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**“THE IMPLEMENTATION OF FLEXICURITY AND THE ROLE OF THE  
SOCIAL PARTNERS”**

**NATIONAL FICHE:**

**HUNGARY**

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## Contents

Preface.....	3
1 The economic and social context.....	4
Economic crisis and recovery .....	4
Labour market indicators and trends .....	5
Flexicurity in the labour market and labour market policy .....	7
Conclusion .....	8
2 Flexibility and security in recent labour market and social policy reforms .....	9
Introduction and overview .....	9
Lifelong learning and the mobility of workers.....	9
External/internal flexicurity and contractual arrangements.....	9
Active labour market policy.....	10
Supportive social security system .....	11
High quality and productive workplaces, .....	12
Gender equality .....	12
Financial sustainability .....	12
Conclusion: Strengths, weaknesses and challenges.....	12
3 The role of the social partners .....	13
General remarks on the role of social partners.....	13
Main instruments and levels of influence .....	14
Recent changes and challenges.....	14
Cases of good practice in the field of labour market flexibility and security .....	15
4 Key issues arising.....	16
Sources and references .....	16
Replies to the questionnaire survey, interviews and other contributions .....	16
Further resources .....	16

## Preface

This national fiche is part of the EU Social Partners’ Study “The implementation of flexicurity and the role of social partners” carried out in the context of the EU Social Dialogue Work Programme 2009-2011, which includes “*Jointly monitoring the implementation of the common principles of Flexicurity, notably in order to evaluate the role and involvement of the social partners in the process and to draw joint lessons*”.

To implement this task in the best possible way and to involve national member organisations actively in the gathering of data and information, the study applies a methodology that consists of multiple levels of analysis using a variety of instruments to be implemented with the help of a team of experts:<sup>1</sup>

- The expert team, with the advice of European Social Partners, agreed on a *set of selected statistical indicators* in the field of employment and economic and social development with labour market relevance.
- National social partners were asked to participate in a *questionnaire-based survey* focussing on the relevance of the flexicurity concept within national labour markets, the role of the social partners in policy implementation and their views of the flexicurity concept. To complement the research, the expert team visited a number of countries and carried out interviews with national social partners.<sup>2</sup>
- Based on the two sources above and a review of available written materials and information, the expert team prepared *29 national “fiches”* on the implementation of the flexicurity principles and the role of social partners in the respective national contexts.
- Results of the questionnaire survey and main findings of the national analyses were discussed at four “*country cluster seminars*” that were organised by the European Social Partners with the help of national sections in Warsaw (November 2010), Lisbon (December 2010), Paris (31<sup>st</sup> January-1<sup>st</sup> February 2011) and The Hague (8<sup>th</sup> February 2011).
- In the light of the overall study results and the comments received by national social partners in the contexts mentioned above, the expert team has prepared a *comparative synthesis report* on “Social Partners and Flexicurity in Contemporary Labour Markets” that was presented and discussed at a *EU-level synthesis seminar* on 31<sup>st</sup> March and 1<sup>st</sup> April 2011 in Brussels.

This national fiche aims to present a broad overview on the economic and social context and the state of play with regard to flexibility and security in the labour market and current social security arrangements (sections one and two). Secondly, the report describes the role of the social partners and social dialogue in the implementation of policies and practices that can be considered under the broad umbrella of “flexicurity” (section three), also summarising inputs provided by national social partners to the questionnaire, from interviews carried out and other contributions made in the context of the study. Section three also presents brief descriptions of cases of good practice as has been indicated by the national social partners.

The text was originally prepared as draft report in the autumn of 2010 in order to facilitate the discussion at the cluster seminar on 31<sup>st</sup> January and 1<sup>st</sup> February in Paris. The original dossier has been reviewed and revised to take into account the comments and discussions that took place during the seminar or received afterwards.

However, it should be stressed that this report is presented as an “independent expert report”. It represents the views of the individuals involved in its preparation and does not purport to represent the views, either individually or collectively, of the social partners’ representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

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<sup>1</sup> Expert team: Eckhard Voss (coordinator), Alan Wild, Anna Kwiatkiewicz and Antonio Dornelas.

<sup>2</sup> The following countries were visited in the context of the project between May and July 2010: Denmark, France, Ireland, Italy, Czech Republic, Poland, Germany, Portugal and the Netherlands.

# 1 The economic and social context

## Economic crisis and recovery

According to the World Bank, the composition of the Hungarian economy in 2008 was the following: 62.5% of GDP was generated by the service sector, 34.7% of GDP was generated by industry and agriculture accounted for almost 3% of GDP. It is worth mentioning that 80% of GDP is generated by the private sector. Hungary is one of the important FDI recipients; total foreign investment since 1989 has been estimated at over \$200 billion. For the last decade Hungary has been facing the problem of budgetary deficits – some measures were taken as long ago as 2006 and managed to reduce the deficit to 3.3% in 2008. Since the fiscal strategy was mainly based on achieving higher revenues and not at introducing structural reforms and cutting expenditures, Hungary was in a rather vulnerable position when the crisis stroke in 2008. Labour productivity was declining, the private sector was highly indebted and the share of debts in foreign-currency was increasing.

As a result of the 2008 crisis, the financial market in Hungary rapidly deteriorated, external demand dropped, which led to a decrease in exports and industrial production. Public debt reached almost 74% of GDP, and situation further deteriorated by the high level of household debts, mainly in Swiss francs. The credit crunch first led to an unprecedented devaluation of the Hungarian currency and the danger of state bankruptcy. The crisis has proven that Hungary was not able to finance its short-term budget debt and asked for an IMF assistance package worth over \$25 million. Joint financial assistance of the IMF, the EU and the World Bank Hungary totaled at 21bn euro. In 2009 GDP contracted by 6.7%, mainly due to significant decrease in domestic demand. In 2009 the unemployment rate increased up to 10% and further increased to around 11% in 2010. The financial crisis clearly showed structural weaknesses of the Hungarian economy: Despite high inflows of FDI, Hungary has remained very vulnerable to worsening circumstances.<sup>3</sup>

According to the European Commission Autumn 2010 forecast GDP is foreseen to increase by 1.1% in 2010 and 2.8% in 2011. Export is to be the driver for economic recovery since domestic demand is likely to lag behind. However, according to the EU Commission private consumption in 2011 is predicted to stimulate economic expansion. Also company investment is expected to grow. The potential risks in this scenario are insufficient credits that could hinder recovery of domestic demand and exports can grow less than expected.

### HUNGARY - MAIN ECONOMIC INDICATORS AND OUTLOOK

	2007	2008	2009	2010	2011
<b>GDP</b> – annual percentage change	0.8	0.8	-6.7	1.1	2.8
<b>Employment</b> -annual percentage change	-0.3	-1.3	-2.8	-0.8	0.1
<b>Unemployment rate</b> (Eurostat definition)	7.4	7.8	10.0	11.1	11.0
<b>General government balance</b> (as percentage of GDP)	-5.0	-3.7	-4.4	-3.8	-4.7
<b>General government gross debt</b> (as percentage of GDP)	66.1	72.3	78.4	78.5	80.1

Source: European Commission: Autumn 2010 Economic Forecast.

<sup>3</sup> EIRO on-line, *Hungary: Industrial relations profile*, updated 26 October 2009, ([http://www.eurofound.europa.eu/eiro/country/hungary\\_2.htm](http://www.eurofound.europa.eu/eiro/country/hungary_2.htm)).

In order to mitigate the negative effects of the crisis the government implemented a mix of structural and temporary measure to reduce public expenditure such as freeze of wages in the public sector, savings in the area of social benefits and housing subsidies or gas- and district heating support. The government is also continuing fiscal consolidation reforms. In May 2009 the “Crisis Management” programme was adopted focusing on short-term interventions to mitigate crisis effects on the labour market. The measures were mainly aiming at retaining jobs and helping those who have lost the job. Measures included the complementation of the four days working week with a day of training financed from EU funds, supporting part-time employment, supporting employment with a new employer and introducing measures of support for dismissed workers.<sup>4</sup>

## Labour market indicators and trends

In 2008 Hungary was one of the EU countries with the lowest employment rate – 56.7% compared with 65.9% for the EU27. This placed Hungary more than 13 percentage points away from the Lisbon target of 70%. This situation resulted from the fact that a large number of workers left the labour market during the last 15-20 years and are unlikely to become integrated again. Also the practice of early retirement, a lack of childcare facilities and a significant share of the informal economy sector contributed to the low employment rate. As Hungary faces not only a low employment rate, but also the number of registered unemployed persons is comparatively low, the country is characterised by a relatively high share of inactivity.<sup>5</sup>

Participation of young and older workers as well as people from the disadvantaged groups is particularly low. According to the National Reform Programme 2008-2010 the low employment rate is caused by extremely low participation rates of people with low qualifications, the Roma population being in a particularly difficult position<sup>6</sup>. The Roma community accounts for approximately 5% of the Hungarian population. Surveys conducted in 1993 and 2003 estimated that the unemployment rate amongst Roma exceeded 50% - this rate is clearly above what might have been expected on the basis of the skill composition and spatial allocation of the Roma population and indicates a structural discrimination of this ethnic group.<sup>7</sup>

In 2008 the majority of the Hungarian workers was employed in the service (over 62%), followed by industry (almost 31%) and agriculture (about 7.1%). In 2008 the employment rate for older workers was significantly lower (over 31% in 2008) than the EU average (45.6%) and the Lisbon target of 50%. The same is observed for the female employment rate. Self-employment was slightly below the EU27 average.

As a result of the 2008 economic crisis, Hungary was one of the first EU countries where unemployment started to rise; it increased from 7.8% in 2008 to over 11% in 2010. The crisis showed that labour demand is more elastic in the manufacturing sector than in the services sector, where a further contraction is possible. The rise in unemployment has not only been restricted to low-skilled workers and disadvantages groups. At the end of 2009 it was reported that people with medium-level skills were affected the most. There are also some regional disparities in the unemployment rate – a 13%-difference was noted in 2007 between the most disadvantaged region of North Great Plain and the most developed Western Transdanubian region.

At the beginning of the crisis the situation worsened in less advantaged regions, but during the fourth quarter of 2008 regions with a relatively better labour market situation were also hit hard,

<sup>4</sup> *Crisis Management Programme of the Government*, presentation of 19 April 2010, available at [http://www.mfa.gov.hu/NR/rdonlyres/CBD4AD24-473A-4651-BD73-4A10E0D36CE2/0/Prezentacio\\_BG\\_Valsagkezelo\\_Program\\_2009\\_04\\_19\\_gbl.pdf](http://www.mfa.gov.hu/NR/rdonlyres/CBD4AD24-473A-4651-BD73-4A10E0D36CE2/0/Prezentacio_BG_Valsagkezelo_Program_2009_04_19_gbl.pdf).

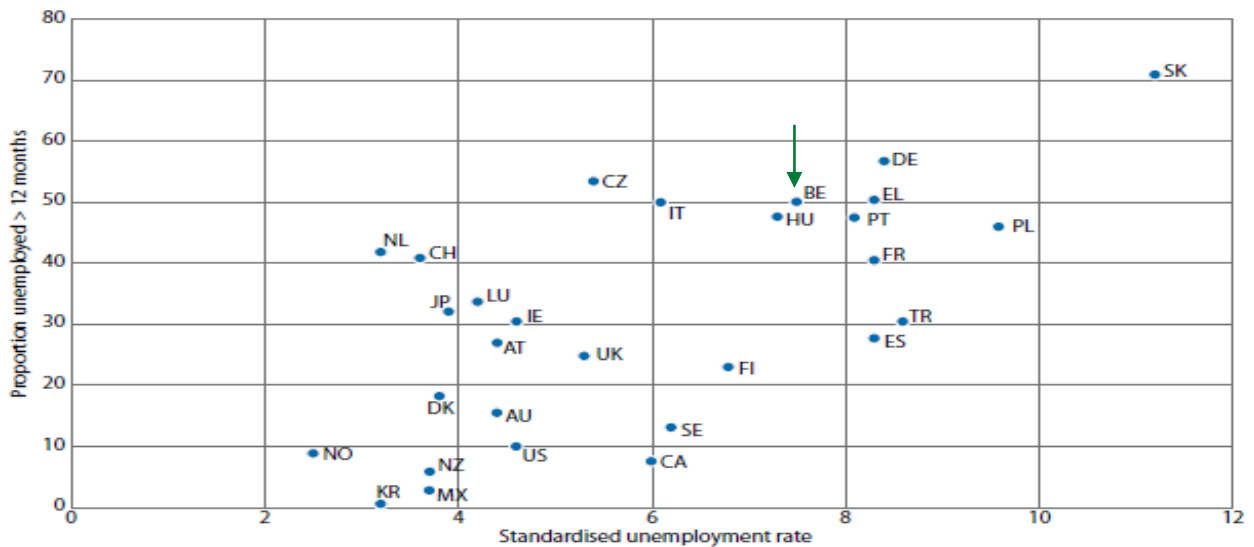
<sup>5</sup> J. Köllö and B. Nacsa, *Hungary* [in:] S. Cazes, A. Nesporova, *Flexicurity, A relevant approach in Central and Eastern Europe*, ILO, Geneva 2007, p.147.

<sup>6</sup> National Action Programme for Growth and Employment 2008-2010, Budapest 2008, p. 13.

<sup>7</sup> J. Köllö and B. Nacsa, *op.cit.*, p.126.

especially those regions where the manufacturing export is located. The decreasing demand for certain goods has resulted in a large number of collective dismissal cases. The most hit were employees in the engineering and public sectors.

**INCIDENCE OF LONG-TERM UNEMPLOYMENT AND THE UNEMPLOYMENT RATE, 2007**



Source: *Employment in Europe Report*, p. 73, based on OECD figures.

In 2009 the hourly labour cost including its wage and salary component increased.<sup>8</sup> During the crisis Hungary decided to freeze minimum wage in order to protect employment.

Hungary faces a serious problem of a relatively high unemployment rate among young people (aged 15-24). In 2008 it was at the level of almost 20%, and exceeded the EU27 average by over 4 percentage points. This phenomenon is explained by prolonged education and training, longer transition periods and the fact that combining education with work is a rare practice.

**HUNGARY - MAIN LABOUR MARKET INDICATORS 2009 IN COMPARISON TO EU27**

	Hungary	EU27
Employment rate – % population aged 15 – 64	55.4	64.6
Employment rate older people – % population aged 55-64	32.8	46.0
Self employed - % total population	11.0	15.5
Employment in services - % total employment	62.3	70.4
Employment in industry - % total employment	30.7	24.1
Employment in agriculture - % total employment	7.1	5.6
Unemployment rate - % labour force 15+	10.0	8.9
Youth unemployment rate - % labour force 15-24	26.5	19.6
Long term unemployment rate - % labour force	4.2	3.0
Inequalities of income distribution	3.5	5.0

Source: Eurostat, *Employment in Europe Report 2010*.

According to the European Commission 2010 Autumn Economic Forecast, there is a need to continue comprehensive structural reforms that are regarded as a pre condition for economic recovery and

<sup>8</sup> European Commission, *Employment in Europe 2009 Report*, Brussels 2010, p.37.

improvements on the labour market. The Commission especially recommended to stronger orient wage development to productivity and increasing the employment rate, especially by activating young and older workers as well as workers from the disadvantaged groups.

## Flexicurity in the labour market and labour market policy

In 2007 in Hungary the majority of people (61%) had a secondary and post-secondary non-tertiary education. The proportion of those with an education level below upper secondary and tertiary was similar: 21% and 18% respectively.

According the European Company Survey 2009 Hungary is one of the EU countries where the use of flexible working time arrangements is quite limited, working time accumulation is not possible and the most common form of internal flexibility is the flexibility of starting and finishing the working day. Hungary was also reported for not compensating overtime – this situation was observed in 6% of establishments, which is above the EU average. No clear correlation has been proved between the proportion of employees in high-skilled positions and non-compensation for overtime. At the same time one of the lowest incidences of Saturday and Sunday work was reported in Hungary (24% and 16% respectively). Freelance work is rare - only 5% of enterprises report employing freelance workers.

According to the NRP 2008-2010 the share of part-time work was decreasing in Hungary in 2007.<sup>9</sup> Less than 4% of employees aged 15-64 worked on part-time basis compared to an EU27 average of 17.7%. The situation was similar in 2008: 4.6% compared with 18.2% respectively. Part-time work in Hungary is mainly exercised by older female workers. The same concerns fixed-term contracts, which are less used than in the EU27 (7.9% compared with 14%). A slight decrease has been observed concerning self-employment, which is attributed to the reduction of bogus self-employment.

During the crisis Hungary was one of the countries that introduced short-time work arrangements in order to protect employment (see the following chapter).

Continuing vocational training and lifelong learning are characterised as being rather weak aspects of the Hungarian labour markets. According to EU data (see table below) only 16% of workers participated in CVT initiatives in 2005. In 2009 only 2.7% of employees participated in lifelong learning initiatives compared to more than 9% in the EU27. In Hungary there are not enough training provisions for employees to maintain and improve their skills at the appropriate level.

Employment protection levels in Hungary are lower than the EU27 average. This concerns both regular and temporary employment, although the difference is more pronounced in the case of protection of temporary employment (1.38 for Hungary compared with 1.8 for the EU27). There is also evidence that in everyday practice labour market is less regulated than it could be judged on the basis of the Labour Code and the Employment Act provisions. The level of job satisfaction in Hungary is comparatively high – in 2005 almost 80% of workers were satisfied with their job.<sup>10</sup>

According to Kallo and Necsá (2007) expenditure on active labour market policies (ALMP) per unemployed was relatively high compared to other transition countries (except for Slovenia and Poland), but clearly below the EU15, EU27 and OECD (see figures below). A slight increase in the share of ALMP in total expenditures has been noted since the beginning of 2000s, but the overall picture has not changed the overall picture significantly. Recently, close to two thirds of the employment policy budget is spent on ALMP, while the rest covers the expenses of labour offices. It was also observed that the expenditure per unemployed has decreased.<sup>11</sup>

<sup>9</sup> National Action Programme for Growth and Employment 2008-2010, op.cit, p. 13.

<sup>10</sup> European Foundation for Living and Working Conditions, *Measuring Job Satisfaction in Surveys – Comparative Analytical Report*, Dublin 2007, p. 5.

<sup>11</sup> J. Köllö and B. Nacsá, op.cit., p.131.

## HUNGARY - FLEXICURITY INDICATORS IN COMPARISON

	Hungary	EU27
<b>Total population having completed at least upper secondary education (population aged 25-64, %), 2009</b>	80.6	72.0
<b>Part-time employment - % total employment, 2009</b>	5.6	18.8
<b>Fixed-term contracts - % total employees, 2009</b>	8.5	13.5
<b>Access to flexitime, % total employees aged 15-64, 2004</b>	17.3	31.3
<b>Percentage of employees (all enterprises) participating in CVT courses , 2005</b>	16.0	33
<b>Lifelong learning participation – percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey, 2009</b>	2.7	9.3
<b>Job satisfaction – percentage of workers that are either very satisfied or satisfied with working conditions in their main paid job (EWCS 2010)</b>	74.1	84.3
<b>Strictness of employment protection – regular employment, 2008</b>	1.92	2.11*
<b>Strictness of employment protection – temporary employment, 2008</b>	2.08	2.08*
<b>Strictness of employment protection – collective dismissals, 2008</b>	2.88	2.96*
<b>Public expenditure on <i>passive</i> labour market policies (categories 8-9) - % of GDP, 2008</b>	0.37	0.96
<b>Public expenditure on <i>active</i> labour market policies (categories 2-7) - % of GDP, 2008</b>	0.21	0.46
<b>Persons at-risk-of-poverty after social transfers - % of total population, %, 2009</b>	12.4	16.3

Source: Eurostat; Employment in Europe Report 2010; Eurofound (European Working Conditions Survey 2010); OECD. \*OECD average

In Hungary the proportion of those unemployed longer than 12 months in 2008 was 47.6% compared with an European average of 45%.<sup>12</sup>

### Conclusion

According to the assessment of the progress made in the implementation of the Hungarian NRP by the European Commission the main challenges the country faces is to continue structural reforms. There is a wide array of reforms that have to be implemented to ensure long-term fiscal sustainability and improve economic efficiency: Fiscal consolidation, reform of the pension and healthcare systems as well as education and public administration reforms. Recommendations related to labour market policy in particular suggested a stronger orientation of ALMP towards specific groups on the labour market as well as specific geographical areas. Furthermore, there is an urgent need to promote adult participation in lifelong learning and ensure better matching between education and labour market needs.

<sup>12</sup> Employment in Europe 2009.



## 2 Flexibility and security in recent labour market and social policy reforms

### Introduction and overview

Changes introduced in the Hungarian labour market as well as in the field of social policy focus mainly on increasing employment levels and ensuring a better matching of available skills and labour market demand. In order to implement this objective the following initiatives were proposed: promoting professional activity, job search and employment, increasing employability, assisting in employment transitions, promoting atypical employment, reducing irregular employment and ensuring more effective links between education and labour market.

The concept of flexicurity has not yet become the ‘mantra’ of the Hungarian labour market policy. It is still associated more with the EU level and complying with European Employment Strategy guidelines than with a national approach of shaping the labour market and reform projects. If the concept is discussed, the focus is rather on trade off between flexibility and security. Some labour economists believe that the Hungarian labour market is characterized by extremely weak job protection and high flexibility.<sup>13</sup>

### Lifelong learning and the mobility of workers

In 2005, a strategy for lifelong learning was adopted in Hungary. The document formed the basis for human resources development and modernisation of education and training systems. It has two main objectives: improving adaptability of working age population and improving employability of young people entering labour market. Within the framework of the strategy the following initiatives were foreseen: training programmes for individuals with low level of qualifications, the module-based vocational education training system, career guidance and career tracking system as well as vocational training scholarship system. Umbrella organizations were invited to facilitate access to training initiatives and lifelong learning for employees of SMEs.

As the employer organisation MGYOSZ reports in the response to the questionnaire survey, in 2008 tripartite “Regional Vocational and Development Committees” were established in order to develop and improve education and vocational training at the local level in Hungary.

In 2013 the standardised qualifications framework is to be established according to European Qualifications Framework.

During the crisis training initiatives complemented reduced working time schemes. Financial aid is provided by the Labour Market Fund. There is no available evidence related to its effectiveness.

In principle, in Hungary there are more initiatives aimed at the reducing of skills gaps, upgrading low skills and retraining dismissed workers than lifelong learning addressed for still employed workers to prepare them for future changes. According to the trade union federation LIGA a new program on lifelong learning has been started by public employment services and social partners are involved in improving vocational training system. Lifelong learning has grown in importance during the crisis<sup>14</sup>.

### External/internal flexicurity and contractual arrangements

Like other Central and Eastern European countries Hungary is characterized by the dominance of employment contracts with indefinite duration - over 90% of the contracts in Hungary are open-

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<sup>13</sup> J. Köllő and B. Nacsá, *Flexibility and Security in the Labour Market – Hungary’s Experience*, ILO-CEET, September 2004, cited after EIRO on-line, *Hungary: flexicurity and industrial relations*, updated on 15 September 2009. (<http://www.eurofound.europa.eu/eiro/studies/tn0803038s/hu0803039q.htm>).

<sup>14</sup> All social partners opinions were taken from questionnaire sent in May 2010.

ended. There is evidence that there are sharp differences in the typical legal form of existing contracts and new contractual arrangements. Köllö and Nacsá proved weak evidence that job termination rates differ by type of contract, with the difference being more significant for short tenures.<sup>15</sup>

However as a representative of the trade union organisation MOSZ highlighted in a presentation at the flexicurity cluster seminar in the context of this project, the trade unions regard the existing flexibility of contractual arrangements as quite sufficient. In particular the following forms of flexible arrangements were highlighted:

- Various forms of flexible forms of work are covered by the labour code and Hungarian law (e.g. part-time work, fixed-term work, telework, temporary agency work, simplified employment contracts, domestic work, casual work and seasonal work);
- There also is certain flexibility during the employment relationship, i.e. internal flexibility, e.g. flexible working time schedules, the possibility of employing workers for other tasks than defined in the contract, shorter information and consultation periods in cases of crisis etc.

In contrast to this, the employer federation MGYOSZ states in the response to the questionnaire survey that:

*“The bottleneck of adapting flexicurity principles are strict and rigid rules of the Labour Code, which cut the bargaining parties’ latitude narrow, therefore it is very difficult to conclude agreements, which are flexible enough for employers and ensure the security of the employment.”*

It is widely acknowledged in Hungary that flexible forms of employment can contribute to a reduction of irregular employment and increasing participation rate. The proposed instruments include: Increasing part-time and telework, developing childcare services, facilitating ‘job immersion’ for new entrants to the labour market as well as seasonal or *ad-hoc* employment for the long-term unemployed and those with low qualifications. For now the use of these forms of employment remains relatively low by the EU standards. Köllö and Nacsá state: *“Information on other forms of flexible employment is scarce and predominantly anecdotal. Under socialism rigidities were substantially reduced by formal and informal multiple-job holding; formal second jobs seem to have now disappeared completely from Hungarian labour market”*.<sup>16</sup> Disappearance of multiple job holding and moonlighting has been substantially reduced by the development of the services sector and elimination of shortages. In order to making short-time assignments more secure for workers, unemployment benefits and social security provisions were made applicable to this category of contracts.

As a measure adopted in response to the 2008 crisis and based on an agreement between the Hungarian social partners in the frame of the governing board of the Labour Market Fund various kinds of financial support measures have been made available on a temporary basis for enterprises in order to maintain employment (see below).

A new regulation highlighted by LIGA is the Act of the Simplified Employment (*“egyszerűsített foglalkoztatás”*). It was passed in 2009 and entered into force on 1 April 2010. The new regulation changed the previous laws related to temporary employment in several aspects, e.g. the structure of temporary employment, rules for establishing temporary employment relationship, measure of common charges and rules for reporting obligations. According to LIGA there are more opportunities to shift between part-time and full-time jobs.

## Active labour market policy

<sup>15</sup> J. Köllö, B. Nacsá, *Flexibility and security in the labour market – Hungary’s experience*, Flexicurity Paper 2004/2, ILO Budapest 2005.

<sup>16</sup> *Ibidem*, p. 130.

In order to increase effectiveness of ALMP delivery, the institutional capacity of the public employment service (PES) was strengthened. In 2006 the Ministry of Social Policy and the Ministry of Labour were merged. The basic assumption of the merger was that job allocation should override social benefits. Moreover, PES organisation was changed from county-based to the region-based one. Following the merger, in 2008 a new system for classifying changes in working abilities have been established. It is to facilitate labour market integration of those who receive rehabilitation allowance. Beneficiaries of the social benefit will be registered with PES. Further improvement of PES staff skills is foreseen.

There is a series of programmes addressed to those who face the biggest difficulties on the labour market. One of them is ‘START’ – a programme addressed to the most disadvantaged, i.e. young workers. ‘START Extra’ is addressed to older workers. Programs include training, counseling and job placement services. ‘START+’ programme is to facilitate return to work as early as possible. It offers childcare allowance and grants for employers who employ women returning to work. There are more specific and more complex programs addressed to the Roma population; i.e. combination of education and housing component.

The EU funds are also used to stimulate employment: for example predicting increase of activity in construction sector due to the EU investment, all employers – contractors of the EU-funded project- are required to employ 10% of the total workforce from among the long-term unemployed registered with the labour office.

As both the employer federation MGYOSZ and the trade union LIGA pointed out in their replies to the questionnaire survey; there have been various programmes developed recently aiming at assisting young and older people who have been unemployed for a long time in taking up employment. One of them is reduction of social security contributions for companies. There are also training programmes enabling getting a new profession for the long-term unemployed.

*„In frame of this “Ways to work” programme the concerned citizens obligates to cooperate by the relevant authorities (employment, social affairs and local government) in order to fit back/into the labour market. The authorities organise public-employment activities to achieve this purpose, giving the possibility this people to earn own salary instead of social benefits. Business enterprises have the possibility to join this programme as employers since January of 2010. Details of the programme had been finalised in frame of the National Conciliation Council (OÉT), which is the highest level tripartite body.” (MGYOSZ response to the questionnaire survey)*

During the crisis the following measures were introduced: Reduction of social security contribution and taxes on non-wage labour cost, job retention schemes as well as reduction of employment related costs, especially in the disadvantaged regions.

The “Labour Market Fund” is playing a crucial role in providing financial aid for enterprises in cases of crisis. This fund was established on the basis of an initiative of the Hungarian social partners.

### Supportive social security system

The most important change in the social security provision was to strengthen the links with public employment services – the system is now based on job search assistance and certain obligations of the jobseeker in order to be entitled for unemployment benefits.

The unemployment benefit system was changed between 2005 and 2007. The changes implied a gradual rise of the retirement age since 1998, changing rules on early pension scheme, i.e. starting 2010 pensions are to be lowered for all those applying before reaching retirement age. The disability pension regime was also changed: Since 2008 disability pension has been replaced by a transitional benefit related to participation in activities aimed at facilitating return to the labour market. Incentives to work for people on social benefits have increased – now it is necessary to register with PES and following the programme, i.e. public works, to be entitled to receiving money.

In order to support professional activity of parents of young children, and especially mothers, childcare allowance for parents of children aged 0-3 is paid. The next step is to improve the childcare facilities in Hungary as there are acute shortages of such services. There have also been some changes in the provision of childcare allowance: This is no longer conditioned to not being employed. There are two other initiatives: On the voucher system that would complete childcare allowance system and on shortening childcare allowance entitlement period to maximum two years.

It seems to be necessary to better coordinate activities between social assistance organisations and labour offices.

In reaction to the 2008 crisis the Hungarian government has taken a number of measures in order to reduce public expenditure in the field of social security. The trade union federation MOSZ highlighted in particular the following measures in the presentation at the flexicurity cluster seminar in Paris at the beginning of 2011:

- shorten the payment of child care benefits from three to two years;
- family benefits are paid only for children up to an age of 20 years (so far it was 23 years) and the benefit level will not increase;
- increase of the retirement age from 62 to 64 years;
- deletion of the 13<sup>th</sup> month pension.

### High quality and productive workplaces

Creating high-quality and productive workplaces seems to be a big challenge for the Hungarian decision-makers. From the beginning of transition, Hungary has followed a policy of letting the hard-to-employ groups leave the labour market, supported by a pension, childcare benefit or social benefit. This policy reduced the number of job seekers and also resulted in subsidizing part-time employment with pensions, childcare and social benefits.<sup>17</sup> A concept of inclusive labour markets or professional activation together with job creation hardly exists.

### Gender equality

According to LIGA, the situation in regard to gender equality has improved in recent years in particular since the establishment of the Equal Treatment Authority. Some social partners organizations, among them LIGA, set up specific organizational units on gender equality. As the employer organisation MGYOSZ reports, all enterprises employing a workforce of more than 50 are obliged to prepare so-called equal opportunity plans.

### Financial sustainability

No information was available on financial stability. However, taking into consideration serious pressure on public finances – example being recent elimination of mandatory private pension funds (“second pillar”) by the end of 2011, it seems that financing any flexicurity-related provisions may be a serious challenge.

### Conclusion: Strengths, weaknesses and challenges

For Hungary the most important challenge at the moment is to return to the path of economic development and coping with the very unfavourable situation on the labour market, that worsened during the recent crisis. The Hungarian economy contracted significantly, employment followed with a certain lag, also in the well-developed regions. The unemployment rate increased and the situation of traditionally disadvantaged groups on the labour market (young and older workers as well as the Roma population) has deteriorated. In order to cope with these problems, structural reforms should

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<sup>17</sup> J. Köllö, B. Nacsa, op.cit, p. 147.

be continued according to the EU Commission. Pension, public sector or fiscal reforms are of a predominant importance; it seems that at the moment there is no room to discuss flexicurity as a separate issue.

However, there are also developments that can be attributed to certain components of flexicurity. It seems that recently flexible contracts are revisited with an aim to examine their potential to stimulate employment. If not misused, flexible employment contracts seem to be an interesting opportunity for those who are not able or do not want to work full-time and may become effective alternative to irregular work. Flexible employment contracts were regulated in the Act of Simplified Employment, which is still under debate.

An important further challenge will be to reduce the share of undeclared work and increase the security for employees. This is to be achieved by appropriate taxes, social security rebates, awareness building and control system.

Finally, also the significant segmentation of the Hungarian labour market is a major challenge: There are two groups of people – those who have a job and those who do not have one – and there is hardly any connection between these two groups. Therefore supporting job transition and mobility is crucial. LIGA observes that better access to work opportunities and improved management of job transitions have become more important subjects during the crisis.

### 3 The role of the social partners

#### General remarks on the role of social partners

Since the 1990s Hungary established a number of social dialogue institutions addressing labour law and market policy issues. The national level tripartite forum is called the National Interest Reconciliation Council (OÉT) and is regularly addressing issues concerning employment policy and amendments to existing labour law regulations. In 2004 one of the discussed subjects was lifelong learning. In OÉT there are 9 representatives of employers’ organisations and 6 of trade union confederations.

Apart from OÉT, there is also a special body specializing in training-related issues: National Vocational Training and Adult Training Council (NSZFI). There are also sectoral and branch committees as well as created in 2004 the Economic and Social Council, where apart from the government and social partners, NGOs and stakeholders sit.

Social partners have the ‘co-management’ position in the Steering Committee of the Labour Market Fund, which decides about allocation of the Labour Market Fund. At regional level, the tripartite Regional Labour Councils and Regional Development Councils are involved in allocation of funds for ALMP. Social partner can be also consulted on *ad-hoc* basis.<sup>18</sup>

According to the Labour Force Survey, in 2004 trade union density stood at 16.9%, which was 2.8 percentage points lower compared with 2001. In absolute terms, this means that, in 2004, there were 550 000 trade union members. Six trade union confederations are recognized in Hungary as representative organisations. These are: the National Association of Hungarian Trade Unions (MSZOSZ), the Democratic League of Independent Trade Unions (LIGA), the National Federation of Workers’ Councils (MOSZ), the Trade Unions’ Cooperation Forum (SZEF), the Confederation of Unions of Professionals (ÉSZT) and the Alliance of Autonomous Trade Unions (ASZSZ). All six organisations have been affiliated with ETUC since 1993. It is widely agreed that the Hungarian union structure is too fragmented and that there are too many confederations. While the conflicts between the unions – arising in the early 1990s over inherited assets and legitimacy – have been

<sup>18</sup> Based on EIRO on-line, *Hungary: Flexicurity and industrial relations*, op.cit.

settled formally, the divisions between ‘old’ and ‘new’ unions are still evident. So far the attempts to merge confederations have not been successful.

According to self-reporting and the European sources the Hungarian employers’ organisations density is estimated at 40%. There are nine employers’ confederations. These are: the Confederation of Hungarian Employers and Industrialists (MGYOSZ), the National Association of Entrepreneurs and Employers (VOSZ), the Agrarian Employers’ Federation (AMSZ), the National Federation of Agricultural Cooperatives and Producers (MOSZ), the National Federation of Craftsmen Boards (IPOSZ), the National Federation of Traders and Caterers (KISOSZ), the Hungarian Industrial Association (OKISZ), the National Federation of Consumer Co-operatives (ÁFEOSZ) and the National Association of Strategic and Public Utility Companies (STRATOSZ). Employer organisations have voluntary membership and act also as business and lobbying associations. Only five out of nine organisations are involved in collective bargaining. As a result, membership without binding collective agreement is one of the features of the Hungarian associations. At European level, STARATOSZ became affiliated to CEEP in the early 1990s, while MGYOSZ became a member of BUSINESSEUROPE in 2005<sup>19</sup>.

### Main instruments and levels of influence

There are three basic levels of collective bargaining in Hungary: within the framework of the tripartite OÉT, with a view to conclude multi-employer collective agreements (quasi-sectoral) and at the level of an individual company. According to LIGA, sectoral level collective bargaining other than with a view to conclude multi-employer collective agreements, does not play an important role.

Tripartite negotiations usually concern wages and setting up minimum wage level. Multi-employer agreements usually concern enterprises belonging to the same Group. Majority of agreements is concluded at the company level, both in private and public sector. Single-employer and multi-employer collective agreements are legally binding. However, national-level agreements of the social partners are not enforceable by legal means. The majority of work-related aspects are regulated by labour law.

Sectoral collective agreements are rarely extended; up to 2005 only 4 such agreements have been subject of extension. It results in relatively low collective bargaining coverage – approx. ¼ of employees are covered by collective agreements.

#### HUNGARY - MAIN SOCIAL DIALOGUE INDICATORS

	Hungary	EU25
<b>Collective bargaining coverage- % of employees covered by collective agreements, 2006</b>	25.5	63.0
<b>Trade union density - % of dependent employees who are trade union members, 2005</b>	16.9	25.3
<b>Employer organization density - % of employees employed by companies that are members of an employer organization, 2006</b>	40.0 (est.)	n.a.

Source: EIRO on-line Country Profiles, EU Industrial Relations Report, 2008.

### Recent changes and challenges

The Hungarian social partners have different views on labour market reforms, and, as a consequence, to their elements linked to flexicurity.

Trade union representatives have expressed concerns that often measures of labour market modernisation and implementing reforms are resulting in a weakening of employee protection.

<sup>19</sup> Based on EIRO on-line, Hungary: Industrial Relations Profile, op.cit.

They stress that the Hungarian labour market flexibility is relatively high, while protection of workers is very low. According to them employers’ prefer to use civil law contracts that guarantee no protection for workers. In general trade unions do not believe in increasing employee security by implementing flexible solutions on the already liberal labour market. According to the trade unions that against the main problems of the Hungarian labour market – low employment rate and a relatively high share of undeclared work – flexicurity is not the main factor for addressing these challenges and increasing competitiveness. Additionally, trade unions believe that flexibility should be compensated financially and point out that sometimes initiatives aimed at retraining the unemployed and provide them with a new profession is not efficient. Some trade unions believe that during the crisis promoting high quality and productive workplaces, promoting gender equality and assuring financial stability of the implemented initiatives have become less important.

Employers are convinced that improvements on the labour market require lower labour cost: reducing taxes, social contributions and eliminating wage increases not tailored to productivity and reducing generous minimum wage for skilled workers. They also believe that flexible contractual arrangements can foster more dynamism in the labour market and create more employment opportunities. Employer organisations representatives would welcome more freedom in shaping employment relations via company-level collective agreements or on the basis of individual contracts.

Regulations related to flexicurity are rarely written into company-level collective agreements. However, it seems that despite a quite pronounced trade union disagreement for more flexibility on the labour market, both employers and the government are interested in further flexibilisation.

The least controversies are caused by initiatives aimed at developing vocational and lifelong learning systems. According to the LIGA response to the questionnaire survey, the influence of social partners as regards to lifelong learning has increased recently quite significantly.

According to LIGA, the role of social partners and tripartite dialogue had not increased in the aftermath of the 2008 crisis. At the same time LIGA representatives believe that influence of social partners and social dialogue has increased in the last five years in such areas as labour law reform and legislation, ALMP and framework for work-to-work transition as well as security policy and social protection.

### Cases of good practice in the field of labour market flexibility and security

The Hungarian social partners in their responses to the flexicurity survey have highlighted the following cases of good practice (for further details see in particular the respective sections in chapter 2 of this report):

#### CASES OF GOOD PRACTICE IN THE FIELD OF “FLEXICURITY” AS SUGGESTED BY THE HUNGARIAN SOCIAL PARTNERS

	Social Partner	Flexicurity principle addressed
- Financial aid and in particular the measures implemented after consultation with the Hungarian social partners in 2008-2009 provided by the Labour Market Fund (“Ways to work” and measures to maintain employment after the 2008 crisis)	MGYOSZ/BUSINESSEUROPE	Active labour market policy Greater external flexibility
- New system of vocational education and training that is now governed by a strong influence of the Hungarian social partners and chambers.	LIGA/ETUC	Lifelong learning

Sources: Questionnaire replies and interviews

## 4 Key issues arising

From the point of view of the author of this report the following key issues and questions are arising with regard to flexicurity in Hungary:

- *Taking into account the present state of the Hungarian labour market, what measures are needed to increase participation rates and construct a more inclusive labour market?*
- *How to ensure closer links between wages and productivity and balance employment protection with flexibility?*
- *How to balance the use of flexible and regular employment, and ensure that the two contribute to increasing flexibility and security both for workers and enterprises?*
- *How to create incentives for individuals to attract inactive people to the labour market and for enterprises to create new jobs?*

## Sources and references

### Replies to the questionnaire survey, interviews and other contributions

A reply to the European Social Partners’ questionnaire survey was received by the ETUC member organisation LIGA and the BUSINESSEUROPE Hungarian member MGYOSZ.

Furthermore representatives of the Hungarian social partners (MOSZ, MGYOSZ) delivered presentations and statements to the flexicurity cluster seminar in Paris on 31<sup>st</sup> January and 1<sup>st</sup> February 2011.

### Further resources

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