II. Joint Project of the European Social Partner Organisations

Study on restructuring in new Member States

HUNGARY - COUNTRY DOSSIER

Prepared by:

Károly Jókay and László Osváth

This project is organised with the financial support of the European Commission

CONTENTS

The present report represents an expert view and does not necessarily reflect the view of the European Social Partners

I. INTRODUCTION: PURPOSE OF THIS DOSSIER

This dossier is aimed at an audience that is not necessarily expert in the Hungarian economy and social dialogue process. The dossier summarizes information from Hungarian and international sources regarding the macro situation, and the evaluations, warnings written about the Hungarian economy in the first half of 2005. The dossier is aimed at a non-Hungarian audience and is intended to reflect the views of the 9 national social partners (4 employers' organisations, 5 labour organisations) interviewed for the project. These organisations are those social partners who are members of European-level social partner organisations (ETUC, UNICE, UEAPME, CEEP). However, there are several significant participants in the tripartite negotiations who were not interviewed since they were not identified as being members of these Europe-wide bodies.

The dossier intends to describe the social dialogue process from the perspective of restructuring, and provides examples of restructuring cases. The dossier served as a common basis for discussion in a seminar that was held October 5, 2005, in Budapest with the national social partners and their European counterparts. The results of the debate and the observations of the participants are incorporated into this final version of the dossier and case study.

This dossier is based upon interviews as well as on the analysis of the existing data and documents. The list of persons interviewed, as well as sources is presented in the Annexes. Data are current as of August 15, 2005, except in those cases where new information is significantly different as of October 1, 2005 in comparison with the original data used.

2. ECONOMIC TRENDS AND CHALLENGES IN MID-2005

2.1 Macro-economic trends and challenges (structural problems, international opinions, views of social partners)

Hungary's economic transition began in the mid to late 1980s when the country joined the IMF and the World Bank. In 1990, Hungary already had laws on personal income taxation, bankruptcy, value added tax and the complete legal framework for transformation, and ultimate privatisation of the state sector was already in place. The transition shocks took place in the early 1990s with the collapse of the Soviet Union, with most of the old state sector manufacturing, mining and other traditional industries privatised and consolidated by the mid-1990s. The same is true for the banking and financial sector, that with few exceptions, has been entirely privatized and is in foreign ownership.

The country's population was 10,086,000 on June 1, 2005. Hungary has been experiencing a natural decrease (-3,7 per 1000 in 2004) with deaths exceeding births since 1980, and a fertility rate well below replacement level. Hungary's population dropped by 21,000 in 2004 despite a positive flow in immigration, i.e. 15,000 foreigners settled legally in Hungary in 2004. Over 130,000 foreigners are known to be living legally in Hungary in 2004; about 4-5,000 foreign citizens (about 80% of them ethnic Hungarians from Romania, Serbia and Ukraine) receive Hungarian citizenship each year. Immigration of ethnic Hungarians from neighbouring states is an emotional issue and absorbing ethnic Hungarians from neighbouring states is not considered by any political force to be a legitimate method of dealing with labour shortages and declining population. Cross-border labour migration is an issue with Slovakia, also a EU member, providing over 5,000 workers in NW Hungary who commute on a daily basis to Audi in Győr, and Suzuki in Esztergom. In theory, ethnic Hungarians and others in neighbouring countries could provide an immigrant labour pool of 20-30,000 persons per year

Hungary's economy is entirely open, and depends on the EU for over 80% of its foreign trade. Regarding the ownership structure of enterprises, only 13% of corporate registered capital remains in state hands in 2002, compared to over 55% in 1992 (see Chart 1 at Annex).

Almost all prices are market-based and deregulated (as demonstrated in Chart 2 at Annex). Certain fees (natural gas, electricity) are set by national authorities, as well as water, waste, solid waste etc. charges are set by local self-governments, i.e. the municipalities.

The structure of the economy is also modern with medium-high tech dominating the manufacturing sector (see Chart 3).

The service sector accounts for 66% of GDP, with industry adding 25%. Agriculture, once a mainstay of the Hungarian economy during the planned economy period, has dropped to about 4% of GDP. Banking and financial services provide 21% of GDP value added, with trade and tourism, as well as public services each taking an equal share of the service portion of the economy. Employment figures of course do not match the sources of value added, but that is to be discussed later (see Charts 4 and 5 for the composition of value-added and the openness of the economy).

The dominant service sector and medium-high tech manufacturing sector exist in an economy that shows external trade turnover accounting for about 25% of GDP.

Hungary's foreign trade is almost entirely dominated by the EU, with 79.3% of exports to the EU, and nearly 72% of imports from the EU. If non-EU Europe is added in, then 91% of exports and 84% of imports are with Europe broadly defined, including accession candidates (see Chart 6 for details on trade partners and the composition of trade).

The structure of trade is also favourable, with over 80% of imports and exports of goods consisting of machinery and manufactured goods.

Maastricht Criteria

Hungary only meets one Maastricht criteria, i.e. state debt as a percentage of GDP is below 60% in 2004, but this indicator is worse than any other EU-8 country, all of whom have a debt/GDP indicator that is at least one fourth lower than Hungary's (as shown in Chart 7). This 57,6% would have been above 70% in 2004 had the original methodology been used (temporary allowances were made for payments flowing into the private pension funds). See Chart 7 for a regional comparison of debt.

Hungary's inflation rate for 2004 reached nearly 7% and the current (August 2005) inflation rate of 3,7% also exceeds the Maastricht limit of 3%, while the state budget deficit is well above 3% and the entire planned deficit for 2005 looks set to be reached by the end of August. The National Bank base interest rate is 6%. Hungary has received warnings from the European Commission, most recently in October 2005, about the size of its fiscal deficit and has been a subject of significant criticism from the IMF, OECD and private rating firms regarding the fiscal deficit, the level of inflation and real interest rates, as well as sovereign debt. Any serious social dialogue needs to be placed in the context of this macro-fiscal situation. Of the EU-10, only Poland and Malta had higher fiscal deficits than Hungary's 4,5% of GDP in 2004 (see Chart 8 for details).

Hungary's current account deficit was 8,9% in 2004, and estimated at 7,5% for the first quarter of 2005 by the World Bank. In September, 2005, the fiscal deficit was recalculated using methods acceptable to Ecostat, and thus stands at 7,1% of GDP as of October 1, 2005. The planned figure for 2005 was 4,7%. In 2004, Eurostat reported that Hungary's fiscal deficit reached 4,5% of GDP, the third worst among the EU-10 after Poland and Malta. No international agency expects any of these two indicators to meet the Maastricht criteria in 2005.

Inflation

Hungary's inflation in 2004 remained stubbornly high, running close to 7%, nearly double most of the other EU-8 new member-states. By July, 2005, the Consumer Price Index had dropped to 3,7%, but above the 3% target set at Maastricht (see Chart 9 for comparative inflation figures. Of the new EU member-states, only Slovakia had a higher CPI in 2004 than Hungary).

As indicated in Chart 10, Hungary's inflation has been steadily declining over the past 5 years, with core inflation in July 2005 at only 1,6%. Hungary remains very much exposed to oil price increases as almost all of its petroleum is imported, and the forint/dollar exchange rate may change unfavourably.

Economic growth

In a European context, Hungary's real GDP growth over the past decade seems favourable. GDP growth in 2004 was 4%, well above the EU-15 average, but Hungary was last among the EU-8 new member-states in 2004. As of the end of first quarter of 2005, Hungary's GDP growth compared to the same quarter in 2004 was only 2,9% (see Chart 11 for comparative growth figures). Only Cyprus and Malta had lower growth rates than Hungary among the new member-states.

Unemployment

Another unfavourable feature of Hungary's economy is growing unemployment. The rate climbed from just above 5,5% at the beginning of 2004 to over 7,1% by June 2005. There are wide regional variations in the unemployment rate, with a low of 4,7% in Budapest and a high of 12,6% in the Northeast corner of the country. These are, of course, county-wide averages, with the large cities enjoying unemployment rates as low as Budapest (or lower) and rural regions may have rates that are 4-5 times higher than in the county capitals. In other words, cities in counties with high rural unemployment may experience chronic labour shortages as mobility and the proper skill sets may be obstacles to an efficiently working labour market. For example, the City of Győr houses an Audi plant that imports workers from Slovakia rather than from areas in Hungary that have double-figure unemployment.

Unemployment by County, First Quarter, 2005 (%)

Sources: Map: HVG (June 18, 2005: page 56), Data: Central Statistical Office

The definition of the unemployment rate has been subject to some controversy. However, as demonstrated later, the total pool of labour, the activity rate of the population, and the increased number of job-seekers needs to be taken into account simultaneously, and in this complex calculus showing causation requires more thorough analysis.

Workforce Participation (economic activity rate)

In the words of one of the social partners representing employers interviewed for this project: **"In Hungary about a million people are working who are not employed."** Of the EU-10, only Malta and Poland have economic activity rates lower than that of Hungary (see Chart 12 for comparative data). Only 56,8% of the working age population between 15-74 years of age is actively employed. This is below the EU-15 average, far from the Scandinavian or North American rate of activity as well.

Several studies have indicated that between 500,000 to nearly 1,000,000 Hungarians of working age are active only in the grey economy, where their earnings are not taxed and not recorded. Their consumption does appear in part in VAT figures. Several social partners, representing both sides, have questioned the Statistical Office's derivation of the "missing workers" as being too low, and argue that the figure is closer to 1 million than it is to 500,000. These "grey" workers of course are economically active, but they are not taxed, do not pay into the social welfare system, and are not represented by any social partner neither as employees nor as employers. They represent a great reserve of taxable earnings and economic potential. The size of the informal economy is estimated at being 20-30% of GDP, a figure that is not far from the estimated size of informal economies in Southern European EU-15 members.

- **"Whitening," representing and taxing the grey economy is a goal common to all social partners regardless of which side they represent.**

FDI trends and Employment

After an early start in 1990, Hungary is no longer attracting a large proportion of FDI aimed at the Central European states. Certainly Slovakia, Slovenia and the Baltic States, as well as accelerated reforms in the Czech Republic have reduced Hungary's early lustre. (See Chart 13 for FDI trends in Hungary since 1995).

As the chart indicates, most foreign investment in Hungary went into Greenfield facilities, and most profits have been regularly reinvested. Germany, Netherlands and Austria dominate foreign investors in Hungary, but it is worth noting that General Electric and Citibank established a very important "benchmark" presence in Hungary in the late 1980s, and US investors play a key role in telecoms, automobiles, call centres and other high value-added regional headquarters roles.

Indicative of the relationship of FDI and employment are the following figures. The American Chamber (Amcham)[1] in Hungary has 590 members from 22 countries, and represents 17 billion dollars in FDI, a significant portion of the total stock of FDI since 1989. However, its member firms only employ 5%, or 190,000 of Hungary's 3,8 million strong labour force, but generate 35% of exports and 12% of imports. Since the various foreign chambers have overlapping memberships, Amcham is a good cross-section of the world's 50 largest firms who have invested in Hungary. Amcham claims to represent 60% of FDI in Hungary, so on a proportional basis, foreign multinationals employ no more that 10-12% of Hungary's labour force directly. All indications are that most of the highly paid professional jobs are with these firms, but the danger of mass layoffs and labour market disruptions will not come from the relocation of multinationals rather from layoffs in the public sector (over 800,000 employees) or the SME sector (up to a million employees, family members, owners).

Competitiveness Issues

Several social partners on the employers' side, as well as a general consensus among business leaders in Hungary, claim that the country has lost some of its competitive edge not against the Far East, Western Europe or North America, but on a regional basis where relatively well-trained and "low cost" labour forces compete directly for investment by export-oriented firms.

The following table shows total payroll taxes paid by both employees and employers. Hungary is on par with Poland, and in this regard has an advantage over the Czech Republic

[1] See www.amcham.hu

and Slovakia. On the other hand, Slovenia and the Baltic Tigers have a clear competitive edge in terms of payroll taxes.

Wages: Hungary's average private sector gross wage in mid-2005 was about 640 euros per month,2 these payroll taxes come on top of that (see the Central Statistics Office report on incomes released in November 2005, available at www.ksh.hu)

- Public employees earned more than private sector employees, with their average gross wage at 769 euros per month during the first half of 2005.
- The national average income from work (excluding dividends and other benefits) January-September 2005, was 665 euros per month. Non-wage benefits add about 5% to this amount on average.
- The private sector average wage is calculated including hundreds of thousands of entrepreneurs who pay themselves only the statutory minimum wage, as well as employees and management of multinationals who make a multilple of the average wage. The statutory minimum wage in force is 57,000 forints or 232 euros per month, with payroll taxes about 337 euros/month.

There are significant differences in the average earnings by industry, and between white collar and blue collar workers within an industry. For example, the average wage in the textile industry is 337 euros, but is only 293 euros for blue collar workers and over twice as much, 604 euros, for white collar workers within the textile industry. Similar 2:1 and 3:1 differences exist in other branches of the economy.

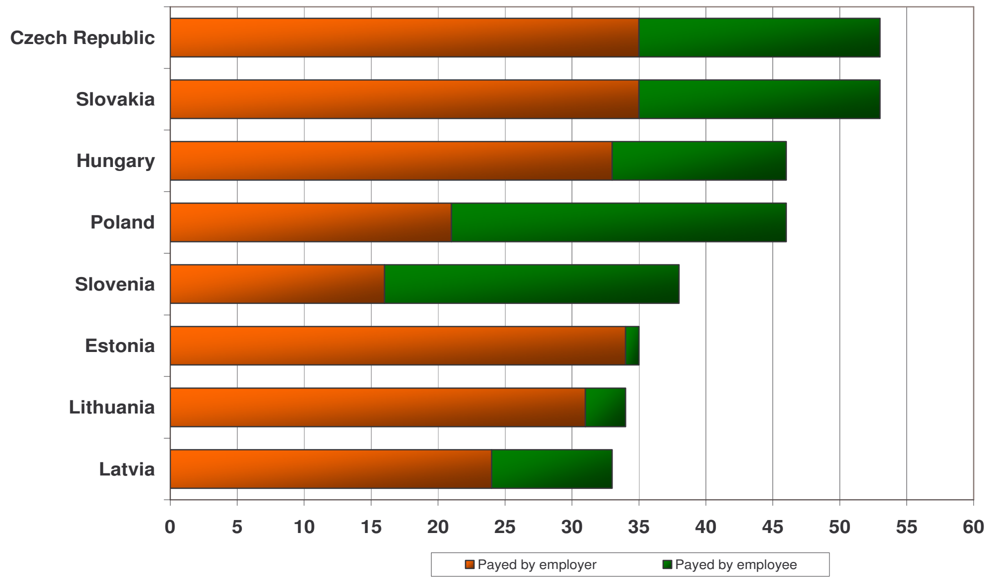
Other examples:

Average Wages in Private Industry, based upon CSO Report January-September, 2005
(euros/month gross, without payroll taxes)

Industry	**Blue Collar**	**White Collar**	**Average**
Manufacturing (overall)	444	1036	579
textiles	293	604	334
chemicals	571	1326	824
Machinery	493	1126	632
Finance, banking	526	1387	1375
Tourism, catering	302	653	387
Private sector average	408	938	587
Public Sector average	420	836	734

[2] Using 245 forints/euro as an exchange rate

Hungary's combined employer and employee payroll tax burden of 33 + 12% adds to these costs.



Total payroll taxes as a percentage of gross wages in 2004 (Source: Figyelő, July 21-27, 2005 based upon World Bank)

Productivity Trends:

According to the Central Statistics Office (November 2005), productivity in the Hungarian economy grew by 10% in comparison to 2004. This figure by itself is not enough. Instead, a glance at comparative figures collected and processed by the OECD "productivity centre" are more illustrative in that they put Hungary in context of its direct competitors, i.e. Poland, Slovakia, the Czech Republic, Austria and Germany. Total labour productivity in the OECD countries grew by 2,6% in 2004, and is expected to be 1,6% in 2005. Hungarian productivity in the business sector grew by 4% in 2004, expected to reach 3,6% in 2005 and 4% again in 2006. By comparison, these figures range from 4 to 4,7% for the Czech Republic, 3% to 5,3% for Slovakia, and only 0,6% to 1,1% for the Euro-zone. (See OECD Economic Outlook productivity database table 12).

Another measure of labour productivity prepared by the OECD evaluates GDP per hour worked, expressed in US Dollars. In 2004, Hungary produced $21,50, doing better than the Czech Republic ($20,70) and Poland ($17,70), but lagging far behind Austria ($38,40) and the Euro-zone ($40,20) (see "International Comparisons of Labour Productivity Levels - Estimates for 2004 (September 2005)"). Since 2000, Hungary's productivity has been growing twice as fast as in the Euro-zone. However it remains considerably below the Euro-zone level.[3]

[3] For full information on the OECD's methodology, see "OECD Compendium of Productivity Indicators, 2005." Published on the internet at www.oecd.org

Marginal Tax Rates:

Another frequently cited source of disadvantage for Hungarian labour comes in the form of marginal income tax rates. The top tax bracket starts at 510 euros per month in gross wages (without the payroll tax). So the average wage is already in the top tax bracket of 38%. Note that the top bracket in Slovenia, Poland and Slovakia starts at an income level at least twice as high. Hungary's top VAT rate of 25%, expected to be reduced to 20% in 2006, encourages cross-border shopping in tax havens by Hungarian consumers in neighbours such as Austria, Slovakia and Romania. This has a particular dampening effect on retail trade (and ultimately employment) along porous borders. (See Chart 14 for comparative tax rates in the EU-8 and Bulgaria).

<u>Transformation issues</u>

- The following sectors face restructuring in the short run, affecting over 800,000 public sector employees, or 21% of the workforce. Public employees and civil servants are also well-represented by social partners, i.e. have significant labour union membership:
  - Post office upon liberalisation
  - State Railways upon liberalisation
  - Public Administration system upon "regionalisation"
  - Healthcare delivery and financing system
  - Local government (The municipal sector has over 500,000 employees)
  - Education (mostly primary as it is a municipal responsibility)
  - Social welfare and other social delivery systems
- Several social partners indicated that shifting public services, administration and self-government to a regional (Nuts II) basis, as well as reducing the number of local self-governments is essential to competitiveness.
- EU membership will negatively influence undercapitalized small businesses that simply cannot compete against new market entrants, cannot meet health and safety directives that require expensive retrofits, and cannot export outside of Hungary given a lack of contacts, skills, and competitive products. Over 95% of Hungary's firms have 9 or fewer employees. Even if firms that exist only on paper or reflect disguised employment relationships are removed, the dominance of micro-enterprises is overwhelming. According to several social partners, 2005-2006 will witness rising bankruptcies and increased unemployment of the owners/employees of these firms (employers' organisations).
- The micro-enterprise sector, due to the effects outlined above, will not be able to absorb layoffs by larger firms any more (employers' organisations).

Number of active corporations and unincorporated enterprises by staff categories, 2003

Number of Employees	Number of firms	%
Unknown and zero	553.201	62,68
1 - 9	296.328	33,58
10 - 19	17.295	1,96
20 - 49	9.802	1,11
50 - 249	4.898	0,56
250 -	979	0,11
Total	**882.503**	**100%**

Source: CSO

- Of Hungary's 882.000 legally registered firms, only 6.000 employ more than 50 persons, and only 979 have more than 250 employees. The remainder, or over 875,000 firms, have fewer than 50 employees, most of them having 1 or 2. The risk of massive and disruptive restructuring is significant in the micro and SME sector, but less with multinationals. (CSO data, 2004).

Macro challenges identified by international organizations

IMF (June 29, 2005):

- Hungary's 9% current account deficit increases the risks associated with twin deficits. A fiscal adjustment is needed, with three year budget planning.
- Reforms are needed in the educational and health care systems.
- Taxes rates should be reduced simultaneously with a broadening of the tax base.
- Purchasing Power Parities arrangements should be transparent and not used to hide State debt.
- The workforce participation rate must be increased, the labour market made more flexible, and increases in the minimum wage should be linked to increased productivity.

World Bank (July. 2005)[4]:

- Fiscal policy is "muddling through," the emergency measures proposed have a "marginal impact" on the deficit, and are "quick fixes" with "little impact on the underlying fiscal position."

[4] World Bank „EU8 Quarterly Economic Report" (July 2005).

OECD (July 19, 2005)[5]:

- Hungary is on a positive, healthy growth track, but needs to reduce the fiscal deficit, and reduce the tax burden with simultaneous spending cuts.
- One-off revenues should be used to reduce state debt, and not for financing new spending.
- Health care reform is needed.
- Early retirement needs to be reconsidered, workforce participation increased, and labour mobility increased with better transportation.

Macro Challenges identified by Social Partners

The social partners interviewed for this project identified some macro challenges that they deemed to be important. Those challenges that are unique to the partners and were not mentioned elsewhere are described below:

- Hungary lacks strategy and vision, and should decide whether it wants to compete with economies that are essentially parallel to it (Slovakia, Poland, Czech) as a part of global production chains (automobiles, electronics) that are subject to intense pressure from China, versus expanding services within existing successful industries, i.e. adding tertiary services to the existing manufacturing base (several employer organisations).
- The entire state budget system, and all of its components, needs thorough reform (organisations representing both sides made this statement).
- The role of the State, municipalities, private sector and NGOs needs to be debated and rethought.
- The education, health care, job training, social welfare etc. systems need thorough rethinking and reform (both sides).
- Hungary does not have an industrial policy (employee organisation).
- Europe, as well as Hungary, is in a fundamental economic crisis, since the micro and SME sectors are neglected. Though 90% of firms in Hungary have fewer than 10 employees, and 56% of firms in the EU-15 have fewer than 10 employees, most financing programs are aimed at large firms. The SME sector cannot absorb any more laid off employees from the large firms without an explicit development strategy. There simply is not enough emphasis on enabling and supporting the SME sector in its efforts to create and retain jobs. Those micro firms, on the other hand, absorb most of the labour force and generate up to 40% of GDP (employer organisation).

[5] „Policy Brief: Economic Survey of Hungary," OECD Observer (July, 2005), www.oecd.org and „Economic Survey of Hungary," OECD Economics Survey (July 19, 2005).

- Fundamental tax reform is needed in Hungary to reduce the full cost of labour: payroll taxes, income taxes need to be cut, tax brackets widened, pension and health finance reform continued (employer organisation).
- Reduction in workforces in changing industries is inevitable, and the “delocalisation” of multinational investments cannot be stopped, but collective bargaining should strive to achieve a commitment to lifelong-learning and continuous retraining as a basic workers' right (employee organisation).
- Privatisation of strategic service companies did not lead to market and price liberalisation and competition. State monopolies became private monopolies, and these monopolies need to be given competition. Future privatization of strategic assets should keep in mind the need to create competition and open market access (employer organisation).
- Public services (local transportation, for example) and public administration should be reorganised along a regional basis (Nuts-II), leading to better service, lower cost, and more rational scale economies (employer organisation).
- There is a general lack of political will to truly redefine and to decentralise the State along regional lines.
- The social partners themselves (both employers and employees) need some structural adjustment themselves and this is inevitable as union membership declines, and the most dynamic sectors of the economy operate independently from social dialogue (employer organisations).

2.2 Declining, restructuring and expanding sectors

Based upon the distribution of FDI stock in Hungary one may deduce which sectors are currently expanding or expecting increases in production and employment. These are primarily manufacturing, telecommunications, and financial intermediation (see Chart 15 for distribution of FDI stock by industry).

The Ministry of Economics and Transportation has determined that 70% of the growth in manufacturing has taken place in the automobile and transportation, as well as electrical machinery sectors in 2004, and this is expected to continue in 2005. In addition, the Ministry's studies and other business literature have identified the following sectors as growing faster than the overall economy: infrastructure and transport, financial services/call centres, wellness and spa tourism, software development, chemicals, plastics and instruments.

The following table shows planned and realised FDI in Hungary in 2004 and 2005. It confirms that automobile manufacturing; automobile parts and other medium and high tech manufacturing dominate among foreign investors.

NEW JOB-CREATING INVESTMENTS IN HUNGARY 2003-2005 (partial list)

Name	Activity	Settlement	Investment (billion HUF)	Persons
Audi AG	Car and engine production	Győr	110	no data
Suzuki	Car production	Esztergom	110	700
Elektrolux AB	Refigeratior production	Nyíregyháza	15,9	600
Elcoteq	Electronics	Pécs	13,2	688
Nokia	Mobile phone	Komárom	12,3	1000
Nitrogénművek Rt.	Nitric acid production	Pétfürdő	13	no data
Sanyo Electronic Co.	Solar cell and air-condition production	Dorog	6,5	300
Jabil Circuit Kft.	Radio relay service	Szombathely	3,7	700
Musashi Hungary Kft.	Car components production	Ercsi	3,7	240
Spar Magyarország	Food wholesaler	Bicske	3,5	120
Mirae	Mobil phone parts	Komárom	2,5	300
Egis Rt.	Medicine production	Körmend	1,2	no data
SWS Ltd., Fleming Ltd.	Windmills	Bakony	24,5	no data
Asahi Glass Co.	Windscreen production	Tatabánya	15	200
EETEK Hungary Kft.	Wind power plants	Hárskút	13	no data
Felleskjopet, Dtech	Corn and peas drying	Vasmegyer	1,3	no data
Neptunecht Kft.	Concrete-part production	Edelény	1	50
Balda AG	Mobile phone production	Veszprém	0,5	750

Data from Figyelő magazine, Feb 11, 2005.

Job creation in the developing/potentially developing sectors

Services such as tourism, banking, back office support, financial support are also expanding employment as global firms establish call centres and processing headquarters in Hungary. Total employment created thereof has not, however, influenced the workforce participation rate, and unemployment in both relative and absolute terms has increased despite these types of investment.

Declining sectors

Sectors undergoing the heaviest restructuring are the following sectors:

Sector	Reasons for restructuring
textiles	Production moving East to lower wage countries (Ukraine, Romania, China)
footwear	Production moving East to lower wage countries (Ukraine, Romania, China)
clothing	Production moving East to lower wage countries (Ukraine, Romania, China)
Printing and publishing	Slovakia and other neighbours have price advantage
Food processing	Scale economies, multinational processors consolidate on European basis
paper	Finland, Russia, Ukraine more competitive
Public sector	Railroad, post office, health care, education etc. system under funded and subject to structural refom
Some high tech (CD) manufacturing	Global firms relocate production based upon global strategies unrelated to Hungary

What is critical for the future is which sectors have not yet undergone massive restructuring: the public corporations such as the post office and railroad, the local government system, the education system and the health care system. The central state and municipalities with their 800,000 public employees have essentially provided a social welfare function in the small communities where often the only paid employees are those who work for the municipality or the local school.

The restructuring list, below, shows examples of delocalisation, of structural shifts away from unskilled labour in the textile area, but most decisions seem to be internal corporate decisions (food packaging) to realize global scale economies where the small size of Hungary's internal market may be the motivation to close plants. Again, based upon this list, it is difficult to generalize about "declining sectors" as those seem to be in the public sector, while privatization and an integrated modern economy have an organic cycle of change with a net positive effect on employment and wages in a small slice of the total labour pool.

Job Reductions in Hungary, 2003-2005 (non-inclusive)

Name	Activity	Announcement date	Jobs Reduced
Mary 2000 Cipőgyár Kft.	Footware industry	2003	700
Brown & Root	Army support	2003	639
Styl Ruhagyár Rt.	Quality textiles	2005	600
Uniontext Kft.	Textile industry	2003	430
Imperial Tobacco	Tobacco production	2004	380
Kraft Foods	Coffee and sweets	2004	320
Tokodi Üveggyár Kft.	Glass industry	2004	320
Sabona Kft., Salamander	Shoes	2003	301
Za-Ko Rt.	Clothing	2003	240
Ikarusbus	Bus production	2003	187
Corona baromfi Kft.	Poultry	2003	180
Warten-Tisza Rt.	Furniture production	2003	170
Hammer-Hungária Bt.	Sewing	2003	160
Parmalat Hungária Bt.	Milk products	2004	130
Triumph	Underwear	2005	105
Dunaújvárosi Nyomda Rt.	Printing	2003	44
Vértesi Erőmű Rt.	Electricity production	2003	1200
Videoton	Communications equip	2003	1000
Elektronikai és Mechanikai Kft.	Electronics	2003	900
Philips Magyarország Kft.	Electronics	2003	500
Pick Szeged Rt.	Pork slaughterhouse	2004	450
Ringa Rt.	Meat industry	2003	427
Flextronics	Contract manufacturing	2004	400
Philips Magyarország Kft.	LCD monitors production	2004	370
Ajka Kristály Kft.	Glass production	2003	300
Zalakerámia Rt.	Ceramics	2004	270
MSC Marc Hungary Kft.	Footware industry	2003	230
Moldin Kft. Pannonplast	Plastics	2004	230
Rába Futómű Rt.	Carriages, transmissions	2003	175
ICN Magyarország Rt.	Medicine production	2004	135
Brau Union Hungária Rt.	Beer production	2004	120
Sole Hungária Rt.	Food industry	2003	109
Friesland Hungária Kft.	Milkpowder production	2004	100
British American Tobacco	Tobacco Production	2004	90
Opel Magyarország Autóipari Kft.	Engines and transmissions	2005	90
Borsodi Sörgyár Rt.	Beer production	2004	50
Tchibo Budapest Kft.	Coffee and sweets	2005	48
ATEV Fehérjefeldolgozó Rt.	Animal byproducts	2003	40
Zsolnay Porcelángyár Rt.	Ceramic components	2004	25
Hollóházi Porcelán Rt.	Fine china	2003	No data
Skanska Ingatlan Rt.	Construction acivity	2003	No data

Data from Figyelő magazine, Feb 11, 2005.

- The most endangered restructuring candidates in Hungary, in addition to the 800,000 state and municipal employees, according to some social partners, are those nearly 800,000 owners of small firms and sole proprietors, who employ themselves and their family members. These small firms cannot meet EU health and safety and other standards (separate showers, separate refrigerators etc), they are undercapitalized, are not able to compete with imports from Asia or the rest of the EU, and are in danger of facing bankruptcy "en masse" in 2005 and 2006. Displaced proprietors and small business owners are unlikely to find work in the multinational sector, nor will the small shops, restaurants, repair facilities etc. be able to absorb lower skilled workers displaced from multinationals who seek only qualified labour.

An important study[6] prepared for the confederation of all trade unions by Gyorgy Szabo and Julianna Szabo empirically showed the following affects that multinationals have had on restructuring and labour in the period up to 2000. These conclusions are valid even if we take into account the more current cases listed in the tables.

- In all cases, restructuring at the enterprise level removed the most unskilled labour first, thus raising the average skill level of employees who remained. The more drastic cuts in unskilled labour take place at foreign-owned firms.
- Foreign-owned firms are generous with training and retraining budgets, especially in the management and language skill areas. Manual workers in contrast receive minimal training needed to do their jobs.
- It is hard to determine how "over qualified" a labour force is (secretaries with university degrees for example). Typically the automobile, electronic and auto parts industries employ line workers who are over-qualified for their positions.

2.3 Hungarian labour market

The Hungarian labour market shows many contradictions. There are clear shortages of skilled employees in certain parts of the country, while at the same time the number of unemployed persons at the end of 2004, nearly 400,000, was last recorded in 1993 at the peak of the collapse of the ex-Soviet market and mass restructuring and privatization.

---

[6] Source "A multinacionális vállalatok és a munkaerőpiac szakszervezeti vonatkozásai," Selmeczy György, Szabó Julianna, BUDAPEST, 2000. December, available at www.konferderaciok.hu

The level of labour market participation, only 56% as indicated earlier, indicates that Hungary's informal economy may be larger than thought, and that official statistics need deeper explanation. (See Chart 16 that shows the number of registered unemployed since 1990).

Economic Activity among the 15-74 year old cohort, 2004 (%)

Age group	Economically active	of which		Economically inactive	of which passive unemployed
		Employed	Unemployed		
15 - 19	5,54	65,12	34,88	94,46	1,16
20 - 24	48,45	86,59	13,41	51,55	4,16
25 - 29	76,66	93,53	6,47	23,34	7,56
30 - 39	80,19	94,01	5,99	19,81	9,68
40 - 54	76,85	95,30	4,70	23,15	7,99
55 - 59	47,94	96,60	3,40	52,06	2,24
60 - 64	14,15	98,22	1,78	85,85	0,34
65 - 74	2,93	98,09	1,91	97,07	0,03
Total	53,79	93,91	6,09	46,21	3,06

Source: CSO

- There is a clear mismatch between job skills and experience, and market demand at both ends of the age spectrum. This is a significant social and economic hindrance.
- The grey or informal economy does employ even the "inactive" segments.
- Age discrimination exists.
- Part-time work barely exists, as the tax burden and administrative burden is identical to full time work.
- Vocational education and the needs of the growing sectors are completely mismatched. This is a consensus opinion of all social partners interviewed.

<u>"Missing Workers"</u>

An interesting feature of Hungary's labour pool are the so-called "missing" workers who form part of the 15-74 population, but do not appear anywhere else. They are not employed, they are not unemployed, they are not in the military, they are not abroad, they are not on parental leave, and they are neither on welfare nor on disability.

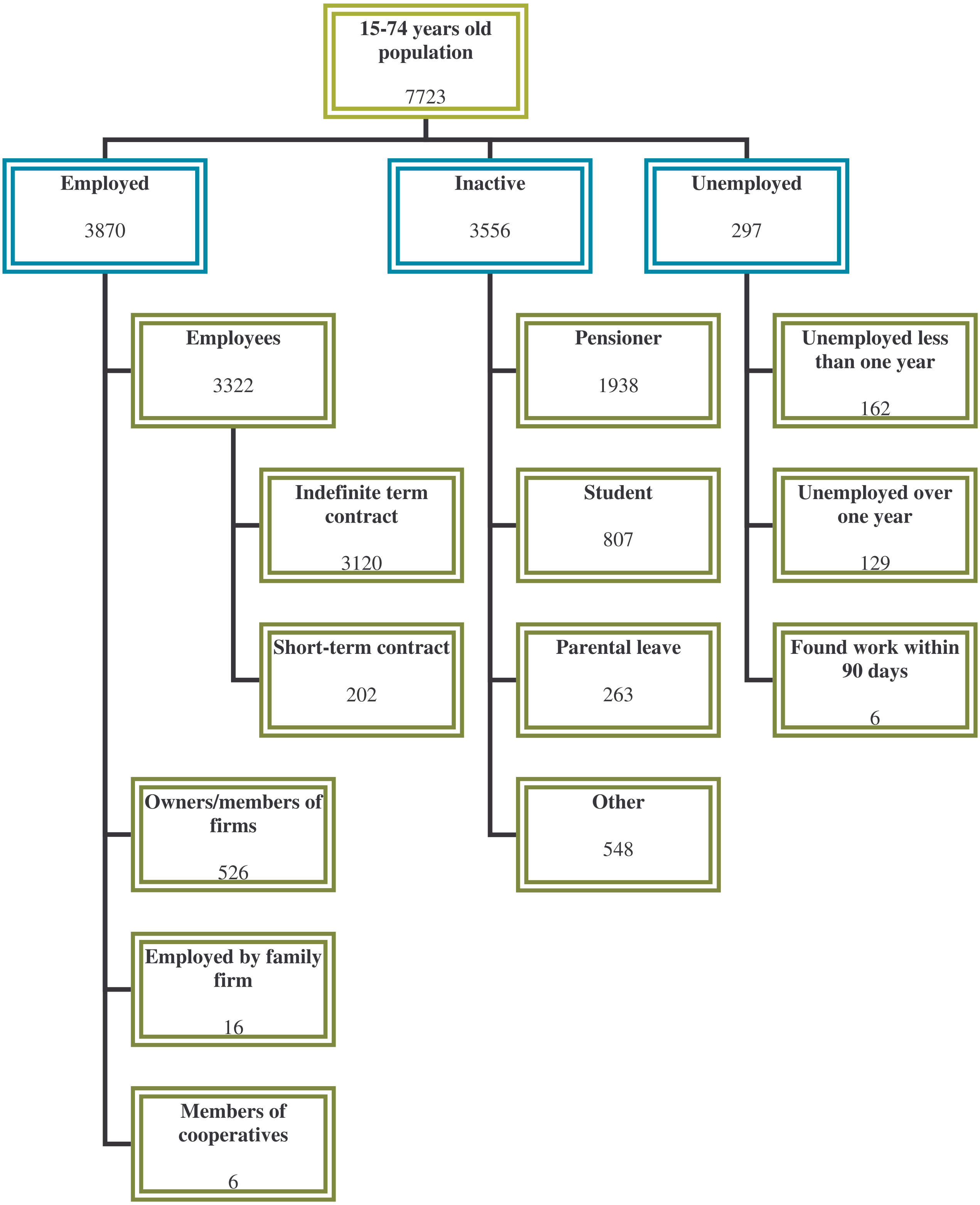
The Central Statistics Office (see the diagram on the next page) estimates that over 500,000 working age Hungarians are simply "missing," i.e. form a part of the unrecorded and untaxed grey economy.

In addition, the 800,000 small firms and sole proprietors also exist on the fringes of the grey economy, when some of their transactions and purchases take place on a cash-in-hand, unrecorded basis.

The figure of 500,000 missing workers is disputed by some social partners on both sides, and in their view, represents a "hidden army" of unemployed, nearly 1 million in the early 1990s, who were displaced. Those who did not flee into early retirement, get new work, or start businesses, formed the core of these missing persons. This group of missing persons today of course has been refreshed by those young people who simply are working in the grey economy on an untaxed basis. Encouraging these unrepresented employees and employers back into the formal economy is a challenge accepted by all social partners. This "hidden army of unemployed" or "informally employed" has no protection under the Labour Law, but places a burden on the hospitals and all infrastructure. On the other hand, law-abiding citizens and firms pay taxes and social charges on their behalf in the form of high taxes.

- **Whitening, representing, organising and helping this mass of between 500,000 and 1 million workers is a goal shared by all social partners but does not seem to be a priority over daily matters such as minimum wages, paid holidays, and the extent of tax free benefits etc.**

Employment status of the 15-74 year old population, 2005. first quarter (thousand persons)



HVG, June 18, 2005 based upon CSO data

Comments on Unemployment:

Data on long-term unemployment among young people (who cannot find a job for over a year) are not encouraging. In the 20-24 year old category, 36% of the unemployed are long-term unemployed, while in the 25-29 category, the figure is nearly 40%. These figures indicate a serious mismatch between skills and demand for labour. Overall, 61% of all unemployed people have been looking for a job for more than 6 months, and 45% for over 12 months. Again, there are segments of the unemployed population that will eventually give up, retire, go on social welfare, or "disappear" into the grey labour market.

The latest (August, 2005) data on total unemployment are also contradictory. For example, the Statistics Office *estimates* that there are 300,000 registered unemployed, 58.000 more than at the same time in 2004, while the State Employment Service has counted 400.000 who are formally registered as being unemployed, of which 46.000 were fresh graduates seeking their first job. The unemployment rate was 7, 1% as of the end of July 2005. Using the "ILO method", the rate is still 7,1%. Unemployment in the 15-24 year old group reached 19%, meaning that overall, 20% of all the unemployed are young people below 24 years of age.[7] Youth unemployment is considerably higher if we include those extending their studies to avoid job-seeking.

Part-time employment is virtually non-existent (at least in the formal economy) as only 3% of all economically active people work part-time (under 30 hours per week).

There are over 400,000 "sole proprietors" who are not legal entities but persons who operate their own labour as a business, i.e. give invoices, saving the client all the social charges, while the "sole proprietor" (egyéni vállalkozó) in many cases is actually an employee in all but form. There are attempts to encourage these sole proprietors to become employees through strict tax enforcement and other incentives. Needless to say, these 400,000 sole proprietors, along with the owners and family members of legal entity small businesses, are in a very vulnerable economic condition, and could swell the ranks of the unemployed if they are eligible at all for unemployment benefits, or join the grey economy and the "missing" workers.

[7] See Figyelo, August 11, 2005, p. 8.

3. RESTRUCTURING AND SOCIAL DIALOGUE

3.1 Restructuring – how to define it?

Restructuring is considered by most, but not all social partners on both sides, as a natural part of the transition from a planned economy to a market economy that really began in Hungary in the mid-1980s. Hungary has had a Corporate Bankruptcy Law and Enterprise Law since 1988 that defined how legal entities were to be dissolved or formed. Both laws were based upon legislation approved in the 1870s during the time of the Austro-Hungarian Monarchy. The Law on Transformation of State Enterprises, enacted in 1989, enabled state-owned enterprises, council enterprises and other forms of collectively owned enterprises to transform themselves into limited corporations or corporations limited by shares. This transformation enabled a still controversial "spontaneous" privatisation process where those who were well-connected gained control over valuable assets at a low cost, and were then able to restructure and sell these assets at great profit.

The transformation process largely ended by 1992 as called for by law, and the privatisation of most of state assets had almost come to a close by the late 1990s. Hungary experienced a much larger boom in Greenfield investment than in privatisation revenue, and the Greenfield investments are often on the second owners by now. Thus the shocks in agriculture, steel, and other heavy manufacturing had taken place before 1995. The banking and financial sector was "consolidated" and completely privatised by the late 1990s, so restructuring in 2005 is in a tertiary phase: a natural consequence of competition from the EU and without the EU, and is a part of the natural evolution of firms.

"Massive" or "group" layoffs are regulated separately from individual dismissals of employees for other causes. What is causing concern in Hungary regarding restructuring are decisions that are made globally or on a European-scale, over which the host community or country has little influence, and pressure from countries further to the East, i.e. Romania, Ukraine, China etc.

As mentioned earlier, Hungary's main threats in restructuring will come in the public sector that has a separate set of rules pertaining to civil servants under oath (köztisztviselő) and public employees (közalkalmazott). Their severance, relocation etc. packages come under civil service law.

<u>Definition of mass layoffs (tömeges elbocsátás)</u>

The rules pertaining to mass layoffs in Hungary apply to firms with more than 20 employees. According to the Statistics Office, this means that 15.679 firms in Hungary have more than 20 employees, or only 1,7% of firms. If a firm with 20-100 employees lays off least 10 employees, or a firm with 100-300 employees lays off at least 10% of its employees, or a firm with over 300 employees lays off at least 30 employees within a month, then provisions of the

Labour Law (1992, 2003, 2005) pertaining to "mass layoffs" must be followed. Apparently "mass layoffs" in firms with fewer than 20 employees representing 98,3% of all firms in Hungary are not covered by the special provisions aimed at easing the pain of finding new work, coordinating with the employment service and other stakeholders in the local economy. Employees in the same 98,3% of Hungary's firms who are subject to the Labour Law enjoy the standard protections, severance pay, right to appeal etc. that all employees have. In this context, special restructuring provisions pertain only to a narrow segment of the workforce, and the overwhelming majority of employees do not have special restructuring rights unless they are state officials or public employees, or work in firms with more than 20 employees.

3.2 Legal framework of restructuring

The Labour Law (1992, 2003, and 2005) defines a limited set of benefits for those who are let go without cause, in other words, who are let go for financial reasons and not because of bad performance or other disagreement with their employer. This basically includes only severance pay, which is scaled according to the number years of being employed with the employer concerned. With at least three years, severance pay is one month's salary, with five years, it is two, and only rises to 6 months of severance pay if the employee has been working there for at least 25 years. (Notification period is at least 30 days if the employee has worked there for less than 3 years. This period may increase to 60 days if the employee has worked at the firm for at least 20 years. The employee is not required to work during half the notification period, essentially extending severance pay by half the notification period).

In the case of "mass" layoffs as defined above (applies to firms with over 20 employees only) there are several important provisions in the Labour Law:

1. At least 15 days before the decision is made, the management must consult with the representatives of the employees, i.e. the enterprise council and the union (works councils are only required if there are at least 50 employees), or with a workers' committee if there is no council and no union. The layoff needs to be justified, and the benefits defined according to the collective agreement and/or the law. If the workers' representatives and the management form an agreement, it must be sent to the County Labour Centre. If the workers' representatives feel their consultation rights have been violated, they may appeal to a court, but that will not stop the layoffs.
2. The County Labour Centre must be informed of the layoff decision at least 30 days before the layoff letters are transmitted to the employees. Full information on the employees must be forwarded. The employees must also be notified thirty days before the layoff letters are delivered. Certain workers are protected from layoffs, such as those on disability, maternal leave etc, and their layoff letter can only be forwarded once

they leave “protected status” (employees fearing a layoff can ask a corrupt doctor to put them on disability or sick leave almost indefinitely). If any of these provisions are violated, the employee may turn to the Labour Court.

3. The notification period is at least 30 days (in addition to the pre-notifications above). The usual provisions for severance pay apply, unless the employer decides to pay a higher collective severance fee than legally required. On the last day of work, the employer is obligated to make all payments, and to issue all needed documents.

   In its layoff decision, the employer must define the number of employees to be let go by employment category, including all relevant dates. In cases of where a firm is being liquidated, it makes no sense to retain the employment status of those who are in “protected” categories, i.e. on sick leave, parental leave or disability. In these cases the employer and employee need to come to an agreement. The laid off worker then reports to the County Labour Centre to claim benefits that last 270 days, and will be 65% of their average salary for the previous year, not to exceed 180% of the highest state pension amount.

Public employees and public officials under oath are subject to separate laws and differing conditions for notification, layoffs, and severance packages. In these cases, the State is obligated to find them a public job “similar” to the one they have lost. Young employees in lower pay categories and fewer years of experience are the first to be let go since they “cost less to fire” than senior employees. Older employees are encouraged to retire early, leaving a safe middle bracket that may not have the linguistic skills and ambitions of the young people freshly let go.

Employees subject to collective bargaining agreements on a sectoral, enterprise or professional basis may have benefits and rights that exceed the legal requirements.

Employees of businesses with fewer than 20 employees only have rights regarding a modest severance package and legal notification, and workers’ councils are not required for firms with fewer than 50 employees.

“Progressive” private sector firms, mostly multinationals, however, have an interest, both practical and political in providing generous severance packages with outplacement consulting, psychological advice, infrastructure for job searches etc. The County Labour Centres and local governments (municipalities) in the best cases work closely in finding new jobs and attracting new investment to areas with surplus labour caused by a layoff.

<u>Changes to meet the requirement of European Parliament and Council directive 2002/14/EC on the right to information and consultation by employees:</u>

The Hungarian Parliament has modified the Labour Law on March 7, 2005, to meet the consultative, informational and other requirements of the above-cited EC Directive. This modification to the Labour Law was not mentioned nor detailed by any of the social partners, though it grants significant new rights to those employees in enterprises where there are unions or works councils.

3.3 Restructuring cases in Hungary

Hungarian best practices in restructuring are discussed in the case study section of the dossier at Annex 3. Further examples of restructuring cases in Hungary (only job losses) from the European Monitoring Centre are presented at Annex 2.

3.4 Challenges of Hungarian social dialogue

Hungary has had an advanced and complicated system of tripartite reconciliation since 1990. The name of the tripartite council has changed many times, and is now called OET. OET has 9 representatives from the employers' side, and 6 labour confederations represent the employees' side. There are sectoral and branch committees, as well as a new body called the Economic and Social Council formed in 2004 that also includes NGOs, the scientific community and others.

Social dialogue takes place involving 6 of the 9 employers' representatives and all 6 labour confederations. The social partners have identified several examples of where the OET was not consulted by a series of Governments on important labour and economic issues.

We have learned from one of the social partners representing employers that the Government of Hungary has added a proposed law on Social Dialogue to its legislative agenda for 2005-2006. We have no information on the contents, though we were informed that all ambiguities etc. will be cleared up by this law.

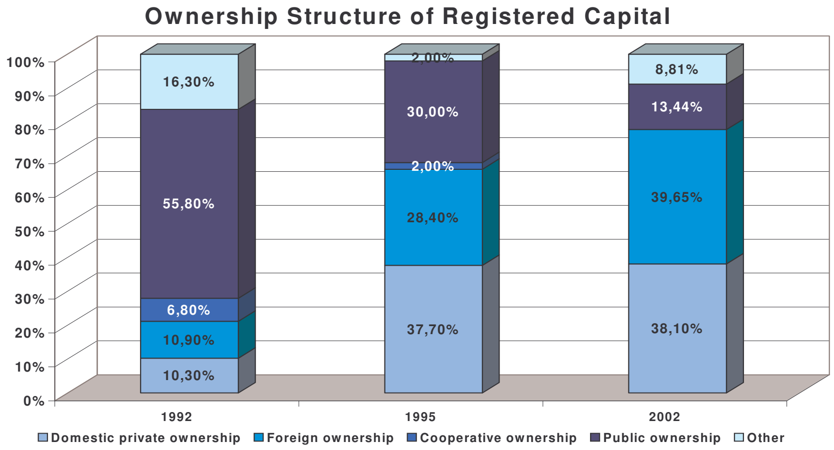
<u>Views of Social Partners on the Future of Social Dialogue</u>:

- Many important issues that need social consensus need to be discussed, but are not, given the tactical considerations of the social partners (minimum wage, categorical wage increases etc) (employee organisation).
- All the social partners acknowledge that significant proportions of employees and employers are not formally a member of any social partner organisation, and particularly disturbing is the precarious situation of the "missing half million."
- Some employer organisations felt that all EU social dialogue efforts essentially represent the interests of larger firms, and that the contribution of SMEs and micro enterprises to both employment and GDP should be better represented at the European level.

- National tripartite reconciliation is too formal, with the State overrepresented as both an employer, and as itself. Reconciliation and social dialogue should take place on a regional and micro-regional (kistérségi) level as well (employer organisation).
- Collective bargaining should include strategic issues such as obligations to provide “life long learning” and other skills (employee organisation).
- Social dialogue has up to now been very political, depending on the reigning Government’s attitude towards the partners. But often the partners agree on many important issues, but cannot move forward for political reasons (both sides).
- Social dialogue on a sectoral basis is important, as long as there is parity in representation (employer organisation).
- Restructuring of small and large private firms, as well as the public sector is inevitable and a natural feature of a social market economy (employer organisation).

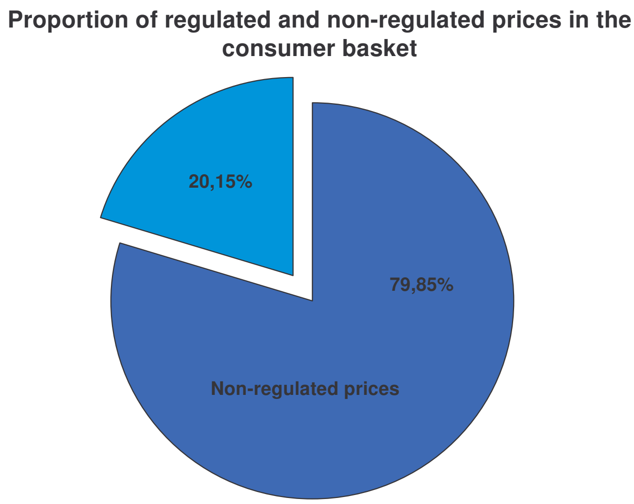
Annex 1: Charts and Graphs

Chart 1:



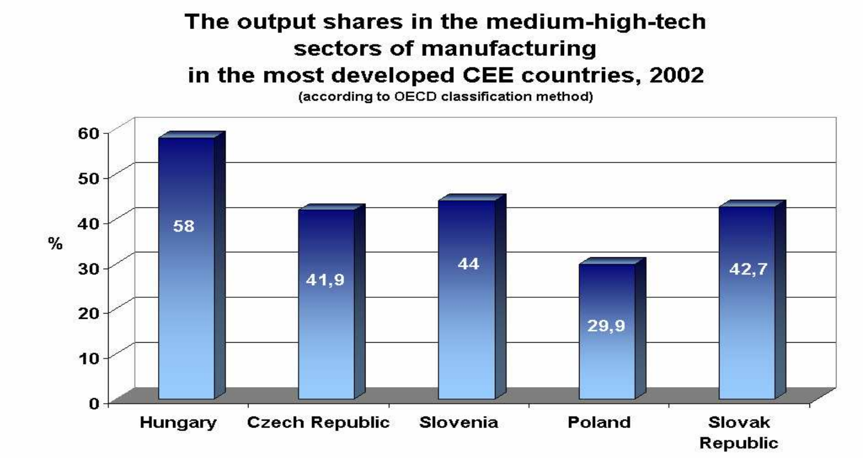
Source: Hungarian Tax Authority

Chart 2:



Source: CSO

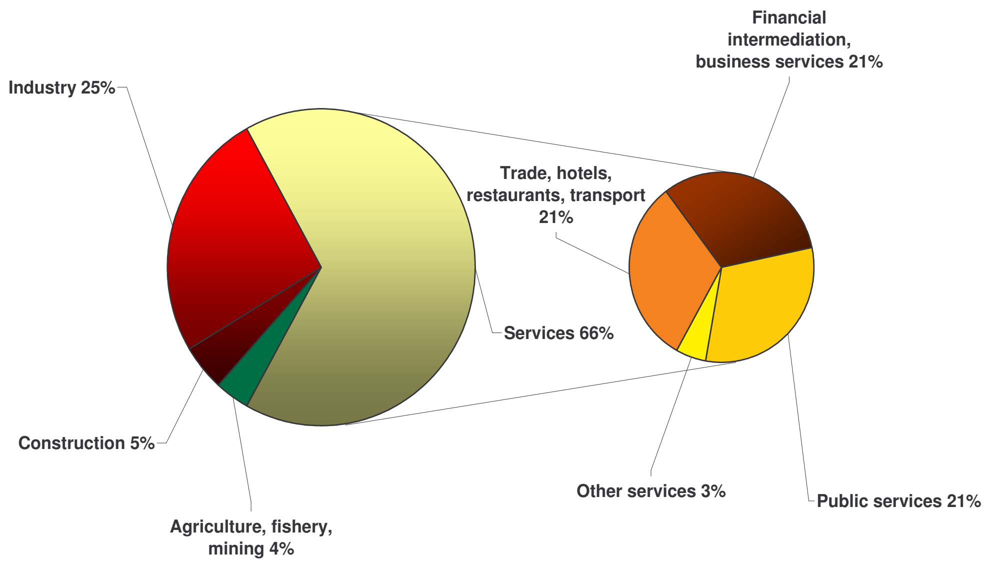
Chart 3:



Source: Eurostat

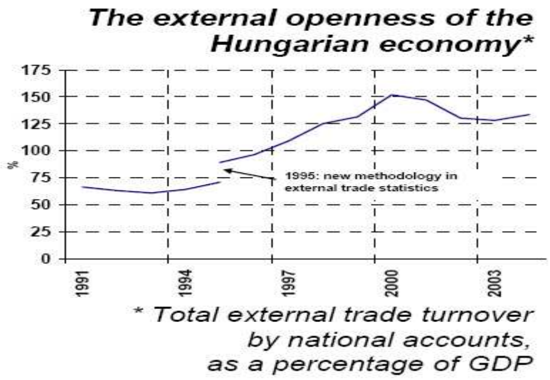
Chart 4:

Composition of Gross Value Added in 2003



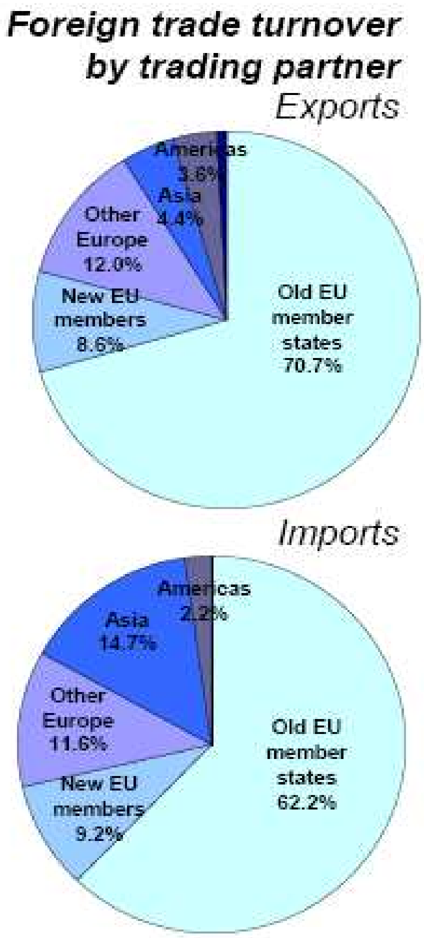
Source: CSO

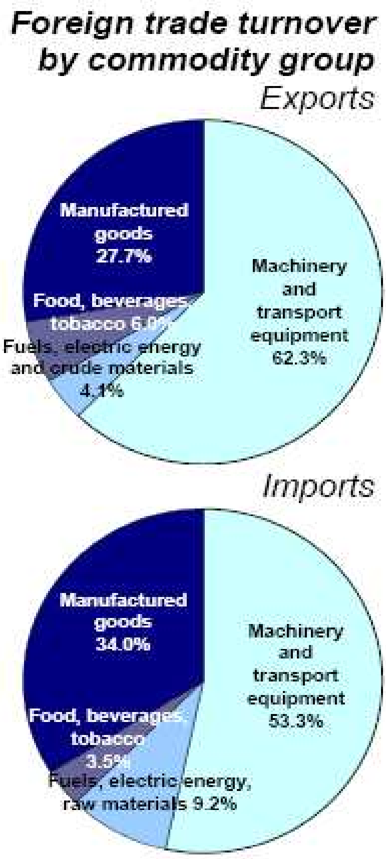
Chart 5:



Source: Ministry of Economics and Transportation

Chart 6:

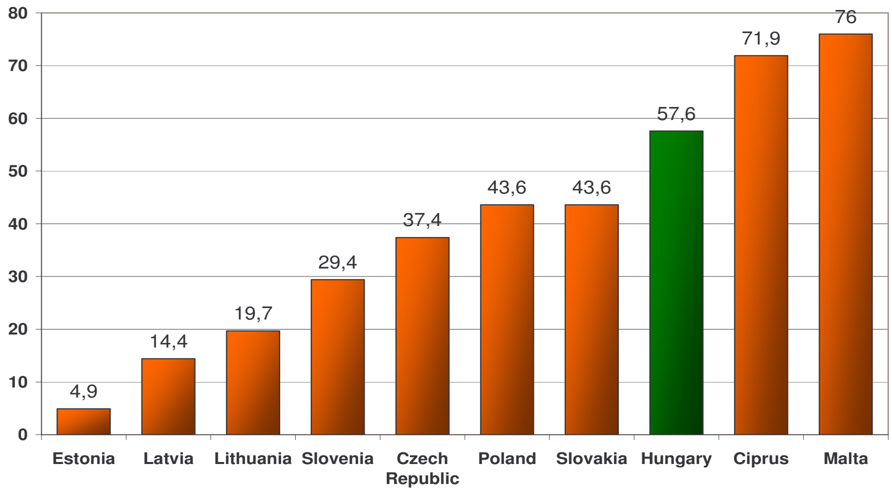




Source: Ministry of Economics and Transportation, 2004.

Chart 7:

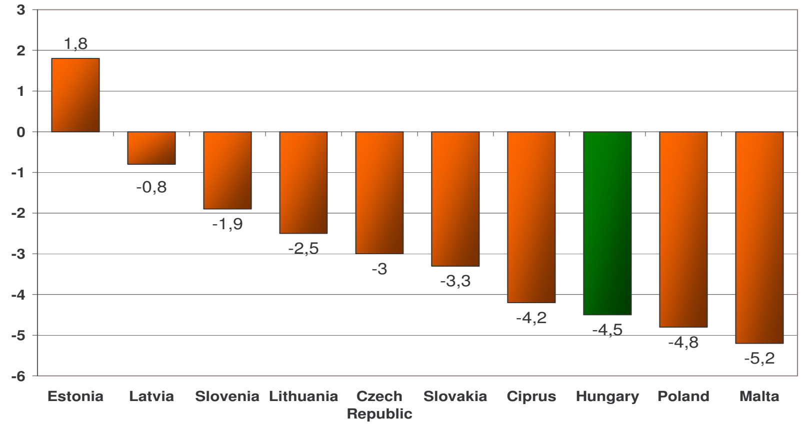
State Debt as a % of GDP, 2004



Source: Based on Eurostat, authors' graphics.

Chart 8:

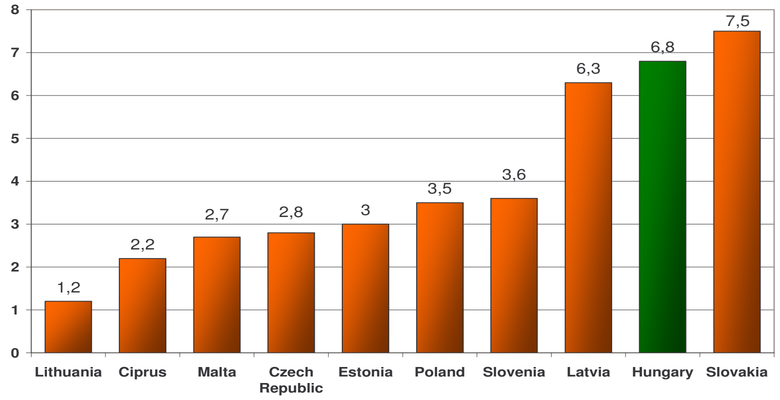
Fiscal Deficit, 2004, as % of GDP (Eurostat figures)



The acknowledged fiscal deficit expected in 2005 is 7,1%

Chart 9:

Changes in Consumer Prices in 2004, annual %



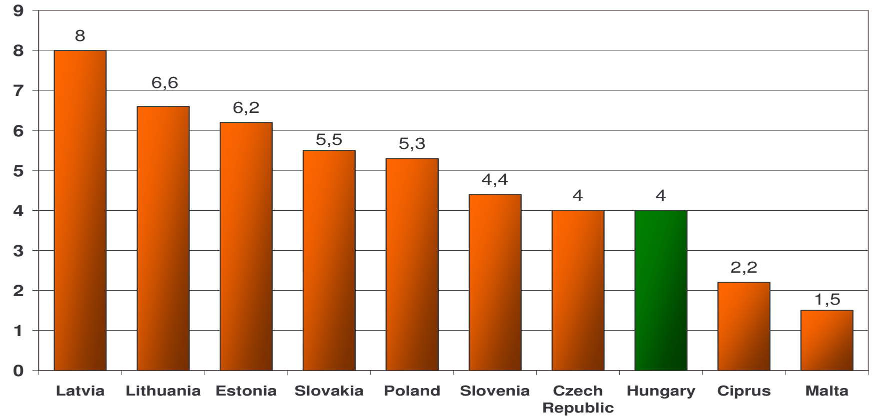
Source: IMF figures, authors' graphics.

Chart 10:

Source: Ministry of Economics and Transport (www.gkm.gov.hu)

Chart 11:

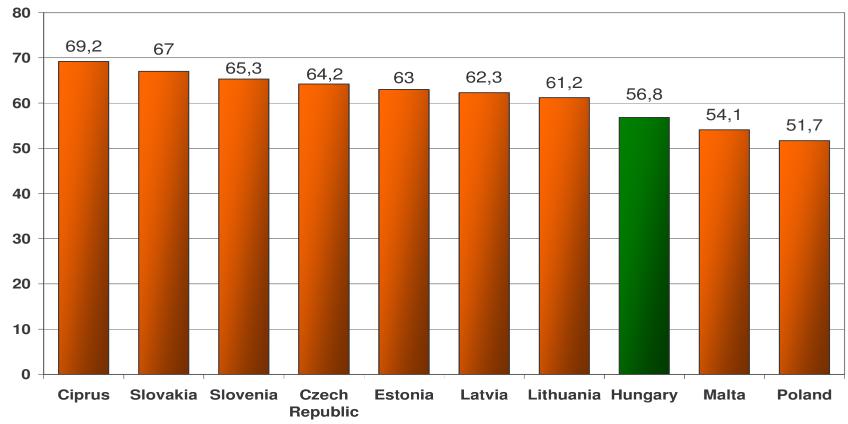
Real GDP Growth (%) 2004



Source: IMF figures, authors' graphics.

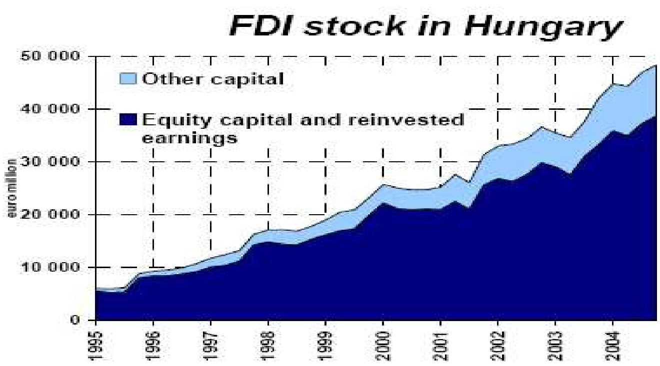
Chart 12:

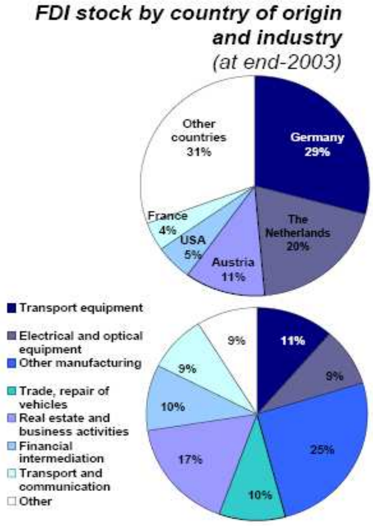
Economic Activity Rate 2004 (%)

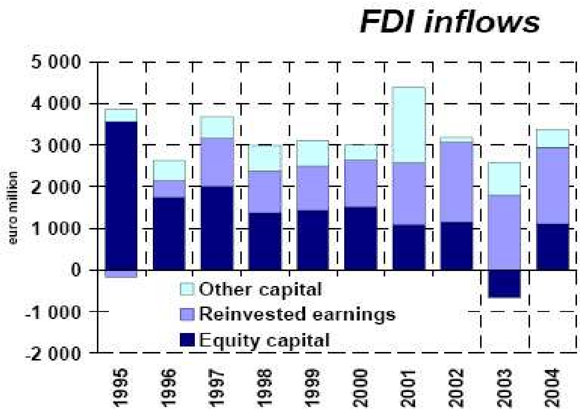


Source: Eurostat and CSO figures, authors' graphics.

Chart 13:







Source: Ministry of Economics and Transport, 2005.

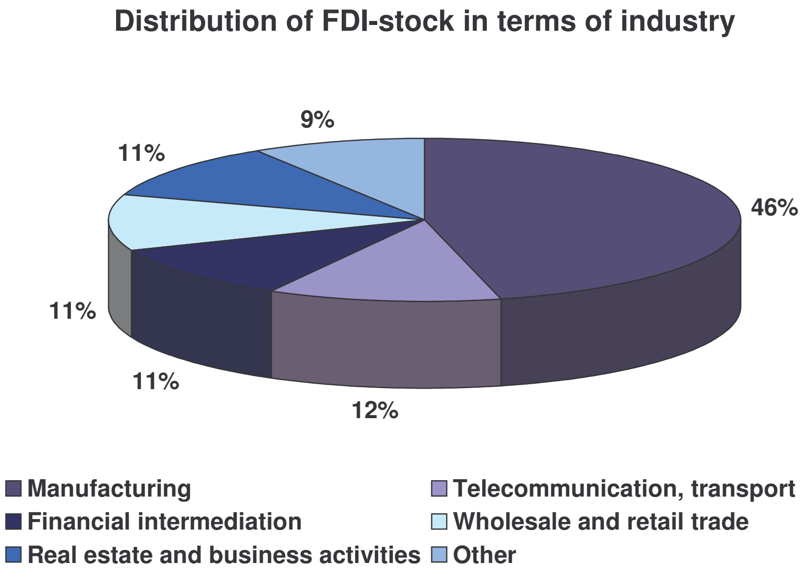
<u>Chart 14:</u>

Tax rates (January 1, 2005.; %)

	Corporate tax	VAT	Personal income tax		Dividend tax
			Minimum	Maximum	
Bulgaria	15	20	10	24	17
Czech Republic	26	5, 19	15	32	15
Poland	19	0, 3, 7, 22	19	40	19
Hungary	16	5, 15, 25	18	38	25
Romania	16	0, 9, 19	16	16	15
Slovakia	19	19	19	19	19
Estonia	0	5, 18	24	24	24
Latvia	15	0, 5, 18	25	25	10
Lithuania	15	0, 5, 9, 18	33	33	15

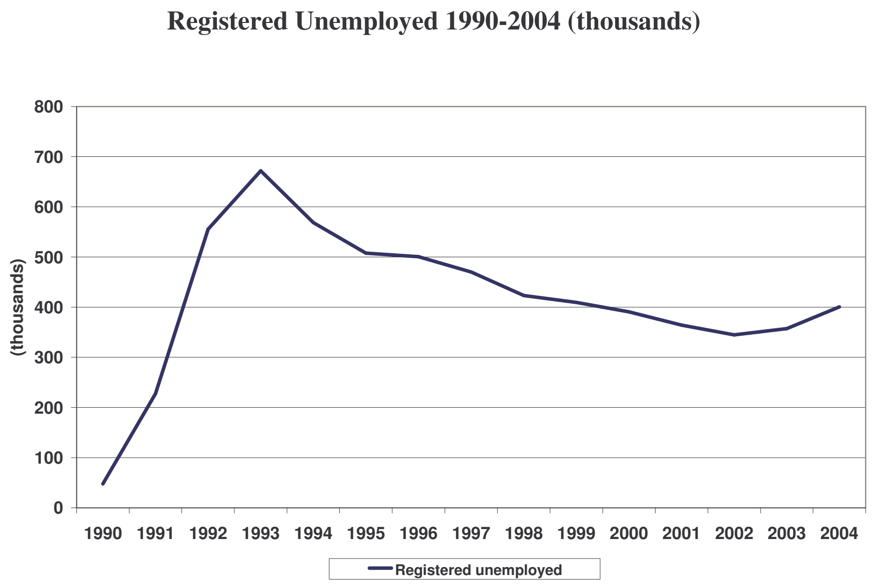
Source: KPMG, Deloitte
HVG 6. August, 2005.

Chart 15:



Source: Central Statistical Office

Chart 16:



Source: CSO

Annex 2: Restructuring Cases, Examples of In-bound Investment

Source: www.emcc.eurofound.eu.int

Company	Group	Type of restructuring	Sector	Planned job reductions	Announcement date	Employment effect start	Employment effect timeline
Matáv		Internal restructuring	Post and telecommunications	2600	2005.04.26		2006.12.31
Hungarian Ministry of Defence		Internal restructuring	Public Sector	1297	2005.04.01	2005.04.01	2005.12.31
ST Glass		Bankruptcy/Closure	Glass and cement	750	2005.04.12	2005.04.12	
Debreceni Egyetem		Internal restructuring	Education	461	2005.05.19		2005.12.31
Artesyn Hungary Electronics	Artesyn Technologies	Offshoring/Delocalisation	Electrical	370	2005.07.27	2005.07.27	2005.12.31
Gyulai Húskombinát		Internal restructuring	Food, beverage and tobacco	346	2005.06.14		
Pécsi Tudományegyetem		Internal restructuring	Education	200 - 335	2005.05.19		2005.12.31
Karolina		Bankruptcy/Closure	Textiles and leather	314	2005.07.20		
Zalahús		Bankruptcy/Closure	Food, beverage and tobacco	284	2005.04.04	2005.03.01	2005.04.01
Leoni Hungária	Leoni AG	Offshoring/Delocalisation	Electrical	250	2005.06.02		2005.10.01
Magyar Televízió		Internal restructuring	Performing arts	185	2005.05.10	2005.05.10	
Ikarus Alkatrészgyártó	Ikarus	Bankruptcy/Closure	Motor	156	2005.07.14	2005.07.18	
Mizo		Bankruptcy/Closure	Food, beverage and tobacco	138	2005.06.18	2005.08.10	
Medicor		Bankruptcy/Closure	Metal and machinery	110	2005.07.14		

Company: Artesyn Hungary Electronics

Geographic location:	**Country:**	Hungary
	Region:	DUNANTUL ; Kozep-Dunantul
	Affected unit(s):	Tatabánya

Company:	**Group :**	Artesyn Technologies
	Sector :	Electrical - Manufacture of electrical equipment n.e.c.
	Number employed:	370

Employment effects:	**Announcement Date:**	2005-07-27
	Planned job reductions (min.):	370
	Planned job reductions (max.):	370
	Type of restructuring:	Offshoring/Delocalisation
	Employment effect start:	2005-07-27
	Employment effect timeline:	2005-12-31
	Direct dismissals:	370
	Other job reduction measures:	
	Planned job creation:	

Additional information:

Tatabánya-based Artesyn Hungary Electronics is a manufacturer of power supplies for hardware and telecommunications equipment producers. The company was established in 2001 by Artesyn Technologies Inc. Artesyn announced that it will be closing the Tatabanya, Hungary manufacturing facility, and intends to award its European manufacturing services work to Celestica Inc., a global electronics manufacturing services (EMS) provider. Most of the products currently being manufactured in Hungary will be transferred to Celestica's Romanian factory in Oradea. This transition is expected to be completed by the end of 2005. Savings in 2006 from this closure are estimated to be $6.0 million.

Sources:

Népszabadság, 2005-07-27
Napi Gazdaság, 2005-07-27
Világgazdaság, 2005-07-27

Links:

http://www.artesyn.com

Company: Karolina

Geographic location:	**Country:**	Hungary
	Region:	DUNANTUL ; Del-Dunantul
	Affected unit(s):	Tolna

Company:	**Group :**	
	Sector :	Textiles and leather - Preparation and spinning of textile fibres
	Number employed:	314

Employment effects:	**Announcement Date:**	2005-07-20
	Planned job reductions (min.):	314
	Planned job reductions (max.):	314
	Type of restructuring:	Bankruptcy/Closure
	Employment effect start:	
	Employment effect timeline:	
	Direct dismissals:	314
	Other job reduction measures:	
	Planned job creation:	

Additional information:	Tolna's spinning mill was established in 2000 by the Karolina Ltd. as a greenfield investment. 70% of employees are women. In July 2005, the company announced its closure because of the strong competition of chinese textile products.
Sources:	Népszabadság, 2005-07-20
Links:	

Company: Ikarus Alkatrészgyártó

Geographic location:	**Country:**	Hungary
	Region:	ALFOLD ES ESZAK ; Del-Alfold
	Affected unit(s):	Szeged

Company:	**Group :**	Ikarus
	Sector :	Motor - Manufacture of motor vehicles
	Number employed:	

Employment effects:	**Announcement Date:**	2005-07-14
	Planned job reductions (min.):	156
	Planned job reductions (max.):	156
	Type of restructuring:	Bankruptcy/Closure
	Employment effect start:	2005-07-18
	Employment effect timeline:	
	Direct dismissals:	156
	Other job reduction measures:	
	Planned job creation:	

Additional information:	Hungarian bus manufacturer Ikarus announced the closure of its plant in Szeged. The closure will affect 156 employees.

Sources:	Népszabadság, 2005-07-14
Links:	

Company: Gyulai Húskombinát

Geographic location:	**Country:**	Hungary
	Region:	ALFOLD ES ESZAK ; Del-Alfold
	Affected unit(s):	Gyula

Company:	**Group :**	
	Sector :	Food, beverage and tobacco - Production and preserving of meat
	Number employed:	979

Employment effects:	**Announcement Date:**	2005-06-14
	Planned job reductions (min.):	346
	Planned job reductions (max.):	346
	Type of restructuring:	Internal restructuring
	Employment effect start:	
	Employment effect timeline:	
	Direct dismissals:	346
	Other job reduction measures:	
	Planned job creation:	

Additional information:	The meat combine of Gyula Plc is one of the largest meat industrial companies in Hungary. The company plans to reduce the number of workers by up to 35% because of heavy losses since 2002. The dismissals will affect 346 employees.

Sources:	Világgazdaság, 2005-06-14
Links:	

Company: ST Glass

Geographic location:

Country:	Hungary
Region:	ALFOLD ES ESZAK ; Eszak-Magyarorszag
Affected unit(s):	Salgótarján

Company:

Group :	
Sector :	Glass and cement - Manufacture of glass and glass products
Number employed:	750

Employment effects:

Announcement Date:	2005-04-12
Planned job reductions (min.):	750
Planned job reductions (max.):	750
Type of restructuring:	Bankruptcy/Closure
Employment effect start:	2005-04-12
Employment effect timeline:	
Direct dismissals:	750
Other job reduction measures:	
Planned job creation:	

Additional information:

ST Glass, the 112 years-old glassworks factory in Salgótarján is in liquidation. The state-owned firm, which was privatized in 2004 has made significant losses in the past years (in spite of subsidies received in May 2004). As a consequence of the accumulation of debts, salaries of 750 employees are still unpaid.

Sources:

Népszabadság, 2005-04-12
Napi Gazdaság, 2005-04-12

Links:

Annex 3: Case Study

Company: Audi Hungária Motor

Geographic location:

Country:	Hungary
Region:	DUNANTUL ; Nyugat-Dunantul
Affected unit(s):	Győr

Company:

Group :	Audi
Sector :	Motor - Manufacture of motor vehicles
Number employed:	5000

Employment effects:

Announcement Date:	2005-06-10
Planned job reductions (min.):	
Planned job reductions (max.):	
Type of restructuring:	Business expansion
Employment effect start:	2005-09-01
Employment effect timeline:	2008-01-01
Direct dismissals:	
Other job reduction measures:	
Planned job creation:	320

Additional information:

AUDI AG chose the Hungarian city of Györ as its new production location in November 1992. The new engine plant was officially opened less than two years later. A workforce of around 4,900 was employed there at the start of 2001. The Györ site is a duty-free area, permitting the flexible delivery and collection of production components and engines. A large range of Audi engines is now produced in Györ. In June 2005, Audi announced the building of a new plant in Győr. The investment will create 100 jobs in September 2005. The company undertook to employ 320 new employees by 2008.

Sources:

Világgazdaság, 2005-06-10
Népszabadság, 2005-06-11
Napi Gazdaság, 2020-05-06
www.audi.com

Links:

Company: Bakony Művek

Geographic location:	**Country:**	Hungary
	Region:	ALFOLD ES ESZAK ; Eszak-Alfold
	Affected unit(s):	Hajdúnánás

Company:	**Group :**	
	Sector :	Motor - Manufacture of parts and accessories for motor vehicles and their engines
	Number employed:	736

Employment effects:	**Announcement Date:**	2005-05-01
	Planned job reductions (min.):	
	Planned job reductions (max.):	
	Type of restructuring:	Business expansion
	Employment effect start:	2005-05-01
	Employment effect timeline:	
	Direct dismissals:	
	Other job reduction measures:	
	Planned job creation:	350

Additional information:

The automotive parts manufacturer Bakony Művek built a new plant in Hajdunanas (eastern Hungary) in a greenfield investment. In the longer term, the latter is planned to become the centre of white goods parts manufacturing, while the Veszprem factory will focus on car parts. 215 employees started working in the new factory building in May 2005. This number is to rise to 350 after the second phase. The factory manufactures parts for refrigerators for Electrolux. In the first year, parts for 300,000 refrigerators are to be made, with the number rising to 1 million by 2007.

Sources:

Napi Gazdaság, 2005-05-01
Appliance Magazine, 2005-04-19

Links:

http://www.appliancemagazine.com/news.php?article=6507&zone=0&first=1

Company: Le Bélier

Geographic location:

Country:	Hungary
Region:	ALFOLD ES ESZAK ; Eszak-Alfold
Affected unit(s):	Szolnok

Company:

Group :	Le Bélier
Sector :	Motor - Manufacture of parts and accessories for motor vehicles and their engines
Number employed:	250

Employment effects:

Announcement Date:	2005-05-06
Planned job reductions (min.):	
Planned job reductions (max.):	
Type of restructuring:	Business expansion
Employment effect start:	2005-05-06
Employment effect timeline:	
Direct dismissals:	
Other job reduction measures:	
Planned job creation:	200

Additional information:

Le Bélier is specialized in safety related parts in cast aluminium for the automotive industry. The company employs 2,700 people in 6 countries and established two plants in Hungary with 1,270 employees. The new investment in Szolnok will create 100 jobs. The company undertook to employ 400 to 450 people in the long run as the part of the agreement with the government of Szolnok.

Sources: Világgazdaság, 2005-05-06

Links:

Annex 4

Interviewed persons

Name	Organisation and affiliation
Ms. Terézia Borosné-Bartha Ms. Ágnes Ungvárszki	UNICE MGYOSZ: National Assoc. of Hungarian Industrialists
Mr. Gábor Solti	UEAPME IPOSZ: National Association of Hungarian Craftsmen
Mr. Gábor Antallffy	UEAPME KISOSZ: National Federation of Traders and Caterers
Mr. Antal Csuport	CEEP STRATOSZ: National Assoc. of Strategic and Public Utility Companies
Ms. Erzsébet Hanti	ETUC MSZOSZ: National Confederation of Hungarian Trade Unions
Mr. Pál Gergely	ETUC ASZSZ: Federation of Autonomous Trade Unions
Mr. Tibor Migács	ETUC LIGA: LIGA Confederation
Mr. Endre Szabó	ETUC SZEF-ESZT: Forum for the Cooperation of Trade Unions—Group of Intellectual Trade Unions
Mr. Imre Palkovics	ETUC MOSZ: National Federation of Workers' Councils

Bibliography

Abiad, A.- Leigh, D. – Fabrizio, S. Hungary: Selected Issues. IMF Country Report No. 05/215, June, 2005, www.imf.org

Cottarelli C. – Ebrill L. P. Staff Report for the 2004 Article IV Consultation, IMF Country Report No. 04/145, April 2, 2004, www.imf.org

Csák Cs. Vonzerőpróba. Figyelő, July 21-27, 2005 pp 12-13

Gecse G. – Nikodemus A. (Innovation and Environmental Protection Department, Ministry of Economy and Transport, Hungary) "Clusters in Transition Economies" Hungarian young clusters – case study, Budapest, 2003 www.gkm.gov.hu

Farkas Z. Aktuálpolitikai gazdaságtan. HVG, July 30, 2005 pp 63-64.

Heimer Gy. A csábítás trükkjei – Verseny a külföldi befektetőkért. HVG, August 6, 2005 pp. 52-54

Schadler S. - Ebrill L. P. Staff Report for the 2005 Article IV Consultation, IMF Country Report No. 05/213, June, 2005. www.imf.org

Schweitzer A. Hiperinaktivitás – A Magyar foglalkoztatási helyzet. HVG, June 18, 2005. pp. 56-58.

Selmeczy Gy. – Szabó J. A multinacionális vállalatok és a munkaerőpiac szakszervezeti vonatkozásai (Pályázati összefoglaló), Budapest, 2000, www.konfoderaciok.hu

Szirmai S. P. – Torontáli Z. Jön is, marad is … - Tőkebefektetések új hulláma. Figyelő, February 10-16, 2005 pp 47-49.

Az ipar és az építőipar 2004. évi tevékenysége, KSH, Budapest, 2005 http://portal.ksh.hu

Economic Survey of Hungary 2005, OECD, July 19, 2005 www.oecd.org

Economic Survey of Hungary - Policy Brief, July, 2005 www.oecd.org

Heti Válasz, July 14, 2005 p 50.

Magyar statisztikai évkönyv – 2003, KSH, Budapest, 2004

Magyar statisztikai zsebkönyv - 2004, KSH, Budapest, 2005

Overview of the characteristics and current trend of the Hungarian external trade based on 2004 and Q1 2005 data; Ministry of economy and transport, Budapest, www.gkm.gov.hu

Overview of foreign direct investments in Hungary based on 2004 data Ministry of economy and transport, Budapest, www.gkm.gov.hu

Overview of the current situation and future prospect of the Hungarian economy (updates 2 May 2005) Ministry of economy and transport, Budapest, www.gkm.gov.hu

Quarterly Economic Report - World Bank EU8 July 2005 www.worldbank.org

"Report on Financial Stability (in Hungarian: Jelentés a pénzügyi stabilitásról)", The National Bank of Hungary, October 2005. Available at www.mnb.hu

The Hungarian Economy Current Situation & The Process of Changing Structure www.gkm.gov.hu

Web pages

www.autonomok.hu
www.eiro.eurofound.eu.int
www.emcc.eurofound.eu.int
www.eszt.hu
www.fmm.gov.hu
www.gkm.gov.hu
www.imf.org
www.itdh.hu
www.liganet.hu
www.konfoderaciok.hu
www.mnb.hu
www.mszosz.hu
www.munkastanacsok.hu
www.oecd.org
www.szakszervezetek.hu
www.szakszervezet.lap.hu
www.szef.hu
www.worldbank.hu