

**THE LEGAL AND INSTITUTIONAL
ENVIRONMENT OF THE
LABOUR MARKET**

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INTRODUCTION

The previous issues of the *Labour Market Review* provided an overview each year of the main changes in the legal and institutional context of the labour market and the drivers for these changes. This year, instead of presenting the changes, I will review current regulations to provide up-to-date information and facilitate a better understanding of Hungarian employment policies.

As has happened on several occasions in the past, this year too a major legislative review – the *Pathway to Work Programme* – was also begun during the writing of this study. The final proposal however was not available at the time of its submission. Therefore, in addition to the facts, the likely changes will also be discussed.

It is well known that the legal basis of the current institutional system of the labour market was created by Act IV of 1991 on the Promotion of Employment and Unemployment Compensation (Employment Act), which:

- created an insurance stream for unemployment benefits,
- established the institutions of organised social dialogue,
- established a single public employment service,
- expanded the range of active labour market policies.

Their current legislative framework and implementation is reviewed below.

I. THE SYSTEM OF UNEMPLOYMENT COMPENSATION

To compensate for the loss of income as a result of unemployment the Employment Act originally introduced three types of assistance: *the contribution-based unemployment benefit, the young entrants' unemployment allowance and the advance-pension*. The young entrants' unemployment allowance was phased out as of July 1, 1996. New eligibility for the advance-pension could be established up until December 31, 1997 however from January 1, 1998 it was replaced by the *pre-retirement unemployment benefit*.

At the beginning of 1993, a new type of unemployment compensation was introduced by *Act III of 1993 on Social Administration and Social Assistance* (Social Assistance Act); *the income replacement allowance* for those who can no longer receive the contribution-based unemployment benefit. *This was also phased out from May 1, 2000*. Since then, the only form of financial support

*Current provisions
for the unemployed*

for people of working age in long term unemployment is the *regular social assistance (RSA)*. The introduction of a new provision, the *job-search payment* as of July 1, 2003 attempted to fix the “slimming down” of the system of unemployment compensation.

From January 1, 2005 the self-employed and full-time partners in enterprises can also become eligible for unemployment benefit: *the contribution-based entrepreneurial benefit*.

The system of unemployment compensation completely changed after November 1, 2005. The contribution-based unemployment benefit was replaced by the – also contribution-based – *job search benefit*, and the job-search payment and the pre-retirement unemployment benefit were replaced by a single scheme, *the job-search allowance*.

Table 1 gives an overview of the income replacement compensation for the unemployed and the distribution of recipients by type of provisions. Data shows that while *at the beginning of the 1990s approximately a quarter of those registered as unemployed with the Public Employment Service were without financial support, this has currently increased to one in three*. The majority of clients received contribution-based benefit initially, but their share, i.e. people receiving unemployment benefit or job-search payment, was already less than 50% in 2005. From 2007 – in addition to the unemployment benefit that was being phased out – the contribution-based schemes are the job search benefit and the entrepreneurial benefit. Only 35.1% of the registered unemployed were claiming these.

Table 1: Average number of people claiming unemployment compensation, by type of provisions, 1992–2007

Provisions	Distribution of claimants at the end of the year (%)									
	1992	1994	1998	2000	2001	2003	2004	2005	2006	2007
Unemployment benefit	86.6	34.8	40.8	44.8	51.1	45.4	43.8	42.0	5.8	0.1
Young entrants' unemployment allowance	5.3	7.4	-	-	-	-	-	-	-	-
Income replacement allowance	8.1	45.6	45.5	36.9	10.8	0.8	0.3	-	-	-
Regular social assistance	-	-	-	13.2	34.8	48.4	47.9	49.1	48.3	51.0
Advance pension	0.0	12.1	13.2	2.2	0.3	-	-	-	-	-
Pre-retirement unemployment benefit	-	-	0.5	2.9	3.0	2.7	2.3	2.0	1.5	0.6
Job search payment	-	-	-	-	-	2.7	5.7	6.9	1.0	-
Job-search benefit	-	-	-	-	-	-	-	-	29.7	34.3
Job-search allowance	-	-	-	-	-	-	-	-	13.6	13.3
Entrepreneurial benefit	-	-	-	-	-	-	-	-	0.1	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
% of registered unemployed who do not receive any compensation	22.6	26.2	26.1	29.5	33.5	33.6	33.5	33.8	35.9	35.6

Source: Calculations based on data from Employment and Social Office.

1. Contribution-based entrepreneurial benefit

From January 1, 2005 the self-employed and full time partners in enterprises also became part of the unemployment insurance system. As a result, from 2006 they qualify for *entrepreneurial benefit* if;

- they are out of work;
- they have worked at least 365 days as self-employed or as a partner in an enterprise over the four years prior to becoming unemployed, and paid entrepreneurial contribution regularly (that is 4% of the income subject to the health insurance contribution);
- they are not eligible for incapacity or accident-related disability pension, or are not receiving sick-pay;
- they are registered as jobseekers with the local job centre and have not been offered a suitable job.

The amount of the entrepreneurial benefit is calculated on the basis of the income which has served as the base for the entrepreneurial contribution. For this purpose the income of the last calendar year is taken into account in which the unemployed person paid the contribution for at least 6 months within a total period of four years prior to becoming unemployed. If there is no such calendar year, the amount of the benefit is calculated on the basis of the statutory minimum wage in the calendar year prior to becoming unemployed. The level of income on which the entrepreneurial contribution is actually paid is set according to the records of the Tax and Financial Control Administration (APEH).

The rate of the entrepreneurial benefit is 65% of the monthly average income defined as above. The monthly minimum of the entrepreneurial benefit is equal to 90% of the old-age minimum pension (HUF 25,650 in 2008).¹ The maximum amount is set at the double of this, namely 180% of the old-age minimum pension (HUF 51,300/month). The benefit is paid for a maximum of 270 days; one day of eligibility corresponding to five days of contribution.

*Unemployment insurance
for the self-employed*

2. Reform of the system of unemployment compensation

From November 1, 2005 the various types of unemployment provisions were replaced by a range of job-search support schemes that are available only for *jobseekers; people who want to return to work, are actively seeking work and who are doing their best to find a job.*

2.1. Contribution-based job-search benefit

The contribution-based unemployment benefit was replaced by the *job-search benefit*. The eligibility conditions, reflecting a mixed-approach with contribution-based and social welfare elements, were designed to encourage return to work. To this end the amount of the benefit decreases based on the length of time spent out of work.

¹ At the time of publication the exchange rate of the Euro was 1 EUR = 298 HUF.

The job-search benefit can be claimed by jobseekers who were employed for at least 365 days within a period of four years prior to losing their job. As entitlement to one day of benefit requires five days in work, *the shortest period during which the job-search benefit can be paid is 73 days* (in comparison, previously the shortest period was 40 days with 200 days in work). *The longest time for which one can receive job-search benefit remains at 270 days* (Table 2). *The rate of the job-search benefit is 60 percent of the average earning on which the contribution was paid. The maximum and minimum amounts were decoupled from the old-age minimum pension and linked to the national minimum wage.*

Table 2: Eligibility conditions for job-search benefit

Introduction of job-search benefit	Employment history	Entitlement period		Waiting period	
		Minimum	Maximum	Voluntary departure	Redundancy
November 1, 2005	At least 365 days within 4 years of becoming unemployed	73 days	270 days	3 months	N/A

The benefit is paid in two phases (Table 3).

- In phase one, which is *half of the entitlement period, but not more than 91 days, the rate of the job-search benefit is 60% of the recipient's previous average earnings*, with a fixed minimum and maximum. *The minimum amount is equal to 60% of the statutory minimum wage, while the maximum is the double of this.*
- *The duration of phase two is the number of the remaining entitlement days, but not longer than 179 days.* The benefit during this phase is a *fixed amount of 60% of the minimum wage.* (If the jobseeker's eligible monthly average earning was lower than the minimum benefit, then the amount of the benefit paid equals to the average earning in both phases).

Table 3: General rules for calculating the amount of job-search benefit

Rate		Duration of Phase 1	Formula to calculate the average earning	Amount	
Phase 1	Phase 2			Minimum	Maximum
60% of previous average earnings	60% of the minimum wage (HUF 41,400 in 2008)	Half of the entitlement period, but not more than 91 days	The average earnings in the four quarters before becoming unemployed	60% of the minimum wage (HUF 41,400 in 2008)	120% of the minimum wage (HUF 82,800 in 2008)

Active job-seeking is a key requirement in order to qualify for the benefit. This is *set out in an agreement between the jobseeker and the local job office.* In this document the two parties set out a sequence of activities that help the individual to return to work. An important part of this is the individual's concentrated efforts to find a job. *If the jobseeker fails to comply with the*

provisions of the job-search agreement for reasons attributable to him/her, the payment of the benefit must be terminated.

The bonus payment for successful jobseekers was introduced to encourage people to return to work as quickly as possible. *Jobseekers qualify for this bonus payment if they take up a full-time, or part-time – at least four hours a day – job under a permanent contract before their eligibility to job-search allowance ends. If they stay in work for a certain time, they can claim 50% of their remaining benefit entitlement to be paid as a lump-sum.* This case should be regarded as if the individual had been receiving the benefit for the whole entitlement period (and therefore will have no entitlement left). The rationale behind the introduction of the bonus was to encourage people on job search benefit to return to work as quickly as possible. In practice, however there were a number of issues. Clients are put off most of all by the termination of the entitlement. People are terrified of losing their job and they try to keep a “last resort”. In this case it means a longer entitlement for job search benefit should they need it again. Another common issue is that employers do not register new workers on the same day when they cancel their registration with the job centre. As a result there is no continuity in their status as required by the eligibility conditions of this scheme. Furthermore, most employers hire new workers under a fixed-term contract of employment, and even though they might get a permanent contract later, they do not qualify for the payment. And although the bonus can also be paid to individuals who change their jobs, there is often a gap between jobs.

Issues regarding the bonus payment for successful jobseekers

The job-search benefit creates entitlement to social security benefits, and thus – like the unemployment benefit – is subject to health insurance and pension contributions paid jointly by the authorities and the individual.

2.2. Job-search allowance

During the reform policy-makers aimed to ensure that no group of unemployed people are worse off under the new system; and any reduction in the average daily assistance was compensated by a longer entitlement period. Therefore a new form of assistance, the *job-search allowance* was introduced for those who:

- are no longer eligible for job-search benefit;
- are close to pensionable age;
- or due to changes in the eligibility conditions, do not qualify for job-search benefit.

The allowance is a fixed sum equal to *40% of the statutory minimum wage* which was HUF 27,600/month in November 2008. It creates an entitlement to social insurance benefits, thus the benefit is subject to health insurance and pension contributions paid by the authorities and the individual.

Multi-purpose job search allowance

The main features of eligibility conditions and payment of the job-search allowance are summarised below (*Table 4*).

1. The introduction of the job-search payment on July 1, 2003 aimed to promote a longer and closer cooperation with the job centre. One of the eligibility conditions was closer cooperation during the entitlement period. The job-search payment had to be adjusted to the new regime of job-search allowance, while preserving those features that worked. One of these for example is that active job-seeking is expected from the beginning of unemployment and not only following a longer period of claiming passive assistance. In the new system indeed, engagement in active job search is one of the main conditions of eligibility.

Therefore jobseekers can claim job-search allowance if they *received job search benefit for at least 180 days, they are no longer entitled to it and they have not yet been able to find a job*. The allowance can be *paid for up to 90 days, or in the case of jobseekers aged 50 years and over, for up to 180 days*.

2. Other potential recipients of the job-search allowance are people who had been eligible for 40 days of unemployment benefit with 200 days in employment under the old rules before November 2005 but because of the new eligibility conditions that require at least 365 days in employment, they do not qualify for job search benefit. However, they *can claim job-search allowance if they have spent between at least 200 but less than 365 days in employment in the four years prior to their unemployment*. The benefit is also *paid for 90 days* in their case.

3. The *pre-retirement unemployment benefit was kept* with identical eligibility and payment conditions. (The rate has increased: previously it was 80% of the old-age minimum pension and now it is 40% of the statutory minimum wage). However, it has a new name: under the term *job-search allowance* it has been integrated into the general job-search support scheme. The benefit can be paid – as in the previous scheme – until the individual reaches the national pension age, but only for a maximum of five years.

Table 4: Main features of the job-search allowance

Eligibility	Rate	Entitlement
1. For persons who have been entitled to at least 180 days of job-search benefit, no longer eligible however have not yet found a job.	40 percent of the statutory minimum wage	90 days, for persons aged over 50 180 days
2. Jobseekers who have spent between 200 and 364 days in employment during the 4 years before becoming unemployed.	40 percent of the statutory minimum wage	90 days
3. Persons who were eligible for pre-retirement unemployment benefit before November 1, 2005.	40 percent of the statutory minimum wage	Until reaching national pension age, but no longer than 5 years

Paid work is not permitted while claiming job-search allowance with the exception of casual work. The payment of their allowance is suspended for the duration of temporary employment. Casual work is also permitted for people who receive job-search benefit. However, in this case the income from casual work is not taken into account for the payment of their benefit.

2.3 Registration as a jobseeker with the Public Employment Service

Customers of the Public Employment Service who satisfy the following criteria are considered *jobseekers*:

- have the capacity and ability to work, and are available for work
- are not in full-time education, and
- not entitled to an old-age pension, and
- are currently out of work, other than temporary work, and are not engaged in any other income-earning activity, and
- are cooperating with the public employment service in order to find a job, and
- are willing to accept any suitable job offers, and
- are registered as a jobseeker by the public employment service.

The registration is initiated by the client who submits the appropriate registration form in the local office of the job centre. If the individual meets the registration criteria, they must sign a *job-search agreement*. *The agreement is a document that sets out how the individual participates and cooperates in intensive job-seeking.*

Progress and compliance with the terms and conditions of the job-search agreement is evaluated jointly by the individual and an adviser of the local office of the job centre on a *regular basis at personal meetings*. The job-search agreement *can be modified* or amended by mutual agreement of the individual and the job office if:

1. Due to any change in the *circumstances*, the jobseeker *can no longer comply* with the terms and conditions of the agreement, or
2. the jobseeker wishes to modify the *means and methods of job-seeking* indicated in the document.

It is a *requirement* to sign a job-search agreement when *it is made necessary and justified* by the particular circumstances of the *cooperation requirement*. In other words, when the jobseeker receives any financial support related to unemployment, that is:

- claiming *job-search benefit or allowance*, or
- receiving *regular social assistance* and is required to co-operate with the local job centre in the framework of the reintegration programme.

What is in a job-search agreement?

3. Regular Social Assistance

Unemployed people who are no longer eligible for job-search support and those receiving it but are in need can claim regular social assistance (RSA) from the local government. *Regular social assistance can be paid to people of working age who are not in work or receive job-search support and do not have sufficient income for living.* Low income was defined where the per capita monthly income in the claimant's family was below 80% of the old-age minimum pension and they had no capital (savings and property) over a certain value. The amount of the regular social assistance for people with disabilities was 80% of the old-age minimum pension, and 70% for non-employed people before July 1, 2006. The benefit was a top-up on the individual's income to 70% of the old-age minimum pension.

From regular social assistance to family support

After 1st July 2006 the system of regular social assistance transformed into a so-called *family-centred assistance*, the sum of which is calculated with the help of "consumption unit", which shows the structure of the family. Instead of a fixed amount, the support depends on the income of the family. The income of the family is supplemented to 90 % of the minimum old-age pension per consumption unit. The system is based on the "one family-one benefit" principle.

The calculation of social assistance:

$SA = (0.9 \times \text{minimum old age pension} \times \text{consumption unit}) - \text{household income}$

The *consumption unit* is as follows:

The first adult: 1.0 (+ 0.2, if he/she is a single parent)

Spouse or partner: 0.9

First and second child: 0.8

Third and other children: 0.7

Disabled child: 1.0 (if there are disabled and non-disabled children, the first non-disabled child counts 0.8).

If the first adult or the spouse (partner) is receiving disability benefit, they count 1.0+0.2, or 0.9+0.2.

Since 1st January 2007, the amount of the social assistance is limited: the maximum amount is the net minimum wage, 53,915 HUF in 2007.

In addition to income, there are other eligibility criteria. Benefit can be paid only to people who are not in work, are actively seeking work and are not eligible for contribution-based job-search benefit. People can qualify if they are no longer entitled to job-search benefit or have been cooperating with the local government or the job centre in seeking work for at least one year prior to applying for benefit. Benefit-recipients must be actively seeking work and if they are offered a suitable job they must take it. They must also take part in a *reintegration programme* that involves *regular contact with the local job*

office. In addition they have to participate in the *community service organised by the local government*.

Two-thirds of people receiving regular social assistance live in Northern Hungary and Northern Great Plain regions (Table 5).

Table 5: Number of people receiving regular social assistance, by regions in 2007

Region	Persons
North-Hungary	51,523
North Great Plain	55,224
South-Transdanubia	26,659
South Great Plain	24,571
Central Transdanubia and Central Hungary together	26,815
Total	184,792

Source: *MoSAL* (2008b).

To promote the employment of people receiving RSA two important measures were taken. One is the rule that the assistance should be paid in full if the recipient is in casual work. And second, if the person receiving RSA takes up a job, *the assistance will be withdrawn gradually*: in the first three months of employment 50% and in the following three months 25% of the RSA will be paid. This rule does not apply for people in subsidised work schemes.

The experiences of local governments suggest that the family income-based approach to regular social assistance has a negative impact on the availability for work of people who receive larger sums of supports (this is illustrated by two examples in the box).

Example 1

Let us consider a family of five where both the father and the mother are out of work. Their total income is the family allowance paid for the three children, which is HUF 48,000/month. The family income limit in their case is HUF 107,730 minus HUF 48,000 = HUF 59,730. This is the amount of RSA they are entitled to. However in this case the upper ceiling is applied which is the net statutory minimum wage: HUF 56,190. The family is also eligible for *housing support* because of their low income. This is HUF 7,900/month and is granted on a yearly basis. The children are entitled to regular child protection allowance. In addition up to fifth grade they are entitled to free school meals, twice a year additional financial support and free school books. The value of school meals is approximately HUF 152/child/day

which adds up to around HUF 9,120 (excl. VAT) monthly. Social assistance recipients are entitled to health care. The non-employed partner can claim a full waiver on health care contribution which has a value of HUF 4,350.

In summary, the total sum of regular social benefits each month is the following: 56,190+7,900+9,120+4,350=HUF 77,560+HUF 48,000 family allowance. For this monthly income the family need do nothing but submit a claim to local government and occasionally turn up at the local job office and family support service. HUF 77,560 is considerably more than the minimum wage and therefore it does not provide any incentive to take up work. In addition casual work is allowed while on benefit. The special assistance (school books, the lump-sum child protec-

tion allowance in July and June) add up to approximately HUF 78,000 each year, which means HUF 6,600/month.

If one of the family members started to work on the statutory minimum wage, the other partner would be eligible for only HUF 3,450 as social assistance.

Example 2

The impact of the RSA is illustrated on the example of a family of two adults, both of them out of work. The family income limit in their case is HUF 48,735 and because they have no other income, they are entitled to the full sum. They are also eligible for HUF 4,700 housing support, and the partner can claim

a full health care contribution waiver which has a value of HUF 4,350. The total sum of these is HUF 57,785/month. If one of them took up work on the minimum wage, they would be no longer eligible for regular social assistance.

Source: *Molnárné* (2008).

The new rules of the RSA stirred up strong emotions at places where people in non-supported jobs have to work for very low wages and often they have to pay for their commuting expenses as well. The local government of Monok in Borsod-Abaúj-Zemplén county adopted a local regulation in response to this justified discontent. This required that for each 5,000 Forints of social assistance, recipients must do 8 hours of community public work (*Joób*, 2008). Other local governments followed this example. The ombudsman for human rights issued a statement on June 26, 2008 arguing that this practice was unlawful because people are entitled to RSA and if they work they should receive a wage. The high share of the Roma population among those claiming RSA might also imply the risk of discrimination. He therefore called on the mayors of the localities concerned to annul the regulations in question. He went on to suggest that Government should review the framework of public work to ensure that it fulfils its purpose in promoting employment.

The Ministry of Social Affairs and Labour prepared a proposal to address these issues in the system of regular social assistance. The “*Pathway to Work*” programme was considerably amended as a result of the responses received during public consultation. It was passed by the Parliament at the end of 2008, and the bill entered into force in early 2009. The key points are that among the 200 thousand people claiming RSA, those capable of work should be offered paid work. People under 35 years who have not completed lower secondary education would be required to finish school.

Unemployed people capable of work are required to cooperate with the employment service in seeking employment. If neither the employment service nor the local government can offer them work, they are entitled to a so-called *community employment replacement support* that is equal to the amount of statutory minimum pension. Around half of the RSA recipients will be in this group. The other half because of their age, health condition or individual life circumstances are not considered capable of work. They will continue to

Is community employment the way to work?

be eligible for regular social assistance, for which they are required to cooperate with the family support service.

Local governments are responsible to arrange work for the first group. To this end, in cooperation with the employment service they are required to prepare a community employment plan by January 31 each year. In addition, the Start Region Card will be introduced in most disadvantaged areas that will exempt employers from paying social security contribution for three years after hiring people receiving community employment replacement support.

4. Experiences of the implementation of new rules

The reform of the unemployment compensation was not without impact. *Table 6 shows that the share of those actively seeking a job among the recipients of unemployment compensation increased significantly: from 49.8 percent to 61.8 percent among men, and from 46 percent to 58.1 percent among women.* More closely, among those receiving the contribution-based job search benefit the share of people actively seeking a job increased from 56.1 percent to 66.4 percent. However *this increase was even higher among women, nearly 15 percentage points!* There were significant changes among people receiving regular social assistance as well (the same figure increased from 40.4 to 55.4 percent), however there was no difference between men and women.

Table 6: Active jobseekers* and passive unemployed among the recipients of unemployment compensation**

Recipients of unemployment compensation	1992			1997			2004			2007		
	men	women	total	men	women	total	men	women	total	men	women	total
Recipients of unemployment benefit										Recipients of job-search benefit		
Active jobseeker	75	68	72	62.7	54.4	59.2	62.5	50.4	56.1	68.2	64.7	66.4
Passive unemployed	13	11	12	6.2	5.3	5.8	14.5	10.0	12.1	9.7	8.6	9.1
Recipients of income replacement allowance										Recipients of job-search allowance		
Active jobseeker				52.2	46.9	50.1	55.4	53.8	54.6	54.2	43.5	47.2
Passive unemployed				17.2	11.5	15.0	23.2	10.9	17.6	3.3	3.7	3.6
Recipients of regular social assistance												
Active jobseeker							40.6	40.1	40.4	57.2	53.2	55.4
Passive unemployed							35.5	23.6	30.6	24.4	20.9	22.8
Total												
Active jobseeker	75	68	72	57.1	50.7	54.5	49.8	46.0	48.0	61.8	58.1	60.0
Passive unemployed	13	11	12	12.0	8.4	10.5	26.8	16.1	21.8	17.6	14.1	15.9

* Only those recipients of unemployment assistance can be considered unemployed who have actively sought work in the last four weeks and are available to start work in the next two weeks. Active job search is defined as inquiring about job vacancies from public or private employment agencies, directly from employers or from friends and relatives.

** Passive unemployed are people who would like to work but they are discouraged from job-seeking because of their perceived lack of opportunities.

Source: own figures based on data from the Labour Force Survey, CSO.

Only the proportion of people claiming job search allowance dropped significantly, probably because the share of older people close to pensionable age is higher among that group and they are not required to actively look for a job. The fact that 35% of the recipients of the contribution-based benefit returned to work before the end of the entitlement period, as opposed to 25% in the previous system, also suggests that the new scheme provides better incentives to work.

² According to the International Labour Organisation (ILO) the definition of unemployed people is the following:

- during the week of the statistical survey have not had paid employment of at least one hour or are without a job;
- have actively sought work in the last four weeks;
- and are available to start work in the next two weeks.

While 37% of men and approximately 40% of women classified as unemployed by the Labour Force Survey did not receive any support in 1992, the same figure increased to 64 percent among men and 66.4 percent among women by 2003. As Table 7 shows the reform of the unemployment and social benefits regimes had a significant impact on this. As a result the coverage of people classified as unemployed according to the ILO criteria² increased from one third to 40% by 2007, and there were no gender differences.

Table 7: Coverage level of jobseekers, 1992–2007 (%)

Beneficiaries	1992*	1993	1994	1995	1996	1998	2000	2001	2002	2003	2004	2007
Men												
Unemployment benefit	63.0	55.3	36.0	26.0	22.2	21.3	16.7	17.5	16.3	18.9	15.7	
Unemployment allowance for young entrants		2.7	2.9	3.1	2.2							
Job search benefit												19.2
Income replacement allowance		7.2	17.5	23.1	24.0	22.8	17.5	5.7	3.0	2.1	2.3	
Job-search allowance												0.7
Regular social assistance								13.7	16.7	15.0	15.1	20.4
Total recipients	63.0	65.3	56.3	52.2	48.4	44.1	34.2	36.9	36.0	36.0	33.1	40.3
Women												
Unemployment benefit	60.2	51.5	36.0	27.8	26.4	24.2	17.9	19.6	19.4	18.3	17.0	
Unemployment allowance for young entrants		3.5	3.4	2.4	1.5							
Job search benefit												20.9
Income replacement allowance		5.4	13.5	18.6	18.7	22.9	15.0	6.3	2.7	2.7	2.4	
Job-search allowance												2.0
Regular social assistance								9.4	11.7	12.6	12.4	17.1
Total recipients	60.2	60.3	52.9	48.7	46.6	47.1	32.9	35.3	33.8	33.6	31.8	40.0
Total												
Unemployment benefit	61.9	53.9	36.0	26.7	23.8	22.4	17.1	18.3	17.6	18.6	16.3	
Unemployment allowance for young entrants		3.0	3.0	2.8	2.0							
Job search benefit												20.0
Income replacement allowance		6.5	16.0	21.4	21.9	22.8	16.5	5.9	2.8	2.4	2.3	
Job-search allowance												1.3
Regular social assistance								12.1	14.6	13.9	13.8	18.8
Total recipients	61.9	63.4	55.0	50.9	47.7	45.2	33.6	36.3	35.0	34.9	32.4	40.1

* Including people claiming young entrant's unemployment allowance.

Source: Calculations based on data from the Labour Force Survey, CSO.

II. ACTIVE LABOUR MARKET SCHEMES, SERVICES AND PROGRAMMES

Section 1 of Article 5 of Act IV of 1991 (Employment Act) declares that *employment services and employment promoting subsidies* should be the primary means of solving, managing and mitigating tensions in the labour market, as well as preventing, reducing and alleviating the negative effects of unemployment. Employment subsidies are usually referred to as active labour market schemes because they aim to prevent unemployment or help people to return to work as quickly as possible. The administration of active labour market schemes including accepting claims, making payments and monitoring is the responsibility of the local offices of job centres funded by the *Decentralised Employment Sub-Fund (DESF) of the Labour Market Fund (LMF)*.³ The different types of support, their conditions and scope of eligibility are set out in this Act. In general, *there is no guaranteed entitlement to active labour market schemes – in contrast to passive assistance – neither for employers nor unemployed people even if they meet the eligibility criteria laid down in the Act.*

This chapter gives an overview of active labour market schemes in Hungary including their implementation, eligibility criteria and patterns of take-up. The discussion of policies focuses on so-called *normative schemes*, namely those listed in the Employment Act and funded from the Decentralised Employment Sub-Fund. These involve a decreasing number of people (see *Table 9* below). In 2001 there were nearly 105,000 people receiving support from active labour market policy measures. This number was just over 50,000 in 2007, which represents a 50% drop. It should be noted however, that besides the ALMPs listed in the Employment Act, *there are social insurance contribution discounts and tax discounts* linked to the employment or training of jobseekers and other disadvantaged or disabled people regulated elsewhere.⁴ These schemes have proliferated recently. Furthermore the European Social Fund (ESF) should also be mentioned here. The ESF supports – under strict administrative conditions – integrated employment programmes mainly implemented under the aegis of partnerships led by voluntary organisations or the Public Employment Service.

In 2001 on average 2.6% of the economically active population participated in active labour market schemes and programmes, in 2007 only 1.2% (*Table 8*). This leads to two conclusions. On the one hand, the unemployment rate would have been proportionately higher had jobless or redundant workers not benefited from preventive or active labour market programmes. On the other hand, the role of active labour market schemes in mitigating labour market tensions diminished in a period when unemployment started to rise. This aggravated tensions in the labour market instead of alleviating them by exerting an anti-cyclical effect on labour market processes.

Without ALMPs the unemployment rate would be 1.2 percentage points higher

³ The detailed eligibility conditions relevant to ALMPs are published in the Ministry of Labour regulation no. 6/1996 (VII. 16) on employment aid and aid to mitigate the effects of employment crises.

⁴ For example acts on personal income tax, corporate or health care contribution.

Table 8: Unemployment rate, activation rate and the share of ALMP-participants within the labour force

Year	Activation rate*	ALMP participants within the labour force (%)**	Unemployment rate calculated on the basis of registered unemployed***
2001	19.4	2.6	8.9
2002	20.0	2.1	8.4
2003	19.8	2.1	8.3
2004	16.7	1.8	8.7
2005	14.9	1.7	9.4
2006	13.8	1.5	10.0
2007	10.2	1.2	9.7

* The number of people in ALMPs divided by the sum of the same figure and the number of registered unemployed.

** The number of people in ALMPs compared to the number of the economically active population on January 1 of the previous year.

*** Unemployment rate calculated using the number of registered unemployed in January of the given year.

Source: Employment and Social Office, Labour Force Survey, CSO and Workforce Survey, CSO.

In summary, active labour market schemes provided training or employment opportunities to a diminishing share of actual or potential unemployed people in the given period. The so-called *activation rate* which compares the number of participants in ALMPs with the sum of ALMP participants and the number of registered unemployed, *stood around 20% in the early 2000s, then fell to 16.7% by 2004, 14.9% by 2005, 13.8% in 2006 and 10.2% in 2007.*

Unemployed people can participate in ALMPs for shorter or longer periods. Therefore, the real number of participants in a given scheme is considerably higher than the yearly average. The *total number of participants* is the accumulated number of people who participated in an ALMP for at least a day during a given period. *Table 10* presents information on this. *The table shows that the total number of participants dropped by over 40 percent between 2001–2007.*

The total number of participants in ALMPs was three times the average number of participants in the observed period. The specific proportions were heavily influenced by the length of support. When resources started to shrink, counties responded by cutting down the length of time and amount of support.

Table 9: Average number and distribution of participants in ALMPs, 2001–2007

ALMPs	2001	2002	2003	2004	2005	2006	2007*
Participants (persons)							
Labour-market training	27,187	23,410	25,044	17,919	11,838	13,040	11,925
Public work	23,185	17,751	17,534	14,235	15,790	12,953	12,259
Wage subsidy	26,547	21,693	20,439	18,909	18,417	16,935	17,042
Job-creation aid**	6,943	1,708	1,270	2,717	2,742	2,588	1,441
Business start-up subsidy	1,616	1,269	1,250	953	1,137	799	859
Reimbursement of commuting/travel costs	3,483	3,294	3,088	2,112	1,836	1,448	871
Schemes for young entrants	7,094	6,827	7,686	7,908	8,086	7,884	2,950
Support for self-employment	5,142	5,204	4,642	3,963	3,111	2,393	1,749
Safeguarding jobs***	156	2,209	3,419	2,923	4,284	2,219	889
Assumption of contributions	3,399	3,116	3,878	3,324	3,821	1,871	317
Part-time work	-	-	-	357	584	561	145
Teleworking	-	-	-	-	-	-	205
Labour cost subsidy	-	-	-	-	-	-	221
Total	104,752	86,481	88,250	75,320	71,646	62,691	50,873
Previous year = 100	101.0	82.6	102.1	85.3	95.1	87.5	81.2
Distribution (%)							
Labour-market training	26.0	27.1	28.3	23.8	16.5	20.8	23.3
Public work	22.2	20.5	19.8	18.9	22.0	20.7	24.1
Wage subsidy	25.3	25.1	23.1	25.1	25.7	27.0	33.5
Job-creation aid**	6.6	2.0	1.4	3.6	3.8	4.1	2.8
Business start-up subsidy	1.5	1.5	1.4	1.3	1.6	1.3	1.7
Reimbursement of commuting/travel costs	3.3	3.5	3.5	2.8	2.6	2.3	1.7
Schemes for young entrants	6.8	7.9	8.7	10.5	11.3	12.6	5.8
Support for self-employment	4.9	6.0	5.3	5.3	4.3	3.8	3.4
Safeguarding jobs***	0.2	2.6	3.9	3.9	6.0	3.5	1.7
Assumption of contributions	3.2	3.8	4.6	4.4	5.3	3.0	0.6
Part-time work	-	-	-	0.4	0.9	0.9	0.6
Teleworking	-	-	-	-	-	-	0.4
Labour cost subsidy	-	-	-	-	-	-	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Combined figures for schemes that are being phased out and newly introduced in 2007.

** For job creation aid the figures indicate the number of job vacancies (created and) filled during the year.

*** This scheme started in 2002. A different scheme that ran under the identical name was abolished in 2001 due to very low take-up.

Source: Employment Office.

Table 10: Total numbers of participants and their distribution by active measures, 2001–2007

ALMPs	2001	2002	2003	2004	2005	2006	2007
Participants (persons)							
Labour-market training	91,519	82,835	82,895	59,894	43,725	47,141	41,816
Public work	80,742	84,498	76,892	63,998	79,429	66,403	63,098
Wage subsidy	48,089	40,838	41,064	36,313	37,708	33,150	43,501
Job-creation aid**	9,086	6,452	4,595	4,710	3,816	3,325	1,875
Business start-up subsidy	5,016	4,326	4,011	3,225	3,394	2,736	4,861
Reimbursement of commuting/travel costs	9,356	9,774	7,495	5,517	5,015	3,910	2,461
Schemes for young entrants	16,758	16,108	17,551	17,527	18,206	17,976	-
Support for self-employment	6,025	6,138	5,493	4,689	4,086	2,941	-
Safeguarding jobs***	653	12,634	12,668	10,698	13,703	7,390	3,843
Assumption of contributions	9,702	10,008	11,883	10,092	10,753	6,552	-
Support for intensive job-search	-	100	109	64	64	-	-
Part-time employment	-	-	-	791	1,285	1,253	-
Total	276,946	273,711	264,656	217,518	221,184	192,777	161,455
Previous year = 100	94.0	98.8	96.7	82.2	101.7	87.2	83.8
Distribution (%)							
Labour-market training	33.0	30.2	31.3	27.5	19.8	24.5	25.9
Public work	29.1	30.8	29.1	29.4	35.9	34.4	39.1
Wage subsidy	17.4	14.9	15.5	16.7	17.0	17.2	26.9
Job-creation aid**	3.3	2.4	1.7	2.2	1.7	1.7	1.2
Business start-up subsidy	1.8	1.6	1.5	1.5	1.5	1.4	3.0
Reimbursement of commuting/travel costs	3.3	3.6	2.8	2.5	2.3	2.0	1.5
Schemes for young entrants	6.1	5.9	6.6	8.1	8.2	9.3	-
Support for self-employment	2.3	2.4	2.1	2.2	1.8	1.5	-
Safeguarding jobs***	0.2	4.6	4.8	4.9	6.2	3.8	2.4
Assumption of contributions	3.5	3.6	4.5	4.6	4.9	3.4	-
Support for intensive job-search	-	-	-	-	-	-	-
Part-time employment	-	-	-	0.4	0.6	0.6	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Total numbers include everybody who participated in the given scheme within a certain period, even if only for a day.

** For job creation aid the figures indicate the number of job vacancies (created and) filled during the year.

*** This scheme started in 2002. A different scheme that ran under the identical name was abolished in 2001 due to very low take-up.

Source: Employment Office.

1. Labour market training

Labour market training aims to provide jobseekers and people at risk of unemployment with sought-after skills and knowledge to help them return to work or keep their job. The training can lead to a formal vocational qualification, provide the necessary skills for a specific job or strengthen skills to improve performance in their current job. The importance of training is highlighted by the fact that the majority of registered jobseekers do not have sought-after qualifications which is a key cause of long-term employment.

Job centres organise and run labour market training programmes in accordance with the objectives of their yearly training plans and relevant regulations [e.g. Act IV of 1991, 6/1996. (VII. 16.) Ministry of Labour decree, Act CI of 2001 and other relevant provisions]. Yearly training plans are based on reported labour demand, data from previous years and proposals by local offices and councils. If funding comes from more than one source for training, funding is allocated by target groups.⁵

Regional job centres support the labour market training of:

- jobseekers;
- young persons aged under 25 years – graduates under 30 years – who do not qualify for job-search support after leaving school;
- people receiving different types of parental benefits or carer's support;
- people claiming rehabilitation allowance;
- workers who will become redundant within a year and where the employer has given written notice of this to the employee and the employment service;
- those who take part in a community employment scheme;
- people who are employed but need training to stay in work.

The Labour Market Fund can support training in the following categories:

- vocational training as defined by the Vocational Education and Training Act;
- training in basic skills necessary in order to start vocational education or training;
- job search skills and career advice;
- language training for people who already have vocational qualifications;
- driver training for road vehicles.

It should be mentioned here that besides labour market training, *life-long learning* is key for finding and staying in work. The framework of life-long learning was created by the *Adult Training Act* adopted at the end of 2001.⁶ In-company training also has a key role in preventing unemployment and improving the adaptability of workers. To promote in-company training, companies are permitted to spend one third (0.5 percent out of 1.5 percent contribution) of their vocational training contribution on the training of their own employees.⁷ Micro- and small enterprises can spend 60% of the gross contribution on the training of workers. The revenue of the Vocational Education and Training Fund from vocational training contributions was HUF 33 billion, out of which more than HUF 6 billion was spent by companies on the training of their own workforce. This sum is increasing year by year, however it should be considerably more because the participation rate in adult education is well below the EU average – in Hungary 3.2 percent of men and 4.5 percent of women participated in some form of training or continuing education – which impacts negatively on the competitiveness of the country.

⁵ For example the money from the decentralised Employment Sub-Fund of the Labour Market Fund (LMP training budget) earmarked for training is used by the regional training centre. Measure 1.1.2 of the Social Renewal Operational Programme supports the vocational training of disadvantaged people. The New Path Programme provides re-training for people made redundant in the public sector.

⁶ The institutional structure of adult education is made up of the Adult Training Council, adult training institutions, the Adult Training Accreditation Board responsible for the accreditation of courses and institutions, and the National Institute for Adult Training. A first accredited vocational qualification is fully subsidised by the state, however people with disabilities can participate free of charge in general, language and vocational training. Moreover people aged over 50 can do a second NVQ free of charge or subsidised by the state.

⁷ The vocational education and training contribution can be used for the training of a company's own workforce (for up to 33% of the full amount), or transferred directly to vocational education and training schools (for up to 70% of the total contribution) or universities (for up to 35% of the total sum).

Programmes financed by the European Social Fund, such as the *Take a step forward!*⁸ or the programme for people made redundant in the public sector (*New Path Programme*) and training programmes organised by the regional training centres such as the Social Renewal Operational Programme etc. have had an increasing role more recently.

Unemployed people have two options as regards starting training or education: following the approval of the job centre 1) they can either enrol in one of the training courses offered by the job centre, or 2) find an accredited training course offered by an accredited training institution. The first is the *collective training* (recommended) and the latter is the *individual training* (approved) (*Table 11*). In 2007, 85 percent of training courses were recommended courses offered by job centres. Sixty-nine percent of participants received RNVQ (Register of National Vocational Qualifications) certificates in these. In non-RNVQ skills training more people – 24.4% – are in approved than in recommended courses. Among people in approved training courses the rate of participants in language training is 4.5 percentage points higher than among those in recommended training.

Table 11: Participation in different types of training among the non-employed, 2007

Training programmes	Recommended training		Approved training		Total	
	persons	%	persons	%	persons	%
RNVQ course	22,909	69.1	3,806	65.2	26,715	68.6
Non-RNVQ course	6,224	18.8	1,419	24.3	7,643	19.6
Language course	4,001	12.1	609	10.5	4,610	11.8
Total	33,134	100.0	5,834	100.0	38,968	100.0

Source: ESO (2008).

The distribution of labour-market training participants by gender was characterised by a *relatively higher share of women*: in 2007 56.3% were women. More younger people take part in training: 60.4% were aged under 25 years. 23.4% of training participants had completed no more than lower secondary education, 23.2% had lower secondary vocational qualification, 39.8% had upper secondary education and 9.1% had higher education (ESO, 2008, p. 27).

There are two types of financial assistance for training participants: *income supplement and living allowance*. In addition, training-related expenses can also be reimbursed. Living allowance is paid for people who are claiming job search benefit when they start the training. The allowance is paid during the whole duration of the course, while job-search benefit is suspended. People who are not claiming job search benefit might be awarded living allowance on a case-by-case basis.

The rate of the living allowance is equal to the national minimum wage (the minimum wage was 69,000 Forints in 2008). It can be awarded only to peo-

⁸ In the 15 months after January 2006 more than 15,000 people were involved in the first phase of the “Take a step forward!” programme. 62% of them were out of work. The second phase of the programme started in the autumn of 2008 with a budget for the training of more than 22,000 adults.

ple in a recommended (collective) or approved (individual) *full-time training course of at least 20 hours a week*. People claiming parental benefits and carer's support only qualify for a reimbursement of training expenses. They are permitted to participate in courses of not more than 20 hours a week. This provision was made when this was the upper limit of part-time employment without losing eligibility for the assistance. At present claimants of child care benefit are even allowed to work full time. This should be applied to participation in labour market training as well.

The training of workers is usually initiated by the employer. In this case, assistance might be given on a discretionary basis towards the training expenses and participants might qualify for an *income supplement* to compensate for any loss of earnings during the course. The rate is up to the difference between average earnings and the earnings while in training.

The other important component of training-related expenses is the *course fee*. For *recommended* (collective) training courses the full fee is reimbursed, for *approved* (individual) training the rate is typically 70–100 percent. Sometimes, for people aged above 45 years, the reimbursement rate is 100%, however for younger people it is only 50%. In addition to the above, training participants can qualify for the full or partial reimbursement of travel, accommodation and food expenses. According to the Adult Training Act the *Labour Market Fund can contribute only to training courses by accredited adult training institutions*.

Within the total spending on training, income replacement benefit made up one third and the reimbursement of course fees represented around 60 percent of total costs. Over the longer run, the share of the living allowance is increasing as a result of higher rates of job search benefit and other benefits for certain groups. The most marked change happened in 2007 when the rate of living allowance increased from 60 percent to 100% of the national minimum wage. The rationale behind this was that Programme 1.1 in the Human Resources Development Operational Programme (HRDOP) had already paid the higher rate equivalent to the national minimum wage to participants before 2007. Although that did not qualify for pension, it created great discontent among those who participated in similar training courses funded by the decentralised Employment Sub-Fund.

According to current rules, *the rate of assistance for all participants in labour market training, regardless of the source of funding is the national minimum wage, and time spent in training contributes towards pension years*. Feedback from job centres suggests that some jobseekers choose to undertake training to secure a living. The increased rate of assistance makes it more attractive for jobseekers to participate in training. This trend is further enhanced by the restrictions of social insurance, and the contribution towards pension can also be a further incentive to people near the retirement

*Living allowance
= minimum wage*

*"Training to make
ends meet"*

age. Many registered customers apply for training even if the qualification will not significantly improve their chances on the labour market. The other important issue is that the employment service can offer training to fewer people from its budget. Finally the price of training courses has also increased because they are no longer selected through tendering and lower cost is not the main selection criterion.

The *Take one step forward! II* ran out of money before the end of the programme because it was so oversubscribed as a result of the training assistance paid at the level of the national minimum wage. The assistance was paid to students after 150 contact hours in order to motivate people – the long-term unemployed, inactive population who had only lower secondary education, the majority of whom are Roma – to participate in training. Although the delays in the payment of the benefit caused problem on a number of occasions, the Programme launched last autumn with a total budget of HUF 10.6 billion had to be suspended because it ran out of money. (HVG, 2008, p. 92). The fact that the living allowance and the regular social assistance could be paid together provoked discontent, particularly in smaller localities. Local governments argued that training participants are not eligible for the regular social assistance, because they do not have to pay for the training and they also receive financial support.

In summary it can be concluded that increasing the rate of living allowance achieved its aim to increase willingness to participate in training. Demand for training has soared but this was not followed by an increase in training places because the budget has not grown proportionately with the income replacement assistance. It remains to be seen whether the growth in the average cost of training will also improve the effectiveness of training as measured by the relevant job finding rates.

2. Wage subsidies for the long term unemployed

Wage subsidies for the long term unemployed aim to encourage employers to retain workers who have integrated into the workplace after the subsidy ends – by offsetting the higher cost of hiring and training and the lower productivity of long term unemployed people. The conditions of the subsidy changed significantly after January 1, 2007. Earlier rules were confusing because similar wage subsidies – often overlapping – were available in various active labour market schemes of the Employment Act. This situation was also inconsistent with the EU principles and had to be brought in line with the Community rules.

The new wage subsidies system also aims to promote the employment of disadvantaged people and help those groups who face the most serious challenges in the labour market. The difference in comparison to the earlier system is that the criteria of labour market disadvantage are defined according

to Commission regulation (EC) No 2204/2002/EC. Subsidy can be granted to employers for employing workers who satisfy the criteria of the *Commission regulation*.⁹ According to this Commission regulation, a *disadvantaged jobseeker* is any person who:

- has not attained an upper secondary educational qualification or its equivalent, or
- is older than 50 years when taking up employment, or
- is a young entrant under the age of 25 years, or
- has a disability,¹⁰ or
- has been registered as unemployed with the PES for 12 of the previous 16 months, or six of the previous eight months in the case of persons under 25, or
- is a lone parent looking after a child or children under the age of 18, or
- has been receiving maternity or parental benefit or carer's support within the previous 12 months, or
- has spent time in a penal institution within the previous 12 months.

Table 12 shows that more than 20,000 people claimed wage subsidies available since 2007, out of which 95 percent were disadvantaged and 5 percent had a disability. One individual from every ten of the beneficiaries was a person with low education and nearly one fifth was aged over 50. The proportion of young people is also significant; a quarter of the beneficiaries were young entrants aged under 25.

Table 12: People in jobs supported by employment promotion schemes, 2007

Categories of beneficiaries	Persons	Distribution (%)
Jobseeker with lower secondary education at most	2,321	11.2
Jobseeker aged 50 years or over	3,785	18.4
Jobseeker aged under 25 years	5,183	25.1
Jobseeker in long-term unemployment	7,088	34.4
Jobseeker, lone parent with at least one child aged under 18 years	588	2.9
People returning to work after parental leave or caring for a family member	534	2.6
Jobseeker in police custody or detention	26	0.1
Disadvantaged jobseekers, total	19,525	94.7
Employee (aged 50 years of over)	64	0.3
Employee (with lower secondary education or lower)	10	0.0
Disadvantaged employees, total	74	0.3
Jobseekers with a disability	1,027	5.0
Total	20,626	100.0

Source: ESO (2008).

After January 1, 2007 the subsidy – 50% of the wage and contributions for subsidised workers and 60% for disabled workers – had to be awarded for 12 months. Setting the subsidy-period at 12 months limited the autonomy of the local job centres in allocating funding for active measures from the decentral-

9 With the introduction of the new system the old employment promotion schemes were abolished (including the higher rate of wage subsidy for persons aged 45 years and over and the assumption of employment-related contributions including the higher rates for jobseekers aged over 50 years and people leaving prisons on probation). In addition, the support for part-time employment, the assumption of wage costs for vocational rehabilitation, work experience scheme of young entrants and the subsidy for temporary agency work were also ceased as individual schemes.

10 For the purpose of qualifying for wage subsidy jobseekers are considered disabled:

- if the loss of their work capacity – as assessed by the National Rehabilitation and Social Assessment Institute (ORSAI) – is at 40% or more, or
- they have not been assessed by the ORSAI but according to the opinion of the occupational health service their employment prospects are significantly worsened by their physical or mental impairment.

ised Employment Sub-Fund and reduced the effectiveness of labour market interventions. The same criticism was put forward regarding the standardisation of aid intensity. To address this, there was *another change in the conditions of the wage subsidy on January 1, 2008*. According to this the subsidised period can be shorter than one year. However the employer should, in this case too, retain the worker for a minimum of 12 months. The intensity of the subsidy can also be lower than 50 or 60 percent of the labour costs. These rates have only been *the upper ceiling* of the subsidy since January 1, 2008.¹¹

A further condition is that the employer has not made workers redundant in similar posts within the previous six months and commits not to do so while claiming the subsidy.

The wage subsidy scheme includes support towards the retention of workers – safeguarding jobs. In accordance with the EU rules on *de minimis* state aid (see Box 2) employers can be granted subsidy to retain a *disadvantaged person (worker)* who is *threatened by redundancy*, namely a person who:

- becomes redundant for reasons within the normal scope of business activities of the employer, or whose fixed-term work contract ends within 90 days; or
- is aged above 50 years when the new employment contract starts; or
- has not attained upper secondary education; except in the case when the parties sign a contract of employment within 60 days from the end of the previous contract.

¹¹ Act CLXXIX of 2007 on the amendment of certain labour legislation; EA amendment: article 16.

General information on *de minimis* state aid*

According to Section 1 of Article 87 of the Treaty establishing the European Community any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market.

The European Commission controls state aid granted to enterprises by Member States and the creation

of new aid schemes or the modification of existing ones must be notified to and authorised by the Commission. In Hungary the State Aid Monitoring Office in the Ministry of Finance is responsible for the notification of state aid.

Certain aid schemes are not subject to the notification requirement, including *de minimis* state aid schemes because their amounts are considered to be small enough not to distort competition. The list of *de minimis* state aid schemes are set out in national legislation.

The ceiling for the aid covered by the *de minimis* rule is in general EUR 200,000 (cash grant equivalent) over any three fiscal year period. This amount is lowered to EUR 100,000 in the road transport sector.

* As of January 1, 2007 *de minimis* state aid is regulated by COMMISSION REGULATION (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid.

3. Community employment

From the point of view of employment policy, community public works schemes have the following purposes: to

- increase the number of job vacancies offered by the job centres;
- test the work-readiness of jobless people;
- provide income to those who are no longer eligible for unemployment assistance;
- in the absence of other opportunities, provide a possibility to earn entitlement to unemployment assistance and pension;
- provide a job opportunity for those who have no chance of finding a normal (non-supported) job; and
- give the opportunity to gain work experience and in this way improve the job prospects of the individual.

Employers who hire unemployed people to carry out community public works can claim back 70% of their direct labour expenses if they do not get payment for the work carried out. In public work schemes two types of projects can be supported: on the one hand those projects which undertake the mandatory task of local governments, and on the other hand those that carry out non-mandatory tasks with direct relevance for the local community. Contributing only 30% of the costs to the project can still be difficult for the more deprived local governments and regional labour councils can decide to increase the rate of funding from the decentralised Employment Sub-Fund to 90% for these local governments. If the source of funding is the central budget of the Labour Market Fund, the Management Committee of the Labour Market Fund can also set this rate at 90% for a period of 2 years.

Community public works projects can only employ *registered jobseekers placed by the employment service*, and under a contract of employment. Employment should be *additional*, meaning that the headcount should increase in comparison to the previous month. *The maximum duration of employment in community public works for a jobless person is 1 year.* This can be repeated within 2 years if the person at the time of placement is not eligible for job-search (unemployment, entrepreneurial) benefits.

The employment of jobseekers aged over 45 years can be subsidised for up to 1.5 years and jobseekers aged over 50 years for up to 2 years in public work projects in the field of health and social care, culture, education or the protection of the environment. If Roma people are employed in a community public work project, it is not required to increase the headcount. The rate of the subsidy in this case can be up to 90% of the direct labour cost for a period of up to 2 years.

The following costs are eligible in community public work projects: wage and contributions, work wear and protective clothing, tools and equip-

ment, and transportation of workers and the costs of additional management tasks.

There are significantly more men than women in community public works projects. The share of young people aged under 25 years is considerably lower than in total unemployment. In contrast the participation of people aged over 50 years is on the rise. *The majority of people in community public works have lower secondary or less education.* For them this type of employment is really the last resort to have a regular paid job. As a result of low educational attainment, most people in community public work projects perform tasks related to local community infrastructure that require low qualifications. *Most of them (76.6%) still carried out work related to community infrastructure in 2007.* Structures were also unchanged in other types of jobs.

This is partly why the concept of community public work was heavily criticised, most markedly by Gábor Kertesi. Kertesi argued that public work is not suitable to help Roma or other people in extreme poverty to emerge from the underbelly of society. “It gives them jobs but the social context surrounding it – on purpose or not – is such, that in the longer term it consolidates the inner characteristics and external relations that recreate their need for help. Roma people – and others – who live in poverty suffer most because of the lack of regular earnings and the income they live on depends on others; they are vulnerable in their relations with the authorities, and the jobs they do are considered inferior in local communities. The types of welfare employment exactly reflect these patterns: they offer *random* and short term jobs; consolidate *dependency on benefits*; increase *vulnerability* towards public authorities; and force people into jobs according to negative stereotypes that are *humiliating*. (...) What would be the alternative? Meaningful projects that promote social integration – if managed well – will help people out of the hopeless existence in the underbelly of society.” (Kertesi, 2005, p. 191, Italics in original.)

Other two types of community employment: community service work and public works

The stated aim of public work¹² is to promote development and renovation projects, especially in the fields of infrastructure-development and protection of the environment, and the provision of public services in regions lagging behind that are suitable to reduce territorial disparities and unemployment by offering job opportunities for the unemployed and those who are no longer eligible for assistance. Funding is available upon submission of a proposal, mostly from the state budget.

From the perspective of employment policy employment in public works has the following purposes: to

- involve people who have adequate experience or training and are ready to work in on-the-job training, combining training and work;
- offer a “larger-scale” solution in local areas where local governments are the only employers;

12 – 199/2008. (VIII. 4.) Government Regulation on support for public works projects.

- promote corporate social responsibility towards the problem of unemployment (cooperation, financial contribution);
- promote coordination and cooperation of local governments to tackle unemployment at the level of micro regions;

In public works projects at least 40% of the workforce has to be claiming regular social benefit since 2008.

Community service work is regulated by the Social Act. This provides that local governments *organise employment* to improve the labour market situation of jobless people. This can be either public work, community public work or community service work (referred to as “employment organised by the local government” below). The duration of this is at least 30 days, except if it casual work with the log book where the relevant rules apply. The maximum duration of uninterrupted employment is 12 months in community service works.

Local governments can claim support to organise community service projects. The rate of this is set each year in the Budget of the Republic of Hungary. The funding is ring-fenced and can only be used to organise community service projects. If not all local governments use their funding, the remaining money can be reallocated to local governments needing extra funding.

The *Pathway to Work* programme starting in 2009 offers community employment to people claiming regular social assistance who are able and willing to work. One of the sources of funding will be the community public works budget of local governments that will be reallocated to community service projects. Community public works projects can only receive support if they are implemented by voluntary organisations. Local governments can hire 3,000 people whose job will be to organise community employment projects. Local governments in cooperation with the local job office must prepare a community employment plan. Some have expressed concerns regarding the viability of this scheme because experiences so far suggest the community employment rarely leads to jobs on the open labour market.

4. Business start-up subsidies for the unemployed

Before January 1, 2007 business start-up was supported by two schemes: the business start-up scheme for unemployed persons and the self-employment scheme. The two schemes were merged into a new scheme which currently provides:

- a subsidy of up to 3 million Forints either as interest-free *credit or non-repayable grant*, and
- a monthly allowance of up to the national minimum wage for a period of no longer than six months, regardless of eligibility for job-search benefit.

The two components can be granted separately or together. Persons are eligible for the business start-up subsidy if:

Around 15,000 people were employed in public works projects in 2007

There were on average 16,650 people in community service projects each month in 2007

- they have been registered as unemployed with the Public Employment Service for at least 3 months,
- and they become either self-employed or set up a business.

The beneficiary of the scheme is the individual jobseeker and it is therefore not considered state aid according to EU regulation. To be eligible for the interest-free credit the beneficiary jobseeker must provide at least 20% own contribution to the total cost of capital investment and have adequate collateral (e.g. capital, bank guarantee) for the repayment of the credit.

Table 13: People receiving different types of business start-up subsidies, 2007

Schemes	Participants (persons)	Distribution (%)
Payment of national minimum wage for up to 6 months	2,111	91.0
Payment of national minimum wage for up to 6 months + loan for capital investment of up to HUF 3 million	51	2.2
Payment of national minimum wage for up to 6 months + grant for capital investment of up to HUF 3 million	30	1.3
Loan for capital investment of up to HUF 3 million	24	1.0
Grant for capital investment of up to HUF 3 million	105	4.5
Total beneficiaries	2,321	100.0

Source: ESO (2008) p. 29.

5. Incentives for the employers of people with disabilities¹³

According to section 41/A of the Employment Act employers must pay a rehabilitation contribution to promote the vocational rehabilitation of people with disabilities (its rate was HUF 164,400/person in 2008) if they have more than 20 employees and the percentage of disabled workers among them is less than 5%. The contribution must be paid quarterly and in advance, based on quarterly workforce statistics.

5.1. Main elements of the system promoting the employment of workers with disabilities

As of November 2006, a new element in the system of vocational rehabilitation is the *accreditation* of companies employing workers with disabilities.¹⁴ This consists of the work-focused assessment of the company, and it includes the assessment of any divisions and subdivisions for which accreditation is sought. The accreditation licence can be issued for a different period at each of the three assessment levels: (1) basic licence (valid for 5 years), (2) rehabilitation licence (valid for 3 years), (3) advanced licence (valid for 2 years). The latter entitles the company to use the title “*sheltered organisation*”. Employers who have been awarded a temporary advance licence because they fulfil the basic criteria of the advance licence and will fulfil all criteria within one year can use the same title (the temporary licence can be issued for up to one year).

¹³ This section is based on information from Mrs. Lechner (2008)

¹⁴ Regulations: 176/2005. (IX. 2.) Government Regulation; 14/2005. (IX. 2.) Ministry of Employment and Labour Regulation; 26/2005. (XII. 27.) Ministry of Employment and Labour Regulation; for detailed information see: www.afsz.hu.

All employers – as defined by the Labour Code – regardless of the number of employees can seek accreditation at any level with two specific restrictions related to the number of workers:

1. If the average number of disabled workers during the three months prior to application is 20 or more and their percentage in the workforce is at least 40% or more, only employers that have the “*rehabilitation company*” or “*sheltered company*” title can claim the wage subsidy.

2. The *advanced (and temporary)* licence can only be awarded to employers who have at least 50 workers and at least 50% of them have less than 50% partial work capacity. Accreditation is carried out by divisions. Public authorities and divisions for subsidised vocational therapy cannot be accredited. Accreditation is carried out by the Employment and Social Office with the participation of rehabilitation experts.

Employers who previously had been receiving higher rates of subsidy already had strong incentives to get the advanced licence in 2006 (they could claim certain types of assistance only if they had this licence). Employers claiming all other types of subsidies are required to have an accreditation licence since July 1, 2007.

5.2. Support to employers

1. *Support to the long-term employment of disabled workers*: on January 1, 2006 a new system of wage subsidies entered into force which has both *normative and optional* components.¹⁵

Normative component: the wage subsidy for vocational rehabilitation covers 40–100% of the labour costs of workers with disabilities. Employers can claim this if they employ workers with a partial work capacity of less than 50 percent or an impairment affecting the whole body, assessed by the National Institute of Medical Experts (Országos Orvosszakértői Intézet, OOSZI) or by the National Institute of Rehabilitation and Social Experts (ORSZI); they create adequate workplace conditions, comply with labour and health and safety regulations, and hold a valid accreditation licence (subsidy can be claimed for as few as one employee).

Optional component: it is possible to obtain reimbursement for the salary of personal assistants at the workplace¹⁶ pro-rata based on the time spent in assisting the individual in work (people who provide social, mental health or health care support are not eligible here).

2. *Wage subsidy for the employment (finding a job, integration in the workplace) of registered jobseekers with partial work capacity*. [Employment Act Article 16; 6/1996. (VII. 16.) MoL Regulation Article 11]: see Section 2.2. for eligibility conditions.

3. *Wage subsidies for disadvantaged jobseekers* that are available for employers of people in certain life situations (young entrants, people caring for

¹⁵ The legal framework of this system is set out in 177/2005. (IX. 2.) Government Regulation and 15/2005. (IX. 2.) MoEL Regulation.

¹⁶ Workplace personal assistants are individuals who are employed by the employer of the disabled worker to provide direct job-related assistance or coaching to the individual (but does not include performing the job itself).

children or immediate family members, people aged over 50 years or people with low education) *can also be claimed for the employment of jobseekers with partial work capacity in these groups, regardless of the level of their work capacity.*¹⁷ These can be claimed with the Start Cards which will be discussed later.

4. *Capital investment aid for the employment of people with partial work capacity:* this scheme is part of the system of employment aids and promotes the employment of people with disabilities by contributing to capital investment.¹⁸

Employers can receive funding for the creation of jobs for people with disabilities with the condition that these jobs are safeguarded over a certain period (employment obligation). Funding is allocated through open competition from the Rehabilitation Sub-Fund of the Labour Market Fund. Furthermore, assistance is available:

- a) for the adaptation of existing production and service facilities to the needs of disabled workers,
- b) for the purchase or adaptation of equipment and instruments to the needs of disabled workers,
- c) for the renovation or refurbishment of the workplace and equipment to accommodate the needs of disabled workers,
- d) for investment that creates, upgrades or develops jobs for people with disabilities, contributes towards the building of new facilities, renovation or the refurbishment of existing buildings in order to expand them or make them safer, or contributes towards the purchase, and transformation, or increases the safety of equipment.

Employers who meet the criteria receive the assistance for *workplace inclusion* [points a-c)] according to the rules of *de minimis* state aid. Aid towards vocational rehabilitation [point d)] is awarded according to the relevant EU rules on employment aid for sheltered companies. Aid for the creation of new jobs within both schemes can only be given for workers with less than 50% work capacity. Aid can be *repayable* and *non-repayable* or the *combination of both*.

In 2007 a total of 2,300 jobs were subsidised from the Rehabilitation Fund; 38.7% of these were new jobs for vocational rehabilitation.

5. *The possibility of preferential treatment of certain employers of workers with disabilities in public procurement:*¹⁹ As of January 1, 2007 under certain conditions set out by the law there is a possibility or an obligation to limit the scope of potential suppliers, contractors or service providers to sheltered companies where more than 50 percent of the workforce has partial work capacity, or companies that provide vocational rehabilitation for the users of social care institutions and where more than 50 percent of the employees have a disability. This should clearly appear in the call for tenders.

17 Act CXXIII of 2004 on promoting the employment of young entrants, unemployed people age over 50, people returning to work after caring for a child or a family member and on graduate work placements; 31/2005. (IX. 29.) Ministry of Finance Regulation on the conditions of use of the Start Card, claiming the reduced contribution rates and the detailed rules of financial reporting.

18 – 6/1996. (VII. 16.) Ministry of Labour Regulation on assistance to promote employment and instruments to tackle employment crises provided from the Labour Market Fund.

19 Act CXXIX of 2003 on public procurement, article 17/A; 302/2006. (XII. 23.) Government Regulation on the conditions of preferential treatment of sheltered companies in public procurement.

6. *Subsidies for collective vocational rehabilitation*: This is a scheme of the Ministry of Social Affairs and Labour that gives sheltered companies compensation for their expenses and non-profit companies employing people who cannot be employed in the open labour market compensation for rehabilitation-related expenses (the call for proposals and the list of beneficiaries is available at the website of the MoSAL: <http://www.szmm.gov.hu>).²⁰

From July 2006 *service users of social care institutions*²¹ can be involved in two forms of employment: *the therapeutic residential employment and vocational therapy*, and *vocational rehabilitation* (under a fixed-term contract of employment) – jointly referred to as institutional employment. Institutions can use external companies in the vocational rehabilitation of service users.

5.3. Incentives for employees

The conditions of employment of people claiming disability pension and accident-related disability pension effective on December 31, 2007 remained unchanged in 2008. However different rules apply for new claims (disability pension, accident-related disability pension and rehabilitation allowance) approved in 2008. The most important features are (besides the fact that claimants can earn a wage of up to the national minimum wage):

- the number of hours, or the requirement that the number of hours worked is less than before the impairment of work capacity, is no longer an eligibility criteria for the disability pension;
- when calculating the disposable income, all earnings should be taken into account after which pension contributions must be paid, disregarding the upper ceiling. This includes income taxed at the 15% rate of the simplified income tax rate (all types of employment contracts for employees and self-employed must be taken into account);
- the earnings limit is 90% of the average wage used for calculating the rate of the pension, which should be compared to the *net sum* of earnings, i.e. the income less the amount of social security contributions.

From 2009 these new rules apply to all claims of disability pension, accident-related disability pension and rehabilitation allowance in Group III submitted by people of working age (those who have not yet reached the applicable pension age). At the same time, the earnings limits for claims in Groups I-II will be abolished.

6. Support for job creation

Aid for job creation can be granted in two main forms in accordance with Community legislation after January 1, 2007:

- a) *as regional support* separately or together for any of the following: cost of investment in material and non-material assets, and labour costs of the jobs directly created by the investment project, or

20 – 177/2005.(IX.2) Government Regulation; 15/2005.(IX.2.) Ministry of Employment and Labour Regulation

21 Social care institutions include all day care and residential care services. Working time in vocational therapy is up to 4 hours/day and 20 hours/week; in vocational rehabilitation up to 8 hours/day and 40 hours/week.

b) as employment support for labour costs of the jobs directly created by the investment project.

The aid is awarded from the centralised budget of the Employment Sub-Fund of the Labour Market Fund. The decision concerning the funding of projects is made by the Minister based on a proposal by the Management Committee of the Labour Market Fund.

Grants for job creation aim to generate new jobs while safeguarding existing ones. The amount of the grant is up to HUF 800,000 per new job. On top of this sum additional funding is available – from the regional job centres – for any or all of the following criteria:

- if the investment takes place in an area classified as disadvantaged in any of the following categories: regional development, socio-economic and infrastructural development, and employment, or in regions with labour market disadvantages an additional HUF 200,000 can be granted for each new job;
- if the vacancies created as a result of the investment are filled with jobseekers registered with the public employment service, an additional HUF 200,000 can be awarded;
- if the vacancies are filled with Roma workers an extra HUF 100,000 can be granted.

In total, projects might receive a grant of up to HUF 1.3 million per new job if they satisfy all of the above criteria. The upper limit of the grant available for each project is 80 million Forints, for projects in regions classified by the Ministry of Social Affairs and Labour as disadvantaged 160 million Forints. The amount of the grant can be increased by up to an extra 100 million HUF if the project creates more than 300 new jobs and taking into account the employment situation of the area where the investment takes place.

In 2007 1.92 billion Forints supported the creation of 2,400 new jobs. 60% of them were filled by jobseekers, 72 people were of Roma ethnic background (MoSAL, 2007, p 1).

The investment aid scheme for the creation of high-value-added jobs of the Ministry of Social Affairs and Labour supports projects involving relatively low levels of capital expenditure and a high volume of new jobs that are filled by qualified staff with higher education, mostly recent graduates. Businesses can receive a contribution towards their personnel expenditure associated with the expansion of their workforce.

Small- and medium-sized enterprises are required to safeguard jobs created for young entrants, registered jobseekers or workers threatened by redundancy for two years, other businesses for three years.

In 2007 14 businesses received a total of HUF 318 million in grants that contributed to the creation of 400 new jobs (MoSAL, 2007, p 4).

As regards *job creation aid for large projects* the following eligibility criteria apply:

- the grant is awarded on a case-by-case basis by the Government from the Budget for Investment Promotion;
- the project must take place in a disadvantaged or most disadvantaged area listed in relevant legislation;
- must create at least 500 new jobs – or 200 in the most disadvantaged areas;
- at least 50% of the newly created jobs – 30% in the most disadvantaged areas – must be filled by registered jobseekers.

The size of grants is

- if at least 500 new jobs are created: 260 million Forints,
- if at least 300 new jobs are created: 160 million Forints,
- if at least 200 new jobs are created: 80 million Forints.

In 2007 a total sum of 1.64 billion Forints was awarded in job creation aid to large investment projects. This supported the creation of nearly 1,500 new jobs (*MoSAL*, 2007, p 5)

Aid for the creation of teleworking jobs: The MoSAL continues its programme to promote the spread of teleworking. The scheme provides a wage subsidy and funding for the purchase of equipment and training for companies and public authorities creating teleworking opportunities. In 2007 779 new telework positions were created with assistance from the MoSAL, and the funding is available for 600 new jobs in 2008 (*MoSAL*, 2007, p. 13)

7. Commuting and travel subsidies

The aim of *commuting and travel subsidies* is to compensate the cost of commuting to work and thus reduce territorial disparities on the labour market and strengthen the opportunities of people living in small settlements in the competition for jobs. The travel assistance scheme reimburses the justified and reasonable travel expenses of jobseekers and young entrants on public transport and arising in relation to job search. It is granted by the job centre on an individual basis.

The commuting scheme covers – fully or partly – the statutory share of commuting expenses covered by the employer and/or the employee for up to 1 year in the case of hiring new workers who have been unemployed for at least six months (three months in the case of young entrants).

The subsidy can be given for shared transportation as well, if the total time spent on commuting exceeds 2 hours per day. The maximum rate of the subsidy is equal to the employer's statutory contribution rate towards the cost of the bus pass between the home of the worker and the workplace. The subsidy can be awarded for a maximum of one year.

In 2007 a total of 2,500 people received some form of contribution towards commuting or travel expenses. Most people, two thirds of the beneficiaries, received assistance from the commuting scheme, and only 88 workers received assistance for shared transportation (*MoSAL*, 2008a, 36. o.)

Employers typically use the commuting subsidies together with wage subsidies, especially where they cannot recruit locals. The share of the total and average number of beneficiaries of this scheme within the total is minimal: it was 3% in 2001 and dropped to 2% in 2006.

8. Reduction of contributions to promote the employment of disadvantaged people

The Start Programme introduced on October 1, 2005 covers all young entrants under the age of 25 years – under 30 years for graduates – who finished (or interrupted) their studies and enter their first job.²² Their employers are eligible for support *during a period of 2 years*. The subsidy is a universal discount on the compulsory contributions paid by employers. As a result, the employer pays a reduced rate of 15% as a contribution to the wage in the first year, and 25% in the second year. *The discount can be used for wages of up to 150% of the minimum wage for new entrants under 25 years, or in the case of under-30-graduates for up to 200% of the national minimum wage.*

Eighty-eight thousand Start Cards were issued to young entrants between October 1, 2005 and the end of June 2008. More than 80 percent of the cardholders found lawful employment. In 2007 23.3% of businesses employed young people with a Start Card; the same figure was only 20% in 2006. Start Card holders were most frequently employed in the transport and telecommunication sectors (34.5%). Export-oriented companies were more likely to employ a young entrant with a Start Card (43%) which represented a sharp increase from previous year's less than 20% in the same category.

We can assume that these companies – that do not need to be subsidised by the state – hired young people who had marketable skills and knowledge, and who would easily have found work without any support. It is also likely that the universal subsidy is concentrated in regions, sectors and businesses with relatively strong job creation capacities. Therefore this scheme might increase rather than reduce inequalities.

From July 1, 2007 new schemes were added to the Start family with the aim of:

- helping disadvantaged persons to enter or return to the labour market,
- increasing employment in the target group,
- encouraging companies to employ disadvantaged workers,
- creating incentives for companies for the lawful employment of workers.

*In the Start Plus scheme*²³ the following target groups are entitled to a reduction on the contributions payable by employers:

*Start-card
for young people*

²² Act LXXIII of 2005 on promoting the employment of young entrants, unemployed People aged 50 years and over and people returning to work after caring for a child or a family member, and on the amendment of Act CXXIII on the graduate work placement scheme. The Act was adopted on June 27, 2005 and entered into force on October 1, 2005.

²³ Act XIV of 2007 on promoting the employment of young entrants, unemployed people aged 50 years and over and people returning to work after caring for a child or a family member, and on the amendment of Act CXXIII on the graduate work placement scheme. The Act was adopted on March 12, 2007 and entered into force on July 1, 2007.

- persons who wish to return to work within one year after claiming parental benefits or carer's support,
- persons claiming child care benefit taking up work after the 1st birthday of the child (provided they have not been on leave from their employer),
- long-term jobseekers who have been registered with the PES for 12 of the previous 16 months (or six of the previous eight months in the case of persons under 25).

Start-plus Card

Employers hiring workers from any of these categories are entitled to the same discounts as employers of young entrants with the Start Card. Therefore, they are exempt from the fixed-sum health care contribution (1,950 Forints/month) and they pay a reduced rate of 15% in the first year and 25% in the second year on eligible wage instead of 32% normally payable by employers. From mid-2007 until mid-2008 11,200 people claimed the Start-plus Card.

Long-term job seekers can apply for a Start Extra Card if:

- they are aged 50 years or over, or
- regardless of their age, they have a low level of education (lower secondary).

Start-extra Card

Employers hiring workers from any of these categories are exempt from all public contributions in the first year and in the second year they pay only 15% of the gross wage of the worker.

Between June 2007 and June 2008 5,000 people used the Start-extra Card (press conference by *Mr. Gabor Simon* state secretary of MoSAL on Start Cards on September 2, 2008).

Table 14: Discounts for employers in the Start schemes

Start Scheme (young entrants)	Start-plus (parents returning to work, long-term jobseekers)	Start-extra (older persons, persons with low education)	Start-region (people claiming of community employment replacement support)
Fixed-sum health care contribution (1,950 Forints)	Exempt for two years	Exempt for two years	Exempt for three years
Contributions on the gross wage of the employee (3% employers contribution, 29% SI contribution)	1 st year: 15% 2 nd : 25%	1 st year: 15% 2 nd : 25%	1 st year: exempt 2 nd : 15% Exempt for three years if increases headcount

The *Start-region scheme* was introduced on January 1, 2009 to encourage companies to employ people claiming community employment replacement support in the most disadvantaged regions. The target group of the new scheme largely overlaps with that of the Start-extra; the Start-region is an addition to

Start-region

that by including claimants of community employment replacement support in the 47 most disadvantaged small regions. Employers must hire workers from this category to fill job vacancies on a permanent basis and jobs must be safeguarded for at least the duration of the support. In this case, the full waiver of contribution provided by the Start-extra Card extends from 1 to 3 years.

Table 14 summarises the discounts available for employers in the framework of the Start schemes.

9. The employment of casual workers with the work log book

The log book for casual workers was introduced in 1997 to allow for an administration-free employment by private households. This turns short-term, temporary jobs into regular employment giving entitlement to health care, pension and unemployment benefit. Contributions are paid in the form of a *contributions stamp*.²⁴

Some of the reasons for the introduction of the log book for casual workers were:

- regularisation of undeclared employment,
- bringing domestic and other casual jobs into the mainstream of the jobs market,
- provide lawful job opportunities for unemployed people,
- help employers to satisfy labour demand for ad hoc jobs.

Originally only private households, smallholders and self-employed entrepreneurs were allowed to employ casual workers with the log book. This limited the take-up of this measure. Between 1997 and 1999 only 11,000 casual work log books were issued. This was mainly due to the fact that the price of the contribution stamp was almost as much as the wage itself, and it was considered very expensive. To promote the spread of the casual work log book, the possibility of its use was extended to the whole business and public sectors in 2000. In 2002 the rate of the contribution stamp was halved and provided a further discount of 50% for the employment of registered unemployed. The yearly limit of temporary work was increased from 120 to 200 days in 2005. And at the same time a new regulation allowed private households to reclaim 75% of the value of the contributions stamp as a tax return on their personal income tax. As a result the number of casual worker log books issued to individuals has doubled each year since 2003 and currently it stands around one million. In seasonal sectors casual employment is more common, particularly in tourism and agriculture. Around half of companies in tourism and 40% of companies in agriculture fill their seasonal jobs with casual workers using the log book. At the level of the national economy, over one fifth of the companies employed workers with the casual work log book. Hungarian-owned companies are twice as likely (24%) to have casual work-

²⁴ The detailed rules are set out in Act LXXIV of 1997 on employment with the casual work log book and the simplified payment of social insurance contribution.

ers than foreign companies (13%). In 2007 companies employed on average 12.8% more casual workers than their regular workforce.

Due to the variety of discounts, it is now cheaper to employ workers with the casual work log book than with a regular employment contract. The following example that compares the monthly cost associated with the two types of employment illustrates this well. With a daily wage of 3,000 Forints and 900 Forints/day contribution stamp the labour cost associated with 20 days of work is 78,000 Forints/worker. The same under a regular employment contract – taking the national minimum wage – would be 69,000 Forints + 24,030 Forints social security contributions = 93,030 Forints. The difference is 15,030 Forints/month in favour of the casual employment. As a consequence many fixed term, seasonal employment contracts are converted into casual work using the log book. However, there are also other negative consequences, such as:

- terminating regular employment contracts and working with the casual work log book without claiming job search benefit;
- it discourages people claiming regular social assistance to take up a regular job because they would lose their eligibility. They can anyway achieve a higher income doing temporary work with the log book which does not affect eligibility;
- the administration of the casual work log book is increasingly complicated and puts an enormous burden on the Public Employment Service that carries out the registration of casual workers with the social insurance authorities.
- although the original aim was to promote the regularisation of undeclared work, casual work achieves the opposite. This is also encouraged by current regulations that stipulate: “for casual work of less than 5 days, the stamps might be put in the log book on the last day of employment”.

The year 2008 was devoted to the preparation of a legislative amendment that might bring about changes in the coming year (*MoSAL-MoF*, 2008). The most important changes are:

- the scope of organisations that can employ workers with the casual work log book will be limited to private household, non-profit organisations working for the public interest and for seasonal work in agriculture – they can continue to use the more favourable conditions;
- for all other employers the same conditions apply for casual workers as for regular employment;
- the Hungarian Tax and Financial Control Administration will be responsible for the administration of casual work;
- the registration of casual workers will be carried out electronically.

There are approximately 300,000 people doing casual work with the log book on average 20 days a year

10. Employment services

According to the Employment Act employment services include:

- the provision of information on vacancies and jobs;
- job, career, job-search, vocational rehabilitation and local (area) employment guidance;
- job brokerage.

The contents of these are defined by the regulation on employment services in 2000²⁵ which also defines provision requirements. The regulation basically lists those services that are delivered to customers by the regional job centres and the local job offices. In addition, the regulation also allows the purchase of certain services from external providers to increase availability. A novelty is that regional training centres and the Employment and Social Office also directly deliver services. The employment services are available *free of charge* to unemployed people, employers and employees.

10.1. Labour-market services listed in the Employment Act

In this section I give an overview of the content of labour-market services listed in the Employment Act.

Provision of information on vacancies and jobs. This aims to help people find jobs and fill job vacancies. It can take place on its own or as part of a personal consultation with a job advisor, a job fair or job brokerage. It includes information on professions, training opportunities in the local area, the employment situation of the small region, county and region, the characteristics of local labour supply and demand, available financial assistance – wage subsidies and unemployment-related assistance, and labour legislation.

Job advice. It aims to explore the individual barriers that keep people out of work and help to create a plan to overcome them and find work.

Careers advice. Aims to support individuals in identifying career options that suit their interests, skills and personality, and also takes into account labour demand. *Careers advice is available for a new career or a career change.*

Career guidance helps people to identify a career choice and the necessary training, taking into account the demand on the labour market.

Career change advice helps people to identify new career options – jobs and training opportunities – either because their current career does not suit their personality or skills, or there are no job vacancies.

Job-search advice. Aims to help people who want to work but lack the skills and knowledge necessary for job-search to find a job. The types of job-search advice are:

- individual job-search advice;
- training in job-search skills;

25 – 30/2000. (IX. 15.) Ministry of Economy Regulation on employment services and their financing. This regulation was amended by 6/2008. (IV. 23.) Ministry of Social Affairs and Labour Regulation on the amendment on certain employment-related ministerial regulations that entered into force on April 26, 2008. The most important changes were the following::

- mentoring was included among the services;
- new rates of assistance for the providers of employment services,
- new rate of income replacement for people using employment services.

– jobseekers' club (the Jobseeker's Club is a regular group session for jobseekers to help participants find work).

Vocational rehabilitation advice. Aims to support people with partial work capacity who need a career change to identify options in their vocational rehabilitation by providing information on jobs, careers advice, counselling and job-search advice.

Counselling. Careers, job-search and rehabilitation advice can be combined with counselling if it is necessary for the success of the process. Counselling aims to help people to identify and deal with personal and life-style issues that prevent them from finding work. Counselling can take the form of:

- individual counselling sessions;
- group counselling sessions;
- structured group activities;
- as part of the assessment of interests, values and personality;
- as part of career awareness training.

Mentoring. The job centre can offer mentoring to jobseekers or other customers if after a personal consultation it appears that the individual needs mentoring to fulfil the obligations towards the employment service or integrate into a workplace. Mentoring combines the role of an advocate and a personal assistant. The mentor (a member of staff/advocate who is knowledgeable in the given sector) provides support to the customer in achieving long-term personal professional and career plans (job-search, choosing and obtaining the right qualification, integration in the workplace, retaining the job and career advancement). The mentor provides information, motivates and supports the individual in building and maintaining connections and networks.

Local (area) employment advice. By providing professional and technical assistance it aims to improve the employment situation of the local area, promote cooperation of actors in the local economy, mitigate tensions in the labour market, promote entrepreneurship and create job vacancies.

10.2. Job brokerage

The most effective way of matching labour demand and supply is job brokerage that includes a variety of activities. Job brokerage is carried out by the local offices of the employment service in cooperation with registered jobseekers, other customers and employers offering job vacancies.

As part of the job brokerage:

- an adviser of the job office explores the career expectations, the employment history and the possible barriers (education, vocational qualification, previous jobs, experience, place of residence, work capacity) of the jobseeker at a personal consultation and provides information on the available job vacancies with emphasis on the location, type of employment, working hours and available salary.

- if there are barriers to work readiness, the advisor directs the customer to the appropriate service,
- the job office liaises with employers who offer job vacancies to jobseekers, and
- puts employers and jobseekers into contact in order to fill job vacancies and help people into work.

Job brokerage can be provided for *individuals and groups*.

In job brokerage it is illegal to:

- recruit people who cannot be legally employed (e.g. minors) into work,
- advertise non-existent job vacancies or recruit workers for employers affected by strike action,
- advertise jobs to customers that are not fully legal, and
- recruit people for employers who do not comply with employment regulations and fail to provide adequate work conditions.

Before the Employment Act entered into force in Hungary employers were required to register all job vacancies. This requirement was abolished in 1991. As a result the number of registered job vacancies halved. Therefore *the requirement to register job vacancies was introduced again in 1992*. Nevertheless, the volume of registered job vacancies continues to be low in comparison with the total number of jobless people – between 10–15%.

Employers must notify the employment service:

- a) of any job vacancy to be filled under a contract of employment,
- b) of other vacancies specified by the regulation on the employment of foreign nationals in Hungary, to be filled under a contract of employment or any other contract where an individual undertakes to perform personally any work.
- c) Employers can use the job brokerage service to advertise other job vacancies that are not required to be reported to the employment service.

Advertised job vacancies are valid for a period of up to 60 days, however this can be extended before the expiry of that period.

The job offices will advertise the job vacancies of an employer if:

- they are notified to the employment service,
- the employer asks for the service, and
- receives jobseekers applying for the job vacancy with the job brokerage form of the job office, and
- registers the outcome of the application on the form.

If the employer gives permission to advertise the job vacancy, it will appear on the network of the European Employment Service (EURES) and will be open for citizens of the European Economic Area and their family members.

10.3. New services

The services of the Public Employment Service are constantly evolving and their range is expanding with new services. For both employers and jobseekers new technologies provide new opportunities: IT systems (online assistance, call centre, on-screen information, digital text, DVD etc.) are widely available and there is access to self-service facilities and on-line databases (such as www.afsz.hu, a cv and job bank, e-career etc.)

Mental health and vocational health services. These include services that improve the physical appearance of jobseekers (these are necessary when the physical appearance and status of customers is a barrier to finding a job because it makes a bad impression on potential employers). *For people with disabilities these services might be part of the vocational rehabilitation plan* (for example access to washing facilities for homeless people, dental treatment, hairdresser or a small budget to buy clothes for people on a low income).

Since the new regulation came into effect, not only did the range of service become more diverse but also the organisational framework expanded. The country-wide networks of *Career Guidance Advisors (Foglalkoztatási Információs Tanácsadók, FIT)* and *Vocational Rehabilitation Information Centres (Rehabilitációs Információs Centrum, RIC)*, and different events (education and job fairs, open days) improved access to information. Career fairs are also very important.

Career fairs. At career fairs visitors can receive thematic information on the jobs market, education and training institutions, and obtain an insight into their life. These events aim to provide guidance for people in their career choice and promote a better match between career choices and labour demand. Career fairs give an overview of the available training opportunities, including accredited courses and non-formal training, and job placements with the participation of sectoral chambers and employers.

11. Labour market programmes

Four fifth of the registered jobseekers are not new but returning customers of the employment service. Their problems are unlikely to be solved in a single active labour-market scheme. A combination of labour-market measures or especially participation in a labour market programme is necessary to address their complex problems. Labour market programmes were introduced in the Employment Act on February 1, 2000. They are defined as follows: “[The] Labour Market Fund can support the implementation of programmes that aim to achieve local employment objectives, influence the local employment situation and promote the employment of people disadvantaged in the labour market... [These] programmes can combine employment services and financial assistance.”

This actually refers to labour market services listed in the Employment Act and its implementing regulation, and the subsidies paid from the Employment and Rehabilitation sub-funds of the Labour Market Fund. With regard to subsidies provided within the programmes, certain conditions specified in the Employment and its implementing regulations can be *disregarded*. For example:

- the target group of the programme can be involved in all programme components regardless of their individual eligibility,
- subsidies can be paid during the whole programme period,
- with regard to subsidies for community public works, the duration of the programme is relevant; therefore there is no time limit.

Before each programme, a *Programme Plan* must be drawn up. This must define the following criteria:

- the scope of people the programme aims to help in the labour market (target group),
- local areas where the programme is implemented,
- the labour market services and employment assistance schemes included in the programme (programme components), how they are combined and the rationale behind it,
- eligibility conditions to take part in the programme or its components,
- the list of individuals and organisations involved in the implementation,
- the duration of the programme (up to 3 years),
- the expected outcomes of the programme and its components, frequency and method of evaluation,
- the total budget of the programme including the cost of labour market services and financial assistance and the operational costs (management, publicity, monitoring, evaluation etc.),
- eligibility might be limited to participation in certain programme components (and not all of them).

Labour market programmes can be countrywide or regional. The decision about countrywide labour market programmes is made by the Minister for Social Affairs and Labour following a consultation with the Management Committee of the Labour Market Fund. Regional labour market programmes are based on the decision of the directors general of job centres following consultation with employment councils. The employment service tenders out the design and implementation of labour market programmes. Bids must present the planned structure, implementation and monitoring of the programme and define eligibility for each programme component. Ten percent of the programme's cost is retained and paid only after the successful closure and approval of programme outcomes.

The Employment Act stipulates that from January 1, 2007 onwards the reimbursement of labour costs – wage and contributions – is only possible in

community public work projects and in the wage subsidy schemes presented above. Given that community public works has only a relatively minor share in employment and wage subsidies can only be given for the employment of disadvantaged people for up to 12 months and at the rate of 50–60% of the labour cost, the viability of these programmes was questioned. Because the EU rules must be applied it is not possible to support companies that employ programme participants over 3 years, or, if the participants are not disadvantaged, it is not possible at all.

Therefore in 2007 a new active measure was introduced: *the wage cost subsidy*. This scheme is only available as part of a labour market programme and allows a reimbursement of up to 100% of the wage cost for a maximum of 3 years. Taking into consideration that the implementation of the programmes would be very difficult without professional management, the *new scheme* – besides contributing to the labour cost of participants – *can also pay the labour cost of the programme management staff*.²⁶

III. GOVERNANCE AND FINANCING OF THE HUNGARIAN EMPLOYMENT POLICY

1. The governance structure of employment policy

Within the Hungarian governmental structure the *Ministry of Social Affairs and Labour* (MoSAL) is responsible for employment policy. The Ministry was set up in 2006 with a very diverse portfolio. I will not discuss here responsibilities related to social affairs. With regard to employment, the main task of the Ministry of Social Affairs and Labour is to create the conditions necessary for an effective and fair management of human capital, including adult education, mitigating tensions in the labour market, promoting equal opportunities, social dialogue and the consultation of employers and workers.

The Ministry prepares the employment policy of the Government and makes recommendations for extending employment opportunities. It designs the *system of unemployment assistance, active labour market policies and programmes* to assist people facing disadvantages in the labour market into employment. The Minister is responsible for the *wage policy*, including setting the national minimum wage. The Ministry has an important role in *workplace safety*; it prepares legislation relating to safety at work, including working conditions, equipment and protective equipment. The Ministry is responsible for the coordination of different governmental policies promoting *equal opportunities*. It designs training and employment programmes to *help people with disabilities into employment*. In promoting equal opportunities it pays special attention to improving the employment situation of the *Roma population*. To achieve this, the Ministry works in partnership with Roma rights and advocacy organisations.

²⁶ If the recipient of the subsidy is a business organisation, the *de minimis* rules should be applied.

The Ministry is also responsible for *vocational education and training*, the rules of vocational examinations and setting the allowance rate for apprenticeship students. These tasks are carried out in partnership with the Minister of Education. It also has a significant role in promoting *Life Long Learning*, including the design of adult education and labour-market training programmes and the financing of adult education institutions.

The Minister is responsible for the implementation of *social dialogue*, takes part in relevant sectoral dialogue, and acts as the representative of the Government in national social dialogue. It also follows labour disputes and conflicts and provides help to solve them. It *liaises with the voluntary sector* on behalf of the Government and supports their participation in the delivery of public services.

It drafts and codifies new legislation: The Ministry drafts proposals for laws and other legislation within its portfolio for the Government.

The Ministry of Social Affairs and Labour is responsible for the strategic management and regulation of the entire employment system: Through the Employment and Social Affairs Office as middle-management body the Ministry oversees the *Public Employment Service*, including the regional job centres and training centres. It supervises the *Hungarian Labour Inspectorate and the National Institute of Vocational and Adult Education*. The management and implementation of EU funds is the responsibility of the *ESF National Programme Managing Office* (ESF Office, ESZA Kht.) which came under the supervision of the MoSAL in January 2007. The ESF Office is responsible for the complete and efficient use of available funds, the implementation of Community regulations, a transparent management and the regular monitoring and evaluation of the programme. The *National Employment Foundation* also has a prominent role in achieving the aims of the Ministry and also helps the implementation of the *European Social Fund* in Hungary.

In addition to the Government, *local governments, employers, current and potential employees and their organisations* work together to extend employment opportunities and prevent unemployment and alleviate its negative consequences.

Local governments – besides mainstreaming employment in their decisions – are also directly involved in providing public work opportunities for the unemployed, and – according to the Act III of 1993 on social administration and assistance – they also promote the employment of people eligible for regular social benefit. From next year they will also be required to prepare public work plans and organise public work for people claiming social benefits who are required to work.

Employers:

– take part in labour dialogue through their associations;

- help the work of the employment service by reporting to the local job office job vacancies and when these vacancies are filled, at the latest by the time of hiring someone to the vacancy; moreover
- support the system of unemployment assistance by paying a contribution.

Employees:

- also take part in the labour dialogue through their representatives;
- if they become unemployed they cooperate with the employment service and potential employers in order to find new employment, they consider the job and training opportunities offered to them and they actively search for jobs.
- pay contributions to ensure eligibility for unemployment assistance.

The Public Employment Service (PES) is made up of an intermediary management body, the Employment and Social Office, and 7 regional job centres with 174 local offices. In addition the 9 regional training centres are also part of the PES.

The tasks of the PES are:

- collecting and providing information on labour market trends, forecasting change and providing guidance to school operating authorities with regard to the courses offered and admission quotas;
- collating job vacancies and providing timely and professional job brokerage to satisfy the labour demand of employers;
- providing tailor-made training, wage, job-creation and other assistance and services to jobseekers; supporting the vocational rehabilitation of people with disabilities;
- starting targeted programmes to support the training, employment, workplace integration etc. of the most disadvantaged in the labour market – older people, women returning to work, young entrants, Roma people.;
- dealing with employment crises, tackling problems in the labour market arising from major redundancies;
- providing assistance to eligible jobseekers who are struggling to find work;
- issuing work permits for the employment of foreign nationals in Hungary;
- organising labour-market training, taking part in the re-training of the unemployed and promoting the adaptability of the workforce to changing demand;
- taking part in the effective implementation of the European Social Fund;
- operating the international job-matching service of the European Employment Agency (EURES network), provide information to customers on job opportunities and placements abroad including country-specific information;
- operating a web-portal to increase the availability of labour market, training and employment information.

The *Employment and Social Office* is a public body under the direction of the Ministry of Social Affairs and Labour, with its own financial management rights. The Employment and Social Office is responsible for the professional management of the regional job centres, provides guidance on the implementation of employment policies, supports the training of staff and also has executive functions. In addition to employment and labour related affairs, the tasks of the Office also include certain social, child welfare and child protection issues, responsibilities related to rehabilitation and the employment of people with disabilities, and also some tasks related to the management of the institutions of social dialogue.

The *regional job centre* is comprised of the headquarters and local offices. The *headquarters* manage and supervise its local offices, carry out the tasks delegated to them in the field of employment rehabilitation of disabled jobseekers, decide on the use of the decentralised budget of the Employment Sub-Fund of the LMF allocated to the region, administer allowances and benefits to jobseekers and oversee the operation of the benefit and service system.

The regional job centres and their seats:

- Central Hungary Regional Job Centre, Budapest
- South Great Plain Regional Job Centre, Békéscsaba,
- North Great Plain Regional Job Centre, Nyíregyháza,
- North-Hungary Regional Job Centre, Miskolc,
- South Transdanubia Regional Job Centre, Pécs,
- Central Transdanubia Regional Job Centre, Székesfehérvár,
- West Transdanubia Regional Job Centre, Szombathely.

The *offices* register jobseekers in their catchment area, award job search allowance job search benefit and self-employed allowance, and decide about employment subsidies.

Some offices are appointed by law in each region to deliver certain services that are not available in other offices. These offices:

- manage the network of services,
- have a rehabilitation task force,
- take part in the delivery of vocational rehabilitation services to people with disabilities.

2. The system of financing labour market policies

After the entry into force of the Employment Act, labour market expenditure was financed by two funds: the *Solidarity Fund of the Unemployed (SF)* and the *Employment Fund (EF)*. In terms of finances, the two funds were completely separate until 1996 when – together with other financial sources – they were brought together in the *Labour Market Fund (LMF)*.²⁷ The different sub-funds however, have remained relatively independent. The revenues of the Labour Market Fund for the direct assistance of the employed

²⁷ This is a ring-fenced budget created by the merger of the Solidarity Fund for the Unemployed, the Employment Fund, the Vocational Training Fund, the Rehabilitation Fund and the Wage Guarantee Fund.

come from the contributions of employers and employees. *Table 15* gives an overview of these rates.²⁸

Table 15: Changes in the rates of employers' and employees' contributions (%)

Employees' contribution		Employers' contribution	
Period	%	Period	%
Between July 1 and December 31, 1991	0.5	Between July 1 and December 31, 1991	1.5
Between January 1 and December 31, 1992	1.0	Between January 1 and December 31, 1992	5.0
Between January 1, 1993 and March 31, 1994	2.0	Between January 1 and December 31, 1993	7.0
Between January 1, 1994 and December 31, 2002	1.5	Between January 1 and March 31, 1994	7.2
Between January 1, 2003 and August 31, 2006	1.0	Between April 1 and December 31 1994	5.0
From September 1, 2006	1.5	Between January 1, 1995 and January 31, 1998	4.5
		Between February 1 and June 30, 1998	4.2
		Between July 1 and December 31, 1998	4.0
		From January 1, 1999	3.0

Table 16 gives an overview of expenditure on unemployment assistance by the main categories in 2007. Figures show that nearly 200 billion Forints were spent on tackling unemployment. This is less than 1% of the GDP, roughly half of the EU average.

Passive assistance had a larger share than *active labour market policies* in the employment budget; the share of expenditures on active labour market policies, services and programmes was 40 percent in 2007. *An increasing part* of the Employment Sub-Fund, which finances active LM policies as well, is allocated to the *central budget*: while in 2000 its share was 12.3%, in 2007 it was 23.8%. The Management Committee (MC) of the Labour Market Fund decides about the allocation of the central budget of the Employment Sub-Fund including its objectives and amounts. The same body approves the budget of the *Decentralised Employment Sub-Fund* allocated to the regional job centres, including the size and the set of indicators used as allocation criteria. This is intended to cover the cost of active labour market policies managed by the local offices.

The size of the decentralised Employment Fund has hardly exceeded that of the previous year, despite inflation and more importantly the significantly higher cost of employment subsidies. As a result this budget helped fewer unemployed people back to the labour market and saved less jobs affected by the risk of redundancy.

²⁸ As of January 1, 2005, the self-employed and full time partners of certain business corporations are also eligible for a contribution-based job-search allowance (Self-Employed Allowance). They are required to pay unemployment contribution which is 4% of the income after which they pay the health care contribution.

Table 16: Labour market expenditures in 2007

Categories	Billion Forints
A) Income replacement	
Job search benefit + SI + HCC	89.2
Entrepreneurial benefit + SI + HCC	1.3
Management and travel	1.0
Total	91.5
B) PES operating costs and development	22.7
C) Active LM policies	75.2
1. Employment Sub-Fund	45.0
2. Training budget	5.3
3. NEF programmes	2.1
4. Public work	7.3
5. Co-financing of EU programmes	9.7
6. Discount on contributions and repayments	5.8
Total spending (A+B+C)	189.4
% of GDP	0.75
Distribution of expenditure (total = 100):	
Passive assistance	48.3
PES	12.0
Active LM policies	39.7
Distribution of employment and training budgets	
Central budget	10.7
Decentralised budget of the employment fund	34.3
Employment Sub-Fund total	45.0
Training budget*	5.3
Total	50.3
Employment Sub-Fund	
Central budget (%)	23.8
Decentralised budget of the employment fund (%)	76.2

SI = social insurance contribution

HCC = fixed-sum health care contribution

* Budget earmarked for the statutory tasks – training and other services – of regional training centres.

Source: Fund Management Department, MoSAL 2008.

3. Labour dialogue

Social partners have an institutionalised role in supporting the implementation of policies to prevent unemployment and promote work.

3.1. High-level forums of interest reconciliation

The Employment Act in 1991 delegated labour dialogue to the Labour Market Committee (LMC) of the Interest Reconciliation Council (IRC).²⁹ This body, made up of the representatives of the employees, employers and the Government, received a mandate:

²⁹ The Interest Reconciliation Council (IRC) is a national-level tripartite forum with the representatives of employees, employers and the Government. The scope of its activities covers all work-related issues, including fundamental economic policy questions regarding the redistribution of income. Labour dialogue has been operational in Hungary for nearly 20 years. The Interest Reconciliation Council established in 1990 provided a forum for articulating and coordinating the interests of the Government, the employers and the workers. It had an instrumental role in ensuring that the socio-economic transition took place without any major conflicts. The organisation was renewed in 2002 and changed its name from Interest Reconciliation Council to National Interest Reconciliation Council. Since then it has provided the official platform for labour dialogue between the Government and the social partners (national organisations of workers and employers).

- to decide about the main principles and guidelines regarding the allocation of the Employment Fund, and follow-up their implementation;
- be consulted on any employment-related legislative proposals;
- allocate funding from the Employment Sub-Fund for the creation of voluntary organisations in the field of employment;
- review proposed labour-market programmes;
- give an opinion on the performance of the employment service, and order reports from its director general, and
- evaluate the experiences of the implementation of Employment and Solidarity funds.

After the creation of the Labour Market Fund in 1996 significant organisational changes took place in national labour dialogue. The tripartite National Labour Market Council was created with three members on each side: employers, workers and the Government. The employers' and employees' side of the Interest Reconciliation Council delegated the members to the respective sides, who were then appointed by the Minister of Labour. The rationale behind this change was to ensure *personal accountability in the decision making*. The competences of the National Labour Market Council and the Labour Market Committee were divided as follows: The Government consulted the representatives of employers and workers on employment issues of national importance in *the Labour Market Committee of the IRC*. The Committee:

- was consulted on the proposed budget of the Labour Market Fund and allocation between sub funds;
- gave its opinion on any legislative proposals related to employment; and
- scrutinised the activity of the National Labour Market Council each year.

The task of the *National Labour Market Council* was:

- a) to decide:
 - on the size and allocation principles of the central and decentralised budgets of the county job centres;
 - reallocation of the budget between the sub funds, and
 - reallocation of the decentralised employment budget between counties;
- b) make proposals:
 - for new employment and training programmes and support for voluntary organisations;
 - for the budget of the Labour Market Fund;
- c) give its opinion on the proposed case-by-case decisions of the Minister of Labour;
- d) evaluate the use of the Labour Market Fund on a yearly basis;
- e) obtain reports from the director general of the National Job Centre.

Changes in labour dialogue *degraded the institutional system from a decision-making to a consultative forum*. Social partners strongly opposed this.

As a result, an agreement was drawn up between the Government and the social partners in the summer of 1996. In this agreement the Government committed itself to establish a *system of self-governance* for the management of the Labour Market Fund. The regulations on the tasks of IRC were amended accordingly. Its competences regarding the budget of the Labour Market Fund and its allocation between the sub funds were abolished, and its legal consultative role was limited to employment-related legislative proposals. At the same time it had a prominent role in the establishment and work of the *Management Committee of the Labour Market Fund*.

At the end of 1996 the National Labour Market Council was dissolved and it was replaced by the Management Committee of the Labour Market Fund from January 1, 1997. The Committee had competences regarding the use of the budgets of the Labour Market Fund.

2002 saw the renewal of the *National Interest Reconciliation Council (NIRC)*. The Government continued to use this forum to consult the national representatives of employers and workers in employment issues of national importance. In its consultative role, the NIRC:

- gives opinion on legislative proposals with direct relevance to employment;
- approves the yearly reports of the Management Committee of the Labour Market Fund;
- appoints the members of the Management Committee of the Labour Market Fund from the candidates delegated by its member organisations of employers and workers, and makes recommendations to recall them.

The Management Committee of the Labour Market Fund is a self-governed tripartite body made up of representatives of the employers' and workers' associations and the Government. It was established by the Employment Act. The Management Committee of the Labour Market Fund, by exercising the competences conferred on it by the Employment Act, aims to reduce unemployment and relieve tensions in the labour market through the management and monitoring of the Labour Market Fund.

Each side of the Committee has 6 members, altogether 18 members, who are delegated by the employers associations, trade unions and the Government. The members are appointed and recalled by the Minister.

3.2. Meso-level social dialogue in the labour councils

The meso-level forums of social dialogue were the *county labour councils*. The tripartite bodies were created in 1991 with representatives of employers, workers and county governments (with at least 3 members on each side). However, only the representatives of the county governments were elected to the post by the general assembly of the county (or Budapest) and the general assemblies of cities in the given county. This created a unique structure in

which the different levels of labour dialogue were not linked. As a result the macro and meso levels of labour dialogue were disjointed.

This situation changed following the *reorganisation of county labour councils on the basis of the principles of self-governance by the end of 1996*. The composition of labour councils was brought into line with the Management Committee of the Labour Market Fund. Another change in comparison to earlier regulations was that the number of members was limited to a maximum of 6 on each side. Also, membership was not guaranteed but members on each side were delegated or elected by the relevant organisations, and appointed and recalled by the director of the county's job centre. Secretarial support to councils was provided by job centres.

Labour councils are the local forums for social dialogue on assistance to employment, labour-market training and vocational rehabilitation. Their members are appointed for a 4-year period. Their competences changed several times during the years, but after the entry into force of the Employment Act they have remained the same: to

- decide on the allocation principles and the allocation between different measures of the county's LMF Employment Sub-Fund budget;
- monitor the use of the country's decentralised Labour Market Fund budget;
- initiate and give an opinion on short- and long-term programmes aimed at improving the employment situation in the given county and monitor their implementation;
- give an opinion on the operation of the county's employment service and receive reports from its director. They also have the right to be consulted on the appointment of job centre directors.

Following the regional restructuring of the PES, *the Employment Act also amended the rules on previous county (Budapest) labour councils with effect from January 1, 2007*. It ordered the setting up of seven labour councils linked to the jurisdiction of the seven regional job centres. The secretarial tasks of the regional labour councils are carried out by regional job centres.

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