



# **NATIONAL ACTION PLAN FOR EMPLOYMENT**

**HUNGARY**

**2004**

September 2004



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## PREFACE

Pursuant to Article 128 (3) of the Treaty Establishing the European Community, Member States must provide the Council and the Commission on an annual report on the measures taken in the light of the Employment Policy Guidelines. This report takes the form of a National Action Plan for Employment (NAP).

Hungary, as a new Member State of the EU, presents such Action Plan for the first time in 2004. The 2004 NAP gives a description of the employment strategy of the Hungarian Government for the period between 2004 and 2006, and it presents an assessment of the situation and a summary of measures to each Guideline.

In 2001, the Hungarian Government, together with the European Commission, drew up a document entitled *Joint assessment of the medium-term priorities of the Hungarian employment and labour market policy* (JAP). This document set the objectives of the Hungarian employment policy and identified the measures needed to achieve them along the following priorities:

- increasing employment;
- reducing unemployment;
- establishing a more flexible labour market;
- developing human resources;
- strengthening the institutional and legal conditions of employment policy.

To monitor progress in the implementation of the JAP, the Government has prepared annual Progress Reports. The first Progress Report was submitted to the Commission in May 2002 and the second in April 2003.

The elaboration, implementation and follow-up of the JAP have served the preparation for full participation in the coordination of employment policies at the European level. The priorities identified in the JAP and its Progress Reports served as a basis for the policies and measures described NAP.

The NAP was prepared under the co-ordination of the Ministry of Employment and Labour and with the contribution of various ministries and other organisations. The draft NAP was consulted with several partners including, among others, the social partners and Employment and Labour Committee of the Parliament.



# I ECONOMIC AND POLICY CONTEXT

## 1 ECONOMIC SITUATION

Hungary has successfully passed the most difficult phase of economic transformation, and has now become a dynamically developing and open market economy. Catching up of the economy started in the second half of the nineties, and the growth of the GDP has exceeded the EU average for many years.

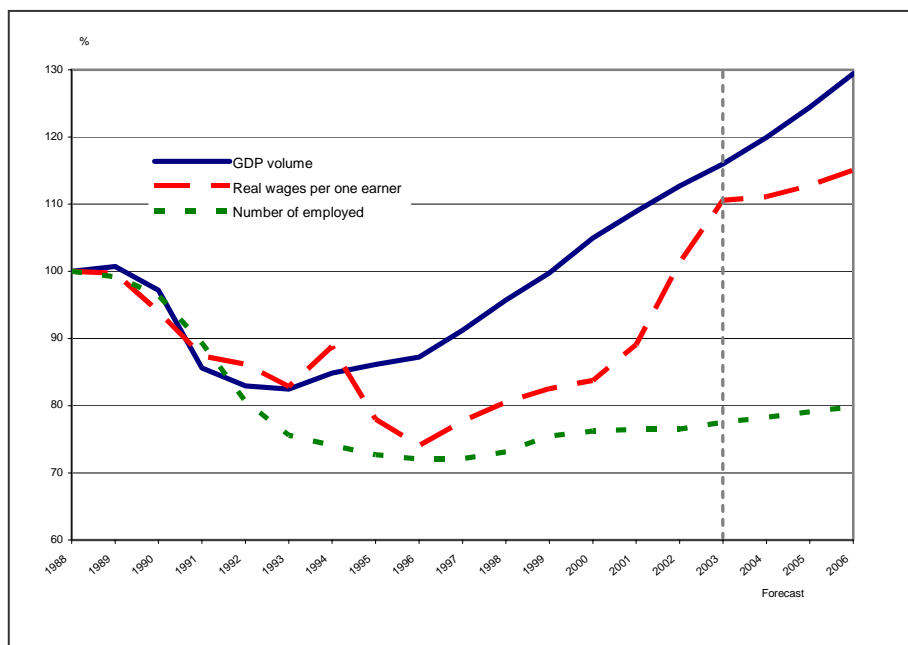
As a result of the economic shock that occurred at the turn of the nineties, the economic and labour market indicators have deteriorated substantially. Efforts to bring this tendency to a halt were successful by the middle of the decade, and in this, in addition to the favourable trends of the global economy, the economic stabilisation programme of 1995 has played a significant role. The conditions of sustainable growth had been created.

As of 2001, the global economy has been pushed into a slump again, to which the Hungarian economic policy responded by boosting internal demand (by the accelerated increasing of the wages and by powerfully encouraging real estate investments), while the growth rate of the export and the economy dropped; and as a result of all these factors, the deficit of the balance of payments grew substantially.

The unfavourable processes have continued in the year 2003, but as of the second half of the year, there were many signs which indicated that the economy was slowly returning to a balanced and sustainable growth trajectory, with a reduced dynamism in the increasing of earnings. In addition to strengthening the favourable processes, the economic and employment policies need to find appropriate responses to the second restructuring period which has commenced, make use of the new opportunities and counterbalance unfavourable impacts.

*Fig. 1 Changes in the economy, employment and real wages*

1988=100



Source: Central Statistical Office (CSO)

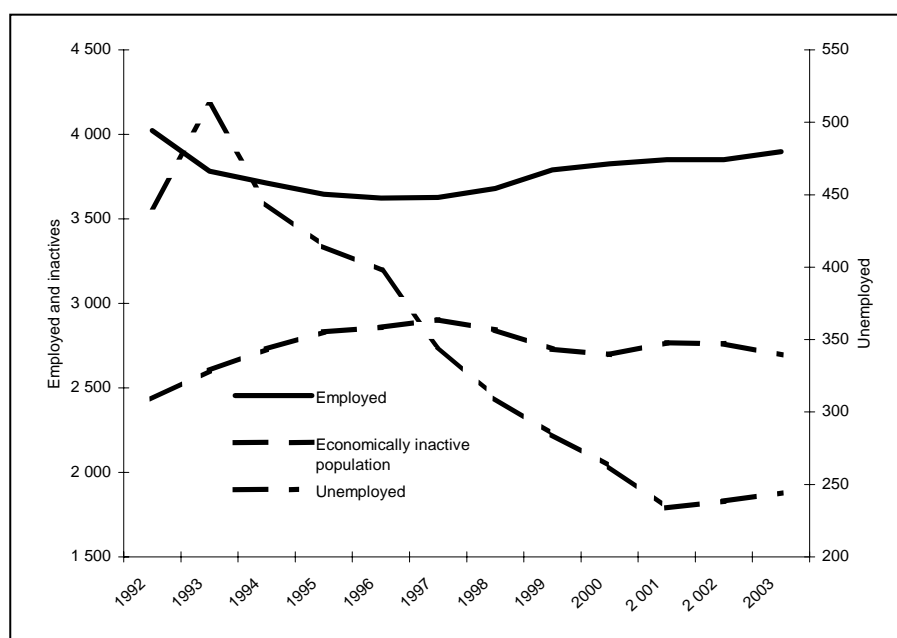
## 2 MAIN TRENDS OF THE LABOUR MARKET

### 2.1 Assessment of the current situation

In the early nineties, the Hungarian labour market was characterised by a dramatic drop in employment and economic activity, a sudden increase in unemployment, and the rearrangement of labour among the main sectors and jobs. However, social tensions were substantially mitigated by the social insurance systems and by the setting up and strengthening of the legal and institutional frameworks of employment policy.

Employment followed the stabilising and boosting footsteps of the economy, but it did so with some delay, fluctuation and at a lower level. At the same time, the employment level was relatively sensitive in responding to other measures as well, such as the changes in the exchange rate of the Forint and those related to the wage developments. Around 2000, restructuring has accelerated, and certain businesses, mainly those carrying out large-scale production, relocated some or the whole of their production to other countries. The employment level was maintained by increasing number of jobs in services.

Fig. 2 The labour market figures of the population between 15 and 64 years of age, in thousands



The most important feature of the Hungarian labour market is the low participation rate. Low employment level (57% in 2003) is coupled with relatively low unemployment (5,9%) and high inactivity (39,8%).

The reasons for the low labour market participation are the low retirement age, the poor health condition of the population and the relatively broad access to income replacement benefits by those who lost their jobs or were threatened by unemployment. Since the end of the nineties, the fact that the unemployment benefit of those who had average or higher income before becoming unemployed substantially decreased has also contributed to withdrawal from the labour market. In 2003, as much as 58% of inactive people aged 15-64, not participating in full-time education and not employed, received a pension (old age, early retirement or disability pension), and as much as 14% received child care benefit. In addition, it is also to be taken into consideration that, according to estimates, the share of undeclared work is relatively high in Hungary.

As against the EU average, the employment rates of older age groups and men are particularly low. The employment of women is also lower than the EU average but in this respect the gap is smaller. The employment of the older age groups and women has started to increase which is mainly due to the gradually increasing retirement age. At the same time, the employment indicators of youth, that is of people of 15 to 24 years of age, has deteriorated (the employment rate has dropped in this age group from 30.7% in 2001 to 26.7% in 2003), partly as a result of increasing enrolment ratios and the extension of time spent in education.



The employment prospects of people with a low level of education are particularly poor, and their labour market position has not improved as a result of the economic growth either. Most have been without employment since the early 1990s when they lost their jobs as a result of the restructuring of large firms. In addition to long term unemployment and inactivity, the recurrence of unemployment is also characteristic.

Moreover, territorial differences of the supply and demand of labour also contribute to low employment. The Hungarian labour market is highly segmented; there are relatively well-developed and urbanized areas with high employment levels, and micro-regions with low employment and high unemployment.

Regarding the sectoral structure of employment in 2003, 5.5% of the employees worked in agriculture, 33.3% in the industry and 61.2% in services. The ratio of services in Hungary is higher than generally in countries of similar economic development, primarily because in the early nineties, the drop in the staff employed in public services was less than in the branches of the competitive sector. In the public sector, changes and reforms are to be expected, the consequences of which on the employment must be taken into consideration.

## **2.2 Labour market prospects**

According to calculations, employment is expected to show the following trends in the period until 2010:

- According to demographic forecasts, the number of persons of 15 to 64 years of age is expected to increase until 2006 by about 25 to 30,000 per year. From 2007 on their number is expected to decrease by 15-16,000 per year and the grand total is assumed to be 6,850,000 by 2010.
- The number of employed – provided that the employment targets are achieved – will be around 4,050,000 – 4,060,000 in 2006, and around 4,300,000 – 4,320,000 in 2010. The number and proportion of the unemployed will show a figure of around the current level (243,000 persons, 5.9%) up to 2006, and then due to a faster expansion of employment the rate will go down by some tenths of a percentage point. The activity rate will increase (62% by 2006 and 66–67% by 2010) at a pace similar to the employment rate (around 0,8% a year).
- The employment of women is expected to grow slightly, however maybe faster than that of the men. Thus female employment rate will reach 57% and male employment rate 69% by 2010. After a substantial growth, the employment rate of the older age groups (55 to 64 years of age) may rise from the current 29% to 33% by 2006 and to 37% by 2010.

## **3 THE NATIONAL EMPLOYMENT STRATEGY**

In accordance with the European Employment Strategy, the employment policy of the Member States must be based on the following three comprehensive and mutually reinforcing measures:

- full employment,
- improving quality and productivity at work,
- strengthening social cohesion and inclusion.

In addition to these objectives, the recommendations of the Employment Taskforce set the following priorities: increasing the adaptability of workers and enterprises, attracting more people to enter and remain on the labour market, investing more and more effectively in human capital and lifelong learning, and ensuring effective implementation of reforms through better governance.

### **3.1 Full employment**

Regarding the employment level, Hungary significantly lags behind the objectives identified in the European Employment Strategy (i.e. accomplishing a 67% employment rate by 2005 and 70% by 2010).

Low employment restricts the growth and adaptability of the economy, and keeps the revenues of public finances between narrow limits, while increasing its burdens (primarily the expenses earmarked for social insurance and generally for social benefits), restricting the possibility to reduce the tax wedge on a prolonged basis and enhancing the risk of social exclusion. Therefore, already in the Joint Assessment of the

Employment Policy Priorities (JAP), the Government identified the increasing of the employment rate as the most important priority of its employment strategy, and it still remains a key issue.

In the course of implementing the Hungarian employment policy strategy, efforts must be made to achieve:

- ***an overall employment rate of 59% by 2006 and 63% by 2010,***
- ***an employment rate for women of 53% by 2006 and 57% by 2010, and an employment rate for men of 64% and 69%, respectively,***
- ***an employment rate for older workers (55 to 64) of , 33% by 2006 and 37% by 2010.<sup>1</sup>***

The above targets assume an annual increase of employment by 0,8% on average. To this end, policy measures need to address both the supply and demand sides of the labour market. As far as the ***demand side*** is concerned, the expansion of employment assumes the creation of new jobs. In view of the significant number of micro-businesses, the focus must be primarily on supporting the growth of existing businesses, instead of founding new businesses and giving priority benefits to the self-employed. In this respect the Government pursues to promote job creation by gradually reducing labour costs, enhancing the employment potential of micro, small and medium-sized enterprises, and creating a predictable and stable financial and legal environment that increases the security of these employers. In order to promote successful management of restructuring, the Government supports initiatives that strengthen the adaptability of businesses. The comprehensive review of labour legislation will play an important role in this respect. In addition to ***increasing the flexibility of employment, new forms of the security of employment*** also need to be developed in co-operation with the social partners.

In view of the relatively low level of unemployment, policies related to the ***supply side*** should not be limited to promoting the reintegration of the unemployed to the labour market, but they should also include ***actions to improve the employability of the inactive population***. Modernising the PES, improving the efficiency of the activating measures and reforming labour market policies will contribute towards meeting this challenge as well as to make work attractive and a real option for all. In addition to attracting more people to the labour market, the Government ***encourages employers by means of targeted incentives to employ people at a disadvantage in the labour market***.

The Government will place design and implementation of economic policy and employment policy measures aimed at increasing employment on a close inter-ministry co-operation. The efficient and successful implementation of the strategy demands that an appropriate ***coordination*** is developed ***among the various policies***, especially in three areas. Firstly, economic policy should pave the way to employment efforts, and the labour market impacts of the expected processes and envisaged measures should be calculated with. Secondly, education and training should be adjusted flexibly to the continuously changing demands of the labour market. Thirdly, social and employment policy measures should be coordinated, in view with making work attractive and strengthening social cohesion alike.

*Table 1 EU and national employment targets*

Employment rate	EU average		EU target		Hungary	National target	
	Baseline (2003)		2005	2010	Baseline (2003)	2006	2010
	EU-15	EU-25	EU-25	EU-25			
Total	64.3	62.9	67	70	57.0	59	63
Women	56.0	55.0	57	60	50.9	53	57
Men	72.5	70.8	-	-	63.4	64	69
55+	41.7	40.2	-	50	29.0	33	37

### 3.2 Improving the quality of work and increasing productivity

The quality of work is a multi-dimensional concept, which involves the characteristics of a given work and those of a broader labour market context as well. In relation to the European Employment Strategy, from the aspect of the quality of work, the following factors must be taken into consideration: the intrinsic quality of

<sup>1</sup> The calculations paving the way to the national objectives are given in Annex 2.

work (those characteristics of a given work which influence the satisfaction of the employee and which are decisive from the aspect of their status and income), vocational training, life-long learning and career, equal opportunities for both women and men, safety and health at work, flexibility combined with the security of employment, labour organisation, equal opportunities regarding entering and being integrated into the labour market, harmonising of work and family life, diversity and being free of discrimination, social dialogue and employee participation as well as work output. In addition to developing the legal and institutional framework, it is also to be facilitated that the issues related to the quality and efficiency of work as well as to productivity *are on the agenda on all levels of the social dialogue*.

The Government will make *efforts to improve the quality and productivity at work simultaneously with the expansion of employment and in a balanced way*. In this respect it is of particular importance to ensure that wage developments are employment-friendly and take into account the capacities of the Hungarian economy. Reducing tax and other contributions, while maintaining fiscal stability, are important tools to improve competitiveness and boost labour-demand.

To improve adaptability of workers, it is important to ensure access to lifelong learning and training in particular for the low-skilled and disadvantaged people. The Government, through the development of the training system and the increasing of support, strives to encourage workers to participate in training and enterprises to invest more in it. The quality of education must be improved, and mechanisms that ensure continuous adjustment to the labour market requirements must be created, *strengthening the links between education/training and the economy*. In this respect, the comprehensive reform of vocational training and the National Higher Education Development Strategy are seen as key instruments. In the field of R&D and innovation, the Government supports the co-operation between businesses and research institutions and capacity building which also will boost productivity and competitiveness.

### **3.3 Strengthening social cohesion and inclusion**

Strengthening social cohesion is closely related to policies aimed at increasing employment. A main cause of poverty and social exclusion is exclusion from the labour market, unemployment (and long-term unemployment in particular) as well as inactivity. Therefore, promoting access to the labour market is a crucial tool in strengthening social cohesion and inclusion. When implementing measures aimed at increasing employment, the Government gives priority to improving the situation of Roma people, older workers and people with disabilities.

To assist disadvantaged people in entering or returning to the labour market, an *integrated approach* is necessary, which takes into consideration the complexity and accumulation of problems stemming from social and economic disadvantages. In order to improve their labour market chances, the Government supports initiatives that enhance their employability with tailor-made services. With a view to prevent unemployment as well as social exclusion, the Government lays great emphasis on creating equal opportunities in access to education – when necessary with positive action - and preventing drop-outs as well as helping those dropping out to return to school.

By July 2004, the Government has prepared the document ‘National Action Plan for Social Inclusion’ in which all the measures the government intends to take between 2004 and 2006 in order to reduce poverty and social exclusion are described. The action plan states that the best way leading out of poverty is employment, and the measures outlined in the plan have a number of employment policy implications. In addition, the action plan embraces the measures to be taken in association with social inclusion in the fields of social services, pension and health care system, education, housing, justice, transport, etc.

## **II ASSESSMENT OF THE SITUATION AND POLICY RESPONSES BY GUIDELINES**

### **1 ACTIVE AND PREVENTATIVE MEASURES FOR THE UNEMPLOYED AND INACTIVE**

#### **1.1 Assessment of the situation**

As a result of the economic crisis of the transition period, the number of registered unemployed between 1990 and 1993 has increased from 100,000 people to 700,000 people. Until 2002, with slight fluctuations, it dropped to about one half of that figure mainly due to the shortening of the eligibility period of unemployment benefit. In the last two years, following the introduction of the job search allowance and the support of the temporary employment of the unemployed, a slight increase occurred (by 10,000 to 15,000 people annually). In December 2003, in the category of registered unemployed, the proportion of people who had been unemployed for not less than a year without interruption was 23.1%, which is 1.5 percentage point higher than two years earlier.

In the age cohort below and above 25 years of age, the proportions of people who were unemployed on an ongoing basis for 6 and 12 months, respectively, somewhat increased in 2003: for young unemployed from 19.8% to 21.3%, for the older age group from 13.0% to 13.9%.

The indicators of prevention and activation show that the Hungarian Public Employment Service (PES) should make further efforts to ensure that every unemployed person is offered assistance within 6 or 12 months of their unemployment in order to prevent their long-term unemployment and promote their activity. Moreover, considering that a substantial part of the workforce is outside the labour market, joint efforts are needed to reach also the inactive population including by involving non-governmental organisations.

##### **1.1.1 The institutional framework of the employment services**

In Hungary, the Public Employment Service (PES) was established in the early nineties as a key institution of the implementation of employment policies. The Employment Act defining the activities of the PES was passed in 1991. The PES comprises the National Employment Office responsible for the supervision of the PES, the labour centres of Budapest and the 19 counties and the associated 173 local branch offices. In addition, nine regional training centres are also form part of the PES. The financial resources for active (and passive) policies and those necessary for running and developing the PES are provided by the Labour Market Fund. This Fund is generated from the contributions paid by the employers and the employees (*see also Chapter III, section 3.1*).

In order to assist people in entering or returning to the labour market, the PES provides job brokerage services, labour market and employment information, guidance and counselling on jobs, career, job search and rehabilitation. Tailor-made services based on the assessment of individual needs and the individual action plans have a key role to play in improving employability. However, the use of these action plans is not general yet; preparing them is compulsory only in the case of certain benefits.

In addition to the PES, the local governments also contribute to the implementation of employment policies by running public work programmes for the unemployed. Local governments pay allowances to the unemployed whose entitlement to unemployment benefit has expired. For all these activities, financial support is provided by the Labour Market Fund.

In assisting the labour market integration of people at a disadvantage, the non-governmental organisations also play an important role. (*These organisations are dealt with in the section covering the guideline 7.*)

##### **1.1.2 Job brokerage**

The employers increasingly make use of the job brokerage services offered by the PES but these services still do not play a decisive role in satisfying the labour demand of employers. In 2003, there were 13.2 reported vacancies for 100 registered unemployed, hardly more than in the previous year. In general, the PES successfully addresses the large-scale demands for unskilled workers, but at the same time it faces difficulties in addressing the specific needs of employers as well as in investigating the demand for labour. The main reason for this is that most of the registered unemployed are unskilled.

In order to improve the success rate and efficiency of the job brokerage system, it is necessary for the PES to provide up-to-date information to young people before choice of career, job seekers and employers on the labour supply and demand at local and regional level, and on attainable wages and salaries. A further precondition of successful job brokerage is adjusting the qualifications of the employees to the requirements of the labour market. To this end, it is necessary for the PES to review the requirements of employers, followed by forwarding these needs to the educational institutes.

### 1.1.3 Active labour market policies

Hungary spent 0.85% of the GDP on labour market policies in 2003, within which the expenses earmarked for active policies<sup>2</sup> amounted to 0.48% of the GDP (EU average in 2001 was 0.66% of the GDP). On average, approximately 80 to 90 thousand people make use simultaneously of the benefits aimed at fostering employment (training, wage subsidy, support for business start-up, etc). In 2003, the average number of people participating in active policies has slightly increased (from 86,491 persons to 88,259 persons).

*Table 2 Breakdown of participants in active labour market programmes (%)*

	2002	2003
Training	30.2	31.3
Supported employment, wage subsidy	14.9	15.5
Public works	30.9	29.1
Promoting entrepreneurship, business start-up, support for self-employment	1.6	1.5
Special measures supporting school leavers	5.9	6.6
Other	16.5	16.0
Total	100.0	100.0
Activation rate %	19.4	18.5

Source: Ministry of Employment and Labour

Regarding the inflow into (non-supported) employment, wage subsidies have proved to be the most effective among active policies. Three months after the termination of the subsidy 62% still worked for the same employer, in case of wage subsidy for career-starters this figure reached nearly 80%. On average, 44% of the unemployed who completed training in 2003 could find a job without wage subsidy. The relatively low employment ratios of the participants are due to several factors including the mismatch of supply and demand and the increasing share of low-skilled among the participants. In order to improve the employability of people at a disadvantage on the labour market, as many as 39 labour market programmes were launched in 2002-2003 by the labour centres. These programmes combine various employment services including counselling, training, and supported employment.

### 1.1.4 The monitoring system

In Hungary, the development of the monitoring system of active policies was started in 1991. Since 1994 this system has been operating on an ongoing basis. The monitoring is based on examination of the labour market status of participants and the rate of inflow to employment three months after the termination of the programme, and on the continuous examination and assessment of the specific costs and cost-efficiency of the various active policies. Over the years, the digital support instrumentation of the monitoring system has been continuously developed.

### 1.1.5 The local and regional networks of the PES

In addition to the PES, local governments, social support services as well as the non-governmental organizations are also involved through various forms of co-operation in addressing the labour market tensions and, in particular, long-term unemployment. However, the intensity of the co-operation among the various services is incidental and it basically depends on the local actors.

<sup>2</sup> Note: within the active policies, the following are featured in addition to the active programmes: the expenses of the labour organisation and the resources granted to the local governments for supporting public works. The passive expenses only include the benefits paid by PES to the unemployed.

## Key challenges

- Address long-term unemployment more efficiently,  
*National targets:*
  - To decrease long-term unemployment rate to 2.2% by 2006 (2.4% in 2002);
  - To ensure that by 2006 that of those entering unemployment registration, the proportion of those becoming long-term unemployed is reduced to 18.0% from 21.3% (2003) in the age cohort under 25, while for those above 25, the same indicator should drop from 13.9% to 12%.
  - To achieve that the number and proportion of unemployed persons involved in an active measure before reaching 6 months of unemployment in the case of young people and 12 months of unemployment in the case of adults is increased; while the rate of those who fail to receive assistance during the 6 and 12 months, respectively, is to be reduced from 19.6% to 15% in the case of youth and from 15.3% to 12% in the case of adults.
- Extend the services of the Public Employment Service to the inactive population,
- Improve the efficiency of employment services and active policies.

## 1.2 Policy response

In 2003 and 2004, the Ministry of Employment and Labour has carried out a comprehensive revision of the Employment Act and drawn up a new conceptual framework on employment services that will serve as a basis for the amendment of the Act. The main objectives identified by this proposal are to increase employment, to promote the (re-)integration to the labour-market and to improve the employability of the unemployed and inactive. The new Employment Act will seek to ensure adequate conditions for increasing the employability and adaptability of the unemployed and the inactive in the context of a continuously changing labour market. To this end, it is necessary to upgrade the quality and the management of the services offered by the PES and to reinforce its role as a service provider as well as to reform the system of unemployment benefits. The intra-governmental discussion and partnership consultation of the draft regulation will take place during 2004 and 2005. The new Act is expected to come into force in 2006.

As of 2004, annual guidelines will be issued by the Ministry of Employment and Labour to determine the main directions of the PES activities, the targets to be achieved, and the financial resources to be used including both national and ESF support.

### 1.2.1 Addressing long-term unemployment more efficiently

To prevent inflow into long-term unemployment and to address it more efficiently, the PES will

- introduce experimentally (at 20 local branch offices) the method of profiling and based on these experiences it will be extended the whole system as of 2005;
- extend, by 2006, the use of individual action plans to all unemployed receiving a benefit or participating in an active labour market programme;
- make efforts to increase the frequency of personal consultations with the registered unemployed, and to promote active job-search;
- offer to an increasing proportion of the unemployed the opportunity of a new start by means of services aimed at improving employability and/or an active measure, before their unemployment period reaches one year (6 months in the case of youth).

### 1.2.2 Extending the services of the PES to the inactive population and improving the quality of services

The PES should reach an increasingly wider range of inactive persons excluded from labour market and also those searching for a new job. To this end, from 2004, the PES will:

- draw up joint action plans for employment together with the regional and local stakeholders including, among others, the representatives of the labour councils operating at the county level;
- extend, by means of ESF assistance, the scope of active labour market programmes aimed at facilitating the labour market integration of the inactive people.

With a view to achieve the national targets, a comprehensive measure aimed at modernising the PES has been launched in 2004. In the framework of this measure, by 2008, the PES will:

- transform and further develop the job brokerage system including by introducing a self-service computerised information system (kiosks, job seeking and job registration opportunities via the Internet) and by ensuring the availability of new opportunities at an increasing number of branches;
- strengthen the co-operation with the regional and local service providers, regional development agencies, businesses and local governments (including the local governments of ethnic minorities) with a view to improve the employment situation of settlements and regions lagging behind (*on promoting local partnership and networks and local employment strategies see also section 10.2.2*);
- implement in-service training programmes in order to prepare the PES staff to addressing the needs of those at a disadvantage in the labour market. Special attention will be given to the training of Roma officers.

Regarding the monitoring system of the PES, taking into account the experiences of the past years, further efforts are needed in the following areas:

- implementing more thorough analyses of the monitoring data and comprehensive evaluations of policies,
- providing an appropriate feedback on the measures implemented at the various levels of governance and management,
- establishing a specific monitoring system for the labour market programmes based on an integrated approach and targeting particular groups of the unemployed.

The development of the monitoring system will be implemented as part of the modernisation of the PES launched in 2004 and co-financed by the ESF.

## **2 JOB CREATION AND ENTREPRENEURSHIP**

### **2.1 Assessment of the situation**

In the transition period, the legislative framework of market economy has been created and a substantial transformation has taken place in the ownership and size structure of enterprises. Private ownership has become dominant: in 2002, 83% of the GDP was generated by the private sector, which is a significant proportion in international comparison. The number of operating businesses is over 860 thousand. Less than 20% of these have employees and the majority have less than 10 employees.

#### **2.1.1 Employment structure according to company size**

In 2003, as much as 96.3% of the already operating businesses had no employees or 1 to 9 employees, as much as 3.6% employed 10 to 249 workers, and 0.1% employed more than 250 persons. The role of large enterprises in employment has decreased since the early nineties, but in international comparison it is still considered significant (nearly 28%). Self-employment and micro-businesses provide more than one million jobs, and the small and medium enterprises one and a half million, for 64% of the employed. Therefore, one of the strategic employment priorities is to improve the competitiveness of these businesses and to strengthen their employment potential.

#### **2.1.2 Taxes and contributions, administrative burdens**

From the aspect competitiveness and job creation, the system of taxes and contributions plays a decisive role. The tax wedge on labour is high in an international comparison; it restricts job creation and contributes to maintaining undeclared work. Although the tax burdens have dropped in recent years, their further reduction is necessary for improving competitiveness and for 'whitening' the black and grey economy.

To simplify business start-up, several measures were taken since the mid 1990s, and a "single-window" system has been created to facilitate the administration related to starting a business. Even though, a significant part of the resources of businesses is tied up by meeting administrative obligations, primarily those related to the mandatory data supply on taxation.

#### **2.1.3 The impact of raising minimum wages on employment**

In 2001-2002, the statutory minimum wage was doubled in two phases, which significantly influenced employment trends. It hit hard primarily labour intensive activities and the micro and small enterprises, and put off many of the business planning to hire new workers. In some low-wage sectors, it also led to dismissals. All these developments call attention to the fact that in order to create jobs and boost businesses, as well as to strengthen competitiveness, a well balanced and predictable wage development is necessary.

#### **2.1.4 The competitiveness and output performance of SMEs**

The average size of the enterprises is similar to that in other Member States, however, differences in the income and output are significant. The total output of the SME sector is low, lagging by about 10% behind the EU-15 average. The gap between the productivity of SMEs and that of large companies is significant: the productivity of the small businesses vis-à-vis large companies is approximately one half, and that of medium enterprises is two-thirds of the similar EU-15 figures.<sup>3</sup> The low productivity of SMEs is caused by, among other things, the shortage of capital, obsolete technology and the poor access to business services and consulting (regional disparities, high costs). In addition, lack of openness to innovation and weak entrepreneurship and management skills are also important factors. Meeting the new challenges emerging in the context of the information society is also demanding for the SMEs.

#### **2.1.5 Research and development**

The competitiveness is heavily influenced by the lack of co-operation between the business and the scientific/academic sector. The resources earmarked for research and development and innovation are insufficient, the ratio of R&D expenses as against the GDP did not reach 1% in 2001. The share of businesses was especially low due to the weak innovation capacity of SMEs. In 2002-2003, new, innovation-

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<sup>3</sup> Source: SMEs in Europe, including a first glance at EU Candidate Countries (2002) and The situation of small and medium enterprises (2001)



related income and corporate tax credits were introduced, on the one hand, to increase resources available for R&D and, on the other, to promote the dissemination of innovation and innovative technologies.

### **2.1.6 Development of entrepreneurial skills**

The development of entrepreneurial skills is promoted by adult training institutions, the PES as well as school-based education. In vocational training, as of 1996, all vocational and examination requirements include business management and corporate management skills. In 2001, under the title ‘Development of entrepreneurship skills in secondary and higher education’, a PHARE programme was launched, which provided assistance to the public education and higher education institutions of three Eastern regions to develop and introduce curricula to teach entrepreneurship and management skills.

#### **Key challenges**

- Create a more favourable environment for businesses,
- Ensure employment-friendly wage developments,
- Boost the competitiveness of SMEs and promote job creation,
- Strengthen the co-operation between the R&D sector and businesses,
- Foster entrepreneurship and management skills.

#### **Related Council recommendations (priorities)**

- Reduce tax wedge on labour,
- Make further efforts in co-operation with the social partners to ensure employment-friendly wage developments.

## **2.2 Policy response**

Creating jobs and improving the competitiveness of businesses are crucial for increasing employment. The Government has taken a number of measures to enhance the performance of businesses, and of SMEs in particular. Programmes supported by the Structural Funds, primarily by the European Regional Development Fund (ERDF) and the European Social Fund (ESF) are especially relevant for this.

### **2.2.1 Creating a more favourable environment for businesses**

The recommendations of the Broad Economic Policy Guidelines on the need for a stable and predictable legislative environment and economic policies are fully in line with the aims of the Government. However, in the period of Hungary’s accession to the EU, the implementation of this principle was limited. The preparation for the EU membership required some major reforms and legislative changes, thus the principle could not be fully implemented. Moreover, further changes are needed in order to create more favourable conditions for businesses and to improve their competitiveness and growth opportunities.

To support job creation, foster the employment of the unemployed and the school leavers and to promote the training of employees, the Government introduced changes in the corporate and personal income tax regimes in 2003<sup>4</sup>. As of 2004 the corporate tax rate was cut from 18% to 16%, the range of development tax credits was expanded and its administration simplified, R&D-related tax credits increased. In addition, medium-sized enterprises became eligible for the reduction of their tax-base related to investment, which was previously available only for micro and small enterprises. The administrative burdens of businesses were reduced by the introduction of the simplified tax system for businesses (EVA) in 2003. In 2004, the Hungarian Investment and Trade Development Agency (ITDH) has started to develop a “single-window” service system offering consultancy and providing information on available funding opportunities to facilitate access to funds.

In addition to pursuing adequate macro-economic policies, it is necessary to further reduce the tax wedge on labour, and to further mitigate the administrative burdens on businesses. To this end, the Competitiveness Committee (CC) has initiated the elaboration of a National Competitiveness Programme. In accordance with the decision of the CC, the Ministry of Economy and Transport has started the elaboration of a

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<sup>4</sup> Act XCI of 2003 on amending the Acts on taxes, contributions and other payments to the central budget.

comprehensive set of recommendations. These recommendations will be included in the package of proposals on regulatory changes for 2005 and 2006.

In order to boost employment – and in line with the Council recommendations – the Government has decided to reduce the employers' contributions in the case of certain groups of employees. As of 2005, businesses hiring school leavers or people returning to work from home care, under certain conditions, will be entitled to a 50% reduction of social security contributions that currently amount to 29% of the wage. This targeted measure is aimed at promoting the employment of people facing disadvantages in the labour market.

Furthermore, the Government's proposal to replace the current three-rate personal income tax system by a simplified two-rate one (as of 2005) will also contribute towards creating a more employment-friendly environment. In the new system, employees up to a certain income level will pay less tax and thus it will allow to employers to increase the net wages of their employees by means of a relatively lower gross increase in wages (*see also chapter 8.2*).

### **2.2.2 Employment friendly wage developments**

In accordance with the recommendations of the Council, the Government intends to ensure balanced and predictable wage developments to promote employment, strengthen businesses and enhance competitiveness. While the past 2-3 years were characterised by a real wage growth exceeding the growth of productivity, in 2004, special emphasis was given to ensure that wage developments are better adjusted to the growth of productivity. These efforts are also reflected in the national annual wage agreements. In 2004, the minimum wage was raised by 6% and the national tripartite wage agreement recommended a gross increase of 7-8% in the business sector. It is expected that this will result in a 1-2% net raise that falls behind previous years' increase as well as the growth of productivity. In the public sector, salaries are expected to remain at the current levels in 2004. The results of the first half of 2004 show that net real wages grew by around 1%, while productivity grew by 4%.

As for the 2005 wage negotiations starting in September 2004, the Government put forward a proposal of 4.5% gross nominal increase in the business sector. This, together with the decrease of the tax wedge, means an increase of real wages by 2%, still below the growth of productivity.

### **2.2.3 Strengthening the competitiveness of SMEs and encouraging job creation investments**

The mid-term economic development strategy puts in focus an export-driven economic growth, promoting investments and the improvement of competitiveness. On the one hand, the Government promotes corporate investments by means of grant schemes and favourable credit schemes. On the other hand, it creates adequate conditions for businesses by investment in infrastructure (e.g. the development of transport infrastructure) and by supporting the development of business services.

In the first half of 2004, in the framework of the Economic Competitiveness Operational Programme (ECOP) co-financed by the Structural Funds several calls for proposals were published to support the following activities:

- *Promoting investment* including the upgrading the production capacities of companies, setting up an up-to-date economic infrastructure (development of innovation and technological transfer centres, investments aimed at enhancing the high quality services of industrial parks, development of logistical centres) as well as rendering proactive investment promotion services and consultations. The purpose of subsidies is assisting the deployment of activities with high added value.
- *SME development* including the development of investments related to technical and technological developments, and that of the quality assurance systems, business consultancy, strengthening co-operation between the SMEs.

Investments related to the agriculture and the business start-up of young farmers are supported in the framework of the Agricultural and Rural Development Operational Programme (ARDOP) co-financed by the EAGGF. These activities will foster the modernisation and restructuring of agriculture.

In addition to infrastructural investments, the development of human resources is also supported through open call for proposals. Building on the synergies between ERDF and ESF assistance, these grant schemes allow for combining the investment in infrastructure and job creation with training.

In 2003, the Government launched the Széchenyi Business Development Programme. The objectives of the programme are:

- to enhance competitiveness, upgrade and assist the development of growth-oriented SMEs,
- to prepare SMEs for EU integration, disseminate know-how necessary for expanding the businesses,
- to create and strengthen co-operation among businesses,
- to improve access to resources, promote the development of areas lagging behind, foster equal opportunities people at a disadvantage in the labour market,
- to promote the access of SMEs to Structural Funds assistance.

The programmes mentioned above are expected to have a significant impact on job creation both directly and indirectly and investments will generate demand for other services (transport, trading, activities etc).

It is expected that the share of environmental products and services in the economy will increase in the years to come. In the environmental sector, the number of employees is expected to grow by at least 40,000 – or according to more ambitious estimates by 90,000 – by 2008 as against 2002. Therefore, efforts must be made to make use of the employment potential of environmental investments. The measures (economic incentives, tax benefits, etc.) promoting the development of environmental support industries and production can also contribute to job creation. In 2004, several environmental programmes are launched, including by means of assistance from the ERDF and the Cohesion Fund, which are expected to create new jobs. From the aspect of increasing employment, the following have an outstanding role:

- support to environmental, water conservation and waste management investments;
- support for hiring experts for businesses and public administration to meet the EU environmental requirements;
- agricultural/environmental and eco-tourism related developments supported in the National Environmental Programme for the period of 2003 to 2008 will create jobs in rural areas.

#### **2.2.4 Strengthening co-operation between the R&D sector and the businesses**

In order to improve productivity, in line with the recommendations of the Broad Economic Policy Guidelines, the Government allocates significant resources between 2004 and 2006 to the development of R&D capacities, and to the strengthening of relations between enterprises and research centres. The main objectives to be achieved by these resources are the following:

- to support the elaboration, testing and usage of new products, assets, procedures and services in key economic areas;
- to develop the research infrastructure and strengthen the co-operation of public and non-profit research institutions with a view to enhance R&D activities and the participation in the European Research Area;
- to enhance the innovation capacity of businesses, develop research activities and research infrastructure, in addition to supporting the knowledge and technology intensive businesses.

A Research and Technological Innovation Fund was created in 2004. The Fund serves as a sustainable and secure source to foster technological innovation, disseminate innovation and develop the infrastructure and related services. This Fund is financed from the innovation contribution of business organisations.

In 2004, the Government has launched a call for proposals to support activities aimed at strengthening the relations between the research and corporate sector, and for setting up research and innovation networks. Higher education institutions, academic and non-profit research institutes and businesses can receive funding to establish so-called cooperative research centres (CRC), which deal with basic research, applied research and experimental development. It is expected that approx. 10 CRCs will be established in the period between 2004 and 2006.

#### **2.2.5 Developing entrepreneurship and corporate management skills**

As part of the Human Resources Development Operational Programme the Government supports management and entrepreneurship skills development trainings through grant schemes with a view to promote entrepreneurship and to improve the competitiveness of existing businesses. In addition, courses aimed at developing the EU-related knowledge of entrepreneurs and employees, thus facilitating adaptation to new business environment can also receive funding. To fully exploit the potentials of the information society, ICT and e-business training programmes are also organised. In the framework of an integrated

higher education institutional network aimed at teaching entrepreneurship skills, the economics and business faculties of higher education institutions offer business and management skills training to students at other faculties as well.

### **3 ADDRESS CHANGE AND PROMOTE ADAPTABILITY AND MOBILITY IN THE LABOUR MARKET**

#### **3.1 Assessment of the situation**

In the transition period, the Hungarian economy went through a major restructuring, and in recent years a new phase of restructuring has started. In this context, it is crucial to strengthen the adaptability of employees and businesses as well as to promote the anticipation and absorption of change. In the period of accession to the EU, meeting these challenges is all the more important.

##### **3.1.1 Flexibility of employment**

Prior to 1990, employment was basically characterised by full and full-time employment, and by the predominance of large state-owned enterprises and of industrial production. The Labour Code enacted in 1992 was adjusted mainly to these conditions. Although the circumstances and conditions of work went through significant changes resulting from the transition to market economy, the changing nature of work, and the increasing share of services, the forms of employment and their regulation followed these changes only to a limited extent.

In the EU-15, the share of those employed in non-standard forms of employment (such as part-time work, fixed-term contracts, tele-work, etc.) and the self-employed is about 40%. In Hungary, these types of employment are less widespread; they represent 22.2% of total employment<sup>5</sup>. In 2003, 4.9% of the employed (3.5% of men and 6.4% of women) worked part-time,<sup>6</sup> which was significantly behind the year 2002 EU-15 average (18.8%). The factors hindering the proliferation of part-time employment were reviewed in line with the 97/81/EC Directive. However, it should be noted that due to low wages, part-time employment is not a real option for most employees.

The share of fixed-term employment is 7.5% (8.3% for men and 6.6% for women)<sup>7</sup>. The transposition of the Directive 99/70/EC in 2003 contributed towards creating more favourable conditions for those on fixed-term contract by prohibiting discrimination and unequal treatment resulting from the consecutive use of fixed-term contracts by employers.

The Government has promoted tele-work by means of grant schemes since 2002, with special priority given to the employment of people with disabilities, older workers, single parents and those living in settlements lagging behind. In addition, a Tele-work Council was set-up in 2002. In 2004, new regulations on tele-work have been passed which are in line with the 2002 framework agreement of the European social partners. As far as Internet use is concerned, the number of individuals and businesses using broadband connection increased by 235% from 2002 to 2003 (the same figure in the EU was around 80%). Despite this expansion, Internet penetration and use remains low in international comparison.

In recent years, employers have shown a significant demand for flexible forms of employment that help to meet their labour force needs. Therefore, in 2002-2003, new regulations entered into force concerning temporary and seasonal employment.

##### **3.1.2 Health and safety at work**

In 2003, the reported number of occupational accidents slightly grew, while the number of serious and fatal accidents dropped. The number of occupational accidents per one thousand employees has basically remained at the same level (6.5-6.6) between 2001 and 2003. According to surveys, the number of work-related illnesses shows a moderate increase in 2003.

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<sup>5</sup> EUROSTAT

<sup>6</sup> Central Statistical Office

<sup>7</sup> Central Statistical Office

Table 3 Number of occupational accidents (2001-2003)

	Total number of occupational accidents	Of which: serious accidents	Fatal accidents	Serious accidents entailing amputation
2001	25 536	223	124	62
2002	25 284	262	163	52
2003	25 745	216	133	46

Source: Hungarian Labour Inspectorate

In the field of health and safety at work, legal harmonisation has been completed. Supervision and inspection regarding safety at work falls within the competences of the National Labour Inspectorate (OMMF) and its local organisations, while the main authority in the field of health at work is the National Public Health and Medical Officer Service (ÁNTSZ).

The Government has elaborated the National Safety and Health at Work programme<sup>8</sup> which defines a five year action programme to improve safety and health at work. The programme is fully based on the active involvement and co-operation of stakeholders. As part of the OMMF, a Hungarian liaison organisation (centre) of the European Safety and Health at Work Agency was set up. The centre is responsible for collecting and disseminating information on safety and health at work. Since 2003, the OMMF has been operating a telephone based (call centre) safety and health at work information service.

### 3.1.3 The role of social dialogue and social partners in determining the working conditions and the circumstances of work

Collective agreements being in force on 31 December 2002 covered more than 40% of the employees in the business sector. In addition to wage-schemes and wage agreements, collective agreements regulated working time allocations for 90% of the employees covered, work shifts for 70%, irregular working hours for 25%, resting time (breaks) for 90%, and over-time work and its maximum duration for 85%. The coverage of collective agreements is low in an international comparison, and the number of sectoral collective agreements is particularly limited. Currently, there are only three extended sectoral collective agreements in force.

### 3.1.4 Labour mobility

The geographic mobility of the Hungarian workforce is low. According to the population census, the proportion of commuters was 29.9% in 2001. Commuting is restricted by the deficiencies of the transport infrastructure, especially at the level of micro-regions, and the extremely high transportation costs. Moreover, the shortage of low-rent flats, the high duties on purchasing and selling flats, and the significant regional differences of the real estate prices limit the opportunities of domestic migration. In order to facilitate the mobility of the labour, employers have to contribute to the costs of commuting under certain conditions identified in statutory provisions<sup>9</sup>. Employers, when hiring previously unemployed workers, can receive subsidies from the labour centres to compensate for the costs of commuting<sup>10</sup>.

According to a CSO survey, in the first quarter of 2003, 4% of the population aged 15-74 might consider working abroad, however, only 12% of these actually took steps to do so. The migration intention is the strongest among skilled workers and people who have higher education (3-6%).

In the period before accession, the institutional and legal frameworks of the free movement of workers were created in Hungary. Nevertheless, using the possibilities granted in the Accession Treaty, some Member States decided to introduce transitional periods for the free movement of labour and restricted the access of Hungarian workers to their national labour markets. With respect to these Member States, Hungary applies similar restrictions.

The Hungarian PES joined the EURES system on 1 May 2004 and it put in place a software which converts vacancies reported in Hungary into the EURES codes. To ensure access to the EURES services, computer workstations have been installed and consultation is provided by 'EURES consultants' in each labour centre.

<sup>8</sup> Parliament resolution 20/2001/III.30/OGY

<sup>9</sup> Government decree 78/1993. (V. 12.) on refunding travel costs related to commuting to work

<sup>10</sup> Government decree 39/1998. (III. 4.) about benefits aimed at reducing the costs of commuting to work.

Regarding the recognition of diplomas and qualifications, there are no obstacles to labour mobility. In seven professions (GPs, dentists, pharmacists, vets, architects, nurses and midwives) diplomas are mutually recognised within the European Economic Area. On other professions or qualifications which are not automatically recognised, information is provided for job-seekers and entrepreneurs by the Hungarian Equivalence Information Centre. This centre is a member of the ENIC (European Network of Information Centres).

Europass, based on the so-called Europass portfolio, is a single framework supporting the comparability of qualifications and competences. To join the network, a National Europass Centre has been set up this year.

Regarding the coordination of pension systems, Hungary had had bilateral agreements before accession to the EU with most Member States. As regards health insurance systems, Hungary had bilateral agreements with two Member States of the EU-15. The implementation of these agreements was in accordance with current EU provisions. The strengthening of capacities related to implementation is continuing in the transition period after accession.

### **3.1.5 Labour shortages**

In spite of low employment and high inactivity, a shortage of skilled labour is evident in certain regions and occupations (for example logistics, technical and IT jobs). In the faster developing areas of the country, there are shortages of skilled workers. Besides low mobility, labour shortages can be explained mainly by the mismatch of labour supply and demand. All this calls attention to the fact that the education and adult training must be better adjusted to the needs of the economy. (*The related policy responses are presented under Guideline 4*).

### **3.1.6 Forecasting of labour demand**

Forecasting of economic and employment processes is carried out on the basis of macro-analysis and surveys. Forecasting is made difficult by the lack of long-term time series and the specificities of the structure of the economy (Hungary's dependence on foreign direct investment, the high share of micro-businesses in employment, etc.). The demographic prognoses are well-developed, but there is little information on the labour market position of school leavers as well as on economic trends.

#### **Key challenges**

- Increase the flexibility of employment while safeguarding security, with the involvement of social partners,
- Improve the inspection of safety and health at work,
- Promote mobility of workers,
- Develop the methodology for forecasting changes.

#### **Related Council recommendations (priorities)**

- Encourage the improvement of working conditions,
- Make labour regulations more flexible and more 'family-friendly' including making part-time work more attractive, especially for women and older workers,
- Promote the mobility of employees.

## **3.2 Policy response**

### **3.2.1 Increasing the flexibility of employment**

In 2004, the Government has started a comprehensive review of the Labour Code<sup>11</sup> with the aim of adjusting labour regulation to the new labour market and economic environment. The Government seeks to introduce a differentiated legislation that takes into account the diversity of the different forms of employment. The legal reform will aim to combine the flexibility of employment with new forms of security.

In the framework of the review, a recommendation will be prepared by the end of 2004, in co-operation with the social partners (also involving the sectoral dialogue committees), regarding the introduction of innovative

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<sup>11</sup> Act XXII. of 1992.

and sustainable forms of work organisation. The new draft legislation will be presented to the Government and the National Interest Reconciliation Council (OÉT) in December 2004.

In order to strengthen the role of social partners, a system of sectoral social dialogue was set up within the frameworks of the programme called 'Autonomous sectoral social dialogue' co-financed by PHARE. Social partners established 28 sectoral (sub-sectoral, trade sectoral) dialogue committees which serve as fora for consulting on issues related to wages, regulations, working conditions and safety at work within a given sector. The preparation of sectoral collective agreements is underway. With the setting up of the Sectoral Dialogue Committees, a significant rise in the number of extended sectoral collective agreements can be expected.

In order to promote part-time employment, the Government has taken the following measures as of 1 January 2004:

- The disincentives resulting from pension regulations have been eliminated (Now, when calculating the eligibility period for pension, part-time employment counts as full-time. Previously, the eligibility period was proportionately decreased in case of part-time employment.),
- The fixed component of the employers' contribution to health care has been exempted for certain groups of workers under certain conditions. (The employer is fully exempted from this payment, if it employs in part-time a person who simultaneously receives a child care allowance (GYES) or child raising support (GYET), or hires a person who is long-term unemployed and over 50),
- By 2006, the fixed component of the employers' contribution to health care will be completely phased-out.

In 2004, with a view to ensure a wide proliferation of tele-work, the Labour Code has been supplemented with specific regulations on tele-work. In addition, cost accounting has been made possible in relation to tele-working (procurement of assets, depreciation, use of the Internet, etc.) by means of the amendment of the Act on personal income tax.

As part of the National Information Society Strategy (MITS), the Government jointly with the Tele-work Council has initiated the concluding of partnership framework agreements aimed at the promotion and proliferation of tele-work. This is done in co-operation with the social partners, chambers, NGOs, businesses which use tele-work on a larger scale. There are, however, significant (and so far unused) potentials in tele-work. It might help employers to create new jobs that are flexible and respond to the need of their business and, at the same time, it might provide jobs to those who are less 'mobile' due to their specific circumstances. The Government promotes the creation of tele-jobs by providing direct financial support and by mobilising private resources. Furthermore, a pilot project is being elaborated with a view to introduce tele-work in the public administration.

### **3.2.2 Inspection of safety and health at work**

In the field of safety and health at work, the following measures are taken in the period between 2004 and 2006:

- Risk assessments is a priority area in inspection. Both the OMMF and the ÁNTSZ will continue efforts in this field in the upcoming years.
- As of 2004, a new regulation has entered into force which has extended the applicability of the fines penalising the lack of risk assessment.
- In line with EU regulations, labour inspectors also carry out consultations during inspections, using the experience of accident investigations and risk assessments.
- The ÁNTSZ, the Mining Authority and the OMMF will jointly establish the Safety and Health at Work Joint Information Database. The database will include all the occupational accident data and will enable the three cooperating authorities to have access to the monitoring data as well. The purpose is to ensure the coordination of the joint monitoring function of the three authorities as well as using the experience of previous occupational accidents.



### **3.2.3 Promoting geographic and occupational mobility**

In the period of 2004 to 2006, geographical mobility within the country will be promoted by several measures aiming at the development, improvement and expansion of the transport infrastructure.

As of 2004, the Environmental and Infrastructure Operational Programme (EIOP) will support the reconstruction, upgrading and capacity enhancement of the network of 'A' roads, the construction of bypass and congestion-relieving roads. In addition, the development of the suburban community transportation and the transport connections of inter-modal centres will also be supported.

The development of the motorway network is a key priority of the Government for the next three years. These investments will improve the accessibility of the Eastern regions of the country and thus it might contribute towards job creation in these areas. (*On measures to develop the transport infrastructure of small settlements, see Guideline 10*). In addition, priority will be given to the modernisation of local and regional public transportation. As a first step, a new season ticket system will be introduced to allow the combined use of different servicing companies in the capital and in its catchment area.

Occupational mobility is promoted, on the one hand, by the expansion of the job brokering services of the PES (*see section 1.2.2*), and on the other, by the comprehensive reform of adult education and vocational training (*see sections 4.2.1 and 4.2.3*).

### **3.2.4 Forecasting changes**

In 2004, the Ministry of Employment and Labour together with the National Employment Office has launched a project aimed at developing a system for forecasting sector-specific labour demand. Forecasting will be based on global economic forecasts, prognosis of productivity and structural change, and on using international comparisons. The results will be analysed together with the forecasts on labour supply (demographic trends, output of the education system). Building on this analysis, recommendations will be drawn up, which will serve as a basis for shaping the structure of vocational training in accordance with economic changes. Furthermore, career guidance services and services providing information on training opportunities will also make use of these recommendations.

## **4 PROMOTE DEVELOPMENT OF HUMAN CAPITAL AND LIFE-LONG LEARNING**

### **4.1 Assessment of the situation**

#### **4.1.1 Schooling, participation in education and training**

The number and proportion of people enrolled in secondary and higher education have increased substantially in recent years. In the school year 2002/2003, already 77% of the people of corresponding age study at a secondary school which provides a GCE qualification, as against the 56% participation rate one decade earlier. The total number of people participating in higher education has almost tripled; and within this figure the participation ratio of youth of 18 to 24 years of age has doubled. While in the early nineties, the lag behind the EU average in the enrolment rates of the age groups has been significant, in the last ten years, the registration of the 15-20 years old cohort participating in full-time education has reached the EU average. The proportion of 22 years old people having upper secondary education<sup>12</sup> was 85.8% in Hungary in 2002. The proportion of the 18-22 years old cohort participating in higher education reached 22% in 2002. However, the proportion of 25-64 years old population participating in education and training is lower than the EU average and was 6% (330,000 people) in 2003.

#### **4.1.2 Links between education and training and the labour market**

In spite of the rising general enrolment level, there is a mismatch between the structure of education and the needs of the economy. This is caused by the peculiarities of the development of the education and training system, and by the fact that decisions on the structure of education and training are not fully based on information on labour demand. (*See chapter 3.2.4 on measures to develop the forecasting of labour demand.*)

In recent years, international comparative studies (OECD – PISA) have called attention to the fact that the Hungarian education system does not cater appropriately for the knowledge and skills necessary for life-long learning and for integration into the labour market. There are shortfalls in key competences, social competences, and in transferring active learning and communication skills. The quality of education, the access to the various levels and types of education show great differences depending on the size of the settlement and the family background. The decentralized character of the educational system, that is the fact that pre-school, primary and secondary education fall within the competences of local governments, further contributes to territorial differences. (*For more on equal opportunities in education see Guideline 7.*)

The structure of vocational training has failed to adapt quickly and flexibly to the demands of the economy. Structural problems were partly caused by the fact that the content of the qualifications in the National Register of Qualifications (NRQ), which includes over 800 qualifications and their qualification criteria, could not be entirely updated and thus many qualifications do not respond to the needs of the economy. Nevertheless, the amendments of the Act on vocational training in 2003, certainly created the conditions to strengthen the link between the economy and vocational training. The amendment enabled chambers to assume the supervision over the content and examination requirements of vocational qualifications based on an agreement with the responsible minister. Furthermore, they can organize examinations and supervise apprenticeship training in vocational schools. Training adjusted to the needs of the economy is also promoted by other amendments of the legislation that encourage both schools and enterprises to sign apprenticeship agreements.

Although higher education has expanded dynamically, the structure of training has not been adjusted to the needs of the economy. The proportion of people participating in technical and natural sciences education is decreasing, and the number of persons in humanities and social sciences studies is increasing. For young graduates it has become harder to find a job in the recent years.

In the transition period, with the substantial transformation of the labour market, the financing as well as the institutional basis of adult training had been changed. The significant decrease in the number of workplaces enabled the employers to recruit highly trained employees, thereby improving the standard of their workforce without substantial costs. At the same time, the change of the ownership structure at companies and the

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<sup>12</sup> The upper secondary education corresponds to level 3 in the so-called ISCED system elaborated by the UNESCO. In the Hungarian school system, the ISCED3 level corresponds to vocational school, vocational secondary school or a secondary grammar school.

winding up of large enterprises undermined the strong institutional and corporate background of training. Consequently, the system of adult training has been reorganised on new foundations. This system is based on the Regional Training Centres integrated into the PES, certain institutes of the school-based education and the private training organisations. Concerning in-company training, it runs into difficulties to forecast the training needs of SMEs, and the small and micro enterprises have difficulties in financing and organising training. One of the main objectives of adult training is promoting inclusion and labour market integration. Thus, a further challenge is to reach those most in need, the unemployed, the inactive and people at a disadvantage. To this end, training offers should be expanded and also better incentives should be created to increase participation of these groups in training.

#### **4.1.3 Expenses earmarked for education and training**

In 2000, Hungary devoted 4.54% of its GDP to education, which is slightly behind the European average (4.94%). In 2001, this figure was 5% and in 2002 it was 5.3%.<sup>13</sup>

The employers pay a vocational training contribution equivalent to 1.5 per cent of the wage. Employers who spends the same amount on apprenticeship, the training of own employees, or on the development of a vocational training school are exempted from this contribution. In 2003, the employers paid 18.6 billion HUF as a vocational training contribution to the Training Fund section of the Labour Market Fund, and the other part of the obligation was met by their own employee training.

Furthermore, there is a normative state subsidy for adult training, which supports adults in acquiring the first vocational qualification as well as the training of people with disabilities.

#### **Key challenges**

- Increase the number of adults participating in education and training,  
*National target:*
  - *The proportion of people aged 25-64 participating in education and training should reach 10% by 2010.*
- Lay the foundations of life-long learning in public education,
- Develop the vocational training system in order to adjust it to the labour market requirements,
- Develop of the structure and content of higher education.

#### **Council recommendations (priorities)**

- Adjust education and training to the needs of the economy,
- Promot equal access to university education,
- Broaden the access to training, in particular for the low skilled and disadvantaged.

## **4.2 Policy response**

The Government has started to elaborate the national strategy of lifelong learning. The first draft will be prepared by the autumn of 2004.

### **4.2.1 Increasing the number of adults participating in education and training**

In 2004, the Government has raised substantially (nearly by 600% compared to 2003) the normative support of adult education. As a result, the number of participants in the subsidised training is expected to increase from 3,200 to 31,000. In order to further develop the system of adult training, the Government has launched a comprehensive programme in 2004. The programme includes the following activities:

- improving the availability of adult training in disadvantaged regions by developing the adult training activities of the network of public cultural institutions,
- elaborating new methods and curricula for adult training, training of trainers and experts participating in adult training,
- further developing the methodology of distance learning and promoting its proliferation,

<sup>13</sup> Source: Ministry of Education.

- elaborating curricula and training methods adjusted to the specific training requirements of disadvantaged persons including employees with low qualifications, older workers and disabled people.

In-company training, training related to investments creating new jobs as well as training aimed at improving the competitiveness of SMS and the development of entrepreneurial skills are supported by means of grant schemes (*see also guideline 2*). There are specific support schemes to finance the retraining and vocational training of farmers. The purpose of these schemes is to enhance agricultural activities and facilitate the introduction of new activities and the adaptability of agriculture.

#### **4.2.2 Laying the foundations of life-long learning in public education**

The basic skills and competences represent the foundations of life-long learning and successful integration to and participation in labour market. To promote the development of new methods and curricula required for competence based education and in-service training of teachers, a comprehensive measure has been launched in 2004. This measure covers the following levels and areas of education:

- at pre-primary and primary level (ISCED 0,1 and 2), the development of basic skills (literacy, numeracy), social competencies, general ICT-skills and basic career-building competences;
- at secondary level (ISCED 3), the further development of basic skills, as well as foreign language communication skills, ICT-skills and those 'career-building' competences that can be capitalised on in the labour market.

As a result of the measure 8 to 12 Regional School and Kindergarten Development Centres will be established.

The e-Education (e-Oktatás) Programme to be implemented in the framework of the National Information Society Strategy (MITS) will contribute, on the one hand, to improving the access to training by improving the electronic availability of public education, and on the other, to developing the skills necessary for an active participation in the information society. The activities covered by the programme include investment in the IT infrastructure of public education, the launching of e-Learning courses, the introduction of new curricula as well as the upgrading of relevant skills.

#### **4.2.3 Developing vocational training and promoting its adjustment to the labour market requirements**

In the period from 2004 to 2006, the upgrading of the vocational training system will be implemented by means of the following measures:

- The systematic review and development of NRQ has started in 2004. The purpose of this measure is to set up the mechanisms which ensure that qualifications are adjusted on an ongoing basis to the labour market requirements. In addition, the elaboration of modular training will also be accomplished with the involvement of the representatives of employers in the two major trade groups embracing a significant part of the qualifications. In the remaining trade groups, the modular system will be set up in the period after 2006.
- In order to ensure a more efficient and practice-oriented vocational training corresponding to the labour market needs, 16 so-called regional integrated vocational training centres will be established (with funding from ESF and ERDF). These centres will be created as a 'network' encompassing 6 to 8 already existing VET institutions operating in a given region, out of which one will assume the coordination, tutoring and supervision of all institutions involved. The new centres will introduce modular training. With a view to ensure an appropriate environment for practice-oriented training, the VET institutes establishing the centres will also receive funding for upgrading the physical infrastructure of the training facilities, including the creation of apprentice workshops.
- The Vocational School Development Programme, which includes the restructuring of institutional management, the development of new methodologies and the procurement of equipment as well as activities to enhance the progress of students at a disadvantage, will also be continued. The main objectives of the programme are to increase the number of people who participate in vocational education, to reduce drop-outs and to equip school leavers with the skills required by the employers. The programme covers 20% of the schools involved in vocational school training by making use of approx. 3 billion HUF annually between 2004 and 2006.

#### **4.2.4 Improving the structure and content of higher education**

The primary aim of the measures supporting the development of higher education is to make sure that the structure of higher education is adjusted to the requirements of the knowledge based society and the economy. In addition, it is crucial to ensure that economic and social disadvantages do not hinder the involvement of youth (young people with disabilities and the Roma in particular) in higher education.

The Government has elaborated the National Higher Education Development Strategy which will support, as part of the preparation for the European Higher Education Area, the development of the structure and content of the higher education system. In accordance with the strategy, higher education institutions may receive grants for the following activities in the period 2004-2006:

- Setting up post-secondary and BA programmes in the fields of economic and business education, information technology, teacher training, humanities and scientific education;
- Drawing up vocational training and retraining programmes as well as short-term competence courses in view of the labour market requirements,
- Developing the management skills of managers, and the academic and research staff of higher educational institutions,
- Development of human resources in the field of R&D and recruitment of research staff.

In order to wind up the structural deficiencies of the system, it is necessary to collect and feedback information on the employment opportunities of those graduating from higher education. The follow up of the labour market position of graduates is carried out in the framework of the programme called Young Graduates Career Survey.

#### **4.2.5 Equal opportunities in higher education**

In 2004, the Government, in accordance with the recommendations of the Council, aims to enhance the participation of disadvantaged and disabled young persons in higher education by means of the following measures:

- The Public Foundation “Esélyt a Tanulásra” (Chance for learning) provides scholarships for disadvantaged students;
- Grants are allocated to higher education institutions to finance investments aimed at facilitating the access to training facilities for disabled students and setting up IT workstations adapted to their specific needs;
- A communication campaign has been launched to promote the participation of disabled people in higher education (*for more details see the National Action Plan for Social Inclusion*).

As of 2005, the Government will introduce a new scheme to support young people at a socio-economic disadvantage to continue their studies in higher education. It will, on the one hand, cover the costs of education and, on the other, it will offer tutoring and mentoring services for students.

*(For further measures aimed at promoting equal access to education and training as well as those preventing early school leaving, see chapter 7.2)*

## **5 INCREASE LABOUR SUPPLY AND PROMOTE ACTIVE AGEING**

### **5.1 Assessment of the situation**

In Hungary, the economic activity is well below the EU average. The main reason for this is that the low level of employment is coupled with low unemployment. In 2003, the activity rate of the population aged 15 to 64 was 60.6% (67.6% for men and 53.9% for women).

#### **5.1.1 Demographic trends**

Demographic trends are by and large similar to that of the Union let alone the fact that the share of population above 60 years of age is slightly lower than in the developed countries. The share of the population aged 15 to 64 is 68% within the total population; young people (15 to 24 years of age) have a proportion of 14.5%, the population aged 25 to 54 represent 42.6% and people of 55 to 64 years of age have a share of 11.2%. It is expected that no significant change will take place in the demographic conditions in the next five years.

#### **5.1.2 Characteristics of employment and activity by age group**

The economic activity level of the population aged 15 to 24 is approximately 70% of the EU-15 average. Within this age group, only 58% of the population not participating in education is employed, and 33% is inactive. These figures show that school leavers face difficulties in entering the labour market which is explained, on the one hand, by the lack of appropriate links between education and the economy and, on the other, by the fact that 13% of the youth aged 18 to 24 leave the system of education with only primary level education or lower (including those dropping out of the secondary school).

The employment rate of the population aged 25 to 54 is 5 percentage points lower and their economic activity is 6 percentage points lower than the EU-15 average. One reason for this is that 10% of the people of 25 to 54 years of age is a pensioner, or receive disability benefits. The low employment and economic activity of the Roma population is another factor restricting the labour supply in this age group.

The employment rate of the population aged 55 to 64 was 29.0% in 2003. Although the increase in the employment rate of this age group has exceeded the average, it still lags well behind the average of the EU-15, which is partly due to that many employers are reluctant to hire older workers.

#### **5.1.3 The health condition of the population**

The labour supply is substantially influenced by the health condition and working capacities. The health condition of the Hungarian population is one of the most unfavourable in a European comparison, and the comparative indicators of recent decades only show a slight improvement. In Hungary, life expectancy at birth for women is 76.6 years, and that for men is 68.3 years. This figure is lower than the EU average by 6 years in the case of women and by 8 years in the case of men. The health condition and the life expectancy show a strong correlation with the social-economic position of the individuals. The difference between the life expectancy of groups in the most favourable situation and the Roma population, which belongs to the group that is most disadvantaged, is 10 years. In the socially and economically disadvantaged regions (Northern Great Plain, Northern Hungary and Southern Transdanubia) the health condition of the population is especially poor which is partly due to the regional differences in the availability and quality of health care.

The poor health condition of the people in an active age and high premature death rate significantly restrict the labour supply. Therefore, efficient prevention and measures aimed at improving the availability and quality of health care are needed. In 2003, the "Decade of Health" Programme was launched, the purpose of which is to achieve a substantial improvement in the most serious health problems involving the population. The programme defines the long-term tasks of public health. Based on this, annual action plans are drawn up to define short-term priorities and tasks as well as the financial resources to implement them.

#### **5.1.4 International migration and labour supply**

Since the early 1990s, Hungary's immigration policy has placed special emphasis on making sure that foreigners can travel into and stay in Hungary for the purpose of working. Special attention has been given to facilitate the of employment of Hungarians living beyond Hungary's borders.

Currently, more than 115,000 foreigners who have settled in Hungary for the long-term are registered, and in addition to this, there are approximately 50,000 foreign workers in the country.<sup>14</sup> In four years, the number of people employed in Hungary on the basis of a permit has almost doubled: in 1998 as many as 26,310 job permits were issued, and in 2002 this figure rose to 49,779. Within this figure, the number of EU citizens has dropped, and that of people coming from neighbouring countries has increased substantially: as much as 80.9 per cent of all the permits were issued to Romanian, Ukrainian and Slovak workers. Within the group of foreign employees, there were twice as many men as women. Foreign workers are usually employed in sectors not requiring high qualifications such as construction, manufacturing, trade and agriculture. Most of the foreign workers are of Hungarian origin and they come from the neighbouring countries. On the basis of other statistics and sociological surveys, it is estimated that the number of foreigners living in Hungary (people living in neighbouring countries but performing work in Hungary on a long-term basis, the Chinese, etc.) is around 200-300 thousand, as much as 2-3 per cent of the population.

#### **Key challenges**

- Increase the activity of youth,
- Encourage the activity of elder (55 to 64 years of age) population,
- Increase the labour supply by improving the health condition of the population,
- Pursue such an immigration policy which takes into consideration the labour market situation.

#### **Related Council recommendations (priorities)**

- Promote the employment of older workers,
- Improve preventive and curative healthcare.

## **5.2 Policy response**

### **5.2.1 Increasing the activity of youth**

The labour centres launch specific programmes aimed at improving the employability of school leavers and promoting their employment. These programmes are financed from the resources allocated to the labour centres from the Labour Market Fund. Currently, there are nine labour centres running such programmes and further programmes will be started in autumn 2004.

In 2003 and 2004, the Government has launched a programme titled 'Young graduates in the public administration'. The purpose of this programme is to offer internships to young graduates in the public administration and thereby an opportunity to obtain work experience.

In order to improve the labour market position of young people, priority attention is devoted to preventing youth unemployment and to strengthening the links between education and the world of work. The network of Occupational Information Centres that offer information and services needed for career orientation and guidance plays a key role in this respect. The career information and guidance services of the PES will be further developed as part of the modernisation programme (*see chapter 1.2.*) with a view to ensure that the employment service has up-to-date information about the demand for training, vocational training and retraining programmes as well as about the actual training opportunities available.

Furthermore, the programmes to be implemented by the PES in the period between 2004 and 2006 will also contribute towards preventing and addressing youth unemployment (*see guideline 1*).

### **5.2.2 Increasing the activity of older workers (population aged 55 to 64)**

To increase the activity of older workers, the statutory retirement age is being gradually raised (by one year every two years) since 1997. As a result, retirement age of men has been 62 years since 2001, and the retirement age of women gradually comes closer to this figure from the 55 years in 1997 (59 years in 2004, reaching 62 in 2009).

Early retirement due to labour market reasons has been largely eliminated by restricting the entitlement to these benefits. Now, early retirement is only applicable if the employer pays in advance the amount of pension to be paid prior to the retirement age. In recent years, this has contributed significantly to the

<sup>14</sup> Illés, Sándor. *Foreigners in Hungary. Migration to and from the European Union*. Conference Paper (2002), 10, and Illés, Sándor – Lukács, Éva (editors). *Migráció és Statisztika*. NKI Kutatási Jelentések Vol. 71. Budapest, 2002.

increase in the employment rate of older workers. Furthermore, the employment and entrepreneurship of older workers is also promoted by certain regulations concerning tax and social security contributions. The employment of pensioners is not prevented by law while receiving a pension.<sup>15</sup>

In 2004, a new regulation has entered into force in order to encourage active ageing: the pension of employees who have already reached the retirement age but would not retire grows by half a percent per month, on every 30-day service period following the reaching of the retirement age. Moreover, with a view to encourage employers to employ older workers, the Government has exempted employers hiring unemployed persons over 50 from the fixed component of the employers' contribution to health care.

The Government has started to draw up a national plan for the elderly that, among others, aims to preserve activity of older age groups. In 2005, a programme will be launched to support to labour market re-integration of the long term unemployed over 50. In this programme, the PES will provide training opportunities and subsidies to employers covering 50% of contributions for a certain period.

### **5.2.3 Increasing the labour supply by improving the health condition of the population**

The 2004 Action Plan of the Public Health Programme has identified as a key priority the development of preventive and healthcare services which contribute to improving the health condition of the active aged population and those aimed at preventing permanent health deterioration and premature death. The Action Plan supports, among others, the expansion of preventive and screening services by means of improving their availability as well as information activities and health promotion programmes at the workplace.

The physical infrastructure of health care services will be upgraded in the framework of a specific measure (co-financed by ERDF) targeted at the three most disadvantaged regions of Hungary. The measure aims at improving the access to health services and to improve their quality and it will be implemented in the period 2004 to 2008. The main objectives of the measure are the following:

- to reduce regional disparities in terms of access to health care,
- to improve prevention, early recognition, treatment and rehabilitation of diseases in order to restore the working abilities as soon as possible,
- to improve the labour market chances of people in a disadvantaged position due to their health condition,
- to improve working conditions of people employed in health care by upgrading infrastructure and equipment.

The improvement of access to modern and efficient health care diagnostic, screening, therapeutic and rehabilitation services will contribute to the restoration and development of working abilities of a significant portion of the productive population. Moreover, it will reduce the time of absence from work for health reasons, and also acts as a catalyst towards more balanced regional development. The early screening (mobile screening) of groups in a disadvantaged position – in territorial or social terms - will also contribute to preserving the activity of these groups of the population.

### **5.2.4 Setting up an international migration policy which takes into consideration the labour market situation**

The 2004 amendment of the immigration regulations eliminates certain restrictions as against the earlier practice, regarding the employment of foreigners:

- For the non-Hungarian citizen family members of Hungarian citizens it has become possible to take a job in Hungary without obtaining a visa and work permit for employment purposes.
- For the citizens of certain EEA states it has become possible to work without a job permit, but with the other member states provisional limitations remained in force on the basis of reciprocity.
- The amendments in statutory provisions lift certain restrictions also regarding seasonal employment.

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<sup>15</sup> In certain jobs the upper age limit of employment and official service is defined: in the case of university professors, civil servants and judges it is 70 years of age; in the case of professional and contracted soldiers it is 57 years.



## **6 GENDER EQUALITY**

### **6.1 Assessment of the situation**

In 2003, women represented 51.2% of the population aged 15-64, and 45.8% of employees. Thus, in Hungary not so much the employment gap of women but the generally low employment poses the most serious problem. The female unemployment rate was 5.6% in 2003, 0.5% more favourable than that of men (6.1%). However, it should be noted that inactivity is higher among women. In the 1990s, the decrease of female employment was also followed by a conservative shift in attitudes, even among women themselves, towards the employment of women.

#### **6.1.1 Supporting the employment of parents with young children**

The low employment level also has its roots in the fairly extensive family benefits system that provides a variety of allowances for persons caring for a family member (child or next-of-kin).<sup>16</sup> Although there are no discriminative conditions among the eligibility criteria of child care benefits, which would put fathers into a more disadvantageous situation than mothers, these are mostly utilised by women<sup>17</sup>. As a result, young women are often absent from the labour market for years which might lead to the erosion of their skills making their return more difficult. The activity rate of women with children between 6-10 years is lower than that of women with no children or with older children. Women with a higher education level – even after the birth of more than one child – have more success in returning to the labour market than the women with a low education.<sup>18</sup>

#### **6.1.2 Day-care services for children and other relatives**

There are 3 main types of daytime care services for children under 3 years: nursery, the family daytime centre and the child minder service. The number of nursery places decreased sharply in the first part of the 1990s and then later at a slighter rate. In 2002, 10.1% of the corresponding age group was enrolled in a nursery.<sup>19</sup> The ratio of children per nursery places was 120% in 2002, but the regular daily attendance is around 80%. There is a demand for flexible care, however there are hardly any child day-care services which are well adjusted to the needs of working parents. Regional disparities are significant in terms of access to daytime child care.

Daytime, pre-school care for children between 3-6 is provided by kindergartens that are part of the public education system. Hungary has a well-established network of kindergartens, and the proportion of children admitted to kindergartens is high, around 90%. Nevertheless this ratio is lower among children coming from disadvantaged families.

The daytime care of disabled children is particularly problematic, especially outside large cities. Given the current enrolment rates and scarce resources (staff) of day-care services, only a few of them offer inclusive care services for children with disabilities.

Between 2001 and 2003, the system of basic and special social care services and the community-based social care services underwent important changes. The aim was to bring these services closer the users and also provide increasing assistance to families in care activities. In this framework, two new types of services were created: the support service and the so-called dial-in home care. In addition, the day-care centres for people with disabilities were further developed and strengthened, and also development centres were set up.

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<sup>16</sup> The child care allowance (GYES) is a universal cash benefit until the age 3 of the child. Its amount is equal to the minimum old age pension. The child care benefit (GYED) is an insurance-based payment that can be received until the age of 2 of the child. The amount depends on the previous income, but the monthly maximum is limited. Once the GYED eligibility is over, it is possible to make use of the GYES for an additional (3<sup>rd</sup>) year. The child raising support (GYET) is for parents who stay away from the labour market and they have at least 3 children, with the youngest under the age of 8. Persons caring for old, ill or disabled relatives might receive a regular nursing fee.

<sup>17</sup> In 2003, 6% of GYES-recipients and 0.7% of GYED-recipients were men. (Source: Ministry of Health, Social and Family Affairs).

<sup>18</sup> For example, 63% of mothers with higher education and with three children are working, as against 17% of those mothers who have primary school education (Source: Changing families, KSH 2002)

<sup>19</sup> Central Statistical Office KSH figure

### **6.1.3 Reconciling work and family life, promoting labour market return to the labour market**

To support the reconciliation of work and family life, each year the Family Friendly Workplace award is presented since 2000. It might be awarded to companies and institutions implementing outstanding family friendly measures. One of the main objectives of the award programme is collecting and disseminating information on existing measures and good practices, and raise awareness on the issue.

The labour market reintegration of women is supported by a PHARE Project between 2001 and 2004. The total budget of the programme is 4 million euros and it has two components: a “twinning” partnership co-operation and a grant scheme to support the return of women to the labour market either as employees or as self-employed. The general purpose of the programme is strengthening equal opportunities for both women and men, while supporting the integration or re-integration of inactive women to the labour market.

Labour centres also regularly design and implement integrated labour market programmes for women. These use a combination of training, services and supported employment adjusted to the needs of the target group and thus promote their employment effectively.

### **6.1.4 Segregation, wage gaps**

Both horizontal and vertical segregation are characteristic of female employment. Horizontal segregation is indicated by the high concentration of female labour in some sectors and professions which pay worse than the average. More than 75% the employees in health care and education are women, which is partly explained by the low wages in these sectors, and partly by working conditions which are more favourable from the aspect of reconciling family and work. While 45% of all employees are women, in office jobs this figure is 96%, and in auxiliary jobs requiring higher education it is 65%. Vertical segregation is indicated by the fact that in the private sector, only about one tenth of the managers fillings the top positions of the employment hierarchy is women, and women only represent 30% of the entrepreneurs.

Despite the higher education level of women, their average gross earnings are 19% lower than that of men. In comparable jobs, for a work of equal value, women receive approximately 13-14% lower wages on average both in the public and private sectors. The wage gaps are however, somewhat lower than the EU average.

There is a correlation between job segregation and wage-gaps: the higher concentration of female employees in the public sector which traditionally offers lower earnings. At the same time, due to the lower salaries, the public sector is less attractive to men and this further increases the concentration of women. However, in the past few years, salaries significantly went up in the public sphere. This considerably improved the wage situation of several traditionally female occupations, and reduced the gender wage-gaps in the whole economy. And due to the increased earnings, the public sector has become an attractive option for a larger number of men, this also reducing job segregation.

### **6.1.5 Combating discrimination**

Equality between men and women is one of the basic principles of the Hungarian legal system, and it is also promoted by the Act CXXV of 2003 *‘Promoting equal treatment and equal opportunities for all’*. The aim of the Act is to combat discrimination and unfair treatment of different minority groups, including women, in a number of areas.

#### **Key challenges**

- Combat all forms of discrimination against women,
- Promote the labour market participation of women,
- Develop day care,
- Combat segregation of the labour market.

## **6.2 Policy response**

### **6.2.1 Combating discrimination of women**

A number of institutions created by the Equal Opportunities Act will be set up in the near future.

- A national anti-discrimination authority with a right to impose cash fines will be set up by 1<sup>st</sup> of January 2005.
- In 2005, the Government will launch Equal Opportunities Programme of the Republic of Hungary (KEP) that coordinates the various activities and measures aimed at promoting equal opportunities by other ministries and government agencies. In the KEP a nation-wide survey on wage gaps will be carried out and a strategy will be put forward on combating wage discrimination. Employers will be encouraged to review wage gaps and work assessment systems, and draw up and implement their own strategies. They will receive adequate support and information for these activities, with special attention to the public sector. (*See also guideline 7*).

Public sector employers and businesses will have to make their own equal opportunity strategies from 2005. These must include measures to promote equal opportunities of different groups of employees, including women and cover issues as wage gaps, working conditions, access to training etc.

### **6.2.2 Fostering the participation of women in the labour market**

Recently, the Government has introduced a number measures that might facilitate maintaining contacts with the labour market during child home care:

- Those receiving child care allowance – if the child is older than 18 months – child raising support or nursing fee might take up part-time or home-based full time employment. Their employers are exempted from the payment of the fixed component of employers' contribution to health care as of 2004.
- Both parents are entitled to receive these cash benefits under identical conditions. After the child becomes 1 year old, the GYES may be transferred to a grandparent.
- Persons who are not in the labour market because of child care, can participate in higher education or training free of charge. Moreover, since 2002 they can take part in the integrated labour market programmes organized by the PES as well.

In 2004 with funding from the ESF a grant scheme is launched to promote the labour market (re-) integration of women or the retention of their jobs. The scheme supports alternative labour market services and services to assist business start-up designed especially for women. The programme gives priority to actions targeting older women and women who were absent from the labour market for a longer period. It is expected that these services will reach at least 4,000 women.

In addition, the labour centres also launch labour market programmes based on an integrated approach in four counties, serving similar purposes.

### **6.2.3 Development of day-care**

A necessary condition of female employment and of the reconciliation of work and family life is the availability of adequate day-care services for dependent family members. To this end:

- In order to increase the number of places at nurseries and to improve access, all settlements with more than 10,000 inhabitants must set up a nursery as of July 1, 2005. The target by 2007 is to increase the number of places available by 10%. Between 2004 and 2006, with the assistance of the ERDF, approximately 2,000 new nursery places will be established.
- The development of the support services and day-care centres for people with disabilities will continue.
- Approximately 30 new dial-in home care services will be set up in 2004, and the normative financial support of such services will be introduced.

### **6.2.4 Combating segregation**

In labour market programmes, little attention had been paid so far to job segregation of women, therefore in this area primarily innovative initiatives and new approaches are needed. To that end, the EQUAL Community Initiative Programme will promote activities aimed at reducing the labour market differences

between genders and decreasing job segregation as of 2004. The purpose is to ensure equal opportunities for both women and men on the labour market, while reducing the gender differences as well as the vertical and horizontal segregation. To reduce horizontal segregation, the programme on the one hand supports activities that encourage young students before making their career-choices to familiarise with and to try work in trades and areas dominated conventionally by the other gender. On the other hand it encourages a higher participation of women in research and development, as well as in the technical and natural sciences areas. And, in order to combat vertical segregation, it supports initiatives that foster the promotion of women within the company by introducing new methods and also raising the awareness of the employers.

## **7 PROMOTE THE INTEGRATION OF AND COMBAT THE DISCRIMINATION AGAINST PEOPLE AT A DISADVANTAGE IN THE LABOUR MARKET**

### **7.1 Assessment of the situation**

The social-economic transformation has put great burdens on the whole society, but disadvantaged groups have especially vulnerable to the risk of poverty and social exclusion. By now it has become evident that the labour market situation of certain disadvantaged groups does not improve automatically even in times of an economic expansion, but targeted programmes are needed that respond to their needs. People with a low education level, Roma people and people with disabilities are in a particularly disadvantaged situation in the labour market.

It is one of the priorities of the Government to improve the social situation and promote the labour market participation of disadvantaged people. A core activity of the PES is helping these people to improve their employability and facilitate access to jobs. In addition, a number of other actors have a role: local governments organise public works, social services provide support services, NGOs organise and implement targeted programmes. Since 1992 the National Employment Public Foundation (OFA) has supported pilot projects and innovative programmes based on local initiatives and partnerships facilitating the labour market re-integration of disadvantaged and unemployed people.

#### **7.1.1 People with a low education**

In Hungary the employment rates of people with a low education are well below the average, and unemployment, long-term unemployment and inactivity are considerably higher among them. Between 1990 and 2001 their employment rate fell by 27-29%, while total employment decreased by 14%. In 2003 the unemployment rate of people with a low education was 6.4% higher than the average.

Low education often goes together with other disadvantages such as disability, Roma origin, residence in regions lagging behind etc. The accumulation of disadvantages makes it even harder to find a job. Complex problems call for comprehensive responses, an example of which are the integrated labour market programmes of the labour centres.

Despite the consistent overall improvement of the education levels of the workforce, mainly thanks to the expansion of higher education and increased participation of young people in education (*see also chapter 4.1.1*), there are also some worrying trends, most importantly the reproduction of low education levels and thus the reproduction of socio-economic disadvantages as well among generations. The main reason behind this is that the education system fails to compensate the disadvantages of students and create equal opportunities (*see chapter 7.1.4*).

#### **7.1.2 Roma population**

In Hungary, data collection on ethnic origins is limited by statutory provisions, therefore accurate and reliable data are not available about the number and social/economic status of the Roma population. According to estimates, their number is around 600,000, their employment level is roughly one-half, their unemployment rate is three or five times and the number of dependants per one earner is three times higher than in the non-roma population. As causes of their labour market disadvantages, low schooling, residential disadvantages and discrimination by employers all play a role.

A significant part of the integrated labour market programmes implemented by PES targets Roma people, and the public works programmes also offer temporary employment to those in most unfavourable situation, most often the long-term unemployed or inactive Roma people. In the past years, a number of PHARE projects supported the labour market integration of the long-term unemployed and other groups facing multiple disadvantages, among them Roma people.

A programme with support from the Labour Market Fund was launched in 2003 to support the employment and training of unemployed Roma people in public education institutions. In addition to the labour market integration of the participants, the programme improves the education of Roma children and the relationship between the Roma community and the school.

### 7.1.3 People with disabilities

The labour market integration of people with disabilities is often hindered by the lack of up-to-date skills and qualifications. Their employment opportunities are further narrowed by the limited accessibility of employment services and workplaces. Moreover employers are often not willing to hire disabled workers. Their labour market presence thus is marginal; their employment rate is only 11.5%, despite the several incentive measures. For businesses with more than twenty employees the law prescribes a mandatory employment quota of persons with disability.<sup>20</sup> In case this quota is not met, the employer must pay a rehabilitation contribution. Those who employ disabled workers above the quota may make use of wage subsidies.<sup>21</sup> The integrated employment ratio is low, around 40% of the employees with disabilities work in so-called sheltered workplaces. Businesses with a high ratio of disabled employees might receive special subsidies.<sup>22</sup>

The labour market integration of people with disabilities is promoted by rehabilitation groups in the labour centres. In addition, comprehensive services are available in the so-called Rehabilitation Information Centres (RIC), in 16 county labour centres. In the remaining four counties RICs will be set up during 2004. Unemployed people with disabilities are entitled for higher subsidies, including a higher adult training normative support for those with a low education. Labour centres provide assistance on the basis of a competition for improving the accessibility of workplaces for workers with disabilities.

### 7.1.4 Disadvantaged students in public education

In Hungary 11.8% of the age group 18-24 have not higher than lower secondary education. This is more favourable – more than 6% - than the EU-15 average. By the end of the compulsory schooling age (16 years), 5% do finish primary school.<sup>23</sup> Among Roma students, the drop-outs and repeated years are higher than the average, however more than 80% finishes primary education – even if at an older age. This gives a chance for participation in labour market and certain adult education programmes.

The 1999 amendment of the Public Education Act introduced the concept of “catch-up education” that helps those young people over 16, including many Roma, who dropped out from primary school during the last two years of the education to return to school. The catch-up education is a full time programme that combines completion of primary education with vocational training. The expansion of secondary and higher education alone has failed to promote equal opportunities. According to the PISA 2000 survey, the Hungarian education system is selective and student performance is heavily influenced by the socio-economic background of the family, which is reinforced by the segregation within the education system. Therefore, in the field of public education, a separate ‘integration normative’ was introduced in 2003 to encourage schools to teach weaker-performing students together with others, and not in ‘special’ (segregated) classes or schools. In recent years, two PHARE programmes have been launched to support the social inclusion, to improve school performance and thus the possibility to continue education of young people facing multiple disadvantages, with special attention to Roma youngsters. In addition, the programme supported the elaboration and implementation of secondary education programmes. The Arany János Programme provides accommodation and pedagogical support for talented students coming from an underprivileged background.

In order to prevent the drop-out of disadvantaged young people and to enhance their school-success, assistant teachers are employed in a number of schools with support of the PES. These assistants perform extra-curricular activities and help the catch-up and integration of pupils. The joint pilot programme of OFA and the Education Research Institute implemented in more than 60 schools serves a similar purpose. The schools involved in the programme employ Roma janitors and Roma social workers in order to foster and strengthen co-operation between the school and the Roma community. The programme at the same time promotes the labour market integration of Roma adults.

### 7.1.4 Immigrants

Foreigners legally residing in Hungary (immigrants, those holding a valid residency permit, refugees, people receiving subsidiary protection or other forms of humanitarian protection) represent less than 2% of the total

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<sup>20</sup> Act IV of 1991 on Facilitating employment and on the unemployment benefits

<sup>21</sup> Act IV of 1991 on Facilitating employment and on the unemployment benefits

<sup>22</sup> Joint decree 8/1983.(VI.29.) EüM-PM

<sup>23</sup> figure from 2000

population. Currently there are no regular, organized integration programmes for migrants, and the legal and institutional framework of such programmes does not exist yet. This is explained by the fact that overwhelming majority of foreign citizens residing in Hungary come to work or study and is ethnic Hungarian.

Refugees and people receiving subsidiary protection are especially vulnerable to social exclusion. Their societal and labour market integration is hindered by the lack of Hungarian language skills, cultural differences and the deficiencies of the supporting institutional structures.

After Hungary's accession to the EU, however, a rise in the number of immigrants can be expected, and therefore it is necessary to set up institutions and policies to promote integration. To this end, in 2002 a MATRA project was launched to elaborate the institutional framework and content of an integration policy for refugees and immigrants. In 2003, with PHARE support, an experimental part-integration programme was launched, which offered integrated support services to help the social and labour market integration of refugees.

To promote the integration of immigrant children in public schools, the Ministry of Education has drawn up guidelines and also provides normative financial support as of 2004.

#### **Key challenges**

- Increase the number of disadvantaged people entering and remaining on the labour market.
- Change the institutions and measures of employment rehabilitation, and strengthen labour market services for people with disabilities.
- Ensure equal opportunities for disadvantaged students in public education.
- Create the institutional framework and content of a comprehensive integration policy for refugees, immigrants and migrants from third countries.

#### **Related Council recommendations (priorities)**

- Improve the labour market situation of Roma people.
- Reduce early school leaving.

## **7.2 Policy response**

Creating equal opportunities for all is one of the most important objectives of the Government, which is also indicated by the establishment of the Government Office for Equal Opportunities. The Act on equal treatment and on fostering equal opportunities was ratified by the Parliament in December 2003. The act promotes equal treatment of women, disadvantaged people and minorities. On the basis of the Act, a National Equal Opportunities Programme is being drawn up in 2004.

In 2004, the Government has elaborated the National Action Plan for Social Inclusion which based on the common EU targets, defines the national targets and policy measures aimed at reducing poverty and social exclusion. The NAP/inclusion gives priority attention to fostering the employment of the most vulnerable groups, and the responses identified therein are closely linked with the measures of the National Action Plan for Employment. As of 2004, the Government also devotes a substantial amount of the Structural Funds assistance, mainly within the frameworks of the Human Resources Development Operational Programme (HRDOP) and the EQUAL Community Initiative Programme (CIP) to improving the labour market situation of disadvantaged groups.

### **7.2.1 Improving the employability and supporting the labour market integration of disadvantaged people**

In March 2004, the Government adopted a mid-term action plan for 2004-2006 on promoting the social inclusion of Roma people. Within the framework of the action plan, annual action programmes are drawn up defining concrete measures.<sup>24</sup> The purpose of the programme is to coordinate the efforts aimed at improving the situation of the Roma people, with the involvement of an increasing range of actors. Education, training and employment are among the main fields of intervention. The objectives are reducing long-term

<sup>24</sup> Government resolution 1021/2004. (III. 18.) on the Government programme fostering the social integration of the Roma and about the related measures.

unemployment and facilitating labour market integration, supporting involvement in adult training, and improving the efficiency of active labour market measures in assisting the Roma.

A representative survey is initiated by the Government in 2004 to provide a basis for designing and implementing better and more efficient programmes for Roma people. The results of the research are expected to become available in 2006.

In the framework of the PES 2004 integrated labour market programmes, 15.2 million euros are allocated for programmes helping disadvantaged groups - Roma people, people with disabilities, older workers, early school leavers, long-term unemployed, homeless people, and ex-offenders.

Between 2004 and 2006, the Government devotes 40 million Euros to NGO initiatives which improve the employability of disadvantaged people and promote their labour market integration. These initiatives provide tailor-made employment services combining training and employment for vulnerable people that are often not reached by the PES.

The Ministry of Employment and Labour each year supports public works programmes of local governments selected through an open call for proposals. These programmes provide temporary employment for the recipients of regular social benefit and the long-term unemployed. Usually the participation of Roma people is high in these programmes. In addition, public works programmes are also launched in co-operation with other ministries for a given task (removing barriers of the built environment, forestation, etc.) and also in association with state infrastructure development programmes (*see also guideline 10*).

Professional working in the field of social services also play an important role in promoting the labour market integration of disadvantaged people because they are often in regular contact with them. Therefore, between 2004-2006, the Government by means of a grant scheme supports the training of social professionals on labour market and employment issues.

The e-Ernyő (e-Umbrella) programme of the National Information Society Strategy (MITS), also supports the labour market integration of disadvantaged groups by fostering e-literacy with a network of IT tutors at so-called e-Esély (e-Chance) points. By 2006, the programme aims to ensure access to ICT for at least 30% of disadvantaged people.

The Hungarian EQUAL Programme launched in May 2004, will support the elaboration and testing of innovative methods aiming to facilitate the labour market integration of disadvantaged groups.

### **7.2.2 The modernisation of the institutions and measures of the employment rehabilitation and the strengthening of labour market services for people with disabilities**

The institutions and measures supporting the employment of people with disabilities need modernisation: new and more efficient measures are needed that foster the integrated employment of disabled people and the full use of their capacities.

The existing services will be further developed and expanded through:

- improving the accessibility of the PES offices and services and the establishment of four new RICs;
- involving and supporting NGOs providing ‘alternative’ labour market services.

In 2003, the reform of the employment support scheme of people with disabilities started. The amount of rehabilitation contribution paid by businesses not meeting the employment quota was tripled. In 2004 the Ministry of Employment and Labour launched a programme supporting the modernisation of sheltered businesses receiving state subsidies. The total amount allocated for this programme is 480,000 euros. A number of other activities are under way: re-defining the conditions of employment in residential institutions, reviewing the process of ability assessment related to employment, regulating atypical rehabilitation employment.

The EQUAL Programme will support innovative activities aimed at creating ‘inclusive’ workplaces and modernising sheltered organisations by expanding their scope of activities and creating new functions.

### **7.2.3 Fostering equal opportunities for disadvantaged students and students with special needs and improving their access to public education**

At the end of 2003, a PHARE project was launched under the title ‘Fostering equal opportunities for disabled persons’ with a budget of approximately 4 million euros. The programme provides grants for public and



higher education institutions, and sports facilities to improve accessibility for disabled people. In addition, a single higher education curriculum on the inclusive education of disabled students will be developed and introduced in pedagogical higher education programmes.

As of 2004, a development programme will start in the public education system for improving the access and equal opportunities of disadvantaged students and students with special needs. The programme aims to create and disseminate the methodology of inclusive education, eliminate segregation and, improve the school performance and future labour market chances of disadvantaged students. A core component of the programme is elaborating new methods for preventing drop-out. To define the adequate measure a research programme will start in 2005 exploring the causes of drop-out.

In addition to the curriculum and methodological developments, funding (partly from the ERDF) will be available for upgrading the infrastructure of primary education, with special attention to reducing regional disparities and improving access to pre-school education in settlements lagging behind and with high numbers of disadvantaged people.

#### **7.2.4 Creating the institutional framework and content of a comprehensive integration policy for refugees, immigrants and long-term migrants from third countries**

The programme creating the institutional framework and measures of a comprehensive integration programme, with funding from the MATRA Programme of the Dutch Ministry of Foreign Affairs, will continue.

From 2004 the European Refugee Fund and the Hungarian EQUAL Programme will support the societal and labour market integration of asylum seekers, refugees, and people enjoying other forms of protection. Moreover, these programmes will enhance the capacities of organisations active in this field.

## **8 MAKE WORK PAY THROUGH INCENTIVES TO ENHANCE WORK ATTRACTIVENESS**

### **8.1 Assessment of the situation**

Policies aimed at making work pay should build on both financial and non-financial (services helping the reconciliation of family life and work, health and safety at work, working arrangements etc.) incentives. In accordance with scope of guideline 8, this chapter focuses on the financial incentives, while the non-financial incentives are presented in relation to other guidelines (*guidelines 3 and 6 in particular*).

Making work pay is a key issue in Hungary due to the high level of inactivity. It has to be addressed by a series of measures covering wage developments, tax wedge on earnings, unemployment benefits and allowances as well as other social benefits of the working aged non-employed.

#### **8.1.1 Minimum wages, taxes and social security contributions**

The minimum wage is an important tool to make work pay. In recent years, the minimum wage has substantially increased and it was exempted from income tax. Both measures have served as incentives to work. In 2003, as against the year 2000, the amount of minimum wage was 96% higher and the minimum old age pension – which can be considered to be a threshold of social benefits – was 30% higher.

In European comparison, the labour costs in Hungary are not high. However, the rate of the employers' contribution is high. The tax and social security contributions to be paid by the employer and the employee represents 51% of the labour cost on the level of manufacturing industry average earnings: personal income tax is 15.3%, the employees' contribution is 9.2% and the employers' contribution is 26.6%. Although contribution rates are in certain cases higher than the EU average, the total amount of contributions paid as percent of the GDP is lower than the EU average.

The contributions of the employees, and that of the low-pay employees in particular, are not high. In 2003, 12.5% of the gross earnings were paid as contributions: 11.5% to social security (8.5% pension, 3% health care) and 1% to the Labour Market Fund that covers the unemployment benefits and measures. In 2004, the health insurance contribution was raised from 3 to 4%. The extent of tax credit and the income limit giving eligibility for a tax credit have been raised significantly as of September 2002, and hence the minimum wage became practically exempt from tax as of that date, thereby increasing the incentive to take up jobs.

A pension contribution is to be paid by those on child care and unemployment benefits, while other social benefits and subsidies (including the pension) are exempt from tax and contributions.

#### **8.1.2 Unemployment benefits**

In Hungary, there are three types of cash benefits for the unemployed, which are the following: unemployment benefit (insurance based), job search allowance, and regular social allowance.

As far as the unemployment benefit is concerned, at least 200 days must be spent in employment in the last four years to be eligible, and for one day of benefit, it is necessary to work for five days. The amount of the benefit is 65% of the earlier income. This, however, only ensures an appropriate benefit level (corresponding to the replacement rate) for people who have hardly higher earnings than the minimum wage because the maximum amount of the unemployment benefit is defined at a relatively low level (180% of the lowest old age pension). The maximum duration of this benefit is 9 months.

The job search allowance has been introduced as a new cash benefit in 2003 and it is aimed at providing financial support for an extended period after the eligibility period of the unemployment benefit is terminated. The duration of the job search allowance is 180 days or, for persons over 45 years of age, 270 days. The amount of the allowance equals to 85% of the minimum amount of the old age pension. If a person receiving job seeker's allowance becomes employed during the eligibility period, half of the benefits due for the remaining period shall be paid out to this person as a lump sum payment. This scheme includes several elements of activation such as, for example, the encouragement of active job search and the rewarding of taking up a job before the eligibility period is terminated.

The unemployed who are not entitled to unemployment benefit or job search allowance may receive regular social allowance paid by the local governments. This allowance is means-tested and it is equivalent to the 70 per cent of the minimum old-age pension.

In Hungary, the unemployment trap (the indicator which compares the net unemployment benefit to the income which can be obtained by work) was 74.9% in 2001, and it decreased to 70.6% in 2002.

### 8.1.3 Other benefits for the non-employed

Of the cash benefits paid to the non-employed, the unemployment benefits have a relatively low share. Because of the high inactivity of the working age population, other payments are also worth considering from the perspective of making work attractive and pay.

In 2003, 58% of those aged 15-64 who were not employed or enrolled in full time education received pension (old-age, early retirement or disability pension) and 14% received parental allowances.

Table 4 Income replacing cash benefits and subsidies of people of active age (2002)

Benefit	Number of people		Average monthly benefit per one person, as a percentage of the minimum wage	Annual expenses, total (billion HUF)
	Thousand	As % of all beneficiaries		
Subsistence minimum, a household with 2 adults and 2 children, per one person			62.0	
Minimum old age pension*			43.6	
Pensions and pension type of benefits, below the retirement age				
Advanced old age pension	93.0	7	116.4	64.8
Old age pension with age preference	45	3	139.8	37.2
Disability pension	467.3	34	86.6	222.1
Miner's and early retirement pension **	8.2	1	154.4	11.0
Disability benefits	219.2	16	42.3	57.2
Child care benefits				
Child care allowance	171.8	12	43.6	50.7
Child raising support	50.3	4	43.6	15.0
Child care benefit	70.2	5	89.8	47.0
Unemployment benefits				
Unemployment benefit	107.7	7	66.7	60.8
Pre-retirement unemployment benefit	7.2	1	39.2	1.8
Other benefits				
Regular social benefit for people in active age	104.4	8	34.9	21.5
Nursing fee	31.4	2	43.8	6.3

\* Currently there is no declared social minimum, but the old age minimum pension serves as a basis for testing eligibility for a number of social benefits.

\*\* Early retirement pension is paid by the employers.

The social benefit system is relatively extensive but the levels of the benefits are low. Of the insurance-based benefits, the amount of pensions is influenced by previous income and the total length of employment. The main reason for introducing the early retirement pension as of 1998 was the increasing of the retirement age. To be entitled for this benefit, at least 34 years of previous employment is required. The old age pension with age preference is related to occupations with serious health risks. The access to early retirement schemes has been tightened recently. In addition to the increase in the statutory retirement age, this has also contributed towards increasing the employment of older workers (*see also 5.2.2*).

Pensions and certain child care benefits (GYES and GYET) can be combined with employment under certain conditions specific to each of these benefits (*for a detailed description of child care benefits, see chapter 6.1.1*).

### **Key challenges**

- Maintain the current proportions of wages and social benefits,
- Review the social protection system,
- Encourage job search and strengthen the role of unemployment benefits in preventing withdrawal from the labour market.

### **Related Council recommendations (priorities)**

- Make work pay by reforming the social benefit systems including sickness-related benefits.

## **8.2 Policy response**

For encouraging employment, it is necessary to review simultaneously all components of the benefits system (duration, net amount, eligibility, the extent of work that can be carried out while receiving the benefits, etc.) and, if necessary, reform these schemes in a consistent way.

### **8.2.1 Maintaining the ratio of wages and social incomes**

The fact that the minimum wage is perceivably higher than the social benefits serves for encouraging employment. Efforts are made to safeguard the proportions established between minimum wage and social incomes. In this respect, the exception of the minimum wage from income tax has been an important step forward.

The taxation reform to be introduced by the Government as of 2005 will also enhance work attractiveness. It will replace the current three-rate income tax regime by a two-rate one which will decrease tax wedge up to a certain income level while leaving identical the tax-rate of income above this level. This will result in a net increase of income and thus it might serve as an incentive to taking up jobs.

### **8.2.2 Transformation of the social protection system**

In 2003, the Ministry of Health, Social and Family Affairs started to review the social benefits system within the frameworks of a project titled “SZOLID”<sup>25</sup>. The project aims to lay down the conceptual basis of a fundamentally new social legislation, and modern social and child welfare services. Reforms would directly concern families in need, children, elderly people, people with disabilities, people with mental health problems, addicts, homeless people. The main objectives are to improve the quality of life and to promote the social inclusion of altogether 4.5-5 million persons. The reform sets as a key priority to reduce the regional disparities of the availability and accessibility of social services. Creating services close to those in need and mechanisms to promote employment, a new system of vocational rehabilitation, the effective combination of benefits and services will considerably improve the labour market opportunities of welfare recipients.

### **8.2.3 The role of unemployment benefits in encouraging job seeking and employment must be improved**

The reform of the unemployment benefit system is underway and the necessary pre-conditions are created to ensure that by 2008 the PES can conclude individual action plans with all registered unemployed who receive benefits, or/and whose employment can be assisted by active policies implemented by the PES. The individual action plan is a document outlining the joint efforts of the job seeker and PES, in which document a series of interrelated activities are defined to support the client in remaining in or returning to the labour market.

The main purpose of the reform is to ensure that the non-employed in working age who are capable and ready to work, should be or remain involved in the services of the PES for a shorter or longer period instead of taking up benefits related to inactivity. However, the complete transformation of the unemployment benefit system may only be conceived in the longer run, due to financial reasons and because the impacts of the job search allowance introduced in 2003 will have to be considered before the reform is launched.

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<sup>25</sup> The title of the project refers to ‘solidarity’.

## **9 TRANSFORM UNDECLARED WORK INTO REGULAR EMPLOYMENT**

### **9.1 Assessment of the situation**

#### **9.1.1 The volume of undeclared employment**

Although there are no reliable national data or international comparisons, Hungary is very likely to be in an unfavourable position than the majority of the EU Member States in this respect. Low employment in itself makes it probable that among the 15-64 years old non-employed, the proportion of people who gain some kind of income by undeclared employment could be significant. Among the inactive population, there are approx. 440-450 thousand people who are not in education, do not receive pension or child care benefits, or unemployment benefits. The number of employed (3,900,000 people) shown on the basis of the Labour Force Survey of the Central Statistical Office is at least 500,000 higher than the number of those who pay taxes due to employment (including the self-employed). Accordingly, it can be assumed that approx. 15-20% of the employed is not registered.

#### **9.1.2 Tax burdens on labour**

Low employment is partly due to the fact that some of those who actually perform gainful work avoid the payment of taxes. The tax burdens of live labour have decreased substantially in recent years: the rate of employers' contributions dropped by 6 percentage points in 1999, and by further 2 percentage points in each of the years 2001 and 2002, that is, by a total of 10 percentage points. Although in this period the amount of the fixed component of the employers' contribution to health care increased, in the year 2003, this contribution was also reduced. However, the contributions paid by the employers are still high in comparison to EU Member States.

#### **9.1.3 Legislative framework and registration**

Undeclared work is primarily concentrated in sectors that need temporary or seasonal labour (such as the construction, agriculture, catering and tourism). Therefore, a number of measures had been taken to prepare a new labour legislation, which is adjusted to specificities of seasonal employment. A specific 'labour certificate' for temporary workers was introduced, which made it possible for employers to meet their payment obligations by purchasing a 'tax and contributions voucher'.

As in many other countries, it is difficult to differentiate between the self-employed and the employee in Hungary as well. Self-employment (in most cases as an 'individual entrepreneur') can be considered as typical in the case of certain activities and services, in many cases in the form of 'phantom businesses' which aim at tax evasion. People employed in this way are registered and they also pay taxes, but on a much lower level than the employed. Therefore, in addition to defining the various forms of employment, the following are also necessary:

- regulations applying to taxation and employment should be able to cover the specific, non-standard forms of employment;
- the differences in the costs of the various forms of employment should be decreased by reducing the employees' contribution.

#### **9.1.4 Labour inspection**

In Hungary, labour inspection is carried out by the National Labour Inspectorate (OMMF). In 2003, the regulations applying to the legal statements necessary to establish an employment relationship were violated by the employers in 8,108 cases, which was 21% of all inspection cases. Irregularities concerned 35,377 employees, that is, 11% of those involved in inspections. The most frequent forms of irregularities are:

- employment (sub-contracting, assignment) based on a false contract,
- employment without a job contract, based on a verbal agreement of the parties concerned,
- irregularities stemming from a job contract concluded with shortfalls in formal requirements or substance.

The inspections showed that after a labour fine imposed, some of the enterprises (in particular, small enterprises and those employing temporary workers) immediately terminated employment instead of establishing a normal (lawful) employment relationship.

Labour and safety at work inspections cover approx. 3 to 5 per cent of the employers annually. The tasks of labour inspection have grown substantially last year. On the one hand, the subjects of labour inspection have been expanded and, on the other, in relation to accession to the EU the procedural tasks became more time-consuming.

### **Key challenges**

- Create an employment-friendly economic environment,
- Reinforce labour inspection and ensure an appropriate coordination with the inspection related to the payment of taxes.

## **9.2 Policy response**

In 2004, the Ministry of Finance has established an inter-ministerial working group that will draw up a report on undeclared work for the Economic Cabinet. Based on the report, a work programme will be prepared defining the tasks in the field of regulation, tax and social security.

### **9.2.1 Creating an employment-friendly environment**

While maintaining fiscal consolidation, reducing the tax wedge on labour has been continued (*see chapter 2.2.1*). By 2006, the fixed component of the employers' contribution to health care will be completely phased out.

A review of the legislative framework related to taxation and employment has started to ensure that it is more equitable and is adjusted to the change in the forms of employment forms. To this end, the following actions will be implemented in 2004 and 2005:

- As part of the comprehensive review of the Labour Code, the legal forms of employment will be reviewed, in addition to examining the ways in which the specificities of certain occupations or forms of employment can be covered by the regulations concerned.
- A comparative analysis will be drawn up about the regulations concerning taxes and contributions and related benefits and credits related to the various forms of employment.
- Finally, after jointly evaluating the results with the social partners, a proposal will be prepared on the necessary amendments to the regulations.

### **9.2.2 Creating an interest for paying social security contributions**

In the context of social security systems, strengthening the 'insurance principle' and its application are basic tools in encouraging legal employment and the payment of taxes. In the case of cash benefits, including pension, sick-pay, maternity benefit and child care fee, the insurance principle is already directly applied now. To strengthen the insurance principle, the Government envisages reviewing the possibility of setting up a system which would register individual eligibilities.

In the case of in-kind health insurance benefits, one of the possible directions of further developing the system is to set as a condition for eligibility the payment of a contribution (for pensioners or, people receiving an income replacement benefit, the contribution would be shouldered by the central budget).

As far as certain pension-type benefits are concerned, the regulations which are against the insurance principle will be gradually phased out (e.g. the digressive regarding of income, minimum pension).

### **9.2.3 Improving the efficiency of labour inspection**

Since 1992, when the so-called 'labour certificate' (service log) was abolished, there has been no uniform records in Hungary which would give an accurate picture about the number of employed and other related information like wages, qualifications, schooling, type of employment, etc. In response, the Government established a Central Employment Register in 2003. The database has become operational as of May 2004. In addition to registering employment, the database will contribute to:

- creating a transparent labour market and increasing the legal security of employees,

- transforming undeclared employment to legal employment by ensuring appropriate conditions for labour inspection.

For the time being, the system is directed only at registering the forms of employment that fall within the scope of the Labour Code. When an employment relationship is established, the personal data of the employee must be reported, in addition to the social insurance code, the basic wages at the time of registration, qualifications necessary for the job concerned, level of education and the number of working hours.<sup>26</sup> The employer is also obliged to report the date of terminating the employment relationship, no later than on the day which follows the termination of employment relationship. The labour inspection authority can check, even during an on-site inspection, whether the reporting has been submitted or not by means of a regulatory code. This makes it easier to examine the lawful nature of employment.

Due to the protection of personal data, only limited information features in the records, and some of them may only be used for statistical purposes. The Government will consider the possibilities of expanding the records also to other legal relations, which can serve as a foundation for better awareness about labour market processes. This could be a great step forward in order to set up a uniform system of records which integrate separate systems with similar functions.

#### **9.2.4 Information activities**

In order to raise the standard of tax payment attitudes and to disseminate information on the administration related to taxation, efforts will be made to promote learning about basic taxation skills already at the level of secondary education. Moreover, the issuing of entrepreneurship permits will be tied to having certain specified tax and administration skills.

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<sup>26</sup> On the basis of Act XCIV of 2003

## 10 ADDRESS REGIONAL EMPLOYMENT DISPARITIES

### 10.1 Assessment of the situation

#### 10.1.1 Regional disparities of labour market activity

The economic transformation took place in an extremely uneven manner, producing large labour market disparities between the regions. In 2003, in the most developed regions (Central Transdanubia and Western Transdanubia), the employment rate was around 62%, the unemployment rate was lower than 5%, and even a lack of skilled labour could be seen in certain parts of these regions. At the same time, in the less developed eastern and southern regions, the employment level has hardly exceeded 50% in 2003 and the unemployment rate has also shown a level of above 8% on average (in the most backward region of the country, Northern Hungary, the unemployment rate has almost reached 10% in 2003).

Table 6 Employment and unemployment by region, 2003 (people of 15 to 64 years of age)

Regions	Employment rate	Unemployment rate
Central Hungary	61.7	4.1
Central Transdanubia	62.3	4.6
Western Transdanubia	61.9	4.6
Southern Transdanubia	53.4	7.9
Northern Hungary	51.2	9.7
Northern Great Plain	51.6	6.8
Southern Great Plain	53.2	6.6
<i>Minimum</i>	<i>51.2</i>	<i>4.1</i>
<i>Maximum</i>	<i>62.3</i>	<i>9.7</i>
<i>Difference</i>	<i>11.1</i>	<i>5.6</i>
<i>National</i>	<i>57.0</i>	<i>5.9</i>

The regional data in itself may not reflect the real dimensions of disparities. The labour market disparities at the level of small regions and at the local level have multiplied in the last decade, and these differences can be significantly higher than the rate measured at the level of the regions.

There are large differences also in respect of towns and villages. In this comparison, the country can be divided into relatively developed urban areas having a relatively high employment level and rural areas which have a very low employment and high unemployment. These areas are characterised by unfavourable conditions of physical infrastructure, with an especially poor transport infrastructure and public transportation, which represents an obstacle to commuting to regional centres offering better employment opportunities. Regional disparities also have a strong social dimension, which is especially important from the aspect of the Roma population and people with disabilities. A significant part of the Roma population lives in the underdeveloped rural areas of the country in Northern Hungary, Northern Great Plain and Southern Transdanubia. In these regions, the labour market hardly offers any employment opportunities with proper earnings for Roma people with low schooling and education. There are regional differences also in the employment of people with disabilities which is highest in Central Hungary (11.1%) and lowest in Northern Hungary (6.3%).<sup>27</sup>

#### 10.1.2 Regional disparities of wages and salaries

Data on wages show considerable regional disparities. Gross earnings in the most developed Central Hungarian region were 25.3% higher in comparable jobs than the national average in 2003, while in the least developed Southern Great Plain region gross earnings were 16.5% below it. Nevertheless, the growth of regional disparities experienced in previous years seems to come to an end, not least because of the significant raise of the minimum wage in 2001 and 2002 that had concerned a greater number of earners in the low wage regions than in the higher wage regions. However, the increase in the minimum wage had a certain marginalizing effect in the low wage regions by reducing demand for the low-paid labour.

<sup>27</sup> Source: Central Statistical Office, 2001 Census.



### **10.1.3 Regional disparities of labour market activity**

The regional disparities of the labour market are explained primarily by the disparities in economic development and investments and the labour demand related to these. In recent years, the FDI creating the majority of new jobs have been characterised by heavy regional concentration. Most of the foreign direct investments go to the high-density urban areas where an appropriate number of job seekers with appropriate qualifications are available to the newly emerging companies or to companies increasing the number of their employees. Therefore, these investments are concentrated in Western and Central Transdanubia as well as in Central Hungary, and within that mainly to Budapest and environs, as well as to the areas located along the Budapest-Vienna axis. The concentration of firms has not decreased considerably in the past 10 years. Therefore, in order to reduce regional disparities, further efforts are needed to ensure a supply of trained and trainable workforce in the regions lagging behind.

### **10.1.4 The qualification level of the labour force**

Regional differences are evident also in terms of the qualification level of the population. In Central Hungary, the region being in the most favourable position, as much as 74.5% of the 20-64 years of age population has at least upper secondary (ISCED 3) education, while in the North part of the Great Hungarian Plain region, the same proportion is 60.9%.<sup>28</sup> The schooling shows significant differences also according to the size of the settlements. (*See also guideline 7*).

A more important source of labour market problems is that the supply of vocational training is not adjusted properly to the economy of the regions. The re-training and vocational training providing more advanced skills and adjusted to the specific economic and social environment of the various regions are often not available. Among the unemployed, the proportion of people not having 'marketable' skills is high, while there is a lack of skilled labour in certain occupations and regions. Regarding those skills and competences which cannot be so easily measured, but which are crucial from the aspect of employability (language skills, ICT and entrepreneurial skills), Budapest and the western regions of the country are in a more favourable position than the eastern regions.

#### **Key challenges**

- Encourage job creation and investments in the regions lagging behind,
- Upgrade the physical infrastructure,
- Develop human resources in accordance with the labour market demands of the regions.

## **10.2 Policy response**

The purpose of regional development activities is to promote a well-balanced development of the regions, an important component of which is reducing the regional disparities of the labour market. Efforts to improve the labour market position of a region should be implemented as part of the strategies promoting the overall economic development of the region. Measures should include activities aimed at increasing the qualification level and skills of the working age population as well as improving the efficiency of education, and that of vocational training in particular. Investments in the physical infrastructure, which are crucial from the aspect of job creation, should also pursue to improve the conditions of the most disadvantaged regions and should be adjusted to the specific needs of these areas.

The catching up of the backward regions (and that of the four most underdeveloped regions in particular) can only be achieved if more financial resources are available in these regions to support economic development and to promote the integration of people at a disadvantage to the labour market. To that end, various resources should be mobilised, including those of the employment policy and other sector-specific policies as well as assistance from the Structural Funds. In addition, an adequate coordination of actions at the national, regional and local levels should be ensured. This chapter presents the tools which are directly aimed at regional development. Nevertheless, there are several measures described under other guidelines (e.g. guideline 2) that will also have an impact at the regional or local level.

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<sup>28</sup> 2001 Census.

### **10.2.1 Promoting investment in disadvantaged regions**

To reduce regional labour market disparities, the Government has decided to introduce a new form of tax credit as of 2005, which will allow for micro enterprises operating in the most disadvantaged regions to reduce, under certain conditions, their pre-taxation results by the amount of the minimum wage.

As of 2004, the resources of the Territorial and Regional Development Fund (TRDF) will also serve the catching up of the backward regions. In 2004, the assistance available from this Fund amounts to 65 million euros as much as 67% of which is allocated to the regional level. These funds will be used to promote the local economy, job creation and safeguarding of jobs, as well as to encourage business start-up and innovation (through industrial parks and ‘incubator houses’). In 2004, 3.24 million euros has been transferred from the Labour Market Fund to the TRDF to finance investments related to public work projects.

Regional and local initiatives are also supported by the Labour Market Fund. In 2004, the following activities are implemented:

- Support for self-employment and business start-up;
- Support for job creation investments focusing on regions with high unemployment rates.

The resources of the Operational Programmes co-financed by the Structural Funds will also contribute substantially to strengthening the local and regional economy. These programmes finance the following activities:

- The Economic Competitiveness Operational Programme (ECOP) is aimed at encouraging investments and the development of business infrastructure, and promoting that investments are directed also to the less developed regions. In addition, this programme will support the establishment of new regional centres by setting up clusters of supplier related to large enterprises (*see guideline 2*).
- The Regional Development Operational Programme (RDOP) promotes the regional and local economic potential and investments adjusted to the specific endowments of the region concerned. Many of these investments, such as the development of tourism and related services or, the town rehabilitation projects, are expected to directly contribute towards boosting employment. (*For the activities related to human resource development of the RDOP, see section 10.2.3.*)
- The main objective of Agriculture and Rural Development Operational Programme (ARDOP) is to strengthen the economic potential of rural areas, by developing agricultural and related activities, thereby strengthening the rural income generating capacity and improving of the quality of life. In addition, the LEADER+ Community Initiative will support local development strategies which are based on an integrated approach, and which are prepared and implemented in the framework of local partnerships.

### **10.2.2 Human resources development and local employment initiatives**

To increase employment in the most disadvantaged regions, targeted actions and the coordination of measures are required. To that end, the Government intends to strengthen the local coordination of development policy and the initiatives based on local resources and opportunities and encourage the reinforcement of broad ranging local partnership. Special emphasis is attached to promoting the preparation and implementation of local employment strategies and pacts, and to developing the social economy.

As of 2004, the Government encourages local governments to cooperate at the level of small regions by granting extra subsidies to associations of local governments. The establishment of such associations at the level of small regions will provide more favourable conditions for implementing local employment initiatives and local development strategies. In addition, model programmes for regional development will be launched in the most disadvantaged regions; these programmes will be based on an integrated approach and aim to strengthen the co-operation of local stakeholders and enhance capacities to mobilise local and external resources.

With the coordination of the Government Office for Equal Opportunities, the inter-sectoral programme titled “For a better rural livelihood” will be continued. The programme covers 516 disadvantaged settlements and aims to enhance employment, preserve local values, develop the local economy, increase the income level, preserve natural environment and promote sustainable development. Public work projects will also be implemented within the framework of the programme.

In 2004, as much as 80% of the Labour Market Fund resources available for active labour market policies has been allocated to the county labour centres and is being used according to local needs (*see section III for details*).

In the period between 2004 and 2006, the RDOP will play will support the following measures co-financed by ESF:

- Developing local employment strategies and pacts, running local co-operation networks, local employment initiatives of non-governmental organisations and activities related to the social economy.
- Enhancing the co-operation of higher education institutions and local actors (including businesses) with a view to facilitate the transition from education to work and to encourage young graduates to stay in the region concerned.
- Vocational training adjusted to the needs of the regional and local labour market. The training programmes are focussed on the key sectors of the region and implemented in the co-operation of all actors concerned.

In addition, policies and measures presented in relation to other guidelines will also contribute to developing the human resources of the regions by establishing regional integrated vocational training centres and upgrading higher education (*see guideline 4*) or, by developing the health care infrastructure in the backward regions (*see guideline 5*).

### **10.2.3 Developing the transport infrastructure**

With a view to improve the capital attracting capability of regions lagging behind, investment in transport infrastructure is a high priority for the Government. Besides national resources, these investments are also supported by the Cohesion Fund and the European Regional Development Fund. Upgrading the transport infrastructure will improve the accessibility of workplaces and the opportunities for commuting.

In the period 2004-2006, the RDOP will support the development of the lower order road network by financing the following activities:

- Reconstruction of four and five digit roads maintained by the state or the local governments in the less developed regions and small regions,
- Construction and reconstruction of roads leading to industrial areas and tourist sites,
- Upgrading the quality and infrastructural conditions of the local public transportation services.

In addition, the construction of motorways and the upgrading of the 1, 2 and 3 digit 'A' roads will be supported in the framework of the EIOP and by the Cohesion Fund (*see guideline 3*).

### **III GOVERNANCE AND PARTNERSHIP**

#### **1 PARTNERSHIP IN THE PREPARATION OF THE NAP**

The Employment Policy Guidelines are based on a comprehensive approach to employment and related policies and thus cover the tasks and responsibilities of various ministries. Therefore, the preparation and implementation of the National Action Plan for Employment require a strong inter-departmental coordination. The employment policy strategy should be developed in harmony with other policies and a close co-operation and coordination among the involved ministries should be ensured during the implementation as well.

The NAP was prepared with the co-ordination of the Ministry of Employment and Labour and with the contribution of the following ministries and government agencies: Ministry of Finance, Ministry of Education, Ministry of Interior, Ministry of Health, Social and Family Affairs, Government Office for Equal Opportunities, Ministry of Agriculture and Rural Development, Ministry of Economy and Transport, Ministry of Information Technology and Communications, Ministry of Environment and Water Management, Central Statistical Office, Hungarian Territorial and Regional Development Office.

In addition to the inter-departmental consultation, the draft NAP was also consulted with a number of partners including, among others, the social partners. The primary forum of consultation with the social partners was the National Interest Reconciliation Council. As part of the partnership consultation, the Government requested the social partners to comment on all the issues that concern their responsibilities and interests, with special regard to the following: management of and adaptation to change, ensuring an appropriate balance between the security and flexibility of employment, investing in human capital, gender equality, active ageing and safety and health at work. At the local level, the draft was discussed by the county labour councils (tripartite bodies involving the representatives of local governments and the local representatives of the social partners). The summary of the contributions of the social partners is presented in Annex 6.

Furthermore, the draft National Action Plan was discussed by the National Regional Development Council, the Committee for Development Policy, and the Employment and Labour Committee of the Parliament. The draft was also sent to several non-governmental organizations for consultation and comments.

#### **2 IMPLEMENTATION AND MONITORING**

The objectives and targets of the employment strategy can only be attained through actions built on co-operation and synergies with other policies. Therefore, the Government will set up an Inter-ministerial Committee for Employment by November 2004. The representatives of the social partners will also be involved in this Committee. The Committee will follow up the implementation of the current NAP and coordinate the preparation of the upcoming action plans. The specific tasks of the Committee will be the following:

- ensuring an appropriate inter-departmental coordination during the elaboration of the annual action plan, discussing the strategy and the measures,
- continuous follow-up and assessment of the implementation of the NAP,
- ensuring the coordination of the NAP with the implementation of the Broad Economic Policy Guidelines and with strategies related to the open method of coordination in the fields of education and training and social policy (social inclusion, social protection, pension, healthcare).

These arrangements for the elaboration and monitoring of the action plan will ensure that employment and related policy measures are defined in a single strategic framework set by the Guidelines, and promote the role and visibility of the NAP as key instrument in preparing and implementing reforms and mobilising the resources of various actors.

The PES, with its central and local offices, has a key role to play in the implementation of the NAP (*for a description of the organisational structure of the PES see chapter 1.1.1*). Moreover, social partners and NGOs are also important actors in this respect.

Reinforcing the role of the PES at the local level and strengthening its co-operation with regional and local stakeholders (service providers, regional development agencies, businesses, local governments) is seen as a key element of the project aimed at the overall modernisation of the PES (*see Guideline 1*). In addition, the Government will provide financial support for the development of local employment strategies to enhance the implementation of the employment strategy at the local level (*see Guideline 10*).

### **3 FINANCIAL RESOURCES**

#### **3.1 The Labour Market Fund**

The Labour Market Fund (LMF) was established by the Government in 1996. The LMF is generated from contributions paid by employers and employees, and its purpose is to finance the unemployment benefits and the active labour market policies, support the development of the training system and finance the operation and development of the PES. Within the Labour Market Fund, different sub-funds have been segregated<sup>29</sup>. The LMF is supervised by a tripartite body called the Labour Market Fund Supervisory Board.

Financing the benefits for facilitating the employment of the unemployed and of people with disabilities is carried out through the Employment and Rehabilitation Sub-funds, which are divided into central and decentralised allocations. The proportions of central and decentralised allocations, and the principles of allocation are determined by the Supervisory Board on the basis of labour market indicators.

#### **3.2 The role of the Structural Funds and the Cohesion Fund**

Hungary is entitled to assistance from the Structural Funds as of 1 January 2004. The Government has drawn up the National Development Plan (NDP), which sets the framework for the utilization of Structural Funds assistance. Based on a comprehensive analysis of the economic and social situation of the country, the NDP has identified the objectives and priorities to be supported by the Structural Funds in the period 2004-2006. The overall objective of the NDP is to reduce the income gap compared to the EU average. In order to achieve this, improving the competitiveness of the economy, ensuring a better utilisation of human resources, improving the environment and ensuring a balanced regional development have been identified as specific objectives.

Implementing the NDP strategy is carried out through operational programmes, which include the strategy of a given sector or region, and determine the development priorities and the measures to be taken. For the 2004-2006 period, the Government has worked out the following five operational programmes: Human Resources Development Operational Programme (HRDOP), Economic Competitiveness Operational Programme, Environmental and Infrastructure Operational Programme, Agricultural and Rural Development Operational Programme, Regional Development Operational Programme.

The financial resources related to the NDP amount to 1.995 million euros from the Structural Funds, associated with national resources of 700 million euros. Of the operational programmes, the Human Resources Development Operational Programme (HRD OP) will account for the highest share of Structural Funds support. The total budget of the HRD OP amounts to 750 million euros in the period of 2004-2006. Out of that, approximately 562 million euros represents the Community contribution, which is supplemented by another 187 million euros from national, mainly public, sources.

The operational programmes, and the HRDOP in particular, are seen as a key instrument in seeking to meet the objectives identified in the NAP.

In addition, the EQUAL Community Initiative Programme (CIP) supported by the European Social Fund will also contribute to the implementation of the NAP by supporting the elaboration of innovative methods to combat labour market discrimination and promote equal opportunities. The innovative methods and approaches to be developed and tested in the framework of the programme may shape employment policies and provide new tools for them. The budget of the Hungarian EQUAL CIP is 40,3 million euros for the 2004-2006 period.

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<sup>29</sup> Solidarity Sub-fund, Income Replacement Benefits Sub-fund, Employment Sub-fund, Training Sub-fund, Rehabilitation Sub-fund, and Operational Sub-fund.

From the Cohesion Fund, Hungary will use 1.123 million euros until 2006. The environmental investments to be implemented with the support of the Cohesion Fund will contribute towards creating new employment opportunities; the development of the transport infrastructure will establish more favourable conditions for the job creation investments and improve the opportunities for commuting to work.

The relationship between the various guidelines and the measures co-financed by the Structural Funds and the Cohesion Fund is shown by Annex 4.

### **3.3 Other resources**

In addition to the resources of the Labour Market Fund and the assistance from the Structural Funds and the Cohesion Fund, the resources of the various ministries will also contribute to financing the measures identified in the Action Plan. These resources are presented in Annex 3.