

# HOUSEHOLDS, WORK AND FLEXIBILITY

## COUNTRY CONTEXT REPORT HUNGARY

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### 1 DEMOGRAPHIC AND EMPLOYMENT TRENDS

#### 1.1 Population trends

In 2000, Hungary had a population of 10,005 thousand. The number of inhabitants reached its peak at 10,709 thousand in 1980. Since then the population has been diminishing steadily. The population decrease in Hungary over the past two decades was accompanied by the ageing of population. While the share of people older than 60 increased to 19.7 percent, the proportion of children declined to 17.1 percent. Over the 1990s, the total fertility rate continued to drop, reaching its minimum of 1.29 in 1999. Although this is well below the level enough to keep the population stable, not particularly low compared either to the Central and Eastern European (CEE) countries, or to the EU members. Closely related to the declining trend in fertility, the number of marriages decreased between 1990 and 1999, with an increase in the average age of men and women in first marriage. At the same time,

cohabitations expanded in number. Mortality has been high in European comparison. Worse mortality conditions and lower life expectancies can be found only to the east of Hungary.

In 2000, the number of households was 3,733.3 thousand. The average household had less than 3 members (2.7 on average). Two-member households were the most common, accounting for almost 30 percent of the total number of households.

## **1.2 Labor market trends**

There were two important trends in the Hungarian labor market over the 1990s. First, during the transformation-related crisis there was a rapid rise in unemployment, reaching its maximum in 1993 with a stock of 705 thousand registered unemployed and a 13.6 percent rate of unemployment. Second, the Hungarian labor market experienced high outflows to inactivity during the 1990s. As a result, although the unemployment rate declined steadily after 1993, employment continued to drop until 1997. This contrasts to the relationship between employment and unemployment typical of developed market economies, according to which, if unemployment diminishes, the number of the employed increases by almost the same figure (and this is also true *vice versa*) (Timár, 1995).

### **1.2.1 Employment**

When calculating the working age population, Hungarian statistics apply three different sets of criteria. According to the national regulations, working age starts at the age of 15 for both sexes and lasts until 60 for men and 56 for women. (Currently the statutory retirement age was raised to 62 for men and to 60 for women and it is scheduled to reach 62 years for both sexes by 2009.) In 1999, of a population of 10 million, about 6.2 million were of working age. Given the lower retirement age for women, 48.3 percent of women were of working age as opposed to the 51.7 percent ratio of men. Unlike the Hungarian regulations, the EU/OECD consider ages 15-64 as working age. Accordingly, the Hungarian working age population was about 6.9 million in 1999. Using the definition proposed by the ILO – considering ages 15-74 working age – the potential labor force in Hungary was more than 7.7 million.

Within the total working age population as defined by the Hungarian legislation, 3,742.6 thousand, 60.5 percent were in employment. In the population aged 15 to 64, the corresponding figures were 3,789 thousand and 55.7 percent. This seems very low as compared either to the OECD average (65.9) or the EU average (62.6%). In 1999, only two EU Members, Spain (53.8%) and Italy (52.5%), had lower rates than the Hungarian.

According to the definition proposed by the ILO, everyone having performed at least one hour of income generating activity the week prior to the interview date qualifies as employed. Since 1992 the Hungarian Central Statistic Office's (HCSO) has regularly carried out Labor Force Surveys (LFS) on the basis of this internationally agreed definition. Accordingly, in 1999, the number of employed was 3,811.5 thousand, slightly higher than the number in the population aged 15 to 64. This can be explained by the low labor market participation of those past retirement age.

### ***Composition of employment by sex and age***

Whereas the proportion of women in the Hungarian population has been permanently higher than that of men, the female participation rate has been lower. In 1999, the share of woman participating in the labor force was 44.8 percent. The low female participation rates, characterizing all age groups, are due partly to the temporary withdrawal of women on childcare leave from the labor market and partly to the lower retirement age of women. However, these facts cannot fully explain the modest labor market participation of women. Another explanation may be the low incidence of flexible working forms in Hungary (Labor Research Institute, 2000).

In 1999, the employment rate was highest among those aged 25-54 (ages 25-29: 68.9%; ages 30-39: 74.4%; ages 40-54: 72.3%). The labor market participation of both the younger (ages 15-19: 10.4%) and the older age groups (ages 60-69: 5.4%; 70-74: 1.4%) was markedly lower. In the course of the transformational recession, older age groups were to a large extent squeezed out of the labor market. Among them employment was limited mostly to men.

### ***Employment by sectors***

Over the 1990s, branch composition of employment underwent substantial changes in Hungary. By the mid-1990s it became largely similar to the sectoral distribution of employment characterizing most EU Members. Then the pace of structural transformation slowed down in the second half of the decade. In 1999, 58.9 percent of the employed worked in the services, 34 percent in industry and a remaining 7.1 percent in agriculture.

Of the three broad employment sectors of the economy, agriculture was hardest hit by the transformation-related crisis. As a consequence of the transformation and liquidation of agricultural cooperatives, the number of agricultural earners fell dramatically. While the current ratio of agricultural employment (7.1%) is relatively low compared to other Central and Eastern European countries, far exceeds the EU average of 3.1 percent. The country's dependence on agriculture as a source of employment is even higher than reflected by the ratio of agricultural employment if those holding a second job in agriculture are also considered (Labour Research Institute, 1998).

After a large-scale disappearance of jobs, industrial employment has stabilized since the mid-1990s. As opposed to the most developed countries, the internal restructuring of industry has not ended yet in Hungary: cutbacks in some industries (coal mining, metallurgy, textile industry, etc.) have not occurred, while industries representing state-of-the-art technology (car manufacturing industry, microelectronics, etc.) have not fully developed (Laky, 2000)

The ratio of service sector employment in Hungary is comparable with the EU average. However, it is important to note, that the increase in the share of service sector workers over the 1990s was not caused by higher living standards and an increasing demand for services but was due to the transformation-related crisis. This is to say that the massive job losses of the early 1990s affected mainly agriculture and industry. Some jobs were lost in the services sector, but its share in total employment increased throughout the transformation period (Labour Research Institute, 1998). In 1999, services created the largest number of jobs. Nevertheless, it is to be noted that more than one third of jobs in the tertiary sector are in branches funded by the state budget, such as administration, health care, and education. (Labor Research Institute, 1998.)

## ***Earnings***

Although nominal monthly gross average earnings increased significantly all over of the 1990s, the inflation rate exceeded the growth of earnings and as a result gross real earnings declined. Net real earnings dropped by 26 percent between 1989 and 1996 and afterwards started to grow again, by a total of 11 percent to 1999. Average monthly wages vary substantially across sectors of employment. Forms of ownership, legal form and size of the company also influence gross monthly earnings (Laky, 2000).

### **1.2.2 Atypical forms of employment**

In Hungary, the incidence of atypical forms of employment has been substantially lower than in the EU member countries. In 1999, about 20 percent of all earners worked under one or another of the forms of atypical employment. In the EU the corresponding rate was 44.9 percent in 1998 (Laky, 2000).

Hungarian labor law –and thus related statistics–does not make a clear distinction between atypical forms of employment yet (e.g. it is not clear whether seasonal workers employed by food industry, agriculture, and construction should be assigned here) (Laky, 2000).

### ***Part-time employment***

In Hungary only a very small share of the employed work less than the number of hours usual in a full-time job, though many would prefer part-time work. In 1995, despite the drop in real wages, about 10 percent of women in employment reported their willingness to shift to part-time work. More than one-third of the respondents –particularly those over retirement age–were part-time workers anyway. Among those rejecting part-time employment 88 percent indicated as a reason that they could not forgo their full-time salaries (Frey 2001).

Surveys carried out by the Labour Research Institute among enterprises (including legal entities only) present data on part-time employment on a regular basis. According to the 1997 survey, the proportion of employees working shorter hours was around 2.1 percent of total employment, with 1.8 percent part-time workers among them. No significant difference was observed in the following year. In 2000, the share of those working less than the usual hours went up to 2.8 percent, including 2 percent part-timers (Laky 2001).

Labor Force Surveys data–according to the ILO recommendations–indicate somewhat higher shares of part-time employment for the period 1996-1999. Part-time work in 1999 accounted for 3.5 percent of total employment, less than one-quarter of the EU average (16.4%). Similarly to the EU member countries, women’s share in part-time employment was remarkably higher than that of men, fluctuating around 70 percent from year to year.

However, several factors limit reliability of data on part-time employment in Hungary. Labor Force Surveys do not allow separating part-time workers from casual workers. According to the definition of the ILO, one hour of income generating activity having done in the week prior to the survey qualifies as employment. But several hours of casual work performed every week does not qualify as part-time employment. Another problem is that in Hungary mainly pensioners are employed part-time, but national working age is ignored by the LFS. A further bias might be that, together with the widespread practice of underreporting wages, a

part of employers also underreport working hours in order to minimize payroll taxes (Laky 2001).

The Labor Force Survey usually provide data on the reasons for shorter working hours. In 2000, 6.3 percent of the employed (not including those working flexible hours) worked less than 40 hours per week. It is important to note, however, that this segment is not identical with part-timers. Almost half (44%) of those working shorter hours hold a job in which the regular working time is less than 40 hours. Only the other half can be considered as voluntary or involuntary part-time workers. One in five respondents indicated that they did not intend to work full-time. The share of those working shorter hours because either they could find no full-time work or could not be employed full-time (for the lack of work assignment) was 13.4 percent (Frey 2001; Laky 2001).

In 2000, for the first time, Labor Force Survey respondents were asked to declare themselves as full-time or part-time workers. Figures show that only 3.9 percent of employers declared themselves as part-timers (2.9 % of men and 5.1 of women). Interestingly, almost half of them (47%) worked more than 30 hours per week. One may conclude that many part-timers are actually full-time employees registered as part-timers in a year preceding the drastic increase in the minimum wage (Frey, 2001).

### ***Fixed-term contracts***

In Hungary, the share of fixed-term contracts cannot be regarded as high. In 1999, 6 percent of employees had a fixed-term work contract according to the 1999 Labor Force Survey. Around 90 percent of them had a contract with duration of less than one year. The survey also offers data on the reasons for fixed-term contracting. Figures show that only 6 percent of those working under fixed-term contract favored this form of employment.

A recent TÁRKI survey provides somewhat different data on the incidence of fixed term contracts in Hungary. According to this, about one in ten employees have a fixed-term contract, while 89 percent work under an indefinite contract. There is virtually no difference between men and women in the type of contract. Among those on fixed term contract, 83.1 percent have a contract with duration of less than one year (Omnibusz 2001/3).

### ***Temporary work***

Labor Force Surveys have registered very small, though slightly increasing, numbers of temporary workers. Experience shows that mainly those being not in regular employment and performing seasonal work declared themselves as temporary workers in the surveys (Laky 2001). The number of temporary workers was about 25 000 in 2000. According to 1997 survey data, the majority of casual workers were male with low educational attainment. Women accounted for only 20-25 percent of all temporary workers. The bulk of temporary workers worked in agriculture and construction. Among women the proportions of those working in business services and for other households were also significant (Labor Research Institute, 1998).

## ***Self-employment***

The definition of self-employment used by the HCSO in the Labor Force Survey is somewhat different than the one proposed by the ILO, since it does not include members of cooperatives and casual workers. Figures show that Hungary has seen an increase in self-employment over the 1990s. In 1999, the number of self-employed (including assisting family members) was 411.5 thousand, accounting for 11.1 percent of total employment. The real number and share of self-employed are substantially higher, since agricultural self-employed people without tax identification number are not registered by statistics. Occasional surveys confirm that the number of these agricultural self-employed has been large in Hungary (Laky, 2001). It is well known that in the EU member countries, the largest segment of the self-employed is small farmers.

The majority of the registered self-employed in Hungary are working owners of sole proprietorships (individual enterprises) and unincorporated partnerships, and their assisting family members. Reliable data are available for individual entrepreneurs only. According to the figures, three-quarters of those entrepreneurs –including pensioners– worked in the service sector. Data on working owners of unincorporated partnerships should be evaluated with more care. Unincorporated partnerships can be run in three different forms. The majority of enterprises concentrate their operations in services and almost all are of micro enterprises with no employers (Laky, 2001).

The 2000 Transition Report by the EBRD provides information about the demographic profile of the self-employed in transition economies, based on data from the national Labor Force Surveys. According to the findings, in 1999, the proportion of males in the entrepreneurial self-employed was 65.9 percent in Hungary. Nearly half (46.8%) the self-employed belonged to the age group between 36 and 50. Entrepreneurial self-employed individuals proved to be better educated than the country average, with 18.7 percent of them having higher education. Based on these findings, as well as the results of econometric analyses for Croatia and Poland, the report suggests that self-employment is not a coping strategy for the unskilled but rather a creative labor market strategy. Further, with regard to Hungary, it concludes that there is little evidence that unemployment leads to more self-employment (EBRD, 2001).

### **1.2.3 Unemployment**

During state-socialism, there was no registered unemployment in Hungary. At the beginning of the 1990s, the hidden unemployment was replaced by massive and lasting unemployment. In the course of transformation-related crisis, the number of jobs fell by about 25 percent – greater than the decrease in production. The unemployment rate reached its peak in 1993 with a stock of 705,000 unemployed and a 13.6 percent rate of unemployment. Since then it has been slowly, but steadily declining.

Based on the definition recommended by the ILO Hungary had an unemployment rate of 7 percent in 1999, more favorable than the EU average (9.2%). In contrast to most EU Member Countries, male unemployment (7.5%) in Hungary was somewhat higher than female unemployment (6.3%). However, it would be a mistake to conclude that women enjoy a more favorable labor market position than men. When assessing the situation of women, economic activity should also be considered (Labour Research Institute, 1998).

### ***Incidence of long-term unemployment***

Figures of the Labor Force Survey indicate that the ratio of long-term unemployed showed a modest decline over the second half of the 1990s. The share of those being out of job for more than one year was almost 50 percent of the unemployed in 1999. This means a drop of about 5 percent relative to 1996. The corresponding rate for the EU was 47.5 percent (OECD, 2000a). In the EU long-term unemployment has been measured as a percentage of the economically active population since 1998. The so-calculated Hungarian ratio of long-term unemployment – in the population aged 15-64 – was 3.1 percent, as opposed to the EU average of 4.9 percent (Labour Research Institute, 2000).

### ***Disadvantaged groups***

First of all, unemployment hits hardest households with many children. In 1999, 14 percent of households raising three or more children under the age of 15 included one or more unemployed members, while the corresponding rates were 11 percent for households with two children, almost 11 percent for households with one child and 5 percent for those without children (Laky, 2000).

Other –not exclusive–categories of population especially hard hit by unemployment are the less educated, young people (mainly the age group of the 15-19 year-old) and members of Roma ethnic groups.

#### *The less educated*

It is well known that low qualification levels are associated with labor market disadvantage. However, as reported by OECD, higher levels of education confer significant differences between countries in the relative labor market advantage. The Thematic Review of the Transition from Initial Education to Working Life, launched by the OECD's Education Committee in 1996, has involved Hungary of the 14 participating countries. According to its findings, Hungary is one of the four OECD countries, in which, the gap in labor market outcomes between the highly educated and the poorly qualified is the greatest (OECD, 2000b).

In Hungary, 35.2 percent of the unemployed had maximum eight years of primary school, while the corresponding ratio for active earners was 18.5 percent in 1999 according to the Labor Force Survey. The unemployment rate among those who have completed no more than elementary school was 16 percent compared to only 3 percent for those who have completed tertiary education.

#### *The youth*

Youth unemployment in the EU fell from 21.5 percent of 1995 to 17.9 percent in 1999, but is still more than twice as high as the overall unemployment rate. A similar tendency was observed in Hungary over the same period. By 1999 unemployment rate dropped to about 23 percent among the 15-19 year-old, and about 10 percent in the age group of 20-24. The youth unemployment rate (for both age groups) was 12.4 percent, still significantly higher than the 7 percent overall unemployment rate (for the 15-74 year old labor force). The relative situation

of young people seems apparently worse than the average and it is particularly so for those aged 15-19. This is partly due to demographics: the generation entering the labor market in the 1990s was larger than the previous and subsequent generations (World Bank, 2001).

The proportions of teenagers and young adults among those being out of job for more than 6 months showed an increasing trend over the 1990s. In 1998, Hungary's achievement with ratios of 57.1 and 62.6 percent for teenagers and young adults respectively proved to be the poorest among countries participating in the OECD Thematic Review. The corresponding shares were 24.9 for those aged 15-19, and 48.5 percent for those aged 20-24 in the OECD (OECD, 1999a).

### *The Roma population*

The largest ethnic minority group in Hungary is that of Roma (Gypsy). They represent about 6 percent of Hungary's total population. The Roma population—comprising three ethnic groups—is characterized by low employment rates and poverty. Nearly 53% of Roma households are in long-term poverty, compared with 7.5% for the total population (World Bank, 2001).

Over the decades of full employment there was no significant difference in employment for Roma and non-Roma men, while the labor market participation among Roma women lagged far behind the national average even in 1971. In the mid-1980s, the labor market participation of Roma men started to drop. An increasing number and ratio of the economically inactive accompanied the drop in Roma employment.

Over the 1990s, the unemployment rate for the Roma population was extremely high. Survey results with respect to Roma unemployment differ very widely. According to the Hungarian Household Panel Survey, carried out by the TÁRKI, unemployment among Gypsies reached a rate of 55 percent in 1997. Data provided by the survey of Szonda-Ipsos indicate that the unemployment rate among those openly declaring themselves Roma was about 30 percent as opposed to 6-8 percent in the non-Roma population in the same year (Laky, 2000).

Several factors have contributed to the low levels of employment among Gypsies:

- Educational attainment is a factor determining the chances of employment. Education levels of the Gypsies are considerably lower than those of non-Gypsies. The proportion of those Gypsy men having more than primary education is only 20% compared to 60 percent for non-Gypsy men. The distance between Gypsy and non-Gypsy women is even more striking: 10% as opposed to 60%. Although this educational gap might be a source of unequal labor market chances, it is surely not the sole source. In each educational level group – controlled for sex and age – a difference of 20 to 30 percent is found in employment chances.
- Another reason for the unequal chances might be the unfavorable territorial location of the Roma population. On the one hand, the Roma population is largely concentrated in villages where levels of employment are generally lower. (60% of the adult Roma population lives in villages as opposed to 35% for non-Gypsies.) On the other hand, they live mainly in those regions of the country, which are – irrespective of the type of settlement – the hardest hit by unemployment.
- Further, the effect of labor market discrimination cannot be ignored. Ethnicity, as a group level filter, is an inexpensive tool to apply when hiring the labor force.

According to statistical estimations, a 30-year-old Roma man with primary schooling or a lower vocational qualification is (by 15-20 percent) less likely to be hired than a 'typical' man of the same age and with similar schooling in the most disadvantageous regions of the country (Labour Research Institute, 2000).

### ***Regional differences***

The persistent regional differences in unemployment remained basically unchanged over the 1990s. According to the figures of the Labor Force Survey, Northern Hungary and the Northern Great Plain were the two regions with the highest levels of unemployment throughout the decade. The Northern Great Plain has traditionally been undeveloped, while Northern Hungary, as a former center of heavy industry has become a depressed area with the collapse of the state socialist regime. As a result of shutdowns in heavy industries, the region experienced large inflows to the stock of unemployed and low outflows. Since 1996 unemployment has been slowly declining, but still the highest at 11.5 percent in 1999 according to the Labor Force Survey. The unemployment rate was lowest (4.4%) in the Western Transdanubia and in Central Hungary (5.2%) in 1999. These regions managed to maintain their favorable positions throughout the economic transformation process.

Labor force mobility is very limited in Hungary. It is mainly restricted by marked differences in housing prices across regions, a lack of rental markets, as well as, by high transportation costs (World Bank 2001).

#### **1.2.4 Economic inactivity<sup>1</sup>**

As a response to labor market tensions in the beginning of the 1990s, the government pursued policies that allowed an increase in the economically inactive population. Between 1990 and 1994, more than half of those dismissed from their jobs left the labor market through various channels (Timár, 1995). The number and share of the economically inactive kept on growing throughout the decade, though, at a decreasing rate. This unfavorable tendency apparently reversed or at least came to a halt in 1998, the first year when the rate of inactive declined by around 0.5 percent. The proportion of inactive in the population aged 15-64 was 40.1 percent. None of the EU members had higher inactivity rate than the Hungarian. (The EU average was 31% in 1999). According to the definition proposed by the ILO, the corresponding ratio is even higher at 51.7 percent. Based on the national legislation, the share of non-earners was 34.9 percent: 40.9 percent for women aged 15-56 and 29.3 percent for men aged 15-60. When analyzing economic inactivity, it is more reasonable to consider the national working ages, since half of the inactive aged 15-64 and two-thirds of those aged 15-74 is explained by the Hungarian statutory retirement ages (Labour Research Institute, 2000).

One factor explaining for the large stock of the inactive is the low retirement age. In 1999, those of retirement age, women aged more than 56 and men older than 60, accounted for 40 percent of the more than 3.6 million inactive. In the course of the transformation-related crisis many withdrew from the labor force opting for early retirement or becoming disability pensioners. Early retirement was a common strategy to escape unemployment available for those unemployed aged less than 3 years below the retirement age. The early retirement

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<sup>1</sup> This section is to a large extent based on a study by Laky (2000).

scheme was in operation between 1991 and 1998, when a new one, with tightened eligibility conditions replaced it. The growth in the number of disability pensioners was largely due to the lax approval procedures in the early 1990s. Individuals retired at working age and those leaving the labor market due to disability made up about 15 percent of the inactive.

Persons in education above the age of 15 are considered the second largest category of the economically inactive. Educational statistics show that a growing number of persons older than 15 remains in education every year. Despite the improving trend, Hungary lags far behind the OECD countries in this respect. The Thematic Review reports that up to the age of 17 Hungary's participation rates (in education) are equal or close to the OECD average, but after that age they are substantially lower, being less than half the OECD average by the age of 24. Participation in tertiary education in Hungary is significantly lower than in the OECD (OECD, 1999a). The HCSO's survey registered a total of 714 thousand persons studying at different levels among the non-earners in 1999, accounting for 19 percent of the working-age segment of the inactive.

Individuals receiving childcare benefits also qualify as inactive in accordance with international conventions. (Prior to the early 1990s they were assigned to the category of the employed.) Despite the decline in the number of births, the number of those receiving childcare benefits of any kind—mainly women—kept rising every year. The Labour Account registered nearly 300 thousand (mainly mothers) beneficiaries in 1999. The bulk of them received child-care fee (GYED) or child-care aid (GYES), while the rest obtained child-raising support (GYET). The Labor Force Survey provides data on the age distribution of child-care recipients in 1999: nearly 40 percent of them belonged to the age group of 25-29, another 27 percent to those between 20 and 24, and almost one in five to the 30-34 year-old. Figures show that 6 percent of those on child-care leave pursued some kind of earning activity during the period of childcare.<sup>2</sup>

## **2 LABOR MARKET POLICIES**

### **2.1 Labor market institutions**

The 1991 Act on Employment Promotion and Provision for the Unemployed, was passed at a date when unemployment in Hungary was virtually non-existent. Prior to the new law on labor market policy, the country had already made substantial progress in establishing labor market institutions and laying down regulations. Among the most important developments, the Employment Fund (the predecessor of the current Labor Market Fund) was created; the National Interest Reconciliation Council was established in 1988; new independent trade unions and employers' associations emerged; strikes were made legal in 1989; unemployment benefit schemes were introduced; and the Ministry of Labor was set up in 1990.

The 1991 Act on Employment (and its amendments) covered labor market policies as well as their institutional settings. It established the tripartite Labor Market Committee as a subcommittee of the National Interest Reconciliation Council, as well as, the county labor

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<sup>2</sup> Note that no earning activity is allowed for those entitled to child-care fee, while those receiving child-care aid or child-raise support are permitted to work part-time or at home if certain conditions are met.

councils. (In 1996, the Labor Market Committee was replaced with the Labor Market Council.) The National Labor Center and its local offices were assigned by the law to implement labor market policies financed from the Labor Market Fund (the successor to the Employment Fund) and the Solidarity Fund. Further, the National Training Council was created with its network to promote the reemployment of the unemployed.

The last significant change in labor market institutions occurred in 1998, when the Ministry of Labor (established in 1990) was abolished and its responsibilities divided between the Ministry of Economic Affairs, the Ministry of Family and Social Affairs, and the Ministry of Education. The Ministry of Economic Affairs was assigned responsibility for employment policy, active and passive labor market policies, social dialogue, labor market legislation and supervision of the public employment service. The Ministry of Family and Social Affairs administers programs aimed to help the disabled find work or become self-employed, while the Ministry of Education manages training programs. Funding for these programs comes from the Labor Market Fund.

## **2.2 National level tripartism**

Hungary was the first in the CEE region to establish the institution of macro level tripartism. The National Interest Reconciliation Council (later renamed the Interest Reconciliation Council, IRC) as the main body of macro level interest reconciliation was set up already in 1988. (The new Labor Code of 1992 abolished legal barriers to free collective bargaining and the 1989 Strike Act regulated collective labor disputes.) The initial function of the IRC was to negotiate and set the national minimum wage, as well as, to recommend wage guidelines. Later it was also given the authority to discuss labor legislation (e.g. the Labor Code, Vocational Training Act, Occupational Safety Act, Labor Inspection Act, etc.) and to participate in economic and social policies formulation, as well as, to settle industrial conflicts of national level. In 1999, these functions of the IRC were taken over by the National Labor Council (NLC), while other functions were transferred to the Economic Council, currently the most comprehensive body of economic and social consultations.

Tripartism generally presupposes strong and unified representation of employees' and employers' interest. In Hungary both the employees' and employers' sides of NLC are fragmented. The former currently consists of six trade union confederations, of which MSzOSz is the largest, and the latter has nine employers' associations. In the employers' side, associations of small- and medium-sized enterprises have become dominant in the NLC over the 1990s (Héthy, 2000).

### **2.2.1 Trade unions**

At the outset of the political system change, compulsory trade union membership was abolished and new independent trade unions appeared on the scene. In 1992, works councils were established to resolve the problem of multi-unionism and the representation for non-union workers. MSzOSz, the partly reformed former union confederation managed to keep its dominance in the fragmented multi-union structure, while the newly emerged independent unions failed to recruit a sizeable membership. The overall rate of unionization declined sharply. Rivalry between the former socialist and the new independent unions further weakened trade unionism. The partly reformed former unions gained over 70 percent of the

vote for works councils in the 1993 works council elections. (Collective bargaining rights were to be determined by unions' performance in works council elections.) A number of other factors have contributed to the marginalization of trade unions in Hungary: initially, mass unemployment due to contraction of large state companies, and then the rise of self-employment and micro enterprises, as well as, the expansion of informal employment. (Pollert, 1999). Estimates of union density rate range from 25 percent to 40 percent (Neumann, 1997; Héthy, 2000; EBRD, 2001).

Until 2001, the Labor Force Survey did not include questions concerning unionization. According to the data of the latest Labor Force Survey, 615 000 persons, 19.7 percent of the population aged 15-64 indicated that they were union members. Unionization among women (22.4%) was somewhat higher than among men (17.3%). This is due to the fact that female employment tends to concentrate in the traditionally unionized sectors, such as transport, storage and communication, education, health and social work. The age composition of union members shows that union membership is in general higher in the older age groups. Surprisingly, white-collar workers are more likely to be union members than manual workers (Lakatos, 2001).

Not independently of the low union density rate, a very small proportion (13,5%) of workers assessed the role of trade unions as positive. The share of those unable to take a stand in this matter was as high as 36.1 percent. 18.5 percent displayed a rather negative attitude toward trade unions, while the rest (31,8%) were ambivalent (Lakatos, 2001).

### **2.2.2 Minimum wage setting**

Perhaps the most important role of the NLC has been in wage determination. Central wage regulation was gradually replaced by a three-tier system of wage bargaining (national, branch and company level). At macro level, the trade union confederations and employers' associations are supposed to reach a bipartite agreement, while the role of government, at least in theory, is limited to implementing this by decree (Neumann 1997). Although the legal frameworks of collective bargaining are in place, the asymmetry in industrial relations –with an over-powerful state and weak or only emerging employers' associations and unions– does not favor collective bargaining (Koltay, 1998). National level negotiations in the tripartite NLC are more or less active, but branch level collective bargaining is weak (Koltay, 1998; Neumann, 1997). Multi-employer collective agreements are very rare; largely limited to sectors in which representatives of a small number of employers' associations enter into negotiation with relatively strong trade union confederations (e.g. electricity supply industry, chemical industry). Most bargaining takes place at the enterprise level (Pollert, 1999; OECD, 2000).

At macro level, minimum wage negotiations have been at the center of the bargaining scene (Koltay, 1998). In the first years of the 1990s, the minimum wage declined significantly relative to the average wages. Over the second half of the decade it was kept at about 30 percent of average wages. For 2001, there was an agreement to raise the gross monthly minimum wage to HUF 40,000. As a result, the minimum wage reached about 43 percent of the average wage (OECD, 2000). Experience in other OECD countries shows that this is well above the level at which a minimum wage begins to constrain employment among the less skilled (OECD, 2000). It has recently been proposed by the government a further 25 percent increase in the minimum wage for 2002. Initially, both the trade unions and employers'

associations opposed the proposal. Trade unions were standing out for a much higher increase, while employers' associations were against any further raise in the minimum wage. However, they agreed bilaterally on the mitigation of taxes and social security contributions. Despite the bipartite agreement, the government was reluctant to approve this proposal. Finally, long-lasting negotiations led to a tripartite agreement with the provision that the government would offset the effect of minimum wage increase on labor costs. Again, the government played a dominant role in the negotiations.

The economic influence of minimum wages, especially on employment, has been a controversial issue. Minimum wage increases create pressure for wage increases at higher levels and thus may have an adverse effect on employment. However, in Hungary, the actual unemployment effect of the minimum wage may be of secondary importance. More significant may be the effects of the minimum wage in promoting the expansion of informal employment and the compression of declared money wages toward the minimum wage, so as to minimize the social security contribution liability (Kopits, 1998).

To date little information has been available about the actual effects of the minimum wage. A recent survey, carried out by the TÁRKI, provides data on how employers responded to the 2001 statutory minimum wage increase<sup>3</sup> (TÁRKI Monitor 2001). Figures show that the most frequent response (32%) was to raise the minimum wage to the guaranteed level, with no increase in other wages. Minimum wage increase was accompanied by a rise in other wages in one out of four cases. Only a small proportion of employers responded by lay-offs (1.3%) or by reducing the contractual working time (2.1%). No employee was affected by the minimum wage setting in slightly more than one-quarter of the workplaces. In general, women are somewhat more likely than men to work for economic units where minimum wage raise brought no increases in other wages and where at least one employee was affected by the new minimum wage. About one-third of the respondents were themselves affected by the measure, 27.4 percent of men and 35.3 percent of women. About 62.7 percent of those concerned received the guaranteed minimum wage, one-quarter enjoyed wage increases at higher levels, and no more than 3 percent were adversely affected.

## **2.3 Labor market policies**

In 1999, total spending on labor market programs in Hungary amounted to about 0.97 percent of GDP (OECD, 2000a). Labor market policy is implemented through passive and active labor market programs. The 1991 Act on Employment established two separate funds for passive and active labor programs: the Solidarity Fund and Employment Fund. Measured relative to GDP, expenditure on passive labor policies in Hungary has always been higher than that on active policies over the 1990s. Recently about 0.56 percent of GDP is spent on passive and 0.4 percent on active measures (OECD, 2000a). Although the share of active policies in the total labor market budget has increased, its current level is still very low compared to other OECD countries (OECD, 1999).

### **2.3.1 Passive labor market policies**

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<sup>3</sup> In the survey household members were interviewed about their employers' response to minimum wage increase.

Eligibility conditions in Hungary restrict unemployment benefit to people who are unemployed in the sense of the ILO definition of unemployment (i.e. not only out of work but also able to enter work at short notice and undertaking active steps to find work) and meet certain administrative requirements.

### ***Unemployment insurance***

The main passive labor market scheme is unemployment insurance (UI), which is available for a limited period to the unemployed. The maximum benefit is 65 percent of the average income for the past 4 years spent in employment. A minimum of 200 working days is required to access to UI. The maximum duration of UI was gradually reduced from the initial 2 years to 9 months, as unemployment increased drastically in the early 1990. The cuts in entitlement periods, mainly motivated by reducing employment programs spending, restricted access to UI (Micklewright and Nagy, 1998b).

### ***Unemployment assistance***

Hungary provides unemployment assistance (UA) for those whose eligibility for UI has expired. Unemployment assistance is a long-term unemployment benefit offered to those having a per capita household income below 80 percent of the minimum old-age pension. The UA covers the difference between the income level of the unemployed and 80 percent of the minimum old-age pension. UA was of unlimited duration until 1995, when a 2-year limit to entitlement was introduced. In 2000, a new one replaced the UA scheme. (Those who are eligible for UA, or whose entitlement was approved by 30 April 2000, will receive it for 2 years under the old conditions. Those who are terminated from the benefit system and do not have access to public work schemes can apply for local social assistance.) Under the new scheme, which is also means-tested, eligibility can be withdrawn if a beneficiary refuses an appropriate public works job. Eligibility can only be reestablished through reentry into the labor market and reestablishment of UI entitlement.

The share of unemployed receiving unemployment compensation of any kind has always been well above 70 percent since 1991. However, it has been slightly declining in the past few years. Since 1994 the number of those receiving UA has been growing, while the number of UI beneficiaries has fallen. According to the Labour Research Institute, in 1999, 31 percent of the registered unemployed received UI, and 39 percent UA, thus the coverage of the unemployment benefit system was about 70 percent.

Over the 1990s, the average monthly amount of unemployment benefit has decreased steadily relative to the gross average earnings. In 1999, the ratio of average unemployment benefit to average gross earnings was 29 percent, reaching the level of the gross minimum wage in effect (Labour Research Institute, 2000). As a result of the decline in the generosity of unemployment benefits, coupled with recent minimum wage increases, the difference between the minimum wage and unemployment compensation has been on the increase. Thus the present system of unemployment benefits is unlikely to reduce the job search incentive of the unemployed.

### ***Target groups***

#### ***Youth unemployment***

In response to the sharp rise in unemployment among young people in the early 1990s, a school leavers' unemployment benefit scheme was introduced to help young people with at least secondary or tertiary education. The scheme was in operation between 1992 and 1996. Afterwards, the emphasis shifted toward more active labor market policies for youth. Three types of labor market assistance are now available for young people who register with the local Labor Office: training courses, subsidized employment, and public works programs.

### ***Early-retirement and pre-retirement unemployment benefit schemes***

The Employment Act of 1991 introduced an early retirement scheme to reduce labor supply. It was to serve the interests of those unemployed approaching the retirement age (less than 3 years below the retirement age). During the period of massive job losses in Hungary, many left the labor market opting for early retirement or becoming disability pensioners. A key recommendation from the OECD Jobs Strategy, therefore, was to tighten access to these benefits. In 1998, the early-retirement scheme was phased out and replaced by a special pre-retirement unemployment benefit scheme for those unemployed approaching the retirement age (less than 5 years below the retirement age). Eligibility conditions for the new scheme are substantially stricter. It pays an amount equivalent to 80 percent of the minimum old-age pension. Nevertheless, the widespread use of early-retirement incentives over the 1990s, coupled with the low statutory retirement age, largely explain why only 16 percent of the population aged 55-64 work – less than half the OECD ratio. (OECD, 2000)

### ***Disability benefits***

Disability benefits have increasingly been used as an alternative to early retirement. By 1999 there were 360,000 working-age disabled (World Bank, 2001), constituting the largest group of under-retirement age transfer recipients. In the second half of the decade, the government tightened regulations and financing for disability pensions. Today only those whose health status has deteriorated by 100 percent have access to long-term disability pensions. All others whose health status has diminished by less than 100 percent (but more than 67 percent) qualify for temporary disabled. The Health Fund is responsible for financing their benefits and for reevaluating claims on a regular basis. As a result of the tightened approval procedures, the number of new disability pensions granted has fallen significantly (OECD, 2000). Further, the regional distribution of beneficiaries shows a strong correlation with unemployment rates (OECD, 2000).

## **2.3.2 Active Labor Market Policies**

In 1999, total spending on active labor market policies in Hungary amounted to about 0.4 percent of the GDP. Active labor market programs implemented by the National Labor Center include training schemes, subsidized employment, a start-up scheme, and public work programs.

### ***Training programs***

Spending on training programs in Hungary accounts for a lower share (22 percent in 1997) of the total expenditure on active measures than in most OECD countries (Implementing the OECD Jobs Strategy 1999). Candidates eligible for training schemes may be unemployed or expected to become employed. Training programs focus on the unemployed with favorable

labor market characteristics. Because of their relatively higher education, young people appear to be over represented in these programs. Participants in training schemes receive a training allowance (10 percent more than their UI benefits).

### ***Subsidized employment***

The National Labor Center offers several subsidized employment programs. One is targeted on the long-term unemployed. Under the program, the employer gets a wage subsidy of up to 50 percent for up to one year in return for hiring people who have been unemployed for over 6 months (provided the employer has not laid off anyone doing the same work during the previous 6 months). Another program is oriented toward school leavers. It was introduced to replace the career beginners' unemployment allowance in 1996. Under this scheme, the employer receives a wage subsidy for providing employment at no less than 4 hours per day to school leavers for at least one year. Finally, a separate scheme exists to prevent mass layoffs by subsidizing part-time employment.

### ***Start-up schemes***

The start-up scheme is provided to unemployed persons wishing to start their own businesses. It includes an allowance equal to the recipient's UI for a period of 6 months and the reimbursement of up to 50 percent of the costs of business services (e.g. counseling or training).

### ***Public work programs***

Public work schemes are the most common tool for keeping people in the work-related benefit system, covering one-quarter of the participants in active schemes. (WB) In 1999, the central government spent about 8.6 billion HUF on such schemes. (Additionally, local governments have to cover part of the cost thus total public resources spent on public work schemes are 10-30 percent higher.) (World Bank, 2001) Public work programs may last no more than 12 months and are usually organized by local authorities. (One year of employment entitles a worker to three months of UI).

In its 1997 review, the OECD recommended that existing active labor programs in Hungary are subject to reevaluation, since evidence from other OECD countries suggested that similar programs did little to facilitate the entry of young people or reentry of the unemployed to employment. A recent assessment (O'Leary, 1998) of the active labor programs concluded that:

- Participation in training programs resulted in a significant increase in the share of those obtaining unsubsidized work or self-employment. There was no significant impact on earnings.
- Wage subsidy for the long-term unemployed was estimated to have a negative net impact on reemployment, lowering the proportion of those entering an unsubsidized job or self-employment;
- Participation in public work schemes resulted in a substantial decline in the proportion of those persons obtaining unsubsidized work or self-employment. However, participation in such programs was less likely to reduce the reemployment chances of women, people aged 45 or over, and the better educated.
- Self-employment assistance is appropriate for only a small share of all the unemployed. Although, participation in such schemes raised the probability of

entering an unsubsidized job or self-employment, it led to lower monthly earnings. This may reflect the underreporting of wages as part of participants' tax avoidance strategy.

### ***Regional employment enhancing policies***

Over the past years, the government initiated a number of schemes to enhance employment in regions with high unemployment. Programs include higher than average subsidies and special tax relief to stimulate investment in these areas. Firms are encouraged to hire workers from the regions with high unemployment by a special one-off subsidy. Furthermore, in order to increase regional mobility of the labor force, firms are required to reimburse commuting employees 85-90 percent of their transportation costs (OECD, 2000).

### **2.3.3 Policies for part-time and temporary employment**

Under the state socialist regime, incidence of part-time employment was extremely low, especially in the working age population. Although, part-time work could have played an important role in employment enhancing policies in course of the transformational crisis, no effort was made by the government to promote this form of employment. Instead, the government created incentives to leave the labor market (Frey, 2001). At the same time, attractiveness of part-time jobs was substantially reduced by the declining real wages.

In 1997, a new subsidized employment scheme was introduced to prevent mass layoffs by subsidizing part-time employment. It was oriented to assist mothers with small children, employees less than 5 years below the retirement age and those having lost at least 40 percent of their working ability. Under the scheme, when an enterprise with liquidity problems opts for working-time reductions rather than labor shedding, it is eligible to a wage subsidy covering up to 50 percent of wages for up to one year. A separate scheme existed to assist public sector employers as well. In this scheme, a wage subsidy was given to the employer for work hours lost and social contributions associated with that. It was also of limited duration, available for a maximum of one year. This support scheme was abolished as of January 2001.

The incidence of part-time work in Hungary is very low compared to the EU countries. In 1999, the EU average for part-time employment was 16.4 per cent (OECD, 2000a). Employers in Hungary are reluctant to employ part-time workers mainly because of the equal tax and social security contribution liabilities applying to full-time and part-time workers (Laky, 2000). The OECD Jobs Study stressed the importance of part-time work in promoting employment and labor force participation. A growth in part-time employment would provide an opportunity for the inactive to reenter the labor market. (However, currently neither women on child-care provision, nor those on old-age pension are encouraged to return to the labor force.) The unemployed would also benefit from spread of part-time work. The 2000 Labor Force Survey shows that only a little more than half (53%) the unemployed insisted on full-time employment, while the rest would be ready to undertake a part-time job (Laky, 2000).

In 1997, Hungary enacted a law on temporary employment. Under the program, casual workers receive a booklet in which a history of their employment with various employers is recorded. Temporary work is strictly regulated: workers are not allowed to work more than 5 consecutive days or 15 days within a month, and no more than 90 days in a year for a single

employer or more than 120 days a year altogether. Under the scheme, temporary workers can reestablish eligibility to unemployment benefits and healthcare. The program might also be attractive to firms, since it simplifies the payment of tax and social contributions. However, experience shows that the scheme has been less successful than expected (Labor Research Institute, 2000).

### **2.3.4 Increasing the flexibility of working time**

The recent frameworks of legal working time evolved in the 1980s. The 40 hour-working week became general and was legalized, though indirectly, by the 1992 Labor Code (Frey, 2001). Precisely, the law fixed working time at 8 hours a day. Given a five-day working week, the normal weekly hours were 40. The legal daily working time had to be met over a period of 8 weeks. Overtime hours were limited by the Labor Code to 4 on two consecutive days, with a maximum of 144 hours per year. However, this could be raised to 200 on the basis of collective agreements. A 50 percent premium was set for overtime work, and a 100 percent premium if it was performed on rest days. In 1995, the Labor Code was amended. The normal daily hours were not changed, but they had to be met over a much longer period (4 months in case of enterprise level collective agreements and 6 months in case of multi-employer collective agreements). Overtime hours were modified to 8 on four consecutive days, with an annual limit of 300 days in case of multi-employer collective agreements. These measures can be assessed as reflecting the intentions of both the government and social partners to serve the interests of the employed rather than of the unemployed (Frey, 2001).

Hungary has recently introduced reforms to legislation on working time. As July of 2001 amendments to the Labor Code introduced a ceiling on maximum weekly hours. Accordingly, weekly hours are limited to 48, including overtime. It is important, however, that under certain condition it should be met over a period of 12 months providing higher flexibility for the employers. Overtime hours remained limited to 4 on two consecutive days, but from now on, with an annual maximum of 200 hours. Further, no multi-employer collective agreement is needed to extend this to 300 hours per year. Although these measures were taken as part of the EU law harmonization process, the goal of enhancing the country's competitiveness was of great account as well. (EU legislation on working time stipulates that weekly hours, including overtime, should not exceed 48 hours.) It is worth noting that trade unions strongly opposed the modifications and mobilized thousands of employees to demonstrate against the amendments to the Labor Code.

## **3 SOCIAL POLICIES RELATED TO FAMILY AND WORK**

### **3.1 Household inequalities and social policy**

Labor market participation has largely determined the earning possibility of households. Over the 1990s, the share of households earning market income fell sharply, while the proportion of those receiving old-age pensions and disability pensions increased. Due mainly to the fiscal stabilization package of 1995, the proportions of child-care benefits and family allowance recipients tended to decline over the second half of the decade (Szivós and Tóth, 1998).

A notable increase in household income inequalities occurred between the late 1980s and early 1990s. After a short period of stagnation, the Gini coefficient began to rise at the end of the decade, reaching a maximum rate of 34 percent. This is similar to the level of income inequalities characterizing other continental European countries, at lower levels of GDP (Szivós and Tóth, 1998). Despite the significant increase in market income dispersion, total household incomes (including public social transfers and social insurance benefits) display a lower level of inequality. This is due to the inequality reducing effect of social policy (Szivós and Tóth, 1998).

Hungary's social protection system consists of social assistance programs and labor-related social insurance benefits such as pensions and unemployment benefits. The basic elements of the social safety net are pensions, public health care, unemployment benefits, family support and social assistance. In general, the central government is responsible for universal benefits, while local governments for means-tested benefits. In addition, local governments are free to launch social assistance benefits. Financing arrangements between the central and local governments are rather complicated (World Bank, 2001).

### **3.2 The old-age pension system**

In 1990, the Social Security Fund was separated from the central budget. This was an important step in the process of strengthening the insurance principle of the Hungarian public pension system at the expense of diminishing its redistributive function (Csaba and Semjén, 1998). In 1992, the Social Security Fund was divided into two independent funds to allow the separate financing of public health and pensions; the Health Insurance Fund and the Pension Insurance Fund respectively. Along with the institutional changes, the foundations of a multipillar pension system were laid down by the creation of a legal framework for private pension schemes. (Csaba and Semjén, 1998))

The current multipillar pension system was established in 1997. It consists of a pay-as-you-go public pension pillar, a mandatory privately funded pillar, and a voluntary private pillar. Employees entering the labor force after July 1998 were required to join the new, multipillar system, while those already employed were allowed to stay in the reformed pay-as-you-go system, or switch to the new scheme. The essential difference between the multipillar pension system and the reformed pay-as-you-go system is that the former includes a mandatory private pillar. Employees who decided to stay in the pay-as-you-go system contribute 8 percent of their gross earnings to it, while those who switched to the multipillar scheme pay 2 percent to the state fund and 6 percent to individual pension accounts administered by private pension funds. (Under the original legislation, participants in the multipillar system would have paid 1 percent of their earnings to the state fund and 7 percent to individual pension accounts. For the multipillar system proved to be more popular than expected, the government modified the originally planned rates. Indeed, according to a recent decision, the present rates will be maintained until the end of 2002.) Additional contributions may also be made into voluntary private pension funds. Under the present system, employers pay a pension contribution rate of 22 percent.

The statutory retirement age in Hungary is relatively low in international comparison. Prior to 1996 it was 60 years for men and 55 years for women. Part of the pension system reform, retirement age was raised to 62 for men and to 60 for women and it is scheduled to reach 62

years for both sexes by 2009. The minimum service period required to receive a full old age pension was increased to 40 years.<sup>4</sup>

### 3.3 Family and child benefits

Family and child benefits in Hungary include child-care benefits (GYED, GYES, and GYET), child-raising benefits (family allowance and schooling allowance), maternity benefits (pregnancy benefit, one-time birth allowance, and sickness benefit for the term of caring for a sick child), and other benefits (e.g. child protection benefit). (While the family allowance and child protection benefit are considered the income of the child, the rest are considered the income of parents caring full time for their children.)

During the 1990s, eligibility conditions for child and family-related benefits were changed several times. In 1990, the system of child and family benefits were well developed by European standards either considering as a percentage of GDP, or as a share in total welfare benefits (Gábos, 2000). At that time, all the important elements of the system were already in operation: the family allowance, pregnancy benefit, child-care aid, child-care fee and one-time birth allowance. The introduction of both the child-care fee (1967) and the child-care aid (1985) was largely motivated by demographic considerations (Gábos, 2000). In 1990, the most important child and family-related benefit, the family allowance was made universal. No significant changes in the system occurred between 1990 and 1995, apart from a lost in real value of benefits. Then, in 1995 part of the fiscal consolidation package, family and child benefits were made means-tested and the child-care fee (GYED) was abolished. The government currently in office restored the system in operation until 1994 and went even further in some respects. In 1999, general eligibility for family allowance and child-care benefits were reintroduced. Further, the childcare fee was restored as of January 2000.

#### *Child-raising benefits*

The *family allowance* is currently a universal benefit paid for children until the age of 6. Recently it has accounted for the largest share of family and child benefits. (2.3 million children are eligible for family allowance.) After the age of 6, eligibility to family allowance expires and is replaced by the *schooling allowance*. This is also universal (payable until the age of 16, or 20 for those studying full-time). It is supplemented by the *child protection benefit* in the case of low-income families (families with net per capita monthly income below the minimum old-age pension). In addition, child raising is supported through the personal income tax system. A *tax credit for children* was reintroduced in 1999. (Tax credit was in place in 1993-94 and phased out as of 1995.) In 2000, the extent of tax credit was raised by 30 percent and access to this scheme became easier. (This means that if the recipient parent—either the mother or father—does not have enough income to use the full tax credit, the other parent can deduct the difference from his/her income.) This measure was taken partly to compensate (families) for the real decline in the value of the family allowance. Despite the modifications to tax credit for children, it is favorable to families with higher taxable income.

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<sup>4</sup> Other elements of the pension reform, the early retirement scheme and disability benefits, were discussed in the chapter devoted to labor market policies.

### ***Child-care benefits***

*Child-care fee (GYED)* is an insurance-based benefit, available for the first two years of a child's life to those parents who have paid social security contributions for at least 180 days in the last 2 years prior to the birth. The benefit is equal to 70 percent of the parent previous wages (but no more than twice the minimum wage) and can be paid to either parent who takes care of the child full-time. (This means that during the disbursement period no income earning activities are allowed.) With the current increases in the minimum wage, the gross amount of the benefit can reach a maximum of HUF 80,000 in 2001. This scheme was introduced to encourage parents expecting a significant drop in income because of childbirth to bear and raise children.

*Child-care aid (GYES)* is currently a universal support, first introduced in 1967 as an insurance-related benefit. It is available for those parents who do not qualify for GYED (who has less than 2 years of insurance payment) for the first three years of a child's life and equivalent to the minimum old-age pension. (The minimum pension was HUF 16,600 in 2000.) During the period of entitlement the parent is not allowed to be in employment until the age of 1.5 of the child. After that time, the recipient is permitted to work part-time or even full-time if he/she works at home.

*Child-raising support (GYET)*, introduced in 1993, was designed to serve the interests of families with three or more children in their own households, as long as the youngest child is aged 3-8. The monthly amount of benefit, irrespective of the number of children raised, is equal to the minimum pension. Parents receiving child-raising support can work part-time. Full-time employment is allowed only if the parent works at home.

### ***Maternity benefits***

*Pregnancy benefit* is an important element of maternity benefits. Those women are entitled to pregnancy benefit that have been insured for at least 180 days in the last 2 years prior to the birth. The benefit is available for the term of maternity leave (168 days) and equals 70 percent of the average wage earned by the women prior to the birth.

Having seen the numerous types of family and child benefits, we can state, that unlike the benefit system in place until 1998, the new system does not favor the poor. Although universal access to family benefits minimizes exclusion, it also provides considerable benefits for families with higher income. Tax credit, the most important pillar of the current system, favors those parents who have relatively good labor market positions (Gábos, 2000).

As was mentioned above, child-care fee was reintroduced to compensate families with higher income for the drop in market income because of childbirth. As it is a generous benefit, it is expected to reduce temporarily the labor market participation of women. However, those mothers who do not qualify for child-care fee and thus receive child-care aid as well as parents obtaining child-raising support are allowed to have earned income. They can work part-time or work at home.

As a labor economist claims, the current family policy—irrespective of its intentions—definitely hinders female employment. In addition, the reintroduction of child-care

fee and the restoration of universal access to child-care aid incur significantly higher costs than what measures of part-time employment support would require (Timár, 1998).

### **3.4 Spending trends**

Between 1992 and 1996 nominal spending on the four main social benefits—family benefits, unemployment benefits, pensions, and social assistance— rose by about 70 percent. Social expenditures in Hungary amounted to more than 30 percent of GDP, exceeding the OECD average. Then, partly because of the fiscal stabilization package, significant eligibility cuts occurred, and welfare expenditures dropped dramatically in 1996-1997 (Szivós and Tóth, 1998).

In the period 1992-1996, the nominal spending on pensions doubled meanwhile the share of households receiving pensions increased by 5 percent. As a result, this benefit was the one that lost the least of its real value. Over the same period, nominal spending on unemployment benefits remained largely unchanged. Both the proportion of recipients and the average amount of payment decreased. The real value of family allowances also fell substantially. The share of those receiving social assistance and the real value of the benefit remained constant (Szivós and Tóth, 1998)

### **3.5 Tax policy**

An OECD study states that the average tax burden in Hungary is higher than the OECD average and is much higher than it was in other OECD Member States when they were at similar levels of economic development (OECD, 2000).

Hungarian taxes currently in force include personal income tax, corporate income tax, and value added tax (VAT). The main sources of tax revenue are consumption taxes and social security contributions, whereas relatively little income is generated from personal income taxes and corporate income taxes (OECD, 2000). In general, the effectiveness of tax administration – measured by the ratio of effective and statutory tax rates – in Hungary is very similar to the EU average (EBRD, 2001).

#### ***Personal income tax and social security contributions***

Under the Hungarian personal income tax system, introduced in 1988, all non-capital incomes<sup>5</sup> received by a private individual are subject to a progressive tax rate. Pension income forms part of the tax base, but is not taxed. (If an individual has only pension income no tax is paid on this, but if he/she has income from employment these are taxed at a higher marginal rate.)

The present personal income tax system has three tax bands with marginal rates of 20, 30, and 40 percent. Earnings above HUF 1,000,000 thousand were taxed at 40 per cent in 2000. Thus an individual who earned the gross monthly average wage of HUF 87,645 was already subject to the top 40 percent marginal rate. This means that although, the tax system is progressive, a large proportion of taxpayers are subject to the top 40 percent marginal rate. The top marginal

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<sup>5</sup> The majority of welfare transfers are not subject to taxation.

rate is close to the OECD average of 43 percent, while the average effective personal income tax rate is very low, due to the extensive use of tax credits (e.g. family tax credit) (OECD, 2000). Further, as opposed to wage incomes, capital incomes are taxed at a flat rate. This feature of the tax system (i.e. it favors capital income over wage income) could lead to an over investment in capital-intensive technologies and underemployment of labor (OECD, 2000).

### ***Social security contributions***

In Hungary, a large part of tax revenues has been collected from social security contributions. In 1998, social security and payroll taxes accounted for 36.2 percent of total tax revenue. Almost twice as much is collected from this source than from the personal income tax system (OECD, 2000). As a result of sequent reductions over the past years, social security contributions paid by employers in 2001 went down to 31 percent of gross employment income, including health insurance (11%) and pension contributions (22%). (In addition, there is a flat health tax contribution and a 3% unemployment fund, and a 1.5% training fund contribution levied on employers.) Despite the recent fall, an employer's tax burden is still among the highest in the OECD (OECD, 2000). Employee contributions are much lower: a 3 percent health care contribution and an 8 percent pension contribution.

The current high tax rates on labor make employers and employees attempt to evade taxes both through unregistered work and under-reporting of wages. A widespread practice has been to keep wages at the level of minimum wage and supplement them by non-wage income and/or in kind. However, this strategy has lost much of its attractiveness because of modifications to the personal income tax system (i.e. the abolition of the zero tax band) and the current increases in the minimum wage. Another widespread form of tax minimization might be self-employment. Firms in Hungary frequently force their employees to become entrepreneurs and then hire them as subcontractors. This way, however, not only employers but also employees reduce their overall tax burden.

### ***Corporate income tax***

Revenues from the corporate income tax in Hungary are among the lowest in the OECD. Corporate income taxes account for slightly more than 5 percent of total tax revenue compared to the OECD average of 8.8 percent. Currently the statutory corporate income tax rate is 18 percent in Hungary. The effective tax rate, as estimated by the Hungarian authorities, is only 11.1 percent due to the tax exemptions and investment incentives used extensively to attract foreign direct investment (OECD, 2000).

### ***VAT***

VAT is based on the framework of EU directives. Currently the standard VAT rate is 25 percent, the highest in the OECD. The reduced rate is 12 percent and some goods and services are zero-rated while still others are exempted. In addition to the VAT, Hungary has a special consumption tax levied on some goods. The VAT and consumption taxes create the main sources (39%) of tax revenues in Hungary (OECD, 2000). We do not discuss the VAT system in more detail, since it is supposed to have no direct effect on the labor market situation.

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## Annex

**Table 1. Economic activity of population, 1980-99**

Year	Below working age	Population at working age (Men aged 15-59 Women aged 15-54)			Population above working age (Men above 60 Women above 55)			Total
		Employed	Unemployed	Inactive*	Employed	Pensioner and other inactive	Unemployed	
1980	21,9	45,6	0,0	11,9	5,3	15,2	0,0	100,0
1990	20,2	43,7	0,6	13,3	3,3	18,8	0,0	100,0
1991	19,7	41,3	2,4	14,4	2,4	19,8	0,0	100,0
1992	19,2	37,8	4,2	16,5	1,8	20,4	0,1	100,0
1993	18,8	35,8	4,9	18,2	1,3	20,8	0,2	100,0
1994	18,4	35,4	4,3	19,5	1,2	21,1	0,1	100,0
1995	18,1	34,9	4,0	20,5	1,1	21,3	0,1	100,0
1996	17,8	34,8	3,9	21,0	1,0	21,4	0,1	100,0
1997	17,6	35,0	3,4	21,4	1,0	21,6	0,1	100,0
1998	17,4	35,7	3,0	21,2	0,9	21,7	0,1	100,0
1999	17,2	36,8	2,8	20,4	1,1	21,7	0,0	100,0

\*Pensioners, students, people on childcare leave and other inactive

Source: Munkaerőpiaci Tükör 2000

**Table 2. Employed as percentage of population aged 15-74, 1980-99**

Year	Number of employed in thousands	Rate of employment %	Ratio of women in total employment %
1980	5458,2	65,3	44,7
1990	4880,0	59,0	45,7
1991	4520,0	54,4	46,0
1992	4082,7	49,0	45,7
1993	3827,0	45,8	45,7
1994	3751,5	44,8	45,2
1995	3678,8	43,9	44,3
1996	3648,2	43,6	44,2
1997	3646,4	43,6	44,0
1998	3697,8	44,3	44,8
1999	3811,4	45,7	44,8

Source: Munkaerőpiaci Tükör 2000

**Table 3. Nominal and real earnings**

Year	Gross earnings	Net earnings	Consumer price	Gross real earnings index	Net real earnings index	Net real earnings index
	HUF		Previous year = 100%			1992 = 100
1989	10 571	8 165	117,2	100,6	99,7	115,6
1990	13 446	10 108	128,9	99,8	94,3	109,1
1991	17 934	12 948	135,0	96,3	93,0	101,4
1992	22 294	15 628	123,0	101,7	98,6	100,0
1993	27 173	18 397	122,5	99,5	96,1	96,1

1994	33 939	23 424	118,8	105,1	107,2	103,0
1995	38 900	25 891	128,2	91,1	87,8	90,5
1996	46 837	30 544	123,6	97,4	95,0	86,0
1997	57 270	38 145	118,3	103,4	104,9	90,2
1998	67 764	45 162	114,3	103,5	103,6	93,4
1999	77 187	50 076	110,0	105,5	102,5	95,8

Source: Munkaerőpiaci Tükör 2000

**Table 4. Incidence and composition of part-time employment\*, 1995-1999**

Year	Part-time employment as proportion of employment %			Women's share in part-time employment %
	Men	Women	Total	
1995	1,9	4,6	3,2	67,7
1996	1,8	4,6	3,1	69,4
1997	1,8	5,0	3,3	71,3
1998	1,9	5,0	3,4	69,2
1999	2,1	5,1	3,5	68,7

\*Data refers to those who usually work less than 30 hours a week in their main job

Source: OECD Employment Outlook 2000

OECD Employment Outlook 1998

**Table 5. Reasons for working shorter hours, 1996-2000 (%)**

Reasons	1996			1999			2000		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Jobs with regular working time less than 40	39,6	48,8	46,1	38,7	45,4	43,4	41,3	45,1	44,0
Full-employment is not possible; lack of work assignment	19,0	17,0	17,6	16,6	15,1	15,5	13,8	13,3	13,4
Employee prefers part-time employment	17,0	17,2	17,1	15,7	20,7	19,2	16,5	20,4	19,3
For health status	7,7	3,8	5,0	13,0	5,7	7,9	13,7	7,5	9,3
Employee attends school/training	-	-	-	2,4	3,4	2,2	2,8	2,2	2,3
Other reasons	16,6	13,3	14,3	13,6	11,1	11,9	11,9	11,5	11,6
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
<b>As a percentage of total employment</b>	<b>3,0</b>	<b>8,9</b>	<b>5,6</b>	<b>3,4</b>	<b>9,5</b>	<b>6,1</b>	<b>3,0</b>	<b>9,0</b>	<b>5,7</b>

Source: LFS in Frey 2001

**Table 6. Composition of employees by working time\*, 2000**

Weekly hours	Part-time employees			Full-time employees		
	Men	Women	Total	Men	Women	Total
1-14	6,8	6,1	6,3	-	-	-
15-35	40,8	72,7	59,5	1,0	4,1	2,4
36-39	1,0	1,1	1,1	0,5	1,0	0,7
40	11,9	7,0	9,0	63,0	76,0	68,8

41-50	4,6	1,9	3,0	15,5	11,7	13,8
51-	3,6	0,4	1,9	6,5	2,1	4,9
Very volatile	31,6	10,8	19,2	13,5	5,1	9,7
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>In thousands</b>	<b>61,5</b>	<b>88,4</b>	<b>149,9</b>	<b>2049,9</b>	<b>1638,2</b>	<b>3679,1</b>
<b>Share in total</b>	<b>2,9</b>	<b>5,1</b>	<b>3,9</b>	<b>97,1</b>	<b>94,9</b>	<b>96,1</b>
1-29 in thousands	20,9	49,1	70,0	10,3	28,7	39,0

\*Data are based on self-declaration

Source: LFS in Frey 2001

**Table78. Self-employment, 1980-99**

Year	Number of self-employed in thousands	Self-employment as a proportion of employment %	Annual changes
1980	170,6	3,5	-
1990	260,2	5,7	-
1991	280,0	6,6	7,6
1992	301,0	7,7	7,5
1993	319,3	8,7	6,1
1994	342,0	9,4	7,1
1995	366,2	10,3	7,1
1996	388,9	11,0	6,2
1997	389,6	11,0	0,2
1998	375,0	10,4	-3,7
1999	411,5	11,1	9,7

Source: Munkaerőpiaci Tükör 2000

**Table 8. Unemployment, 1990-99**

Year	Registered unemployed		LFS unemployed	
	in thousands	rate* in %	in thousands	rate in %
1990	477,4	-	-	-
1991	227,3	4,1	-	-
1992	557,0	10,3	444,2	9,8
1993	671,8	12,9	518,9	11,9
1994	568,4	11,3	451,2	10,7
1995	507,7	10,6	416,5	10,2
1996	500,6	11,0	400,1	9,9
1997	470,1	10,5	348,8	8,7
1998	423,1	9,5	313,0	7,8
1999	409,5	9,7	284,7	7,0

\*Percentage of the economically active population on 1<sup>st</sup> January of the previous year

Source: Munkaerőpiaci Tükör 2000

**Table 9. Incidence of long-term unemployment\***

Year	6 months and over	12 months and over
1996	75,2	54,4
1997	73,5	51,3
1998	71,0	49,8
1999	70,4	49,5

\*As a percentage of total unemployment

Source: OECD Employment Outlook 2000

**Table 10. Unemployment by educational attainment, 1992-99 (%)**

<i>Educational attainment</i>	1992	1993	1994	1995	1996	1997	1998	1999
Less than elementary school	6,8	5,8	4,5	4,1	4,9	4,4	4,5	3,4
Elementary school	37,4	35,9	35,6	34,9	32,9	36,5	34,6	31,8
Vocational school	31,8	33,7	35,0	36,7	36,5	35,8	34,3	37,7
General secondary school	8,4	8,2	7,8	7,9	8,6	8,7	9,8	7,3
Vocational secondary school	12,0	13,1	13,3	12,4	12,9	11,7	13,1	16,7
College	2,1	2,4	2,7	3,0	2,7	2,0	2,5	2,2
University	1,4	1,0	1,1	1,1	1,4	0,8	1,2	0,9
<b>Together</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: LFS in Labour Research Institute 2000

**Table 11. Youth unemployment, 1992-99**

<i>Age</i>	<i>Rate of unemployment %</i>							
	1992	1993	1994	1995	1996	1997	1998	1999
15 – 19	27,0	33,3	29,8	31,3	30,4	28,8	24,8	23,4
20 – 24	14,0	17,0	16,0	14,7	14,5	13,0	11,1	10,6
<b>Together</b>	<b>17,5</b>	<b>21,3</b>	<b>19,4</b>	<b>18,5</b>	<b>18,0</b>	<b>15,9</b>	<b>12,6</b>	<b>12,4</b>

Source: LFS in Labour Research Institute 2000

**Table 12. Regional unemployment rates (LFS unemployment rates)**

<i>Year</i>	<i>Central Hungary</i>	<i>Central Transdanubia</i>	<i>Western Transdanubia</i>	<i>Southern Transdanubia</i>	<i>Northern Hungary</i>	<i>Northern Great Plain</i>	<i>Southern Great Plain</i>	<i>Total</i>
1992	7,4	11,4	7,2	9,5	13,9	12,3	10,1	9,8
1993	9,8	12,4	8,9	12,7	15,9	14,6	12,2	11,9
1994	8,7	10,6	7,7	11,8	15,0	13,6	10,5	10,7
1995	7,3	10,8	6,8	11,9	15,8	13,6	9,2	10,2
1996	8,1	10,3	7,1	9,3	15,3	13,0	8,3	9,9
1997	6,9	8,0	6,0	9,9	13,9	11,9	7,3	8,7
1998	5,6	6,7	6,0	9,4	12,2	11,0	7,1	7,8
1999	5,2	6,0	4,4	8,3	11,5	10,1	5,7	7,0

Source: LFS in Munkaeröpiaci Tükör 2000

**Table 13. Economic activity and inactivity in the population aged 15-64**

<i>Year</i>	<i>Population aged 15-64 in thousands</i>	<i>Inactive</i>	
		<i>in thousands</i>	<i>%</i>
1992	6898,9	2436,0	35,3
1993	6895,6	2601,6	37,7
1994	6886,2	2729,2	39,6
1995	6891,4	2830,9	41,1
1996	6877,1	2856,6	41,5
1997	6876,5	2903,5	42,2
1998	6831,7	2843,2	41,6
1999	6803,2	2729,5	40,1

Source: LFS in Labour Research Institute 2000

**Table 14. Inactive population of working age by the reason for inactivity**

(in thousands)

	1995	1996	1997	1998	1999
	(1 <sup>st</sup> January)				
<b>Inactive</b>	1913,6	1952,2	2023,7	2000,1	1958,8
<i>As percentage of working age population %</i>	31,5	32,1	32,9	32,6	32,0
Of which					
Student	625,5	635,9	674,8	675,9	687,1
On child care provision	285,0	275,2	295,2	291,1	299,9
Pensioner	461,0	481,1	504,2	512,1	535,4
Other	542,1	560,0	549,5	521,1	436,4
	<i>Of which women:</i>				
<b>Inactive</b>	1089,9	1123,0	1185,6	1167,2	1119,6
<i>As percentage of working age population %</i>	37,0	38,5	39,8	39,3	37,9
Of which					
Student	310,8	317,2	336,6	338,6	346,2
On child care provision	279,8	270,6	293,2	290,0	298,9
Pensioner	177,0	184,6	198,8	207,5	228,6
Other	313,3	350,6	357,0	331,1	245,9

Source: Labour Account, HCSO in Labour Research Institute 2000

**Table 15. Educational participation rates for ages 15-24, 1995**

Age	15	16	17	18	19	20	21	22	23	24
Hungary	100	88	74	52	37	28	19	16	12	9
OECD country mean	95	89	82	68	49	41	34	29	23	19

Source: OECD educational database in OECD 1999

**Table 16. Trade union membership by industry and sex**

Industry	Employees in trade unions %		
	Men	Women	Total
Agriculture	5,4	7,9	6
Mining and quarrying	30,2	28,4	29,9
Manufacturing	16,5	14,9	15,8
Electricity, gas, steam and water supply	28	36,8	30
Construction	3,4	3,5	3,4
Wholesale and retail trade	5,9	8,2	7,1
Hotels and restaurants	2,6	6	4,4
Transport storage and communication	39,5	41,6	40,1
Financial intermediation	12,2	18	16,3
Real estate, renting, and business activities	6,9	7,1	7
Public administration and defence; compulsory social security	25,4	33,5	29,3
Education	37,9	40,1	39,6
Health and social work	33,2	34	33,8
Other	12,2	13,2	12,7
<b>Total</b>	<b>17,3</b>	<b>22,4</b>	<b>19,7</b>

Source: LFS in Lakatos 2001

**Table 17. Trade union membership by age and sex**

Age	Employees in trade unions %
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	<i>Men</i>	<i>Women</i>	<i>Total</i>
15 – 19	3,2	2,0	2,7
20 – 24	6,6	9,7	7,9
25 – 29	10,4	15,9	12,7
30 – 39	18,4	22,2	20,1
40 – 54	22,2	27,3	24,9
55 – 59	26,2	28,8	27,1
60 – 74	25,0	19,4	22,8
<b>Total</b>	<b>17,3</b>	<b>22,4</b>	<b>19,7</b>
Of which:			
working age*	17,3	22,3	19,7

\* Men aged 15-64, Women aged 15-57

Source: LFS in Lakatos 2001

**Table 18. Gross real wage increase: actual rates and recommendations by the Interest Reconciliation Council**

<i>Year</i>	<i>Recommendations</i>		<i>Actual indices</i>	
	<i>Minimum</i>	<i>Maximum</i>	<i>Public sector</i>	<i>Corporate sector</i>
1992	113,0	128,0	120,1	126,6
1993	110,0-113,0	125,0	114,4	125,1
1994	113,0-115,0	121,0-123,0	127,0	123,4
1995	No agreement		110,7	119,7
1996	113,0	124,0	114,6	123,2
1997	114,0	122,0	123,2	121,8
1998	113,5	116,0	118,0	118,5
1999	112,0	115,0	119,2	114,8

Source: HCSO, Ministry of Labour

**Table 19. Minimum wages**

<i>Date</i>	<i>Minimum wage HUF</i>	<i>Average gross earnings HUF</i>	<i>Ratio of minimum wage to average gross earnings %</i>
1992	8 000	22 294	35,8
1993	9 000	27 173	33,1
1994	10 500	33 939	30,9
1995	12 200	38 900	31,4
1996	14 500	46 837	31,0
1997	17 000	57 270	29,7
1998	19 500	67 764	28,8
1999	22 500	77 187	29,1
2000	25 500	87 645	29,1
2001	40 000	93 023*	43,0*
2002	50 000		

\*Estimates

Source: Munkaerőpiaci Tükör 2000 (based on data provided by Ministry of Labor)

OECD Economic Surveys 1999-2000 Hungary 2000

HCSO

**Table 20. Effect of statutory minimum wage increase on employees by sex, 2001 (%)**

	<i>Men</i>	<i>Women</i>	<i>Total</i>
Affected	27,4	35,3	31,1
Not affected	72,6	64,7	68,9
Total	100,0	100,0	100,0

Source: TÁRKI Monitor Survey 2001

**Table 21. Effects of statutory minimum wage increase on the labor force, 2001**

	<i>As a percentage of affected respondents %</i>
Received guaranteed minimum wage	62,7
Received increased wage	25,2
Laid off	0,6
Contractual working time modified	2,4
Affected as an owner	6,0
Other	3,0

Source: TÁRKI Monitor Survey 2001

**Table 22. Employers' reactions to statutory minimum wage increase, 2001 (%)**

	<i>Men</i>	<i>Women</i>	<i>Total</i>
Raised minimum wage only	31,0	33,1	32,0
Raised other wages as well	21,1	27,0	23,8
Lay-offs	1,3	1,4	1,3
Working time reductions	2,1	2,1	2,1
Other	5,0	5,6	5,3
No employee affected	30,0	20,4	25,5
No information	9,4	10,4	9,8
Total	100,0	100,0	100,0

Source: TÁRKI Monitor Survey 2001

**Table 23. Coverage of the unemployment benefit system\*, 1990-1999 (%)**

<i>Year</i>	<i>Coverage of unemployment Insurance (UI)</i>	<i>Coverage of unemployment Assistance (UA)</i>	<i>Total coverage</i>
1990	63,5	-	63,5
1991	76,8	-	76,8
1992	74,1	3,3	77,4
1993	60,3	13,3	73,6
1994	40,3	33,5	73,8
1995	36,0	41,4	77,4
1996	34,3	42,2	76,5
1997	30,1	42,8	72,9
1998	30,9	43,0	73,9
1999	31,3	39,0	70,3

\*Expressed as a percentage of registered unemployed

Source: Labour Research Institute 2000

**Table 24. Gross earnings, minimum wage and unemployment compensation, 1990-99**

<i>Year</i>	<i>Average gross earnings per month</i>	<i>Average unemployment benefit per month</i>	<i>As percentage of gross earnings %</i>
1990	13 446	3 845	28,6
1991	17 934	7 903	44,1
1992	22 294	8 798	39,5
1993	27 173	9 949	35,9
1994	33 939	10 841	31,9
1995	38 900	11 891	30,6
1996	46 837	13 461	28,7

1997	58 002	16 141	27,8
1998	67 764	18 895	27,8
1999	77 187	22 406	29,0

Source: Labour Research Institute 2000 (KSH) 88.o

**Table 25. Spending on labor market policies, 1996-1999**

(percentage of GDP)

	1996	1997	1998	1999*
1. Public employment services and administration	0.11	0.13	0.12	0.11
2. Labor market training	0.08	0.08	0.07	0.07
3. Subsidized employment	0.18	0.23	0.20	0.22
4. Unemployment compensation	0.60	0.46	0.45	0.47
5. Early retirement for labor market reasons	0.15	0.17	0.16	0.09
<b>Total</b>	<b>1.12</b>	<b>1.07</b>	<b>1.01</b>	<b>0.96</b>
of which				
Active measures (1-3)	0.37	0.44	0.39	0.40
Passive measures (4-5)	0.75	0.63	0.62	0.56

\*Provisional data

Source: OECD Employment Outlook 2000

**Table 26. Ratio of households receiving certain types of income, 1992-2000 (%)**

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Market incomes	83,9	80,0	82,4	78,6	80,1	79,5	72,1	76,3	74,0
Old-age pension	38,3	39,9	41,4	37,8	37,2	40,3	42,0	38,0	36,4
Disability pension	10,0	11,7	12,0	12,5	13,5	14,4	15,8	13,9	16,3
Other pensions	8,7	7,5	9,2	8,2	8,0	7,6	8,6	8,4	7,5
Child-care fee (GYED)	5,8	6,0	5,0	4,4	4,4	4,6	2,0	0,5	1,7
Child-care aid (GYES)	4,9	6,0	5,7	4,5	5,3	7,6	6,4	6,4	6,9
Unemployment insurance	9,8	13,5	13,9	8,8	8,3	9,2	8,9	7,4	7,5
Sick-pay	11,6	11,9	11,7	10,9	10,9	9,0	7,9	11,1	5,4
Unemployment assistance	0,8	3,1	3,4	4,8	4,8	5,1	4,8	2,6	3,4
Family allowance	33,1	33,0	32,6	34,5	34,1	32,0	22,4	25,7	26,5
Social assistance	8,5	10,2	9,9	8,6	9,9	7,4	9,0	8,4	10,4

Source: Szivós and Tóth 1998

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**Table 27. Labor taxes\*, 1995-99 (%)**

Contributor	1995	1996	1997	1998	1999
<b>Employer</b>	50,0	48,5	48,5	48,3	42,8
Pension	24,5	24,5	24,0	24,0	22,0
Health	19,5	18,0	15,0	15,0	11,0
Flat health tax			3,5	3,8	5,3
Labor Market Fund	4,2	4,2	4,2	4,0	3,0
Wage guarantee contribution	0,3	0,3	0,3		
Vocational training contribution	1,5	1,5	1,5	1,5	1,5
<b>Employee</b>	11,5	11,5	11,5	11,5	12,5
Pension	6,0	6,0	6,0	7,0	8,0
Multipillar					

Second pillar				6,0	6,0
Pay-as-you-go				1,0	2,0
Health	4,0	4,0	4,0	3,0	3,0
Labor Market Fund	1,5	1,5	1,5	1,5	1,5
<i>Total</i>	61,5	60,0	60,0	59,8	55,3

\* Expressed as a percentage of the payroll tax base

Source: World Bank 2001 (based on Ministry of Finance, Ministry of Labor)