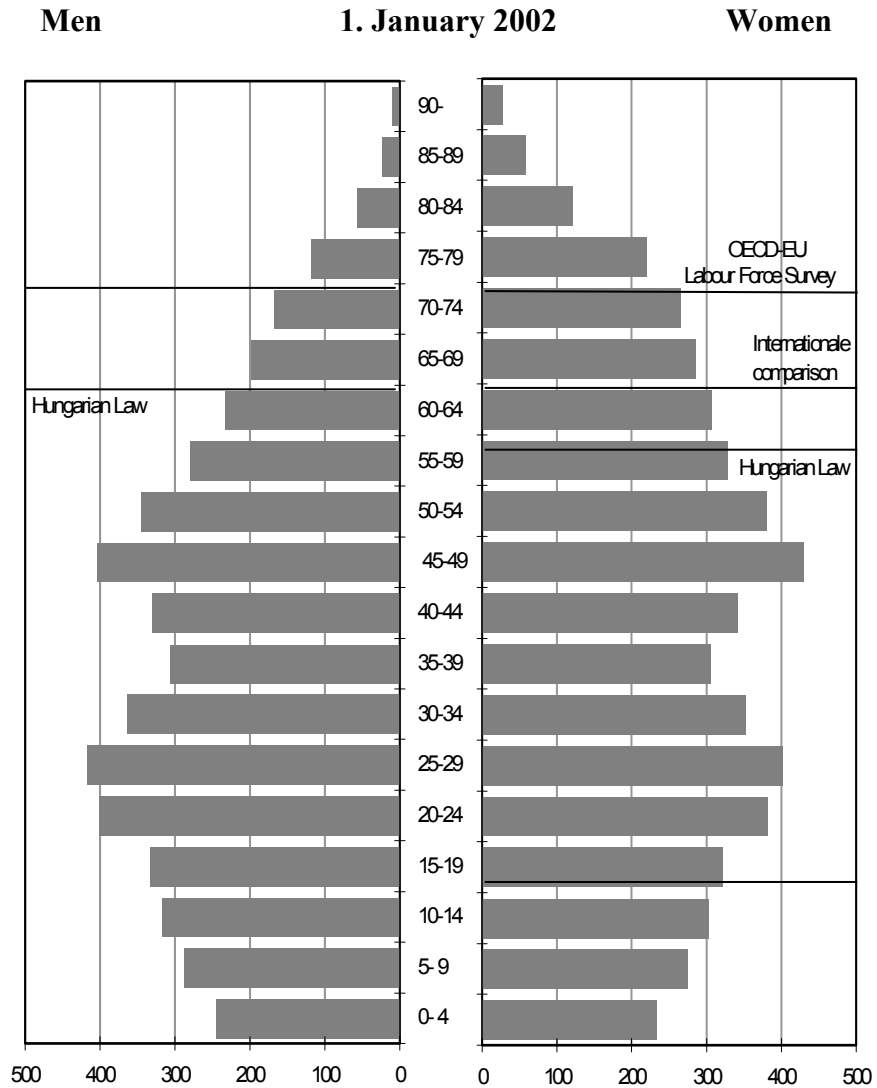


EMPLOYMENT OFFICE  
 NATIONAL EMPLOYMENT FOUNDATION

THE HUNGARIAN LABOUR MARKET  
 2003



Budapest

2003.

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## **INTRODUCTION**

The closer the date of Hungary's accession to the European Union, the more intertwined the labour affairs of the two. The harmonisation of the national legislation has mostly been accomplished in the past years, and the Joint Assessment of the Employment Policy Priorities of Hungary (JAP), prepared by the EU and the competent Hungarian authorities in 2001, identified the priority tasks of Hungarian employment policy.

Accession preparation, slowed down by the Hungarian election campaign, gained new impetus after the change of government in 2002 and the subsequent re-unification of labour administration, assigned to several ministries previously, under the Ministry of Employment Policy and Labour. Both the competent EU apparatus and their experts from all over Europe did their utmost to help Hungary fulfil its commitments on time. However, in such a short interval, framed by global economic recession, Hungarian employment policy could not produce better performance results.

In terms of the economic activity of the population, Hungary still ranked with the weakest EU Member States in 2001, as did the majority of the accession candidate former socialist countries. In order to meet the requirements implied by the employment policy objectives of the EU, Hungary, similarly to many other European countries, will have to modernise its labour market at a fast pace in the years to come.

### **X**

Our surveys of the status and development factors of the Hungarian labour market, published annually since 1992, have relied to a growing extent on data pertaining to the EU and its Member States as reference base. Hungary adopted the uniform Labour Force Survey methodology of the OECD countries in 1992. LFS data, used previously mainly as a sort of mirror, as points of reference, now reflect rank order as well, which makes it all the more important to identify the underlying causes of typical national differences. Data, facts and narratives included in the Hungarian version of the Report were compiled with a view to provide an extensive and detailed comprehensive information, while the English version gives special emphasis to those facts and circumstances of the international trends which reveal the international position of Hungary, in order to provide an extensive and authentic presentation of typical year-on-year changes. The latest international data available to us refer to 2001, while those describing the Hungarian labour market reflect the situation in 2002.

### **X**

The title of the Report, in use for a decade, has been changed.

At the time, the development of the Hungarian labour market was driven by extraordinary events: the collapse of the socialist sector and its economic relationships and, with the change of the economic and social regime, the commencement of privatisation and of transition to market economy. In the first years, we focused on the

labour market effects of the same: bankruptcy and liquidation procedures resulting in the loss of hundred thousands of jobs; re-organisation of units/activities deemed viable, privatisation procedures of different kinds, the start of the foreign direct investment inflow, the spread of sole proprietorships and employee ownership.

These processes, however, had come to an end, and the economy, having suffered considerable losses, including that of one quarter of jobs, began to consolidate slowly. To date, it is being shaped by the same essential, not specifically Hungarian, developments, desirable or undesirable, but in any way natural ones, as any other economy.

Under its new title, **The Hungarian Labour Market**, the Report still aims at providing a comprehensive overview of the main features of the national labour market, its status and trends, in relation to the common efforts of what will soon be the 25 Member States of the European Union.

The manuscript was closed in March 2003.

As in previous years, its publication was supported by the National Employment Foundation.

Budapest, 2003

Teréz Laky

## **KEY POINTS**

### **Economic activity of the population**

- As in the previous year, the economic activity of the population remained unchanged in 2002. Of a population of 6.86 million aged 15–64, some 4 million (less than 60%) were available to the economy on annual average.
- Men (67% of the male working-age population) represented the majority (55%) of the economically active, while women (52% of women aged 15–64) 45%.
- 94% of the 4 million economically active men and women was in employment and 6% (238.8 thousand persons) among them active job seekers.
- Men and women of prime working age (25–54) represent the bulk (more than 80%) of the economically active. The economic activity of those younger than 25 or older than 54 is equally modest (ages 15–24: 33%; ages 55–64: 26%) That is, even the age group of 15–64 includes considerable reserves for the labour market.
- The current rate of economic activity is definitely low in international comparison. In 2001, on the average of the OECD countries, 69.8% of the 15–64 year-old was present on the labour market (USA: 76.8%, EU average: 69.2%, accession candidates 66.7%, Hungary: less than 60%).
- In Hungary (and in several other former socialist, accession candidate East Central European countries) the chances for remaining on the labour market are reduced by retirement age being lower than in the majority of the economically more advanced European countries. However, despite the steady increase in the upper limit of working age for years, the activity rate calculated according to the Hungarian definition of working age (63.8%) is still below the average of the EU member countries. The overwhelming majority of those past Hungarian retirement age but younger than 75, a population of around one million, exit the labour market either voluntarily or under some constraint.
- Low-level activity implies a high inactivity rate: more than 40% of the population aged 15–64 is absent from the labour market (more than one third of the working age population as defined in Hungary). In 2002, the proportion of the so-called passive unemployed, i.e., persons not in employment and not involved in active job search, albeit willing to work, increased somewhat.

### **The employed**

- Stagnation in 2001 following growth by a total of 200 thousand from 1998 to 2000 persisted in 2002: the number of the employed remained unchanged at 3.86 million. 56% of the population of the 15–64 year-old was employed; 63% of men and 50% of women. The Hungarian employment rate lower than the EU average and it is still among the lowest compared to the rates of the EU Member States. Several accession candidate countries have similar employment rates to the Hungarian one.



- Traditionally, men outnumber women among the employed (at 55%), although women represent 51% of the population of the 15–64 year-old. As in the previous year, the male employment rate, 62.9% this time, fell short of the EU average for 2001 by almost 10 percentage points; the gap is as wide as 20 percentage points in comparison with certain Member States. No EU Member States have such low male employment rates, but in 2001, five accession candidates had a lower rate than that of Hungary in 2002.
- In terms of age groups, the employment rates of the youngest generations and of those past retirement are extremely low. In 2002, 5% only of the generation of the 15–19 year-old, mostly in education yet, and some 14% of men aged 60–64 and 6% of women in the same age group were earners. 47 thousand only among those past Hungarian retirement age were employed. 2002 brought no breakthrough in the introduction of forms more suited to employment promotion in the age groups concerned.
- The distribution of employment by broad sectors, an important indicator of economic modernisation, hardly changed in 2002. Agriculture employed 6.2% of earners, the same as in 2001. The employment weight of industry/construction declined by one decimal, from 34.2% to 34.1%, while that of the services showed a corresponding increase, from 59.6% to 59.7%.
- In the EU Member States, in 2001, the services sector employed 69.4% of earners, industry 26.4% and agriculture 4.2%. Within that, in 7 EU countries, more than 70% of earners work in the services; this rate is highest in the Netherlands at 76.7%, and the lowest in Portugal at 58.5%. The rate of industrial employment was highest in Portugal (30.6%), and lowest in the Netherlands (19.8%). The agricultural employment rate was highest in Greece (16.3%) and lowest in the United Kingdom (1.4%).

In the accession candidate countries taken into account, with the exception of Cyprus, the distribution of employment by broad sectors reflects the relatively slower rate of modernisation of the countries concerned. None of the former socialist countries attained the 60% services employment rate yet; Latvia and Hungary came closest to it. (The average of the ex-socialist countries was 47.6%.) Agricultural employment was still relatively high in most countries; Romania ranked first with a rate of 44.4%, and the Czech Republic last with 4.9%. The industrial employment rate averaged 31.3%; the highest rate was produced by the Czech Republic (40.5%), and the lowest one by Latvia (25.3%).

- Although the employment capacity of the broad sectors showed no change of merit in 2002, the gradual modernisation of the Hungarian economy is quite obvious in a longer-term perspective.
- Branch/special branch specific employment rates also showed little change in 2002. The number of the employed increased in half of the branches and decreased in the other half to approximately the same extent.
- Modest branch-specific developments, however, conceal significant reshuffling at *enterprise level*. Several large multinational companies reduced or terminated their Hungarian activities with reference to the decline in global demand. Shut-downs

implying the dismissal of thousands were accompanied by layoffs induced by the progress and spread of economic modernisation (in mining, followed by the postal services, the railways, the army and telecommunications etc.) Poor economic competitiveness also gave rise to problems in many branches (metallurgy, the footwear industry, textile and clothing, the tin industry), independent of recession. These developments, going back several years, are likely to continue in 2003. Employment was furthermore hindered in certain areas by the further increase of the minimum wages, decided upon earlier, and by the high exchange rate of the Hungarian forint (HUF).

- The forceful negative tendencies were countered by a number of positive developments: FDI inflow resulting in the introduction of new activities via novel investments, and domestic investments. The government provided various subsidies to boost job-creating investments; natural growth also continued in several areas of the economy. Thanks to that, the employment rate, although it did not increase, remained level despite the disadvantageous international economic climate.
- The rate of employees among the employed, on the rise for years, was more than 86% in 2002. The proportion of co-operative members fell below 1% in 2001 and was a mere 0.6% in 2002. The proportion of members of partnerships has also kept declining for years, and that of sole proprietors has been constant at around 10%, with minor fluctuations.
- In terms of major job groups, another area where developments can only be assessed in the longer run, the trends so far – increasing proportion of non-manual workers, decreasing proportion of manual workers, increasing proportion of women among non-manual workers, further moderation of the proportion of unskilled jobs etc. – continued in 2002. Changes in the employment structure clearly reflect the modernisation of the economy.
- The number of (active) business organisations continued to increase in 2002: some 20 thousand, mostly incorporated, new organisations were established in the business sector. Nevertheless, almost 80% of entities in the business sector are unincorporated (and hence self-employing) sole proprietorships and partnerships.
- The enterprise size structure has not changed: the proportion of micro enterprises employing a maximum of 9 persons exceeds 96%. In the European countries, this circle employs more than one third of all economic earners – in Hungary, their employment role is much more modest.
- The proportion of non-traditional, atypical, employment, playing a growing role in the employment of women, the youth and the older generations in Europe, remained marginal in Hungary in 2002. While major international organisations already campaign for better jobs to persons occupying marginal positions, mainly without legal and social protection, in Hungary, the systematic treatment of atypical (in other words, non-standard) jobs is missing even in the formal economy.
- Only a minor fraction of earners work part-time, and fixed-term contracts involve some 10% of earners, mainly those placed by vacancy exchange agencies focusing on seasonal jobs and the placement of unemployed persons to sheltered jobs.

- 2002 brought real progress in two areas. Firstly, in regard of the significant moderation of public burdens on employment under the Casual Employee's Booklet (CEB) scheme introduced years earlier to promote the employment and eligibility to social provisions of the unemployed. The first experiences seem promising. Secondly, the conditions for teleworking were established: employment policy expects a total of around one thousand new jobs from this initiative, promoted by considerable government funds.
- The number of the employed was increased in 2002, too, by (temporary) employment thanks to social solidarity. In 2002, the number of beneficiaries was lower than in previous years, but the statutory minimum wage increase raised their wages, too, a little. A total of 70-80 thousand were employed under central and local employment programmes.
- The state provided non-repayable subsidy worth almost HUF2 billion to create more than 2,900 jobs.
- Hungarians still take a minor part in the international migration of labour. With respect to the EU countries, this mainly takes the form of mutual practical training (work experience) agreements applicable to a small number of persons. As before, Hungarians have more opportunity, albeit also limited by quotas, to work in Germany and Austria. The employment of Hungarians in Austria is mainly based on the expansion year on year of commuter migration from the cross-border region. Despite the relevant demand, Hungarians seldom engage in employment abroad as doctors, nurses, IT specialists etc.
- The number of foreigners employed in Hungary, although on the rise for years, is still very low indeed. In 2002, at the end of the year, a total of 42.7 thousand had a valid labour permit, the same number as a year earlier. Almost 90% among them came from ethnic Hungarian areas in the neighbouring countries, mainly Romania. (The highly controversial, so-called "preference act", still subject to conciliation with the neighbouring countries in 2002, however, has had no effect so far on the increase of legal migration for the purpose of employment.) Foreigners working with labour permit in Hungary included only 2,300 citizens of EU Member States (corresponding to 5.4% of this population).

Most foreign citizens (70%) were employed in three branches: construction, manufacture, trade. The next largest group was active in culture, the arts and the sports.

- In Hungary the same as elsewhere, foreign labour is employed to remedy temporary or permanent shortages of domestic labour. In Hungary, this shortage is most acute in certain areas of manufacture (skilled workers in the textile industry, e.g.) and there is a permanent shortage of health care personnel (nurses). Manual and non-manual occupations in demand at the national level are those of masons, building joiners and precision instrument makers. Local demand is diversified and involves a wide array of occupations. Owing to the restructuring of the economy, simultaneously, there is a surplus of labour in numerous occupations (e.g., among ex-workers with diverse skills of footwear factories liquidated during the year).

- The employment service mediates part only, albeit a growing part, of the labour demand and supply ever. Its labour supply stock, limited so far basically to the registered unemployed, allowed it to meet part only of the demand, which was moderate anyway and declined even further in 2002. Nevertheless, persistent demand going back more than six months was reduced to a “natural” level. In the future, public service will have to focus decisively on vacancy exchange.

### **The unemployed**

- Unemployment decline for several years came to a halt in the EU in 2002, and the same happened in Hungary: according to the data of the Labour Force Survey, the unemployment rate rose from 5.7% to 5.8%. Within the population of the 15–64 year-old, 238 thousand were active job-seekers, some 5 thousand more than in 2001. Simultaneously, the number of the passive unemployed (persons deterred from job search by the state of the local labour market or their own unfavourable labour market features, who would nevertheless like to engage in work) rose from 109 thousand to 118 thousand.
- Of the 3,823 households of the country, almost 216 thousand, 5 thousand more than last year, included one or several unemployed members. As before, unemployment affected more strongly the larger families.
- The unemployed included 138 thousand men and 100 thousand women. The male and female unemployment rates approximated as the first fell from 6.3% to 6.1%, and the latter rose from 5% to 5.4%.
- The age-group pattern shows that unemployment rose primarily among the 15-24 year-old. Relatively few (some 12 thousand) look for work among those aged 15-19, but their group includes a similar number (9.8 thousand) of passive unemployed.

In the group of persons past 55, the number of active job-seekers is similarly low – members of the older generations tend to exit the labour market.

- Unemployment lasts in 60% of the cases for less than one year, but 40% is long-term unemployed. The proportion of the latter, 50% as yet in 1996-97, continued to shrink in 2002 despite the deteriorating labour market situation. The average period of job search, although still quite long, also reduced further (from 16.1 to 15.9 months).
- 80% of the unemployed had had an earning job previously; a minor proportion intends to enter/re-enter the labour market. The majority of former workers had been dismissed from the services branches.
- The majority of the unemployed have low educational qualification and used to have manual jobs. In 2002, the proportion of former non-manual workers, mostly women, increased significantly.
- More than half of job-seekers would work exclusively full-time, but many would accept a part-time offer, too. Their income aspirations basically correspond to the national earnings level, although expected income tends to be lower than the national averages typical in the given jobs.

- Calculated according to the Hungarian regulations, the number of the registered unemployed – as opposed to the population taken into account under the Labour Force Survey – continued to reduce in 2002, from 364 thousand to 345 thousand.
- Despite the drop by around 19 thousand, the number of the registered unemployed exceeded, as in previous years, that of active job-seekers shown by the LFS by around one third. (The gap, however, is much smaller if the number of passive unemployed indicated under the Labour Force Survey is added to that of job-seekers.)
- The decline in the number of the registered unemployed is not the result of the improvement of the employment situation, but partly of temporary participation in active programmes and partly of exits from the registration system once financial allowances due to the unemployed come to an end.
- Unemployment, as interpreted and managed in accordance with the national regulations, has had many constant features for years. The number of registered unemployed men and women decreased at by and large the same rate as unemployment in general; in the longer run, however, while the number of the male unemployed is permanently higher, the proportion of unemployed women is also on the rise.
- The stock of the registered unemployed includes some 28.5 thousand school-leavers on monthly average (more than in 2001, when the corresponding figure was 26.8 thousand). In the course of the year, 33% of school-leavers took part in active programmes to improve their labour market situation. This is an outstanding rate, compared to similar ones for other groups of the unemployed, but still well below that expected in the EU.
- Hungarian unemployment has been characterised for years by the high proportion of persons with low qualification, no vocation skills and excluded from the labour market for these reasons, too, among others. In 2002, the number and rate of persons with higher educational qualification rose among the registered unemployed, too
- In Hungary, typically, the population of the unemployed registered in a given year tends to include a decreasing proportion of persons registered as unemployed for the first time and an increasing proportion of recurrent unemployed, having figured in the registration system already. In 2002, the proportion of the latter attained 82%. Among the non-school-leaver (adult) unemployed, the corresponding rate was 86%. That is to say, a significant proportion of the registered unemployed exit unemployment temporarily only, mainly through training and subsidised employment programmes organised by the employment service, or not at all.
- The reasons underlying exits from the registration system are recorded precisely for allowance recipients. 7 thousand (12% of all exists, 2% of the registered unemployed) found a job. This rate has been constant for years.
- 88% of exits is due to a few major reasons. The largest group leaves the register once their eligibility to provisions is exhausted, the second largest group includes those joining labour market programmes. Placements included, in 2002, a monthly

55.8 thousand were cancelled from the register, some 4 thousand less than in 2001 (monthly average: 59.4 thousand).

- The monthly number of new entrants (re-entrants) was also one thousand less than a year earlier (56 thousand vs. 57 thousand).
- As in previous years, several elements of assistance due to the registered unemployed under the Hungarian legislation were modified in 2002, too.
- Unemployment benefits due to workers having lost their job have been due for years to around one third of the unemployed; this rate was the same in 2002. Unemployed persons having exhausted the period of entitlement to benefits but still out of work and not provided for – whose number has been exceeding that of benefit recipients since 1995 – gradually moved to the group of regular social aid recipients.. In 2002, their number attained that of benefit recipients. However, while in 1992 more than three-quarter of the unemployed received financial support, in 2002, the corresponding rate was two-third.
- In 2002, the monthly average benefit was HUF31,860, while regular social aid corresponded to 70% of the minimum old-age pension, i.e. it was HUF14,070. In case of employment, the income of those concerned would equal at least the HUF50 thousand minimum wage.
- The benefits concerned were well below subsistence level, defined at a monthly HUF33.9 thousand/cap. in 2002. For a typical household including two adults and two children, it was HUF31 thousand/cap.
- The stagnation of the employment rate implied the significant deterioration of the employment situation of the youth: the number of the employed decreased, that of the unemployed and the inactive (passive unemployed included) increased among them.
- From among the two large, distinct, groups of the youth, that of the 15–19 year-old includes a growing proportion of inactive persons, typically because some 80% among them are still in education. In the group of school-leaver youth, some 5% had a job, and 2% were active job-seekers. One year earlier, almost 10% among them were economically active; in 2002, the number of the passive unemployed increased. As before, there were no schemes to provide work-experience or part-time employment to young persons having left school at an early age.
- Some 18% only of the 20-24 year-old was still in education, but more half of this generation was economically active already (2001: 56%, 2002: almost 55%, men: 60%, women: less than 50%). The gender gap in economic activity is explained primarily by the earlier alteration of the marital status of women than of men: among those younger than 25, the number of married women was thrice that of married men, and child-care usually implied the inactivity of women. The number of active job-seekers and of the passive unemployed is more than twice that shown for school-leavers within the population of the registered unemployed. Those among them who are in need of financial support (unemployment benefits, social aid) represent an especially vulnerable group of society.

- No change of merit is to be expected from one year to another in the labour market situation of the Rom, the largest ethnic group living in Hungary. Especially not in a context of marked economic deceleration, which reduces the placement chances of more qualified/experienced people, too. The most positive development is the extension of the circle of agents delivering central programmes locally, and their growing public support. Local and regional self-governments have identified promising solutions offering employment opportunities to the Rom, too, among others.
- Despite the declared employment policy principles, of long standing, and the considerable extension of the relevant methods, the employment situation of persons with changed working ability is making slow progress. According to a CSO survey carried out in 2002, within the population of persons with changed working ability/permanent disability, representing 11% of the population aged 15-64, 12% only was employed, 1.2% was unemployed and the majority inactive. Many among them would like to work. Most are looking for home-based work..

### **The economically inactive**

- The rate of the inactive among the 15–64 year old, exceeding 40%, and hence exceptionally high in international comparison, too, did not change in 2002. Neither is the rate based on the Hungarian definition of working age much lower: it is 36%.
- What with the increase in retirement age, the working-age population keeps growing, the group of the inactive included (compared to 2001, their number grew by 37 thousand, to nearly 2.3 million). The increase is related to the stagnation of work opportunities.
- Women represent almost 60% of the inactive and 42% of women of working age was absent from the labour market. For men of the same ages, the rate of absence was 30%.
- In 2002, more than 40% of the inactive of working age according to the Hungarian definition had had no previous job (e.g. they were/are in education), but another 60% had had one already. One quarter approximately among them became inactive after having lost their job, while a major part of the rest exited the labour market for some socially accepted/supported reason.
- Further education represents one case of socially useful and desirable inactivity. Some 30% of the inactive is students. Owing to the decreasing number of the 15-24 year-old, the number of students decreased as well, but their rate has kept increasing, to 47% in the school year of 2001/2002. For years, half of students have been girls.
- The rate of students is definitely high among those under 17–18, but declines thereafter: for example, 14% of the 23 year-old and 8% only of the 24 year-old are still in streamline education.
- The knowledge-based economy is inconceivable without a well-qualified population. Around one quarter of the 15-24 year-old have college/university

qualification, but almost half (46%) of this generation finished eight-year elementary school only.

- Another case of (temporary) exit from the labour market enjoying unqualified social support is absence on child-care leave. Almost 13% of the active-age inactive are on one of the three child-care assistance schemes in effect in Hungary.
- Despite the steady decline in the number of births, the proportion of persons (women with only a few exceptions) on child-care allowance is hardly lower, but the rate of those who would like to return to the labour market is on the rise. The chances to return to a former workplace, however, have deteriorated somewhat.
- Inadequate child care/surveillance services (or, occasionally, care for the old/sick in the family) make return to the labour market more difficult. Few can afford paid help, and the majority are reluctant anyway to have recourse to such services or to offer them themselves.
- 36% of the working-age inactive population consists of persons having retired at an early age. The total stock of pensioners (on pension under one of several titles, such as age exemption, disability, retirement instead of dismissal) and of the economically inactive – not including the employed – rose in nineties from 264 thousand to 632 thousand.
- The majority of pensioners are men. Early pension is granted, in more than 70% of the cases, because of illness/accident having occurred in the course of one's working life.. From 1999 on, and especially since the tightening of the relevant regulations, this scheme has been used seldom only.
- Occupation-specific age reliefs, instituted decades ago, ought to have been reviewed a long time ago, but this was postponed in 2002, too. In the absence of a re-evaluation of working conditions, having changed a lot in many cases, the relevant provisions “send” tens of thousands to retirement annually at an early age, sometimes even under 50.
- Beside these known, socially assisted reasons of absence from the labour market, applying to around 80% of the working-age inactive, another approximately half a million men and women have become dependent on their family for no known reason.
- The majority of those living without regular (visible) income are men, whose rate is especially high among those of prime working age. Presumably, some earn their living outside the formal economy.
- The number of inactive persons willing to undertake regular, paid, employment, although not seeking a job actively themselves for diverse reasons, was 396 thousand in 2001 and 438 thousand in 2002. The number of the inactive waiting for a job opportunity has remained much higher than either that of active job-seekers or of the registered unemployed.
- The aggregate number of 7–800 thousand of unemployed and inactive non-employed persons wishing to work urges efficient employment policy measures coordinated with economic and social policy.



## **Regional differences**

- The thorough transformation of the economy in recent years has not reduced employment gaps among regions, among local labour markets and settlements of different type. On the contrary: the differences in terms of employment/unemployment rates tend to increase steadily at the level of the counties and small regions.
- For special reasons, the levelling mechanisms at work in the market economies (wage differences, migration, commuting etc.) function to a limited extent or hardly at all in Hungary. Similarly to foreign companies, Hungarian ones, too, concentrate in urbanised regions boasting qualified labour and a relatively well-developed business infrastructure.

## **Earnings in 2002**

- The average monthly gross earnings of persons employed by business organisations with more than 4 staff and by public institutions and non-profit organisations on a full-time basis – representing a decisive segment of the earners of the economy – was HUF122,453, 18.3% higher than in 2001. This corresponds to net earnings of HUF77,607. Taking into account the effect of the 5.3% inflation rate, real earnings increased by 13.6%, that is, faster than productivity.
- The average conceals considerable earnings gaps and different development trends by sector (business, public), branch and manual/non-manual occupations. As in previous years, central measures – the increase of the statutory minimum wage in 2001 and 2002, first to HUF40 thousand, and then to HUF50 thousand; the very significant increase in the wages of civil servants in 2001 and of the basic wages of public employees (by 50%) in 2002 – had a considerable effect on the development of earnings.
- Owing to these central measures, earnings growth in the public sector exceeded by far that in the business one. In 2001, earnings went up by 16.3% in the business sector and 22.4% in the public one; in 2002, the corresponding rates were 13.3% and 29.1%, respectively. It is partly due to this fact that the number of employees increased in some public branches and decreased in the business sector.
- The development of branch-specific earnings, too, also explained mainly by central measures. The increase was highest in education (31.8%) , followed by health and social care (30.9%) and by public administration, defence, mandatory social insurance (27.4%) . In the business sector, the increase was most marked in trade and repair (17.6%) and hotels and catering (19%). Both branches employ a large number of workers at minimum wages; the earnings of manual workers increased well in excess of the business sector average.
- The different rate of growth of earnings re-arranged to some extent the rank order of branches in terms of earnings. Financial activities retained their top position, but were followed, this time, by public administration, preceding business sector branches. The last position was occupied, as before, by earnings in the textile, leather and footwear industry, still well below the manufacturing average.

- The 3.5-fold earnings gap between manual and non-manual workers persisted. Among non-manual workers, average earnings were highest in the category of financial activities and lowest in that of health and social care. As for manual workers, those active in “electricity, gas, steam and water supply” earned most, and those in “hotels and catering” least.
- In terms of highest educational qualification, the average gross monthly earnings of women regularly lagged behind that of men in the corresponding category. On national average, in May – that is, prior to the adjustment of the earnings of public employees – men earned a monthly gross HUF125,900 and women HUF108,051.

## **I. LABOUR MARKET, 2002.**

### **1. Decisive development factors**

Economic recession, intensifying in the developed economies, was felt more strongly, although still less acutely than in many other countries, in Hungary in 2002. The global economic prospects, quite promising in 2000 yet, turned increasingly gloomy from 2001 on, with the spread of recession from Japan and the United States to Europe, and gradually to the East Central European countries, not yet members of the European Union, but becoming integrated into the bloodstream of world economy. The prospects of significant employment increase, a seemingly realistic objective in 2000, weakened month by month, as the economic performance of the countries concerned declined. Currently, the forecasts predict the return of economic growth after the end of 2003 only.

Despite the unfavourable economic context, the European Union adhered to its employment promotion programme announced at the Luxembourg Employment Summit in Autumn 1997. The EU labour market underwent quite obvious changes since 1997. In spite of the decelerating growth in 2001–2002, more than 10 thousand new jobs were created (including 6 million for women), and the number of the unemployed dropped by 4 million. Meanwhile, the population of the economically active increased by 5 million. The employment rate of women attained 54.9% in 2001, and that of the older generations rose as well (to 38.5% in 2001), although that is still a long way from the 50% to be attained by 2010.

The evaluation of results achieved already highlighted the tasks ahead of the EU and its Member States. The European labour market has serious weaknesses, and few of the Member States have taken effective measures to adjust to the new conditions. The greatly transformed and still changing demands of the more developed economies make it obvious that a new employment policy is needed, one that matches the changed context. The *Joint Employment Report, 2002*, providing a country-specific analysis of facts pertaining to progress or delays specifies among future tasks almost everywhere the establishment of comprehensive, employment-friendly tax and subsidy systems, the stress on employment quality, the deployment of the conditions of life-long learning, the easing of regional discrepancies, the re-modelling of the public employment services and the more intensive participation of the social partners in all these matters.

As indicated in last year's Report, economic growth slowed down in *Hungary*, too, in the context of the global decline in trade. The situation of the country was evaluated by both the OECD and the EU. In what follows, we shall highlight some of their labour-market-related comments.

### **OECD's evaluation**

From among the international organisations, OECD – of which Hungary has been a regular member since 1996 – analyses the performance of the Hungarian economy on an on-going and regular basis.<sup>1</sup>

The comprehensive evaluation of the operating mechanism of the economy, stated, among others, that economic growth slowed down less markedly in Hungary than in other minor OECD countries.

Hungary is one of the fastest-growing OECD economies, having shown GDP growth by 4.5% on annual average as well as declining unemployment and moderating inflation in the last four years.

Despite the marked recession of international trade, Hungarian exports to most markets increased and boosted GDP growth.

The significant income gap between Hungary and the other OECD and EU countries has been narrowing. Labour productivity, however, is still well below the OECD averages, albeit the gap is narrowing fast thanks mainly to foreign capital investments. In 2001, the national productivity average corresponded to 59% of that in the OECD countries (1993: 52%). Per capita national income increases at a slower pace: in 2001, it corresponded to 52% of that of the OECD countries' average (1993: 45%). The wider gap in comparison with the OECD countries is due to Hungary's low average employment rate.

The improvement of the labour market conditions came to a halt and the relevant data suggest the emergence of new types of tension. Although the unemployment rate calculated according to the recommendation of the ILO (5.6% in QIV 2001) qualifies as low by OECD standards, decrease in the number of the unemployed was concurrent with a drop in the activity rate (that is, part of active job-seekers exited the labour market). The activity rate of the working-age population is the second lowest among the OECD countries.

Despite the stagnation of employment, the government raised the statutory minimum wage and the wages of public sector employees at an unusually fast rate. Wage increases, as well as the increase of the relevant public burdens and the appreciation of the national currency, demonstrably reduced the competitiveness of the country. Undesired implications of the minimum wage increase include the deterioration of the employment chances of job-seekers with low or no qualification and hence higher employment in the informal economy – presumably, since this cannot be shown, for obvious reasons.

Despite the shortage of skilled labour in certain occupations, the low-qualification segments of the working-age population are characterised by a very low activity rate. Hence the divide separating the active and the inactive population. The OECD analysis points out the need for more decisive employment policy measures to

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<sup>1</sup> OECD released its volume assessing the 2001 performance of the Hungarian economy in June 2002, as part of its country survey series. *{OECD Economic Surveys 2001-2002 Hungary Volume 2002/10 – June}*

upgrade qualifications and to promote the employment of low-skilled individuals, in particular by curbing the high social security contribution burdens.

### **Assessment of the European Commission**

In November 2001, representatives of Employment and Social Affairs General Directorate of the European Commission and of the Hungarian Government, respectively, signed their *Joint Assessment of the Employment Policy Priorities of Hungary (JAP)*, with a view to help Hungary render its labour market suitable, with the help of the EU and in line with the objectives of the European Employment Strategy, to meet the requirements implied by accession.

“The document is all the more important as the European Commission shall monitor the implementation of the tasks specified under it, and assess these as an important element of preparation for EU membership. Therefore, the *Joint Assessment* – similarly to the NAPs of the Member States – is a document based on the same order of procedures in each of the accession candidate countries, but its contents reflects the specific features of the given country.” {Nagy Katalin, *European Employment Strategy, European Mirror, 2003/1., pp.2–23.*}

Hungary’s first progress report to the Commission on the implementation of the objectives defined jointly was dated May 2002. The Commission gave its (informal) opinion regarding the nine priorities deemed most important (headed by the requirement to increase the employment rate) in August 2002, and in October 2002, representatives of the Hungarian government and the Commission took part in a professional seminar to discuss future tasks and draw up conclusions for their joint future activity.

Priority tasks to ensure the catch-up of the Hungarian labour market are the following:

- to raise the *employment rate* while maintaining economic and social cohesion;
- to transform the *informal economy* into legal economic activity;
- to modernise and develop the *Public Employment Service*; to enhance the role of vacancy exchange within the employment services;
- to monitor of the interaction of diverse *tax and benefits systems* and their boosting effect on employment and on job creation;
- to *enhance regional mobility* in order to reduce structural imbalances and regional gaps through the promotion of infrastructure and human resources development; to take measures to treat the *gender gaps*, including a review of the implementation of anti-discrimination laws and measures, and the stimulation of the creation of *family-friendly forms of work*;
- to *involve the social partners* in the elaboration and execution of employment and wage development policies (including the assessment of the labour market impact of the minimum wage increase);
- to boost *job-creating*, especially in the services sector and in the circle of small and medium-sized enterprises (SMEs) operating at a high level of knowledge and technology, and offering mainly services relating to information society;

- to deploy institutional structures and capacities required for the utilisation of the European Social Fund (ESF), with regard to the political priorities indicated under JAP, and
- to adjust primary education and on-going vocational training to the demands of the labour market, to enhance contacts between schools and companies, to raise the standards of education, with special regard to adult education, to reduce the drop-off rate (especially among the Rom), and improve the efficiency of training and re-training.<sup>2</sup>

In February 2003, the European Commission published the employment policy assessment of the accession candidate countries, Hungary included.<sup>3</sup>

The Assessment on Hungary starts out from the statements under JAP and essentially analyses the country's performance in 2001.

The Assessment emphasises results achieved despite the negative global economic context and inflation and gross wage growth in excess of the plans, viz. export growth and steady economic development.

Its employment-related statements, on the other hand, are less positive, as befits the facts: the employment rate of both men and women and of the unskilled have remained low. The number of the unemployed continued to decline, but the youth/young adults are over-represented among them. Within the working-age population, the inactivity rate is high, especially among the middle-aged and the elderly. The labour market participation rate was 59.7%, i.e., very low and completely unsuited to help overcome growing labour shortage in certain areas.

A significant part of young labour has but basic qualifications. A significant part of the working-age population absent from the labour market also has professional/vocational skills that are unmarketable, especially in certain regions of the country

The promotion of an employment-friendly environment and a flexible labour market – which could boost the employment rate – has remained a priority central policy issue. However, this policy is in need of much more efficient tools in order to assist the labour market entry/employability of the multitude of working-age inactive persons.

As for the tasks ahead, the Assessment lists many factors. The first is the reform of the tax and benefit systems. Taxes are among the highest in the OECD countries, contributing, no doubt, to undeclared work and discouragement in labour market participation. The Assessment deems hopeful the reduction in 2002 of social burdens imposed on employers, the proposed reduction of the health-care contribution, and the further simplification of the taxation of SMEs, support to tele-working and the tax-exemption of the statutory minimum wages.

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<sup>2</sup> *Labour Market Notes (Munkaerőpiaci feljegyzés), Hungary, Work material of the professional seminar (A szakmai szeminárium munka-anyaga), 15. Oct. 2002.*

<sup>3</sup> Commission Staff Working Paper, Supporting document to the Communication “Progress in the implementation of the Joint Assessment Papers on employment policies in candidate countries” {COM (2003) 37 (final) Brussels, 18.2.2003 SEC (2003) 200}

Tasks ahead include, furthermore, investment in human resources and the narrowing of the skills gap; assistance to the active labour market programmes, deployment of an appropriate institutional framework, primarily through the introduction of the European labour regulations and by more effective labour inspection.

Consultation with the social partners should be enhanced (the government elected in 2002 committed itself to that objective anyway), and the necessary preparations be made for the reception of assistance from the European Structural Funds. Moreover, equal opportunities should be ensured to both sexes, to ethnic minorities and persons with changed working ability— Hungary implemented the relevant EU directives in this respect adequately.

As for the future, the Report underlines the need for a much more active employment policy: reception of the European Structural Funds cannot be postponed to the post-accession era.

The judgements expressed by the OECD and EU reports, covering mainly developments having taken place in 2001, have in the meantime been confirmed/corrected by the events of 2002.

Deepening recession in the developed world has had a stronger impact on the Hungarian economy than before. GDP growth continued to decrease, from 3.8% in the previous year to 3.3% according to the preliminary data of CSO. *{CSO Reports, 2002/12.}* Restructuring taking place in the global economy and the consequent relocation from Hungary of foreign companies of different sizes to countries offering better competitiveness prospects and even lower wages had a direct or indirect effect on many branches. The more significant increase in unemployment was countered by the relocation to Hungary, in the same context, of new types of activities from the developed economies – according to the logic of globalisation.

In 2002 – according to CSO's Labour Force Survey data – the rate of employment remained unchanged, but the previous steady decline in unemployment stopped (and actually reversed at the end of the year).

Changes in home affairs – mainly the replacement, as a result of the parliamentary elections, of the government led by FIDESZ Civilian Party in the previous four years by the Hungarian Socialist Party/Party of Free Democrats coalition – affected employment policy, too, in several respects.

The in-coming government re-established, in the context of the transformation of the administration structure, the previous Ministry of Labour, under the name of Ministry of Employment Policy and Labour (MEPL). Functions assigned to other departments in the previous cycle were returned to the Ministry, and new divisions have also been formed, primarily to ensure the professional preparation of accession to the European Union and to assert the European employment policy objectives. The national employment service, with its regional network and

increasing tasks focusing on job search/vacancy exchange, was also assigned to the competence of MEPL.<sup>4</sup>

The re-organised Ministry announced an ambitious employment promotion programme, including a tele-working programme which is expected to create one thousand new jobs. In order to enhance (registered) temporary employment, the relevant public burdens imposed on employers were reduced considerably. In order to promote the employment of retirees, the previous government had eliminated the aggregate taxation of labour income and pension; as of September this year, the new government raised the tax relief due to employees.

On the proposal of the Ministry, Parliament included the Employment Act of 1991 (Act IV of 1991 on Employment Promotion and Provisions to the Unemployed), amended several times, in a new act<sup>5</sup>, which provides a uniform framework for the related acts, matching the changed functions of the Ministry, and also authorises the Minister under one of its many amendments to institute new regulations to boost the employability/job-search of the unemployed, the Rom and of 45 plussers. (The new benefit to encourage job-search, a new provision introduced by the Act, will first be granted to persons whose eligibility to unemployment benefits expired on 1 July 2003.)

The initial steps to promote employment, however, were countered by the negative effects of the global economy and also by other decisions of the government.

The minimum wage hikes introduced by the previous government (2000: HUF25,500; 2001: HUF40,000; 2002: HUF50,000) and the related exceptionally high public burdens put a brake on staff expansion in branches employing mostly low-skilled workers and at small enterprises. Although this was offset to some extent by compensation offered by the state to counterbalance the increase in public burdens, it was also aggravated in some export-oriented branches by the appreciation of the forint (HUF) on the international money markets. During the year, in addition to the increase in minimum wages, the government also raised considerably the wages of public employees and civil servants.<sup>6</sup>

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<sup>4</sup> The functions of the transformed employment service are specified under MEPL Decree No. 14/2002.(X.17.).

<sup>5</sup> Act LIII of 2002 on the Amendment of Act IV of 1991 on Employment Promotion and Provisions for the Unemployed, Act XCIII of 1993 on Labour Safety, Act LI of 2001 on the Vocational Training Contribution and Assistance to the Development of the Training System, Act CI of 2001 on Adult Training, Act III of 1993 on Social Administration and Social Provisions, Act XXII of 1992 on the Labour Code and certain other laws. The Act was passed by Parliament on 10.12.2002.

<sup>6</sup> Wage increases resulted in the situation, unusual on the international scene, too, that the average wages of manual and non-manual workers in the public services exceeded in QIV 2002 the corresponding wages in the business sector. {Éva Palócz-István János Tóth: A 2002. évi bérnövekedés okai. Elemzés a statisztikai adatok és egy vállalati felmérés tükrében - Reasons for the wage increase in 2002. Hungarian Chamber of Trade and Industry, Institute for Economic and Enterprise Studies, MKIK-GVI, Research Papers, 2003/1.}



Wage increases – and high public burdens – hindered employment in the business sector in the first place.

Under the combined effect of several factors, the number of business sector workers decreased by 0.7%, while that of public-sector employees rose by 1.5% in the course of the year.<sup>7</sup>

All things considered, the number of the employed stagnated in 2002 at the level recorded in the previous year (and qualifying as low in Europe).<sup>8</sup>

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<sup>7</sup> In December 2002 – compared to one year earlier – the number of business sector employee stagnated while that of public sector ones rose by 4.4%. {*CSO Reports, , 2002/12. p.51. }*

<sup>8</sup> These combined effects include those related to the unfortunate indebtedness of the country. The general government deficit – municipalities included – totalled HUF1,616.2 billion in 2002, corresponding to 9.6% of the GDP. The deficit exceeded the amended amount envisaged in December by 28.8%, and one of the main factors contributing to it was the extra HUF123 billion implied by the wage adjustment of civil servants. {*Figyelő, 30. Jan.–5.Feb. 2003, with reference to the Ministry of Finance.*}

## 2. ECONOMIC ACTIVITY OF THE POPULATION

### 2.1 International trends

Global economic recession set back the economic activity of the working-age population already in 2001: on the average of the OECD–30, gathering some of the most developed countries of the world as well as some less developed ones, the number of the employed fell and that of active job-seekers rose somewhat relative to the previous year.<sup>9</sup>

*Table 2.1*

#### Economic activity in the OECD countries, in the 11 EU accession candidate countries and in Hungary, 2000, 2001

	Population aged 15–64, 2000 000'	of which: economically				%
		active		inactive <sup>a)</sup>		
		2000	2001	2000	2001	
OECD total	735,474	70.2	69.8	29.8	30.2	
<i>of which:</i>						
USA	179,111	77.2	76.8	22.8	23.2	
EU	248,347	69.6	69.2	30.4	30.8	
EU accession candidates <sup>b)</sup>	70,819	66.7	66.7	33.3	33.3	
<i>of which:</i>						
Hungary	6,760	59.9	59.7	40.1	40.3	

a) Data calculated on the basis of activity data.

b) The 11 countries having a good chance for accession, taken into account then: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.

**Source:** OECD: *Employment Outlook, 2002*, accession candidates: *Employment in Europe, 2002*

Economic activity – labour market presence – involves two distinctly different groups: that of the employed, and that of the active job-seeker unemployed, i.e. persons wishing to work.

<sup>9</sup> The OECD Member States, irrespective of differences in their national regulations, survey ever since 1983 the labour market participation of the population according to the uniform methods and principles adopted on the recommendation of the ILO. Although these Labour Force Surveys suitable for international comparisons, too, cover the population aged 15-74 everywhere, the comparisons are based, owing to the different retirement regulations of the countries concerned, on data pertaining to those of working age, typically ages 15-64.

In addition to Member State specific data, OECD pools data pertaining to country groups, e.g. the EU, as well, and these are published, among others, in its annual publication entitled *Employment Outlook*. The present Report refers to data issued in *Employment Outlook 2002*.

Four only among the EU accession candidates are members of OECD: the Czech Republic (1995), Hungary (1996), Poland (1996) and Slovakia (2000). The EU shows data, also collected under the uniform LFS and hence fully comparable with those of other countries, pertaining to countries considered potential enlargement candidates separately, too, in its annual publication, *Employment in Europe*, together with data pertaining to the EU Member States, referring regularly to the QII LFS survey of the given year. The present Report typically relies on the EU data, as did the analyses of its predecessors.

Data released by OECD and by the EU, respectively, may differ slightly due to the reference date.

The degree of economic activity – the activity rate expressed as the percentage rate of the population of those present on the labour market to the adult population – can hence be modified (increased or decreased) by the increase/decrease of employment and of unemployment, and changes of a few decimals may involve millions of persons.<sup>10</sup>

The decisive segment of the population of the economically active is, of course, that of the employed (OECD: 65.3% of 69.8%; USA: 73.1% of 76.8%; EU: 64.1% of 69.2%; accession candidates: 57.8% of 66.8%). Raising their share – through the employment of job-seekers and inactive persons – has become a priority objective of big international country groupings. The main reasons include the increase of average lifetime expectancy (especially among women) and the related uncertainties concerning the sustainability of pension systems. In 2002, the EU Council and Commission prepared a joint report on adequate and sustainable pensions.<sup>11</sup>

Growing life expectancy and the sustainability of pension systems require various government measures, some country-specific ones among them, to protect the elderly from social exclusion and poverty and let them maintain their standards of living. Inevitable tasks include employment promotion, the extension of working life, and the introduction of more flexible employment and career patterns to ensure these. The situation of women warrants special attention in this respect. As stated by the Report, the female employment rate is low in many countries and often relates to low-paid jobs, and hence relatively few among them are eligible to pension, of a low amount. The welcome growth of their life expectancy is reason enough to promote their massive labour market participation in the capacity of earners.

OECD data suggest that female economic activity did not change in 2001 in the countries of the European Union, and it declined slightly in the OECD overall and in the United States of America.

The economic activity of the older generations (ages 55–64), on the other hand, showed more positive development and increased in every one of these country groups.

The US stands alone with its high female activity rate and an activity rate of elderly persons exceeding 50%. As for the EU Member States and the accession candidate countries, it is fully justified and urgent to take measures to boost the labour market activity and especially transition to the population of the employed of the said groups.

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<sup>10</sup> In 2001, the OECD forecast unemployment growth by 0.5% for 2002, from 6.4% to 6.9%, that is, corresponding to an increase in the number of the unemployed from 33 million to more than 35 million. *Employment Outlook, 2002*, p.17.

<sup>11</sup> Communications from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Draft Joint Report by the Commission and the Council on Adequate and sustainable pensions, Brussels, 17.12.2002.

Table 2.2

**Economic activity of women and of the older generations, 2000-2001**

	% rate of the economically active to the			
	female population aged 15–64		population (men + women) aged 55–64	
	2000	2001	2000	2001
OECD total	59.4	59.3	48.2	48.4
<i>of which:</i>				
USA	70.8	70.5	57.7	58.4
EU	60.1	60.1	38.7	39.2
EU accession candidates	60.8	61.0	n.a.	n.a.
<i>of which:</i>				
Hungary	52.5	52.2	22.6	24.4

**Source:** OECD: *Employment Outlook, 2002*, accession candidates: *Employment in Europe, 2002*, statistical annexes.

Averages describing the labour market situation of major country groups obviously conceal occasionally marked differences by country.

These differences are due, partly, to the level of economic development of the country concerned, as portrayed, essentially, by its per capita GDP. Typically, the populations of the most advanced, most prosperous countries are present on the labour market in higher rates than those of the less well-to-do, less developed ones.

Although the correlation is not unbroken, the tendency is rather obvious. In the more prosperous countries, a major part of the population takes part in the production of the national income and, as consumers, they create job opportunities for others through their many demands.

The level of economic development, however, is but one of the reasons. The labour market participation of the adult population is influenced to a large extent by extra-economic circumstances (such as differences in female employment traditions in the northern and southern countries of Europe), the duration of the participation of the youth in streamline education and, last but not least, the national legislation (applicable from the taxation to the pension system) reflecting the traditions and political power relations of the given country and boosting or hindering employment, unemployment or inactivity for that matter.

In other words: although the level of economic development plays a major part in determining the labour market participation of any population, neither is the role of governments and legislators irrelevant in this respect.<sup>12</sup>

<sup>12</sup> In addition to the economic reasons, the emergence of massive, permanent unemployment was due “to a large extent to the passive, wait-and-see quality of labour market policies and by social protection systems dominated by income supplementing forms” – this is how Katalin Nagy sums up the experiences of the EU Member States (*op. cit.*, p.4.)

To stick to Europe: the Member States could so far implement a few only of the employment promotion recommendations of the European Union, reiterated for years. (For example, in connection with the reduction of labour taxes, hindering employment, because that would put to risk funds used to cover collective expenditures related to other public functions such as health care, education, national defence.) Any attempt to curb the acquired rights of workers (e.g. to moderate dismissal costs implied by severance pay or the notice period) meets with strong resistance in every country, and the same is true for the introduction of new forms of employment (part-time/fixed-term etc.). The state's own, conflicting, interests as well as those of the various social groupings are clearly reflected in the difficulties of reaching a compromise in the parliaments of the European countries.

In Hungary, a country incurring an even greater need to raise the economic activity of the population, acute conflicts of interest, similar to those in many European advanced economies, hinder the – inevitable – adjustment to the changed world of labour. We shall discuss several aspects of this issue in more detail later on.

## **2.2 Economic activity in Hungary in 2002**

Hungary adopted the uniform principles and methods based on the recommendations of the International Labour Organisation (ILO) in 1992 and prepared the statistical survey of the distinctive labour market features accordingly ever since. The findings of the Labour Force Survey of 2002 (to be integrated subsequently into the international comparisons) indicate the persistence of stagnation.

Prior to the detailed description of the relevant data, let us call the attention to the fact that, as explained in detail in last year's Report, the population count based on the population census carried out on the theoretical date of 01.01.2001. was around 200 thousand higher than the one assumed previously. Cumulative errors in every age group since the census of 1990 altered the reference base of the Labour Force Survey data and hence require the modification of age-group-specific employment, unemployment and activity rates. Retrospective correction is underway.<sup>13</sup> Data for 2002 and the relevant reference bases already take into consideration the results of the population census of 2001.

Owing to the corrections, we shall omit the presentation of part of the longer-term changes, or else indicate if corrected data are unavailable yet.

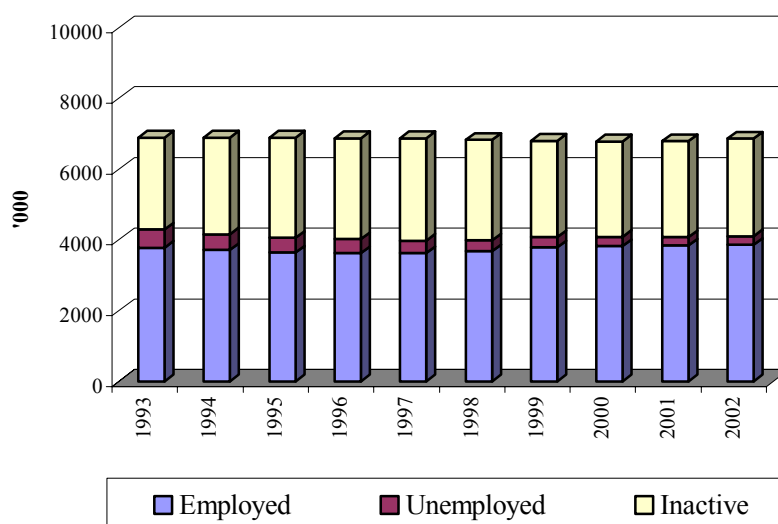
The annual average number of the employed did not change in 2002 compared to 2001; the number of the unemployed increased a little.

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<sup>13</sup> CSO describes in detail the implementation of the modifications under *Technical and methodological changes in the LFS and their publication consequences (Technikai és módszertani változások a munkaerő-felmérésben és ennek publikációs következményei)*, in Labour Market Characteristics, QIV 2002 and 2002, CSO, 2003.

*Figure 1*

**Economic activity of the population aged 15-64**



*Table 2.3*

**Economic activity of the 15-64 year-old, 2001, 2002**

	Population	<i>of which:</i>		<b>Total: economically active</b>	Economic ally inactive	Activity rate	Employ ment rate	Unemploy- ment rate
		employed *	Unemp- loyed					
<b><u>Men+women</u></b>								
2001	6,866.4	3,864.9	233.8	<b>4,098.7</b>	2,767.7	59.7	56.3	5.7
2002*	6,862.7	3,863.3	238.4	<b>4,101.7</b>	2,761.0	59.8	56.3	5.8
<i>of which:</i>								
<b><u>Men</u></b>								
2001	3,354.9	2,117.5	142.3	<b>2,259.8</b>	1,095.1	67.4	63.1	6.3
2002*	3,350.7	2,113.3	137.9	<b>2,251.2</b>	1,099.5	67.2	63.1	6.1
<b><u>Women</u></b>								
2001	3,511.5	1,747.4	91.5	<b>1,838.9</b>	1,672.6	52.4	49.8	5.0
2002	3,512.0	1,750.0	100.5	<b>1,850.5</b>	1,661.5	52.7	49.8	5.4

\* Another methodological change made in 2002 is that the number of conscripts living in the so-called “institutional household” (some 13 thousand on annual average in 2002) is not taken into account either in the population or the employed count. Conscripts used to figure among the employed. Here and in what follows we shall quote data including them.

**Source:** 2002-2001: Labour market features, QIV 2002 and the whole year of 2002, CSO, 2003.

As will be shown in more detail below, economic activity is highest among the 25-54 year-old (2002: 77%; men: 84.3%, women: 70%). This rate, however, is low in international comparison (2001: OECD: 80%, men: 92.6%, women: 68%; EU: 81.7%, men: 91, women: 71.6%.)

Table 2.4

***Economic activity by age group and gender, 2002***

Age groups, genders	Employed *	Unemployed	Ec. active	Ec. inactive	of which: passive unemployed	15-74 year-old	Activity rate, %	Unempl rate, %	Employment rate, %
15-19									
Men	17,979	6,105	24,083	295,866	6,598	319,949	7.5	25.3	5.6
Women	13,480	5,625	19,105	294,970	3,217	314,076	6.1	29.4	4.3
Aggr.	31,459	11,730	43,189	590,836	9,815	634,025	6.8	27.2	5.0
20-24									
Men	198,345	26,836	225,181	148,212	10,544	373,393	60.3	11.9	53.1
Women	161,803	17,971	179,774	186,333	4,464	366,107	49.1	10.0	44.2
Aggr.	360,148	44,807	404,955	334,545	15,008	739,500	54.8	11.0	48.7
25-29									
Men	340,122	26,107	366,229	48,769	10,095	414,997	88.2	7.1	82.0
Women	232,530	17,074	249,604	154,859	5,578	404,462	61.7	6.8	57.5
Aggr.	572,651	43,181	615,832	203,627	15,674	819,460	75.2	7.0	69.9
30-39									
Men	567,714	33,726	601,440	63,790	15,841	665,230	90.4	5.6	85.3
Women	431,971	25,166	457,137	202,993	12,569	660,130	69.2	5.5	65.4
Aggr.	999,685	58,892	1,058,577	266,783	28,410	1,325,360	79.9	5.6	75.4
40-54									
Men	796,546	37,961	153,173	222,746	21,551	1,057,253	78.9	4.5	75.3
Women	799,426	32,523	94,924	306,266	19,747	1,138,215	73.1	3.9	70.2
Aggr.	1,595,972	70,484	248,097	529,012	41,298	2,195,468	75.9	4.2	72.7
55-59									
Men	146,644	6,528	42,894	124,669	3,448	277,841	55.1	4.3	52.8
Women	92,766	2,158	23,914	232,891	1,549	327,816	29.0	2.3	28.3
Aggr.	239,410	8,687	66,808	357,560	4,997	605,657	41.0	3.5	39.5
60-69									
Men	42,164	730	42,894	383,948	1,217	426,843	10.0	1.7	9.9
Women	23,704	210	23,914	564,781	995	588,695	4.1	0.9	4.0
Aggr.	65,869	940	66,808	948,729	2,212	1,015,537	6.6	1.4	6.5
70-74									
Men	3,050	-	3,050	162,299	93	165,349	1.8	-	1.8
Women	2,380	90	2,471	259,370	100	261,841	0.9	3.7	0.9
Aggr.	5,430	90	5,521	421,669	193	427,190	1.4	1.6	1.3
<b>Total</b>									
<b>Men</b>	<b>2,112,565</b>	<b>137,993</b>	<b>2,250,558</b>	<b>1,450,298</b>	<b>69,388</b>	<b>3,700,855</b>	<b>-</b>	<b>6.1</b>	<b>57.1</b>
<b>Women</b>	<b>1,758,060</b>	<b>100,817</b>	<b>1,858,877</b>	<b>2,202,464</b>	<b>48,219</b>	<b>4,061,341</b>	<b>3.7</b>	<b>5.4</b>	<b>43.3</b>
<b>Aggr.</b>	<b>3,870,625</b>	<b>238,810</b>	<b>4,109,435</b>	<b>3,652,761</b>	<b>117,606</b>	<b>7,762,196</b>	<b>1.6</b>	<b>5.8</b>	<b>49.9</b>
<b>15-64 year-old, thousand persons, conscripts included</b>									
<b>Men</b>	<b>2,113.3</b>	<b>137.9</b>	<b>2,251.2</b>	<b>1,099.5</b>	<b>69.0</b>	<b>3,350.7</b>	<b>67.2</b>	<b>6.1</b>	<b>63.1</b>
<b>Women</b>	<b>1,750.0</b>	<b>100.5</b>	<b>1,850.5</b>	<b>1,661.5</b>	<b>47.7</b>	<b>3,512.0</b>	<b>52.7</b>	<b>5.4</b>	<b>49.8</b>
<b>Aggr.</b>	<b>3,863.3</b>	<b>238.4</b>	<b>4,101.7</b>	<b>2,761.0</b>	<b>116.7</b>	<b>6,862.7</b>	<b>59.8</b>	<b>5.8</b>	<b>56.3</b>
<b>Working-age people**, thousand persons, conscripts included</b>									
<b>Men</b>	<b>2,099.2</b>	<b>137.9</b>	<b>2,237.1</b>	<b>977.2</b>	<b>68.6</b>	<b>3,214.3</b>	<b>69.6</b>	<b>6.2</b>	<b>65.3</b>
<b>Women</b>	<b>1,724.4</b>	<b>100.1</b>	<b>1,824.5</b>	<b>1,321.1</b>	<b>47.0</b>	<b>3,145.6</b>	<b>58.0</b>	<b>5.5</b>	<b>54.8</b>
<b>Aggr.</b>	<b>3,823.6</b>	<b>238.0</b>	<b>4,061.6</b>	<b>2,298.3</b>	<b>115.6</b>	<b>6,359.9</b>	<b>63.9</b>	<b>5.9</b>	<b>60.1</b>

\* not including conscripts

\*\* men aged 15-61, women aged 15-58

**Source:** LFS, 2002, CSO, 2003.

Low activity rates reflect several key problems of long standing of the Hungarian economy, not solved yet by the transformation process. It is partly explained by working-age being shorter than the international average. Despite the gradual increase of retirement age (2002: men until the age of 61 and women until 58 qualified as being of working age, entitled to pension in the next year), men and women retire 3 and 6 years earlier, respectively, than those of the same ages in many other countries. (The goal is to set retirement age at 62 for both sexes.)

There are no plans to raise retirement age even further, mainly because of the slower rise of life expectancy and the poorer state of health of the population than in the developed economies.<sup>14</sup>

Upon reaching retirement age, the employed (must) exit the labour market in massive proportions; the population between current retirement age and 64 years of age, a total of more than half a million persons, includes a mere 40 thousand employed and 400 (!) active job-seekers.

However, many would prefer to remain active. According to the research project of the Institute for Demographic Research on the ageing of society, middle-aged or older people, not retired yet said, in agreement with other experiences, that, although most would like to retire at an earlier age, the closer they get to retirement age, the more seriously they contemplate the possibility of subsequent employment. One third of those past 55 still at work actually plan to do so. Among the residents of the capital, a proportion well in excess of the average hope to be able to work on a fixed or free-lance basis or start their own enterprise after retirement, while village residents tend to think in terms of some agricultural activity to supplement their income. 50% of those under retirement age and having GCSE or a degree hope to get work of some sort, while the corresponding rate for those with lower skills is less than 20%, due perhaps to a realistic assessment of the opportunities.<sup>15</sup>

Labour opportunities for older people, however, are scarce. Although the more advantageous taxation of earnings beside pension (i.e., full exemption of pensions from the calculation of taxable income) motivates retirees to engage in work, it provides no corresponding incentives to employers as the labour cost implications are the same for all ages.

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<sup>14</sup> According to the analysis described in last year's Report, in Hungary, life expectancy in Hungary has only exceeded the planned 62-year general working-age limit and the 64-year limit in effect typically in the European countries recently and to relatively minor extent. Life expectancy at birth for men and women has exceeded 65 years since 1946-50 and 1936-40, respectively. For those born later, life expectancy actually deteriorated, and it was only in the past few years that the relevant expectations started to improve again. A more significant increase in life expectancy can only be expected in the case of those born in subsequent years/decades. The life expectancy of men and women born in 2001 is 68.15 and 76.45 years, respectively. {Source: *Summary data of the vital events (A népmozgalom összefoglaló adatai), CSO Reports, 2002/12. p.106.* }

<sup>15</sup> Imre Dobossy –Edit S.Molnár –Eszter Virágh: Ageing, retirement, retiree life, old-age (Öregedés-nyugdíjba lépés, nyugdíjas lét-öregkor), in: Zsolt Spéder (ed.) *Demographic Developments and Social Context (Demográfiai folyamatok és társadalmi környezet)*, Fast Report based on data collected in the first round under the follow-up survey entitled "Turning points of our life", Sept. 2002.



The labour administration plans several kinds of actions to keep elderly people on the labour market, which could bring about favourable changes once implemented.

The statistical activity rate is kept low – probably not only in Hungary, but in the other accession candidate former socialist countries as well – by undeclared paid work, not regarded as employment.

As described recurrently every year: more than 100 thousand students (2002: some 100–120 thousand) and, especially, hundreds of thousands of pensioners formerly employed in agriculture and other inactive persons living in the countryside and having a small household plot did casual or regular income-generating work. (In accordance with the recommendation of the ILO, the Labour Force Survey considers as “employment” even a single hour of paid work done on the week preceding the survey.) In Hungary, however, “employment” is closely associated with daily, full-time work for an indefinite term. (The majority of job-seekers shares this opinion.) Work done in student, pensioner, household dependent status is not regarded as “employment” and hence it often remains unmentioned in the survey. This attitude is fostered, furthermore, by fear from registration which, according to the experience of generations, can only have negative consequences, mainly taxation of some kind..

High taxes on labour is a commonplace problem in Hungary (cf. the reports of OECD and the EU referred to above).

One form of taxation was altered in 2002: tax burdens imposed on work done with the Casual Employer’s Booklet were moderated. (We shall discuss this issue in more detail later on.) Results so far have been modest but, obviously, this is the only way that could lead to change.

Another component of the low domestic activity rate is the exit (exclusion) of a multitude of women from the labour market.

The female activity rate, which used to be quite high in the seventies at more than 80% of the working-age population as defined then (ages 15-54), dropped steeply in the nineties, during the transformation of the economy, and it has been among the lowest for years (in 2001, of 3.5 million women aged 15–64, 1.84 million, 52.4% were economically active; in 2002, 1.85 million, 52.7%. *{In 2001, the OECD average was 59.3%, the EU rate was 60.1%, and that of the USA 70.5%. Employment Outlook 2002.}*)

The permanent shortage of labour in the given economic structure context, especially for women with low or no skills, has transformed their attitude to work as a matter of course. The relevant polls suggest that, as a form of self-justification, women tend to turn away from employment, and especially its full-time forms.

The employment-related aspirations of women have been reviewed repeatedly in relation to family policy issues and in order to halt the steady decline of the population. CSO for example examined in 1986 and subsequently jointly with the Research Institute of Labour in 1995 and most recently in 1999, in

connection with the Labour Force Survey, the opinion of women aged 15–49. (The latter two projects were headed by Mária Frey.) Compared to 1995, in 1999, the positive opinion of women in the age groups concerned on engagement in paid work changed significantly, from 73% to 67%. The great majority of employed or unemployed women wishing to be present on the labour market (73 and 70%, respectively), and especially those in non-manual occupations (79%) considered it important for a woman to have an earning activity; 40% of the inactive – especially those absent from the labour market on child-care leave – thought that women should devote themselves exclusively to household and parenting tasks.

In the past decades, the majority of women with young children – surveyed recurrently by the Institute for Demographic Research since 1974 –took a definite stand against the employment of women, deeming family and private life more important. The survey of 2000 suggests the intensification of not only the sympathy for the traditional family model (the husband should earn a living for the family) in this circle, but also the demand that the mother-of-the-family role be acknowledged. In 1991, of the average values defined on a scale of five, the opinion that “Being a housewife can be as satisfactory as an earning activity” scored 33 – in 2000, this opinion scored 62 already. In comparison with 1991, however, less were of the opinion that a working woman earns much more respect (55 vs. 51 points).

Nevertheless, many among them would like to work part-time. According to the relevant paper, “there is a keen demand for this form of employment: the majority regards it as the pledge for reconciling earning and parenting”.<sup>16</sup>

A major part of women would be willing to engage in part-time work, but, unfortunately, in 2002, the conditions making this an attractive solution to employers, too, have not been established yet.

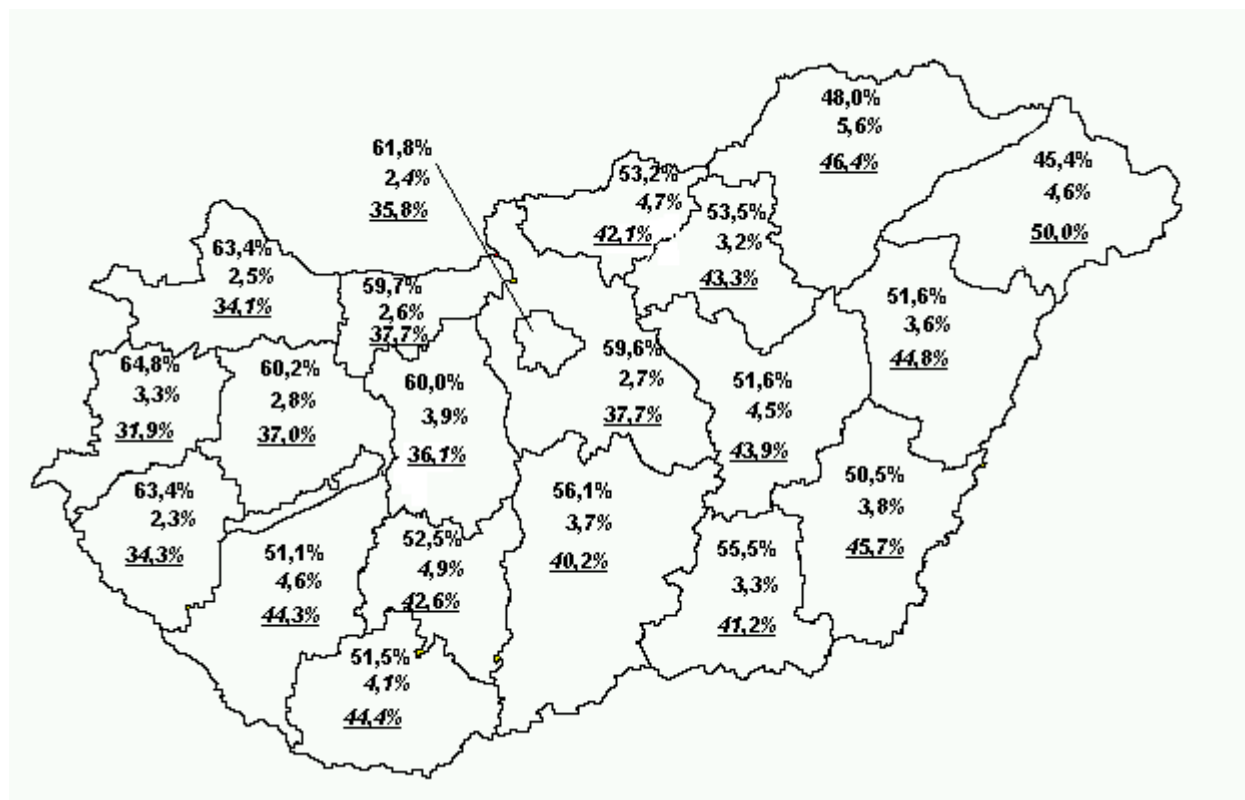
All in all, the promotion of economic activity, and the significant increase of the employment opportunities of women and of older people, is an urgent employment policy task.

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<sup>16</sup> Ms Tibor Pongrácz: The role of the family and of work in the life of women (A család és a munka szerepe a nők életében) in: Ms Tibor Pongrácz –Zsolt Spéder (ed.): Population, values, opinions (Népesség, értékek, vélemények), Institute for Demographic Research, Research Papers 73., 2002. pp. 123-137.

Figure 2.

**Distribution of the population aged 15-64 by economic activity, 2002**



Employment ..... = 56,2%  
 Unemployment ... = 3,5%  
**Economically inactive = 40,3%**

**Source:** LFS,

### 3. **EMPLOYMENT, THE EMPLOYED**

#### 3.1 **Progress of the Luxemburg process**

To promote the implementation of the common employment objectives, the EU issues the jointly approved annual *Employment Guidelines*, to be replaced, as of 2003, by the *European Employment Strategy* (EES) modelled on a novel structure, but targeted at the same basic objectives, viz. to increase employment by 2010 as envisaged.

Employment in Europe changed in many respects compared to the – significantly different – initial positions of the Member States in 1997 as envisaged: the rate of employment (including the employment of women and of the 55–64 year-old) increased both in the EU overall and in the Member States, albeit at different paces by country.

Despite the phase shifts – and certain minor changes in the rank order of individual countries – the three major groups remained essentially unchanged: the first one is characterised by employment rates of 70% or higher (Denmark, The Netherlands, Sweden, the United Kingdom); the second by employment rates of 60 to 70%, and the last one by rates below 60% (Greece, Italy, Spain).

The employment rate of women increased fastest in Ireland (by 9.1 percentage points) and in Spain (8.3 percentage points), and that of older persons in Finland (by 10 percentage points).

Employment rates increased in 2001 in the EU Member States in every age-group; by 0.4 and 0.5 percentage point among the 15–24 and the 25–54 year-old, respectively. Gaps in the employment rates of the latter, i.e. persons of prime working age, tend to narrow among the Member States, while the disparities in the employment rates of the youth and the older generations are either unchanged or tend to increase. The low youth employment rate, however, is also indicative of higher levels of education.

The EU expects the Member States, and especially those having produced relatively poor results so far, to enhance their structural labour market reforms in the context of the current economic slowdown, to help employers and employees adjust to the changing circumstances – for, despite the results achieved already, the main weaknesses of the labour market have prevailed.

Five only among the eleven accession candidate countries<sup>17</sup> recorded employment rates in excess of 60% in 2001. Cyprus took the lead with 67.9%. Six countries produced rates between 50 and 60%, and Bulgaria and Poland brought up the rear with 50.7% and 53.8%, respectively. Despite the increase in seven countries relative to 2000, albeit by a few decimals only, with the exception of Cyprus, employment rates remained low.

In terms of averages, the female employment rate of the accession candidates, around 50%, results from the, approximately identical, age limits implied by the

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<sup>17</sup> No data concerning Malta and Turkey, also EU accession candidates, are included in the survey.

pension systems of ex-socialist countries, whereas that of the EU Member States, hardly higher than the former, evens out extreme differences by country (Denmark and Sweden: 70+%; Greece, Spain, Italy, around 40%). Note that, in the less developed countries with significant agricultural production of both groups, many women probably work in the household economy, without considering themselves employed.

Low retirement age is reflected in the employment rate of older people being below the European average.

In the accession candidate countries, intensive labour market reforms are the way to attain the current average employment rate of the EU and the 70% target employment rate. The data, however, clearly show that reforms are necessary in several EU Member States as well.

### **3.2 Employment in Hungary in 2002**

According to the population census of 2001, in the beginning of the year, the population of 10,200 thousand (4,851 thousand men and 5,349 thousand women) included 6,958 thousand (68.2%) persons aged 15–64.

The headcount had decreased already during 2001, and this tendency continued in 2002, to 10,175 thousand by the end of the year. (According to the extrapolated population census data, the 48–52% distribution of men and women remained essentially unchanged.) In 2002, 67.4% of the population fell in the 15–64 age brackets taken into account internationally.

The number of persons of working age as defined in Hungary (i.e., in 2002, men aged 15–61 and women aged 15–58) is obviously significantly lower: according to the Labour Account data referring to the 1<sup>st</sup> of January (and hence covering the demographic processes of the previous year), it was 6,285.4 thousand in 2001 and 6,395.3 thousand in 2002, due mainly to the increase of the ceiling.<sup>18</sup>

The main objective in Hungary the same as elsewhere is, of course, that the largest possible segment of the working-age population be employed.

To provide a comparative overview, the table below shows the number and proportion of the employed, calculated according to different definitions of working age.

CSO's evaluation states the following: "The employment rate underwent no change of merit in 2001 or 2002. On annual average, 3 million 884 thousand (conscripts excluded: 3 million 870.6 thousand) qualified as employed – the same number as one year earlier. Within the population aged 15–64, the employment rate was 56.3%, identical to that in 2001". *{Labour Market Characteristics, QIV 2002 and 2002, CSO, 2003, p.47. }*

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<sup>18</sup> The Labour Force Survey takes into account the annual average population count, not that on 01.01., hence the Hungarian population, not including conscripts, numbered 6,346.9 thousand.

Table 3.1

**Number and distribution of the employed, 2001-2002**

Year	Population	of which:		Employed*					
		men	women	Total		of which:			
		'000		'000	% rate	men		women	
						'000	% rate	'000	% rate
<b>Ages 15-64</b>									
2001	6,866.4	3,354.9	3,511.5	3,864.9	56.3	2,117.5	63.1	17,474	49.8
2002	6,862.7	3,350.7	3,512.0	3,863.3	56.3	2,113.3	63.1	1,750.0	49.8
<b>Ages 15-74</b>									
2001	7,787.4	3,719.0	4,068.4	3,883.3	49.9	2,128.7	57.2	1,754.6	43.1
2002	7,775.2	3,713.8	4,061.4	3,883.6	49.9	2,125.5	57.2	1,758.1	43.3
<b>Hungarian working age</b>									
2001	6,317.5	3,226.1	3,091.4	3,823.6	62.1	2,106.9	65.3	1,716.3	55.5
2002	6,359.9	3,214.3	3,145.6	3,823.6	60.1	2,099.2	65.3	1,724.4	54.8

\*Conscripts included

**Source:** Labour Force Surveys

### **3.2.1 Distribution by gender and age group**

Although women permanently outnumber men in the population overall at 52.5%, the employed typically include more men than women. Disregarding the upper age limits, 55% of men and less than 40% of women past 14 years of age were employed.

For those aged 15-64, the corresponding rates are 63% and 50%, respectively, implying a narrower gap.

Among those of working age as defined in Hungary, the difference is even smaller: 65% of men and 55% of women had an earning activity.

In what follows, we shall review the findings of the Labour Force Survey as most comparative data are available for those aged 15-64 anyway.

The distribution by age groups shows some permanent tendencies:

- The population of the 15-19 year-old has kept shrinking, from 767 thousand in 1990 to 668 thousand by the time of the population census of 2001, and by another 13 thousand, to 655 thousand, in 2002.

This contracting age group includes a decreasing number of employed persons, primarily because a growing proportion remain in education after primary school instead of entering the labour market. In 1992 (when CSO joined the international LFS system), 136 thousand among the 15–19 year-old were employed; in 2002, the corresponding number was 31.5 thousand. The activity rate (job-seekers included) in the same group fell from 23% to 6.8% in 2002.

Of course, some in the youngest working-age generations do not study, work or look for a job actively, while others would like to work but are discouraged from active job-search (some 10 thousand in 2002), but the decisive majority remains in education.

- The high employment rate of those of prime working age (ages 25–54) persisted. As mentioned already, in 2001, this age group included 88.2% of men and 63.9% of women in the OECD, while the corresponding EU rates were 86.8% and 66%, respectively. Although in Hungary the corresponding rates are lower for men (men: 80.7%, women: 83.7%(!)), the great majority of earners (82%) nevertheless belong to this age group. (In 1992, 77.8% of employed men and 80.3% of employed women were of prime working age, i.e. 79% of all the employed.)

The high employment rate of those of prime working age implies significant employment promotion options in the younger and especially the older age groups. In the context of steady and profound economic restructuring, the opportunities of the latter lie in the exploitation of non-traditional (non-standard) forms of employment.

- Age-group-specific data highlight the importance of the employment of older people: 60 plussers are definitely under-represented among the earners. In 1992, 59 thousand (35 thousand men and 24 thousand women) were employed among the 60–74 year-old. With the increase in retirement age among others, by 2002, their number rose to 71 thousand (45 thousand men and 26 thousand women), but that is still a fraction only of the population of almost 1.5 million, or even of the more than 530 thousand strong population of the 60–64 year-old. Table 3.2 shows this in more detail.

*Table 3.2*

**Number of the employed by age group and gender, 2002**

*thousand*

Age group	Population	Employed, all	Men	Women	Employment rate, all (%)
15-19	637.1	34.5	21.0	13.5	5.4
20-24	748.4	369.1	207.3	161.8	49.3
25-29	820.5	573.6	341.1	232.5	69.9
30-34	706.1	519.2	308.9	210.3	73.5
35-39	619.3	480.5	258.8	221.7	77.6
40-44	661.8	514.3	256.4	257.9	77.7
45-49	805.2	599.5	301.7	297.8	74.5
50-54	728.3	482.1	238.4	243.7	66.2
55-59	605.7	239.4	146.6	92.8	39.5
60-64	530.3	51.1	33.1	18.0	9.6
65-69	485.2	14.8	9.1	5.7	3.1
70-74	427.3	5.5	3.1	2.4	1.3
<b>Total</b>	<b>7,775.2</b>	<b>3,883.6</b>	<b>2,125.5</b>	<b>1,758.1</b>	<b>49.9</b>

**Source:** *Labour Market Characteristics, QIV 2002 and 2002I, CSO, 2003.*

### **3.2.2 Employment by broad sectors and branches**

The relative employment weight of the three broad sectors – viz. agriculture, industry/construction, services – is an important indicator of the development level of the given country. The more developed the economy, the more it uses advanced technology, up-to-date scientific inventions requiring, mostly, considerable investment, to replace labour in the production sectors (agriculture

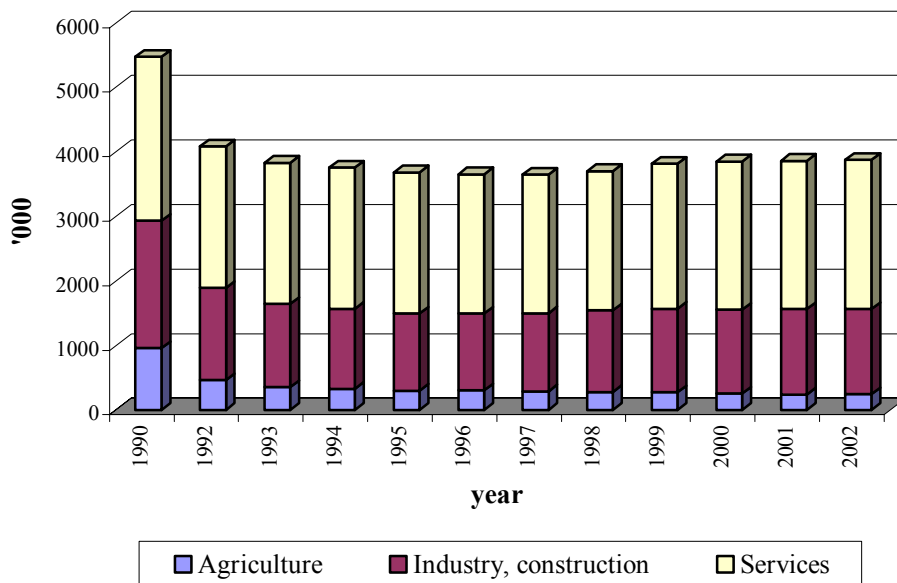
and industry). On EU average, in 2001, 4.2% only were employed in agriculture (UK: 1.4%, Luxemburg: 1.6%, Belgium 2%, Germany: 2.4%; but: Greece: 16%, Portugal: 11%); and 26.4% in the industry.

In the more well-to-do countries, the business sector, the governments and individuals alike spend ever more on services, and their demands generate new jobs. On EU average, 69.4% of earners is employed in one of the many services branches, but in most EU countries, this rate is already as high as 73–74% (The Netherlands: 76.7%).

Incessant and thorough restructuring, typical of any modernising economy, is quite visible, despite its slower pace, in the accession candidate former socialist countries of East and Central Europe. Restructuring, however, can only accelerate to the extent matching the development level of the given country, even in a market economy context. The rate of those employed in agriculture is high in most countries (Romania: more than 40%, Poland: almost 20%); while that of services employees is relatively low. (The relevant indicators for Cyprus are similar in every respect to those of the developed countries).

*Figure 3.*

**Development of the number of the employed by broad sector, 1990–2002**



In Hungary, the development of the relative employment weight of the broad sectors can be traced with the help of extensive statistical data series.



Table 3.3

***Employment by broad sector, 1900-2002***

Year 1. January	Agriculture, forestry		Industry/construction		Services		No. of employed = 100%
	'000	%	'000	%	'000	%	
1900*	1,734.6	61.1	422.5	15.0	684.2	23.9	<b>2,841.3</b>
1910*	1,684.7	59.7	558.1	18.3	810.1	26.5	<b>3,053.0</b>
1920*	2,127.2	59.7	562.9	15.8	875.3	24.5	<b>3,565.4</b>
1930	2,030.2	54.3	754.5	20.2	952.8	25.5	<b>3,737.5</b>
1941	2,165.1	51.5	919.3	21.8	1,118.7	26.7	<b>4,201.9</b>
1949	2,197.5	53.8	884.0	21.6	1,003.4	24.6	<b>4,084.9</b>
1960	1,830.0	38.5	1,617.7	34.0	1,311.9	27.5	<b>4,759.6</b>
1970	1,246.0	23.2	2,379.2	44.3	1,747.5	32.5	<b>5,372.7</b>
1980	1,109.0	19.3	2,386.1	41.6	2,238.5	39.1	<b>5,733.6</b>
1990	955.0	17.5	1,976.8	36.1	2,540.1	46.4	<b>5,471.9</b>
2001	205.3	5.6	1,225.4	33.1	2,266.3	61.3	<b>3,696.9</b>
<b>Annual average **</b>							
1992	460.1	11.3	1,431.0	35.0	2,191.6	53.7	<b>4,082.7</b>
1993	349.4	9.1	1,292.2	33.8	2,185.7	57.1	<b>3,827.3</b>
1994	327.6	8.7	1,237.3	33.0	2,186.6	58.3	<b>3,751.5</b>
1995	295.1	8.0	1,198.1	32.6	2,185.6	59.4	<b>3,678.8</b>
1996	302.4	8.3	1,190.1	32.6	2,155.6	59.1	<b>3,648.1</b>
1997	287.8	7.9	1,207.9	33.1	2,150.6	59.0	<b>3,646.3</b>
1998	278.8	7.5	1,264.3	34.2	2,154.6	58.3	<b>3,697.7</b>
1999	270.4	7.1	1,296.1	34.0	2,245.0	58.9	<b>3,811.5</b>
2000	251.7	6.5	1,298.4	33.8	2,299.0	59.7	<b>3,849.1</b>
2001	239.4	6.2	1,321.0	34.2	2,299.1	59.6	<b>3,859.5</b>
2002	240.9	6.2	1,319.9	34.1	2,309.8	59.7	<b>3,870.6***</b>

\* Data covering the current territory of the country

\*\* Until 2001: according to the figures known prior to the population census

\*\*\* Not including conscripts

**Source:** Year, 01.01: 1900-2001: Population censuses; annual averages: LFSs

In the course of a century, agriculture, the largest sector at one time, became the smallest employer – at least as far as the number of declared workers is concerned.<sup>19</sup>

Industry played a decisive employment role in the seventies and eighties. In the nineties, after the collapse of the economy, the number of industrial employees almost halved, but with the contraction of the total number of the employed, their share stabilised at around one third, well above the corresponding level in the developed economies.

The number service sector employees has been increasing slowly but definitely, with certain fluctuations, for around two decades, and continued to do so in 2002 (cf. Table 3.3 above).

<sup>19</sup> It is a well-known fact that hundreds of thousands cultivate a plot of land to earn extra, but they do not regard such work as income-generation even if the produce/animals are sold. Such activity does not have to be registered, and hence, although the LFS considers even one hour of work for pay for others as “employment”, this practice is not reflected in statistics.

While the relative employment weight of the broad sectors is indicative of the level of development of the economy, that of their branches reflects structural changes in different segments of the economy.

In 2002, the number of the employed decreased in half of the 14 statistical branches (by a total of 27 thousand) and rose in the other half (39 thousand).

Most losses were recorded in public administration (7.5 thousand) and in hotels and catering (5.7 thousand), and most gains in real estate, renting, business services (13.2 thousand) and education (8.2 thousand).

The fluctuation, in the range of a few thousand (within the statistical error limit), however, warrants no conclusions concerning changes in the employment weight of individual branches. Shifts usually manifest themselves in the longer term only.

*Table 3.4*

***Number and distribution of the employed by branch***

Branch *	1992		2000		2001		2002**	
	'000	%	'000	%	'000	%	'000	%
<b>A-B</b>	460.1	11.3	251.7	6.5	239.4	6.2	240.9	6.2
<b>C</b>	52.7	1.3	19.2	0.5	13.0	0.3	14.8	0.4
<b>D</b>	1,053.5	25.8	931.3	24.2	955.8	24.8	959.9	24.8
<b>E</b>	108.0	2.6	80.1	2.1	79.5	2.1	74.2	1.9
<b>F</b>	216.8	5.3	267.8	7.0	272.7	7.1	271.0	7.0
<b>G</b>	480.4	11.8	540.9	14.1	548.4	14.2	552.1	14.3
<b>H</b>	115.6	2.8	133.3	3.5	143.0	3.7	137.3	3.6
<b>I</b>	346.4	8.5	311.8	8.1	310.9	8.1	309.7	8.0
<b>J</b>	68.7	1.7	83.7	2.2	78.9	2.0	75.3	1.9
<b>K</b>	140.3	3.4	204.6	5.3	219.6	5.7	232.8	6.0
<b>L</b>	293.7	7.2	299.0	7.8	289.6	7.5	282.1	7.3
<b>M</b>	311.8	7.6	317.8	8.3	309.8	8.0	318.0	8.2
<b>N</b>	236.3	5.8	241.7	6.3	234.9	6.1	240.7	6.2
<b>O-Q</b>	198.4	4.9	166.2	4.3	164.0	4.2	161.8	4.2
<b>Aggregate:</b>	<b>4,082.7</b>	<b>100.0</b>	<b>3,849.1</b>	<b>100.0</b>	<b>3,859.5</b>	<b>100.0</b>	<b>3,870.6</b>	<b>100.0</b>

\* **A-B** = Agriculture, hunting, forestry and fishing; **C** = Mining; **D** = Manufacture; **E** = Electricity, gas, steam and water supply; **F** = Construction; **G** = Wholesale and retail trade, repair and maintenance of motor vehicles; **H** = Hotels and restaurants; **I** = Transport, storage and telecommunications; **J** = Financial intermediation and support services; **K** = Real estate, renting, business support; **L** = Public administration, compulsory social security; **M** = Education; **N** = Health care, social care; **O-Q** = Other services.

\*\* Re-calculated on the basis of the 2001 population census data; not including conscripts.

Minor branch-level fluctuations, however, conceal significant restructuring: the termination of old activities and the introduction of new ones, as in every active economy.<sup>20</sup>

<sup>20</sup> The "big boom" having shaken the entire economy took place at the time of the collapse of the socialist economy, in the early nineties. The paper of Gábor Körösi and Éva Surányi analysed the effects of corporate job creation/job losses after 1992, of outstanding speed internationally until 1996 and quite fast afterwards, too, on employment by branches. One of their most interesting findings was that heavy transformation in corporate employment from 1992 to 2000 resulted in minor shifts only in branch-specific employment rates. {G. Körösi-É. Surányi: *Job creation and loss (Munkahely-teremtés és- rombolás)*, HAS, Research Centre for Economics, Budapest, Working Papers-on:the Labour Market, BWP, 2002/8.}

Significant changes with staff size implications occurred at the enterprise/business entity level in 2002, too. They were most obvious to public opinion this time due to the withdrawal of a few major multinational company units.<sup>21</sup> (Flextronics announced in May 2002 the relocation of the manufacture of the new Microsoft product, the X-box game console, to China, implying the dismissal of 1200 workers; in October, IBM announced the closure of the HD plant and the dismissal of 3,700; in September, Siemens Hungary decided to reduce staff at its Hungarian plants, in December, Kenwood, manufacturing car radios, moving on to China, laid off 190 workers etc.) The decline in orders provoked staff layoffs at many companies. (For example at Székesfehérvár-based Philips; or: TDK moved production from Rétság to Ukraine; Buckbee Mears Hungary laid off 140 at Tatabánya; Italystrops closed its Csurgó plant etc.) The reduction/termination of these activities forced a wide circle of suppliers (e.g. Videoton) to take similar steps.

The rippling effects of global economic recession affected almost every segment of the economy. Staff reductions, however, were due to other reasons as well: the necessity to modernise the postal services, the railways, the Army and Matáv, the Hungarian telephone/telecom company. Poor competitiveness caused problems in many branches irrespective of the recession, from metallurgy to the footwear industry, from the tin industry to textiles and clothing. The majority of the branches based on domestic raw materials in the beginning of industrialisation were forced to use basic materials originating from abroad and had to face competition by countries (mainly Asian ones) offering much lower manufacturing costs. (Once again, in 2002, numerous footwear and clothing plants had to terminate operation, while tinning and metallurgy (what remains of them) have been struggling for a long time.)

Developments delaying the expected economic growth seem to have persisted. (In QI 2003, further layoffs were announced or actually started: 500 persons at the Szombathely plant of Philips, several hundreds at each of Ajka Kristály, the Csepel Metal Works, the Bakony Power Plant, several thousands at the Post, etc.)

Despite the wave of dismissals (enhanced, in some areas, by the minimum wage hikes and the strong forint), the employment rate has not dropped, because the developments associated with restructuring and modernisation continued as well.

One of the most important circumstances in this respect is the steady inflow of foreign direct investments. FDI worth EUR1,281 billion entered Hungary in 2002, 18.3% more than one year earlier. The biggest investors were The Netherlands, Germany, the US and Sweden, but almost all advanced economies were represented by both old and new actors. IT investments ebbed, but the network of motorcar parts manufacture is quite significant and investors are setting up new production bases in every area (from the manufacture of window-

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<sup>21</sup> According to a summary evaluation, a total of 7 thousand jobs were lost from October 2000 to January 2003 owing to the exit of multinational companies. *{Népszabadság, 15.01.2003.}* One company – the biggest Canadian investor in Hungary – actually gave up launching production at its newly built, ready, plant *{Népszabadság, 20.11.2002.}*

panes to metal-working, from glass to TV set manufacture). Spectacular exits were accompanied by the relocation of a new activity by Flextronics and significant expansion at the Vác plant of IBM. In 2002 the same as before, many types of activities were relocated to Hungary from Western European countries. (And: Hungarian enterprises also established more entities abroad, worth a total of EUR275 million, especially in Slovakia, Poland and Romania.)

Investments imply new jobs, partly in 2002 and mainly in subsequent years.<sup>22</sup> Hungarian companies included, in 2002, according to the figures of the Ministry of Employment Policy and Labour, a total of 228 new workplaces employed 7,510 staff and 1,448 established ones raised staff by another 43,590 altogether. {Quoted in: *Világgazdaság*, 24.01.2003.} The approximately 51 thousand new jobs offset losses during the year.

The government provided job creation subsidies partly under the Széchenyi Plan and partly from the Labour Market Fund in areas with a high unemployment rate, in the form of non-repayable assistance. In 10 counties, at a total of 506 settlements, employers providing permanent jobs (for a min. of 3 years) could claim subsidy worth more than HUF1 million per workplace.

Recent developments resulted in new jobs in other areas of the economy as well. In the army, for example, parallel with the streamlining, the recruitment of regular staff continued, and in 2002, 3,800 new employees were hired to replace conscripts. The plan is to engage by contract 12–13 thousand soldiers by 2006 {*Világgazdaság*, 10.10.2002.} The police and the border guards are also hiring staff – in 2002, they were looking for 5 thousand professional staff. (According to the plans, following Hungary's accession to the EU and the elimination of control at the internal borders, the number of customs officers will also drop significantly, and part among them could move to the frontier guards to remedy staff shortage there.) Beside other public branches, staff number increased, as mentioned already, in the diverse business services taken into consideration under real estate etc. and also in trade.

Forecasts predict continuing job creation in various areas of the economy. The short-term labour market forecast prepared under the auspices of the Ministry of Employment Policy and Labour – having indicated the stagnation of employment in QII 2002, based on the opinion of more than 4,500 companies representing

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<sup>22</sup> CSO provides a more detailed, biannual, account of the Hungarian performance of foreign companies, including a survey of the number of their employees. According to the survey published in 2003, the number of employees of foreign companies was almost identical in 2001 and 2000 (at 590,741 and 583,034, respectively, 26.6% of all employed in 2001 and 26.5% in 2000. Most workers were employed by manufacturing companies (some 370 thousand in 2001; around one third among them in the manufacture of electrical equipment and instruments.) {*FDI in Hungary, 2000-2001*, CSO, 2003.}

around 25% of the employed – predicted growth again in 1<sup>st</sup> half 2003: 109 thousand gains against 70 thousand losses.<sup>23</sup>

### 3.2.3 Employment status, major employment groups

The slow reshuffling of employment statuses continued in 2002: a growing proportion of earners worked as employees, and a diminishing proportion in other constructs: as co-operative members, self-employed or assisting family members.

*Table 3.5*

#### Employment status of the employed\*

Employment status		1992	1997	2000	2001	2002**
Employed	‘000	3,203.4	2,989.7	3,255.5	3,296.3	3,337.2
	%	79.6	82.8	85.0	85.7	86.2
Co-op. member	‘000	225.0	68.9	37.1	30.7	22.5
	%	5.6	1.9	1.0	0.8	0.6
Member of partnership	‘000	257.9	137.4	129.4	119.1	109.9
	%	6.4	3.8	3.4	3.1	2.8
Sole entrepreneur	‘000	290.1	373.3	381.0	372.1	377.1
	%	7.2	10.3	9.9	9.7	9.8
Family member	‘000	49.3	41.0	26.1	26.3	23.9
	%	1.2	1.1	0.7	0.7	0.6
<b>Total</b>	<b>‘000</b>	<b>4,025.7</b>	<b>3,610.3</b>	<b>3,829.1</b>	<b>3,844.5</b>	<b>3,870.6</b>
	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Ages 15–74, not including conscripts

\*\* Calculated according to the 2001 population census data

**Source:** LFSs

Employee status is the most popular employment relationship throughout Europe.<sup>24</sup>

<sup>23</sup> Short-term labour forecasts have been prepared since 1991 by the predecessors of the current Employment Office under the leadership of Judit Székely (who was also Deputy Secretary of State of the Ministry of Economy and after the recent change of government of the Ministry of Employment Policy and Labour). Data collection takes place by personal queries at some 4,500–5,000 companies, a method raising the reliability of information received. The interviews are made by the enterprise contact personnel of labour centres and offices. This results in a high, 90–95%, response rate.

Data collection is organised on a territorial basis, and it is based on the national network of the 19 county labour centres plus that of Budapest.

In addition to the national summary, special analyses are made with respect to the 174 small regions, the 19 counties and the capital.

<sup>24</sup> According to the distinctive features of the categories developed by the statistical committee operating by the UN, an employee is a person selling his/her labour on the basis of a written or unwritten labour contract to an employer, working according to the latter’s instructions and getting remuneration for their work. Remuneration is independent of the income of the unit for which the employee works. Another basic category of the employed is that of the self-employed. The self-employed sell goods or services to customers and clients and benefit from the profits generated thereby. The self-employed define their place of work and work schedule themselves, or settle the same by agreements concluded freely with their customers/clients.

The same as in Europe, its spread goes back to the 1930s and especially the years following after World War II in Hungary, where it became all-important, the same as in the other socialist economies, when almost every worker became the employee of the state.

It is well-known that, from among those employed under other relationships, co-operative members, too, worked essentially as employees despite their formal owner's licenses; while sole proprietorship and helping family member status has, for a long time, been an unwelcome solution both economically or socially.

Employee status, on the other hand, implied many advantages codified by the law. Labour law, the Labour Code, protected almost every aspect of employment by increasingly specific rules; workers acquired eligibility to medical assistance and sick pay in case of illness, severance pay and a notice period in case of termination of employment/giving notice, benefits in case of unemployment, pension upon retirement etc.

In the eyes of prospective workers, employee status appreciated considerably thanks to the ever more extensive rights and social allowances (based mainly on insurance paid by the employer) due to employees (typically, in Hungary, public opinion identifies this construct with "employment").

In 2002, while the employment rate remained unchanged, the number of employees increased considerably and, as mentioned already, typically in the public sector, while that of private sector employees decreased.

The number of sole proprietors (self-employed persons) also increased somewhat. As will be shown later on, this was mainly due to the increase of the number of retiree sole proprietors, taken into account by the LFS, irrespective of the Hungarian pension regulations, as employed.

All in all, however, the group of independents including everyone with the exception of the employed contracted.

The majority of this latter group (co-operative members, members of partnerships, sole proprietors, assisting family members) worked in the services.

*Table 3.6*

***The employed not in employee status, by broad sector, 2002***

	No.	%
Agriculture	98,111	18.4
Industry, construction	128,267	24.0
Services	307,056	57.6
<b>Aggregate</b>	<b>533,434</b>	<b>100.0</b>

**Source:** LFS, CSO, 2003.

Within the services, most self-employed worked in trade and repair (23.4%); followed by real estate and business services (11.8%). Their presence was much less marked in other areas of the economy.

Available data make it clear that the attractions and popularity of going independent, predominant in the second half of the eighties and in the early nineties, were gradually offset by the risks and uncertainties involved, and many preferred employee status, with a second job as entrepreneur on the side to earn extra occasionally, instead of establishing an independent financial existence.

In 2002, the LFS indicated 65 thousand second job holders. This number of much lower than that of persons with a permit to act as entrepreneurs in second job holder capacity (end-2002: 125 thousand), not to mention second job holder members and employees (of an unknown but probably significant number) of unincorporated partnerships (the more than 160 thousand limited partnerships in the first place).

The classification of persons occupying different employment statuses by main features of work sketches the structure of employment.

To date, an extensive range of countries do this exercise based on internationally established and accepted criteria. Hungary introduced such a system the Uniform National System of Occupations (Hungarian abbreviation: FEOR) – in 1994.

Results based on this classification of occupations reflect the real demand of the economy for manual and non-manual workers on the one hand, and for qualifications/skills by job position within these two major groups on the other.

*Table 3.7*

**Number of the employed by major employment groups, 1994, 2001, 2002**

Major job groups	1994			2001			2002**		
	all		women	all		women	all		women
	'000	%	%	'000	%	%	'000	%	%
1. Legislators, senior officials and managers	240.8	6.4	36.8	260.2	6.7	34.4	261.7	6.8	34.5
2. Professionals	383.3	10.2	56.7	450.8	11.7	57.3	454.5	11.7	57.2
3. Technicians and associate professionals	448.6	12.0	64.5	514.1	13.3	64.5	544.7	14.1	65.2
4. Clerks	318.9	8.5	91.2	257.4	6.7	92.6	246.8	6.4	92.3
<b>Non-manual workers, total</b>	<b>1,391.6</b>	<b>37.1</b>	<b>63.7</b>	<b>1,482.5</b>	<b>38.4</b>	<b>61.9</b>	<b>1,507.7</b>	<b>39.0</b>	<b>62.0</b>
5. Service workers and shop and market sales workers	517.0	13.8	56.8	600.5	15.6	54.7	600.6	15.5	55.7
6. Skilled agricultural and forestry workers	132.4	3.5	31.3	133.0	3.4	28.3	134.8	3.5	29.3
7. Craft- and related workers	852.3	22.7	21.3	838.3	21.7	18.0	820.7	21.2	16.8
8. Plant and machine operators and assemblers	390.1	10.4	21.1	460.9	11.9	28.7	480.8	12.4	29.4
9. Elementary occupations	359.9	9.6	57.1	287.7	7.5	54.4	284.8	7.3	57.1
<b>Manual workers, total</b>	<b>2,251.7</b>	<b>60.0</b>	<b>35.7</b>	<b>2,320.4</b>	<b>60.1</b>	<b>34.7</b>	<b>2,321.7</b>	<b>59.9</b>	<b>35.2</b>
10. Armed forces	108.2	2.9	5.6	56.6	1.5	3.5	41.2	1.1	2.7
<b>National economy, total</b>	<b>3,751.5</b>	<b>100.0</b>	<b>45.2</b>	<b>3,859.5</b>	<b>100.0</b>	<b>44.8</b>	<b>3,870.6</b>	<b>100.0</b>	<b>45.2</b>

\* Ages 15-74

\*\* Calculation based on 2001 population census data, not including conscripts.

**Source:** LFSs

Minor year-on-year changes in demand matching the restructuring of the economy may add up and produce significant shifts in the longer term.

For example, the number and proportion of non-manual occupations has increased considerably since 1994, with a major reshuffling between the major employment groups.

It is a sign of a lasting change in demand that, since 1994, the number of non-manual workers has increased by more than 100 thousand, despite the steady and significant decline in the demand for office clerks/administrators requiring the lowest qualifications. (CSO data apply to the population aged 15–74; but age-group-specific data also show that a decisive segment of 64 plussers occupy non-manual jobs, representing 9–10% of the employed in every one of the first four major employment groups.)

The stock of manual workers increased by 70 thousand in the course of the years, due mainly to labour demand generated by foreign companies active in Hungary. Growth was most marked in the categories of machine operators, assembly workers, drivers and in services-type occupations, while simple, unskilled jobs showed marked decrease.

### 3.2.4 *Employment by legal form of the employer*

The number of business organisations continued to increase in 2002 at a dynamic pace, and non-profit organisations multiplied as well. The number of public and social security as well as of ESOP organisations decreased a little.

Terminations, transformations, etc. in the business sector gathering the majority of business enterprises resulted in some 20 thousand more enterprises than one year earlier.

The preponderance of incorporated entities established with a mandatory initial capital – CLSs, LLCs – among the newly founded entities is a novel feature, but altogether, sole proprietorships included, unincorporated entities without mandatory initial capital still prevail.

*\*Table 3.8*

#### ***Number of active organisations\****

Organisation type	31.12. 1995		31.12.2001.		31.12.2002.	
	no.	%	no.	%	no.	%
Companies	188,207	28.2	371,778	40.2	385,344	40.8
<i>of which</i>						
–incorporated	94,948	14.2	163,824	17.7	171,584	18.2
-- unincorp. (partnership)	93,259	14.0	207,954	22.5	213,760	22.6
sole proprietorship	417,587	62.6	468,797	50.8	474,678	50.2
<b>Total</b>	<b>605,794</b>	<b>90.8</b>	<b>840,575</b>	<b>91.0</b>	<b>860,022</b>	<b>91.0</b>
Public and social insurance organisation	14,992	2.2	15,615	1.7	15,401	1.4
Non-profit organisation	46,804	7.0	67,153	7.3	69,074	7.6
ESOP organisation	303	-	228	-	194	-
<b>Total</b>	<b>667,893</b>	<b>100.0</b>	<b>923,571</b>	<b>100.0</b>	<b>944,691</b>	<b>100.0</b>

\* The Inland Revenue Office (APEH) and CSO record registered and active organisations differently. The data quoted above correspond to the registration system of CSO.

**Source:** CSO, *Monthly Statistical Bulletins*, 2002/12.



However, there is no close correlation between the number of registered organisations and the rate of employment. Many organisations – especially unincorporated ones (limited partnerships, e.g.) – are operated by second job holders, and the same is true for a major part of non-profit and ESOP organisations.

The 860 thousand organisations of the business sector employ around 78% of earners, and the 15.4 thousand organisations of the public sector 22%.

The size distribution of enterprises has not changed: the proportion of micro enterprises with a maximum of 9 staff is higher than 80% in every category. Within that, among sole proprietorships, this rate is almost 100%; 82% of those in this circle work on their own, without employee (cf. Table 3.9).

Small enterprises predominate in every market economy, especially those with an advanced tertiary sector. Their employment weight, however, is usually much bigger than in Hungary.

In the second half of the nineties, in the EU – according to statistics not covering agriculture – , one third of the employed worked at micro enterprises and one fifth at small, one seventh at medium-size and one third at large ones. The averages cover significant scatter by country. In contrast with the EU average of 33%, the share of persons employed by micro-enterprises exceeds 40% in Belgium, Greece, Italy and Spain. On the other hand, the share of those employed by large enterprises excels in the UK, in Finland, Germany and in Sweden at more than 40%. *{Ms Dezséri, Mária Major: SME Sector in Western Europe (A Nyugat-európai kis- és középvállalkozói szektor), Európai Tükör, 2003. No. 2., pp.67-87. }*

In Hungary, several series of computed data are available on the employment share of enterprises by size. Data originating from the corporate database of the Ecostat Institute for Economic Analysis suggest that small enterprises employed 424 thousand in 2001, medium-size ones 483 thousand in 2001 and 472 thousand in 2001, corresponding to 19.2% and 22%, respectively, of all employed in 2001. *{Mikroszkóp, 13.03.2003. }*

Another calculation is based on statements by companies having filed tax returns suitable for evaluation to the Inland Revenue Office (APEH).

Table 3.9

**Main forms of active business organisations\* by staff category,**  
**31.01.2002**

Legal form	Staff category						All
	0 **	1-9	10-19	20-49	50-249	250 +	
	micro		small		medium	large	
<b>Incorporated</b>	enterprises (no.)						
LLC	47,097	88,486	11,680	7,329	3,246	504	<b>158,342</b>
CLS	642	903	386	526	909	491	<b>3,857</b>
co-operative	2,633	1,261	390	626	466	16	<b>5,392</b>
<b>Total</b>	<b>50,372</b>	<b>90,650</b>	<b>12,456</b>	<b>8,481</b>	<b>4,621</b>	<b>1,011</b>	<b>167,591</b>
	% share						
LLC	29.7	55.9	7.4	4.7	2.0	0.3	<b>100.0</b>
CLS	16.7	23.4	10.0	13.6	23.6	12.9	<b>100.0</b>
co-operative	48.9	23.4	7.2	11.6	8.6	0.3	<b>100.0</b>
<b>Total</b>	<b>30.0</b>	<b>54.1</b>	<b>7.4</b>	<b>5.0</b>	<b>2.9</b>	<b>0.6</b>	<b>100.0</b>
	<b>84,1%</b>						
<b>Unincorporated</b>	no,						
<b>partnership</b>	no,						
general	2,317	4,455	185	55	7	1	<b>7,020</b>
limited	76,990	100,449	2,405	559	106	25	<b>180,534</b>
<b>Total</b>	<b>79,307</b>	<b>104,904</b>	<b>2,590</b>	<b>614</b>	<b>113</b>	<b>26</b>	<b>187,554</b>
	% share						
general	33.0	63.5	2.6	0.8	0.1	-	<b>100.0</b>
limited	42.7	55.7	1.3	0.3	-	-	<b>100.0</b>
<b>Total</b>	<b>42.3</b>	<b>56.0</b>	<b>1.4</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>100.0</b>
	<b>98,3%</b>						
<b>Sole proprietorship</b>	no,						
	388,006	84,526	1,790	397	39	1	<b>474,678</b>
	% share						
	81.7	17.8	0.4	0.1	-	-	<b>100.0</b>
	<b>99.5%</b>						
<b>GRAND TOTAL:</b>	<b>517,685</b>	<b>280,080</b>	<b>16,755</b>	<b>9,492</b>	<b>4,773</b>	<b>1,038</b>	<b>829,823</b>
<b>in %</b>	<b>62.4</b>	<b>33.8</b>	<b>2.0</b>	<b>1.1</b>	<b>0.6</b>	<b>0.1</b>	<b>100.0</b>
	<b>96.2%</b>						

\* Not including forms/enterprises subject to mandatory transformation/termination, of a total number of 30,199, including 25,578 building communities, condominiums

\*\* Business units operating without employee, on a one-man basis by the owner, and entities of unknown staff number

**Source:** CSO, *Monthly Statistical Bulletins*, 2002/12.

Despite differences in calculation methodology and results, comparisons between Hungary and 19 European countries make it obvious that micro-enterprises in Hungary carry a smaller employment weight than their European peers. This is obviously due to the fact that, within the size category of 0-9 staff, "0 staff" not only means an entrepreneur working alone, but often also one who does so in second job holder status, and most frequently than not the actual staff number is 2-3.

Table 3.10

**Distribution of the employed by company size categories**

Company size	EU-19, 2000*	Hungary**	
		2000	2001
Micro (0-9 persons)	34.3	19.0	23.4
Small (10-49 persons)	19.0	19.9	19.5
Medium (50-249 persons)	13.1	22.1	20.9
SME, total	66.4	61.0	63.8
Large (250 +)	33.6	39.0	36.2

\* EU Member States plus Iceland, Norway and Switzerland: data not including agriculture, forestry and fishing. In: Ms Dezséri, M. Major: *op.cit.*, Table 3., p.69.

\*\* Entities having filed tax returns suitable for evaluation, agricultural enterprises included. Source of data indicated here: Report to the Government on the situation and business management conditions of SMEs in 2001, presentation by Minister of Economy Dr István Csillag, Budapest, Hungary, Oct. 2002.

Based on institutional statistics, broken down by staff size, CSO showed that of the 3 million 870 thousand employed, 2.2 million were *employees* by organisations with more than 4 staff. Within this circle, in 2002, job losses at major companies were offset by slight expansion at the smaller ones.

Table 3.11

**Distribution of employees of organisations with more than 4 staff, by organisation size\*, 2001, 2002**

Staff size category (persons)	Active business organisation (31.12.)				Annual number of employees			
	2001		2002		2001		2002	
	no.	%	no.	%	'000	%	'000	%
5– 9	33,386	44.9	35,318	45.8	180.7	8.2	187.1	8.5
10– 19	18,490	24.8	19,179	24.8	191.9	8.7	200.6	9.1
20– 49	12,972	17.4	13,257	17.2	250.7	11.4	259.0	11.8
50– 99	5,477	7.4	5,361	6.9	213.1	9.7	203.4	9.3
100–199	2,244	3.0	2,265	2.9	216.9	10.5	218.4	9.9
200–249	422	0.6	413	0.5	69.9	3.3	70.7	3.2
250–299	290	0.4	272	0.4	60.9	2.8	57.9	2.6
300–499	508	0.7	505	0.7	275.1	12.5	275.8	12.5
500–999	392	0.5	397	0.5	215.9	9.8	222.8	10.1
1000 +	241	0.3	228	0.3	532.0	24.1	506.7	23.0
<b>Total</b>	<b>74,422</b>	<b>100.0</b>	<b>77,195</b>	<b>100.0</b>	<b>2,207.1</b>	<b>100.0</b>	<b>2,202.4</b>	<b>100.0</b>

\* Not including employees of local public organisations.

**Source:** *Main Trends in Labour*, January/December 2002, CSO, 2003.

### **3.3 Atypical (non-standard) jobs**

#### **3.3.1 Better and socially better protected jobs**

Demands aimed at the improvement of job quality intensified in 2002 at the international organisations. The employment promotion objective of the EU was complemented by the demand for more and better jobs.<sup>25</sup> After lengthy preparations, the quality criteria of employment began to take shape. The 10-point requirement list published in *Employment in Europe, 2002* among others emphasises, beside gender equality, health and safety at work, flexibility and security and the other important principles, that: “Jobs ought to be intrinsically satisfying, compatible with a person’s skills and abilities and provide appropriate levels of income... People ought to be able to develop their potential abilities to the full through appropriate support for life-long learning” (p.80.).

According to the Report, up to a quarter of all full-time employed and more than two thirds of those involuntarily in part-time work are in low-quality jobs – i.e. low paid, low-productivity jobs that do not offer any of the following: job security, access to training, career development opportunities. “Those employed in low-quality jobs ... show strong dissatisfaction” (p.10.).

Often, persons wishing to re-enter the labour market have no other option, but they pay dearly for this easier way back by becoming unemployed again soon or by running a higher risk of turning inactive. Although more than half of persons undertaking such jobs retain them after 24 months, more than one quarter are out earlier – five times as many as among those in high quality jobs.

Better jobs are open mostly for the youth and those with higher qualifications, as opposed to the elderly and the low-skilled.

The analysis ends by emphasising that, in the decades to come, increased efforts and continuous reforms are needed to exploit Europe’s potential job-creating capacity to the full.

In summer 2002, ILO’s regular annual labour conference discussed as a separate agenda item the demand for decent work (*Decent work and the informal economy, Report VI.*). This topic was put on the agenda of discussions to formulate recommendations based on consensus reached by employees, employers and state representatives after several years of preparation.<sup>26</sup>

The ILO, realising the proliferation of low-skill, low-paid jobs, the situation of people excluded from the labour market but forced to earn a living somehow (from street vendors, shoe-cleaners, garbage, waste and rag collectors through home-workers for boutiques to micro-entrepreneurs without employee or capital,

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<sup>25</sup> The objective, set for the first time in March 2000 in Lisbon, was formulated in increasingly specific terms by subsequent meetings of the European Council in Nice, Stockholm and Barcelona. The last one already stated that better employment conditions are the pledge of a higher level of employment: the creation of better jobs enhances the creation of more jobs.

<sup>26</sup> As is well-known and as indicated several times in these publications, ILO was the first to have studied the phenomenon of the spread of mostly low-skill, low-paid, uncertain (“precarious”) jobs in the early eighties. {Cf. G. and J.Rogers: *Precairous jobs in Labour Market Regulation, International Institute for Labour Studies-Free University of Brussels, 1988.*}

working with family help at best and living from one day to the next), launched an initiative to counter their exclusion and further come-down.

The ILO regards as “decent” job, appropriate and up to the standards of the 21<sup>st</sup> century, work associated with social (legal) and social security protection. Within this conceptual system, it regards as “decent”, appropriate, workplaces those which guarantee regulated (formal) circumstances, and as “informal economy” those without protection.

At the conference, the ILO invited trade unions, employers and governments to identify possibilities in their respective countries to provide legal and social protection to workers who lack that currently. The resulting proposals are highly diversified, but all propose to those concerned e.g. to help those in the informal economy gather into interest representation organisations and get familiar with interest representation activities.

Simultaneously, large international organisations put special emphasis on the necessity to drive back undeclared employment, if only to allow all workers to work under “better”, legally and socially protected circumstances.<sup>27</sup>

These efforts, best known as yet at summits, in government circles and the European headquarters of employees and employers, are likely to intensify in the near future, as they are meant to assist in the difficult and aggravating process of adjustment faced by workers and prospective workers, especially in the most advanced economies.

### **3.3.2 New forms of employment**

Labour experts have observed for decades how incessant social and economic changes bring about new employment situations – the more advanced the economy, the more obvious the change.

With the contraction of traditional big industrial workplaces involved in mass production, the spread of the many kinds of services activities, the increasing price of labour due to general and increasing prosperity and for many other reasons, the stable (standard) employment conditions of *employees*, codified by legal regulations for decades, are undergoing slow but significant transformation.

In line with the changed demands of the economy, long-term employment for an indefinite term tends to co-exist with fixed-term employment, full-time work with part-time work, employment at labour exchange agencies instead of the end-user; work at a place other than the company’s business premises, often at home, and an endless combination of other recent forms.

The circle of the self-employed, selling, traditionally, products and services produced by themselves, has also changed considerably. Agrarian independents and small-producer artisans are becoming scarcer, while free-lance intellectuals,

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<sup>27</sup> In July 2002, in Italy, 36 trade union and employer organisations concluded an agreement to repress undeclared work. This agreement, having led to important changes in practice and supported by central means was not signed by the Cgil trade union confederation (*European industrial relations observatory online*, <http://www.eiro.eurofound.ie/print/2002/08/inbrief/IT0208103N.html>).

persons offering business and personal services multiply. The self-employed represent the entire qualifications scale, from university degree holders to unskilled day-workers undertaking casual manual work at best.

It has become the rule almost to change employment status several times in one's life-time: people are employees and self-employed alternately, in function of the circumstances ever.

Throughout Europe, workers, most of them employees, experience changes as the erosion/waiving of acquired rights.

Employee status, fortified by legal and social rights, has become a value of its own, and trade unions protect every one of its components from any change whatsoever. Given the new demands of the economies, however, the objectives of employment promotion – especially access to work to the old, the young and the women – make changes, looser and more flexible employment conditions, a must.<sup>28</sup>

The task of the coming decades, no doubt a difficult one, will be to reach compromises to ease the already obvious tension between the ideals of more and better (protected) jobs on the one hand and economic competitiveness and sustainable development on the other.<sup>29</sup>

The European Union monitors regularly three of the many forms of employment. These forms, called non-standard or atypical as opposed to standard (traditional) employee status, are present to different extents by country, but, altogether, they keep increasing year on year. The change relative to 2000 is quite small (on the average of the EU, in 2000, 17.8% of the employed worked part-time, 13.6% under fixed-term contracts and 15% as self-employed, and the proportion of the self-employed actually declined a little), but it is quite visible in the longer run.

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<sup>28</sup> In Austria, the number of part-time jobs showed rocketing growth. Almost all new jobs created in 2002 were part-time ones, and almost 18% of workers are employed under such schemes. The increase was due to a large extent to the employment programme for older workers introduced in 2000, to curb unemployment and also to encourage the later retirement of older workers. The programme essentially offers an opportunity to gradually reduce working hours without incurring a substantial income loss. In 2002, several thousand workers made use of this (by December 2002, the total number of participants approximated 23 thousand). Since the promotion of the programme implies a significant extra burden for the central budget (as part of the social insurance contributions is assumed by the Austrian state), the government is planning to amend the relevant regulation so as to restrict somewhat the circle of eligible participants. Quoted on the basis of <http://www.fedee.com/index.shtml> and <http://www.eiro.eurofound.ie/2003/01/Feature/AT0301204F.html> by the Employment and Social Newsletter prepared with the contribution of OFA Kht.

<sup>29</sup> It is a sign of the seriousness of the conflicts that, in March 2002, University Professor Marco Biagi, having worked on the preparation of the labour market reforms, was shot in Italy. Although, fortunately, no such grave incidents occurred elsewhere, strikes have gathered strength throughout Europe whenever it came to the reduction of one or another of the acquired rights.

Table 3.12

**Atypical jobs in the EU Member States, 1985 and 2001**

%

Country	Part-time workers		Self-employed		Fixed-term contracts	
	% rate to the employed					
	1985	2001	1985	2001	1985	2001
Belgium	9.4	18.2	15.9	17.2	9.1	9.0
Denmark	24.3	20.2	9.9	7.0	12.3	9.2
Germany	12.8	20.3	9.2	10.2	10.0	12.4
Greece	5.2	4.0	36.0	43.3	14.7	12.6
Spain	5.8	8.1	22.6	16.4	15.6	31.7
France	10.9	16.4	12.6	9.2	4.7	14.9
Ireland	6.5	16.5	21.5	17.6	7.3	3.7
Italy	5.3	8.4	24.1	25.8	4.8	9.8
Luxemburg	7.2	10.3	9.4	6.1	4.7	5.8
Netherlands	29.5	42.2	9.1	13.8	7.5	14.3
Austria	11.1	17.6	11.3	18.2	6.2	8.1
Portugal	6.7	10.8	26.2	28.5	13.8	20.6
Finland	11.5	12.2	13.9	11.1	10.4	16.4
Sweden	25.6	24.1	9.5	5.0	n.a.	13.5
UK	21.2	24.9	11.6	11.7	7.0	6.8
<b>EU average</b>	<b>13.1</b>	<b>17.9</b>	<b>15.1</b>	<b>14.8</b>	<b>8.3</b>	<b>13.4</b>

**Source:** *Employment in Europe, 2000*, pp. 85-100. and *2002*, pp. 173-198.

That is, in 1985, more than one third of earners (36.5%) and in 2001 almost half (46.1%) worked under one of the monitored forms of employment.

Data released for the accession candidate countries – primarily those applicable to the former socialist countries – clearly reflect their lower development level, a persistently high rate of agricultural employment in the majority and relatively smaller demand in the services, as well as the dominance of uniform employment relationships typical of the former socialist economies. As for the last, that is, the system of regulations applicable to employment, there has been little change in spite of the transition to market economy, although the low employment rates would justify the extensive introduction of non-standard forms by all means.

Table 3.13

**Proportion of atypical jobs in the 11 accession candidate countries, 2001**

Country	Part-time workers		Self-employed		Work under fixed-term contract	
	% rate to the employed					
	2000	2001	2000	2001	2000	2001
Bulgaria	n.a.	3.4	14.7	13.7	n.a.	5.7
Czech Republic	5.4	4.3	14.5	14.6	6.9	6.9
Estonia	6.7	6.9	8.1	6.7	2.1	2.6
Hungary	3.6	3.3	14.5	13.9	5.8	6.4
Latvia	10.8	10.0	10.6	10.3	5.7	6.0
Lithuania	8.6	8.2	15.9	15.9	3.1	5.3
Poland	10.6	9.5	22.5	22.5	4.2	8.6
Romania	16.4	16.8	25.4	25.7	1.6	1.6
Slovakia	1.9	2.3	7.8	8.4	3.7	4.6
Slovenia	6.1	6.1	11.2	11.8	10.8	10.8
<b>Ex-soc. countries</b>	<b>9.4</b>	<b>9.3</b>	<b>20.6</b>	<b>19.4</b>	<b>4.4</b>	<b>5.6</b>
Cyprus	8.3	8.1	21.4	20.6	7.9	8.1

**Source:** 2001. *Employment in Europe, 2002*, pp. 173-194.

In Hungary, 2002 brought no serious progress in this respect, although employment policy plans envisage several reforms.

**a.) Part-time work**

As usual, in the context of the Labour Force Survey, CSO calculated the aggregate number of workers working more/less than the weekly 40 hours at their main job.

71% of earners worked 40 hours, the legal weekly working time; 5.3% less and 14.3% more than that, and 9.4% declared their usual weekly working time “highly unstable”. (During the week preceding the survey, almost 80% of those working more than 40 hours did overtime, while the rest worked more than usual due to a change in schedule or for some other reason.) Working time in excess/under the weekly 40 hours may be due to special features of the job position (work injurious to health, special work schedule of e.g. transport workers, receptionists, security guards etc.).

The survey considered as part-time workers persons who regularly worked a weekly 1–29 hours. This category included only 2.6% of earners.

The results for 2002 are no different from those for the previous years; the share of part-time employment has always been modest. The experience is that, apart from certain branches in a special position, such as commerce, employing part-time workers to handle extreme turnover fluctuations, shorter working time is usually granted to working retirees.



Table 3.14

**Weekly working time in main jobs**

%

	1-39 hours			40 hours			40+ hours			Highly volatile		
	men	women	all	men	women	all	men	women	all	men	women	all
2000	2.7	8.5	5.0	52.9	68.7	60.0	30.4	17.5	25.0	14.0	5.3	10.0
2001	2.8	7.0	4.8	66.0	75.4	70.3	18.1	12.2	14.9	13.1	5.4	9.6
2002	2.9	8.0	5.3	67.0	75.9	71.0	17.4	10.5	14.3	12.7	5.5	9.4

**Source:** LFSs

Persons working less than 40 hours a week were asked to provide a reason for that.

Of the more than 200 thousand concerned, only 37 thousand (18.5%) said they did not want to work full time, almost 30 thousand (14.5%) that they could not find full-time work, or could not be employed full-time due to lack of work.

The relative weight of these reasons has hardly changed for years.

Table 3.15

**Reasons for working shorter hours**

Reasons	2000			2001			2002		
	men	women	both sexes	men	women	both sexes	men	women	both sexes
Less than 40 hours/week in main job ('000 persons)	62.6	155.8	218.4	59.8	140.1	199.9	61.7	140.4	202.1
<i>of which:</i> (%)									
Full-time worker with a weekly working time of less than 40 hours	41.3	45.1	44.0	33.9	39.5	37.8	31.0	39.3	36.7
Cannot find full-time work, lack of work	3.8	13.3	13.4	15.3	13.6	14.1	15.2	14.2	14.5
Does not want to work full-time	16.5	20.4	19.3	16.9	20.6	19.5	17.4	19.0	18.5
- to state of health	13.7	7.5	11.5	15.0	7.8	10.0	16.5	9.6	11.7
- education, upgrading training	2.8	2.2	2.3	4.3	1.6	2.4	3.0	1.7	2.1
- other reason	11.9	11.5	11.6	14.6	16.9	16.2	16.9	16.3	16.4
% rate to the employed	3.0	9.0	5.7	2.8	8.1	5.2	2.9	8.0	5.2

**Source:** LFSs

According to the short-term forecast of the Ministry of Employment Policy and Labour, part-time employment has been of the same order of magnitude, hardly changing in extent, for years. According to the September 2002 data provided by respondent companies, 2.4% of the total number of employees worked part-time; the highest rates were observed in trade (5.4%) and in transport, storage, post and telecommunications (5.2%). The latter category

showed growth of merit during the past twelve months: the rate of part-time employees rose by 3.6 percentage points. {*Short-term labour market forecast (Rövidtávú munkaerőpiaci prognózis), 1<sup>st</sup> half 2003, p.68.*}

The real number of part-time workers, however, probably exceeds the statistical figure. One obvious example is work done by students.

In many countries, students remaining in education after the age of 15 provide a significant segment of part-time workers –beside the older generations, they represent one of the main target groups of this flexible form of employment.

Almost half of Hungarian students in higher education work as well: one third spends a weekly 5.3 hours and the majority 2 hours at the most doing some income-generating activity. The majority of students employed through the school co-operatives earn a maximum of HUF5 thousand per month, and a minor segment HUF5-10 thousand; few earn a higher income.

The above data on student work originate from a study sponsored by OFA, the National Employment Foundations.<sup>30</sup> Its authors wanted “to obtain a detailed picture of the motives driving students to work while in education.” One reason, maybe the most important one, is the need to earn money to be able to pursue studies “in the absence of an adequate financial background”; and also to acquire work experience. The paper, listing numerous foreign examples, also shows that although several thousand companies use of student work (partly because they are willing to work at a low pay and partly because of the relevant social security contribution relief), the Hungarian regulations do not take into consideration the special nature of student employment. Part of the general rules codified under the Labour Code are inapplicable to the activity of student co-operatives (e.g., mandatory certificates upon the termination of employment, payment of the labour wage on the last day spent at work, registration and allocation of time-proportional leave etc.). However, labour inspection authorities insist on these rules – and impose penalties accordingly.

Student representatives demand realistic and observable regulations – these would also promote the spread of (part-time) employment.

#### **b.) The self-employed**

Owing to the differences in national legal, taxation etc. regulations, in Hungarian everyday usage, this category is sometimes interpreted in the narrow sense (applying to sole proprietors only), and sometimes more widely to include sole, agrarian or non-agrarian, entrepreneurs as well as co-operative/partnership members and assisting family members. (International statistical organisations would like to assign casual workers, e.g. day-workers selling their own labour day by day, should also be assigned here.)

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<sup>30</sup> Alternatives to the employee interest representation of Hungarian students in higher education based on an examination of foreign examples, OFA Studies, 2002.

Although in Hungarian usage, the term ‘self-employed’ mostly referred to the employer himself, the default meaning is meant to distinguish the self-employed from the employee. Accordingly, the self-employed can also have employees, who, however, are taken into account in the category of employees.

*Table 3.16*

**Number of the self-employed, 1992-2002**

*thousand*

Year	Co-op. member	Member of partnership	Sole proprietor *	Assisting family member	All
1992	225.0	257.9	290.1	49.3	822.3
1993	134.1	197.1	309.1	42.4	682.7
1994	103.3	174.5	328.9	40.4	647.3
1995	84.2	167.9	351.7	40.1	643.9
1996	79.0	151.8	372.2	40.1	643.9
1997	68.9	137.4	380.4	40.9	620.6
1998	55.8	132.5	373.3	41.0	586.2
1999	42.5	111.8	407.7	28.8	590.2
2000	37.1	129.4	381.0	28.2	573.6
2001	30.7	119.1	372.1	26.1	548.2
2002	22.5	109.9	377.2	26.3	563.4

\* Ages 15-74, pensioners (Hungarian definition) included; annual average: different from the 31.12. headcount data.

**Source:** LFSs

Time series indicate significant changes in the population of the self-employed over the past decade.

The number of co-operative members decimated, due mainly to the disintegration of agricultural co-operatives and the transformation of other co-operatives into business companies.

Of the initial 0.25 million members of partnerships, many chose employee status once the enterprise proved viable. The experience is that members of unincorporated partnerships – especially limited partnerships – include a high proportion of second job holders, in member status to meet the formal requirements applicable to the establishment of partnerships. The members, recruited for the most from within the family, and mostly those employed elsewhere among them, probably become main job holders in exceptional cases only. The proliferation of unincorporated partnerships has little effect on employment and the increase of the number of the self-employed within that.

The largest group of the self-employed consists of sole proprietors. Less than 60% of the demonstrated population consists of main job holders, i.e., traditional small artisans, retail traders, agricultural independents and, to a growing extent, service providers, from those in repair and maintenance to book-keepers and persons in various non-manual occupations.

Headcount statistics going back several years show the almost continuous decline of second job holders and the increase of active retirees. These developments are due in part to the market opportunities and partly to the relevant taxation and social insurance contribution obligations

*Table 3.17*

***Number of sole proprietors by employment status***

Year	Main job holder		Retiree		Second job holder		Total 1,000 = 100%
	'000	%	'000	%	'000	%	
1990	159.0	65.7	21.5	8.9	61.4	25.4	<b>241.9</b>
1991	184.5	58.2	28.8	9.1	103.9	32.7	<b>317.2</b>
1992	184.2	54.4	30.5	9.0	124.1	35.6	<b>338.8</b>
1993	218.2	54.2	36.7	9.1	148.0	36.7	<b>402.9</b>
1994	258.9	54.1	44.3	9.3	175.6	36.6	<b>478.8</b>
1995	257.0	58.6	39.9	9.1	141.8	32.3	<b>438.7</b>
1996*	259.5	56.4	47.0	10.2	153.6	33.4	<b>460.1</b>
1997	276.7	59.5	56.3	12.1	132.0	28.4	<b>465.0</b>
1998	270.7	59.1	55.6	12.1	132.1	28.8	<b>458.4</b>
1999	278.7	59.6	54.0	11.6	134.8	28.8	<b>467.5</b>
2000	279.7	57.3	64.5	13.2	143.5	29.5	<b>487.7</b>
2001	260.9	55.7	74.0	15.8	133.9	28.5	<b>468.8</b>
2002	266.7	56.2	82.1	17.3	125.9	26.5	<b>474.7</b>

\* On 31. December

**Source:** 1990-1995: Inland Revenue Office, number of tax-payers in the given year; 1996-2002: CSO, *Monthly Statistical Bulletins*

In recent years, the suspicion that part of entrepreneurs are actually employees working under pseudo-contracts has gathered strength. This seemed especially frequent in construction, public road transport, among security guards and in some intellectual occupations, e.g. among journalists and photographers. It was assumed that the entrepreneur's license obtained under pressure exerted by the employer was meant primarily to transfer tax and contribution payment obligations to the "entrepreneur".

Despite protests on the part of the employers' organisations of the occupations concerned, thorough inspections continued as well as the preparation of regulations to repress pseudo-contracts.

This phenomenon, known in many European countries and provoking a strong reaction everywhere figures on the programmes of both the EU, and the ILO. There is, however, a parallel demand everywhere for establishing appropriate legal frameworks for the new forms of employment, which, in the case of several services occupations, could be a borderline case between employee and self-employed status. Many countries acknowledge freelance intellectual status, for journalists, for example, based on a tax and social insurance contribution payment scheme that is different from those applicable to either sole proprietors or employees. This form although it does exist, is hardly known in Hungary – so far the majority of the self-employed

had been assigned to the legal and taxation regulations applicable to sole proprietors or, typically, unincorporated partnerships.

In the past decade, as indicated already, the overall number of the self-employed decreased significantly. This is explained by several reasons, from the passing of the initial fever creating an autonomous financial existence to the increase of the capital demand of production enterprises, the withdrawal of agricultural small production to the households of the inactive, the appreciation of employee status promising a regular income as opposed to the more uncertain entrepreneurial existence, etc.

The stagnation and occasional decline of the proportion of the self-employed is, by the way, partly a modernisation phenomenon, as indicated by the EU data referred to above: most activities and especially the most capital-intensive ones are carried out by smaller or larger enterprises. Citizens of the economically more advanced countries will establish a firm, and only the less well-to-do (immigrants, for example) will chose self-employment.

### ***c.) Temporary employment***

Fixed-term employment is a relatively new form compared to the standard employment relationship concluded for an indefinite period. The traditional, strict regulations in effect throughout Europe, making dismissal conditional on e.g. notice periods and severance pay, have loosened slightly only under the changed demands of the economy. The alleviation was due to the fact that the relevant restrictions hindered recruitment, making employers very cautious when it came to staff expansion, implying high dismissal costs in case of receding demand.

Employment for a fixed period may be disadvantageous to employees. On the other hand, it provides a labour opportunity time and again to the unemployed and the inactive.

Employment for an indefinite period has many forms, in function of the labour market situation and specific labour demand ever.

In Hungary, according to the Labour Force Surveys, more than 90% of employees work under open-end (indefinite) contracts, and in 2002 only 7% had a fixed-term contract. The bulk (83.5%) of the latter was typically employed for a period of more than one and less than twelve months, some 20% on trial period or in training; 10% at subsidised workplaces (e.g. public benefit work). 40% would have preferred to have a more permanent job, but could not find one. More than 10 thousand (5%), however, deliberately chose fixed-term employment.

The majority among those employed for a few months are *seasonal* workers, employed in agriculture, the food industry, construction, catering related to travel, accommodation/hotels etc. Such enterprises often multiply their staff during the high season, at peak periods, mostly for a definite period of time,.

This demand is reflected recurrently in the corporate data.

According to the short-term labour market forecast of the Ministry of Employment Policy and Labour, almost one fifth of those at the respondent companies worked under fixed-term contracts. (Aug. 2001: 17.1%, Feb. 2002: 16.7%, Aug. 2002: 17.4%.) The contracts typically covered 180-220 days, to support seasonal demand in all probability. Around 80% of those employed this way were unskilled, and trained to perform the work required by the target company. *{Short-term labour market forecast, 1<sup>st</sup> half 2003, p. 39. }*

Recurrent demand is currently satisfied mostly through mediating agencies. (Their profile is more extensive, of course, and they do their best to satisfy special demand irrespective of spell for e.g. secretaries, hostesses, interpreters etc.)

In the United States, it is increasingly widespread – and in Europe, too, to a more moderate extent – to provide the user workers on the stock (or in the registration system) of labour hiring companies.<sup>31</sup> (This practice exists in Hungary, too – one of its, so far rare, examples was when IBM Storage hired almost its entire staff from a manpower company.)

Employment opportunities provided for the registered unemployed are also fixed-term ones (e.g., public works, public benefit work etc.).

Another means to stimulate promote short-term, legal, casual employment is the Casual Employee's Booklet (CEB). Originally, CEB was meant to give a chance to the most deprived among the registered unemployed, i.e. persons no longer eligible to income supplementing allocations, due for two years after the expiry of unemployment benefits, to have access again to social provisions and to unemployment benefits, while offering employers an opportunity for legal (declared) employment allowing to pay public burdens in a simple form.

CEB, however, has not been very popular so far, although the number of persons in employment, students, pensioners and jobless persons not registered as unemployed increased among their owners.

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<sup>31</sup> A paper issued in 2002 provided an extensive overview of the activity of agencies mediating for temporary work active in the European Union, stating, among others, that according to the relevant calculations, some two million, i.e. 2.3% of all the employed work as agency employees. *{Donald Storrie: Temporary agency work in the European Union, European Foundation for the Improvement of Living and Working Conditions, Dublin, 2002.}*

***Utilisation of the Casual Employee's Booklet***

	Issued	Used	% rate of registered unemployed to all users	average no. of work-days/ cap.	% rate of lowest remuneration**
	CEB				
	'000	%			
1997*	11.0	56.0	58.2	3.1	96.0
1998	21.0	52.0	52.3	6.7	93.0
1999	18.0	55.8	62.8	3.3	92.7
2000	26.8	55.3	60.0	8.0	69.2
2001	32.1	55.5	55.0	7.9	76.5
2002	39.9	62.5	62.5	10.1	76.5

\* CEB was available from September 1997.

\*\* Pay changed year on year, essentially in function of the minimum wages ever – employers paid the relevant public burdens accordingly.

**Source:** Employment Office

As employers were mostly held back by the high public burden implications, the government offered additional reliefs almost every year. (In 2001, for example, employers could apply for exemption from public burdens on labour wages – more precisely, these could be taken over by the labour centres.)

In 2002, the government granted further reliefs by loosening strict rules applicable to the authorised period of work and reducing public burdens payable by the employer in every remuneration category. Public burdens payable by those employing registered unemployed persons are subject to special reliefs.

The amendment of the legal regulation having come to force on 01.09.2002 generated more interest in CEB: in the last four months of the year, more than 12 thousand booklets were issued, 75% more than in the corresponding period of the previous year. (As before, the reduction of the tax and contribution payment obligations of employers was compensated for by the Labour Market Fund, having paid HUF7.9 million, more than six times the corresponding burdens one year earlier, to the tax authorities.) *{Report on the implementation of the budget for 2002 of the Labour Market Fund, MEPL, 2003. pp.13-14.}*

This seems to herald promising progress, although the rate of persons employed under CEB is still but a fraction of the unemployed population and especially of the inactive, wishing to work but not engaged in active job-search. Progress obviously depends on the further (differentiated) reduction of public burdens.

The competent authorities, however, are well aware of the fact that public burdens, even if reduced to the minimum, cannot compete with zero rates: practically uncontrollable short-term employment is more profitable to employee and employer alike if it is undeclared. CEB nevertheless is a viable alternative, offering both parties the possibility of legal employment guaranteeing social rights.

One of the most widespread forms of temporary employment is casual (day-labour-type) work. This form, once the only alternative to landless agrarian paupers or those having a small plot of land and a large family to earn a living, has been preserved by the relevant demand: ageing households, seasonal peaks etc. demand temporary assistance. Casual or regular day-labour, occasionally for a few hours only, is performed by both employees and young and older inactive persons. The demand for casual helpers has increased in urban households, too, beside those in the villages. Casual helpers are sought to look after children, to care for the old or the sick, to do the gardening or replace staff in an outlet for a few hours. Such work, providing supplementary income to wide circles of the population, from students to housewives, represents almost the only labour opportunity to the most deprived, a large part of the Roma population included.

Casual work, however, is very seldom registered by statistics. The Labour Force Surveys have registered a total of around 20-28 thousand casual workers for years (1998: 28.5 thousand – the highest number since 1992; 1999: 25.3, 2000: 24.3, 2001: 22 thousand, 2002: 24.5 thousand). Only those declare themselves casual workers in the surveys who are not employed and essentially live on such income.

The intention of the ILO, expressed very clearly in 2002, is to guarantee the same legal and social security protection to those forced to the periphery of the labour market as is due to all workers.

The search for compromises in the highly complex context of employment and social security problems is likely to take long years.

#### ***d.) Teleworking***

One of the essential objectives of the European Union is to become the most competitive, the most dynamic knowledge-based economy. Beside other conditions, the mass spread of ICT, the most modern information and communication technology based on computer usage, plays an important role in this respect.

The rapid spread of computer usage, having led to marked changes in the economies, affects traditional employment relationships to a growing extent – not to speak of the fact that, the manufacture of computers and accessories has become a driving branch, both development and utilisation have led to the emergence of new occupations and the emergence of new demands and opportunities in terms of working conditions.

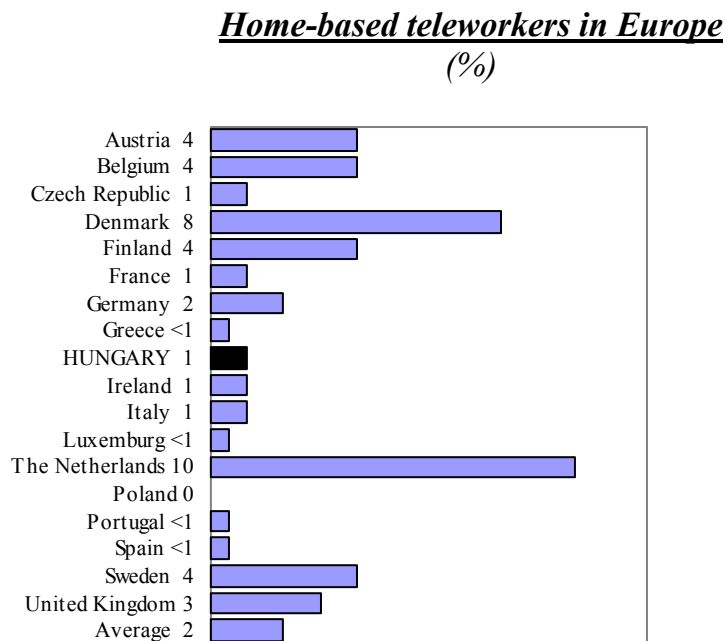
- Computer-based tasks can be performed, in most cases fully, at the company's headquarters/ other sites or in the worker's home.
- The worker can be a (full- or part-time) employee of the company, or an independent entrepreneur, with a home office, performing the given task under contract.



- The range of such tasks keeps expanding, from data processing to development work requiring high-level qualification, from translation to office administration, from animation to typing.

In Europe, the rate of home-workers among teleworkers is quite modest yet.

*Figure 4*



*Népszabadság*, 14.11.2002.

In order to provide a uniform and organised framework for employment growth, a common objective throughout Europe, the European Council invited the social partners to work out an agreement regarding the modernisation of the labour organisations, the conditions of flexible work included.

In response to that, CES, the European Trade Union Association, UNICE, the European Association of Employers and CEED, the Association of Employees of Public Companies drew up a framework agreement concerning the employment conditions of *employees* working as teleworkers.

The agreement, signed on 16.06.2002 – proposed for ratification to the accession candidate countries as well – emphasises that telework is a form of work organisation and/or performance based on IT and done under a work contract/employment relationship, and although the work concerned can be performed on the premises of the employer, too, this regularly takes place outside these.

A teleworker is someone doing telework as defined above.

If telework is not part of the original job description and the employer proposes telework, the worker may accept or refuse the proposal. If the worker would like to do telework, the employer may refuse or accept that request.

In terms of employment conditions, teleworkers enjoy the same rights – deriving from the applicable law and collective agreements – as workers in a similar position working on the employer’s premises. However, owing to the specific features of teleworking, special, supplementary, collective and/or individual agreements may be needed.<sup>32</sup>

In Hungary, abortive initiatives in recent years were followed by serious preparations in 2002 to spread telework. The Ministry of Employment Policy and Labour, in co-operation with the Ministry of IT and Telecommunication (MITT) launched a pilot programme to set up a thousand new telework-type jobs . MITT provides HUF500 million to guarantee the info-communication infrastructure and MEPL another HUF500 million for the purpose of wage subsidy and basic telework training.

The main target groups of the application-based job creation subsidy are the disabled, persons with changed working ability, the Rom, 45 plussers, single parents or persons caring for disabled or old persons or living in deprived regions.

The tender deadline was 15.12.2002, and the results will be announced in 2003.

### **3.4 Subsidised employment**

Despite the relatively low rate of unemployment, it is still a must that society help persons in a disadvantageous labour market position for some reason, not needed by the economy, to some sort of work from time to time.

In the nineties, employment policy introduced several programmes (“active measures” according to the special terminology). Part of these measures, in use in several countries of Europe, became permanent, while others were modified or cancelled in function of the circumstances ever.

2002 brought several amendments in this respect. For example, unemployed persons taking part in training and in need socially are granted earning supplement as a new form of subsidy. Further important assistance will be provided by the so-called “job-search stimulating allowance” that is to come into force in July 2003.<sup>33</sup>

A decisive part of the programme budgets is covered by the contribution payments of employers and employees.<sup>34</sup> From 1999 on, employers pay 3% and employees 1.5% of paid wages (and of several other earnings components). In

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<sup>32</sup> The agreement is also reviewed and commented upon in detail by Eironline {*European industrial relations observatory online, 12.08.2002.* }

<sup>33</sup> Changes included under Act LIII of 2002 referred to already.

<sup>34</sup> From the end of the 1980s, the Employment Fund, originating from the central budget and later on from privatisation proceeds and as of July 1991 the Solidarity Fund, generated by the contributions of employers and employees defined on the basis of the wages, at a fixed rate, covered the social costs of unemployment management. The two basic cost items are financial assistance to the unemployed (passive measures) and promotion of re-employment (training and re-training, acquisition of work experience, subsidised employment). In what follows, the last only will be discussed. The current Labour Market Fund, integrating several objectives and generated mainly also of special tax revenues includes as independent segments the vocational training, rehabilitation and wage guarantee funds.

2002, HUF131.6 billion was collected from employer and HUF60 billion from employee contributions. Around 30% of the more than HUF190 billion was allocated to active measures. (The Labour Market Fund is supervised by MEPL. The utilisation of the Fund is decided upon by the Steering Body including representatives of employers and employees, too, and acting as a social dialogue forum also.)

In addition to programmes covered by the Labour Market Fund, the central budget provides direct support to two employment promotion programmes: public works organised annually, and job creation by new investments (the Labour Market Fund also contributes to the latter.)

Furthermore, in some sense, the obligation of the local municipalities to offer public benefit (communal) work of at least one month to their residents in need of social allowance, whose labour market allowances (unemployment benefits, then income supplementing allocation) had expired already, also belongs here (even though acceptance of work offered this way is also a pre-condition of being granted social aid). The Labour Market Fund helped the municipalities fulfil their employment tasks by providing direct assistance to public benefit works and partly by covering the costs of communal work.

That is, society tries to help in ever so many ways.

Employment promotion and temporary work (labour-income) acquisition programmes covered by the Labour Market Fund are organised partly centrally and, to a growing extent, by the county labour centres, in accordance with the local demand ever.

Another actor – focusing primarily on programmes designed to improve the situation of certain strata in a special position or on pilot programmes in different stages by area – is the National Employment Foundation (OFA). OFA's activity is also covered by the Labour Market Fund and carried out, in addition to the labour service, mainly by Hungarian non-profit organisations.

Hungarian employment promotion programmes are supported occasionally or regularly by several foreign foundations as well (such as the British Know-How-Fund, or the PHARE tenders).

In what follows, we shall review the main programmes.<sup>35</sup>

#### ***a.1) Programmes covered by the Labour Market Fund***

In 2002, more was spent on training and employment programmes than in the previous year (HUF54.1 billion versus HUF42 billion).

(Although directly related to the above, we shall not consider here those of an indirect effect, such as the organisation of career guidance exhibitions organised by county, the deployment of EURES and EUROFIT systems to promote foreign and regional job exchange; the assumption of compensation

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<sup>35</sup> Main source of information: Report on the implementation of the 2002 budget of Labour Market Fund, MEPL, (Division for Planning, Analysis and Supervision of LMF), April 2003.

for organisations with a high labour demand to offset the minimum wage increase of 2002 or of the public burdens implied by CEB.)

One of the central programmes aimed at the management of mass dismissals due to the army reform; assistance to promote the placement of those concerned by training and subsidised employment.

In order to manage *group layoffs*, 32 Placement Promotion Committees (MEB) were formed, having provided information, counsel, job exchange service, job displays, vacancy identification, mediation etc. to more than 1,300 persons having addressed them. Their training and retraining programmes have also been popular: 60% of the 840 participants having finished training in 2002 were actually placed. (Surprisingly, there was hardly any interest in subsidised employment.)

The LMF provided support for the recruitment of the future regular army staff (professional military personnel employed by contract): the labour service helped identify and select young persons aged 18-25 with at least secondary-level qualification.

Several programmes were launched/continued to improve the opportunities of groups in a highly disadvantageous labour market position, partly under the PHARE programmes and partly jointly with other departments. (Roma youth: 160 vocational training courses, 25 non-streamline forms of training, training and employment involving some 1,900 youth; pilot programme to promote the labour market (re)entry of inactive women; programme to assist the social re-integration and access to work of the homeless; vocational training programmes to convicts to be released within 12 months, around 700 persons in 2002, etc.)

A major part of the funds allocated to active measures (HUF35.4 billion in 2002) was used by the county labour centres for programmes answering local demand.

The direct employment effects of national and local programmes delivered via the public employment service are monitored on a regular basis. In 2002 – as in the previous years – in addition to training participants, a total of more than 250 thousand persons were provided assistance to ameliorate their labour market position.

A conversion of participation spells – 1-2 days sometimes or on several occasions – to annual averages shows that in 2002 social solidarity helped more than 86 thousand in need (cf. Table 3.20 below).

According to the evaluation of MEPL, in 2002, active measures provided retraining or sheltered employment to almost one fifth (19.8%) of the registered unemployed (in 2001, the corresponding rate was 22.1%).

Table 3.19

**Number of participants in active programmes \****persons*

Active measures	1995	1996	1997	1998	1999	2000	2001	2002
Public benefit employment	86,496	141,258	101,208	116,113	120,575	93,441	80,742	84,498
Wage subsidy	37,214	29,700	38,497	49,596	51,741	50,971	48,089	40,838
Subsidy to job-creating investment**	25,459	25,518	23,418	17,498	17,462	12,420	9,086	6,452
Subsidy to start entrepreneur's career	5,609	4,619	4,674	4,343	4,364	4,979	5,016	4,326
Employment in reduced working time	3,397	5,663	1,375	-	-	-	-	-
Travel expense reimbursement***	4,624	4,820	6,000	8,062	10,973	10,094	9,356	9,774
Programmes for school-leavers		5,850	15,565	23,330	21,073	18,288	16,758	16,108
Job creation by self employment			1,209	3,027	4,450	5,325	6,025	6,138
Job preservation****			2,299	4,587	9,953	7,157	653	12,634
Assumption of contribution payment obligation			574	1,805	2,339	3,876	3,702	10,008
Other	-	-	-	-	-	-	-	100
<b>Total</b>	<b>162,799</b>	<b>217,428</b>	<b>194,819</b>	<b>228,361</b>	<b>242,930</b>	<b>206,551</b>	<b>185,427</b>	<b>190,876</b>
Labour market training	71,182	71,980	75,993	79,604	84,764	88,173	91,519	82,835
Retirement with age exemption	6,562	5,382	3,576	1,914	828	133	-	-
<b>Total</b>	<b>240,543</b>	<b>294,790</b>	<b>274,388</b>	<b>309,879</b>	<b>328,522</b>	<b>294,857</b>	<b>276,946</b>	<b>273,711</b>

\* Including everybody having participated in the program for at least one day in the given year.

\*\* Number of those employed at jobs created with subsidy. As of 2000, the programme is assigned to the competence of the Ministry of Economic Affairs.

\*\*\* From 1998 on: mobility subsidy (reimbursement of local travel expenses, group transport, residential supplement, support to labour recruitment).

\*\*\*\*The option of job-preservation support was cancelled as of 2000.

**Source:** Employment Office

33% of school-leaver unemployed was engaged in active programmes in 2002. (This rate would probably be higher if assistance provided by extra-labour-service (e.g. non-profit) organisations would be taken into account.) Note that, in spite of the results, Hungary is still far from realising the EU expectations. The demand, expressed earlier with respect to the youth, viz. that they should be offered a new start before reaching 6 months of unemployment was extended under the Employment Guidelines of 2002 to unemployed adults, before reaching unemployed 12 months of unemployment. The EES confirmed this requirement.

Table 3.20

**Annual average number of active programme participants**

persons

<b>Active measures</b>	1995.	1996.	1997.	1998.	1999.	2000.	2001.	2002.
Public benefit employment	24,971	34,094	30,780	30,877	28,867	23,705	23,185	17,751
Wage subsidy	14,371	12,268	25,762	29,313	31,369	27,524	26,547	21,693
Subsidy to job-creating investment*	23,123	20,694	16,195	12,291	9,433	3,192	6,943	1,708
Subsidy to start entrepreneur's career	1,289	1,378	1,410	1,307	1,374	1,506	1,616	1,269
Employment in reduced working time	363	899	269	-	-	-	-	-
Travel expense reimbursement (mobility subsidy from 1998 on)	1,955	1,747	2,618	2,926	3,765	4,091	3,483	3,294
Programmes for school-leavers		2,314	6,096	10,302	8,685	7,816	7,094	6,827
New measures introduced in 1997**			2,056	4,076	7,149	8,789	8,697	10,529
<b>Total***</b>	<b>60,072</b>	<b>73,394</b>	<b>85,186</b>	<b>91,092</b>	<b>90,642</b>	<b>76,623</b>	<b>77,565</b>	<b>63,071</b>
Labour training	24,059	20,829	22,750	23,039	25,004	26,307	27,187	23,410
Retirement with age exemption	5,934	4,406	2,791	1,348	449	45	-	-
<b>Total</b>	<b>96,065</b>	<b>98,629</b>	<b>110,727</b>	<b>115,479</b>	<b>116,095</b>	<b>102,975</b>	<b>104,752</b>	<b>86,481</b>

\* Number of jobs filled during the year (in accordance with employment obligation)

\*\* See: contribution assumption, job preservation, self-employment subsidy introduced in 2002

**Source:** Employment Office

The effectiveness of work and training opportunities on offer is analysed on a regular basis by the monitoring surveys of the Employment Office. The last available analysis covers the 1<sup>st</sup> half of 2002.<sup>36</sup>

Although the employment rate did not increase in 2002, according to the findings of the analysis, more than 40% of the participants of several programmes was still in employment three months after the termination of the programme.

44% of the unemployed having finished training was at work and, despite the unfavourable placement opportunities, the corresponding rate was almost 30% for the long-term unemployed, too.

On the average, 90% of business enterprise started with the help of the employment service was still active (but one quarter would have been launched without such assistance as well).

<sup>36</sup> Evaluation of the efficiency of labour market programmes terminated in 1<sup>st</sup> half 2002 based on the result indicators of the monitoring survey. Employment Office, 2003. The evaluation examines expenditures (cost-efficiency) and the satisfaction of other conditions as well, but the present analysis is limited to the employment effects.

The subsidised employment of the long-term unemployed proved one of the most effective forms. After the expiry of the period of further employment imposed on the employer, almost two-third of those concerned were kept in employment, typically skilled workers and persons with higher qualifications.

As for the school-leavers, on the other hand, interest in their employment declined, mainly due to the relatively low amount of the relevant subsidy, and the further employment obligations of the employer.

Most registered unemployed are given an opportunity to work from time to time under public benefit work schemes. However, indispensable as it is, such work, mostly communal in nature, lasting for a few days or weeks, seldom allows those concerned to exit (mostly long-term) unemployment for good.

#### ***a.2) OFA programmes***

OFA's main line of activity is the piloting of alternative labour market service programmes, typically with the contribution of local non-profit organisations.

The programmes concerned include both time-tested schemes from various countries all over Europe, to be introduced in Hungary (Back to Work, Job-finding (Hungarian: Rátalál(l)ás), etc.) as well as programmes to promote the employment of the Rom, the development/consolidation of small enterprises and to prevent the exclusion from the labour market of the youth.

OFA programmes are meant to provide a new opportunity primarily to members of the most vulnerable strata, and to help non-profit organisations become suitable co-operating partners in this work.

Under the decision of the Steering Committee of the Labour Market Fund (MAT), OFA had a higher budget in 2002 than in the previous years, and hence, its own sources included, it could allocate a total of HUF3.5 billion to the implementation of old and new programmes. The allocation of the funds is discussed in detail under the Statement of OFA on its activity in 2002.

Programmes providing direct support to promote employment and reduce unemployment assisted the labour market reintegration of a total of 43 thousand (around twice the corresponding number – 20 thousand – in 2001), and some 17 thousand among them found a job or could preserve theirs.

In 2002, OFA received 609 applications for subsidies and approved 270. The importance of programmes supporting local employment initiatives is witnessed by the fact that six among the programmes developed by OFA in the past ten years – Back to Work, Alternative Labour Market Services, KID, Job-finding, Transit, New Chance – have been integrated into the national Human Resources Development Operative Programmes, while the local employment and the Roma programme were incorporated into the Regional

Operative Programmes, that is, they will continue operation as part of the national programmes to catch up with Europe.

***b.) Programmes funded by the Labour Market Fund and the central budget***

***b.1 Job-creating investments***

After the change of government, the Széchenyi Programme, boosting investments but imposing an excessive burden on the central budget, had to be bridled somewhat. The programme, designed to boost the economy, offered investors preferential loans and non-repayable subsidies. In what follows, we shall describe job-creation subsidies only, covered by an earmarked fund of the central budget, the so-called Active Employment Target Appropriation (Hungarian abbreviation: AFC). The same sources were used, in combination with others, for funding the Széchenyi Programme as well.) From the multitude of applicants, 103 received a total of almost HUF2 billion non-repayable subsidy, to create 2,910 new jobs. Applicants included sole proprietorships intending to create one or two main jobs and medium-size and large organisations. Most new jobs, for 300 new workers, were promised by the Győr factory of Philips.

The intention has been for years to give priority to job creation in the deprived regions. Investors, however, prefer Western Transdanubia and Central Hungary, and hence the levelling of the disadvantaged regions has not made more progress than in previous years.

*Table 3.21*

***Job-creating tenders granted Active Employment Appropriation (AFC) support***

Region	Approved tender	Staff no. of current business sites	Extra staff hired as a result of the development	Requested AFC support	AFC financed by LMF
		(persons)	(HUF million)		
Central Hungary	17	1,155	545	398,6	339.2
Central Transdanubia	10	591	336	230,2	206.4
Western Transdanubia	17	3,178	727	448,8	447.2
Southern Transdanubia	18	718	453	326,4	304.3
Northern Hungary	15	992	282	299,6	252.6
North Great Plain	11	669	331	182,3	166.8
South Great Plain	15	1,347	236	231,4	221.8
<b>Aggregate</b>	<b>103</b>	<b>8,650</b>	<b>2,910</b>	<b>2,117.3</b>	<b>1,938.3</b>

\* Of a total of 112 applications, 6 were refused by the evaluation committee and 3 were revoked.

**Source:** MEPL



## **b.2 The public works programme**

For years, the government has had certain important communal tasks performed under the annually announced public works schemes designed to provide a work opportunity to the unemployed. The programmes concerned, normally targeted at afforestation, environmental protection tasks etc, are sometimes dictated by such circumstances as floods or inland waters. In 2002, there were still flood and inland water damages incurred in the previous years, but most tasks required by the local self-governments related to the prevention of further flood damage by the construction of inland canals, ditches, their maintenance, environmental management and embellishment projects, etc.

In 2002, the government allocated almost HUF2.6 billion to public works, and the Labour Market Fund provided an extra HUF504.8 million for the same purpose. By the end of the year, there had been public works programmes at 229 settlements, providing work from April to August to 3-4 thousand unemployed persons (including around 2 thousand beneficiaries of regular social aid, mainly of Rom origin).<sup>37</sup>

Society had recourse to numerous channels to provide employment for the jobless in 2002, too. Note that those employed for some time with social help are included for that period in the group of the employed by statistics, improving thereby the permanently low employment rates. Obviously, members of society having a regular jobs should do their utmost to ensure at least occasional access to work to those living on aid at best or dependent on their family. It is equally obvious, however, that new labour market opportunities should be created for them by labour market reforms, the introduction of more flexible forms of employment and, last but not least, the reduction of the employment burdens of those finding it most difficult to get a job.

## **3.5 Hungarian workers abroad – foreigners in Hungary**

### **3.5.1 International labour migration trends**

The 2002 volume of *Trends in Migration*, the annual OECD survey, identified by and large the same developments in 2002 as before. Let us highlight here, from the analysis covering all forms of legal migration, the main characteristics of labour for the purpose in employment in Europe.

- The rate of migration among the EU countries for the purpose of labour has remained low. The same as before, crossborder migration was more marked, but this is nor regarded as migration. This natural movement is maintained by knowledge of each other's language, shared cultural and historical traditions often fostered deliberately. There are "labour-market zones" matching each

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<sup>37</sup> The Report on the implementation of the 2002 budget of the Labour Market Fund reviews in detail the allocation of assistance granted from the above fund only.

geographical regions. Their emergence and consolidation is promoted and made obvious by the disappearance of internal borders.

- Labour movement between countries at a distance has remained insignificant. Data issued in 2002, mostly referring to the late-nineties, suggest that although European citizens do move to one another's country, this movement correlates closely with linguistic ties (Germans to Austria, French and Dutch people to Belgium, Fins to Sweden and vice versa).

Mention is made of the fact that migration for the purpose of employment, apart from seasonal work, tends to become a “white-collar” operation in our days. (The annual survey discusses at considerable length labour shortages in Europe in several advanced economies in some occupations requiring high qualifications (e.g. IT, physicians etc.). In previous years, employment-oriented migration was estimated at 1–2% of the employed.

Information originating from different sources suggests that one of the four freedoms of the EU, viz. the free movement of labour, is hindered in practice by many factors – in recent years, for example, mainly by recession having hit all Europe: there is no mass demand anywhere for aliens offering to replace local labour. Hence although there are alien employees in every member state, the majority fills special jobs and their number does not increase significantly. (The only exception is Belgium, where the EU administration and related organisations/activities result in a steady increase year by year of foreign citizens working there.) Although the computer-based vacancy exchange system (EURES) was deployed with a view to support prospective mobility, so far it has indicated no demand of merit from any of the countries concerned.

Measures restricting the reception of labour from outside the Member States of the EU have remained essentially unchanged. As a result of the accession negotiations – having suspended the free employment of citizens of prospective new members for several years or assigned them to the competence of bilateral agreements –, ardent debates concerning the presumed future invasion of East European workers have come to an end. The quotas defining the number of foreign workers, on the other hand, prevailed. New quotas are defined from time to time for certain special shortage occupations (IT specialists, physicians) affect a narrow segment of the labour market, without modifying the overall image.<sup>38</sup>

### **3.5.2 Employment of Hungarians abroad**

The terms of the legal employment abroad of Hungarians hardly changed in 2002. Although many countries (Ireland, the Netherlands, Denmark, Sweden, Greece, the UK)<sup>39</sup> declared that they would open their labour markets to

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<sup>38</sup> Actually, the demand for IT specialists dropped considerably due to the recession of this branch. Austria, for example, recruited foreigners, too, in 2000, but in 2002, the registered unemployed included 1,700 software experts. {*Népszabadság*, 23.04.2002. }

<sup>39</sup> The UK intends to grant, as of 01.01.2004, citizens of the new member states employment rights identical with those of the citizens of the current Members, “in the interest of the UK. This will attract workers to those branches that need them and they will not need aids originating from public funds” – says the British Minister of Foreign Affairs, quoted in *Világgazdaság* {11.12.2002}.

Hungarians immediately after the country's accession, both promises and hopes are scheduled for after 2004.

In the meantime, legal employment abroad is subject to quotas defined by interstate agreements.

As usual, the two countries receiving most Hungarian workers are Germany and Austria.

Germany modifies a little quotas applicable to Hungarians (also) in function of the employment situation ever of the country.<sup>40</sup> In 2002, a total of 13,760 Hungarians were granted employment there, 1,400 among them as guest workers, 4,700 for three months, as seasonal workers and a monthly 7,060 including various licenses to enterprises working as such in Germany (e.g. in construction), authorised to work with their own staff there. Another new form launched in 2002 was home-nursing (requiring no nurse's qualification), with employment opportunities offered to a hundred persons in Hungary, Poland, the Czech Republic, Slovakia and Slovenia only. (The programme, however, was suspended in early 2003.) Some 5–6 thousand applied to fill IT jobs announced earlier (the exact number is not known), and the majority were granted work permit.

The authorised guest worker quota was not filled in 2002 either, as the German regulations do not allow the repeated employment of the same person.

Austria, on the other hand, increased its quota. They received 600 young professionals in 2001 and 900 in 2002 in the framework of mutual work experience acquisition programmes. The quota on cross-border commuting labour is also raised every year: in 1998, it was 500, in 2002 1,400 already. (The agreement for 2003 allows the employment of 1,700.)

The quotas applicable to exchange programmes for young professional to acquire work experience are very different by country (e.g.: Luxemburg: 20, France: 300, Austria as indicated above), extended mostly through new agreements (e.g., under the new agreement with Romania, having come into force in 2002, an annual 700 practical trainees can undertake work in the other country).

With respect to adults, the employment agreement was extended, from among the extra-EU countries, with Slovakia – from 400 persons in 1999 to 1,600 in 2002. Although only 29 Hungarians undertook work in Slovakia, several hundreds of Slovakian citizens came to Hungary: to Esztergom-based Suzuki, to the Győr Philips plant, the Gödöllő Samsung plant etc. Another 200 are allowed to undertake seasonal work in Hungary (this quota was not filled).

The largest-scale agreement, the one concerning the seasonal employment of 8 thousand, was concluded with Romania, in the hope of making extensive undeclared employment in Hungary legal; Romanian workers, however, have hardly used this opportunity so far.

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<sup>40</sup> Germany amended the immigration act in June 2002, which makes it possible to receive a limited number of qualified foreigners. {*Világgazdaság*, 21.06.2002. }

Negotiations on the so-called “preference act” initiated by the Hungarian government and granting, among others, simplified employment terms to the significant number of ethnic Hungarians living in the neighbouring countries, are still underway. Until the new conditions resulting from EU membership, inter-governmental negotiations may create more favourable conditions for employment in each other’s countries.

All in all, CSO’s Labour Account registered on 01.01.2002 a total of 32 thousand persons working abroad legally, less than 1% of the Hungarian employed.

Answers to reiterated queries on the respondents’ propensity to work abroad have little to do with the real opportunities. The latter are defined by labour demand on the international labour markets, which, in recent years, was limited to casual, seasonal, work and a small number of highly-quality occupations. Even in these cases, one of the essential requirements is a medium- or higher-level knowledge of the foreign language concerned (which, among physicians, for example, would narrow to a large extent the circle of those who could meet the demand for family doctors in Germany).

### ***3.5.3 Foreign workers in Hungary***

The population census of January 2001, reviewed in detail in last year’s report, registered a population larger by 200 thousand than assumed previously. One explanation for the gap is the omission of the numbers of persons having immigrated to Hungary in the course of a decade. Immigration and outward migration together result in an average 13 thousand extra persons per annum coming mostly from ethnic Hungarian areas of the neighbouring countries, three-quarter among them qualifying as being of working age according to the Hungarian regulations.

Foreigners living in Hungary under different titles (refugee, permanent or temporary residents) mostly engage in work as well. (This is one precondition of the residence permit, too.)

At the end of 2002, 42,700 persons had a valid labour permit, approximately the same number as one year earlier (47,269). Although the number of individual employment permits issued annually has been increasing year on year during the past decade (1995: 26 thousand; 1999: 34 thousand; 2000: 40 thousand, 2001: 47 thousand, 2002: 50 thousand), the resulting number still corresponds to hardly more than one percent of the total employed population in Hungary. (According to a previous government decision, some 80 thousand foreigners are allowed to work in Hungary simultaneously, under new or extended licenses.)

The number of persons wishing to engage in work in Hungary is regulated partly by inter-government agreements based on mutual and reciprocal advantages. Hungary has such agreements with ten countries – in these cases, the Hungarian authorities issue employment permits to the extent of the accepted quotas without a previous examination of the labour market situation (that is, whether the job could be filled by a Hungarian unemployed citizen). From among these ten countries, however, in practice, Slovakia is the only one sending workers under this form. The Irish and the Czech agreements are not active, and no data is

available on the Dutch one because the Employment Office was not asked to take part in that. There are a few candidates from France and Romania, but the road to the Western countries is typically “one-way only”. The number of employments abroad is shaped, first and foremost, as in every country, by the actual demand ever of the economy. Since the permit is to be requested by the employer wishing to employ a foreigner, this usually takes place exclusively if they find it impossible to fill the post by domestic labour.

The natural source of extra labour is represented traditionally by ethnic Hungarian residents of cross-border areas. Although there are workers in Hungary from every part of the world (5% of permit-holders come from member states of the European Union, 7% from Asia, a few hundred from Australia, the US and Canada), the decisive majority comes from the East and Central European region, and especially from Romania, Ukraine, and Slovakia. Persons having come from these three countries represent 80% of the total population of permit holders and 94% of those having come from the region. The Hungarian employment of most of them is greatly facilitated by their knowledge of the language.

*Table 3.22*

***Number of foreign citizens with Hungarian work permit, 31. December 2002***

Worker's citizenship	Individual permits	
	no.	%
EU Member States	2,298	5.4
Other European countries	36,63	86.0
<i>of which:</i>		
Romania	25,836	60.5
Ukraine	5,925	13.9
Slovakia	2,729	6.4
Overseas countries	582	1.4
Asian	2,886	6.8
Other	171	0.4
<b>Total</b>	<b>42,700</b>	<b>100.0</b>

**Source:** Employment Office

As in every economy, there are shortage occupations, permanent or temporary ones, as well as special demands in the Hungarian economy, too, despite its low rate of employment.

Most foreign workers – 70% -- went to three branches: construction, manufacture and trade. The fourth largest group is that of cultural and artistic activities and sports (cf. Table 3.23).

Agriculture typically needs season workers only, and the relevant demand is difficult to plan in advance. (This is one of the reasons why many prefer to avoid the lengthy and cumbersome procedure and rely on personal contacts to organise such work in accordance with the actual demand ever.)

Mining also replaces missing labour; from among the foreign (especially Polish) miners having returned home after the mine closures, only the Transylvanian ones have remained in Hungary.

The many branches of manufacture host employees of different vocations of foreign companies, and typically semi-skilled workers doing assembly-type work and the workers of textile factories and dressmakers' shops.

Peak demand in construction is satisfied by Romanian, Ukrainian and Slovakian labour.

Trade and hotels and catering host, in addition to East and Central Europeans traditionally employed seasonally, a few thousand Asians, typically employees of Chinese and Vietnamese tradesmen settled in Hungary.

Health care expects nurses mainly, partly to replace those recruited from Hungary to Western Europe.<sup>41</sup>

*Table 3.23*

**Employment of foreigners by branch of the employer, 2002**

Worker's citizenship	Agr.	Min-ing	Manuf..	Energy	Constr.	Trade	Transp. telecom.	Finance	Edu-cation	Health care	Sports, culture	Total
EU	22	1	722	33	79	427	86	126	258	24	520	<b>2,298</b>
<i>of which</i>												
Austria	2	-	132	1	20	27	4	15	16	3	26	<b>246</b>
France	-	-	69	15	17	133	4	18	22	4	106	<b>388</b>
UK	6	-	40	2	3	60	13	24	136	1	154	<b>439</b>
Germany	9	1	253	10	8	81	19	34	43	9	101	<b>568</b>
Italy	5	-	106	3	13	24	6	10	11	3	23	<b>204</b>
other	-	-	122	2	18	102	40	25	30	4	110	<b>453</b>
Other European	2,406	211	7,926	478	13,045	5,660	454	541	715	1,107	4,220	<b>36,763</b>
<i>of which:</i>												
Romania	2,189	207	4,771	342	9,417	4,180	198	345	371	742	3,074	<b>25,836</b>
Slovakia	8	1	1,761	110	116	310	14	20	87	144	188	<b>2,759</b>
Ukraine	87	2	1,037	3	3,261	600	171	111	144	161	348	<b>5,925</b>
other	122	1	357	23	251	570	71	65	113	60	610	<b>2,243</b>
Overseas,	-	-	73	4	4	61	7	37	158	4	234	<b>582</b>
<i>of which</i>												
USA	-	-	39	4	2	39	3	25	127	2	144	<b>385</b>
other	-	-	34	-	2	22	4	12	31	2	90	<b>197</b>
Asia	9	1	827	2	25	1,049	23	43	43	69	795	<b>2,886</b>
<i>of which:</i>												
China	-	-	14	-	5	454	-	3	12	2	555	<b>1,045</b>
Mongolia	-	1	520	-	5	156	-	19	-	3	29	<b>733</b>
other	9	-	293	2	15	439	23	21	31	64	211	<b>1,108</b>
Other continents	-	-	18	-	5	41	4	2	25	20	56	<b>171</b>
<b>Grand total</b>	<b>2,437</b>	<b>213</b>	<b>9,566</b>	<b>517</b>	<b>13,158</b>	<b>7,238</b>	<b>574</b>	<b>749</b>	<b>1,199</b>	<b>1,224</b>	<b>5,825</b>	<b>42,700</b>

<sup>41</sup> Hungarian nurses are lured to the western countries which recognise their vocational qualification and offer a much higher pay than the Hungarian one, and although foreign language skills are part of the requirements, recruiters offer intensive language courses free of charge. Attempts have been made for years to replace the 20-30% shortage in health care staff from the ethnic Hungarian regions of the neighbouring countries. {*Világgazdaság*, 21.10.2002.} From Transylvania, for example, having sent 30 nurses to Kecskemét Hospital. The Hospital hopes they will stay after the first year, too. {*Népszabadság*, 16.01.2003. }

Altogether, the order of magnitude of legally employed foreign guest workers in Hungary is identical to that of Hungarians employed (legally) abroad.

No information is available, naturally, of non-legal employment either in Hungary or abroad. Experts are of the opinion that the so-called “preference act” failed to offset illegal employment because the authorisation procedure it implies is almost as protracted as the standard one (only the availability of Hungarian labour does not have to be investigated), and, even more importantly, the costs, are the same as for the normal one-year permit. That is, the costs are not proportional with the three-month employment possibility.

The experience of the National Occupational Health and Safety Chief Inspectorate (OMMF), carrying out regular employment inspections, the illegal employment of foreign workers has not diminished despite the “preference act”.

Illegal employment is most frequent, the same as before, in agriculture in the Eastern counties, and in construction and in the major travel, hotel and catering centres in the capital and its sphere of attraction {*Népszabadság, 16.08.2002.*}

In 2002, inspections revealed a total of 1,714 illegally employed foreigners, approximately the same number as in previous years (1998: 1,956, 1999: 1,774, 2000: 2,363, 2001: 1,876).

In comparison with the growing number of legal employees, this indicates a certain decline (in 1998, it corresponded to 7% of the authorised population and in 2002 to 4% of the same); although the results depend on the extent of the inspections, too. For, illegal employees are typically to be found not at major companies, but at small entities or household economies.

### **3.6 Registered labour demand**

The Short-term Labour Market Forecast referred to several times above regularly investigates the capacity utilisation of companies, and also the role of labour shortage in the low utilisation rates.

The majority of the investigated companies utilise their capacities at a high and increasing rate, while the proportion of companies capable of operating their capacities at a low level only has declined steadily.

In the first half of 2002, 8.4% of companies and in the second 6.7% indicated low capacity utilisation rate, making reference to three causes: decline in domestic and external demand and capital shortage.

Labour shortage figures among the causes at a constant rate of 1–2%. The shortage of labour with appropriate qualification is somewhat more marked (1<sup>st</sup> half 2002: 6%, 2<sup>nd</sup> half: 8.5%). Skilled-worker shortage is more pronounced in some areas, in manufacture, for example: in the textile industry, it figured at 20% among the reasons for the non-optimal capacity utilisation.

Labour demand manifested itself at the county labour centres as well. In 2002, in a context of major dismissals and hirings, approximately a hundred vocations were in demand.

In what follows, we shall review demand for at least 150 persons nationally on the basis of the relevant data collection of the Employment Office.

### **Vocations, occupations in demand**

The list based on the demand of 4,600 companies shortened considerably compared to 2001. National demand (in several counties) for more than 150 persons was restricted to a few occupations/vocations.

#### *Manual, unskilled*

*Maid*s were sought, probably by new hotels and resorts opening in the high travel season.

#### *Manual, skilled*

- mason,
- precision engineer and
- carpenter.

#### *Non-manual*

- engineer.

The above new, shorter, list does not support concerns concerning the large-scale shortage of skilled labour. Nevertheless, 51–100 persons were sought in a more extensive circle, including machine operators in constructions, transport staff, wood-turners, glazier workers, glass manufacturers. Local demand, in one county or another, mostly at a few companies, may be more marked in some occupations. In three counties, there was a shortage of assembly-line workers and in others of seamstresses, road-builders, road maintenance personnel, tailors/seamstresses, metal-working machine operators, makers of certain types of machinery and equipment.

In County Pest, in the category of non-manual occupations, the demand was highest for cashiers.

Several counties experienced a lively demand for unskilled manual labour.

There was a demand for a smaller number of skilled and unskilled manual and non-manual occupations, from pavers to stone-workers, horse-breeders to sailors, from electrical engineers to hotel receptionists.

Simultaneously, occupations/vocations in a deteriorating position, characterised by excess supply, were registered as well.

There was an over-supply, nationally, of workers of different occupations laid off by the streamlining moves of footwear factories, as well as in mining occupations and mill industrial workers. There was excess supply in one county of cutters, in another of clothing machine operators and assembly line workers and of quality, technical and security inspectors, in certain accounting occupations, and among primary-school teachers.

Changes in supply and demand reflect the effects of mainly short-term influences that may disappear or become permanent depending on the economic situation. It



seems likely, for instance, that persons previously employed in mining should look for new occupations, as the old one will not be marketable any more.

The changing intensity of supply and demand is a natural feature of any active economy. If the employment service is aware of the main trends, occupations permanently in demand or showing excess supply, it can interfere by re-organising training and retraining and shaping streamline training appropriately. In the future, its role in this respect will increase.

### ***3.6.1 Mismatch of registered demand and supply***

No information is available on the satisfaction of labour demand in various occupations all over the country.

It is well-known that so far a major part of both the demand and the supply bypassed the public employment service, all the more so since the latter focused from the start on providing for the unemployed. (It will take some time for the labour centres and offices to make mediation and vacancy identification their main line of activity.) As indicated by several studies, job-seekers use many ways to find employment, but rely to a lesser extent on the public employment service – although part of the registered unemployed actually rely on the latter exclusively instead of actively looking for a job. Employers, too, tend to look for labour through social (informal) contacts. Employment service clients are mainly foreign companies with little local knowledge, looking typically for a larger number of semi-skilled workers. Hungarian employers mostly contact the employment service only if all other methods had failed, or in case they experience a recurrent demand for labour due to inferior wages or work conditions.

Hence so far only a limited segment of the labour demand has appeared at the employment service. (Neither is this necessarily real demand. The experience of long years is that many employers fail to notify the service if the vacancy gets filled. Or: labour centres know the companies with constant fluctuations and looking for new workers for that reason etc.)

Irrespective of the economic situation, the number of reported vacancies has always been low, and it has even decreased in recent years. The employment service, on the other hand, can only offer for placement unemployed persons registered there (50% having low or no educational qualification/skills or obsolete vocational skills).

The narrow circle of demand and supply mediated by the labour centres contracted even further in 2002. Employers sought workers for a somewhat smaller number of vacancies than in the previous year.

Table 3.24

**Registered labour demand**

Year (Dec.)	Demand (persons) *	Of which, %:				
		skilled	semi-skilled worker	unskilled	manual	non-man. total
1993	28,089	45.8	23.5	7.2	76.5	23.5
1994	30,806	49.0	27.3	8.2	84.5	15.5
1995	26,756	52.1	24.3	11.8	88.2	11.8
1996	35,540	51.7	22.5	10.2	84.4	15.6
1997	36,307	51.0	26.4	8.9	86.3	13.7
1998	40,952	46.5	31.6	10.6	88.7	11.3
1999	42,579	47.0	30.3	11.9	89.2	10.8
2000	39,183	38.3	36.8	14.0	89.1	10.9
2001	37,327	38.8	30.8	18.6	88.2	11.8
2002	33,779	35.2	32.5	21.2	88.9	11.1

\* Closing stock

**Source:** Employment Office

The employment service makes considerable efforts to satisfy the demand as best and as fast as possible. The monthly average demand – around 45 thousand since 2001 – is obviously higher than the closing stock shown in the above table. As a result of efforts so far, they can satisfy around one fifth of the demand in the given month. (More precisely, it is possible that more among the registered unemployed find a job themselves or with the help of the employment service, but the register only allows to record the placement of beneficiaries of unemployment benefits.)

Table 3.25

**Monthly average no. of registered vacancies, and placements among the unemployment benefit recipients, 1995-2002**

Year	Vacancies (no.) *	Reg. unemployed (no.)	% rate of vacancies to the registered unemployed	Closing stock of unemployment benefits recipients**	Placements		
					no.	% rate to vacancies	% rate to beneficiaries
1995	28,680	507,695	5.6	182,788	8,569	29.8	4.7
1996	38,297	500,622	7.7	171,737	8,228	21.5	4.8
1997	42,544	470,112	9.1	141,743	7,312	17.2	5.2
1998	46,624	423,121	11.4	130,724	7,110	14.7	5.4
1999	51,271	409,519	12.5	140,717	6,933	13.5	4.9
2000	50,000	390,492	12.8	131,665	7,628	15.3	5.8
2001	45,194	364,140	12.4	119,210	6,993	19.9	5.9
2002	44,603	344,715	12.9	114,934	6,971	20.6	6.1

\* 1995-2000: monthly average; 2001-2002: closing stock

\*\* Not including income supplement recipients

**Source:** Employment Office. monthly bulletins

Obviously, part of the demand cannot be satisfied in the given context (region, date, occupation), especially if the employer also has special demands (foreign language skills, vocational experience etc.)

Permanently unsatisfied demand is registered apart as well.

*Table 3.26*

**Number and rate of job vacancies registered for more than 180 days, 1993-2002\***

Year (Dec.)	Total no. of registered vacancies	Of which: registered for 180+ days	
		no.	%
1993	28,089	2,918	10.4
1994	30,806	4,719	15.3
1995	26,756	931	3.5
1996	35,540	4,487	12.6
1997	36,307	5,895	16.2
1998	40,952	4,851	11.8
1999	42,579	4,134	9.7
2000	39,183	2,894	7.4
2001	37,327	2,505	6.7
2002	33,779	1,786	5.3

\* Closing stock

**Source:** Employment Office

To date, the supply/demand gap, i.e. the rate of vacancies unfilled for 6 months, manifesting itself at the employment service is low and normal in every job group.

*Table 3.27*

**Vacancies registered for more than 180 days, by employment status 2000-2002\***

Status	2000			2001			2002		
	Demand	of which: 180+ days		Demand	of which: 180+ days		Demand	of which: 180+ days	
	no.	no.	%	no.	no.	%	no.	no.	%
Skilled	15,003	1,383	9.2	14,478	1,373	9.5	11,906	923	7.8
Semi-skilled	14,422	862	6.0	11,515	866	7.5	10,969	475	4.3
Unskilled	5,485	155	2.8	6,945	74	1.0	7,152	244	3.4
<b>Manual, total</b>	<b>34,910</b>	<b>2,400</b>	<b>6.8</b>	<b>32,938</b>	<b>2,313</b>	<b>7.0</b>	<b>30,027</b>	<b>1,642</b>	<b>5.5</b>
<b>Non-manual</b>	<b>4,273</b>	<b>494</b>	<b>11.6</b>	<b>4,389</b>	<b>192</b>	<b>4.3</b>	<b>3,752</b>	<b>144</b>	<b>3.8</b>
<b>Total</b>	<b>39,183</b>	<b>2,894</b>	<b>7.4</b>	<b>37,327</b>	<b>2,505</b>	<b>6.7</b>	<b>33,779</b>	<b>1,786</b>	<b>5.3</b>

\* Closing stock

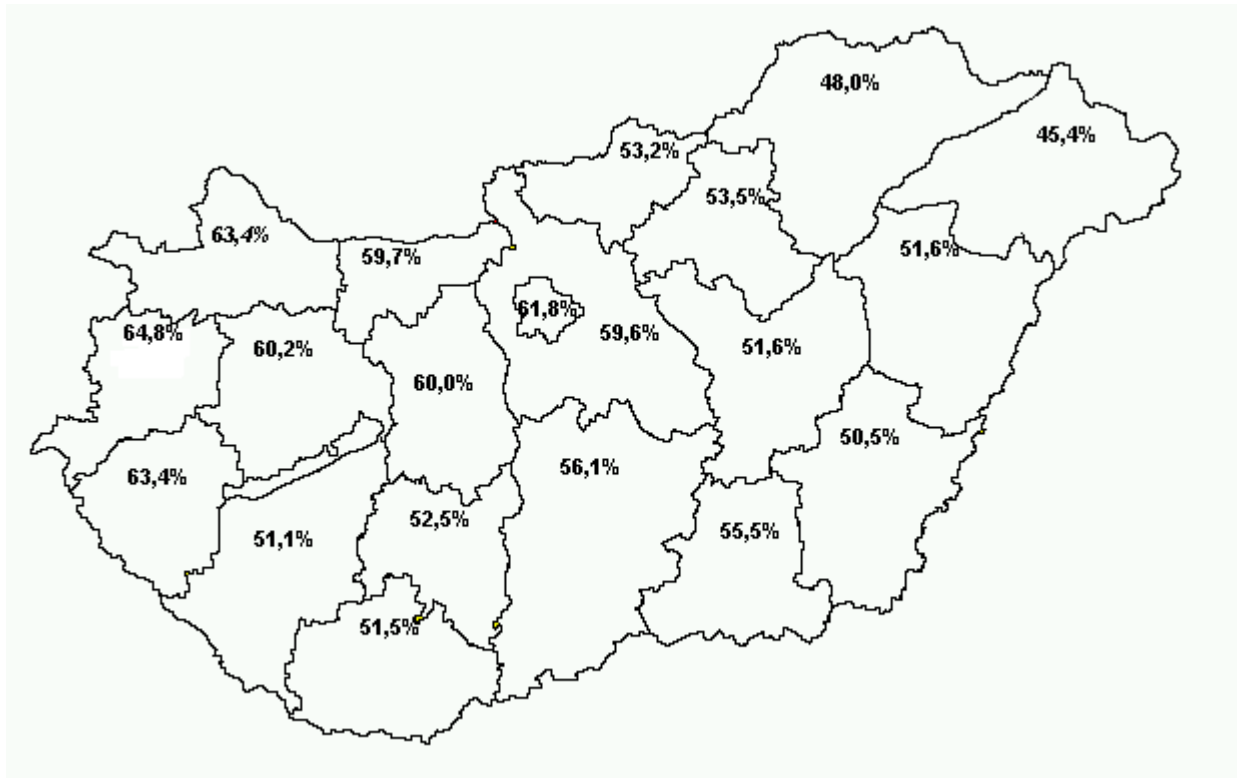
**Source:** Employment Office

The real problems actually stem from the earlier interpretation of the functions of the employment service, i.e. the focus on the registered unemployed, and mostly benefit recipients among them. Changes to replace this by vacancy identification, exchange and placements are underway as part of the EU accession preparations. Mediation activities placed on an extensive basis encourage employers to rely first and foremost on the public employment service to satisfy their diverse demands, and the employees to hope for placement through the service.

*Figure 5*

**Rate of the employed to the population aged 15-64, by county, 2002**

**National rate: 56.2%**



**Source:** LFS,

## **4. UNEMPLOYMENT**

### **4.1 International tendencies**

At the time of the finalisation of the present report, in spring/summer 2003, no detailed data was available on the development of employment/unemployment in 2002, a year characterised by deepening recession. According to Eurostat, the unemployment rate increased slightly in the EU Member States. In 2002, the EU average was 7.7%, after 7.4% in the previous year.<sup>42</sup> More recent news suggested that unemployment continued to grow in 2003.

Despite the moderation, the unemployment rate of the EU is still higher than that of the United States or of Japan.

The unemployment data of countries expected to join the EU in 2004<sup>43</sup> will certainly not improve the EU average. Unemployment decreased a little in 7 countries of the 11 figuring in *Employment in Europe, 2002*, yet in 6 among them it was still higher than 10% even in 2001, with rates of around 20% in 3 (Bulgaria, Slovakia and Poland). (8 of the 15 EU countries have lower unemployment rates than Slovenia and Hungary (5.7%), ranking second after Cyprus (4%).

The lower rate of female than of male job-seekers in six of the ten ex-socialist countries is indicative of the difference in traditions and other features between the East and Central European countries and the advanced western ones.

Youth unemployment, a serious problem in 3 of the EU Member States (involving 10.2-10.3% of the youth) is on a similar or higher scale in 4 of the ex-socialist countries (the rate is highest in Slovakia at 17.6%). The high unemployment rate of the youth is in close correlation with the relatively short period of education. A multitude of unskilled or low-skilled youth appears on the labour market, looking for a job, instead of remaining in education as their more fortunate peers do.

With the exception of Cyprus and Romania, the rate of the long-term unemployed also exceeds the European Union average in the accession candidate countries. Beside personal characteristics, the development of the number of long-term job-seekers is due to a decisive extent to the difficulties/delay of the adjustment of employment policy to the changed economic conditions, and the absence/slow establishment of flexible forms of employment.

### **4.2 The Hungarian unemployment rate in 2002**

Similarly to numerous other countries, Hungary measures unemployment in two ways. One system of accounting relies on the definition of the unemployed and of those among them who are eligibility to pecuniary benefits and other services available to the unemployed under the national legislation – based on Act IV of

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<sup>42</sup> <http://europa.eu.int/comm/eurostat/Public/datashop/print-product/ENcatalogue=Eurostat&product>

<sup>43</sup> As indicated already, data based on *Employment in Europe, 2002* pertaining to the then potential candidates are used.

1991 on Employment Promotion and Provisions for the Unemployed in Hungary's case. Persons in need of assistance must register with the employment service. Previously, the service could only register persons having had a previous job, and eligibility to financial benefits of a fixed amount and duration depended on previous participation (also for a definite period of time and with a certain amount of money) in the unemployment insurance system in the capacity of employee, that is, on the payment of employee contribution. This circle had been very limited, but as of 2001, the service may register persons having had no prior employment, living on casual work, or persons past Hungarian retirement age but not entitled to old-age pension. As before, day-time students of educational institutions and beneficiaries of old-age pension cannot register<sup>44</sup>.

Consequently, in Hungary, the order of magnitude of unemployment corresponds to the number of the registered unemployed.

The other measurement system is based on the methods and principles of the Labour Force Survey introduced in the OECD countries from the mid-eighties on. As mentioned already, this is based essentially on the principle adopted on ILO's recommendation, namely that the unemployed are persons aged 15–74, having no earning occupation, but wishing to work and involved in active job-search.<sup>45</sup>

The Survey considers as “passive unemployed” jobless persons discouraged from active job-search for some reason, and treats them under a separate heading.

In Hungary, CSO has used the LFS system, suitable for international comparisons, since 1992. As in numerous other countries, the resulting data are used more and more extensively as input to various government activities. The Hungarian accession preparation documents laying the foundations of the prospective employment policy of the country also rely on these.

In what follows, we shall review the data of the Labour Force Survey first.

#### **4.2.1 LFS data**

After a promising start, Hungarian unemployment took a negative turn in the second half of 2002. News of economic difficulties, deceleration relative to the envisaged processes, curtailed investments, exits of major companies and dismissals multiplied.

According to CSO's report, the number of the unemployed did not change, but the previous steady decline in unemployment stopped.

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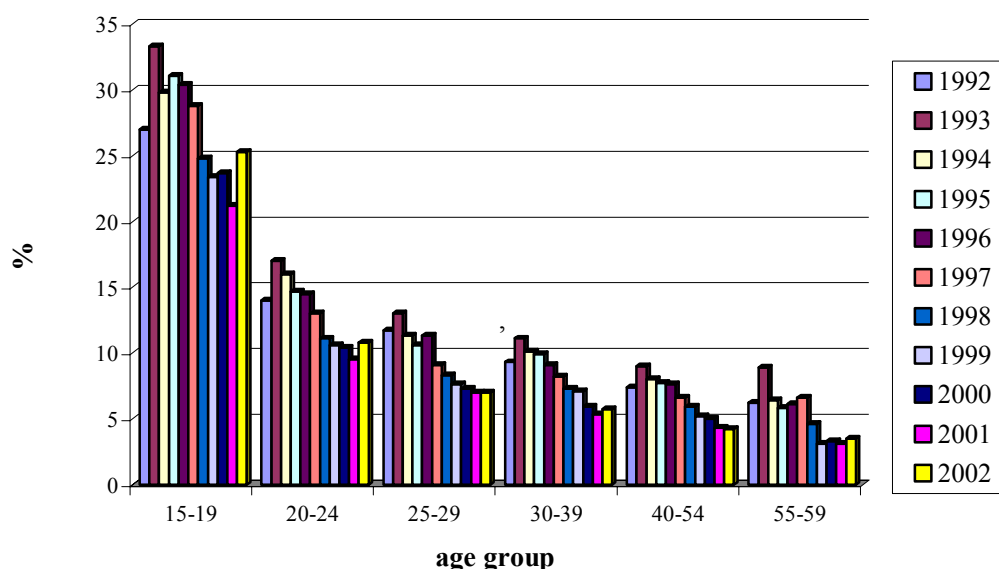
<sup>44</sup> The essential features of national rules are presented in a comprehensive manner in Mária Frey's “The rules of entitlement and rates of unemployment benefits in developed countries”, and in Ágota Scharle's “Justification conditions for unemployment benefits”, in *Munkaerőpiaci Tükör, 2001* (Labour Market Mirror, 2001, ed.: Károly Fazekas), HAS, Economics Research Centre and OFA, Budapest., 2001. pp.50–62.

<sup>45</sup> The survey covered persons aged 15-74, but international comparisons are limited to those of the 15-64 year-old among the unemployed. Students and pensioners – or anyone meeting the relevant criteria – are, of course, assigned to the group of the unemployed in case they are engaged in active job search.

“Unemployment decline since 1993 stopped last year: after a drop followed by stagnation in the beginning of the year, the second half was characterised by growth, and hence the annual number of the unemployed did not decrease further, but actually increased somewhat. The unemployment rate went up from 5.7% one year earlier to 5.8%. Within that, the rate of the 15-24 year-old rose from 11.0% to 12.3%. The unemployment rate of those older than 25 underwent no change of merit. The male and female unemployment rates approximated. The male unemployment indicator moderated from 6.3% to 6.1%, while the female on rose from 5.0% to 5.4%”. {CSO Reports, 2002/12.}

*Figure 6*

**Unemployment rates, 1992-2002**



That is, economic recession exacerbated the labour market situation of the youth and of women in the first place.

The number of the unemployed, as mentioned already, went up by a total of around 5 thousand during the year; the population of the 15–64 year-old included a total of 238 thousand active job-seekers. (In 2001, on the other hand, there had been a drop by 30 thousand; from 262 thousand in 2000 to 233 thousand.) Simultaneously, however, the number of the passive unemployed increased by more than 10 thousand.

In 2002, the number of unemployed men fell a little, from 143 thousand to 138 thousand, but that of unemployed women rose by more than 10 thousand, from 90 thousand to more than 100 thousand).

Of the 3,823 thousand Hungarian households, 216 thousand, 3 thousand more than one year earlier, included one or several unemployed members. (2001: 213 thousand). The proportion of households affected by unemployment was 5.6%:

195 thousand families included one, 19 thousand two, 1.9 thousand three or more job-seekers. Unemployment still hits hardest the largest families. There was one or more unemployed in 1.1% of one-member households, 3.7% of two-member ones; 7.9% of three and 9% of four-member households, and in 12.7% of larger ones.

As for their age-group distribution, most job-seekers (88 thousand; 37%) are 20-29 year-old; more than 70 thousand (30%) 40-54 year-old, and almost 60 thousand (25%) 30-39 year-old, and collectively they represent 92% of the unemployed. Youth under 20 and 54 plussers represent a much lower number.

The age-group-specific unemployment rate was lowest among 55 plussers. Less than 1% of the 55-59 year-old are active job-seekers, and a thousand persons only among those aged 60 or more, up to the age of 75, including a total of 1.5 million. It is similarly low for the youngest (ages 15-19) at 1.8%; this group, however, includes, beside the 12 thousand job-seeker youth another 9.8 thousand passive unemployed. The rate was highest among the 30-39 year-old at 4.4% in 2002.

Unemployment rates compared to the economically active segment of the given age group show a somewhat different distribution. The rate is highest among the 15-19 year-old, whose activity rate is only 6.8%; and lowest among the mostly inactive 60 plussers not looking for a job either. (Cf. Table 4.3.)

The development of the proportion of the newly registered unemployed, persons having become unemployed and of long-term job-seekers mirrors fluctuations due to economic restructuring.

In the first Labour Force Survey year, i.e. 1992, economic disintegration had already been going on for years, but there were relatively few long-term unemployed, that is, persons jobless for more than 12 months. With the slow consolidation of the economy, layoffs moderated and the number of prospective entrants/re-entrants to the labour market declined, but that of long-term job-seekers increased. From 2001 on, with the deterioration of the economic situation, the proportion of job-seekers out of work for less than 12 months started to rise again, while part of the long-term job-seekers either found a job or, what is more likely, gave up job-search deemed hopeless.



Table 4.1

**Distribution of the unemployed by age group and gender**

Age group	1998	1999	2000	2001	2002	Unemployment rate in 2002
	thousand persons					
15-19						
male	16.1	12.6	10.3	7.1	6.1	
female	12.2	8.7	7.3	5.4	5.6	<b>27.1</b>
all	28.3	21.3	17.6	12.5	11.7	
20-24						
male	40.0	36.0	33.8	27.6	26.8	
female	19.3	21.3	19.3	15.6	18.0	<b>11.1</b>
all	59.3	57.3	53.1	43.2	44.8	
25-29						
male	26.7	25.7	25.5	26.3	26.1	
female	16.6	14.9	15.3	16.2	17.1	<b>7.0</b>
all	43.3	40.6	40.8	42.5	43.2	
30-39						
male	42.0	42.6	35.4	33.3	33.8	
female	29.2	28.9	24.4	22.0	25.1	<b>5.6</b>
all	71.2	71.5	59.8	55.3	58.9	
40-54						
male	57.0	48.8	48.1	41.6	38.0	
female	41.8	39.2	35.1	29.4	32.5	<b>4.2</b>
all	98.8	88.0	83.2	71.0	70.5	
55-59						
male	4.7	4.6	5.7	6.0	6.5	
female	2.1	0.8	1.2	1.1	2.2	<b>3.5</b>
all	6.8	5.4	6.9	7.1	8.7	
60-64						
male	1.0	0.4	0.4	0.7	0.6	
female	0.9	0.1	0.1	0.1	-	-
all	1.9	0.5	0.5	0.8	0.6	
65-74						
male	1.7	-	0.3	0.2	0.1	
female	1.7	0.1	0.3	0.3	0.3	-
all	3.4	0.1	0.6	0.5	0.4	
<b>15-74 , aggregate</b>						
male	<b>189.2</b>	<b>170.7</b>	<b>159.5</b>	<b>142.7</b>	<b>138.0</b>	
female	<b>123.8</b>	<b>114.0</b>	<b>103.0</b>	<b>90.2</b>	<b>100.8</b>	<b>5.8</b>
all	<b>313.0</b>	<b>284.7</b>	<b>262.5</b>	<b>232.9</b>	<b>238.8</b>	
<b>15-64, aggregate</b>						
male	<b>187.5</b>	<b>170.7</b>	<b>159.2</b>	<b>142.7</b>	<b>137.9</b>	
female	<b>122.1</b>	<b>113.9</b>	<b>102.7</b>	<b>90.0</b>	<b>100.5</b>	<b>5.8</b>
all	<b>309.6</b>	<b>284.6</b>	<b>261.9</b>	<b>232.7</b>	<b>238.4</b>	
<b>Of Hungarian working</b>						
age	<b>186.5</b>	<b>170.3</b>	<b>159.0</b>	<b>142.1</b>	<b>137.9</b>	
male	<b>119.8</b>	<b>113.6</b>	<b>102.4</b>	<b>89.4</b>	<b>100.1</b>	<b>5.9</b>
female	<b>305.3</b>	<b>283.9</b>	<b>261.4</b>	<b>231.5</b>	<b>238.0</b>	
all						
<b>Passive unemployed</b>	<b>110.4</b>	<b>109.1</b>	<b>106.9</b>	<b>108.0</b>	<b>117.6</b>	

Source: LFSs

Table 4.2

***Distribution of the unemployed by job-search spell\****

Year	Job search **								Total '000	Average spell of job search, months
	> 1 month	1-3 months	4-12 months	>1 year	13-18 months	19-24 months	<25 months	long-term unemp- loyed		
1992	10.1	21.0	50.4	<b>81.5</b>	9.6	8.9	-	<b>18.5</b>	<b>432.6</b>	n.a.
1993	7.3	15.2	45.3	<b>67.8</b>	15.2	17.0	-	<b>32.2</b>	<b>492.9</b>	n.a.
1994	7.1	13.2	38.4	<b>58.7</b>	14.7	17.2	9.4	<b>41.3</b>	<b>429.5</b>	n.a.
1995	5.7	12.6	36.1	<b>54.4</b>	14.1	8.5	23.0	<b>45.6</b>	<b>404.8</b>	n.a.
1996	5.1	12.0	33.2	<b>50.3</b>	14.4	9.5	25.8	<b>49.7</b>	<b>388.7</b>	18.8
1997	4.2	12.0	33.9	<b>50.1</b>	15.4	9.0	25.5	<b>49.9</b>	<b>328.7</b>	17.5
1998	4.1	15.1	35.4	<b>54.6</b>	13.8	9.3	22.3	<b>45.4</b>	<b>293.4</b>	17.0
1999	5.2	15.4	34.5	<b>55.1</b>	13.4	9.5	22.0	<b>44.9</b>	<b>283.1</b>	17.5
2000	6.4	14.7	34.7	<b>55.8</b>	14.1	9.1	21.0	<b>44.2</b>	<b>261.3</b>	16.8
2001	6.4	16.0	35.8	<b>58.2</b>	13.6	9.1	19.1	<b>41.8</b>	<b>230.7</b>	16.1
2002.	6.5	16.0	37.4	<b>59.9</b>	13.8	8.4	17.9	<b>40.1</b>	<b>237.0</b>	15.9

\*Not including persons starting a new job within 30 days

\*\* % rate to all unemployed

**Source:** LFSs

In 2002, 80% of the unemployed had had an earning occupation previously. Almost 15% (33.5 thousand) had not worked yet, the majority probably being career-starters; and a minor part (16 thousand) had lost their job at least 8 years earlier. Most in the latter group are women, wishing to re-enter the labour market after a prolonged period of absence on child-care leave in all probability.

From among the job-seekers, less than 2,000 have already found a job and start work within 30 days. Almost 95% of those having had a job previously, within 8 years, were employees. The rise of their proportion during the decade correlates with the steady growth of the number of employees. (NB: more than 86% of earners are employees.) The proportion of those becoming unemployed after having been employed in other forms underwent no change of merit (cf. Table 4.5).

Ten years ago, in 1992, the proportion of agrarian workers was 13% among the old and new unemployed; half of persons who were mostly new unemployed came from industry and construction and 36% from the services branches.

Structural changes are reflected now, after the first ten years of transformation, in the distribution of the unemployed by the emitting branch. Although the number of the new unemployed is mainly shaped by short-term, economic-trend-based effects – and, as we have seen, the majority of job-seekers in 2002 lost their job within 12 months –, more comprehensive changes, too, become discernible in the longer term.

In addition to the halving of the number of the unemployed, in 2002, the proportion of unemployed persons having worked in agriculture previously also halved relative to 1992. Agriculture, having contracted in the meantime, loses a decreasing number of jobs year on year. The situation is similar in mining.

Table 4.3

***Unemployed persons by employment status in last job\****

Employment status		1994	1995	1996	1997	1998	1999	2000	2001	2002
Employee	'000	336.5	320.8	312.0	262.4	230.2	217.4	193.6	175.1	179.3
	%	90.6	91.9	93.0	92.7	93.4	95.4	94.3	94.1	94.7
Co-op. member	'000	14.0	11.0	6.9	4.3	3.8	1.8	1.7	1.6	1.7
	%	3.8	3.1	2.1	1.5	1.5	0.8	0.8	0.9	0.9
Partnership member	'000	9.3	7.6	3.8	5.4	3.9	1.1	1.7	1.7	0.9
	%	2.5	2.2	1.1	1.9	1.6	0.5	0.8	0.9	0.5
Sole proprietor	'000	11.0	9.3	12.1	10.1	8.2	7.4	7.7	6.9	6.8
	%	2.9	2.7	3.6	3.6	3.3	3.2	3.8	3.7	3.6
Family member	'000	0.7	0.4	0.7	0.8	0.3	0.3	0.6	0.7	0.6
	%	0.2	0.2	0.2	0.3	0.1	0.1	0.3	0.4	0.3
<b>Total</b>	<b>'000</b>	<b>371.5</b>	<b>349.1</b>	<b>335.5</b>	<b>283.0</b>	<b>246.4</b>	<b>228.0</b>	<b>205.3</b>	<b>186.0</b>	<b>189.3</b>
	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Exclusively persons having had a regular job

**Source:** LFSs

43% of unemployed persons having had a job came from the branches of industry/construction, quite exposed to changes in economic trends; while services, employing 60% of earners already, dismissed half of the unemployed.

Table 4.4

***Number of the unemployed\* by emitting industry***

thousand

Industry **	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A – B	53.4	66.9	48.8	40.9	35.7	26.9	21.8	18.2	13.3	13.8	12.2
C	5.2	7.8	8.8	5.0	3.2	3.8	2.8	2.6	2.7	1.7	1.2
D	140.7	144.1	115.9	106.8	99.4	87.7	72.7	69.1	62.6	55.1	56.9
E	7.3	7.4	6.0	7.0	5.7	5.6	4.7	4.4	3.4	2.6	2.3
F	48.5	50.0	43.2	43.2	38.8	30.3	26.9	23.6	22.1	20.2	20.3
G	43.9	48.4	49.9	44.9	44.1	35.2	34.6	30.5	28.8	25.4	27.1
H	17.0	23.0	18.6	15.9	16.3	14.5	11.4	10.8	11.2	10.8	10.9
I	21.5	27.2	24.4	22.7	23.9	16.5	13.2	13.7	10.6	9.7	7.9
J	1.5	2.9	2.9	3.0	3.6	2.7	3.8	3.3	3.7	3.0	2.1
K	11.7	12.4	11.4	8.8	9.4	6.5	8.9	9.1	7.8	7.5	9.0
L	13.0	13.6	12.7	16.3	19.8	20.2	18.4	19.2	17.8	17.1	17.9
M	7.7	8.1	8.3	11.2	12.3	9.2	7.4	8.2	5.0	3.9	6.9
N	10.3	8.4	9.0	9.8	7.9	7.4	9.3	6.9	6.8	5.8	5.1
O – Q	17.4	17.7	11.6	13.6	15.4	16.5	10.5	8.4	9.5	9.4	9.5
<b>Total</b>	<b>399.1</b>	<b>437.9</b>	<b>371.5</b>	<b>349.1</b>	<b>335.5</b>	<b>283.0</b>	<b>246.4</b>	<b>228.0</b>	<b>205.3</b>	<b>186.0</b>	<b>189.3</b>

\* By previous employment, terminated within 8 years

\*\* A-B = Agriculture, hunting, forestry and fishing; C = Mining and quarrying; D = Manufacture; E = Electricity, gas, steam and water supply; F = Construction; G = Wholesale and retail trade; repair of motor vehicles; H = Hotels and restaurants; I = Transport, storage and telecom.; J = Financial intermediation; K = Real estate, renting, business support; L = Public administration, mandatory social security; M = Education; N = Health and social care; O-Q = Other services

**Source:** LFSs

Branch- and special-branch-specific unemployment rates hardly changed. Despite a marked decline, mining still produces one of the highest rates; hotels

and catering as well as construction also have high and even increasing rates. The lowest unemployment rates, albeit higher than before, are to be found in education and health and social care.

In the manufacturing branches, the unemployment rate is high primarily in textiles and clothing, with decline in certain branches and increase in others.

Of course, the review the development of the number of active job-seekers dismissed over the past eight years allows to draw modest and cautious conclusions only. Information from other sources and the relevant experience suggest that one of the obstacles to the placement of persons dismissed from certain manufacturing branches (textiles and clothing, for instance) and from public administration and education was the statutory minimum wage hike.

This is especially true if more expensive labour is suitable exclusively to fill the same low-skill jobs.

We shall return to the issue of qualifications/skills later. Suffice it to note here that a major part of persons laid off have definitely low qualifications and skills: one third finished eight-year elementary school at the most, another third three-year secondary vocational school. A mere 30% studied for 12 years or more. These rates are permanent ones. The economy strives to replace low-skilled but relatively expensive labour by more productive technology, or looks for less expensive labour and flexible forms of employment to achieve the same aim.

*Table 4.5*

***Distribution of the unemployed by educational attainment***

%

Attainment level	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Incomplete primary education	6.8	5.8	4.5	4.1	4.9	4.4	4.5	3.4	2.5	2.8	3.0
Primary education	37.4	35.9	35.6	34.9	32.9	36.5	34.6	31.8	29.9	32.6	32.2
Apprentice school	30.3	32.6	33.9	35.5	35.1	34.5	32.8	36.1	37.5	35.8	34.6
Vocational school	1.5	1.1	1.1	1.2	1.4	1.3	1.5	1.6	1.4	1.4	1.4
General secondary school	8.4	8.2	7.8	7.9	8.6	8.7	9.8	7.3	7.7	6.5	6.5
Vocational secondary school	12.0	13.1	13.3	12.4	12.9	11.7	13.1	16.7	16.9	16.8	16.8
College	2.1	2.4	2.7	3.0	2.7	2.0	2.5	2.2	2.8	3.0	3.5
University	1.4	1.0	1.1	1.1	1.4	0.8	1.2	0.9	1.3	1.1	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Source:** LFSs

As in previous years, the decisive majority of unemployed persons in employment previously (2001: 84%, 2002: 83%) had had manual jobs; in 2002, 91% of men and 70% of women. Most men (34%) were employed in industrial/construction industrial occupations or unskilled ones (23%); most women (23%) came from the services occupations or unskilled jobs (19%).

17% of the unemployed, 32 thousand persons (including 22 thousand women), had had a non-manual job. In 2002, the number of exits from jobs requiring a degree increased significantly (2001: 13 thousand, 2002: almost 19 thousand, including more than 12 thousand women). The number of persons previously employed as office staff/administrators also rose slightly, from 8 thousand to 8.7 thousand; including 7.8 thousand women. However, among job-seekers, the rate of persons becoming unemployed due to job loss decreased most markedly (to 54% in 2002), although in a wider sense of job loss, this is the main reason for two-third among them (termination of own enterprise, of temporary employment). The relative weight of the different causes of job loss has modified significantly in the past ten years. In 1992, most job-seekers had been laid off, and relatively few among them had come to the end of a fixed-term employment. In the meantime, the proportion of layoffs has decreased and that of expiry of fixed-term employment has increased constantly among the job-seekers.

The number of voluntary quitting leading to job-search also decreased. This phenomenon, however, will nevertheless be present to some extent in any context, due to dissatisfaction with a given job or simply for personal or family reasons.

Although the general decline in unemployment was concurrent with the decrease of the number of entrants/re-entrants to the labour market among the job-seekers, their proportion nevertheless increased. Beside those having finished their studies, child-care on leave or military service, a small number (3.6 thousand) look for a job while in education, on child-care or on pension.

*Table 4.6*

**Distribution of the unemployed\* by primary reason of job search**

*thousand*

Year (Jan.- Dec.)	Job loss		Quitting	Termination or suspension of own business	Termination of temporary employment	(Re)entry to the labour market **	Total
	'000	%					
1992	317.8	73.5	35.3	9.0	2.8	67.7	<b>432.6</b>
1993	353.0	71.6	34.5	10.6	9.5	85.3	<b>492.9</b>
1994	294.4	68.5	34.6	9.5	7.9	83.1	<b>429.5</b>
1995	273.0	67.4	33.2	7.2	8.2	83.2	<b>404.8</b>
1996	252.6	65.0	32.1	10.4	10.8	82.8	<b>388.7</b>
1997	198.6	60.4	31.2	8.6	14.9	75.4	<b>328.7</b>
1998	174.4	59.4	29.2	7.1	14.7	68.0	<b>293.4</b>
1999	161.1	56.9	31.5	5.7	19.5	65.3	<b>283.1</b>
2000	146.3	56.0	27.2	7.6	19.5	60.7	<b>261.3</b>
2001	128.4	55.7	28.2	6.5	18.4	49.2	<b>230.7</b>
2002	128.1	54.1	27.8	5.9	19.1	56.1	<b>237.0</b>

\* Not including persons starting a new job within 30 days

\*\* After study, parental leave, military service, etc.

**Source:** LFSs

Job-seekers have recourse to many channels of information to find work. The two most general alternatives are the monitoring of ads (81%) on the one hand and personal (friends, family) contacts (80%) to get a job/information on the other. More than 60% visit employers, too, and regularly inquire at the employment service. A minor segment posts adverts themselves, contact private vacancy exchange agencies or make efforts to set up a business enterprise of their own. From among the unemployed, trying so many ways, in 2001 a mere 2%, and in 2002 3% only relied exclusively on the employment service.

Most job-seekers (55%) want a full-time job exclusively, another 31% would prefer that, but would accept a part-time offer, too. 6.5% only would like to work part-time, and 2% would prefer that, but would accept a full-time job, too. A total of around one thousand persons (0.4%) intend to launch an independent business enterprise. The rest would be satisfied by any type of work.

The income demands of those concerned are essentially aligned with the national income development rates. Net earnings increased on the average of the national economy over the previous year by 12.7% in 1999, 11.4% on 2000, 16.2% in 2001, the expectations of the unemployed increased as well, but their expectations remained below the actual earnings levels.

*Table 4.7*

**Average net earnings of employees and expectations of the unemployed**

*HUF'000/cap./month*

	National economy average						Total	Unemployed: expected net income		
	manual			non-manual				men	women	all
	occupations									
	men	women	all	men	women	all				
2000	45.6	35.7	42.1	91.2	61.5	73.6	<b>55.7</b>	43.3	37.5	41.0
2001	52.7	41.9	48.9	109.4	71.2	85.1	<b>64.6</b>	50.8	44.8	48.5
2002	–	–	58.5	–	–	101.7	<b>77.6</b>	60.0	52.5	56.8

**Source:** *CSO Yearbook, 2001 (2002)* and *CSO Monthly Statistics, LFSs*

Expectations below the national average reflect, in the first place, a realistic assessment of the applicants' personal situation: most have low qualification (they can only fill certain definite manual jobs), not to speak of such factors, not indicated in statistics, as age, state of the local labour market etc.

Earners, understandably, think in terms of the income they actually receive. In Hungary, in 2002, net earnings were 37% lower on average than the corresponding gross ones. In individual cases, however, this may change in function of a number of factors (e.g., personal income tax rate, number of children raised in the family). Consequently, the comparison of expected net earnings and of statistical average gross earnings can only yield rough results.

Let us present here a few data by way of example. According to the annual individual earnings surveys of the Employment Office,<sup>46</sup> in 2002, the gross

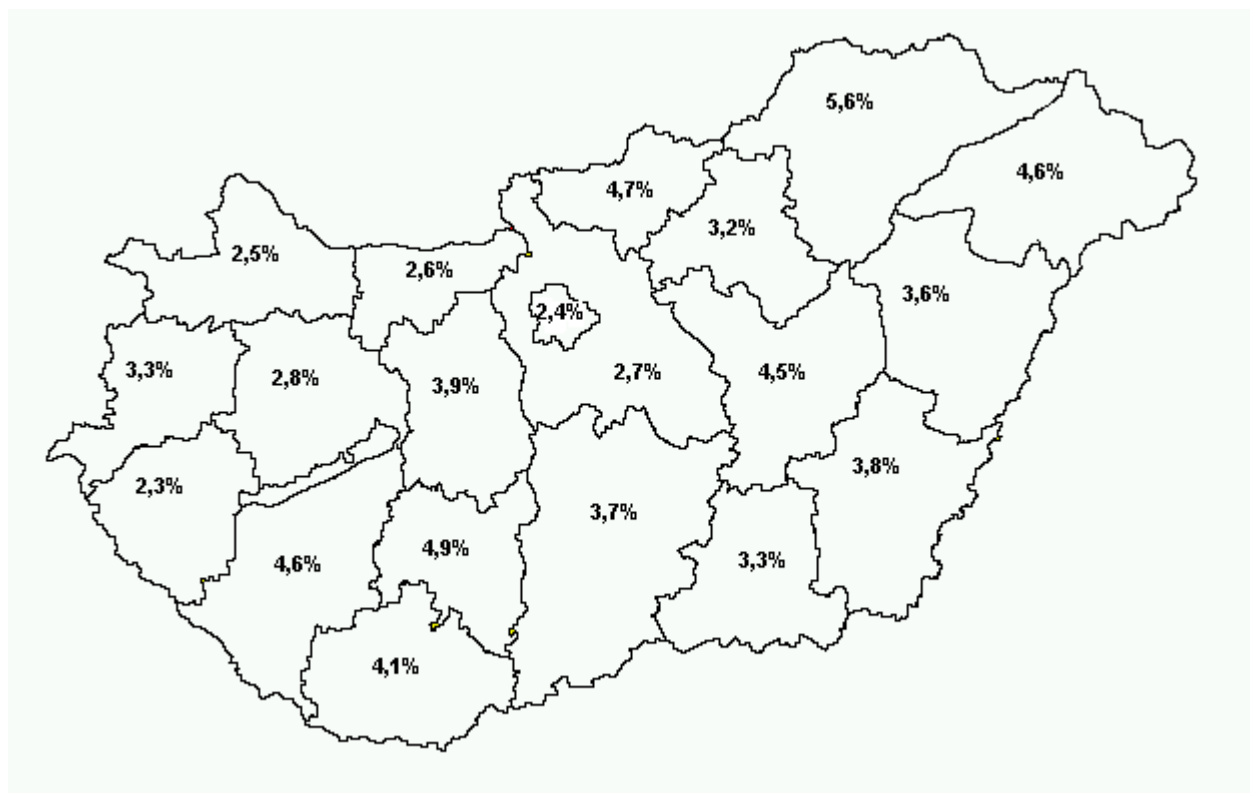
<sup>46</sup> The relevant data are described in detail in Chapter 7.

average earnings of persons having finished max. 8-year elementary school was HUF73.9 thousand; implying, approximately, a net income of HUF46.6 thousand. Almost 60% of the unemployed expect less than the HUF50 thousand net earnings, but the majority hope for HUF40–50 thousand at least.

The other extreme is represented by college/university degree holders, with average gross earnings of HUF172.2 thousand and HUF262 thousand, that is, net earnings of HUF108.5 thousand and HUF165.6 thousand, respectively – among the unemployed, although 5.5% have such qualification, 1.8% only insisted on earnings in excess of a monthly HUF100 thousand.

*Figure 7*

**Percentage rate of the unemployed within the population of the 16-64 year old  
by counties 2002  
National ratio: 3,5%**



Source: LFS,

**4.2.2 Unemployment according to the Hungarian legislation**

The Hungarian national legislation has its own definition for the term “unemployed”. Although personal criteria of registration are stricter than those used under the Labour Force Survey, the number of the registered unemployed is regularly one third higher than that of “active job-seekers” (a few recent examples: 2000: 129 thousand, 33%, 2001 133 thousand, 34% more registered

unemployed than active job-seeker). The gap, however, is much smaller if persons qualifying as passive unemployed (persons wishing to work but not engaged in job search, more than 100 thousand each year) in the LFS are added to the active job-seeker population.

In 2002, the registered unemployed exceeded the corresponding population under the LFS by 106 thousand (31%).

However, contrarily to the previous years, when the number of the unemployed decreased by around the same amount, in 2002, only that of the registered unemployed decreased by around 19 thousand.

*Table 4.8*

**Registered unemployed, 1993-2002**

Year	Registered unemployed '000	<i>Of which:</i>				Unemployment rate
		% rate of women	15-25 year-old		school-leavers*, %	
			'000	%		
1993	671.7	41.2	174.8	26.0	34.2	12.9
1994	568.4	41.4	153.3	26.9	40.5	11.3
1995	507.7	42.1	134.2	26.4	40.6	10.6
1996	500.6	43.3	124.0	24.7	37.3	11.0
1997	470.1	43.3	106.8	22.7	39.7	10.5
1998	423.1	44.8	89.9	21.2	36.2	9.5
1999	409.5	45.9	85.4	20.9	35.0	9.7
2000	390.5	46.3	79.1	20.3	32.9	9.3
2001	364.1	46.1	75.6	20.8	26.8	8.7
2002	344.7	46.5	71.1	20.6	28.5	8.2

\* Including school-leavers under 30

**Source:** Employment Office

As we have seen, however, numerical decline is not the result of the improvement of the employment situation. It seems more likely that dismissals having speeded up in the second half of 2002 manifest themselves at the employment service with a certain delay: those concerned have themselves registered as unemployed after the expiry of the notice period. (This is supported by the fact that their number increased in January/February 2003 from 344.5 thousand in December 2002 to 374.2 thousand and then to 388.3 thousand.)

Compared to 2001, despite the contraction of the annual average stock by 5%, the number of persons registering as unemployed in 2002 (entrants) (672.3 thousand) was hardly less than in 2001 (683.6 thousand). Neither did the number of persons leaving the register (670.2 thousand) attain the corresponding one in 2001 (713.3 thousand). The decrease of the stock – as indicated by further data quite clearly – was mainly due to the active policies of the employment service and not to the amelioration of the labour market situation.

That is, the development of the number of the registered unemployed, at least in 2002, depended more on assistance measures than on the state of the economy. (This phenomenon, however, is not a new one.)



Unemployment, as interpreted and managed under the Hungarian regulations, has had several persistent traits for years.

The composition of the unemployed by demographic and other features undergoes minor changes only year on year, as does the entire population of the country; the trends are only discernible in a wider perspective.

The proportion of registered unemployed men and women declines at a near-identical rate with the moderation of the total number of the unemployed (relative to 2001, the monthly average number of men fell from 196.4 thousand to 184.6 thousand, and that of women from 167.7 thousand to 160.1 thousand). In the longer run, however, despite the permanently higher number of male than female unemployed persons, the proportion of women among them keeps rising steadily.

The rate of unemployed youth (aged 15–24) has been constant for years at around 20%. In the longer perspective, since 1993, some 100 thousand less have themselves registered, despite the numerous programmes on offer to improve their labour market situation and placement opportunities. The only period when the youth registered in massive proportions at the employment service was 1991–1996, when those with higher than primary school qualification could register as unemployed upon exiting streamline education and hence become eligible to financial support called “unemployment benefits for school-leavers” for a period of 6 months.

By the way, the Employment Office registers school-leavers apart, and operates special programmes to improve their labour market situation. School-leavers (also called career-starters) are persons aged 15–24 (currently those having finished eight-year primary school only, too) and persons younger than 30 with a higher education qualification, with no previous employment exceeding 12 months, the period required for eligibility to unemployment benefits.

The stock of the registered unemployed includes around 28.5 thousand school-leavers on monthly average, i.e. more than in 2001 (26.8 thousand). There are 7,751 entries on monthly average (the most, almost 13.9 thousand, in July and the least, almost 5 thousand, in May), and almost 7,500 exits (2001: 7,700), with a peak of 10-11 thousand in September and October.

According to the evaluation prepared by the Ministry of Employment Policy and Labour, in 2002, 33% of school-leaver unemployed was engaged in the active

programmes.<sup>47</sup> This is an outstanding rate compared to those of other groups of the unemployed, but it is still below the one expected in the EU.

Under the earlier Employment Guidelines, Member States had to ensure, via their National Action Plans, that every young person be provided an opportunity for a new start leading to labour market integration, in the form of training, retraining, work practice, a job or other employability measure prior to the sixth month of unemployment. This requirement was confirmed under EES, the European Employment Strategy.

Similarly to other demographic indicators, the age distribution of the registered unemployed shows little change. The most remarkable phenomenon is the drop in the proportion of the youngest (as a growing proportion among them remain in education or do not register as unemployed), and the slight increase of the proportion of those past 56 years of age.

*Table 4.9*

**Age-group distribution of the registered unemployed, 1995-2002**

Age group	1995	1996	1997	1998	1999	2000	2001	2002
	monthly average							
< - 20	13.2	11.1	8.2	6.4	5.7	5.3	5.4	5.3
21 – 25	13.3	13.7	14.5	14.8	15.2	15.0	15.3	15.3
26 – 35	26.6	27.2	28.3	29.6	29.2	28.7	28.5	28.1
36 – 45	28.4	28.5	28.5	29.1	27.9	26.5	25.3	24.8
46 – 55	16.6	17.5	17.6	18.3	19.5	20.5	20.8	21.5
56 <	2.0	2.1	2.9	1.8	2.6	4.0	4.7	5.0
<b>No. of registered unemployed (100%)</b>	<b>507,695</b>	<b>500,622</b>	<b>470,112</b>	<b>423,121</b>	<b>409,519</b>	<b>390,492</b>	<b>364,140</b>	<b>344,715</b>

**Source:** Employment Office

The high proportion of persons with low schooling, no skills, and excluded from the labour market for that reason, too, among others is a typical, traditional, feature of Hungarian unemployment. In 2002, the number and proportion of persons with higher educational qualification increased among the unemployed, a circumstance indicative of the growing need for assistance on the contracted labour market as, typically, persons in this group tend not to register and look for a job via other channels if possible.

<sup>47</sup> According to the study examining the efficiency of labour market programmes, covering the first half of 2002, by the Employment Office, most young persons took part in some form of training – every fifth participant was as school-leaver. The programme to provide work experience to the youth was also a success (3.1 thousand participants, mostly with vocational qualification, half of them women); after the expiry of the subsidy, the employers kept in employment two-third of the youth concerned. On the other hand, employer interest in the employment of the youth with wage subsidy seems to have waned. {Efficiency evaluation of labour market programmes terminated in 1<sup>st</sup> half 2002 on the basis of the result indicator of the monitoring survey, Employment Office, 2003.}

Table 4.10

**Monthly average number of the registered unemployed and their distribution by educational attainment and skill groups, 1996, 2000-2002**

	1996		2000		2001		2002	
	'000	%	'000	%	'000	%	'000	%
<b><u>Education</u></b>								
Primary school or less	206.1	41.2	160.1	41.0	152.9	42.0	146.3	42.4
Vocational school	175.6	35.1	136.3	34.9	124.2	34.1	115.3	33.5
General sec. school	105.2	21.0	82.9	21.2	76.1	20.9	71.8	20.8
Higher education	13.7	2.7	11.2	2.9	10.9	3.0	11.3	3.3
<b><u>Skill group</u></b>								
Skilled worker	174.9	34.9	138.7	35.5	128.2	35.2	121.3	35.2
Semi-skilled	123.1	24.6	97.8	25.0	90.3	24.8	84.0	24.4
Unskilled	109.4	21.9	84.7	21.7	83.4	22.9	81.0	23.5
Manual, total	407.4	81.4	321.2	82.2	301.9	82.9	286.3	83.1
Non-manual, total	93.2	18.6	69.3	17.8	62.2	17.1	58.4	16.9
<b>Total</b>	<b>500.6</b>	<b>100.0</b>	<b>390.5</b>	<b>100.0</b>	<b>364.1</b>	<b>100.0</b>	<b>344.7</b>	<b>100.0</b>

**Source:** Employment Office

The promotion of the labour market integration of the unemployed, mostly manual workers, imposes outstanding tasks on the transforming public employment service, for the EU expects the Member States to prevent inflow into long-term unemployment and therefore provide efficient help in an early stage to all job-seekers, by preparing individual action plans to those concerned among others .

#### 4.2.2.1 Entries and exits

In Hungary, a growing proportion of persons registered as unemployed in a given year are actually recurrent unemployed, having figured already in the register. So much so that in 2002, their proportion attained 82%.

Table 4.11

**Monthly average number of the newly registered unemployed, 1999-2002**

Year	All entrants	of which: re-entrant	Entrant unemployed persons					
			school-leaver			others		
			Total	of which:		Total	of which:	
				new	re-entrant		new	re-entrant
<b>no.</b>								
1999	63,673	44,401	9,284	4,121	5,163	47,930	8,692	39,238
2000	54,136	42,761	8,014	3,753	4,261	46,122	7,621	38,501
2001	56,971	45,754	7,737	3,649	4,137	49,185	7,598	41,587
2002	56,029	45,717	7,751	3,633	4,118	48,275	6,686	41,599
<b>%</b>								
1999	100.0	77.6	16.2	7.2	9.0	83.8	15.2	68.6
2000	100.0	77.0	14.8	6.9	7.9	85.2	16.1	69.1
2001	100.0	80.3	13.7	6.4	7.3	86.3	13.3	73.0
2002	100.0	81.6	13.8	6.5	7.3	86.2	11.9	74.3

**Source:** Employment Office

Disregarding school-leavers, only 14% of the adult unemployed registered as new (“entrant”) unemployed, and 86% “returned” to the register.

In view of the alarmingly high rate of dismissals during the year, the number of the newly registered unemployed, 6,686 on monthly average, does not seem excessive. In 1999, at the time of the increase of the number of the employed by more than 100 thousand, the corresponding figure was 2 thousand higher: 8,692.

The phenomenon itself indicates the stagnation of the labour market on the one hand and, on the other, the placement difficulties of unemployed persons, registered occasionally for several years, and the necessity to introduce new ways and means to promote their placement.

According to the relevant data, a significant proportion of the registered unemployed cannot change status or can do so temporarily only.

Most can only work if and when the regular active programmes, available thanks to the efforts of the employment organisations, make it possible for them. They can take part time and again in public works, in training programmes useful for them or less popular among others, and in subsidised employment. As shown in our previous reports, an annual 270-300 thousand take part in such activities; in 2002, more than 270 thousand were cancelled from the register temporarily on that ground. The majority, however, return to it subsequently, and few only manage to exit it for good.

Hence most re-entrants are actually long-term unemployed, having had a temporary opportunity for training or placement thanks to the active measures. Another, much smaller, group consists of persons whose period of unemployment was interrupted by military service, child-care leave or short-term employment independent of the labour market programmes, returning to unemployed status afterwards.

Of course, re-entrants probably include workers losing their job more frequently than the average rate and hence registering as clients of the employment service time and again.

Reference has already been made to the expectations emphasised by the EU regarding the prevention of inflow into long-term unemployment. The Hungarian practice used for the registered unemployed, i.e., the interruption of the period of unemployment by training or subsidised employment, obviously promotes this aim. At the moment, however, it seems that the majority of these instruments can only make the increasing spell of unemployment somewhat more bearable.

The State Audit Office published the findings of its inspections performed jointly with the local self-governments in 2002.<sup>48</sup> One chapter of the report is dedicated to the utilisation of employment promotion subsidies. The inspection was meant, as stated in the document, “to review and evaluate to

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<sup>48</sup> The Report on the inspection of the application for and utilisation of targeted municipal subsidies is available on the web site of the National Audit Office (ÁSZ).

what extent the provisions of the Employment and Social Acts are implemented at the central organisations, the self-governments and their institutions, dedicated to co-ordinate the system of employment measures, to qualify the operation of the system of subsidies and whether the requirements of expediency, efficiency and legal operation were asserted in the utilisation of public policies targeted at this area”.

Self-governments contribute mainly to three employment promotion programmes: public works, public benefit work and public purpose work offered to applicants as a pre-condition of being granted social aid. The largest segment of the registered unemployed is offered work under one of these three schemes. (The employment service registers public benefit work only, for this is the only form financed through it.)

According to the State Audit Office, public works programmes come closest to realising the intentions of the government and the expectations of society (and, one could add, the employment objectives, too, although public works programmes mobilise relatively few persons, an annual 12-15 thousand, but around one third among them remain in the employ of the companies delivering the work concerned).

The inspection found no reliable data concerning the more permanent employment effects of public benefit work used mostly for performing communal maintenance tasks, “and *ad hoc* information suggested an exceptionally low rate of placements, corresponding to a mere 1.3% of the stock affected by such employment”.

Public purpose work, used to test the propensity to work of persons eligible to social aid, plays a role in aid provision only, and aid is only due to jobless persons.

The State Audit Office listed many examples<sup>49</sup> and formulated several recommendations for the government and the ministries concerned.

The report of the Employment Office, finalised in 1<sup>st</sup> half 2002 and quoted several times above, indicated for each of the monitored instruments the number of participants who could subsequently get a non-subsidised job and keep that for more than 3 months after the termination of the programme. More than two-third of the population of 46.5 thousand answered.. Among the almost 34 thousand respondents, more than 24 thousand had a job after the termination of a programme involving training, enterprise start-up, wage subsidy or similar activities for school-leavers.

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<sup>49</sup> The examples include the following: “One cannot consider as typical yet the practice encountered at Sopron, a town with county status, namely that “job offers (date, workplace), the relevant results (declines), the objective of co-operation plans (programmes), their contents and events as well as the fulfilment of mandatory reporting obligations are recorded in the booklet of the unemployed/job-seeker requesting regular social aid”.

Neither is the exemplary Szolnok practice general: they employ an employment organiser institutional administrator to ensure, via constant contact with the municipal institutions, the employment of aid recipients at all times.

The efficiency of public benefit work was also examined, albeit with a different method. Here the monitoring survey found that 1.6% of the more than 46 thousand participants had a non-subsidised job.

Although, obviously, each and every placement is a great achievement, the overall rate, calculated on the basis of the above, corresponding to around 1% of the registered unemployed – even if that doubles by the end of the year – is still a rather modest result. For the majority, programme participation means mainly a certain improvement of their financial circumstances– not a negligible circumstance either.

According to the relevant definition, the persons considered do not qualify as long-term unemployed as they leave the register from time to time, but their position nevertheless warrants that description.

According to the register, in December 2002, the 342.7 thousand registered unemployed included 76 thousand (22%) “permanently registered” ones, that is, permanently on the stock of the unemployed, without interruption, for a year or more. The rate of permanently registered clients increased compared to the previous year by 2 thousand.

The growing proportion of re-entrants, however, suggests that new ways and means should be devised to promote their employment beyond the active labour market programmes so far.

The monthly average number of unemployed persons registering *for the first time* declines steadily and it is actually surprisingly low compared to the wave of dismissals having swept through the economy in 2002. Presumably, part of those involved found another job quickly or had themselves registered at a later date only, but it is equally possible that many did not request placement assistance from the employment service.<sup>50</sup>

According to the economic branch classification system used by the Employment Office, the number of newly registered unemployed has kept declining in every area. In 2002, most persons registered as unemployed from the so-called non-material services (administration, education, health care), followed by those coming from industry and construction. The number of persons dismissed from agriculture has also declined, although it is still high compared to the employment weight, of 6.2%, of this sector.

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<sup>50</sup> Upon the closure of IBM’s Székesfehérvár plant, followed by several major layoffs in the region, the county labour centre tried many way to help those concerned. Among others, they sent a letter to the 3,200 former IBM workers, with a stamped envelope to facilitate reply. 1,700 answered the letter, 200 phoned, mostly requesting jobs. 1,300 however did not even answer. {*Népszabadság*, 28.01.2003. }

Table 4.12

**Monthly average number and distribution of the newly registered unemployed \*by sector of origin**

Sector**	1999		2000		2001		2002	
	no.	%	no.	%	no.	%	no.	%
Agriculture, forestry	1,009	11.6	914	12.0	909	12.0	730	10.9
Industry	2,518	29.0	2,052	26.9	2,016	26.5	1,815	27.1
Construction	337	3.9	290	3.8	326	4.3	283	4.2
Material services	1,810	20.8	1 505	19.7	1,571	20.7	1,385	20.8
Non-material services	2,988	34.4	2 829	37.2	2,741	36.0	2,448	36.6
Not classifiable	31	0.4	31	0.4	36	0.5	25	0.4
<b>Aggregate</b>	<b>8,692</b>	<b>100.0</b>	<b>7,621</b>	<b>100.0</b>	<b>7,599</b>	<b>100.0</b>	<b>6,686</b>	<b>100.0</b>

\* Not including school-leavers

\*\*Classification differing from CSO's detailed branch classification system

**Source:** Employment Office

The stock ever of the unemployed is the resultant of exits and entries. As mentioned already, the stock of 344.9 thousand in December 2001 was increased in the course of 2002 by 672.3 thousand entrants and diminished by almost the same number, 670.2 thousand, exits.

A few only of the reasons for leaving the register are recorded, typically those applying to the beneficiaries of unemployment provisions (unemployment benefits and pre-pension unemployment aid), whose exit interrupts the disbursement of the allowance. However, they represent one third only of the total unemployed population.

In the course of the year, some 7,000 unemployment benefit recipients left the register due to placement; 2% of the annual average stock and 12% of leavers. This has been the typical rate for years, persisting in 2002 despite all efforts. (1999: 1.2% of the registered unemployed, in both 2000 and 2001 1.9% were cancelled from the register due to employment.) Moreover, placements include employment, mostly temporary, short-term employment, at sheltered workplaces, from which most return to registered unemployment status.

88% of exits from registered unemployed status were due to other reasons.

The most important reason is the expiry of eligibility to unemployment provisions. A major part only become clients of the employment service because and until they are eligible to unemployment benefits. Most of them are in need of that, the same as of other services to improve their employability. After the benefit period, a maximum of 270 days since 2000, however, those who cannot expect assistance in training, subsidised employment or successful vacancy exchange terminate contact with the employment service. A monthly 20–30 thousand do so because they cannot expect more help from the system.

Another major group is that training participants who do not qualify as unemployed for the training period.

A few thousand every month leave the register because they temporarily make use on some other form of provision (e.g. child-care assistance), get drafted in the army or become pensioners. A few thousand a month are cancelled due to lack of co-operation, that is, omission of reporting at the employment service at least once every three months.

*Table 4.13*

**Monthly average number of the registered unemployed, 1995-2002**

*persons*

Year	Initial stock	Entrants	Exits from registration					
			placement*		other reason		Total	
			no.	%	no.	%	no.	%
1995	506,495	45,659	8,569	17,9	39,064	82,1	<b>47,633</b>	<b>100.0</b>
1996	499,086	52,811	8,395	15,4	45,952	84,6	<b>54,347</b>	<b>100.0</b>
1997	468,987	56,140	7,395	12,9	49,900	87,1	<b>57,265</b>	<b>100.0</b>
1998	418,132	55,388	7,110	11,8	53,267	88,2	<b>60,377</b>	<b>100.0</b>
1999	409,493	57,213	6,933	12,1	50,246	87,9	<b>57,179</b>	<b>100.0</b>
2000	393,167	54,136	7,628	13,4	49,183	86,6	<b>56,811</b>	<b>100.0</b>
2001	366,610	56,971	6,993	11,8	52,447	88,2	<b>59,440</b>	<b>100.0</b>
2002	345,079	56,026	6,971	11,9	48,977	88,1	<b>55,848</b>	<b>100.0</b>

\* From among unemployment benefit recipients

**Source:** Employment Office

#### **4.2.2.2. Registered unemployed and unemployment benefit recipients**

Since 1991, the coming into force of the Employment Act, the registered unemployed have been entitled to three types of support:

- a) vacancy exchange;
- b) financial assistance (passive measures);
- c) participation in employment promotion programmes (active measures).

All three are services provided by the labour market organisation free of charge (expenses are covered by public funds, mainly payments by employees and employers).

The legal regulation specifies in detail the manner and extent of delivery and availability of all three services. Their terms and conditions change almost annually, in line with the constantly changing situation of the labour market.

##### *a.) Vacancy exchange*

As indicated above, this is the least successful service, due mainly to objective reasons (narrow scope of offers, lack of qualifications of a major part of the unemployed), but also to lack of flexibility as far the forms of employment in Hungary are concerned and strict rules. Part of the unemployed do find work of some sort, but mostly without the assistance of the employment service – the success of the service is mostly limited to placements to subsidised employment and satisfaction of major demands expressed by newly-launched companies of larger size.



Since the situation is similar in numerous European countries, the EU urges, as one of the preconditions of employment promotion, to focus on and re-organise job exchange and exploration.<sup>51</sup> This requirement is included among the tasks specified for Hungarian employment policy, too.

In Hungary, public vacancy exchange, operating free of charge, has been accompanied from the start by the corresponding activity of non-profit private companies. Private vacancy exchange (traditionally a means all over Europe of promoting the placement, in addition to the service provided by trade unions to their own members, of those not eligible to the same service offered publicly and mostly in special occupations and with higher qualifications) has been regulated for a long time by the countries having ratified the relevant recommendation of the ILO. (ILO insisted on public vacancy exchange, free of charge, to make it accessible to all who may need it.)

In Hungary, to date, private vacancy exchange organisations place, in addition to managers and specialists, mainly seasonal workers in demand in the different branches temporarily. Their activity has been regulated several times, last in 2002. Hungarian Parliament ratified in 2002 ILO's Convention No. 181 on private job exchange agencies {6/2002.(II.7.) OGY Decree}. Accordingly, private vacancy exchange agencies cannot demand a fee or expenses of any kind from employees, neither in total, nor in part. According to the Convention, however, in the interest of the employees concerned, following consultation with the most representative organisations of employers and employees, exceptions can be made for certain categories of employees and specific services provided by private vacancy exchange agencies. (The amendments are included under Act LIII of 2002 quoted several times above.)

Although private vacancy exchange agencies already play a decisive role in the satisfaction of non-standard employment demand (hiring, manpower rental, temporary/casual employment), and it is highly desirable that their fast response capacity to *ad hoc*, casual market demand should strengthen, part of their methods and practice should be introduced in public vacancy exchange as well.

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<sup>51</sup> The Netherlands was one of the first countries where the labour market service was re-organised (partly on the Australian model). The former public service-provider organisation was divided into two. The segment providing the basic services remained a public one, while the one promoting entry/re-entry to the labour market became a private company and, as of 1999, began to introduce market mechanisms on a wider scale. In 2001, in competition with other private companies, the organisation treated 17% of insured unemployed eligible to benefits whose placement required intensive assistance. Parallel with the organisation financed from tender-based subsidies, a quasi-market-based service provider organisation has evolved as well, with numerous customers (e.g. local municipalities) and service-providers.

The new system and its first achievements is discussed in detail in OECD's publication: {*The competitive market for employment services in the Netherlands, 31.10.2002, DEELSA/ELSA/WD (2002) 10*}.

*b.) Financial assistance*

Society tries to assist the unemployed and those wishing to enter the labour market in many ways, although since the emergence of massive unemployment, this assistance has never been over-generous.<sup>52</sup>

In 2000, the provision criteria have been tightened again, under the popular but not really feasible slogan of “work instead of aid”. The period of eligibility to unemployment benefits was reduced, and income supplementing allocation to the long-term unemployed having exhausted the period of eligibility to benefits but still unable to find a job was terminated – those in need may be granted social aid of a smaller amount than before. From among them, those close to retirement age (within 5 years) may be granted unemployment aid after the exhaustion of the period on unemployment benefits.

In 2002, two-third of the registered unemployed received financial assistance, somewhat less than in 2001.

*Table 4.14*

**Monthly average number of registered unemployed and unemployment benefit recipients**

Year	Registered unemployed	Recipients of							
		unemployment benefits		unemployment supplement		regular social aid *		Total	
		no.	%	no.	%	no.	%	no.	%
1990	<b>47.739</b>	30.302	63.5	-	-	-	-	<b>30.302</b>	<b>63.5</b>
1991	<b>227.270</b>	174.641	76.8	-	-	-	-	<b>174.641</b>	<b>76.8</b>
1992	<b>556.965</b>	412.945	74.1	18.408	3.3	-	-	<b>431.353</b>	<b>77.4</b>
1993	<b>671.745</b>	404.823	60.3	89.329	13.3	-	-	<b>494.152</b>	<b>73.6</b>
1994	<b>568.366</b>	228.924	40.3	190.303	33.5	-	-	<b>419.227</b>	<b>73.8</b>
1995	<b>507.695</b>	182.788	36.1	209.982	41.3	-	-	<b>392.770</b>	<b>77.4</b>
1996	<b>500.622</b>	171.737	34.3	211.309	42.2	-	-	<b>383.046</b>	<b>76.5</b>
1997	<b>470.112</b>	141.731	30.1	201.304	42.8	-	-	<b>342.833</b>	<b>72.9</b>
1998	<b>423.121</b>	130.724	30.9	182.118	43.0	-	-	<b>312.842</b>	<b>73.9</b>
1999	<b>409.519</b>	128.184	31.3	159.825	39.0	-	-	<b>288.009</b>	<b>70.3</b>
2000	<b>390.492</b>	131.665	33.7	143.515	36.8	-	-	<b>275.180</b>	<b>70.5</b>
2001	<b>364.140</b>	119.210	32.7	61.157	16.8	70.335	19.3	<b>250.702</b>	<b>68.8</b>
2002	<b>344.715</b>	114.934	33.3	9.051	2.6	104.399	30.3	<b>228.384</b>	<b>66.2</b>

\* In December 2000, 36.1 thousand received regular social aid and in December 2001 85.9 thousand, in December 2002 110 thousand. The table does not cover beneficiaries of pre-pension unemployment benefits (7,240 persons in December 2002).

**Source:** Employment Office

<sup>52</sup> The provision system for the unemployed, its emergence and continuous amendments are discussed in detail in the previous reports. The first comprehensive analysis was prepared by Mária Frey in 1994, under a project supported by the ILO and the Japanese Government. (The role of the state in employment policy and the management of labour market programmes) Several of the later, multifaceted, surveys are available in the 2001 volume of *Munkaerőpiaci Tükör* (Labour Market Mirror) (ed.: Károly Fazekas, HAS, Research Centre for Economics – National Employment Foundation, 2001.)

*b.1) Unemployment benefits*

One third of the unemployed received benefits on annual average – this proportion has been essentially constant for years.

On the closing day of 20.12. 2002, 116 thousand benefit recipients were recorded, and they received HUF31,860 on monthly average.

According to the relevant provisions, the unemployment benefits correspond to 65% of average earnings in the last year in work, but at least to 90% of the minimum old-age pension (if that attains the level of the previous earnings), and no more than twice the bottom limit of the same. In 2002, the minimum old-age pension was HUF21,100 and hence the bottom limit was HUF18,090 and the ceiling HUF36,180. The benefit is subject to tax and contribution payment.

In 2002, the gross average earnings of manual workers, thanks mainly to the increase in minimum wages, was HUF88,589; in 2001, the last year spent at work for most, it was HUF73,727. Hence the unemployed, mostly former manual workers, received benefits corresponding to around 43% of the average earnings of manual workers in 2001 and 40% of that in 2002. Of course, the relatively low benefit amount indicates among others that their original earnings, too, had been below the average.

*Table 4.15*

***Average amount of unemployment benefits, 20 November to 20 December 2002***

Educational attainment	Recipients		Average monthly benefits, HUF/cap.	Average spell of benefits (day/cap.)*
	no.	%		
Incomplete primary education	4393	3.3	27,434	285
Primary education	39,813	29.7	31,125	165
Apprentice school	50,579	37.8	32,039	135
Vocational school	2,623	2.0	32,453	121
Vocational secondary school	15,832	11.8	33,109	119
High school for technicians	4,809	3.6	31,864	195
General secondary school	10,742	8.0	32,463	140
College	3,710	2.8	33,923	139
University	1,410	1.1	33,384	165
<b>Total</b>	<b>133,903</b>	<b>100.0</b>	<b>31,860</b>	<b>150</b>

\* Including previous days on benefits of re-entrants

**Source:** Employment Office

*b.2) Income supplementing allocation and regular social aid*

The annual average number of persons receiving income supplementing allocation has exceeded that of benefit recipients ever since 1995. From May 2000 on, with the cancellation of the allocation, those concerned gradually moved to the circle of regular social aid recipients. Those in need of assistance and unable to find a job received as aid 70% of the minimum old-age pension ever (2002: a monthly HUF20,100), a monthly HUF14,070. The amount of the

income supplement used to be 80% of the minimum old-age pension, i.e. HUF16,080.

In December 2002, as many as 110 thousand unemployed received social aid already, and only 3 thousand the income supplement granted originally for a period of 24 months.

Under the amendment approved in 2000, social aid recipients are assigned to the competence of the local governments (although their provisions are covered by the Labour Market Fund). Simultaneously, the law obliged the self-governments to offer those claiming aid first an opportunity to do one month's work, to test, so to say, whether they actually wanted to work or only to draw the aid. (This one-month work was labelled public purpose work, to distinguish it from public benefit work, also organised by the local governments, and from public works organised centrally.)

Last year's survey described in detail the first experiences in this field (pp.100-107.). The situation of public purpose employment and of aid allocation was investigated by the State Audit Office as well. The report, quoted already, identified a multitude of deficiencies.

With respect to public purpose work, to be offered on a compulsory basis, for example, it was found that 42% only of the stock subjected to inspection had actually been employed to do public benefit or public purpose work. The omission was due to several reasons: organisational shortcomings, unsuitability of the aid-recipients to do the work offered to them, lack of appropriate work tasks etc. Almost 30% of the municipalities failed to organise public purpose employment, although it would have been justified to do so. The maximum amount of the available subsidies was defined by the Central Budget Act by settlement, and hence there were municipalities that could not provide more employment once their budget had been exhausted. At the same time, at the national level, more than 40% of the funds allocated for this purpose remained unspent.

The State Audit Office investigation, having identified many problems with respect to the financial management and the documentation of the works concerned at the municipalities, recommended the government, among others, to terminate the separate financing of public purpose employment.

The amendment of the Employment Act approved in December 2002 – i.e., Act LIII quoted several times above – sought a more comprehensive solution to help the unprovided long-term unemployed persons by introducing the so-called job search stimulating allowance.

The allowance was available after the exhaustion of unemployment benefits due for at least 180 days, for another 180 days (persons past 45 years of age can have it for another 270 days).

The allowance corresponds to 85% of the minimum old-age pension ever, i.e., it is expected to be HUF18,700.

It is an important element of the new regulation that persons finding a job prior to the expiry of eligibility receive half of the remaining amount in cash. The provision will come into force on 01.07. 2003. It will first be applicable to persons whose unemployment benefit extension is terminated on 01.07.2003 or thereafter.

*b.3) Unemployment benefits prior to retirement*

This form of pension prior to retirement is available to unemployed persons close to retirement age, having exhausted their eligibility to benefits and with little chance for placement, if only due to their age. In December 2002, of the 7,240 beneficiaries, men represented 81% and women 19%. More than half had primary school qualification at best and another 28% vocational qualification. The remaining approximately 1,300 persons with secondary or tertiary qualification included 234 with high school or university diploma – with very few exceptions (13) all of them men.

The benefit amount was a monthly HUF16,080 on average. (The benefit amount is independent of their previous earnings – it is indexed to the minimum old-age pension ever, corresponding to 80% of it.)

None of the benefits received under the four forms of provision (benefit: HUF31,860 on monthly average; income supplement: HUF16,080; regular social aid: HUF14,070; pre-pension unemployment benefits: HUF16.080) are high in any respect. The job-search stimulating allowance is somewhat better than the subsidies so far, but its amount is actually quite modest, too. Especially in comparison with any labour-based income.

*Table 4.16*

***Earnings of full-time employees and unemployment benefits (monthly averages)***

Year	monthly gross average earnings	of which:		Average unemployment benefits/month	% rate of benefits to		
		av. earnings of manual workers	minimum wages		average earnings	av. earnings of manual workers	minimum wage
1990	13,446	11,137	4,800	5,845	28,6	34,5	80,1
1991	17,934	14,189	7,000	7,903	44.1	55.7	112.9
1992	22,294*	17,239	8,000	8,798	39.5	51.0	110.0
1993	27,173*	20,856	9,000	9,949	35.9	47.7	110.5
1994	33,939**	25,036	10,500	10,841	31.9	43.3	103.2
1995	38,900**	29,203	12,200	11,891	30.6	40.7	97.5
1996	46,837**	35,305	14,500	13,461	28.7	38.1	92.8
1997	57,270**	42,419	17,500	16,141	27.8	38.1	92.2
1998	67,764**	49,423	19,500	18,895	27.8	38.2	96.9
1999	77,187***	55,218	22,500	22,406	29.0	40.6	99.6
2000	87,645***	61,930	25,500	22,826	26.0	36.9	89.6
2001	103,553***	72,626	40,000	25,677	24.8	35.4	64.1
2002	122,454***	84,713	50,000	31,860	26.0	37.6	63.7

\* Min. 20 staff

\*\* Min. 10 staff

\*\*\* Business organisations with min. 5 staff and public organisations

**Source:** CSO Yearbooks, CSO and Employment Office, monthly statistical publications

With the exception of benefits indexed to previous earnings, benefit recipients would receive two or three times as much even if they were employed on minimum wages.

CSO prepared its subsistence level calculations, published annually since 1995, for the year 2002, too. {*Subsistence level (Létminimum), 2002, CSO, 2003.*}

According to the definition, “Subsistence level is the bottom limit allowing to satisfy the very modest needs, regarded as ‘basic’ conventionally, associated with a permanent way of living”.

Calculations based on the actual consumption of almost 60% of Hungarian households indicated that the per capita monthly subsistence level corresponded to HUF33.9 thousand on average in 2002, with scatter in the range of HUF27 and 43 thousand depending on household type. For a typical family of 2 adults and 2 children, the subsistence level corresponded to HUF125 thousand, i.e. HUF31 thousand per capita.

The households of the unemployed are typically “below the average subsistence level”. Financial assistance to the unemployed is hardly sufficient to let them catch up with “average households”.<sup>53</sup> This is one of the reasons why active measures are so important, as well as, temporary, earnings from work, as in the case of subsidised employment.

#### *c.) Active measures*

Mention has been made in several contexts of training and various other programmes designed to improve the labour market chances of individuals. It is well-known that the county labour centres, their offices and non-profit organisations supporting the organisation of central and local programmes do their best to provide assistance to the highest possible number of persons in need. In order to make their work more efficient, however, it is a must that the current rigid labour market conditions be altered, from the strict labour regulations to the high labour-related costs which currently refrain employers from employing labour.

### **4.3 Groups in a special position**

There are various groups, such as young persons without work experience, disabled persons, members of ethnic minorities etc. at a disadvantageous position on the labour market in every country, and Hungary is no exception. (In several countries, women, too, are assigned to this category, with good reason, but in Hungary, although discrimination no doubt exists in certain respects, this mostly

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<sup>53</sup> Municipalities can grant those in need several types of regular or ad hoc assistance. Social benefits, however, can only alleviate poverty. For a detailed survey of municipal allowances see *Social Statistical Bulletin, 2003/Vol.2.: Alapinformációk a települési önkormányzatok szociális tevékenységéről 2001-2002* (Basic information on the social activities of municipalities, 2001–2002), CSO.

affect equal wage and advancement opportunities rather than access to the labour market, with the exception of mothers with young children who are in a disadvantageous situation, too.)

The clear position of the European Union regarding social exclusion and unequal labour opportunities and the resulting backlog, the demand to create equal opportunities essentially aims at improving the chances of those in a disadvantageous situation.

The establishment of equal opportunities is a many-faceted, complex social and political task, with results achievable at different paces in different areas. In what follows, we shall only discuss aspirations figuring on the employment policy agenda to date.

#### 4.3.1 Youth unemployment

From 2001 to 2002, the population aged 15–24 shrank by 54 thousand (ages 15–19 by 15 thousand, ages 20–24 by 39 thousand) for demographic reasons.

Stagnating employment implied a considerable deterioration in the employment situation of the youth: the number of the employed decreased and that of the unemployed and the inactive increased as well as that of the passive unemployed among them.

*Table 4.17*

#### Youth unemployment in Hungary, 2001 and 2002

Age, sex	Population '000		of which, in %						Passive unemployed, '000	
			employed		unemployed		inactive			
	2001*	2002	2001*	2002	2001*	2002	2001*	2002	2001*	2002
15-19										
men	330.2	323.0	9.0	6.5	2.3	1.9	88.7	91.6	5.7	6.6
women	319.0	314.1	6.3	4.3	1.8	1.8	91.9	93.9	3.1	3.2
all	649.2	637.1	7.7	5.5	2.0	1.8	90.3	92.7	8.8	9.8
20-24										
men	397.5	382.3	57.7	54.2	6.7	7.0	35.6	38.8	11.0	10.5
women	381.1	366.1	44.2	44.2	4.0	4.9	51.8	50.9	2.8	4.5
all	778.6	748.4	51.0	49.3	5.4	6.0	43.6	44.7	13.8	15.0
<b>15-24</b>										
<b>men</b>	<b>727.7</b>	<b>705.3</b>	<b>35.6</b>	<b>32.3</b>	<b>4.7</b>	<b>4.7</b>	<b>59.7</b>	<b>63.0</b>	<b>16.7</b>	<b>17.1</b>
<b>women</b>	<b>700.1</b>	<b>680.2</b>	<b>26.9</b>	<b>25.7</b>	<b>3.0</b>	<b>3.5</b>	<b>70.1</b>	<b>70.8</b>	<b>5.9</b>	<b>7.7</b>
<b>all</b>	<b>1,427.8</b>	<b>1,385.5</b>	<b>31.3</b>	<b>29.1</b>	<b>3.9</b>	<b>4.1</b>	<b>64.8</b>	<b>66.8</b>	<b>22.6</b>	<b>24.8</b>

\* Recalculated figures based on the population census data of 2001

**Source:** *Labour Market Characteristics, QIV 2002 and 2002, CSO, 2003.*

From the perspective of employment, the youth includes two distinctive age-groups: that of the 15-19 year-old, mostly still in education, and the 20–24 year-old establishing their own family already traditionally in Hungary.

Consequently, their labour market position, too, should be discussed separately.

More than 90% of the 15-19 year-old are inactive. The great majority (514 thousand, 81%) are in education, more than 50% at secondary school already or at high school/university.

Those among them who do not remain in education enter the labour market unqualified or with low qualification. (Drop-offs from different school types also belong here. According to the statistics of the Ministry of Education, in recent years, 2.4% of the initial pupil stock failed to finish primary school, 8.5% general secondary school and 32% (!) vocational school.)

Relatively few members of this age group work and even less look for a job actively. (In comparison with the previous year, the proportion of both the employed and the job-seekers declined.) The rate of the inactive, that of the passive unemployed included, on the other hand, increased.

Boys and girls are represented in basically the same proportion among the 77 thousand youth not in education.

In Hungary today, only families in need of the earnings of their children urge boys and girls of 15–16 to become regular earners. However, all families would like them to acquire a work experience of some sort beside participating in household work, through casual, part-time, work. This is even more so for those aged 17-19. Of course, there are very different attitudes depending on the social situation of the parents, the place of residence, the school qualification/ambitions of the child etc (e.g., GCSE-holders usually miss one or two years only while waiting for an opportunity to continue their education), the framework allowing those in need to acquire work experience should be established by employment policy, the sooner the better. (For example, by the establishment of the legal framework allowing part-time practical training contracts for those under the age of 20 etc.)

The European context, in which a high proportion of members of the 15-19 age-group is in education in many countries, it is increasingly difficult to use the traditional interpretation of “activity rate” and the unemployment rate calculated for these age groups as the objective is not that they should work or look for a job, but increasingly that they should enter the labour market as educated and as well-prepared as possible.

The situation of the 20–24 year-old is somewhat different. Although the number of youth past 20 remaining in streamline education is on the rise in Hungary, too, only 18% are in education, and this rate declines with age – it is 13% for the 23 year-old and 8% for the 24 year-old. The high inactivity rate of this age group – which even increased somewhat in 2002 – is explained by education to a much smaller degree than in the case of the 15-19 year-old.

The employment rate of this age group declined, that of job-seekers among them increased as well as that of the number of the passive unemployed.

In the population of the 20-24 year-old, the labour market situation of men and women already shows significant differences. Yet there is a certain gap in the labour market activity of men and women aged 15–19 already (men are



somewhat more active); in 2002, 60% of men and less than 50% of women were active.

The gap is explained partly by the earlier change in the marital status of women than of men. Although the Labour Force Survey shows marital status for the 15-24 year-old collectively, and the younger segment also includes married couples and even parents, the following are tell-tale figures: 20 thousand men married under the age of 25 and more than three times as many women (67 thousand). From among the almost 54 thousand on child-care leave, 53 thousand were mothers. (Note that almost 94% of the 15-24 year-old were unmarried; according to the Demographic Yearbook issued on 01.01.2002, 93% of men aged 15-24 were unmarried and 81% of women.)

44.8 thousand among the 20-24 year-old were active job-seekers and 15 thousand passive unemployed. This number is more than twice that of school-leavers among the registered unemployed (28.5 thousand on monthly average). According to CSO, more than 27 thousand among them received financial assistance (22 thousand in provisions due to the unemployed). This also means that young persons in need of social aid represent a multiply vulnerable social group. It is in the essential interest of Hungary, aligned with the efforts of the EU, to prevent that they become long-term unemployed and be excluded from the labour market.

#### **4.3.2 The Roma population**

It is a modest but nonetheless positive result that both the government and the wider public have realised in recent years the necessity of the radical improvement of the situation of the largest Hungarian ethnic minority, that of the Rom.

Omissions of centuries can hardly be remedied overnight, but almost all the political parties worked out their relevant programmes and the government allocated, under various target appropriations, significant budget resources to implement them.

The Roma population, some 450–600 thousand people, live scattered all over the country, the majority in the more deprived northern Hungarian, Northern Great Plain and Southern Transdanubian regions, at settlements in a disadvantageous situation, offering no employment opportunity and lower-than-average conditions of living.

As stated in an EU accession preparation document, “Despite the recent improvement of their housing conditions, these are highly unfavourable still, with comfort indicators well below the national average. Health and life chances are definitely poor, their life expectancy at birth is 9-10 years less than the national average despite the improvement of the mortality rates. Despite positive measures of all sorts, the educational level of the Gypsy population is exceptionally low. In the mid-nineties, some 12% only among them had, typically skilled worker, qualification, and the rate of degree-holders is still measured in decimal percentages. Although their educational level has increased in recent years, their backlog compared to the majority society has not reduced.

77% of Rom youth finish primary school and much less remain in education than among the non-Rom. Participation in secondary education providing GCSE and in higher education is lower by orders of magnitude among them, despite a marked rise in this respect triggered by positive measures (scholarships, accommodation), in recent years.

From a labour market point of view, transition to market economy hit hardest the Gypsy population. After the change of regime, more than half of employed Rom lost their job and hence all of their employment indicators are much worse than those of the majority society. The primary labour market hardly offers any earning activity to the uneducated and unqualified Rom, and they are at a disadvantage even in terms of casual employment. Their employment rate is roughly half and their unemployment rate is 3 to 5 times and the rate of dependents per earners is thrice that in the non-Gypsy population. For many, family allowance and social benefits represent the only source of income necessary for a living, and hence half of Rom households live in permanent poverty. Owing to persistent unemployment for more than a decade, a growing circle is threatened by the danger that inactivity becomes fixed as a norm. At the same time, the labour market integration of the Rom is aggravated by discrimination experienced on the part of employers”.

Those wishing to change the situation join the government’s initiatives by a multitude of programmes on various scales. Many of the special employment programmes for the Rom are under the auspices of OFA, and special attention is paid to providing as many Rom as possible an opportunity, if only a temporary one, to work under the public works and public benefit work schemes.

Most local and regional self-governments also prepared their own programmes to improve the conditions of living of the local Roma population, with a view to finding local solutions, irrespective of the national employment situation, too. Their opportunities would multiply under a new system of regulations ensuring more flexible employment in a wider circle and occasionally establishing special forms, too, for the Rom.

#### **4.3.3 Labour market integration of the disabled\***

The majority of persons with disabilities are exposed, especially on the labour market, to the risk of exclusion. Even the advanced economies find it a serious problem to ensure equal labour market opportunities to this group.

The Charter of Fundamental Rights accepted in the European Union recently recognises the fact that, in order to create equal opportunities to the disabled, the right to no discrimination should be supplemented by the right to have recourse to assistance and help. This approach, based on synthesis, was the guiding principle of the European Congress for the Disabled organised in March 2002 in Madrid, having confirmed that *employment is a key means of social inclusion*. Therefore, special efforts should be made to improve the job access of the disabled, preferably on the primary labour market.

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\* Author of the chapter: Ilona Gere, Employment Office, Research Department

In Hungary, measures to promote the integration of the permanently disabled multiplied in the past five years compared to the previous decades, but no comprehensive results have been achieved yet. The employment rehabilitation programme launched by the employment service in 1998 still struggles with the backlogs of related policies and the anomalies of the qualification and provision systems which act against employment.

This is supported by CSO's survey prepared in 2002 carried out among persons with changed working ability or permanent disability. The findings show that this issue is permanently on the agenda in Hungary, as a great many are concerned by it. More than 11% of the respondent 15–64 year-old indicated some health problems or disabilities having hindered/limited their normal way of living in the previous 6 months. The labour market opportunities of persons having chronic health problems or permanent disabilities are highly limited: *one only in ten among them has a job*, and work opportunities are limited to those with such problems as hinder work very slightly or not at all.

While the employment rate of the sample population aged 15–64 was 54%, the corresponding rate for the permanently injured was 12% only. 42% of the entire sample and 87% of those with health injury are economically inactive. With respect to unemployment, the situation seems more favourable: the respective rates are 3.4% for the entire sample and 1.2% for the disabled. This is explained by the fact that most among them judge placement impossible and hence do not look for a job but accept disability pension, a stable provision of a very modest amount after repeated restrictions in recent years.

However important it is to declare – in line with the European rehabilitation trend – that the essential objective is to make those among the permanently disabled who can be made fit for it enter the primary labour market, one must not ignore that part of those having suffered permanent health injury cannot work eight hour a day under fixed working conditions even if their rehabilitation is a success. And, often – temporarily (for the period of total recovery; preparation for work etc.) – even those may need an opportunity to have special, sheltered employment who will later on be able to meet the demands of the open labour market to the full.

According to CSO's survey, labour demand among persons with changed working ability focused primarily (at 26.7%) *on home based working*, followed closely (22.7%) by *work taking into consideration the health problem* and by (22.1%) *employment in reduced working time*. On the other hand, fewer (10.1%) would like to have a special(so-called sheltered) workplace.

Hence for persons with changed working ability or permanent disability threatened by exclusion, the solution could be the establishment of variegated, flexible, modular job opportunities, allowing them to utilise to some extent all their remaining abilities and to do the work best suited to their state of health.

A more rational distribution of available resources and the profitable employment on the primary labour market of those who can be rehabilitated would create an opportunity to channel public subsidies to promote the

employment of persons with serious handicap, who can be rehabilitated partly only.

According to the findings of the survey, the extension of the possibilities of home working, the stimulation of employer interest in part-time employment, the deployment of special forms of employment and the simple organisation of transport facilities could provide an opportunity to at least 150 thousand persons to lead a better, a fuller life, whereas currently society can at best provide them financial support of a modest amount, seldom sufficient to cover their costs of living.

The above can be supported by *innovative initiatives*, development conceptions to be provided more significant funding in 2002 from the Hungarian and the Union sources. Such initiatives include *labour market programmes* launched by the labour centres themselves or supported by the Labour Market Fund, targeted, among others, at persons with health injuries.

The establishment of the *Rehabilitation Information Centres (RICs)* meant serious progress within the organisation. The centres provide, on the basis of publications, special literature, the Internet, up-to-date information on employment opportunities, civil organisations, legal regulations, subsidies, health circumstances of occupations, training options, procurement options of medical accessories etc. Several counties operate at the information centre medical, legal and social/interest protection counsel as well beside the rehabilitation counsel, having met with great interest in the past year. Beside its complex rehabilitation services, RICs also imply the possibility of a new form of co-operation among the partner organisations involved in employment rehabilitation.

In 2002, several PHARE programmes provided support for the rehabilitation of permanently injured persons and the promotion of their labour market integration. The most significant among them was the programme entitled "*Systematic Development of the Employment Rehabilitation Arsenal*", implementing the priorities under the Human Resources Development chapter of Hungary's Preliminary National Development Plan. The beneficiary area consists of three regions in Eastern Hungary, where the labour market situation is more unfavourable than the national average and hence provides exceptionally low employment chances to the permanently disabled.

The programme is meant to promote equal opportunities to persons with changed working ability via the development of the four key elements of employment rehabilitation (training, development-oriented preparation (therapeutic treatment), service, employment) on the basis of local initiatives. The subsidy budget total EUR6 million available by tendering (at the exchange rate in effect at the time of contracting, HUF1.5 billion). 50% of the subsidy is provided by the Hungarian co-financier (central budget of the Rehabilitation Fund Segment of the Labour Market Fund). The maximum duration of the projects to be implemented is 18 months. Of the 35 applications received, the evaluation committee proposed to subsidise 16.

Another programme aimed at the improvement of the labour market opportunities of persons with changed working ability or disability is the *British–Hungarian pilot programme* launched in 2002 in Southern Transdanubia. Under the programme, the innovative procedures of the co-operating British training and consulting partner are being adapted to the Hungarian labour market conditions, through the exploration of the remaining working abilities of persons with disability/changed working ability and, furthermore, they promote the efficient utilisation of the currently available labour market instruments through the concerted operation of the activity and services of labour centres, public and municipal institutions, civil organisations. Finally, a group performing personal labour market services will be set up and prepared that will be able to train experts from other regions.

## 5. THE ECONOMICALLY INACTIVE

It has been a typical problem of Hungarian employment for years that unemployment decline, instead of being concurrent with employment growth, has been accompanied by intensifying inactivity. The same trend prevailed in 2002: voluntarily or involuntarily, more than 40% of the population aged 15–64 stayed away from the labour market.

*Table 5.1*

### Number and distribution of active and inactive persons within the population aged 15–64

Year	Ages 15-64 '000	Of which:						
		Economically active, %	Inactive					
			Total		men		women	
			'000	%	'000	%	'000	%
1992	6,898.3	64.7	2,435.7	35.3	934.0	13.5	1,501.2	21.8
1993	6,895.7	62.3	2,601.6	37.7	1,018.8	14.8	1,582.8	22.9
1994	6,885.5	60.4	2,729.3	39.6	1,065.1	15.7	1,663.6	24.1
1995	6,891.4	58.9	2,830.9	41.1	1,082.0	15.7	1,747.9	25.4
1996	6,877.4	58.5	2,856.9	41.5	1,095.7	15.9	1,761.2	25.6
1997	6,876.5	57.8	2,913.4	42.2	1,133.7	16.5	1,779.7	25.9
1998	6,831.7	58.4	2,843.1	41.6	1,129.5	16.4	1,713.7	25.2
1999	6,803.1	59.9	2,729.4	40.1	1,075.1	15.8	1,654.4	24.3
2000	6,784.4	60.3	2,696.7	39.7	1,064.8	15.7	1,631.9	24.0
2001	6,866.4*	59.7	2,767.7	40.3	1,095.1	15.9	1,672.6	24.4
2002	6,862.7*	59.8	2,761.0	40.2	1,099.5	16.1	1,661.5	24.2

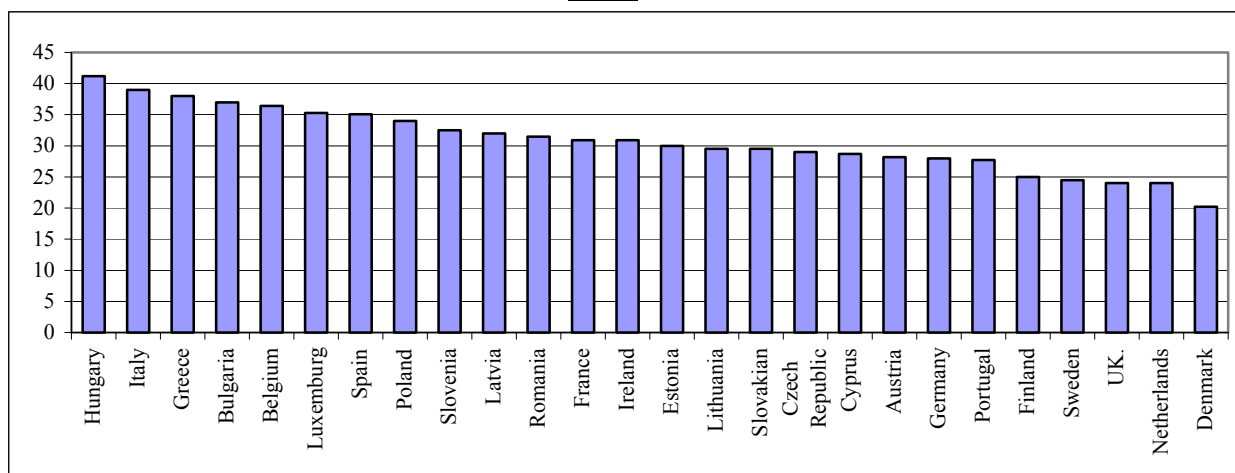
\* Data based on population census of 2001.

**Source:** LFSs

The rate of the inactive, that is, unemployed persons not engaged in active job search, is higher in Hungary than in any of the EU Member States or the accession candidate countries.

*Figure 8*

### Inactivity rates in the EU Member States and in the accession candidate countries, 2001



**Source:** *Employment in Europe, 2002*, Statistical Annex

The inactivity rate drops to a “mere” 36% from 40%, if the activity/inactivity rates are calculated on the basis of the Hungarian definition of working age instead of the international one.

Owing to the lower ceiling, within the Hungarian working-age population, less by 0.5 million less than that of the 15-64 year-old, almost 2.3 million (2,298.3 thousand) were inactive in 2002, 37 thousand more than one year earlier (2,261.6 thousand).

The working-age population is expanding due to the steady increase of retirement age, and includes a growing proportion of inactive persons, that is, an increasing number exit (or: never enter) the labour market annually due mainly to the fact that higher retirement age has not been concurrent with the expansion of employment opportunities.

Inactivity has been on the rise, sometimes at a faster, at others a slower pace, since the early nineties, and it is especially high among women.

*Table 5.2*

**The working-age inactive, 1990, 2001, 2002**

thousand

Year	Working age			<i>Of which: economically inactive</i>			% of the inactive to the of working-age population
	men	women	<b>all</b>	men	women	<b>all</b>	
1990*	3,107.2	2,849.6	<b>5,956.8</b>	567.9	765.5	<b>1,333.3</b>	22.4
2001	3,226.1	3,091.4	<b>6,317.5</b>	977.4	1,284.2	<b>2,261.6</b>	35.8
2002	3,214.3	3,145.6	<b>6,359.9</b>	977.2	1,321.1	<b>2,298.3</b>	36.1

\* Population census of 1990

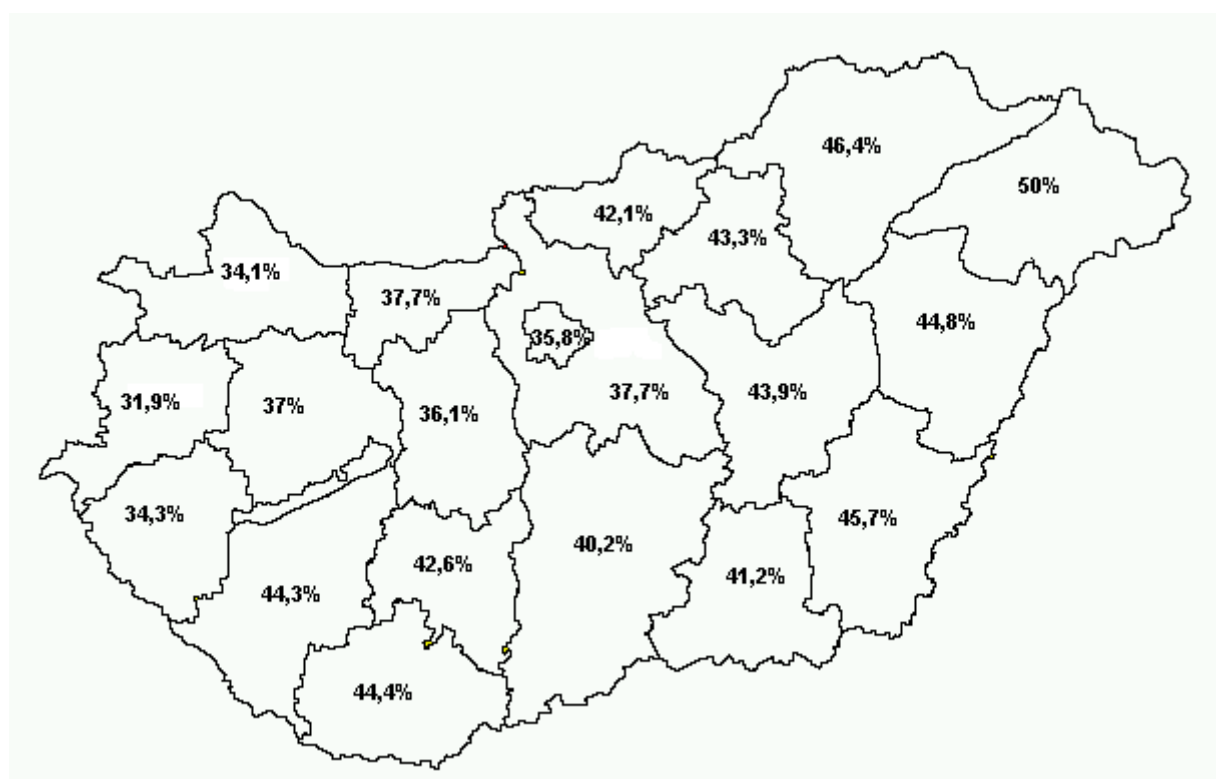
**Source:** LFSs

Women represent almost 60% of the inactive, and 42% of working-age women was absent from the labour market. The rate of absence of men of the same ages is 30%.

The permanently high and rising level of inactivity reflects the narrowing of employment opportunities, and the difficulties implied by job search – and the underlying arrears of employment policy. Withdrawal to the family and the household (previously an escape route mainly for women) instead the discouraging prospects of job search, and the possibility of earning extra in the informal economy has made absence from the labour market a viable option to hundreds of thousands.

*Figure 9*

**Proportion of the economically inactive to the population of the 15-64 by county, 2002**  
*National ratio:40,3%*



**Source:** LFSs,

### **5.1 Main reasons of inactivity**

In 2002, within the population of working-age inactive persons (men aged 15-61, women aged 15-58), more than 40% had not worked yet (due to being in education, for example), and almost 60% had had a job before.

The inactivity of around one quarter of this population is due to job loss/quitting, termination of temporary/casual employment or failure of own enterprise. Some 11% is on parental leave, and the inactivity of only 3% is due to illness or other reasons. The largest group, the one representing almost 30% of the inactive, consists of pensioners. Of a total population of 760 thousand, 554 thousand are disability pensioners and inactive for that reason.



Table 5.3

***Working-age inactive by reasons of loss of last job, 2002***

Reason of job loss	no.			%		
	men	women	together	men	women	together
Job loss due to	93.651	110.717	<b>204.368</b>	9,6	8,4	<b>8,9</b>
- termination of previous workplace	33.892	40.664	<b>74.556</b>	3,5	3,1	<b>3,2</b>
- termination of the job	28.128	32.556	<b>60.683</b>	2,9	2,5	<b>2,6</b>
- other reasons	31.631	37.498	<b>69.128</b>	3,2	2,8	<b>3,0</b>
Termination of temporary/seasonal work	11.549	9.882	<b>21.431</b>	1,2	0,7	<b>0,9</b>
Gave up own enterprise	5.103	4.081	<b>9.185</b>	0,5	0,3	<b>0,4</b>
Own enterprise failed	1.176	1.651	<b>2.827</b>	0,1	0,1	<b>0,1</b>
Termination of different types of public works	15.877	8.290	<b>24.167</b>	1,6	0,6	<b>1,1</b>
Quitting due to	23.076	39.172	<b>62.248</b>	2,4	3,0	<b>2,7</b>
– working conditions	3.482	7.404	<b>10.887</b>	0,4	0,6	<b>0,5</b>
- financial conditions	6.141	4.310	<b>10.451</b>	0,6	0,3	<b>0,5</b>
- studies	6.726	6.248	<b>12.975</b>	0,7	0,5	<b>0,6</b>
- other reasons	6.726	21.210	<b>27.936</b>	0,7	1,6	<b>1,2</b>
On child-care leave	3.809	252.278	<b>256.087</b>	0,4	19,1	<b>11,1</b>
On old-age pension	40.005	55.471	<b>95.457</b>	4,1	4,2	<b>4,2</b>
On pension with age-exemption	33.956	28.114	<b>62.069</b>	3,5	2,1	<b>2,7</b>
On disability pension	257.609	230.610	<b>488.219</b>	26,4	17,5	<b>21,2</b>
On other pension-type allowance	4.210	6.022	<b>10.232</b>	0,4	0,5	<b>0,4</b>
Recruited to do military service	2.932	232	<b>3.164</b>	0,3	0	<b>0,1</b>
Illness	14.178	19.566	<b>33.743</b>	1,5	1,5	<b>1,5</b>
Other reason	9.288	29.980	<b>39.268</b>	1,0	2,3	<b>1,7</b>
Had had a job previously	516.418	796.065	<b>1.312.483</b>	52,8	60,3	<b>57,1</b>
No previous job	460.757	524.983	<b>985.740</b>	47,2	39,7	<b>42,9</b>
<b>Working-age ec. inactive, total</b>	<b>977.175</b>	<b>1.321.048</b>	<b>2.298.223</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

**Source:** LFSs

Inactivity, whether voluntary or not, obviously imposes heavy financial burdens on the family/household concerned through the loss of one income and the costs of living of the inactive member. The state uses public funds to support inactivity deemed socially useful or desirable.

The most obvious case is education. From among the 986 thousand persons covered by the LFS having had no previous job, more than 700 thousand were young persons remaining in education after the age of 15.

### ***5.1.1 Students***

In Hungary, those having started primary school starting with 01.09.1998 are subject to compulsory schooling until the age of 18, and can enter the labour market subsequently only.

Currently, those having finished eight-year primary school and having reached the age of 15 come of working age and may present themselves on the labour market as employees. Fortunately, the intensifying tendency of several decades is

that a growing proportion among them remain in education; by 2002, the rate of students among the 15–24 year-old had attained almost 50%.

*Table 5.4*

**Number and proportion of full-time students in the school-years of 1959/1960–2001/2002**

School-year	Ages 15–24 * '000	Of which: students		female students	
		no.	%	no.	% rate to all students
1959/60	1,432.5**	267.1**	18.6	109.9	38.2
1969/70	1,696.4**	465.6**	27.4	200.2	43.0
1979/80	1,464.4**	371.8**	25.4	174.9	46.5
1989/90	1,445.5	531.6	36.8	255.1	48.0
1990/91	1,511.4	566.2	37.5	274.3	48.4
1991/92	1,561.0	590.2	37.8	289.2	49.0
1992/93	1,592.6	595.0	37.4	291.2	48.9
1993/94	1,609.4	615.9	38.3	307.9	50.0
1994/95	1,619.2	625.5	38.6	310.8	49.7
1995/96	1,618.9	635.9	39.3	317.2	49.9
1996/97	1,614.4	674.8	41.8	336.6	49.9
1997/98	1,596.5	675.9	42.4	338.6	50.1
1998/99	1,568.1	687.1	43.9	346.2	50.4
1999/2000	1,507.3	699.7	46.4	350.0	50.0
2000/2001	1,480.1	690.4	46.6	345.3	50.0
2001/2002**	1,436.9	681.0	47.4	340.6	50.0

\* Data referring to 01.01. of the given year; in 1991-2000: data known prior to the population census of 2001, to be corrected yet

\*\* Population census data; 2001-2002.

**Source:** CSO Yearbooks and Labour Accounts

The rate of students, however, is high only up to the age of 17–18, that is, typically, the termination of general or vocational secondary school. Among the 15–19 year-old, 8 out of 10 are in education on average. In the next age group, that of the 20–24 year-old, the corresponding rate, the result of progressive decline, is 2 in 10 on average.

It is a highly promising circumstance that the youth tend to remain in education and aspire to acquire higher school qualifications. Almost one quarter of the 15–24 year-old finished high school or university. However, almost half among them (46%) completed 8-year elementary school or not even that.

There is an urgent need for the on-coming, better qualified generations on the labour market. For, although according to the latest population census, 38% of those older than 18 have GCSE, the rate of high-school/university qualifications among those aged 25 or more is still 12.3% only.

Neither are the rates based on the population aged 15–64 better: 4.1% stopped after incomplete primary education; 55.6% finished 8–12 grades, but has no GCSE, 28.5% has GCSE and 11.8% a degree.

Table 5.5

***Full-time students aged 15–24 by age and school-type in school-year 2001/2002***

Age	Population count, 01.01.2002 '000	Students*		Of which: % rate by school-type			
		'000	%	primary	vocational	gen. sec.	college/university
15	<b>129.4</b>	123.7	95.6	11.7	18.3	65.6	-
16	<b>133.7</b>	118.9	88.9	3.3	22.4	74.2	-
17	<b>128.1</b>	111.7	87.2	0.8	23.2	63.2	-
18	<b>129.2</b>	89.9	69.6	0.1	16.2	42.2	11.0
19	<b>134.7</b>	69.9	52.0	0.1	7.2	20.7	24.0
15–19	<b>655.1</b>	514.1	78.5	3.2	17.4	50.2	7.7
20	<b>143.6</b>	54.7	38.1	-	3.0	10.0	25.1
21	<b>150.2</b>	44.3	29.5	-	1.3	4.5	23.7
22	<b>157.3</b>	33.6	21.4	-	0.6	2.0	18.8
23	<b>162.6</b>	22.7	14.0	-	0.2	0.8	13.0
24	<b>168.1</b>	13.2	7.9	-	-	0.3	7.6
20–24	<b>781.8</b>	168.5	21.5		1.0	2.8	17.7
25+		22.8	-				
<b>Total</b>		<b>705.4</b>					

\* Data referring to commencement of the school-year (05.09.)

**Source:** Ministry of Education

According to the declared objectives of the EU, in order to create a knowledge-based economy, beside establishing the conditions of life-long learning, by 2010, the Member States must ensure the following outcomes: at least 85% of 22-year-old youth in the European Union should have completed upper secondary education and, furthermore, the EU average level of participation in lifelong learning should be at least 12.5% of the adult working-age population (25–64 age group).

Fortunately, many in Hungary are quite willing to study. According to the Labour Force Survey, a total of more than 220 thousand studied in 2002, including nearly 147 thousand employed (mostly women: 82 thousand), 8 thousand unemployed (again, more women than men) and 75 thousand inactive (in addition to those still in streamline education). The levels ranged from 5<sup>th</sup> grade elementary school to postgraduate (PhD) training. The great majority – almost 70% – participated in vocational training, at levels ranging from special school to postgraduate training.

Education, the acquisition of more extensive knowledge and skills, improves the labour market chances of all, irrespective of status, the inactive included.

And, although the growing number of young persons remaining in streamline education raises the number – formally – of the inactive, this type of inactivity is and will be in the essential interest of the country.

### **5.1.2 Persons on parental leave**

Birth rates have declined radically throughout Europe since the seventies. (In Hungary, 146.5 thousand children were born in 1960, only 97 thousand in 2001 and 96.8 thousand in 2002.)

Similarly to numerous European countries, Hungary carries out an active family policy aimed primarily at halting the decline in birth numbers, among others by assisting parents in staying away from the labour market until the child reaches the age of 2 or 3.

The regulations governing parenting allowances, introduced in the sixties as one of the first of their kind in Europe and first limited to employed women, were amended countless times over the decades. The most important changes include eligibility on citizen's right to all mothers or, under specific conditions, to either parent.

In Hungary, there are three kinds of child-care support:

- Child-care aid (Hungarian abbreviation: GYES), of a fixed amount, available on citizen's right until the child reaches the age of 3. In 2002, it was a monthly HUF20,100, identical to the minimum old-age pension.
- Prior to confinement, persons with an adequate period of employment may chose child-care fee (Hungarian abbreviation: GYED), defined at a certain % rate of the previous average earnings. The fee is due until the child reaches the age of 2. Since 01.01.2002, it corresponds to 70% of the daily average earnings, or a maximum of HUF83 thousand monthly; in 2002, the average monthly fee was HUF45,018.
- In 1993, at the time of massive job losses, the system of child-raising support (Hungarian abbreviation: GYET) was introduced as an alternative to unemployment, viz. as an escape route in some sense. This form of support is available to mothers raising 3 or more young children in their own household, until the children reach a specific age. The support is of a fixed monthly amount (2002: HUF20,100), also identical with the minimum old-age pension.

Periods on GYES or GYET are added to the service period serving as the basis for eligibility to old-age pension.

Through the decades, the above child-care allowances have made it possible for hundred thousands of women to exit the labour market temporarily. For decades, they could also re-enter it as employers used to be obliged to re-employ them in their original job position, and they remained on the company's staff during their absence as well.

With the disintegration of companies and co-operatives, and excessive job losses accompanying the transformation of the Hungarian economy, however, there remained less and less places to return to. A multitude of young women became jobless. Nevertheless, despite the contraction of the labour market and the decrease in annual birth numbers, the number of persons on child-care leave has not declined, as this status, enjoying the moral and (limited) financial support of

society and allowing parents to be with the child, also relieved those concerned from the obligation of active job search, deemed hopeless in most cases.

*Table 5.6*

**Persons on parental leave, 1980–2002**

*thousand*

Year 1. January	Persons on parental leave (GYES, GYED)			GYET	Aggregate
	men	women	all		
1980	0.1	263.9	<b>264.0</b>	-	<b>264.0</b>
1990	1.2	243.5	<b>244.7</b>	-	<b>244.7</b>
1991	1.3	250.3	<b>251.6</b>	-	<b>251.6</b>
1992	1.8	260.3	<b>262.1</b>	-	<b>262.1</b>
1993	1.7	260.4	<b>262.1</b>	-	<b>262.1</b>
1994	2.2	252.4	<b>254.6</b>	24.1	<b>278.7</b>
1995	5.2	246.8	<b>252.0</b>	33.0	<b>285.0</b>
1996	4.6	226.0	<b>230.6</b>	44.6	<b>275.2</b>
1997	2.0	245.1	<b>247.1</b>	48.1	<b>295.2</b>
1998	1.0	238.0	<b>239.0</b>	52.0	<b>291.0</b>
1999	1.0	243.0	<b>244.0</b>	55.9	<b>299.9</b>
2000	1.0	242.3	<b>243.3</b>	53.8	<b>297.1</b>
2001	1.0	245.8	<b>246.8</b>	52.6	<b>299.4</b>
2002	1.0	244.8	<b>245.8</b>	51.3	<b>297.1</b>
2002*	3.6	237.1	<b>240.7</b>	45.8	<b>286.9</b>

\* LFS, annual average

**Source:** Labour Accounts, CSO, LFS, 2002, CSO, 2003.

The re-employment chances of persons on parental leave have been examined by several surveys over the years.

The most recent analysis was prepared by *Mária Frey* in spring 2002, on the basis of answers to the questionnaire annexed to the Labour Force Survey.<sup>54</sup> The survey covered those on some form of parental leave, as well as inactive persons having declared on the occasion of the previous surveys, that they wanted to find a regular job but did not engage in active job search due to problems related to the child care or other family obligations in case of their employment.

Suffice it to describe here, from the abundant material collected in the paper, statements regarding chances to return to the labour market.

At the time of the survey, from a population of 283 thousand of persons on parental leave, 217 thousand had had a job before. 98 thousand among them could and wanted to return to their previous workplace, but 21 thousand could not. The workplaces of another 98 thousand were either liquidated in the meantime or they refused to re-employ them.

The rate of persons wishing to re-enter the labour market is on the rise: to date, it is close to 70%.

<sup>54</sup> Mária Frey: Options and obstacles of the employment of inactive persons receiving child-raising support and inactive for family reasons. Final paper of the statistical research project carried out under Phare programme No. HV 9918-13, Aug. 2002.

According to the annual LFS data, those on child-care fee, a total of 83 thousand persons, have the best chances to return to their previous workplaces. In this case, only 379 among them were engaged in active job search, knowing that they could/would not return to their previous workplace. The great majority, especially persons absent from the labour market for a longer time, on child-care aid or child-raising support, find it increasingly difficult to take up work again. In 1999, a good two-third of persons on child-care aid had been absent for a maximum of 3 years. In 2002, the average period of absence increased to four years. Half of those receiving child-raising support had worked last more than 7 years earlier in 1999 – by 2002, this rate had increased to more than two-third.

Return chances are slightly deteriorating, as shown by the comparative table based on the results of earlier investigations, published in the paper.

*Table 5.7*

**Return to the labour market from child-care leave,  
1993, 1995, 1999, 2002**

Variants	1993	1995	1999*	2002
Employer dissolved	8.6	9.2	10.0	12.3
Employer refusing re-employment	34.3	29.8	32.4	32.5
Employer willing to re-employ the employee, employee unwilling to return	6.7	8.7	11.2	9.9
Employer willing to employ the subject, subject willing to return	50.4	52.3	46.4	45.3
Altogether	100.0	100.0	100.0	100.0

\* Persons on confinement leave included.

**Source:** M. Frey, *op.cit.*, Table 6.

However, in the meantime, several measures were taken to help those concerned return to the labour market. For example, they may acquire a second degree, free of charge, receive vocational or re-training assistance subsidised by the Labour Market Fund, etc. Almost half of those concerned were aware of these options, but only a fraction actually made use them.

One third of those not intending to return to their previous workplace would like to have another child. Another third does not want to return to the same place due to problems relating to working in shifts, commuting (transport) or low pay; while the last third referred to work/life balance problems.

The last item is quite a general problem. Few can afford paid child-supervision, care for the old or sick or household help, and the majority are also reluctant to either request or offer such services (with the exception of 13% and 15%, respectively).

The conditions for working four hours a day, an option open to those on child-care aid or receiving child-raising support, have not been established yet. Only 7.5% of beneficiaries of child-raising support had an earning job, although many more would have liked to have one if only they had an opportunity.

The three essential general requirements to promote the labour-market re-integration of women at home are the following:

- flexible beginning/end of the working time, its adjustment to family obligations;
- exchangeability of full-time work to part-time work;
- extraordinary leave if the family conditions warranted it.

The paper expresses several proposals to promote the labour market re-integration of parents raising young children.

The annual Labour Force Survey data show that a mere 17.2 thousand among the beneficiaries of child-care support qualify as employed, the same number by and large as in the previous year (17.6 thousand).

In 2002, somewhat more were engaged in active job search (3.5 thousand) than in the previous year (2.2 thousand). Active job search correlates, on the one hand, with the expiry of the supported period of child-care leave – many start to look for a workplace prior to that. On the other hand, there is an obvious correlation with the state of the labour market. In 1999, when the rate of employment started to increase, 9.6 thousand among those on parenting leave tried to find themselves a job.

For the great majority, however, it is an open question to the last minute whether they would work or remain inactive after the period of parental leave.

### **5.1.3 Working age retirees**

A total of 3,093.1 thousand received pension or pension-type benefits in Hungary in 2002 on annual average, that is, 30% of the population of ten million and 35% of persons older than 15.

The decisive majority of the more than 3 million pensioners, 2,457.3 thousand persons, receive old-age or disability pension. One third (817 thousand) among them are of working age according to the Hungarian definitions.

Persons retired at working age represented 4.4% of the working-age population in 1990, 10% on 01.01. 2002 and already 13.2% on 01.01. 2003. In the meantime, owing to the increase of retirement age, the working-age population grew from 5.9 million in 1990 to 6.3 million by 2002.

In 2002, 36% of the working-age inactive, a total of 2.3 million, were persons retired under various titles.

Hungarian legislation provides several options to retire at working age.

- \* Early retirement: Workers in certain occupations representing a hazard/exceptionally detrimental to health can retire 8–10 years earlier than the normal retirement age. The relevant provisions, in existence for a long time, ought to have been reviewed years ago, due mainly to the significant changes in the meantime in the technical/technological circumstances of work, but this has been postponed year after year.

Major reductions in recent years in two of the big job groups involved, viz. mining and the army, and further streamlining scheduled in the latter as well as at the railways and in other occupations act against the planned review – at the time being, preliminary old-age pension, i.e. retirement with age exemption, seems a less painful solution to all concerned.

- \* Disability, accident. More than 70% of early retirements are due to disease and accident incurred in one's working life. Bad health can be the result of many factors, from general state of health to inadequate health culture, neglect of protective garments etc. However, there are some moral factors involved as well, based on the widespread belief that it is easy to obtain papers certifying reduced working ability. Requests for such certificates is currently associated mainly with layoffs, and the main motive is the prospect of a modest but regular income instead of dubious job-search.
- \* Preliminary old-age pension: This option was introduced in the early nineties, at the time of rocketing unemployment growth. At the time of mass layoffs, persons reaching retirement age within a specified number of years could apply for preliminary pension. As elsewhere in Europe, the access criteria of this option have been restricted considerably in the meantime, and it has become a rather expensive alternative for employers laying off staff (they have to pay in advance the pension contribution of those concerned for the missing years). To date, few companies make use of this opportunity, although in case of older workers and major layoffs, certain (international) companies do prefer it to layoffs.

The stock of persons retired for employment policy reasons in the early and mid nineties has by now shrunk considerably, as the majority among them moved on to the group of "regular" retirees. (As of 1998, registered unemployed persons within a max. of 5 years of retirement age figure among the unemployed and receive pre-pension unemployment benefits of a fixed monthly amount.)

For years, the formal economy could offer few job opportunities to the multitude of early retirees. (The 72 thousand employed and 6,300 unemployed among them figure among the economically active.) The group of inactive retirees included almost exclusively passive unemployed; a total of around 5 thousand in 2001 and of 3.8 thousand in 2002 would have liked to work, without looking for a job actively.



Table 5.8

**Working-age retirees**

thousand

Year (01.01)	Working-age retiree *			Of which: retirement in the given year due to	
	men	women	all	employment policy	disability-/accident-related
1990	176.4	87.4	<b>263.8</b>	27.0	61.3
1991	200.4	104.3	<b>304.7</b>	37.5	66.3
1992	236.9	129.5	<b>366.4</b>	46.1	64.4
1993	267.0	152.0	<b>419.0</b>	43.0	62.7
1994	275.9	161.8	<b>437.7</b>	41.1	62.4
1995	284.0	177.0	<b>461.0</b>	34.1	61.0
1996	296.5	184.6	<b>481.1</b>	44.0	62.0
1997	305.4	198.8	<b>504.2</b>	42.5	55.4
1998	304.6	207.5	<b>512.1</b>	16.6	49.3
1999	306.8	228.6	<b>535.4</b>	3.3	48.0
2000	322.0	246.8	<b>568.6</b>	3.3	54.2
2001	317.9	240.7	<b>558.6</b>	3.7	58.8
2002	361.7	270.1	<b>631.8</b>	3.3	53.2

\* Not including working-age retirees in employment

**Source:** Working-age retirees: Labour Account, 01.01.2002., CSO, 2002. Employment policy, disability accident data: National Pension Fund data.**5.1.4 Other reasons of inactivity**

As shown above, almost 80% of the inactive have a socially accepted and supported reason for staying away from the labour market. However, another more than 0.5 million men and women of working-age are inactive for no known reason. They are full dependent on their families. They probably make themselves useful in the household, saving expenses to the family.

Persons without a regular (visible) income, however modest that is, are present in every age group.

Table 5.9

**Age-group of persons absent from the labour market for no known reason, 2002**

Age group	Inactive		Of which: absent for unknown reason					
	'000	%	'000	% rate to the inactive	men		women	
					'000	%	'000	%
15-19	590.9	93.2	96.3	16.3	51.7	17.5	44.6	15.1
20-24	334.5	45.2	95.5	28.6	52.9	35.4	42.6	22.9
25-29	203.7	24.9	62.5	30.7	28.1	57.6	34.4	22.2
30-34	155.3	22.0	56.0	36.1	20.9	67.9	35.1	28.2
35-39	111.5	18.0	50.9	45.7	17.6	53.0	33.4	42.5
40-44	121.7	18.4	59.7	49.1	20.4	42.6	39.3	53.3
45-49	179.4	22.3	64.4	35.9	21.6	28.5	42.8	41.3
50-54	227.8	31.3	50.6	22.2	16.9	17.1	33.7	26.2
55-59*	300.4	59.0	27.4	9.1	12.3	98.6	15.1	8.7
60-61	73.1	78.9	1.5	2.1	1.5	2.1	-	-
<b>Total</b>	<b>2,298.3</b>	<b>36.2</b>	<b>564.8</b>	<b>24.6</b>	<b>243.8</b>	<b>24.9</b>	<b>321.0</b>	<b>24.3</b>

\* Women aged 55-58

**Source:** CSO data

The rate of absence due in all probability to personal/family reasons is especially high among young men: more than 100 thousand men aged 19–24 are in dependent status. The corresponding rate for women is relatively high among the 35–49 year-old.

Of course, evaluating the relevant voluntary/involuntary decisions would require a thorough knowledge of the individual's personal circumstances. (Roma men and women obviously do not “choose” exclusion from the labour market, and probably have good reason to give up active job search.) However, the experience is that persons earning a living outside the formal economy also concentrate in this circle, typically in the surroundings of local small enterprises, farms and households in need of casual services of many types. (Of course, such activity is undertaken by persons working in the formal economy, too, also informally.)<sup>55</sup>

Labour by-passing the formal (declared, tax-paying) economy will only become accountable if certain definite conditions are met. With respect to these, including, essentially, the transformation of labour law regulations and the significant reduction of taxes and contribution payment obligations imposed on employment, Hungary the same as many countries in Europe is obviously in delay.

## 5.2 **Inactivity growth**

Within the large group of the working-age inactive, the labour market absence of 982 thousand, those in education or on parental leave, is highly desirable, so much so that their number should actually even increase. The larger segment, of 1.3 million, of pensioners and persons absent from the labour market for no known reason, however, should be reduced forcefully.

All the more so since the two main reasons for the growth of the population of the working-age inactive, by a total of more than 600 thousand since 1992, are retirement and absence for unknown reason.

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<sup>55</sup> Júlia Szalai writes the following concerning this stratum: “Despite judgements to the contrary common in public opinion, the unemployed, whether they are men or women, recipients of benefits or not, registered or not, *work a lot*. However, the scenes of their work are outside the scope of socially acknowledged organised work, remunerated with taxable wages and a social security card. The paths they follow lead elsewhere, even if they used to have a vocation at one time. The consequences of economic and social developments having taken place behind the extreme segmentation of today's Hungarian labour market (analysed by several authors) have become visible by now. This process, however, was concurrent with the undeniable exclusion/forcing into the illegal economy of the less qualified and less competitive strata. Between the two economies, there is currently almost no passageway, and extreme segmentation offers no breakthrough option from the latter. Hence work performed night and day, despite many kinds of short-term counter-interests, generated by this enclosed situation – “black” work itself – becomes the essential exclusion trap”

{Júlia Szalai: *Some issues of social exclusion in Hungary at the turn of the millennium (A társadalmi kirekesztődés egyes kérdései az ezredforduló Magyarországon)*, Szociológiai Szemle, 2002/4. pp. 34-50. }

Table 5.10

**Composition of the working-age inactive from 1992 to 2002**

Year	Economically inactive '000	<i>Of which:</i>							
		in education*		on parental leave **		Retiree***		Other	
		'000	%	'000	%	'000	%	'000	%
1992	1,677.4	652.8	38.9	240.2	14.3	383.8	22.9	400.6	23.9
1993	1,830.1	684.0	37.4	236.2	12.9	437.5	23.9	472.4	25.8
1994	1,949.5	708.1	36.3	247.6	12.7	476.5	24.4	517.2	25.6
1995	2,104.5	746.1	35.5	303.9	14.4	534.3	25.4	520.2	24.7
1996	2,136.8	763.7	35.7	325.5	15.2	549.1	23.7	498.5	23.4
1997	2,250.2	775.1	34.4	331.4	14.7	626.2	27.9	517.5	23.0
1998	2,231.7	697.0	31.2	276.4	12.4	683.6	30.6	574.7	25.8
1999	2,073.4	707.2	34.1	276.0	13.3	662.2	31.9	428.0	20.7
2000	1,997.1	710.2	35.5	283.6	14.2	506.4	25.4	496.9	24.9
2001	2,261.6	706.6	31.2	294.5	13.0	660.2	29.2	600.3	26.6
2002	2,298.3	707.4	30.8	286.9	12.5	739.2	32.2	564.8	24.5
<i>of which: women</i>									
1992	955.0	320.2	33.5	237.1	24.8	151.0	15.8	246.7	25.9
1993	1,028.6	337.0	32.8	232.4	22.6	174.3	16.9	284.9	25.7
1994	1,101.4	351.1	31.9	241.7	21.9	198.9	18.1	309.7	28.1
1995	1,236.0	367.4	29.7	297.5	24.1	252.1	20.4	319.0	25.8
1996	1,257.4	379.4	30.2	321.0	25.5	257.2	20.5	299.8	23.8
1997	1,333.1	385.9	28.9	327.6	24.6	320.2	24.0	299.4	22.5
1998	1,285.8	346.6	27.0	272.8	21.2	338.2	26.3	328.2	25.5
1999	1,177.0	356.2	30.3	272.2	23.1	309.2	26.3	239.4	20.3
2000	1,116.3	357.7	32.0	279.6	25.0	195.6	17.5	283.4	25.5
2001	1,284.2	354.6	27.6	290.2	22.6	353.0	27.5	286.4	22.3
2002	1,321.1	358.2	27.1	281.9	21.3	360.0	27.3	321.0	24.3

\* Deviates from data referring to the commencement of the school-year

\*\* Not including the employed and active job-seekers

\*\*\* Disability and old-age pensioners

**Source:** LFS, 2002, CSO, 2003.

In all likelihood, a great many members of the two groups, making up 57.3% of the inactive currently, chose inactive or dependent status as one of two bad solutions.

Many inactive would obviously like to work, but the present employment conditions act against that.

### **5.3 Employment aspirations of the inactive**

Many of the formerly employed and subsequently unemployed inactive, men and women having given up their jobs due to child-care or early retirement, would like to work, the same as persons who failed to enter the labour market yet.

The data below refer to the 15–74 year-old, but as is well-known, the majority among those who would like to work are of working age (some 30 thousand among those past Hungarian retirement age would like to work).

Table 5.11

**Inactive persons awaiting employment, 2000-2002**

thousand

Would like to work, but ...	2000	2001	2002	Of which: in 2002	
				men	women
is discouraged from active job search (passive unemployed)	106.9	105.8	117.6	69.4	48.2
did not look for a job	444.8	279.7	311.7	129.5	182.2
did not look for a job actively/was not available	8.7	10.3	9.5	3.5	6.0
<b>Total:</b>	<b>560.4</b>	<b>395.8</b>	<b>438.8</b>	<b>202.4</b>	<b>236.4</b>
<b>% rate to the working-age inactive</b>	<b>20.8</b>	<b>17.6</b>	<b>15.9</b>	-	-

\* Ages 15–74

**Source:** LFSs

Persons wishing to work, even though not engaged in active job search, have outnumbered for years both active job-seekers and registered unemployed.

Answers to the question why someone willing to work does not look for a job essentially point to individual life situations and experiences. Apart from the passive unemployed, who think it is not worth looking for something you cannot find – there are no jobs for them, because they do not have the appropriate qualifications, they are too young or too old etc. –, the great majority referred to other reasons such as state of health, family obligations, expecting a message recalling them to a previous workplace, etc. Employment is often conceived of as a hoped-for or desired status, to be postponed for the time being for individual or family reasons. Many, however, would probably be ready and able to change their circumstances if a job opportunity presented itself.

In order to promote the employment of the total of 7–8 thousand persons looking/waiting for a job, employment policy, co-ordinated with economic and social policy, should clear the obstacles hindering employment growth. The two main hindrances, well-known in many countries of Europe, are the over-regulation of employment (in the formal economy) and excessive labour-related costs. Despite certain initiatives in 2002, no progress of merit has been achieved in either area.

## II. ADDITIONAL FEATURES OF THE HUNGARIAN LABOUR MARKET

### 6. REGIONAL DISCREPANCIES\*

In Hungary, as in the majority of the East Central European economies, differences in regional economic performance, productivity, employment, unemployment and wage increased significantly in the period following the economic and political change of regime. It is especially alarming that there has been no sign of the narrowing of discrepancies by regions, local labour markets or settlement types in recent years either. On the contrary: county-level and micro-regional employment/unemployment indicators indicate widening gaps. The country tends to be divided into distinctive groups of winner and loser regions.

#### 6.1 Regional differences in employment and unemployment

##### 6.1.1 Differences by planning-statistical region

The Central Statistical Office of Hungary publishes regional time-series based on the Labour Force Survey at the level of the seven planning-statistical regions<sup>56</sup>. Data in Table 6.1 show that differences in employment/unemployment decreased somewhat at this level in the past years. This process lasted until 2001; data for 2002 indicate the growth of disparities once again. At present, the unemployment rates of the Western Transdanubian and Central Hungarian regions are around 4%, while in the Northern Hungarian, Northern Great Plain and Southern Transdanubian regions they are in the range of 8–9%. The ratio of the highest and lowest rates increased from 2001 to 2002 from 2.0 to 2.2. In 2002, regional differences in employment rates remained unchanged. Over the past four years, the ratio of the highest and lowest employment rates was 1.3.

The differences in employment and unemployment rates by planning-statistical regions are not big in international comparison. The problem is that, in Hungary, regional-level analyses do not provide a realistic picture of the state of the local labour markets, as the national labour market is segmented into a series of relatively small, closed, local labour markets, corresponding in size to micro-regions.<sup>57</sup> The decisive majority of regional disparities occurs *within* the large regions, at the county/small region/settlement level.

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\* **Author of this chapter: Károly Fazekas, HAS, Institute of Economics, Research Centre**

<sup>56</sup> There are currently seven statistical-planning regions (NUTS-2 level), 19 counties and the capital, Budapest (NUTS-3 level), 150 statistical micro-regions (NUTS-4 level) and 3,200 settlements and municipalities in Hungary. The average size of micro-regions is 620.2 km<sup>2</sup>, the average population is 77,279 persons, and the average density of inhabitants is 108.5 person/km<sup>2</sup> ..

<sup>57</sup> Considering the reservation ((?nem taláalom)) wages and transport costs, OECD's country report for 2002 estimated the average size of local labour markets belonging to one settlement in underdeveloped regions at no more than 16 kilometres.

Table 6.1

**Regional differences in the employment and unemployment rates of the planning statistical regions, 1999–2002**

Regions	1999	2000	2001	2002
<b>Employment rate</b>				
Central Hungary	65.4	67.3	66.5	66.9
Central Transdanubia	64.9	66.5	65.1	65.9
Western Transdanubia	69.8	70.5	68.9	69.5
Southern Transdanubia	58.8	60.4	58.5	57.3
Northern Hungary	54.4	56.8	55.8	55.6
Northern Great Plain	53.8	55.4	54.8	54.1
Southern Great Plain	61.2	62.6	61.8	60.1
<b>TOTAL:</b>	<b>61.5</b>	<b>63.1</b>	<b>62.1</b>	<b>61.9</b>
Minimum	53.8	55.4	54.8	54.1
Maximum	69.8	70.5	68.9	69.5
<b>Maximum/minimum</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
<b>Unemployment rate</b>				
Central Hungary	5.4	5.5	4.4	4.1
Central Transdanubia	6.2	5.0	4.4	5.2
Western Transdanubia	4.5	4.4	4.3	4.1
Southern Transdanubia	8.4	8.2	7.9	8.0
Northern Hungary	11.7	10.7	8.7	9.0
Northern Great Plain	10.3	9.8	8.0	8.0
Southern Great Plain	5.9	5.4	5.6	6.4
<b>TOTAL:</b>	<b>7.1</b>	<b>6.7</b>	<b>5.8</b>	<b>6.0</b>
Minimum	4.5	4.4	4.3	4.1
Maximum	11.7	10.7	8.7	9.0
<b>Maximum/minimum</b>	<b>2.6</b>	<b>2.4</b>	<b>2.0</b>	<b>2.2</b>

**Note:** Men: ages 15–59, women: ages 15–54, to make the time series comparable. Table based on re-weighted demographic data based on the population census of 2001.

**Source:** CSO

### **6.1.2 Differences by county, micro-region and settlement**

The sample size of CSO's Labour Force Survey does not allow to break down regional indicators of employment and unemployment by micro-region or settlement. Therefore, we shall use data originating from the population census and the unemployment registers of the Employment Office including settlement-specific data series to present the situation at these levels.

As shown in Table 6.2. below, the decisive majority of micro-regional differences in registered unemployment calculated on the basis of the population census of 2001 occurs within the large regions. Over 26% of variance in settlement-level unemployment data is explained by differences measured at the level of micro-regions. For counties and large regions, the corresponding ratio is only 12–13%.

Table 6.2

***Differences in unemployment rates at the four regional levels***

Level	No. of territorial units	Minimum	Maximum	Difference	Std. difference	Variance
Settlements	3,135	0.00	0.86	0.86	0.122	0.015
Micro-regions	150	0.04	0.30	0.26	0.063	0.004
Counties	20	0.04	0.20	0.16	0.043	0.002
Regions	7	0.06	0.17	0.11	0.044	0.002

**Forrás:** CSO Population census, database of settlement-specific data series

Table 6.3.

***Development of the registered unemployment rate by county, 1992-2002***

County	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Budapest	4.6	6.6	5.9	5.7	5.7	4.8	4	3.7	3	2.6	2.2
Baranya	11.2	13.2	11.7	11.8	12.2	13.3	11.8	11.6	11.6	11.1	11.2
Bács-Kiskun	13.4	16.0	13.1	11.0	10.9	10.7	9.7	10.0	10	9.3	8.8
Békés	13.3	16.3	15.1	14.0	14	13.5	13	13.0	13.1	11.9	11.2
Borsod-A.-Z.	16.7	20.2	17.5	16.7	18	19.0	17.9	19.5	20.3	19.0	19.1
Csongrád	9.8	11.7	10.8	9.9	9.3	9.2	8.1	8.5	8.6	8.3	8.1
Fejér	10.1	12.5	11.3	10.6	10.4	9.4	8.4	8.3	7.2	6.4	6.4
Győr-M.-S.	6.9	8.2	7.7	6.8	7.4	6.5	5.1	4.8	4.6	4.1	4.0
Hajdú-Bihar	11.5	16.6	15.3	14.2	15.6	15.0	14	15.6	14.7	13.6	12.8
Heves	12.7	15.2	13.9	12.5	13.6	12.1	11.7	12.3	12	10.6	9.8
Jász-N.-Sz.	14.4	17.1	15.8	14.6	14.8	14.8	13.5	13.7	13.4	11.5	10.2
Komárom E.	11.5	14.4	12.6	11.3	12	11.3	9.8	10.1	8.3	7.0	6.7
Nógrád	16.8	21.3	17.2	16.3	17	16.3	15.6	16.2	14.9	14.3	13.8
Pest	8.1	11.0	8.1	7.6	7.8	7.3	6.3	6.0	5.2	4.4	3.7
Somogy	9.2	11.6	10.9	11.2	12.5	12.7	11.3	12.2	11.9	11.6	11.5
Szabolcs-Sz.-B.	18.9	20.6	19.3	19.3	19.7	18.9	17.2	18.7	19.5	17.8	16.7
Tolna	12.1	14.7	13.4	12.2	13.4	13.5	12.3	12.9	11.8	11.0	10.0
Vas	7.3	9.1	8.3	7.2	7.2	6.7	5.6	5.6	5.2	4.9	4.5
Veszprém	9.9	11.9	10.9	10.0	9.9	9.2	7.9	8.2	7.2	6.9	6.6
Zala	7.7	10.3	9.8	9.2	9.8	9.3	8.1	7.7	7.2	6.5	6.4
<b>TOTAL</b>	<b>10.3</b>	<b>12.9</b>	<b>11.3</b>	<b>10.6</b>	<b>11</b>	<b>10.5</b>	<b>9.5</b>	<b>9.7</b>	<b>9.3</b>	<b>8.5</b>	<b>-</b>
<b>Minimum</b>	<b>4.6</b>	<b>6.6</b>	<b>5.9</b>	<b>5.7</b>	<b>5.7</b>	<b>4.8</b>	<b>4</b>	<b>3.7</b>	<b>3</b>	<b>2.6</b>	<b>2.2</b>
<b>Maximum</b>	<b>18.9</b>	<b>21.3</b>	<b>19.3</b>	<b>19.3</b>	<b>19.7</b>	<b>19</b>	<b>17.9</b>	<b>19.5</b>	<b>20.3</b>	<b>19</b>	<b>19.1</b>
<b>Max/Min</b>	<b>4.1</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>4.0</b>	<b>4.5</b>	<b>5.3</b>	<b>6.8</b>	<b>7.3</b>	<b>8.7</b>

**Source:** Employment Office, Database of the unemployment register

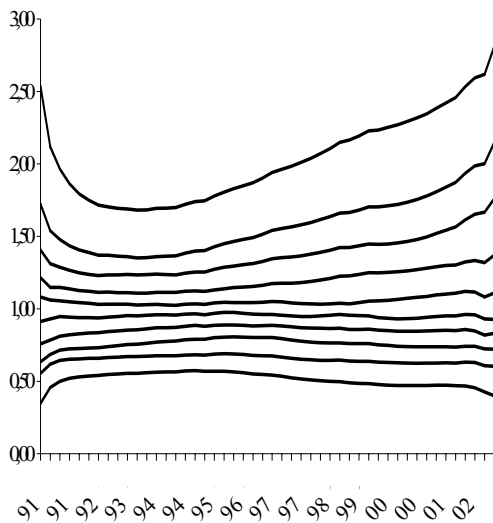
**Note:** Rates for 1990–2000 calculated on the basis of data measured on 01.01. of the given year, those for 2001–2002 based on the annual average number of the employed.

Disparities at the county/micro-region level are different from those observable at the level of large regions not only in extent, but also in development tendency. Table 6.3 above shows the development of the rates of registered unemployment by county from 1992 to 2002. As can be seen, since 1993, regional gaps have increased rather than decreasing parallel with the decline in the average unemployment rate. From 1993 to 2002, the minimum rate declined from 6.6% to

2.2%, while the maximum rate hardly changed over the same period, dropping from 21.3% to 19.1%. The ratio of the highest and lowest rates fell somewhat in the first transition years, to rise in the second period, from 1993 to 2002, from three to nearly nine times the previous one.

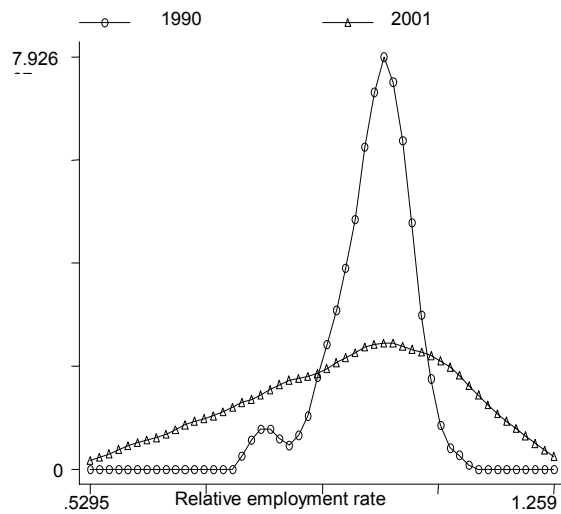
An investigation of the discrepancies at the small-region level, matching the local labour markets more closely in terms of size and geographical location, provides a more precise image of the development of the regional differences of unemployment. Figure 10 shows the chronological development of relative differences in the rates of registered unemployment. The curves indicate the chronological development of ratio of the average unemployment rate by decile and the median, cleared of the effects due to the change in rate size.

*Figure 10*  
**Relative differences in unemployment rates by small region, 1991–2002**



Source: Employment Office, Database of the unemployed register  
Note: Calculated from the registered unemployment rates smoothed by fourth-degree polynomial functions for the 3<sup>rd</sup>, 6<sup>th</sup> and 12<sup>th</sup> month, respectively.

*Figure 11*  
**Density function of micro-regions based on the relative rate of employment 1990, 2001**



Source: Population Census, 1990, 2001, CSO



As can be seen, the differences of the unemployment rates have been increasing steadily in recent years. Their growth is due to the increasingly serious situation of the regions characterised by high unemployment (upper two deciles), and not to the increasingly favourable position of those that are relatively better off. The rank order of small regions by unemployment rate is stable. The regions having occupied relatively favourable positions in the period following the change of the economic and political regime are still among the winners and the crisis regions of the first years are still among the most deprived to date. This state of affairs suggests that regional differences in unemployment have stable causes, changing but little in the short run.

The employment data of the micro-regions suggest an increase not only in regional differences but also in regional polarisation. Figure 11 shows the distribution of statistical micro-regions by relative employment rate in 1990 and 2001. As can be seen, in the years following the change of regime, not only the extent of the differences increased significantly, but also the number of small regions at the two extremes of the distribution scale, characterised by very high and very low employment rates, respectively.

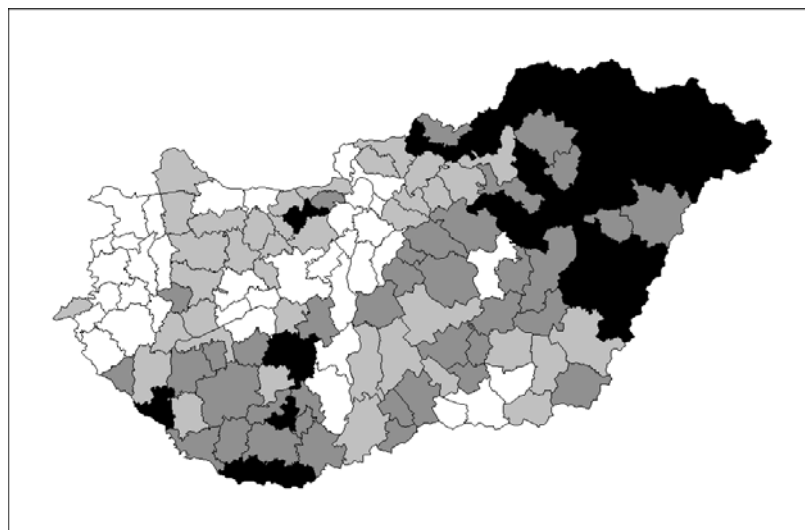
The maps in Figure 12 show intensifying polarisation in the years following the change of regime. The maps show the territorial distribution of micro-regions assigned to four groups by employment rate in 1990 and in 2001. (Regions characterised by the highest employment rates are indicated in white and those with the lowest ones in black.) While in 1990, part of micro-regions characterised by a relatively high employment rate was located in the eastern part of the country, in 2001, every region in the upper quartile was in the central region or the north-western part of the country. The average distance of micro-regions in the upper quartile from the Austrian border reduced from 43 to 30 km, while the corresponding distance for those in the lower quartile increased from 207 to 215 km<sup>58</sup>. Micro-regions with the lowest employment rates are located in the eastern periphery of the country or the borderline areas of Southern Transdanubia.

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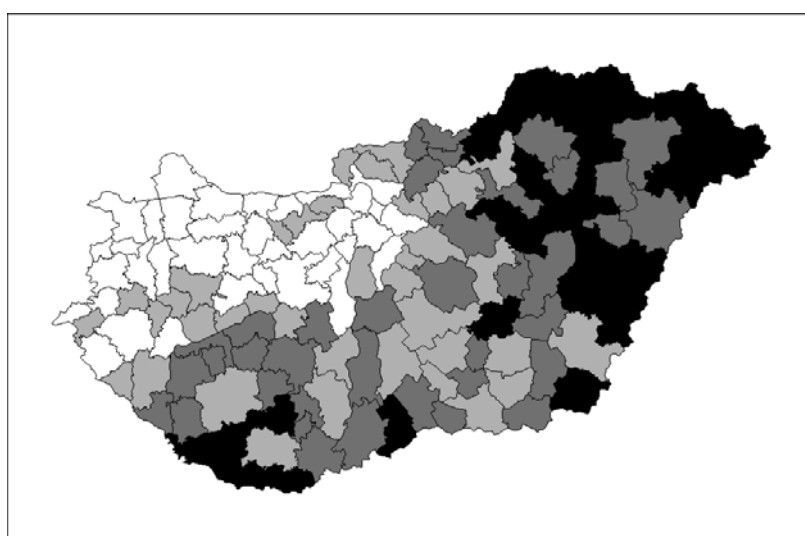
<sup>58</sup> The average distance from the Austrian border of individual quartiles corresponds to the average distance of the micro-regional centres belonging to the quartile from Hegyeshalom by public road, weighted with the average of the working-age population.

**Geographical distribution of micro-regions assigned to quartiles by employmet rate**

**1990**



**2001**



**Source:** CSO Population census, 1990, 2001

### 6.1.3 *Cumulating regional disadvantages*

Micro-regions assigned to quartiles by employment rate project a clear picture of winners and losers of economic and social developments in the transition era.

*Table 6.4*

#### ***Main indicators of micro-regions grouped by quartile based on employment rate, 2001***

	Bottom quartile	Q2	Q3	Top quartile	Q4/Q1
<b>Labour market</b>					
Employment rate (%)	40.9	50.8	57.5	65.6	1.6
Unemployment rate (%)	10.9	7.9	5.9	4.3	0.4
Inactivity rate (%)	48.2	41.3	36.6	30.0	0.6
Rate of long-term unemployed (%)	6.2	3.8	2.4	1.3	0.4
<b>Local society</b>					
Urbanisation (%)	27.9	48.0	59.9	81.8	2.9
Taxable income/cap.	18.5318	24.0587	28.6117	40.7874	2.2
Motorcars /1,000 inhabitants	152	195	226	266	1.7
Mortality rate	14.7	14.6	14.1	13.6	0.9
Life expectancy at birth (persons born in 1996-2000) <sup>3</sup>	70,2	70,9	71,5	72,2	1.03
<b>Local economy</b>					
GDP/cap., 2001 <sup>1</sup>	179	363	439	1168	6.5
Enterprise density <sup>2</sup>	9	17	20	42	4.7
Productivity of foreign-owned manufacturing companies <sup>4</sup>	17.490	17.700	21.304	28.321	1.6
Productivity of domestic-owned manufacturing companies <sup>4</sup>	5.059	6.388	6.346	8.697	1.7

<sup>1</sup> Calculated for the corporate sector. (HUF1000) **Source:** ECOSTAT 2003.

<sup>2</sup> Enterprise density = No. of incorporated companies/1000 local residents.

**Source:** CSO Tstar database

<sup>3</sup> **Source:** CSO Demographic Database.

<sup>4</sup> Net sales revenue/employed (HUF1,000)

As shown in Table 6.4, employment rates correlate with several regional indicators of social/economic success/failure. High regional employment are concurrent with relatively higher per capita GDP, higher enterprise density, higher productivity of local enterprises, and the better health and income position of the population. Low employment rates, on the other hand, correlate with low economic performance locally, low enterprise density/productivity, worse life prospects of the local population. In deprived regions, high unemployment and inactivity rates go hand in hand with an unfavourable composition of the population of the unemployed. In micro regions-characterised by a high unemployment rate, the rates of persons with no more than 8-year primary schooling, of the long-term unemployed and of beneficiaries of income supplementing allocation or regular social aid are also high. Micro-regions assigned to the quartile characterised by the most favourable employment rate represent 20.3% of the territory and 38.8% of the population of the whole country. The

corresponding rates for micro-regions in the bottom quartile are 24.6% and 14.1%, respectively.

## **6.2 Levelling mechanisms to ease the regional labour market disparities**

In the market economies, regional disparities in employment/unemployment co-occur with the emergence of related wage/wage cost differences and of market mechanisms to level the latter. Identical jobs in areas characterised by high unemployment pay less, whereas low-unemployment areas are characterised by higher wages/wage-related costs. On the supply side, regional disparities can be reduced primarily by commuting/moving away from settlements/regions characterised by high unemployment and low wages to those with lower unemployment and higher wages. On the demand side, the gaps can be narrowed by job creation in regions with a high unemployment rate and low wage costs or by job relocation.

Regional unemployment and wage gaps show that, in the early nineties, a wage curve of an elasticity approximating that in the advanced market economies has emerged in Hungary as well. One wonders why regional labour market disparities still increase in Hungary and why mechanisms levelling regional disparities are inoperative.

### **6.2.1 Extent of regional wage/wage cost differences**

The extent of regional wage gaps has serious implications for the development of territorial disparities, as wage gains accessible by moving as well as savings in wage costs to be realised by the appropriate selection of the working site are crucial in influencing cross-regional labour and capital movement. Region and county specific wage and earnings data released regularly on the basis of the *Wage Tariff Survey* of the Employment Office show marked difference by region (cf. Table 6.5). The data concerned, however, are not suitable for the measurement of wage/wage cost gains accessible by mobility, as the comparison of regional wage levels would require the clearing of earnings differences generated by personal features of employees (sex, age, educational attainment level) and differences in branch (company, job) composition. Part of distorting factors can be filters out using the individual wage data in the Wage Tariff Survey, which allows to estimate wage/wage cost gains obtainable by cross-regional labour/capital movement. According to calculations by J. Köllő (2003), Budapest had a rough net earnings advantage of 48.6% in the competitive sector in 2000 compared to minor towns (not county seats). Clearing differences by sex, age, job position, branch and company size narrows the gap to 22.8%.<sup>59</sup>

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<sup>59</sup> Köllő, J.: Regional earnings and wage cost disparities (Regionális kereseti és bérköltségkülönbségek). In: Fazekas, K. (ed.) *Munkaerőpiaci Tükör* 2003, HAS, Institute for Economics, Budapest

Table 6.5

***Monthly gross earnings in the capital and the counties***

County	1994	1996	1998	2000	2001
	%				
Budapest	126.8	127.8	131.0	134.4	135.4
Baranya	91.1	92.3	91.3	84.4	86.4
Bács-Kiskun	84.6	85.0	82.6	78.8	80.5
Békés	86.3	84.9	82.7	77.0	76.9
Borsod-Abaúj-Zemplén	90.6	87.1	88.3	86.5	86.1
Csongrád	92.8	90.0	87.6	88.4	87.2
Fejér	104.1	105.2	106.0	104.9	104.5
Győr-Moson-Sopron	97.3	99.4	98.9	96.7	99.8
Hajdú-Bihar	89.8	89.3	84.9	82.9	84.3
Heves	92.7	91.7	89.6	92.4	89.6
Komárom-Esztergom	94.5	96.9	95.9	93.4	95.1
Nógrád	81.5	80.4	77.6	74.6	77.4
Pest	91.0	96.6	97.6	96.6	100.3
Somogy	83.6	86.4	82.0	76.1	77.6
Szabolcs-Szatmár-Bereg	86.1	82.8	81.0	79.0	77.2
Jász-Nagykun-Szolnok	85.8	87.8	85.6	83.2	84.3
Tolna	94.7	92.8	88.7	86.9	87.4
Vas	85.5	87.5	87.6	91.9	89.3
Veszprém	93.0	91.5	91.4	88.4	88.0
Zala	90.7	90.9	89.1	86.6	86.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Minimum	81.5	80.4	77.6	74.6	76.9
Maximum	126.8	127.8	131	134.4	135.4
<b>Minimum/maximum</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>

**Source:** Employment Office, Wage Tariff Survey

The effects of regional productivity gaps should also be taken into account by an examination of the labour market effects of regional wage gaps. Low-paid employees of deprived regions with a high unemployment rate and typically low productivity will not necessarily be able to access jobs at companies in low-unemployment, high-wage and typically higher-productivity areas. According to Köllő's calculations, as wage gaps not corrected with enterprise productivity tend to overestimate wage gains available to workers migrating from backward to advanced regions, it is reasonable to compare regional earnings levels assuming identical company productivity rates. Clearing the effects of the productivity factor, too, from the wage differences between the capital and small towns reduces the gap to 14.9%. Wage Tariff Survey data indicate the significant moderation of regional earnings and wage cost differences within the country in recent years, and the elimination of differences by settlement type (not considering Budapest). According to the comparison of identical productivity and unemployment rates, the estimated wage advantage of Budapest is below 10%. Regarding these factors as being neutral from the point of view of wage gains and wage costs savings, the differences are in the range of 20%.

The decrease in regional wage differences was promoted by the significant increase in minimum wages in 2001 and 2002, affecting areas with a high

unemployment rate and low wages to a much larger extent than those with low unemployment and relatively high wages. According to the calculations of Kertesi and Köllő (2003), the increase in minimum wages reduced significantly the placement chances of unskilled workers in regions characterised by high unemployment rates.<sup>60</sup>

Modest regional wage/wage cost differences are indicative of the fact that wage cost savings to be attained by relocation on the one hand and wage increase through migration on the other are almost negligible. Among others, this is what explains the low intensity of migration and the stable territorial concentration of companies in Hungary. Areas characterised by low wages are at a disadvantage in terms of many factors important for the successful operation of a company – level of infrastructure development, logistics, labour qualification. At the same time, the appeal of modest wage gains in areas with high wages is obviously offset by considerations regarding placement and housing chances and factors influencing one's life quality.

### **6.2.2 Hindrances to commuting and migration**

According to the population census data of CSO, the proportion of commuters among the employed increased from 1990 to 2001 from 25.3% to 29.9%. Significant differences between the unemployment rates of urbanised centres of micro-regions on the one hand and minor settlements in their surroundings on the other suggest that intensifying commuting from the latter to the former could reduce this aspect of regional disparities. The results of estimates on the correlation of Hungarian transportation costs with commuting, however, indicate that commuting options are limited by what are exceptionally high transportation costs compared to the wages, the main reason for the closed and fragmented nature of Hungarian local labour markets.<sup>61</sup>

Analyses concerning the relationship between the commuting options and placement chances of villagers show that, especially for men, the effects of commuting options greatly depend on their qualifications. The higher the school qualification of the job-seeker, the greater the possibility that he/she will find a job outside the given settlement and pay the transportation costs implied by it. This is explained primarily by the fact that higher qualifications yield higher wages and hence the subject can afford to pay the transportation costs implied by commuting. The same transportation costs can have a strong influence on the placement probabilities of the unskilled, while being irrelevant to those with higher school qualifications. Transportation cost differences result in a 35–50% scatter of the placement chances of low-skilled unemployed persons.

The growth of regional gaps in unemployment and placement chances shows a positive correlation with the development of regional migration balances. Hence,

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<sup>60</sup> Köllő, J. and Kertesi, G.: The Employment Effects of Nearly Doubling the Minimum Wage – The Case of Hungary, IE-HAS. *Budapest Working Papers on the Labour Market* (under publication)

<sup>61</sup> Cf. Köllő, J.: Conditions of daily commuting and local unemployment in Hungary: calculations and numerical examples (A napi ingázás feltételei és a helyi munkanélküliség Magyarországon: számítások és számpéldák). *Esély*, No. 2.; Bartus, T.: Commuting among persons leaving the unemployment register (Ingázás a munkanélküli regisztert elhagyók körében), in: Fazekas, K. (ed.). *Munkaerőpiaci Tükör 2003*. MTA KTK, Budapest, (under publication); Kertesi, G.: Commuting in the villages of Hungary: an unresolved problem (Ingázás a falusi Magyarországon. Egy megoldatlan probléma), *Közgazdasági Szemle* 2000, 47: 775-798.

theoretically at least, labour mobility may have played an important part in labour market adjustment related to the transformation crisis. Considering that, in Hungary's case, growing regional differences in unemployment have been concurrent with the increase in regional wage differences, it was to be expected that internal migration would increase in the years following the change of regime. Unfortunately, no such growth occurred. As in other East Central European countries, low-intensity migration flows prevailed. The relevant calculations suggest that the migration behaviour of the population is actually influenced by regional wage and economic activity gaps.<sup>62</sup>

Regions characterised by high unemployment rates and low wages have accumulated migration losses and those with low unemployment and high wages migration gains in recent years. This effect, however, is not of a significant size, it has shown no sign of intensifying during the years, and even if it was significantly higher than it is now, it would still have no substantial effect on the regional differences in unemployment rates in the years to come. This is partly due to the fact that wage gains accessible via migration are not significant and tend to decline according to the relevant calculations. Of course, low-intensity migration witnessed in the East Central European countries has several reasons, including the state of the housing market, the shortage of tenement flats, significant regional differences in terms of qualification in labour demand and supply, all of which reduce to a considerable extent the levelling effects of migration. It is a common feature of all these factors that they can only be altered significantly in the longer run.

### **6.2.3 Job creation, relocation**

In the years following the economic and political change, regional labour market differences have intensified to a large extent due to the fact that the territorial concentration of new jobs created in the context of market economy exceeded the territorial concentration of liquidated jobs. A decisive part of new jobs concentrated in the more advanced, urbanised regions of the country, having a relatively more educated population. The territorial concentration of corporate sector employees has not diminished in Hungary in recent years, despite the persistent employment and wage cost gaps.<sup>63</sup> A decisive part of staff extensions witnessed in certain micro-regions from 1993 to 2001 occurred in those having occupied a favourable position and characterised by relatively low unemployment from the start. One wonders why employers failed to move to areas characterised by low wage costs and a relative abundance of labour.

Regional labour market differences are enhanced by the fact that most staff expansions in recent years have been associated with companies in foreign ownership. The territorial concentration of the latter, their site selection considerations, however, is different from those of the domestic companies. In their case, beside factors such as level or urbanisation, industrial traditions and availability of relatively qualified

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<sup>62</sup> Kertesi, G.: Effects of economic incentives on the geographical mobility of labour, 1990–1994 (A gazdasági ösztönzők hatása a munkaerő földrajzi mobilitására 1990-1994 között), *Esély* 1997.; Cseres-Gergely, Zsombor: The effects of Economic Incentives on Residential Mobility and Migration, 1990-1999. *Economy and Society*, 2003 (under publication)

<sup>63</sup> Fazekas, K.: Effects of foreign direct investment on the performance of local labour markets – The case of Hungary, *Budapest Working Papers on the Labour Market*, BWP 2003/3.

labour, the geographical location of the area, its distance from the western border is also important. As a matter of fact, the site selection decisions of companies in foreign ownership are unaffected by the, minor, regional wage differences. They work at a much higher productivity rate than their Hungarian peers and hence, despite their higher wages, unit labour costs are well below those of Hungarian companies. The high productivity of companies concentrating in the developed regions is partly due to regional effects (advanced business infrastructure, trained labour, favourable logistics conditions). Moreover, several empirical surveys demonstrated the existence of a positive regional spill-over effects among companies, i.e. of companies in foreign ownership on domestic, in Hungary as well.<sup>64</sup> Foreign-owned companies concentrating in the developed regions exert a positive influence on the productivity of Hungarian companies in their surroundings. The relevant calculations (Fazekas, *op.cit.*) indicate that the gap between the productivity of companies operating in developed and underdeveloped regions, respectively, is constantly on the rise, and this correlation exists in the group of both domestic and foreign-owned companies. This is also one reason why, similarly to foreign companies, Hungarian companies also tend to concentrate in urbanised regions offering trained labour and a relatively advanced business infrastructure.

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<sup>64</sup> Schoors, K. and van der Tol, Bartoldus: Foreign Direct Investment Spillovers within and between Sectors. Evidence From Hungarian Data. *Gehnt University Working Paper. 2002/157.*; Sgard, J.: Direct Foreign Investments and Productivity Growth in Hungarian Firms, 1992-1999. *CEPII Working Papers. 2001. No. 19.*



## **7. DEVELOPMENT OF EARNINGS AND LABOUR INCOMES, 2002\***

Earnings statistics cover a sub-segment of the employed, i.e. full-time employees of business organisations with at least 5 staff and all of public institutions and non-profit organisations. Although the approximately 160 thousand persons working in the same circle on a part-time basis are also subject to monitoring, data publications cover exclusively full-time workers. As for the earnings features of enterprises with 1–4 staff, to date, data are available every 3-4 years only under a special survey. According to that, the earnings average of enterprises of a smaller size is below that typical of the national economy as a whole, partly owing to widespread employment at minimum wages in this circle. The earnings dynamics of small business enterprises hence correlates closely with changes in the minimum wages, raised in 2002 by another 25% (from HUF40 thousand to HUF50 thousand), following a 57% increase in 2001.

The development of earnings was influenced to a large extent in 2002, as in 2001, by central measures, that is,

- the very significant increase in the wages of civil servants, and the delayed effects of the wage adjustment of teachers in autumn 2001, of a much smaller volume,
- the already mentioned minimum wage hike and
- the 50% increase in the basic wages of public employees in September, to manage “wage congestion” in the public sector caused among others by the minimum wage hike.

Average gross earnings at the level of the national economy hence rose in 2002 to HUF122,450, exceeding by 18.3% the corresponding level in the previous year. Net earnings, that is, the remainder amount after the deductions, are also influenced by central measures: the amendment or persistence of personal income taxation and social insurance regulations. If gross earnings increase and deduction rules prevail unchanged, the per capita tax burden (the deduction) increases and hence the increase in net earnings inevitably falls behind that of gross earnings. Since personal income tax brackets seldom change, over the past one-and-a-half decade, the rate of increase of net earnings exceeded that of gross earnings significantly on three occasions only: in 1994, in 1997, and this year, in 2002. The last instance was related to the increase in employee tax reliefs implemented as of September (from HUF3,000 to HUF9,000), which technically guaranteed the tax exemption of minimum wages, as promised during the election campaign.

In 2002, the inflation rate moderated from 9.2% in the previous year to 5.3%. Low inflation rate concurrent with a marked increase in net earnings, by 19.6%, resulted in an outstanding real earnings growth of 13.6%, and hence, all in all, the growth rate of earnings split from that of productivity in 2002.

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\* **Author of this chapter: Judit Lakatos, CSO**

Table 7.1

***Development of gross, net and real earnings, 1989-2002***

Year	Gross	Net	Gross	Net	CPI	Real earnings (%)
	earnings (HUF/cap./month)		earnings index			
			previous year = 100%			
1989	10,571	8,165	117.9	116.9	117.0	99.9
1990	13,466	10,108	128.6	121.6	128.9	94.3
1991	17,934	12,948	130.0	125.5	135.0	93.0
1992	22,294	15,628	125.1	121.3	123.0	98.6
1993	27,173	18,397	121.9	117.7	122.5	96.1
1994	33,939	23,424	124.9	127.3	118.8	107.2
1995	38,900	25,891	116.8	112.6	128.2	87.8
1996	46,837	30,544	120.4	117.4	123.6	95.0
1997	57,270	38,145	122.3	124.1	118.3	104.9
1998	67,764	45,162	118.3	118.4	114.3	103.6
1999	77,187	50,076	116.1	112.7	110.0	102.5
2000	87,645	55,785	113.5	111.4	109.8	101.5
2001	103,558	64,915	118.0	116.2	109.2	106.4
2002	122,453	77,607	118.3	119.6	105.3	113.6

The phase shift between the business and the public sector increased substantially in 2002. While in 2001 (as a result of central intervention), earnings increased by 16.3% in the first and by 22.4% in the second, in 2002, the corresponding rates were 13.3% and 29.2%, respectively. The growth rate of earnings in the business sector – where the establishment of statutory minimum wages has remained the only administrative interference option – exceeded, significantly, the growth of the consumer price index in every year since 1997. It is to be mentioned by all means in connection with the development of public sector earnings that the most radical wage correction implemented in recent years was concurrent with staff expansion. Over one year, the number of workers of public institutions of education increased by 0.5% and that of workers of health care and social institutions by 2.7%. Wage development in the public sector, however, was not accompanied by a stricter control of quality requirements.

Central wage measures with a marked influence on every area of the central budget had a strong effect on the development of earnings gaps by branches in 2002. Earnings grew fastest in education (at 31.8%), followed by health/social care (30.9%) and public administration, national defence and mandatory social security (27.4%). In the first two branches, earnings grew at an outstanding pace in the 4<sup>th</sup> quarter (due to the wage increase of public employees in September), while in the last one, the effects of the increase implemented in 2001 were no longer felt in the 4<sup>th</sup> quarter. In branches exclusively or decisively in the business sector, wages increased fastest in trade and repair (17.6%), and hotels and catering (19%), i.e., in those two areas where the minimum wage hike was the most forceful earnings development factor due to the high number of persons employed on such wages. (In both branches, the earnings of workers in manual occupations increased well in excess of the business sector average.) Despite the favourable economic trend position of the branch, earnings grew slowest in 2002 in construction; growth by 8.1% was the result of the 15% increase in

the earnings of manual workers, exceeding somewhat the business sector average, while the earnings of non-manual workers remained unchanged,. As for the earnings dynamic, the smallest increase occurred, beside mining, of a negligible size in staff of headcount already, in the real estate, business services branch.

*Table 7.2*

***Monthly gross average earnings of full-time employed, 2002***

Economic sector/branch	Manual		Non-manual		Total	
	jobs				HUF/month	year earlier =100.0
	HUF/month	year earlier =100.0	HUF/month	year earlier =100.0		
Agriculture, forestry, fishing	72,104	117.0	125,076	115.3	84,240	116.8
Mining	117 031	111.3	220,839	104.9	138,578	109.3
Manufacture	89,693	112.5	203,115	111.0	113,659	112.4
<i>of which:</i>						
foodstuffs, beverages, tobacco	81,737	112.0	203,716	110.4	108,857	111.3
textiles, textile products, leather, footwear	61,873	111.3	127,684	108.7	69,233	110.6
wood-processing, paper manufacture, printing	81,852	111.7	157,205	112.2	103,034	111.2
Chemical industry	116,128	110.8	259,026	110.2	161,999	110.6
Other non-metallic mineral products	101,051	114.2	204,289	115.3	122,579	115.2
Basic and fabricated metals	91,827	110.4	174,256	108.3	107,584	109.8
Engineering	101,566	113.2	219,757	110.4	126,205	113.2
Manufacture n.e.c.	68,865	115.1	132,763	109.1	79,107	112.9
Electricity, gas, steam, water supply	122,014	113.2	213,493	113.8	155,404	114.5
Industry	92,013	112.4	204,591	111.3	117,177	112.5
Construction	70,060	115.1	138,765	99.9	86,191	108.1
Trade, repair	69,861	120.5	158,593	114.0	106,530	117.6
Accommodation, catering	63,693	120.4	130,510	116.4	81,069	119.0
Transport, storage, post, telecom.	94,609	112.6	181,799	115.1	130,582	114.1
Finance	106,423	116.1	244,252	111.6	241,273	111.7
Real estate, business support	73,224	115.5	180,997	106.2	133,762	109.8
Public administration, mandatory social security	104,885	133.5	206,680	125.2	167,841	127.4
Education	69,468	128.8	139,017	131.7	128,665	131.8
Health and social care	74,167	130.0	115,463	130.7	103,188	130.9
<i>of which:</i>						
human health care activities	77,688	130.2	122,857	130.4	110,748	130.6
social work activities	68,570	130.3	97,215	133.1	86,928	132.7
Other communal, personal services	77,575	120.0	150,961	122.6	111,567	121.7
<b>National economy, total</b>	<b>84,696</b>	<b>116.6</b>	<b>169,862</b>	<b>118.2</b>	<b>122,453</b>	<b>118.3</b>
<i>Of which:</i>						
<b>Business sector, total</b>	<b>84,152</b>	<b>114.1</b>	<b>182,667</b>	<b>111.2</b>	<b>116 555</b>	<b>113.3</b>
<b>Public sector, total</b>	<b>88,589</b>	<b>131.2</b>	<b>157,016</b>	<b>128.3</b>	<b>136 891</b>	<b>129.2</b>

Differences in earnings growth changed the rank order of earnings in the branches concerned. In the category of manual workers, electricity, gas, steam and water supply retained its leading position with a monthly average of HUF122

thousand, followed by mining (HUF117 thousand) and financial activities (106 thousand), while the other extreme is represented by hotels and catering (HUF63,700).

The approximately 1:2 ratio is typical of non-manual occupations as well. The first here is financial activities (with a gross average monthly HUF244 thousand), followed by mining, then electricity, gas, steam and water supply. The last position is occupied by health/social care with HUF115,400, but the statistical data for 2002 are not realistic in this case, for the effects of the wage increase of public employees manifested themselves in the last months of the year only.

*Table 7.3*

***Seasonally adjusted average earnings indices\*, 2001–2002***

Period		Monthly gross average wages				
		original time series			seasonally adjusted time series	
		Index 2000, monthly average =100.0	Change		Index 2000, monthly average =100.0	Change
			previous month =100.0	previous year, same month=100.0		
<b>2001</b>	January	107.5	-18.5	15.8	108.1	0.3
	February	104.0	-3.2	17.3	110.5	2.2
	March	108.6	4.4	16.5	111.3	0.8
	April	113.1	4.2	19.7	115.2	3.5
	May	112.3	-0.7	15.3	113.8	- 1.2
	June	115.8	3.1	18.0	116.8	2.6
	July	112.9	-2.5	14.0	117.2	0.3
	August	111.2	-1.5	17.3	120.1	2.5
	September	113.3	1.9	19.1	120.8	0.6
	October	121.0	6.8	21.5	123.8	2.5
	November	141.3	16.8	22.9	127.9	3.3
	December	155.6	10.1	18.0	126.8	- 0.9
<b>2002</b>	January	128.3	-17.6	19.4	129.0	1.7
	February	124.0	-3.3	19.2	131.2	1.7
	March	129.8	4.6	19.5	132.9	1.3
	April	130.2	0.3	15.1	133.0	0.1
	May	134.7	3.4	19.9	136.5	2.7
	June	135.6	0.7	17.1	137.3	0.5
	July	132.8	-2.0	17.7	138.8	1.1
	August	129.2	-2.7	16.2	140.5	1.2
	September	137.4	6.3	21.3	145.7	3.8
	October	144.5	5.2	19.4	147.2	1.0
	November	162.3	12.3	14.8	147.0	- 0.1
	December	185.5	14.3	19.2	150.8	2.6

\* Enterprises with 4+ staff, all public and social security institutions, designated non-profit organisations.

The seasonally adjusted earnings index indicates almost uninterrupted growth month by month in 2001-2002, as a result of which the seasonally adjusted gross earnings index in January 2002 was almost 51% higher than the average for the year 2000.

Minimum wages exerted a strong levelling influence on the business sector in 2002, too. Since the proportion of minimum wage earners is higher among men than women, the increase, in excess of average earnings growth in the business sector (similarly to the growth of earnings of public employees, where women are in majority) contributed to the narrowing of the gender gap. The employment effect of the minimum wage increase is not quite clear: although obviously justified socially, as the amount, reduced by the social security and solidarity contribution, is hardly more than the per capita subsistence level calculated for 2002, it undeniably contributed to the stagnation of employment in 2002.

One of the most important earnings factor is educational achievement, exerting an indirect influence through occupation, job position, and a direct one through the tariff system in the public sector. From the nineties on, educational qualification was translated to earnings in the business sector as well, and the wage adjustment of civil servants had a similar effect, modifying earnings ratios to the advantage of degree-holders. The minimum wage hike, on the other hand, had a contrary effect, as lower earnings are prevalent among persons with lower school qualifications. As a resultant of these developments, the Individual Earnings Survey of the Ministry of Employment Policy and Labour and the Employment Office (not reflecting, due to the fact that data collection traditionally takes place in May, the effects of the September wage adjustment of public employees) indicated a 3.5 fold difference between earnings at the two extremes (viz. primary education, university degree) in 2002, identical with that in the previous year. Higher educational qualification implies more marked financial advantages to men. (This is explained by the predominance of men in the business sector, where the payments vary more than in the public one, and also the tendency to have a higher proportion of male than female managers there and the fact that higher “prestige” and hence more profitable vocations are dominated by men.) Hence the average 3.5 fold earnings gap is actually 3.6 fold for men (and 4.3 fold in the business sector within it), as opposed to the 3.2 fold ratio typical for women. In the public sector, a degree is relatively less valuable, while training providing GCSE is acknowledged to a larger extent than in the business sector.

Table 7.4

**Gross average earnings of full-time employed\* by educational achievement, 2002**

HUF/month

Education	Men	Women	All
<b>Business sector</b>			
Max. 8-year primary school	80,666	70,846	76,114
Vocational + spec. voc. school	90,480	72,270	85,898
Voc. secondary school	119,451	10,7419	113,502
General secondary school	122,631	109,280	113,957
Technical school	149,825	128,741	143,881
College	242,599	192,888	221,609
University	343,791	273,701	320,828
<b>Total</b>	<b>122 927</b>	<b>105,723</b>	<b>116,248</b>
<b>Public sector</b>			
Max. 8-year primary school	76,001	64 415	66,716
Vocational + spec. voc. school	78405	74,834	76,358
Voc. secondary school	101752	97,183	97,973
General secondary school	109,960	99,507	101228
Technical school	125,448	131,392	129,221
College	174,581	133,211	141,478
University	220,580	190,911	205,385
<b>Total</b>	<b>144,319</b>	<b>111,258</b>	<b>119,831</b>
<b>National economy, total</b>			
Max. 8-year primary school	80,186	68,603	73,892
Vocational + spec. voc. school	89,761	72,788	84,945
Voc. secondary school	117,473	103,519	109,325
General secondary school	120,195	105,427	109,678
Technical school	148,695	129,210	142,602
College	218,300	147,964	172,216
University	290,846	222,468	262,016
<b>Total</b>	<b>125,900</b>	<b>108,051</b>	<b>117,236</b>

\* Gross average earnings including gross amount of earnings components in May and 1/12<sup>th</sup> of rewards, bonuses, not paid with monthly regularity of the previous year, 13<sup>th</sup> month's wages etc.

**Source:** Employment Office, Individual Earnings Survey

In recent years, labour statistics has regularly monitored labour income according to the relevant international earnings concepts.. This includes, in addition to the traditional earnings elements, such allowances as meal contribution, travel expense remuneration or clothing support. In 2002, the labour income was HUF127,310, 96.2% of which was represented by earnings. The per capita amount of the so-called "other labour incomes" is somewhat higher than the average among workers of public institutions.

Table 7.5

**Earnings and labour incomes, 2002**

Sector, branch	Monthly average gross earnings, HUF	of which: rate of premium, reward, 13 <sup>th</sup> month's pay etc., %	Average monthly labour income		% rate of earnings to labour income
			HUF	year earlier=100.0	
Agriculture, forestry, fishing	84.240	4,5	86.905	116,1	96,9
Mining	138.578	13,8	143.172	106,1	96,8
Manufacture	113.659	6,9	118.167	112,0	96,2
Manufacture, n.e.c.	79.107	4,9	81.781	112,9	96,7
Electricity, gas, steam, water supply	155.404	14,0	166.070	113,9	93,6
Industry	117.177	7,7	122.176	112,0	95,9
Construction	86.191	5,7	89.253	107,1	96,6
Trade, repair	106.530	6,7	109.077	117,0	97,7
Accommodation, catering	81.069	6,8	83.914	119,1	96,6
Transport, storage, post, telecom.	130.582	9,6	137.195	111,3	95,2
Finance	241.273	13,8	251.073	111,7	96,1
Real estate, business support	133.762	9,0	137.750	110,3	97,1
Public administration, defence, mandatory social security	167.841	16,7	176.384	125,5	95,2
Education	128.665	9,3	133.163	131,4	96,6
Health and social care	103.188	8,6	106.252	130,6	97,1
Social care	86.928	9,7	89.914	132,1	96,7
Other communal/personal services	111.567	9,0	115.924	121,9	96,2
<b>National economy, total</b>	<b>122.453</b>	<b>9,6</b>	<b>127.310</b>	<b>117,4</b>	<b>96,2</b>
<i>Of which:</i>					
Business sector, total	116.555	7,9	121.002	112,6	96,3
Public sector, total	136.891	12,9	142.650	128,0	96,0

**Source:** CSO, mid-year earnings statistics

Wage developments in 2003 are partly defined by measures taken in 2002. Hence the roll-over effect of the wage increase of public employees implemented in 2002 and the expected adjustment of the tariff table for civil servants will keep the earnings index of the public sector at a high level similar to that in 2002 throughout the year. The alteration of personal income tax brackets in 2003 will be reflected in the growth rate of net earnings exceeding that of the gross ones .

## **METHODOLOGY**

### **Main sources and reference dates**

The main source of international data is OECD's *Employment Outlook 2002*, and *Employment in Europe, 2002*, reviewing the Labour Force Survey data of European Union Member States and the accession candidate countries within a uniform structure.

OECD data usually refer to the year 2001, those of the EU are – traditionally – the results of the Labour Force Survey carried out in 2<sup>nd</sup> quarter 2001. (Hungarian data included in these two databases of course refer to the same date as those of other countries .)

The most important data describing Hungarian developments are *annual averages* calculated on the basis of CSO's quarterly Labour Force Surveys. Owing to the difference in reference dates, Hungarian data published in international comparisons may differ somewhat from those quoted by us.

Unemployment data originate from the LFS and also from the annual averages released by the Employment Office on the unemployed registered according to the relevant Hungarian regulations.

The analysis of the situation of the employed, the unemployed and the inactive, respectively, special mention is made of differences resulting from the deviation of the Hungarian regulations from the corresponding international definitions (as in the case of "working-age", "criteria for registering as unemployed" etc.). One of the main data sources relying on the Hungarian regulations is CSO' Labour Account of the Hungarian Economy.

### **Conceptual framework**

The most important terms are explained in detail upon their first occurrence in the main text.

In what follows, we shall provide the definitions of the main, generally used, terms.

## **CSO'S CONCEPTUAL SYSTEM**

### **CONCEPTS OF THE LABOUR FORCE SURVEY**

The Central Statistical Office has examined the economic activity of persons aged 15–74 in the context of Labour Force Surveys (LFS) adhering to the uniform principles and methods of the OECD countries since 1992.

The conceptual system proposed by the ILO for the survey carried out on a representative sample of private households is identical in the OECD countries.

Accordingly:



The population subject to study is assigned, on the basis of their activity in a specific period (the so-called reference week including the 12<sup>th</sup> day of the month, from Monday to Saturday), into the following two main groups:

- economically active (the available labour supply) and
- the economically inactive (the inactive).

The category of the economically active (available labour supply) includes all persons having appeared on the labour market as employed or unemployed in the week of the survey.

**Employed** : an employed person is someone having performed at least one hour of income-generating activity during the survey week, or having had a job from which he/she was temporarily absent (due to sickness, leave, conscription etc.) at that time.

An income-generating activity is one

- producing a financial income, or
- providing an in-kind allowance or
- performed in the interest of other income to be realised at a later date,
- performed in the capacity of helping family member in order to enhance the income of the economy/enterprise belonging to the household.

From the point of view of the survey, the following do not qualify as income-generating activity: voluntary assistance free of charge provided to another household/institution (social work, so-called team (“kaláka”) work), construction, renovation, repair of own flat/house, work performed in the framework of vocational work experience related to studies (not even if it is remunerated), and work in the household/around the house, gardening included. Work on the household plot qualifies as income-generating only if its outcome is typically meant for the market instead of own consumption.

Persons receiving child-care fee (GYED), or child-care aid (GYES) are classified, according to the ILO recommendation formulated for the transition economies in November 1995 in Prague, as of 01.01.1998, on the basis of their *activity* performed on the reference week, contrarily to the previous Hungarian practice.

On the basis of the Eurostat recommendations applicable to the Labour Force Survey, *conscripts as part of the institutional population are not assigned to the scope of the survey*. Until QIII 2002, in accordance with the conceptual system of the national accounts (ESA95), the LFS data for the employed were corrected with the staff data of conscripts originating from administrative sources. From *QIV 2002 on*, the LFS does not include the number of conscripts and as of 2003 data for the previous periods shall also be modified accordingly.

An **unemployed** person is someone meeting the following criteria simultaneously:

- he/she did not work on the given week (and had no work from which he/she was temporarily absent);
- is engaged in active job-search in the four weeks preceding the survey;
- is available, that is, could take up work within two weeks if an appropriate job was found.

A special group of the unemployed consists of persons not in work on the reference week, but having found work already, to be taken up within 30 days. The simultaneous fulfilment of the above triple criteria is not applicable to them.

The following qualify as active job-search: job queries addressed to public or private vacancy exchange agencies, direct contact with employers, monitoring/posting of adverts, queries addressed to relatives/acquaintances, tests, examinations, interviews, administration to start one's own enterprise.

**Economically active:** persons present on the labour market, that is, the employed and the unemployed.

**Economically inactive:** persons not in work in the reference week, or having had no regular, income-generating work and not engaged in job-search either, or engaged in job-search but not ready to take up work, including, among others, the passive unemployed, willing to work, but discouraged from active job search by the prospects which they deem unfavourable.

The following main indicators are used to describe the extent of unemployment and economic activity:

- **employment rate:** rate of the employed to the population of the corresponding age group;
- **unemployment rate:** rate of the unemployed to the economically active population of the corresponding age group;
- **activity rate:** rate of the economically active to the population of the corresponding age group.

### **THE LABOUR ACCOUNT**

The Labour Account, surveying the economic activity of the population, adheres to the relevant national regulations.

This overview, reflecting the situation on 01.01. of the year (that is, summing up the developments of the previous year) differs from the Labour Force Survey in several respects:

- instead of questions addressed to the population, it is based on reports by organisations/institutions subject to mandatory data supply obligation;
- instead of those aged 15–74, it investigates the economic activity only of those qualifying as being of working age according to the Hungarian regulations, considering employed persons past working age as active, too;
- it considers as employed active (working-age) earners and working pensioners.

**Active earner:** person pursuing an earning activity, earning a salary/income, employed (at the ideal date of 31.12.) as *main job holder* by a partnership or sole proprietorship, public or social security organisation or non-profit organisation, including employed retirees (as of 01.01.1999, contrary to the previous practice, the number of the economically active population outside working age includes, collectively, active earners outside working age and employed pensioners). Regular soldiers subject to employment relationship also qualify as active earners, as well as

working members of collective partnerships, sole proprietors and their assisting family members, assisting family members in agriculture and casual and day workers. An assisting family member is a person contributing to the business activity of a self-employed person on a regular basis, not for pay, without engaging in an employment-type legal relationship and without operating license.

**Registered unemployed:** those among the job-seekers registered by the Employment Office who are not engaged in employment, are not pensioners, students, beneficiaries of employment promotion subsidy (e.g. re-training, public benefit work), looking for work, a job or an self-employment and is ready to accept a job if one presents itself.

**The economically inactive population:** persons outside the economically active population, including

- persons on any form of child-care support (based on data of recipients recorded by the National Health Insurance Fund);
- pensioners/benefit recipients pursuing no earning activity (based on data of the National Pension Disbursement Directorate);
- persons living on capital income (real estate or principal);
- persons under 15;
- students past 15 (institutional data collection);
- household dependents;
- public dependents;
- persons under social care.

### **EARNINGS**

**Gross earnings:** aggregate amount of basic wages including personal income tax, health insurance and pension contribution and employee contribution and components of earnings paid under other titles (wage supplement, supplementary salary, bonus, reward, 13<sup>th</sup> and further month's payments).

**Net earnings:** indicator based on gross average earnings after deduction of employee contribution, personal income tax, health insurance and pension contribution calculated on the basis of the contribution thresholds established for the given year.

### **BUSINESS ORGANISATION**

**Registered business organisation:** unit existing in the legal sense, according to the administrative registrations, and possessing a tax identification number at the time of the survey, including units subject to bankruptcy/liquidation/final settlement procedure at that date.

**Active business organisation:** enterprise having filed tax returns in the given year or in the previous year (corporation tax, VAT etc.), having met its statistical data provision obligation or established in the given/previous year.

The following shall not be regarded as active:

- \* enterprise liquidated but not registered as such due to administrative reasons, due to omission of the reporting obligation;

- \* enterprise subject to liquidation for several years, pursuing no business activity, having suspended/not started yet its activity;
- \* unit performing entrepreneurial activity occasionally only;
- \* unit figuring in the pre-registration records under the “one-window” registration system until the passing of the registration decision

**APEH, the Inland Revenue Office**, regards as **active** a business organisation with a tax number not subject to liquidation/bankruptcy/final settlement procedure and not having announced the termination of its activity.

Registered budgetary (public), social insurance, non-profit and ESOP organisations and from 1998 on registered organisations of housing co-operatives, building communities and condominiums also qualify as active.

**Sole proprietorships** include, in addition to those subject to the Act on Sole Proprietorships, private individuals pursuing business activity and having a tax identification number of their own (e.g., freelance intellectuals).

The number of **business partnerships** includes both incorporated and unincorporated business partnerships.

**Staff category** is a classification system designed by CSO, taking into consideration the relevant international recommendations, and regularly used for data collections and in publications. The staff number of business organisations covers persons **employed** under an employment relationship, as suppliers or under a member’s relationship involving personal participation (for an indefinite period or based on agreement, in excess of 3 months). (Accordingly, owners of partnerships and entrepreneurs on other enterprises are indicated in organisational statistics as zero staff.)

## **CONCEPTUAL SYSTEM OF THE EMPLOYMENT OFFICE**

The reference date of data in Employment Office publications originating from administrative sources is, for the registered unemployed and the unemployed as well as for beneficiaries of social-type allowances, the end of the given month (the so-called closing stock). As for the announced labour demand, the number of vacancies available for exchange in the given month (that is, closing stock of the previous month and new announcements in the given month) is indicated. In case of active employment programmes, the number indicates participation for at least for one day in a subsidised measure in the given month.

The so-called flow-type data (entries and exits) indicate the cumulated amounts of movement between the first and last day of the reference period.

**Registered unemployed:** persons registered at the public job exchange office, not engaged in employment, not in education, receiving no pension, or employment promotion subsidy, looking for work of self-employment and available for work.

**Registered school-leaver:** registered unemployed youth, under the age of 25 – for persons with tertiary qualification, under 30 –, having acquired no eligibility to unemployment benefits after having finished their studies.

**Unemployment rate:** % rate of the registered unemployed on the closing day to the economically active population on 01.01. of the previous year.

**Beneficiaries of unemployment benefits:** those among the registered unemployed, who had met their contribution payment obligations prior to becoming unemployed, and hence became eligible, in accordance with the provisions of the Employment Act, to the disbursement of unemployment benefits.

**Beneficiaries of pre-pension unemployment benefits:** those among the registered unemployed, whose eligibility to unemployment benefits had expires, and are within 5 years from retirement age, and meet all other requirements specified under the Employment Act.

**Beneficiaries of regular social aid:** those among the registered unemployed whose eligibility to unemployment benefits had expired and for whom the local self-government established regular social aid in accordance with Act III of 1993.

**Beneficiaries of active employment policy measures:** persons benefiting from an employment promotion subsidy of some sort under the Employment Act. Registered unemployed are cancelled from the stock of the registered unemployed for the period of the subsidy.

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