year.

The indefinite term labour contract can be terminated:

- by the mutual consent of the employer and the employee;
- by normal termination;
- by extraordinary termination (in case of malpractice at work);
- with immediate effect during probation.

Thus, regarding the possibility of immediate termination, in case of short employment history the indefinite term contract is more favourable for the employer. However, in case of an indefinite term contract, and with normal termination, period of notice for at least one month, and maximum one year must be given, which cannot be avoided. In this respect, for an expected short time period, the definite term contract is indeed more favourable for the employer.

In a normal case, the 30-day period of notice is automatically lengthened by

- five days after three years,
- fifteen days after five years,
- twenty days after eight years,
- twenty-five days after ten years,
- thirty days after fifteen years,
- forty days after eighteen years,
- sixty days after twenty years

spent at the employer. For half of the period of notice, the employer has to exempt the employee from working, but the wage to be given for the period of notice has to be paid even if in the meantime the employee finds another job.

The indefinite term contract can only be terminated by the employee or the employer by notice; there are no other legal solutions. The employer is obliged to justify the notice, except

² See Section IV in Part three of the LC.

if the employee is a pensioner. The reason for the notice has to be clearly presented in the justification. In case of an argument, the validity and reasonability has to be proven by the employer. The reason can only be in connection with the abilities of the employee, his/her behaviour in the work relation, or the operation of the employer. The legal succession of the employer in itself cannot serve as a reason for the termination of an indefinite term contract. If the employer refers to the work or the behaviour of the employee when giving the notice, then the opportunity must be given in advance to defend against the objections.

A separate set of regulations deals with the so-called collective redundancies. The concept of collective redundancy, in other words, downsizing depends on the number of employees, but on average, it means a minimum of 30 employees, or in case of smaller businesses, 10% of the staff. In addition we can speak about collective redundancy if the employer intends to dismiss the above-mentioned number of employees within a month. If the employer is planning downsizing, it is obligatory to initiate consultation with the works councils, or if there is no works council, with the trade union having representatives at the company, or, if there is no trade union present, then with the council of employees' representatives. The consultation has to be continued until the decisions are made, or until there is an agreement with the representatives of the employees. In case of cessation without a legal successor, this duty must be performed by the liquidator of the employer. At least seven days prior to the consultation, the employer has to inform the employees' representatives in writing about the planned period of downsizing, its timing, the conditions of selection, and the conditions and rate of allocations differing from the severance pay defined in the legal regulation and the collective agreement due to the termination of the labour relation. In addition to this, the employer has to report about the plans of downsizing to the state employment organization. This report has to be sent at the time of informing the employees' representatives and the copy of the letter is to be given to the employees' representatives as well.

As it can be seen, in spite of the obligations to reason and report about notice, in case of a shorter time labour relation, the unexpected termination of an indefinite term contract is met fewer barriers, than that of the fixed-term contract. In case of a labour relation not longer than three years, and in the absence of a separate agreement, the amount of redundancy money is not too large either. In case a business needs to give notice to its employees owing to economic difficulties, it is the indefinite term contract which causes fewer expenses. The Hungarian indicator of the difficulty of firing shows relatively easy conditions in comparison with other EU members (but not easier than in the U.K. or Denmark).

iii) Employment opportunities outside labour relations

According to the LC, employment is basically possible through labour relations. It is strictly forbidden in the regulative framework that a position be filled by a person as an entrepreneur. If the individual matters and tasks involved in an entrepreneurial contract actually mean filling a position, then a labour contract has to be concluded between the parties. This can be a fixed-term commission, or an indefinite term labour relation. This also results that after the person employed in a labour relation, the employee has to cover the different contributions, and these cannot be assigned to the contracted employee. The employers of the so-called false subcontractors and the subcontractors themselves are severely punished by the labour courts.

The legal possibility of employment out of labour relations regulated aside from the LC is provided by the so-called Book of Casual Employment (BCE), the use of which is planned to be limited or modified in the future. At present, the following regulations are in effect: The

book of casual employment³ makes the legal waging of casual work, and the simple payment of common public charges possible. It has three forms: the book of casual non-agricultural workers, agricultural workers or employees hired by private individuals. Simply, the so-called public charge ticket needs to be stamped in the book, and by this, employment is legalized. Casual employees can work at the same firm for a maximum of five consecutive days. Within a one-month period, they can work 15 days at most, whereas in a year they are allowed to work 120 days. Private individuals can hire casual employees for maximum 200 hours per year. Based on the public charge ticket, the employee is entitled for health care services and collects years of service. The range of the book of casual employment is to be restricted in the future due to misuse, and the replacement of paper-based administration by electronic format is also planned. According to the current draft bill, from 1 June 2009, casual employment would only be possible for three groups of employees. They can be employed with a BCE by private individuals for performing household duties, by public benefit organizations for replacement, or completing a defined task, and by agricultural employers for seasonal work.

iv) Working hours

Working hours and resting time are dealt with in an entire section of the LC⁴. The maximum amount of full work-time is 12 hours per day, 48 hours per week, but the parties can agree on shorter working hours as well, for example in case of health-damaging working conditions. The amount of full work-time is maximised at a daily 24 hours and a weekly 72 hours, if the task requires readiness. The maximum working hours allowed from 1 January 2009 exceeds the maximum allowed in 2008. Previously, the current maximum valid for everyone was only permitted if the work was assigned to the employer or a close relative, or required readiness. Work-time, in addition to keeping to the daily average, can be defined in a framework of maximum 3 months, and in special cases, 12 months. For workdays, in case of applying a work-time scheme, working hours can be distributed unequally as well. Nevertheless, the daily working hours cannot be shorter than four hours for full-time employment. In case of part-time work, if the parties agree, the length of working hours can be defined in a shorter period as well. A collective agreement or the consent of the parties can define a divided workday as well. In the collective agreement, regarding the length of working hours, more favourable conditions for the employee can also be agreed on. Owing to the economic crisis, the government has allowed the temporary replacement of full time with shorter working hours.

The previously rigid assignment of working hours has been replaced by a flexible determination of a work-time scheme, and the divided workday is not unlawful, either. In some cases, this may be inconvenient to the employee, but it increases the opportunities of flexible employment for the employer.

Employees are entitled to have at least eleven hours of undivided resting time between finishing their workday and starting the next one. Distinctly from this, for employees working in divided working hours are entitled to have at least eight hours of undivided resting time. The collective agreement or an agreement between the employer and the employee make it possible to agree on shorter resting time. However, on no condition can this resting time be shortened for women expecting a baby, or for parents looking after their small child.

³ See the effective version of Act LCCIV of 1997 (1 March, 2008).

⁴ See section VI in Part tree of the LC.

The employee is entitled to have two days of rest in a week, one of which has to be a Sunday. In case of applying a work-time scheme, in accordance with the work-time schedule, instead of weekend resting days, a weekly minimum of 48 hours of uninterrupted resting time can be ensured. In this case, Sunday must be included at least once a month. Employees are entitled to have regular holidays in every year. The amount of the basic holiday is 20 days, which is increased with age, and at age 45, it is increased to 30 working days. One quarter of the holidays must be issued by the employer for the time requested by the employee.

v) Distance work

Distance work is one of the most flexible forms of employment. Distance work is mentioned in a separate section of the LC⁵, but only work done with information technological devices belongs in this category, where the results of the work are transferred by the employee to the headquarters of the employer by electronic means. The act prescribes that the modes of work and communication must be included in the contract between the employer and the employee. Practically, nothing else is mentioned, and the act does not extend to any activity which does not take place in a workshop or office ensured by the employer, but the instrument of work is not a computer. However, such kinds of work are becoming more prevalent; thus, their regulative issues are likely to emerge in the near future.

vi) Temporary agency work

An entire chapter of the LC⁶ is devoted to temporary agency work. Employing labour force provided to the employer by an agency is indeed a flexible method; the employee is under contract with the agency. However, during the period of employment, regarding the conditions of work, the hiring firm is the employer. These conditions of labour apply for labour safety, the employment of women, young employees and people with disability, the requirements of equal treatment, work organization, the handover of activities, registering working hours and resting time, benefits in kind, and direct social benefits. Nevertheless, the hiring company does not sign a contract with the employee, but with the agency, and may change the number of employees according to the contract. For the employing company, the costs of hiring labour force are not calculated as direct labour costs, but as business expenses. For those employed by the agency, this form of employment provides relatively little security: if there is no work, then they get no or minimal payment based on agreement. Despite the increase of the past years, the ratio of temporary agency workers is low; according to estimates, it does not exceed 1% of the total number of employees. Employees working at an agency and not involved in other activities (e.g. studying) usually strive for finding longer-term work at the agency itself.

⁵ See section X/A in Part three of the LC.

⁶ See section XI in Part three of the LC.

Active labour market policies (ALMPs) to strengthen transition security

One of the most important and most complex elements of flexibility is the sum total of services and assistance, which are provided for people having lost their work, or being in danger of losing it. In Hungary, the legal background for this support is served by Act IV of 1991, the so-called Employment Act (EA), which perhaps has undergone even more changes since its introduction than the Labour Code.

The different active labour market policies, the training programs, the ways of supporting the employer, and communal work also foster the security of the employment-seeker. Active labour market policies are designed to support those seeking employment by uniting the efforts of the community and the individual having difficulties, and thereby they comprise the most important element of the security side of flexicurity. In Hungary, the most important source of active labour market policies is provided by the centralized and de-centralized parts of the Labour Market Fund. Concerning the trainings, it is important to know that the 1.5% vocational contribution paid by the employers after the gross salaries may also mean revenue to the Labour Market Fund. However, from the vocational contribution, only the part not directly used for inside trainings gets into the Labour Market Fund.⁷ A smaller, but still significant income of the Labour Market Fund is the so-called rehabilitation contribution, which is paid by employers not employing the prescribed ratio of people with disability (1 per 20 employees).

In addition to the EA, other acts (e.g. on personal income tax, on company tax, on health care contribution) also provide contribution reductions, which are related to the employability of job seekers, people at a disadvantage, or people with disabilities. However, these can only be labelled as indirect active labour market policies. Nevertheless, recently several active labour market programs have been realized, mainly with the help of non-profit organizations and consortia, the sources of which were ensured by the European Social Fund. Unfortunately, the number of people directly receiving support given through the active labour market policies has gradually decreased. This tendency is illustrated in the table below:

⁷ 13/2006 Decree by the Ministry of Social Affairs and Labour (27 December). For more details on vocational contribution, see the part about adult education in this report.

Average number of participants in active labour market policies 2001-2007*

Active labour market policies	2001	2002	2003	2004	2005	2006	2007
Number of people	27 187	23 410	25 044	17 919	11 838	13 040	11 925
Labour market training	23 185	17 751	17 534	14 235	15 790	12 953	12 259
Wage contribution	26 547	21 693	20 439	18 909	18 417	16 935	17 042
Support for creating workplaces	6 943	1 708	1 270	2 717	2 742	2 588	1 441
Support for new entrepreneurs	1 616	1 269	1 250	953	1 137	799	859
Travel allowances	1 616	1 269	1 250	953	1 137	799	859
Policies for career beginners	7 049	6 827	7 686	7 908	8 086	7 884	2 950
Allowances for self-employed	5 142	5 204	4 642	3 963	3 111	2 393	1 749
Support for preserving workplaces	156	2 209	3 419	2 923	4 284	2 219	889
Takeover of contributions	3 399	3 116	3 878	3 324	3 821	1 871	317
Part-time employment	-	-	-	367	584	561	145
Distance work	-	-	-	-	-	-	205
Wage-cost allowances	-	-	-	-	-	-	221
Total	104 752	86 481	88 259	75 321	71 321	62 689	50 873
Previous year=100	101,0	82,6	102,1	85,3	85,1	87,5	81,2

* Source: Data of the Employment Office, as processed by Frey, M. (2008): A munkaerőpiac jogszabályi és intézményi környezete [The regulative and institutional environment of the labour market]. In: Fazekas, K. & Köllő, J. (Ed.) *Munkaerőpiaci Tükör, 2008 [The Hungarian Labour Market, 2008]*. Budapest: MTA. p. 153. Table 9.

The number of the so-called affected people (that is the number of beneficiaries who were assisted by one of the active labour market policies for at least one day) also underlines the average data of the table above: between 2000 and 2007, a 40% drop can be observed here as well. The 2008 data, which have not been processed completely yet, show further setback. The greatest decline occurred in the number of participants at labour market trainings, not only in its absolute value, but concerning its ratio among the beneficiaries as well. In 2001, the average number of participants at labour market trainings was 26% of those receiving active support, whereas in 2007, it was 23.4%, and showed a steadily decreasing tendency.

i) Labour market trainings

Citizens who are unemployed, or threatened by unemployment, and turn to the employment centres can choose from two kinds of trainings. The first kind is the so-called “recommended” group-training offered by the employment centre on certain areas, the second kind is the so-called “accepted” individual training, which is chosen by the person and supported by the

employment centre. On average, 85% of those participating in trainings supported by the employment centre enrol in recommended trainings, the majority of which were trainings offering officially accredited qualifications.

Recently, on the field of trainings, more emphasis has been given to programs partly financed by the European Social Fund: the “Step one forward” and the “New track” program, which is designed to assist those leaving public administration, and the trainings organized by the regional vocational centres, trainings covered by the vocational contribution of the companies, trainings in the framework of the Social Renewal Operational Program, and smaller, similar local initiatives.

“Step one forward” program I and II were launched to extend the professional knowledge and to improve the qualification-level of employees. Program II. would have lasted from 1 September 2007 to 31 August 2009, however, since participants were given training assistance equal to the minimal wage, the financial resource available was exhausted prematurely. This was preceded by Program I. which potentially concerned fewer citizens.

“Step one forward” program was created to offer out-of-school learning opportunities

- for adults, who had less than 6 grades of education, the completion of which and acquiring certain competences was necessary for their further vocational training;
- for those who had 6 degrees, but needed the completion of the 8-grade primary school to participate in vocational training;
- for those who completed primary school, but had no vocational qualification;
- for those having finished secondary-school, but having no vocational qualification;
- for those whose qualifications were outdated and inefficient on the labour market;
- and for those who had vocational qualifications, but wanted to qualify for professions in shortage. As opposed to expectations, those with the lowest qualifications applied for participation in a smaller ratio than it had been hoped; places were mainly occupied by people having finished secondary school.

The main objective of the “New Track” program was to moderate unfavourable structural changes concerning the public sphere. The program makes it possible for former public service employees to obtain marketable knowledge, and offers help in career changing for public servants even before they are made redundant. The countrywide program starting in 2006 and lasting until August 2009 opened free learning opportunities for 5500 public servants.

ii) Wage contribution of employment

By the wage contribution of the permanently unemployed, the Labour Market Fund takes over some of the extra costs of their employment and training. Since 1 January 2007, a new system is in force, which united some previous forms of support. The support for extending employment, which took over a part of the contribution after older employees and those having been imprisoned earlier ceased to be an independent system. Support of part-timing did not continue to operate in its original form, and neither did the wage and contribution takeover serving the extension of rehabilitation employment, the support of career starters in obtaining work-experience and the support of temporary agency work.

Instead of the above-mentioned forms of support, currently, the employment of people at a disadvantage is fostered according to the legal harmonization processes of the EU, by taking over a part of wages, and of contributions attached to wages. A disadvantaged job-seeker is a

person who has maximum primary qualification; who is at least 50 years old at the start of employment; who is a career-starter aged less than 25, who has disabilities; who was registered as a job-seeker for 12 months in the 16 months prior to employment; who looks after at least one child in a single-parent household; who received maternity allowance, or similar child-care support in the 12 months prior to employment; or who spent time in prison or custody in the 12 months prior to employment.

According to the system of support introduced on 1 January 2007, 50% of wages and contributions had to be assumed after a disadvantaged employee, and 60% after an employee with disability, that is why there was not enough money for granting support after the adequate number of people. As a result of this, the degree of support was changed after 1 January 2008, the previously mentioned percentages only referred to the maximum rate. In addition to this, it was also specified that in the six months prior to the application, the employer could not fire an employee working in a similar position. Furthermore, the workplace-preserving support was also incorporated in the wage-support. This latter one could be received by the employer in case of continuing to employ a disadvantaged employee.

iii) Public utility work

In public utility work, only job-seekers coming through employment centres can be employed, and only under a labour contract. The employment figure of the preceding month has to be increased with the number of public utility employees. The unemployed can get the opportunity to do public utility work for a maximum of one year, and within two years, they can only get another job of the same kind, if they are not entitled to job-seeking allowance at the given time. From this rule, job-seekers over 45, and 50 are exempted, they can have public utility work for 1.5 and 2 years. In case of the Roma minority, increasing the number of staff is not a condition. Under public utility work, completing public tasks can be supported, as well as tasks undertaken by the local government concerning the population and the settlement. After public utility employees, 70% of the cost of public utility work is covered from the Labour Market Fund and the decentralized employment fund. If a local government is so poor that they cannot even cover 30% of expenditures, the regional employment councils can recommend the 90% coverage of costs. In public utility work, older or less-qualified employees regularly participate in a high ratio.

Since August 2008, the organizations receiving the right to organize public utility work have to guarantee that 40% of the employed are recruited from those receiving social benefits. Moreover, in 2009, the “Way to Work” program was launched, which offers public utility work instead of social benefits for those who are able to work and in a state to be employed. An emphatic goal of the program and its complex measures is to contribute to the greater public utility work participation of permanently unemployed people who are able to work, which would then enable them to get regular salary and to take a step to the world of work. The “Way to Work” program is discussed in more detail in the chapter “Modern social security systems and labour supply”. Parallel to this, from 2009, the system of support for active-aged, disadvantaged people became differentiated; regular social benefit is only one form of municipal provisions.

iv) The support of unemployed to become entrepreneurs

This support can be given to job-seekers registered at the employment centre for at least three months, who solve their own employment as sole traders, or in an entrepreneurial form. The

support consists of an interest-free capital loan, or a personal allowance, equal to the minimal wage, supplied for a maximum of six months. For the capital loan, the entrepreneur must have the proper assets for backing and the financial collateral.

v) Support of employment of people with disability

Regulations fostering the employment of people with disability can be divided into two parts. The first part consists of measures fostering the regular employment of such employees, which are somewhat separate from active labour market policies. Regarding this system, it is important that from November 2006, employers can receive wage and contribution allowances after their disabled employees only as a result of an accreditation procedure. The support can extend to the entire wage and the contributions, based on the degree of disability. In some cases, the employer having disabled workers can get allowances after its healthy employees as well, if it is the duty of the healthy employee to help the disabled.

The other part of the system of regulations fostering the employment of people with disability supports the disabled who are unemployed, but are willing to work. The support is realized with the active labour market policies in operation, but the disabled and their employer are favoured at decisions. Employers can get an investment allowance as well, if by this the employment of people with disability is enhanced.

vi) Workplace-creating investments

The support for workplace creation can be claimed in two ways since 1 January 2007. Firstly, as regional support for the building, material and immaterial costs and for the personal expenditures of the new workplace created. Secondly, support can be received for the personal expenditures of the workplaces created in connection with the investment. The form of support can be an allowance not to be refunded, if the workplace is created in addition to the formerly existing ones. Furthermore, loans can also be claimed under favourable conditions. The degree of allowances is regulated; the majority of them are normatively defined in relation to the new workplaces. A separate supplementation can be received if job-seekers registered at the employment centres are employed, and a further supplementation is given to projects ensuring the employment of Roma people.

vii) Mobility support

This support aims to decrease the burdens in connection with travelling to work, and thereby to decrease labour market inequalities and the disadvantage of people living in small settlements. As support, the travelling costs, or a part of them can be refunded. The allowance can be given for a period of one year, only if the employer hires a person who has been unemployed for six months. Apart from this, the unemployed, and the job-seeking career-beginners can get support for using public transport to search for jobs.

viii) Start-cards

The series of allowances for employers within the framework of the “Start-card family” was opened on 1 October 2005 by the Start-card, which provides support for young career-beginners. The employers of young people having such a card receives 85% of the contributions to be paid after them for a year, and 75% of the contributions for the second year. The allowance is valid for a given maximum of wages. Based on experience, as opposed

to the original objectives, this concerns young people in a favourable labour market position. On the other hand, the Start-plus and the Start-extra cards introduced in 2007, and the Start-region card introduced in 2009 reaches the more disadvantaged groups of employees. Start-plus was designed to finance the contributions after those returning from maternity grant, or other forms of child support, and after the long-term unemployed, similarly as the normal Start-card after career-beginners. The Start-extra card takes over the contributions paid after people over 50 or those with only primary education. Start-region motivates employers to hire people living in disadvantaged micro-regions and receiving provisions substituting public employment, by assuming a part of the contributions to be paid after them.

Systematic lifelong learning and investments in human resources system

Within the forms of school-system education, after 2000, the ratio of full-time participants followed the previously evolving trends: young people left the education system with an increasing level of formal qualification. Therefore, the ratio of career-beginners having a secondary-school final exam, or university degree continuously increased. Until 2006, the absolute number of school-system leavers with higher qualification increased as well, and afterwards, it only started to decrease owing to the decline in the number of the age-group concerned. However, unfortunately, the ratio of people leaving the formal education system with a lower-than primary-school qualification also increased, which resulted in the reproduction of the disadvantaged groups.

Although in the recent years, even if it is debatable from several aspects, there has been an overall improvement on the field of full-time, school-system training, this cannot be declared about lifelong learning. In the average of 2000 and 2005, taking the EU-25 countries into consideration, adult-training participation in Hungary was the second lowest. Currently, the ratio of adult population participating in trainings in Hungary is 3.8%, less than half of the EU average.

This means a problem in three respects. First, the ratio of people who left the education system earlier and have no marketable qualifications is still considerably high. Secondly, even at present, an increasing number of people leave the educational system with a lower-than primary-school qualification, and for them, adult training would be the only way out. Thirdly, although the average level of educational attainment of young people has increased, there are still many people who do not have professional qualification, or cannot get appropriate employment opportunities with their qualification. For them it is worth enrolling in the in-school, or out-of-school forms of adult education immediately after leaving the school education system. In addition to these, adaptation to the constantly changing economic and technical environment and professional advancement also call for the regular learning participation of adults.

The basic intentions related to adult training are summarized in the National Lifelong Learning Strategy Paper, which was elaborated in cooperation of the Ministry of Employment and the Ministry of Education. Since then, this strategy has been completed with conceptions related to vocational training, and at present, the two fields are developed in a unified system.

Adult training and vocational training would form a coherent system, because, apart from some special cases, adult training provides not general, but professional knowledge. At present, these two Hungarian systems are facing serious reforms. The reforms incorporate elements of in-school and out-of-school vocational training. The basic conception of the

transformation of vocational and adult training is that supply must be adjusted to demand. Participants of the economic sector are more often invited to determine and map out the directions and proportions of vocational training. This involves defining in which professions there is a need for qualified workforce, and how many students or adults are to be trained in the different branches. The transformation concerns the public education system as well, within which the industrial school system is planned to be strengthened, since this is where the greatest shortage can be observed. Currently, the number of skilled workers is the smallest in construction, agriculture and especially machine industry. For example, there are hardly any skilled mechanics, locksmiths, metal machinists, and mechanical engineers with a degree.

The institution exclusively dealing with adult training is the Adult Training Accreditation Body (ATAB), the establishment of which was prescribed in the Act on Adult Education⁸. The ATAB has a crucial role in the official accreditation of adult trainings. The ATAB, as an independent professional body, has certificates on two areas in the procedure of accreditation.

- It decides over the accreditation and revocation of institutions involved in adult training activities and of adult training programs.
- It controls the adult training activities of accredited institutions, and the availability of conditions prescribed in the adult training programs.

Accredited training programs issue certificates which are officially acknowledged and listed in the training register as well.

Among participants of adult trainings, the number people who are unemployed and who are in danger of becoming unemployed is quite high. Trainings for the unemployed were discussed in the “Active labour market policies” section. Accreditation is also an important question for adult education institutions, because by this, they can organize trainings which employment centres recommend to their clients.

The financing of vocational and adult education is assisted by the vocational contribution paid by employers. The value of this is 1.5% of the gross salary, which is to be paid into the Vocational Fund (Part of Employment Fund), unless the company opts for other possibilities for utilization. Micro- and small businesses can use maximum 60%, whereas other companies can use maximum 33% for the training of their own employees. For the training of own employees from this source, companies can only commission institutions accredited by the ATAB. The vocational contribution can also be transferred to institutions listed by the National Institute of Vocational and Adult Education. This list actually contains secondary and tertiary-level institutions of the vocational training school-system, and with the above-mentioned sum, companies can contribute to ensuring the practical conditions, and to purchasing appliances and equipment. Sponsorship and the amount appropriated for training cannot redeem the payment of the complete sum of vocational contribution: 20% of the contribution has to be paid into the Vocational Fund, which is then transferred to school-system, or adult vocational education through national-level tenders.

⁸ See Act CI. of 2001.

Modern social security systems and labour supply

The two elements of Hungarian social insurance are the old-age and pensioner insurances and the minor forms of insurances related to this, (such as orphanage support), and health and maternity insurances. The former ones belong to the branch of pension insurance, whereas the latter ones to health insurance. On both areas, there have been a series of reforms in the past twenty years. These reforms were primarily triggered by the narrowing of the sources of revenue, and the increase of demand for payments, which has been further affected by the aging of the population. During the economic and social transformations, the citizens on the losing end often escaped to a service provided by the social insurance system, thereby boosting the expenditures of the two insurance-branches. In a wider interpretation, the social security system also includes unemployment insurance, which is the youngest one from the three major supportive systems; its birth is related to the 1989-90 transition.

i) Pension Insurance

The Hungarian pension system is built up from three pillars. The first pillar is the pension paid by the Central Administration of National Pension Insurance, which operates in a pay-as-you-go system. The second pillar is the branch of private pensions, the so-called mandatory individual account system, which was introduced on 1 January 1998 by Act LXXXI. of 1997, whereas the third pillar refers to the branch of voluntary pension funds introduced by Act XCVI. of 1993, and re-regulated from 1 January 1998 by Act LXXXII. of 1997, which function in the form of a voluntary individual account system. From 1 January 1998, people younger than 42 could step over to the mandatory individual account system from the state pension system, by disclaiming 25% of their pension, whereas career-beginners automatically entered the new system; this regulation is in force at present as well, but it has several modification.

Another element of old-age social insurance system which is not related to pension insurance is the elderly allowance, which was introduced in 1998. Within the framework of the elderly allowance system, the local governments provide a minimal sum to the elderly in need due to their financial situation, or complement their existing, but very low income. Nevertheless, the source of this is not social insurance, but the national, or the municipal budget (that is, not contributions, but taxes).

A pension-like provision is ensured by the so-called “Pre-retirement Savings Account”, which is not a part of social insurance, and was introduced by Act CLVI. of 2005. Those opening a pre-retirement savings account (advance-savers) are free to decide in what kind of securities, stocks, bonds, or investment notes they would like to invest the money paid into the financial institution they issued. In typical cases, the figure of the investment is increased by the self-investment support granted by the state to the owner of the account. This sum can be 30% of the invested capital, up to a certain limit.

In Hungary, for the majority of the insured, the pension insurance scheme forms a unified system. This means that the rules are completely identical for the majority of wage-earners, regardless of the form of their labour relation (those under labour contract, civil servants, public servants, self-employed, industrial, agricultural, or trade entrepreneurs, members of joint enterprises, intellectual professionals, or those under a temporary commission contract). Compared to the uniform system, certain allowances are given to the social groups below:

officers of the armed forces, the state security and policing institutions, miners, and performing artists. However, according to plans, these exemptions are also to be gradually withdrawn.

a) The first pillar

The allowances of the first pillar are provided by the State Pension Fund in a pay-as-you-go scheme. The sources of the State Pension Fund are:

- employers' health insurance contribution
- employees' health insurance contribution
- transfer from the central budget (in extraordinary cases)

The employer is only obliged to pay the contribution up to an upper limit, but for employees there is no such limit. The table below shows the valid contribution rates in 2009.

Employer (%)	Employee (%)	
	If the employee belongs to a private pension fund	If the employee does not belong to any private pension fund
24	1.5	9.5

People eligible for the pension from the first pillar are:

Citizens over age 62, who have at least the minimal period of insurance. Earlier, women could retire at age 55, and men could do so at age 60, but in 2009, after a gradual transition, the valid retirement age is 62 for everyone. In the future, the retirement age is expected to be increased to 65. In case of an appropriate length of labour relation, there exists a so-called pre-pension, which, under increasingly restrictive conditions, makes it possible to receive pension at an earlier age.

The amount of the pension from the first pillar depends on the previous indexed average wage, and the length of employment. The table below shows the percentage rates. (Which increase proportionally in the years not displayed in the table as well.)

Length of employment (years)	Percentage of the average wage
10	33
20	53
30	68
40	80

After every further year, the rate of pension-calculation increases with 2%. If the retiring citizen paid the pension insurance contribution prescribed in the law into a private pension fund, then 75% of the sum calculated above is to be transferred from the first pillar as retirement pension.

The pension paid from the first pillar is not chargeable, but in case of employment, it is involved in the tax base. In case of employment during age-exempted pension (if the person is younger than 62), if the salary exceeds the minimal wage, granting the pension is temporarily suspended.

There exists a so-called widowhood, or survivor's pension, which is received by the spouse or a close relative of the deceased. This is 60% of the pension of the deceased if the widowed person is not entitled to receive another type of pension, and 30% if the widowed person receives another type of pension. If there are more people entitled to the survivor's pension after the same person, then the sum in question is divided.

The so-called disability and accident disability pension are also financed from the first pillar. To this, those insured are entitled, who have the appropriate length of labour relation and lost their ability to work or a part of it, owing to sickness or an accident. In case the insured paid the contribution prescribed in the law into a private pension fund, they are only entitled to claim the disability pension if they initiate the transfer of the contributions accumulated into the private pension fund to the Social Pension Fund.

b) The second pillar

The payments from the second pillar are provided from the sum accumulated in the individual account. This is a contribution-based scheme, which was established as a complementation to the state pension system in 1998. Since January 2003, every career-starting employee is obliged to enter a private pension fund of their individual choice, and those having started to work earlier could decide whether they wanted to open their individual account, or not. The payment of contributions to the individual account is only mandatory to the employee. The extent of this is 8.5% of the gross salary.

The old-age pension paid from the private pension fund is equal to the annuity calculated from the payments to the individual account and the accumulated interests. The form of the annuity is selected by the insured based on the regulations of the fund. In case the period of payment to the individual account does not exceed 180 months, then it is possible to withdraw the accumulated capital in one sum. The life-annuity has no minimal or maximal limits, as opposed to pensions paid from the Social Pension Fund. The service is taxed in a special way: 50% of the maximum tax-rate in effect is to be paid after it as tax. In case of the death of the owner, the accumulated sum is inherited by the heirs of the deceased. According to the current regulations, the insured may return to the Social Pension Fund if they initiate the transfer of the accumulated sum on the individual account to the Social Pension Fund.

c) The third pillar

The third pillar of the pension system does not belong to the social insurance system in any form, although the same private pension funds are concerned, where the mandatory payments may be directed. The third pillar refers to the voluntary payments to these funds. The voluntary payments are also accumulated on a personal account, and the regulations for the service and the payment of the annuity are concurrent with the regulations relevant to the ones resulting from the mandatory contributions. Self-reliance is also encouraged by the state with that 30% of the amount paid in the account (up to maximum limit depending on the expected year of retirement) is refunded from the personal income tax, and is transferred to the personal account of the individual.

In a similar manner, the state also supports citizens paying to a pre-retirement savings account, with a tax-transfer to their individual bank account held at a financial institution. Finally, as for the relationship between self-reliance and state support, the commercial pension schemes have to be mentioned as well. In case of these insurance policies, the state

gives a direct tax refund to the payer, up to a not too high wage-limit. The tax refund is 20% of the amount of insurance. Several companies are in fact keen on motivating their employees with forms of private pension, and take out voluntary, or commercial insurance for their employees.

ii) Health insurance

The sources of health insurance are

- Employers' health insurance contribution
- Employees' health insurance contribution
- Health care contribution
- Central budget transfer.

The majority of the contributions to be paid are defined by the percentage rates prescribed based on the gross salary. The contribution rates in force are described in the table below:

Rate of health insurance contribution paid by the employer (%)		Rate of health insurance contribution paid by the employee (%)	
Benefit in kind	Cash benefit	Benefit in kind	Cash benefit
4,5	0.5	4	2

The health care contribution is HUF 1950 per month after full-time employees (which is 2.7% of the current minimal wage), and after part-time employees, payment has to be proportional to this. Self-employed are obliged to pay employers' and employees' contribution as well.

In Hungary, the health insurance institution of the social security system is the National Health Insurance Fund; the multi-player insurance system suggested by the government was rejected by a referendum. Health insurance offers various services to the insured in case of sickness, and finances health-preserving activities.

a) Partial replacement of the wage lost by the insured unable to earn

One kind of services is the partial replacement of the wage lost by the insured unable to earn, the sick-allowance. Employees can go on a sick-leave for the first 15 working days of their illness, or for a total of 15 days per year. The employer is obliged to ensure the sick-leave. In case of a longer period of inability to work, insured employees are entitled to receive sick-allowance financed from the health insurance. There are three conditions of entitlement to sick-allowance:

- Insurance relation existing at the time of, or immediately (1-3 days) prior to the illness
- The person having lost his/her earning capacity is obliged to pay cash benefit health insurance contribution
- Inability to work as certified by an M.D.

Sick-allowance is to be paid subsequently, within 30, or in special cases, 46 days after the claim was reported. The amount of sick-allowance is defined by the average salary (in the preceding calendar year), after which the insured is obliged to pay cash benefit health insurance contribution. The extent of sick-allowance is the 70% or 60% of the daily average salary, depending on the period spent under insurance. In case of a two-year employment history it is 70%, whereas with a shorter period it is 60%. In case of hospital, or other in-patient treatment, the rate is also 60%.

The period of sick-allowance payment due to illness starts when the sick-leave expires and lasts for a maximum of one year. If the insurance contract has expired, but the former employee is still entitled to receive sick-allowance, then it can be claimed for a maximum of 45 days.

b) Benefit in kind health care services

Benefit in kind health care services can only be claimed by the insured. Employees are bound to be insured, and there is an obligation to pay contribution for those having non-labour relations (young mothers, participants of full-time in-school education, recipients of employment-seeking allowance, after whom the state pays the contribution, or, owners of the Book of Casual Employment, based on the public charge ticket, etc.), however, they are only entitled to benefit in kind allowances from the provisions of health insurance.

The so-called health-care service contribution is a duty of those who are not labelled as insured, and are not entitled to health care service on other grounds either. The health care service contribution is currently HUF 4500 per month (which is 6.3% percent of the present minimal wage). With the health-care service contribution the person makes himself entitled to the benefit in kind services.

Those who are entitled to benefit in kind social security provisions can take the following forms of services with state assistance, or free of charge:

- Preventive provisions
- Medical treatment in case of sickness (family doctor/patient care/in-patient care)
- Patient transportation, ambulance care
- Travel allowance
- Medicine provisions
- Provision of medical instruments
- Public Health Benefit
- Rehabilitation provisions / medical provisions (medical bath) / nursing home care
- Home care, home hospice care
- Dental treatment
- Accident provisions (Accident health care, accident sick-allowance)
- Licensed foreign health care treatment

Among elements of the list above, there are some, which are accompanied by relatively little assistance or, for some kinds of these, there is no assistance at all (e.g. some medical instruments, medicines, dental treatment). On the other hand, for a basic treatment, usually a 100% cover is provided. It has to be mentioned that for a short period, the so-called visit-fee was in effect, which meant a HUF 300 contribution from patients, but this was abolished by the referendum.

c) Provisions related to maternity

Provisions related to maternity are financed from the National Health Insurance Fund. In case of childbirth, mothers meeting the prerequisites for entitlement are to receive pregnancy and confinement benefit. The pregnancy and confinement benefit is tied to a legal insurance relation. The allowance is to be given for the 168-day period of maternity leave, and the amount of it is 70% of the daily average salary of the claimant. Pregnancy and confinement benefit is to be received by those who were insured for 180 days in the two years prior to

childbirth, and gives birth during the term of the insurance, or within 42 days of its termination.

Within the framework of health insurance provisions the wage-loss of young parents looking after their child at home, having insurance relations and meeting the other necessary requirements can be compensated with the child care benefit (CCB). The child care benefit is not a kind of social allowance either; it is a wage-proportioned cash benefit provision, paid to those who are insured in the system of mandatory health insurance. It differs from the allowance called child care allowance (CCA), which is given by subjective right. Those who are under labour contract, have to request unpaid holiday from their employer for the period of the child care benefit. For entitlement, it is necessary that the claimant parent was in labour relation for 180 days in the two years prior to childbirth. The amount of CCB is equal to the sum the claimant would receive as sick-allowance, but maximum 70% of the doubled minimal wage.

The child nursing benefit (CNB) is a kind of cash benefit paid to the insured parent similar to the sick-allowance provided in case of their own illness; however, in this case, losing earning capacity is not due to the illness of the insured, the reason for the inability to work is the illness of their child. For parents who are obliged to pay cash health insurance contribution, and unable to work due to the illness of a child, during the term of insurance, or within 3 days after its termination, a child nursing benefit is to be paid. The CNB can be claimed for an unlimited period until age 1 of the child, for 83 calendar days between ages 1-3, and even between ages 6-12, there are 12 days offered.

iii) Unemployment insurance

The youngest branch of social insurance is the unemployment insurance.

The foundation of the current institutional structure of labour market policy was established by the previously mentioned EA. This act placed the provision of the unemployed on an insurance basis. The support of the unemployed consists of active and passive labour market policies. ALMP-s were introduced in more detail in the chapter “Active labour market policies (ALMPs) to strengthen transition security”.

To deal with unemployment, the government transferred less than 1% of the GDP on average in recent years. This ratio is roughly half of the corresponding rates in EU states. In the recent years, within the labour market budget, the ratio rendered to passive policies is 60% on average, and only 40% is spent on active policies. In the future, it is intended to combine or replace the passive labour market policies with active ones.

After the enforcement of the EA, labour market expenditures were financed from two funds: the Unemployment Solidarity Fund and the Employment Fund. The two funds were not financially related for a long time; money could not be transferred from one to the other. In 1996, the two funds were merged with the Vocational Education Fund, the Rehabilitation Fund, and the Wage Guarantee Fund, and this is how the Labour Market Fund (LMF) was born. Nevertheless, the basic parts of the LMF are still relatively separated. Revenues serving for the direct treatment of unemployment are taken from the following sources:

- Employees' contribution
- Employers' contribution
- Entrepreneurs' contribution

The table below contains the percentages of contribution rates, which, similarly to other contributions, have to be paid after the gross salary.

Employees' contribution (%)	Employers' contribution (%)	Entrepreneurs' contribution (%)
1,5	3	See the note below the table
		4

From 1 January 2005, entrepreneurs are also entitled to wage-complementary provision, the so-called entrepreneur benefit, in exchange to paying the entrepreneurs' contribution. Full-time sole traders and members of joint ventures are obliged to pay the entrepreneurs' contribution after the wages serving as a basis for health insurance. The rate of the contribution is 4%.

The passive support of the unemployed means the provision of allowances, which serve as at least a partial replacement of the lost labour wage. As for the tendency of such kind of unemployment support, the generosity that was typical at the beginning of the 1990s has decreased gradually. The so-called employment-seeking allowance⁹ (which has replaced the former unemployment benefit) indicates in its name as well that the government objective of unemployment allowance is the return to the world of labour rather than social support. The maximum length of the employment-seeking allowance is 270 days; in an optimal case, the unemployed get 60% of their previous salary (with a fixed maximum sum) for the first 91 days and for the remaining period, they get 60% of the current minimal wage. The upper and lower limit of the employment seeking allowance is in accordance with the minimal wage. The lower limit of the contribution is equal to 60% of the minimal wage, whereas the upper limit is 120% of the minimal wage. If the previous average wage of the job-seeker was less than the lower limit of the employment-seeking allowance, the amount of the allowance is equal to the former average wage. For every 5 days spent in labour relation, 1 day of contribution is to be given, however; the period of payment cannot exceed the above-mentioned 270 days, even in case of a longer preceding labour relation. In case the labour contract ends with the normal termination of the employee, or the extraordinary termination of the employer, the employment-seeking allowance is to be paid 90 days after the termination of the labour contract. Otherwise, the allowance is granted after the job-seeker reports to the employment centre.

In order to support employment seeking and to avoid misuse related to employment-seeking allowance, the unemployed who manage to sign at least a four-hour indefinite labour contract will also be entitled to receive a considerable part of the remaining employment-seeking allowance. However, by this, the opportunity of a later granting of allowances expires until the necessary period of labour relation is collected again.

Those who are not entitled to get the employment-seeking allowance can count on social support financed by taxes. However, in the recent years, receiving the support has become more and more related to active employment seeking. The long-term goal is that instead of passive policies, and allowances under different names, those excluded from the world of labour should be assisted with active labour market services.

The government strives to achieve this goal with the introduction of the "Way to Work program". The objective of the program is to improve the labour market position of the

⁹ Employment-seeking allowance is discussed in Section V of the EA.

supported and to foster employment, which is to be realized in co-operation with the social and employment services. During the transformation of unemployment support, social solidarity and individual responsibility are to be emphasized: the minimal provision is ensured to the needy, but who are able to work have to contribute to more equitable burden sharing.

Those who are not able to work owing to mental or physical conditions, an approximately 100 thousand people, are still entitled to aids, however, a considerable ratio of those receiving aids are to be included in public utility work. With the re-grouping of resources, a significant proportion of the money which was transferred to aids is now spent on financing employment. Within the framework of the program, an at least 6-hour employment is ensured to approximately 65 thousand people. According to plans for the future, only people over age 55, single parents looking after at least three children, and those who are unable to work due to their health and mental condition will be entitled to receive the aid. Local governments have the right to decide who should be included in this circle. Some of the supported are to participate in employment, training, or labour market programs. Those below age 35, who have no vocational qualification or have not finished primary school, have to participate in training and education. The local governments are going to employ three thousand people for the organization of public utility work programs, and in the family centres, 300 career-beginners with a degree in social studies are going to organize the public utility work programs.

At present, the program is still in the phase of framing. Until 31 March 2009:

- The registrar of the local government has to investigate the entitlement of the recipients of active-age regular social aids.
- Parallel to this, the local government, or its partner has to prepare the plan of public utility work.
- The plan of public utility work has to be accepted by the board of representatives until 15 April, after evaluation by the employment centre and the social platform.

And, from the year 2010:

- The local government has to prepare the plan of public utility work until 31 January every year.

The plan is to be finalized by the board of local representatives and the executive body of the partner organization until 15 February.

In this year the government has separated HUF 100 billion for the training and employment of the recipients of social aids. Approximately 80-100 thousand people can be included in employment. However, during the introductory phase of the “Way to work program” starting on 1 April, several problems have emerged. Among these, the most serious one seems to be that the wages and burdens of the first month of public utility work are to be covered by the local government. Yet, the poorer local governments are not able to do this, even if they only have a 20% share of payment after the aided and 5% after the employed. On the other hand, the most obvious advantage of the program is that it unites the efforts of the state bodies which had been separately dealing with the problems of the unemployed, and strives to solve the provision of unemployed not only with granting aids, but with creating opportunities for obtaining work.

Supportive and productive social dialogue

The basic means of social dialogue is the reconciliation of interests between employers' and employees' organizations and the government.¹⁰ On national-level issues concerning labour relations and employment, the government negotiates with the national representative bodies of employers and employees in the National Interest Reconciliation Council (OÉT). This forum decides on the question of minimal wage as well. The decisions made are announced in the form of legislative provisions by the minister of economics.

A trade union is an organization established by employees, which was primarily founded in order to protect employees' interests in connection with labour conditions, and to foster the articulation of such interests. This way, a trade union can be such formation, as a workers' council, or a league as well. Only private individuals can be members of the trade union. In order to found a trade union, at least 10 founding members are required, who define the constitution, and elect the operative and representative bodies. Trade unions are entitled to inform employees on their labour, financial, social and cultural rights and obligations, regardless of membership. In these matters, the trade union can ask for reports from the employer. Trade unions can raise objections against employers' unlawful measures concerning employees, or their representative organizations. Trade unions can represent members in connection with labour matters in front of companies, or state organizations as well.

The trade union or trade unions if there are more than one at a firm, are entitled¹¹ to sign a collective agreement with the company. At an employer, only one collective agreement can be signed.

A collective agreement is signed on the one hand by the employer, or the representative organisation of employers, or several employers, and on the other hand, by the trade union, or several trade unions. The collective agreement can regulate the rights and obligations derived from the labour relation, the mode of their practice and fulfilment, the order of relevant proceedings, and the system of relations between the contracting parties. A collective agreement is only possible at an employer where a trade union functions, but it is not compulsory there, either. The collective agreement can further regulate the points described in the LC, but only in a manner that by this, employees do not get into a disadvantageous position, or if in consideration with passages of the LC on concrete issues, the employees accept the conditions requested by the employers. The collective agreement can be extended to the level of an entire sector, in case the parties concerned accept this. The collective agreement is applied to all employees of the company (in case of a sectoral one, employees of the entire sector), regardless of their trade-union membership.

At every company where the number of employees exceeds 50, a works council is to be elected, and between 15 and 50 employees a shop-steward is to be appointed. The works council has a right of consultation in several issues: planning the employer's measures concerning a large group of employees (realignment, downsizing, privatisation, modernization), defining the circle of personal data that can be registered, setting yearly plans

¹⁰ The reconciliation of interests is dealt with in Section 1 of Part two of the LC, trade unions are discussed in Section 2, the collective agreement is dealt with in Section 3, and works councils and the equal opportunity plan are elaborated on in Section 4.

¹¹ To obtain the entitlement, candidates of the works council(s) or the trade union(s) must get at least 51% of votes.

for holidays, and drafting inside bylaws. In the utilisation of the welfare money defined in the collective agreement, the council has a right of co-decision. In case the employer does not consult with the works council, the decision reached is ineffectual, and the works council can take legal action. In addition to this, the employer is obliged to report to the council, on its financial situation, wages, the use of work-time, on more significant investments, and the modification of the scope activities in every half year. In case of a strike, the works council is obliged to be impartial.

In Hungary, similarly to the other ex-socialist new EU member states, the participation in trade unions is low. Based on the data of the Hungarian Tax and Financial Control Administration, between 2002 and 2005, the participation rate in trade unions has decreased from 19.7% to 16.9%, as opposed to the nearly 100% figure prior to the 1989-1990 transition. In addition, the ratio of companies where a trade union operates is approximately 25%. The trade union leaders themselves, similarly to trade union representatives in other countries, make efforts to over-estimate the number of their members so as to have more power during negotiations with each other and in bargains with employers.

In Hungary, the weak bargaining power of trade unions is not only due to their low representativeness. It seems much more problematic that in the period since the 1989-1990 transition, trade unions have not been able to establish a profile compatible with a market economy.

Employees' representative organizations, as it was discussed in the previous part of the article, include works councils in addition to trade unions. The relationship between the two kinds of organizations is unique: in spite of the fact that the Hungarian traditions of both date back to the 19th century, works councils are much less known. According to research results, four out of five employees would say that "works councils are the survivors of the socialist system".

In practice, the paragraph of the LC, according to which a works council must be set up at companies employing over 50 people, and with an employee number higher than 15, a representative is to be elected, only reflects the right of employees. It is not against the law if employees waive their rights. The employer only needs to remind its employees of the opportunity of the works council. As a result of this, based on investigations, at least at half of the companies in the size-category concerned, there is no works council in operation.

All in all, in Hungary, the reconciliation of interests through the OÉT has a more emphatic role than the company forms of social dialogue. The sector-level negotiations function at a various intensity in the different sectors, primarily as a resultant of the interactions between company trade unions and national reconciliation. As a result of sector-level reconciliation, a sectoral collective agreement may be drafted. If the collective agreement is tied by an employer representative organization which is the most significant one in the given area (representative employers' organization), due to its membership figures, economic importance, and the number of employees, then it is possible to extend the scope of the contract to the entire sector. For this, it is necessary that from the part of employees, the agreement is signed by the trade union which is the most significant one regarding the influence of regulations due to its support by employees (sector-level representative trade union). In such cases, by a mutual request on the part of employees and employers, the minister can extend their agreement or some sections of it to the entire sector or sub-sector with an order published in the Social and Labour Bulletin. The amendment of the ministerial

decision can be requested by any trade union, employers' representative organization or employer operating in the sector concerned by the collective agreement at the court competent in the regional unit of the headquarters of the employer.

The National Interest Reconciliation Council, OÉT (before 2002 Reconciliation Council, CC) is a tripartite forum, the three parties being the employees, the employers, and the government. The OÉT holds negotiations and makes nationwide agreements concerning questions related to the world of work, wage-distribution, and in relation to this, frameworks of the economic policy. Public service employees have a separate forum for reconciliation; this is the National Public Service Reconciliation Council (NPSRC). The OÉT makes yearly agreements on the amount of the minimal wage for the following year, and makes recommendations for the average wage-increase in the private sector.

The main forum of the OÉT is the plenary session, but it has several decision-preparatory committees as well, and can also set up special ("ad hoc") committees for the comprehensive investigation of particular issues. From the employer side, the participants of the OÉT are the following:

- Union of Agrarian Employers
- National Federation of General Consumer Cooperatives and Business Associations Co-Op Hungary (ÁFEOSZ)
- National Association of the Industrial Corporation (IPOSZ)
- National Federation of Traders and Caterers (KISOSZ)
- Hungarian Industrial Association (OKISZ)
- National Federation of Agricultural Co-operators and Producers (MOSZ)
- Confederation of Hungarian Employers and Industrialists (MGYOSZ)
- National Association of Strategic and Public Utility Companies (STRATOSZ)
- National Association of Entrepreneurs and Employers (VOSZ)

From the employees' side, the six Hungarian trade union organizations send one representative each to the OÉT:

- Autonomous Trade Union Confederation (ASZSZ)
- Confederation of Unions of Professionals (ÉSZT)
- Democratic League of Independent Trade Unions (Liga)
- Confederation of Hungarian Trade Unions (MSZOSZ)
- National Federation of Workers' Councils (MOSZ)
- Forum for the Co-operation of Trade Unions (SZEF)

The regular representative of the government is the state secretary of the Ministry of Social Affairs and Labour, but representatives of the ministries concerned in the topics discussed are also invited to the government delegation; and especially at the negotiation of crucial issues, the prime minister also attends the plenary session of the Council.

As special forums of the OÉT, the council dealing with ILO matters, and the council dealing with sector-level social dialogue operate. The task of the special forums is to articulate professional opinions and standpoints concerning issues belonging to their scope of competence.

The special committees of the OÉT are the following:

- Wage and Collective Agreement Committee

- Economic Committee
- Equal Opportunities Committee
- Labour Market Committee
- Labour Law Committee
- Safety and Health Committee
- National Development Plan Committee
- Vocational Training Committee
- Social Committee

The tasks of the committee is to prepare the work of plenary sessions, to articulate the problems and decisions to make concerning the issues discussed, to prepare the common standpoint, and to indicate divergent opinions. The work of the OÉT is organized by the Secretariat, the tasks of which are to co-ordinate the work of the three parties, and to maintain the relations between them. It is also the responsibility of the Secretariat to prepare the work of the plenary sessions and to organize the special forums and committees of the OÉT.

The bipartite sector-level conciliation is based on the agreement between the social partners and the government about establishing sector-level dialogue committees, and about the rules how the two partners, the employees' trade union and employers' organisation make the committee work. It came into force on 1 September, 2004. Presently there are more than 30 sectoral and subsectoral committees. The bipartite organizations work in close connection with the national level tripartite Reconciliation Council. The number of sector-level dialogue committees is not enough and their bargaining role is not very strong yet. However, in some sectors they are quite strong, for example in postal service, chemical industry and machinery.

Conclusions and policy implications

The flexibility side of flexicurity is a question of primary importance regarding the recovery from the economic crisis and regarding economic growth. As a result of a longer development, at the beginning of 2009, the Hungarian regulations related to employment became more flexible than they were previously, however further steps towards flexibility could ease the employability of workers and which would contribute to overcoming the economic crisis.

According to the most recent regulations of the LC:

- Firing employees is legal, even when it is due to a reason in connection with the operation of the employer. In spite of this fact in some occasions the administrative burden of firing and the long firing procedure hinders the flexible use of new employees. Employers have concerns that they would be unable to stop employment in the case the profile of the firm changes, or they have economic difficulties.
- The redundancy pay of employees under an indefinite contract for a short period is relatively little, and in case of a longer labour relation, it is usually maximum 90 days, and can only be a maximum of 1 year in extraordinary cases.
- In special cases, the employment scheme can be defined in a yearly framework, and the three-month scheme is not extraordinary. However the normal opportunity of yearly framework could ease the flexible use of employees even more. This is the wish of several entrepreneurs working in areas of economy where supply is cyclical during a year.
- Based on the agreement of the parties, a divided workday is also possible.
- The maximum working hours allowed is a weekly 48 hours and a daily 12 hours.

With regards to flexibility, the high ratio of non-wage expenditures means a serious problem. In addition to the gross salary paid to the employee, the average employer has to pay 35% non-wage charges as well, although contributions are also deducted from the employee. After wages falling into the higher tax bracket, employees must pay nearly half of their gross salary in the form of taxes and contributions, and this rate reaches 35% in the lower bracket as well. The lower limit of the higher tax bracket is at a relatively small yearly income, the minimal wage multiplied by 2.05. To employees belonging to this bracket, employers can only ensure a HUF 100 net wage if they raise approximately three times as much. Even the HUF 100 paid to employees falling into the lower bracket demands a bit more than HUF 200 on the part of the employer. It is not surprising that the active players of the economy make efforts to evade these obligations to pay taxes and contributions. In order to prevent these evasions, new regulations and supervisory methods are constantly elaborated, by which the administrative burdens of enterprises are considerably increasing. Firms must prepare more and more reports to the tax authorities, calculate in advance the consequences of yet unknown regulations, and from time to time, fill special forms not only for tax authorities but for the regulatory institutions as well. Sometimes even the use of the elements of government employment fostering programs is not advantageous for the firm, because the workload of administration required to obtain the resources makes the program unattractive.

Taking the legal background of flexibility into consideration, it means a problem from the side of flexibility and security alike that after the 1989-90 transition, all regulations had to be enforced very quickly and without appropriate traditions. Probably this and the lack of the willingness of the different interest groups to agree led to the constant alternation of the legal framework. Both the LC and the EA were born at the beginning of the 1990s, and within less

than 20 years, both acts are over their 50th amendment. This results in uncertainty both on the part of employers and employees regarding the foreseeable future steps.

Considering the security of employment, the so far slow tendency of decreasing security could not be turned back yet, and the economic crisis has rendered the situation even more difficult. Softening the regulations of employment-protection was not always accompanied with the improvement of employability itself. Furthermore, those having lost their work, primarily due to the narrowing of financial resources, are less and less able to count on the support of the social solidarity manifested in the unemployment benefit. Although as a result of state efforts, resources could be concentrated on active labour market policies, the number of citizens taking part in these policies has also decreased in the recent years.

Considering employability from the aspect of human capital the picture is a contradictory one. Parallel to the increase in the general level of qualification, vocational education is facing serious problems. Nevertheless, the recently launched reforms are likely to help in overcoming these problems. While based on quantitative indicators, the education of the youth has made a great leap forward; adult education can be characterized by similarly pregnant difficulties as vocational education. Even so, in adult education, its inadequate training structure is not the only problem; low participation rate is a serious issue as well. As regards to participation in adult education, within the European Union, countries less developed than Hungary also show higher rates. In the training programs initiated by the government and in the recent years mostly financed by EU grants, people with higher qualification participated in a relatively higher proportion than those for whom learning would be much more important. This is why it can be considered as a reasonable objective during the reforms to approach adult and vocational training in a similar manner. With the help of this, hopefully it will be achieved to train those enrolling in vocational education to marketable professions, and on the other hand, presumably the socially excluded can also be involved in adult education.

The security of employment is strongly defined by the modern social security system. The security situation related to the Hungarian social insurance is not without inconsistencies. Although the generosity of social insurance has gradually decreased owing to the narrowing of available resources, opportunities for self-reliance have emerged. For example, the pension system has become a three-pillar one, from which two elements were shifted to the private sphere, even if accompanied by state support. The retirement age increased, and sick-leave is not financed by health insurance for the first two weeks of illness. Hungary is affected by the same problem as other countries of the European Union: the aging of the population is exhausting the common fund, from which pension allowances are financed.

Although it was not an issue discussed in the analysis, it cannot be omitted when mentioning the main factors of security that loosening payment discipline makes entrepreneurs uncertain. Owing to go-round debts, primarily small and medium-sized businesses have difficulty in estimating their revenues, and therefore, they are afraid to hire new employees. This also backlashes on the employment opportunities of employees.

Therefore, all things considered, the situation regarding flexicurity in Hungary can be characterized briefly by a relatively modern regulative background with several practical obstacles, enormous wage-burdens, and the uncertainty due to go-round debts. It seems that the greatest problem is the extraordinarily low employment rate: taking the whole country into consideration, few people have to support many of their compatriots. This can only be

realized, with high income-tax rates and heavy burdens on employees' and employers' contributions. This decreases the flexible opportunities of entrepreneurs, increases the extent of the flexible sphere that is, the grey and the black economy, while the resources of social solidarity are narrowing. However, it is very difficult to get out of this vicious circle: the fewer people work, the more social burdens they have to bear, which then leads to a further decline in employment.

Regarding the opportunities, it would be worth considering the following:

- Supportive civil social dialogue can be helpful in solving several problems, however; for this, such kinds of social self-organization among citizens should be strengthened.
- It could be considered how a decrease of wage burdens would affect community revenues and the inclination to launch an enterprise.
- Before amending any regulation, it is worth preparing an appropriate impact study, and thereby the intensity of the side effects of changes could be decreased.
- Every effort should be made to increase the level of employment, since this would have a positive effect on all existing problems.
- The reform of vocational and adult education should be continued. By this, the structure of vocational education will be able to adapt to the demands of the market; an increase in the participation rate in adult education can be expected to foster the employability of citizens.

Unfortunately, the economic crisis makes the realization of the above suggestions more difficult, and restricts opportunities for changes on several areas. On the other hand, taking the required steps might help the economy of the country to overcome the economic crisis. These steps are introduced continuously which makes any analysis outworn almost in the minute it is written. As a result any summary could contain some unreal statements if the summary is published just one week after finishing of the original report.