



Innovative Social Policies for Inclusive and Resilient Labour Markets in Europe



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Identifying Policy Innovations Increasing Labour Market Resilience and Inclusion of Vulnerable Groups

National Report – Hungary

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Abbreviations

ALMP	Active Labour Market Policy
AROPE	At risk-of-poverty
EU	European Union
EUROSTAT	European Statistical Office
HCSO	Hungarian Central Statistical Office
HRDOP (HEFOP)	Human Resource Development Operational Programme
ILO	International Labour Organisation
INSPIRES	Innovative Social Policies for Inclusive and Resilient Labour Markets in
LFS	Labour Force Survey
LWI	Low work intensity households
MoEL	Ministry of Employment and Labour
NEET	Not in employment, education or training
NEF (OFA)	National Employment Public Foundation
OECD	Organisation for Economic Cooperation and Development
RPEC	Regional Public Employment Centres
SMD	Severely materially deprived
SROP	Social Renewal Operational Programme
WP	Work Package

Introduction

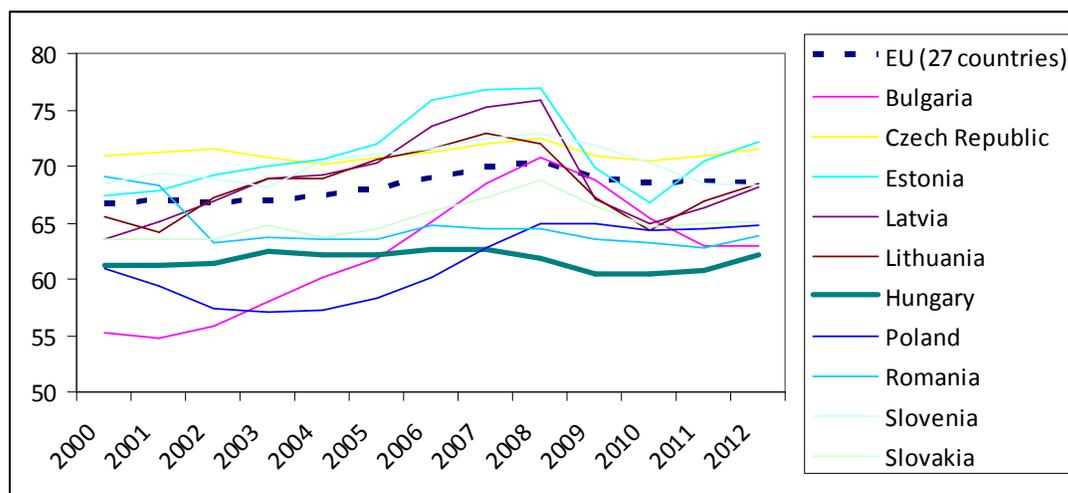
Due to their dependent nature after the regime change, state socialist countries, Hungary among them, form a third variety of capitalism. The model of emergent or dependent market economies differ from the two ideal types of liberal and coordinated market economies in several aspects. Their comparative advantages lie in the low costs of labour and a skilled population with knowledge of medium level technology, but with an outdated technological structure (Hancké et al. 2007, Nölke and Vliegenthart 2009, Bohle and Greskovits 2012, Bluhm et al. 2014). Characterised by a huge volume of foreign direct investment (FDI) with the high presence of transnational corporations, these latter represent the central coordination mechanism in the model. Innovation activity is generally low, and it is usually coming through transnational companies, via intrafirm transfer. Another characteristic of these countries is that the position of labour is weak given the threat of these companies to be relocated further east. Transnational companies would not accept high wages, high union density, or powerful collective agreements. This way, countries with a state socialist past can be considered as a mixture of liberal and coordinated market economies. Industrial relations are weak, with an especially low unionized workforce in Hungary; managers have a great autonomy in the firm-employee relations which are liberal characteristics (Hancké et al. 2007). On the other hand, the inclusion of firms in the system of vocational trainings (although with a weak link between education and employers), and the fact that corporate governance rely on large banks (instead of the stock market) are characteristics of coordinated market economies. Post-socialist market economies can be characterized by a double-dependence: FDI on the one hand and the state on the other frame the space of manoeuvring for the economic actors.

The welfare state is oriented towards social transfers and state-funded wage-compensations. Similarly, the welfare system of these countries is a fusion of several features as the pre-communist heritage of some kind of bismarckian social insurance system followed by the communist universalism and egalitarianism that transformed into a market-based liberal system after the transition. State-socialism couldn't achieve the goal of a classless society, it produced instead new forms of social differences, lead to lower social mobility and limited work performance in absence of incentives leading to stagnating/ regressing modernization. Social policy during the past regime concentrated on free healthcare, full employment, housing, public pensions and safety for those incapable to work through universal entitlement. These measures formed the basis of the 'social contract' (social welfare in exchange of democratic freedom), however, they were excessive and premature beyond the fiscal capacities of the state leading to high welfare dependency and low incentives to re-enter the labour market (Cerami 2006). After the transition, in order to deal with rising social inequalities the excessive welfare state was maintained: there remained a high support for redistributive policies, special privileges for determined social and professional groups and the persistence of clientelistic relations (Cerami 2006). In this Hungarian version of the "premature welfare state" welfare expenditures had an important weight starting from the late 1980's (Kornai 1996). Nowadays, this system trying to avoid social conflicts ended in the emergence of a "bifurcated welfare state" with separated structures of services for the well-integrated and the marginalized groups of society. The social exclusion of the weakest groups (especially the marginalized Roma population) is ever more significant and their distance from the well-integrated members of the society ever more

important, also sustained by the segregationist local level of welfare assistance (Szalai 2013).

Although the newly joined EU member states were all characterised by an alignment to a European model of welfare state since the accession, countries with a state socialist past show important variation and differences. In terms of employment for example, Czech Republic and Estonia are doing better than the EU average, while Hungary is the country that performs the worst in this respect, especially since 2008 (see Figure 1).

Figure 1. Employment rate in countries from Central and Eastern Europe (2000-2013)



Source: Eurostat, LFS

This way, in order to understand current tendencies on the Hungarian labour market one has to go back to the state socialist past of the country and the transition, take the effect of the Europeanization process and the EU accession into account together with the impact the global economic crisis had on the country's economy.

The change of the political regime was accompanied by serious economic recession and important changes on the labour market in the 1990s. After (theoretical) full employment during the state socialism only about half of the working-age population was employed. Labour market tendencies were at the bottom in 1996 when 42 per cent were inactive, and long-term unemployment exceeded 3 per cent. After that, the employment rate slightly increased until 2003 and stagnated around 57 per cent until the global economic crisis in 2008. Nevertheless, current difficulties are not to be explained solely by the economic crisis (Fazekas and Scharle 2012).

The main problems on the Hungarian labour market during these past two decades remained unchanged and the most important is the high inactivity rate and low employment rate that is unevenly distributed according to education level, region, and settlement type. University graduates and people living in the western part of the

country are less affected by this problem, while the oldest and the youngest age groups, women of childbearing age, the low-skilled and people in the northern regions have lower employment rate than the average. Furthermore, the Roma population and people living in small settlements with bad transportation opportunities are characterised by low employment as well (Fazekas and Scharle 2012).

In terms of the employment policy response to these problems the main objective was to reduce the number of unemployed. Through various welfare transfers (unemployment, early retirement, disabled pension, maternity, etc.), social tensions resulting from the end of full-employment could be partly avoided in the 1990s, but lead to the current structural distortions and the need for high government social expenditures meaning high taxes and contributions. Nowadays nearly a third of the working-age population is relying on some kind of welfare provision (Fazekas and Scharle 2012).

Throughout the 2000-2013 period active labour market policy gained increasing importance, however, regulations and services destined to increase labour market participation have remained weak, while measures promoting to stay away from the labour market remained relatively generous (such as early pensions, insured maternity leave and disability pensions). Several other factors did not contribute to the flexibility of the labour market: the minimum wage was raised in 2001-02 and remained high since then, however, it did not lead to higher supply of labour, while it reduced employment in labour-intensive sectors. Furthermore, the Hungarian labour force is not geographical mobile due to bad public transportation and occupational mobility is also low that further decrease flexibility of the labour market.

The low employment level of the unskilled workforce is partly due to the characteristic of the firms as well: small and family enterprises are not absorbing this workforce in Hungary as in other countries. Furthermore, the weak public education could not cope with the rapid technological change happening since the 1990s.

PART ONE

1. Characteristics of the national/regional labour market and social policies

a. *Institutional setting*

Employment policy was a priority to different extent for the different governments after the transition. During the first, Antall-Boross governments after the transition (1990-1994) the ministry of labour had an important status due to the primary objective of preserving social stability. Nevertheless, employment issues were still secondary as opposed to the primary importance of establishing a market economy and privatization. Based on county labour department, local labour centres were established during this period, while the National Labour Market Office (now National Labour Office) was created to be the central agency of employment services. The foundations of the Hungarian labour market policy were laid down by Act IV of 1991 (aka the Labour Code). Two separate funds were created to finance employment measures. The Solidarity Fund financed unemployment benefits from the contributions of employees, while the Employment Fund financed active labour market measures from the national budget (Váradi 2012).

During the Horn government (1994-1998) employment policy was an important issue widely covered by the press. The austerity measures of the “Bokros package” in 1995–96 (including reduced social benefits, the introduction of tuition fees in higher education, and limiting the increase of wages in the public sector that caused a reduction of real wages) caused relatively few labour conflicts. In 1994 the Employment and Labour Committee was created in the national parliament which is still in place. The Solidarity Fund and the Employment Fund become merged into the Labour Market Fund with rationalization and increasing transparency objectives, with reduced national budget allocation (Váradi 2012).

Employment policy was subordinate to economic policy during the first Orbán government (1998-2002) job creation (through tax changes) being a key objective. The roles of the Ministry of Labour was divided between the Ministry of Economic Affairs (employment promotion, wage policy and the coordination of interest representation) and the Ministry of Social and Family Affairs (employment services, active and passive measures) (Váradi 2012). One of the key measures taken by the government in this period was to raise the minimum wage (in 2001–02) that remained high since then.

Under the Medgyessy and the first Gyurcsány government (2002-2006) the Ministry of Labour and Employment was re-established. Besides the Labour Market Fund, EU funding also gained importance after the accession of the country to the EU under the Human Resources Development Operational Programme. In 2004, the Gyurcsány government launched the ‘one hundred steps’ programme with several employment measures, however, it did not form a coherent government employment strategy (Váradi 2012).

The second Gyurcsány and Bajnai governments (2006-2010) merged the labour and the social affairs ministries. The 2006 government programme included the reform of the employment service and amendments of the Labour Code, job creation was a priority, accompanied with wage cost-reduction programmes through EU funding (Start, Start Extra programmes), and a public work programme. Bajnai got into government in 2006 with the aim to stop the negative spiral of the Hungarian economy through austerity measures. After the global economic crisis started in 2008 the government's immediate crisis management included measures to preserve jobs and supporting those who lost their jobs (Váradi 2012).

The second Orbán government (since 2010) had several important measures affecting the labour market. Employment issues are now treated within the Ministry for National Economy (job creation) and Ministry of Human Resources (welfare system). As the most significant tax cut in twenty years a flat-rate personal income tax system was introduced in 2011 with the objective to be the driver of economic growth and to create jobs. Later this was eventually changed into a de facto dual tax rate system (Busch et al. 2013:285). Following the path that the previous government has already started in 2009 with the "Pathway to work" programme, the Orbán government further increased public employment. The number of people in public work increased from 21 thousands to 135 thousands after 2009 during the previous government, while it has further increased up to 311 thousands by 2012 (Messing 2013). Furthermore, a new Labour Code (Act I of 2012) entered into force the 1st of January 2013, generating the most important changes in labour relations in Hungary since 1992. The objective of the new code was to increase labour market flexibility leading to job creation. Its long term consequences are not yet fully known, however it seems that on the short term it modified negatively the labour conditions (decreasing wages and salaries, the growing working time) and the bargaining power of the employees (Laki et al. 2013).

In Hungary, the central agent of employment services is the National Employment Service (services available at local job centre offices). **Active employment policy measures** include (Busch et al. 2013, National Labour Office 2013):

- **Training** – The objective of the vocational training contribution is to prevent the termination of employment by adaptation through vocational education. Contributions might take form through financing for vocational education and training of employed and wage contribution. The revenues also finance public capital investment for vocational education and training and stipends for apprentices in shortage occupations.
- **Employment incentives** – The aim of wage support measures is to help employment of people in disadvantaged situation (young, elderly, long-term unemployed, disabled) through wage support and tax subsidies. Tax subsidies are also available for firms in the public sector for the creation of telework positions. Wage support is available for companies to prevent work force reduction. Within this measure, the START programme provides tax allowance for employers from the social contribution tax for the employment of first entrants (young people) since 2006, and similar measures for people returning to work after child care (Start Plus) or long-term unemployment (Start Extra) as of

2007. Since 2012 Start Plus and Extra cards are replaced with Start Bonus. For first entrants the full wage is covered during the first 6 months of their employment within the “First Job Guarantee” programme since 2012.

- **Job creation: public employment** - the largest active measure of current Hungarian labour market policy. It includes short- and longer term public works at the local level and national public works projects. Public employment is a form of „transition” employment aiming to successfully reintegrate public workers into the primary labour market. Other job creation incentives are project based funding of small and medium enterprises’ (SMEs) investments leading to job creation.
- **Start-up incentives** – The objective of the measure is the improvement of entrepreneurial skills of job seekers and enabling them to start their own business.
- **Mobility incentives** – Residence assistance available for job-seekers in order to help their reintegration into the labour market. Transport assistance is available for employees and employers to facilitate inter-town mobility.

The number of those beneficiaries of active labour market measures increased from 482 938 in 2011 to 527 527 in 2012. In 2012 nearly 60% of the funding of the active labour market measures was public employment. The START programme amounted to 13%, the training to 9% (46.6 thousands of people), tax subsidies affected 28.3 thousands and wage support 32.4 thousands people of the beneficiaries of such measures. Start-up incentives were given to 4.7 thousands person (one third less than in 2011). 9.8 thousands people were affected by job creation measures, on the other hand, the number of those within a job protection programme (14.5 thousands) doubled compared to 2011. Residence allowance was given to 496 persons (National Labour Office 2013).

Passive measures take form of different **unemployment benefits and assistance**:

- **Job seeker’s allowance** (paid for a minimum of 36 and a maximum of 90 days) – the system of unemployment benefits changed as of September 1, 2011: the higher amount and benefit period was reduced significantly (from 180 days) with changes in the entitlement conditions as well.
- **Pre-retirement job seeker’s benefit** (for those on job seeker’s allowance within five years from pensionable age)
- **Regular social assistance** (for those who have exhausted entitlement to job seeker’s allowance with reduced work capacity: long term unemployment, aged 55 or over, lack of suitable childcare for child(ren) aged under 14, other conditions as set out in the regulation; and a low income)
- **Out-of-work assistance** (for those not eligible for regular social assistance)

Furthermore, mixed interventions also exist combining several measures and supports from the above listed ones. These complex programmes are funded by the EU and are implemented under Priority 1 of the Social Renewal Operational Programme (SROP). These projects, with the objective of risk prevention, support people with reduced work capacity, young entrants, people aged 50 years or over, low-educated people and people returning to work after having a child / children. The impact of these complex programmes in Hungary has not been evaluated yet (Busch – Cseres-Gergely, 2012:202).

Labour market related policies - outside employment policy (Busch et al. 2013):

- **Labour taxation** – as already mentioned, in 2011 there were significant changes on the personal income tax system with the introduction of a flat-rate (or dual-rate) system which resulted in an increased tax burden on people with the lowest income. This has impacted the labour market as well.
- **Contractual terms of employment** - The Labour Code that was in force until mid-2012 had been adopted in 1992, nevertheless, regular amendments by the governments ensured that it was considered as one of the most flexible in Europe by the mid-2000. The new Labour Code adopted in 2011 was aimed to increase the flexibility of employment by making hiring and firing easier for employer and reducing employee's interest representation possibilities.
- **Old age and disability pensions system** – Retirement before the statutory pension age was abolished in Hungary after 1 January, 2012, while disability pensions were replaced by benefits for people with partial work capacity.
- **Wage bargaining and wage regulation** – Overall, trade union membership in Hungary is relatively low and wages are rather set in company-level agreements. Wage negotiations up until 2011 happened in a dual system: in the public sector it was set through a wage table regulated in the relevant act, while it happened in a decentralised manner in the private sector. Until 1 January, 2011 the minimum wage was regulated through tripartite negotiations between employees, employers and the Government in the National Council for the Reconciliation of Interests (Országos Érdekegyeztető Tanács, OÉT). Since then, the Council was abolished and the Government alone (after consultations with social partners) decides on the minimum wage.

Table 1. Employment policy spending in the budget (HUF, 2011/2012)

	Amount (billion forints)		Share (percentage)		Increase
	2011	2012	2011	2012	2012/2011
Active measures	30.923	31.600	10.9	10.3	2.2
Employment and training subsidies	25.775	25.600	9.1	8.3	-0.7
Reimbursement of contribution discount	5.148	6.000	1.8	2.0	16.6
Vocational training and adult learning subsidies	27.921	23.483	9.8	7.6	-15.9
Expenditure on passive measures	125.765	58.700	44.3	19.1	-53.3
Job seekers' assistance	124.543	57.000	43.9	18.5	-54.2
Transfer to Pension Insurance Fund	1.222	1.700	0.4	0.6	39.2
Wage guarantee payments	5.363	6.000	1.9	2.0	11.9
Operating costs	0.087	0.300	0.0	0.1	246.0
Start Employment Programme (2011: public works)	59.800	132.183	21.1	43.0	121.0
Retention balance and risk management allocation	0.000	2.000	0.0	0.7	
EU pre- and co-financing	33.500	53.367	11.8	17.3	59.3
SROP 1.1 Employment services and assistance	19.754	37.900	7.0	12.3	91.9
SROP 1.2 Normative employment incentives	9.775	8.500	3.4	2.8	-13.0
EU co-financing for employability and adaptability	3.971	6.967	1.4	2.3	75.5
Other	0.304	0.0	0.1	0.0	
Total	283.662	307.632	100.0	100.0	8.5

Note: 2011 data are final numbers from the budgetary discharge while 2012 indicated planned expenditure at current value. In 2011 the Fund was called the Labour Market Fund, in 2012 the National Employment Fund. At the end of January, 2013 one euro was equivalent to approximately 290 Hungarian forints.

Source: Bill on the "Implementation of Act CLXIX of 2010 on the 2011 budget of the Republic of Hungary" (budgetary discharge, Annex 1) Act CLXXXVIII of 2011, Hungarian Official Gazette, Year 2011, number 161, p. 39 337. (Cseres-Gergely 2013:314)

b. Demographic structure

The population of Hungary is in constant decrease starting from 1981 and is below 10 million nowadays. Furthermore, the age structure of the population has also worsened: while the share of older people is increasing, the share of younger generation is in decline, together with the share of middle-aged generations (also in decline starting from 2007). This means that the share of active population on the labour market is also decreasing, while the rate of dependency is increasing leading to negative demographic trends that affect the economic performance of the country on the long term.

The main reasons of the negative demographic trends are the low number of birth, the low fertility rate and the constantly high number of death. The Hungarian fertility rate is among the lowest in Europe (EU average in 2012: 1.58) and follows a stagnating trend during the 2000s. These negative trends resulting in a decreasing population could not be counterbalanced with migration, although immigration exceeds emigration. Nevertheless, recent trends show increasing emigration as well.

Table 2. Demographic indicators in Hungary (1980-2013)

Year	Population, 1 January	Male	Female	Natural increase, decrease (-)	Total fertility rate	Average life expectancy at the birth - male	Average life expectancy at the birth - female
1980	10 709 463	5 188 709	5 520 754	3 318	1.92	65.5	72.7
1990	10 374 823	4 984 904	5 389 919	-19 981	1.84	65.1	73.7
2001	10 200 298	4 851 012	5 349 286	-35 136	1.31	68.2	76.5
2002	10 174 853	4 836 980	5 337 873	-36 029	1.31	68.3	76.6
2003	10 142 362	4 818 456	5 323 906	-41 176	1.28	68.3	76.5
2004	10 116 742	4 804 113	5 312 629	-37 355	1.28	68.6	76.9
2005	10 097 549	4 793 115	5 304 434	-38 236	1.32	68.6	76.9
2006	10 076 581	4 784 579	5 292 002	-31 732	1.35	69.0	77.4
2007	10 066 158	4 779 078	5 287 080	-35 325	1.32	69.2	77.3
2008	10 045 401	4 769 562	5 275 839	-30 878	1.35	69.8	77.8
2009	10 030 975	4 763 050	5 267 925	-33 972	1.33	70.1	77.9
2010	10 014 324	4 756 900	5 257 424	-40 121	1.26	70.5	78.1
2011	9 985 722	4 743 901	5 241 821	-40 746	1.24	70.9	78.2
2012	9 931 925	4 724 666	5 207 259	-39 171	1.34	71.45	78.38
2013	9 908 798	4 715 953	5 192 845

Source: Hungarian Central Statistical Office

The estimated population of Hungary was 9,908,798 in January 2013 (last census in 2011). Life expectancy at birth is in constant increase and is higher for women (78.38 years in 2012) than for men (71.45 in 2012). Life expectancy is lower than the EU average both for men (77.5) and for women (83.1). In 2013 17.5% of the Hungarian population resided in Budapest, 51.8% in other towns, while 30.7% in small settlements.

Table 3. Population by age group (% , 2002-2013)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
0-14	16.3	16.1	15.9	15.6	15.4	15.2	15	14.9	14.7	14.6	14.5	14.4
15-24	14.1	13.7	13.4	13.1	12.9	12.8	12.7	12.6	12.5	12.3	12.2	12.1
25-49	35.9	36.1	36.1	36	35.8	35.7	35.7	35.7	35.8	35.9	35.4	35.5
50-64	18.4	18.7	19.1	19.7	20.1	20.4	20.4	20.5	20.3	20.4	21	20.8
65-79	12.3	12.3	12.3	12.3	12.3	12.3	12.5	12.5	12.7	12.7	12.9	13.1
80	2.9	3.1	3.2	3.3	3.5	3.6	3.7	3.8	3.9	4.1	4	4.1
Proportion of population aged 65 or over	15.3	15.4	15.5	15.6	15.8	15.9	16.2	16.4	16.6	16.7	16.9	17.2
Old age dependency ratio*	22.3	22.4	22.6	22.7	22.9	23.2	23.5	23.8	24.2	24.4	24.6	25.1

Source: Eurostat

*This indicator is the ratio between the total number of elderly persons of an age when they are generally economically inactive (aged 65 and over) and the number of persons of working age (from 15 to 64).

The share of the population aged under 15 in January 1, 2013 is 14.4%, slightly below the EU average (15.6%), those aged over 65 is 17.2%, also around the EU average (18.2%). The calculated old age dependency rate is 25.1 in 2013 in Hungary, slightly below the EU average (27.5); however, it shows an increasing trend after 2000.

The main ethnic groups living in Hungary (according to the 2011 Census) are 83.7% Hungarians, 3.1% Romani/ Gypsy, 1.3% Germans, (the rest consists of smaller ethnic minorities and undeclared). The number of Roma population is, however, difficult to estimate due to categorisation problems (self-declaration vs. perception of others) and a lack of official registry. Other estimations on Roma population calculate with a 6-7% proportion of the total Hungarian population (DRI 2010, Hablicsek 2007).

Table 4. Population by education and age group (as a percentage of population in the same age group, 2001/2011)

Age group, years	2001	2011	2001	2011	2001	2011	2001	2011
	Not even the first grade of general (primary) school completed		At least the 8th grade of general (primary) school completed		At least secondary level with final examination		University, college, etc. with degree	
25-29	0.5	0.5	97.9	98.3	45.0	66.6	14.8	28.0
30-34	0.5	0.4	97.8	98.5	44.9	60.6	15.3	28.0
35-39	0.6	0.4	97.5	98.5	44.6	53.5	16.1	23.1
40-44	0.7	0.4	97.0	98.4	42.2	51.3	14.9	20.0
45-49	0.6	0.6	97.4	98.0	42.5	49.3	14.4	19.4
50-54	0.6	0.6	96.7	97.6	44.5	46.4	14.3	17.4
55-59	0.8	0.5	93.7	98.0	38.4	45.4	13.9	16.2
60-64	1.0	0.5	86.7	97.6	29.3	47.3	9.5	15.8
65-69	1.0	0.6	73.7	95.6	22.8	42.8	8.5	16.4
70-74	0.8	0.8	60.8	90.6	19.9	32.9	7.5	11.8
75-	1.2	1.2	40.5	70.4	14.3	23.1	5.1	9.5

Source: Hungarian Central Statistical Office

As mentioned earlier, education and skills are highly differentiating factors on the labour market in Hungary. Unskilled workers are the ones falling out of the labour market and are behind the low employment rate, while those with tertiary education are the least affected by unemployment. Thus, a good education is the best way for finding a job. In 2012 in Hungary, low education attainment¹ characterized 17.9% of adults aged 25-64, lower than the EU average of 25.8% (Eurostat data). 82.1% of adults aged 25-64 have earned upper secondary education², higher than the EU average of 74.2% (Eurostat data). Around 84.7% of men have successfully completed upper secondary education compared with 79.7% of women. About three out of ten (29.9%) young people aged 30-34 had a completed tertiary education in 2012 in Hungary, a slightly lower proportion than the EU average (35.8%). In terms of the tertiary education, however, women were more successful than men in the respective age group: 35.5% of women had a degree as

¹ The indicator is defined as the percentage of people aged 25 to 64 with an education level ISCED (International Standard Classification of Education) of 2 or less. ISCED levels 0-2: pre-primary, primary and lower secondary education.

² Upper secondary education: with an education level ISCED 3a, 3b or 3c long minimum.

opposed to 24.7% of men. Nevertheless, as shown in Table 4, education level increased over the time period.

While migration and the integration of immigrants is an important social problem in certain EU countries, it is not so in the case of Hungary. The number of immigrants in Hungary is not high compared to other EU countries. After a higher immigration wave during the mid-1990s, the intensity of immigration is rather stable since then. The main characteristic of these trends is that immigrants in Hungary are mainly of Hungarian ethnic origin and coming from the neighbouring countries (Gödri-Tóth 2005). Romania is the main sending country; however, after their accession to the EU, there was a decrease in the number of people coming to Hungary – probably due to the shift in preference of other western countries (Gödri-Kiss 2009). With the not so important number of immigrants where in addition Hungarian ethnic origin dominates, integration of immigrants is not a primary social problem in Hungary. Furthermore, immigrants has a slight male dominance and are younger and on average more educated than the average Hungarian population, with a higher activity rate as well (Kisfalusi 2012). However, socio-demographic features show an important variation according to the country of origin. The number of foreign citizens living in Hungary January 1, 2013 was around 140 thousands (around 1.4% of the total population) with 56.1% being men. Three quarter of them came from a European country, Romania being the most important one (25%), followed by China (8%) and Ukraine (7%). Overall, 19% of foreign citizens came from Asia.

In terms of emigration tendencies it is more difficult to rely on exact statistics. According to other countries' register starting from the 1990s up until 2006 20-28 thousands persons left the country. Since then, emigration follows an increasing trend. In 2007 34 thousands and in 2008 42 thousands persons were registered in another country. In 2008, 121 thousands Hungarian citizens were living in another country in total. The primary country of destination is Germany; however, after Hungary's EU accession other EU destinations like Great Britain, Ireland also became important. While at the time of the accession emigration to another EU country was much less important from Hungary than from other new members such as Poland or Romania (DRI 2010), nowadays Hungarian people also became more mobile.

Table 5. Number of foreign citizens living in Hungary – by country of origin (2000-2013)

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	153 125	142 153	154 430	166 030	174 697	184 358	197 819	206 909	143 361	141 357
Male	79 101	68 652	77 361	84 073	89 938	95 824	104 719	109 487	79 915	79 285
Female	74 024	73 501	77 069	81 957	84 759	88 534	93 100	97 422	63 446	62 072
Europe	125 784	122 261	130 535	140 827	146 145	154 352	164 744	171 916	110 122	104 963
<i>Out of which:</i>										
Romania	57 343	67 529	66 183	66 951	65 836	66 368	72 720	76 878	41 596	34 795
Serbia	15 571	13 643	12 111	8 459	13 721	17 015	17 197	16 301	8 281	4 894
Ukraine	11 016	13 933	15 337	15 866	17 289	17 610	17 241	16 537	11 894	10 849
Germany	9 631	6 908	10 504	15 037	14 436	16 744	18 691	20 232	15 834	17 418
Poland	4 144	2 178	2 364	2 681	2 645	2 776	2 515	2 734	1 385	1 631
Russia	3 002	2 642	2 759	2 760	2 787	2 923	3 703	3 483	2 864	3 390
Slovakia	1 717	1 225	3 597	4 276	4 944	6 106	6 424	7 297	6 705	7 573
Croatia	1 162	837	778	813	852	914	916	953	676	674
Austria	1 053	544	1 494	2 225	2 571	2 956	3 705	3 926	3 331	3 702
Asia	19 326	15 121	18 543	19 733	22 356	23 521	25 127	26 295	24 733	27 037
China	8 861	6 856	8 584	8 979	10 218	10 709	11 173	11 829	10 114	11 504
America	4 677	2 667	2 989	3 075	3 557	3 617	4 787	5 083	4 713	4 899
USA	3 261	1 679	1 929	1 931	2 343	2 379	3 088	3 266	3 060	3 102
Africa	2 559	1 556	1 800	1 783	1 913	1 998	2 513	2 779	3 284	3 850
Australia & Oceania	779	548	563	612	726	870	648	836	509	608

Source: Hungarian Central Statistical Office

c. Socio-economic structure

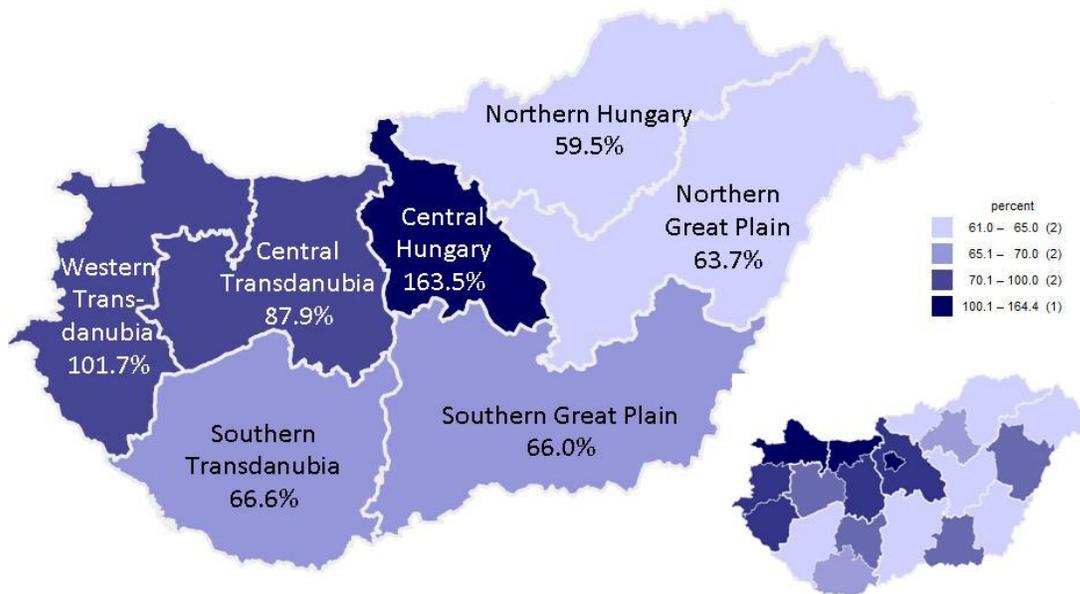
Due to stabilization, liberalization, market-compatible institutional transformation and privatization efforts during the 1990s, Hungary was catching up fast to the more developed country of the European Union, while it also had a leading status among countries with a post-socialist past. However, in order not to aggravate social tension of the transition, economic policy makers avoided structural reforms and opted for short-term measures. While the era of the 1990s was successful, also based on the inflow of foreign direct investment (made possible by privatization), the 2000s were characterised by a slow-down of the economy. Nevertheless, even though it couldn't be financed through domestic income, the generous welfare regime remained (Bartha 2012).

The accelerated development of the country during the 1990s did not, however, affect all regions to similar extent. Important regional inequalities exist in Hungary in terms of the dualism between Budapest and the countryside, there are differences between the Eastern and the Western part of the country and an urban-rural disparity as well

(Nemes-Nagy 2004, Lócsei 2013). Economic growth was principally tied to Budapest, to other large towns and to the Western part of Hungary – also related to infrastructural development, motorways and possibilities of public transport.

Hungary's GDP per capita in 2011 was at the 67% of the EU average with 2 771 thousands HUF. Nevertheless significant regional differences existed within the country (see Figure 2). Central Hungary, and most importantly Budapest is the most developed region: Budapest's GDP was at the 220% of the national one in 2011. Western regions' GDP also exceeds Eastern regions' (85.8% vs. 63.2%). While regions are neither homogeneous, the richest districts are Budapest and in the North-West of Hungary (Győr-Moson-Sopron – 123.2% and Komárom-Esztergom – 101.2%), the poorest areas are in Southern Transdanubia (Nógrád – 44.1%), Northern Hungary (Szabolcs-Szatmár-Bereg – 53.3%) and the Northern Great Plain (Békés – 56.2%).

Figure 2. Gross domestic product per capita as a percentage of the national average (2011)



Source: Hungarian Central Statistical Office

The inflow of foreign capital had an important role in the economic development of Hungary during the 1990s. In 2011 this latter also showed high regional differences, mainly determined by the level of development of the territory. This way, half of FDI was invested in Budapest, 60% in Central Hungary, 29% was invested in the Western regions, while only 10% in the Eastern part of the country.

The reasons behind regional disparities are to be drawn back to the transition representing a significant change in the economic structure of the regions, while

regional economic development disparities further increased in the 1990s. The most significant change was the increase in the proportion of the services sector, which caused the significant difference between the capital and the rest of the country. As a result Budapest had and still has a leading role in business services, trade and the settlement of firm headquarters. International companies and export-oriented industrial firms on the other hand primarily settled into the Western Transdanubian region (automobile industry, electronics), furthermore the proximity of economically developed regions in Austria, South Germany and North Italy made this region more attractive. The economic decline after the transition first of all affected North-Hungary and the Southern parts of Transdanubia. Once developed, economic depression in North Hungary came with the crisis of its outdated heavy industrial bases. The Great Plain, a traditionally agricultural area, couldn't cope with the transformation of the economic structure (Nemes-Nagy 2004). This way, there is a gap between the dynamically developing capital and the rest of the country, while the Western and central Transdanubian regions are able to cope to some extent depending on the industrial conjuncture, however, the other four regions are increasingly falling behind (Lócsei et al. 2013).

Besides the Budapest vs. other parts and the East vs. West disparities, the urban-rural differences also play an important role in regional differences. Whereas bigger towns might attract economic development, this is more difficult for smaller settlements. Smaller settlements on the other hand are characterising the most under-developed regions of Southern Transdanubia and Northern Hungary, and the Great Plain with its many small farms (Lócsei et al. 2013).

Table 6. Gross value added and proportion of employed by industries (% , 2000-2012)

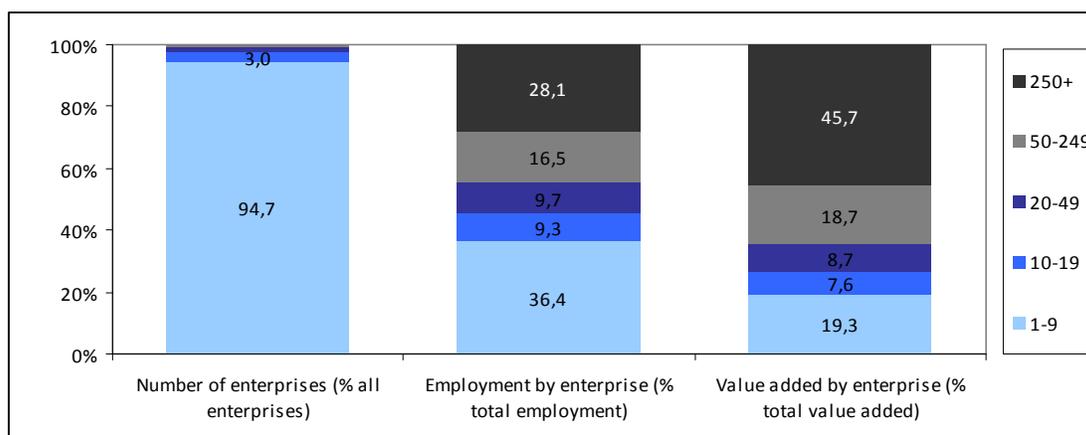
Code	Industries	Value and distribution of gross value added by industries (%)			Employed persons by industries (% of all employed)	
		2000	2008	2012	2008	2012
C	Manufacturing	22.9	21.6	22.7	22.0	20.7
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	8.9	11.2	10.0	14.9	14.0
O	Public administration and defence; compulsory social security	8.7	8.9	8.4	7.4	8.4
P	Education	4.8	4.9	4.6	8.1	8.1
Q	Human health and social work activities	4.3	4.1	4.3	6.3	6.9
H	Transportation and storage	5.9	5.7	6.2	6.7	6.7
F	Construction	5.3	4.9	3.8	8.0	6.3
A	Agriculture, forestry and fishing	5.9	4.0	4.7	4.4	5.2

Source: Hungarian Central Statistical Office

During the mid-1990s agriculture still represented 8.5% of the gross value of national production that showed a constant decrease up until nowadays (4.7%). Manufacturing represents about 20% of both national production and the proportion of employed persons, followed by wholesale and retail trade, public administration, health and transportation. The crisis has first of all affected the construction industry both in terms of production and the number of employed people.

Following the transition, the structure of the firms has also changed. Before big, state owned companies were characterising the Hungarian economy which were eroded after privatization and the economic change during the 1990s. Their places were partly taken by international firms and newly founded enterprises. These latter were typically small and medium size enterprises concentrated in the central region. Similarly, about 80% of bigger companies (with more than 250 employees) are located in Budapest, as opposed to sole proprietor firms of which only 30% are based in Budapest (HCSO 2008). In terms of the firms, micro enterprises dominate in Hungary according to 2010 OECD data (95%) while they only account for 36% of the total employed and 19% of the added value. About 60% of the firms were sole proprietor firms, 20% limited liability companies and 10% limited partnerships.

Figure 3. Number, employment and value added of enterprises in Hungary in 2010 (%)



Source: OECD 2013

d. Processes and actors of policy-making and policy implementation

As already mentioned in Chapter 1.a several institutions take part in the policy-making process and policy implementation. First of all, the **National Parliament** decides on policy measures related to labour, their budget and the institutional setting. At the Government level, currently, labour issues are handled by the **Ministry for National Economy** and the Ministry of Human Resources to some extent. At the Ministry for National Economy there is a state secretary (Mr. Sándor Czomba) responsible for employment policy including development of employment strategy and related legal

work with a special focus on job creation, vocational education, adult education (www.kormany.hu).

Policy implementation is organized by the **National Labour Office** – that had been reformed and renamed several times during the past two decades, currently, it is the central agency in charge of implementing tasks related to employment policy, occupational safety, labour affairs and vocational and adult training. It coordinates the labour market programmes and organises, manages and coordinates employment and training programmes financed by the European Union. The National Labour Office operates through its local branch offices, the **Labour Centres**. These local centres are in charge of the local tasks related to the employment policy such as registration of unemployed, consulting, administration of active and passive measures of the employment policy. Furthermore, the National Labour Office directs the development of services delivered within the framework of the **National Employment Service**. It collects and analyse data on changes in salaries and wages, the annual activities of private placement and temporary work agencies, and the employment of foreign workers in Hungary subject to licensing and reporting obligations (<http://www.eu.munka.hu/about>).

Another important institution related to employment policy is the **National Employment Non-profit Public Company Ltd.** (renamed in 2012, previously: National Employment Public Foundation, OFA). Created in 1992, its mission has been to promote employment and preserve work places, to support innovative (and experimental) employment programmes that serve labour market integration. OFA provides grant support for job creation, job preservation especially for SMEs, non-profit organizations and the institutions of social economy, with a focus on programmes targeting disadvantaged groups on the labour market. As of Hungary's EU accession, the institute has been involved in implementing programmes co-financed by the European Social Fund: EQUAL, the Regional Operational Programme and the Social Renewal Operational Programme (www.ofa.hu).

Currently, labour market policies can be financed from two sources. There are programmes exclusively financed from national or European Union development funds, or jointly using these two sources. This dual character determines planning, monitoring and reporting as well. Certain programmes are implemented on their own (e.g. the Start programme) while others are part of a complex programme (e.g. wage subsidies for disadvantaged people) (Busch et al. 2013:312).

Starting from the inclusion of EU funding in labour market related policies and measures the **National Development Agency**³ is also involved in the implementation of these programmes. As of 2007 the objectives and priorities of these programmes are laid down in the SROP (Social Renewal Operative Programme) where the National Development Office is the Managing Authority. Specific objectives of the SROP for the 2007-2013 period were:

- Improving the alignment of labour market demand and supply

³ The National Development Agency ceased to exist as of January 1 2014, its tasks and duties were distributed among different Ministry departments.

- Reducing the regional differences in activity
- Promoting adaptability to changes
- Promoting lifelong learning
- Improving the state of health and ability to work
- Strengthening social inclusion, promoting equal opportunities

The purpose of the Social Renewal Operational Programme is to implement interventions (starting from the programming period 2007-2013) according to the priorities of the New Hungary Development Plan (NHDP)⁴. The programme is mainly funded by the European Social Fund (85%). Nevertheless, as of 2014, the National Development Agency is split up between various departments of Ministries.

Trade unions have a low membership in Hungary, furthermore, density follows a decreasing tendency⁵. Instead of sectoral agreements, wages are typically influenced by company collective agreements (Neumann 2013). Nevertheless, from 1990 up until 2011 a tripartite body existed for social dialogue and collective bargaining under different name (most recently National Reconciliation Council (Országos Érdekegyeztető Tanács, OÉT). The OÉT included six national level trade union confederations, nine employers' confederation and the Government. Although there has been an intensive on issues related to the crisis between 2008 and 2011, the OÉT has been ceased in 2011. Up until 2011 minimum wage has been annually agreed within this tripartite body. Since then the Government might decide on the minimum wage alone. In 2011 two new bodies of social dialogue were established: the National Economic and Social Council (Nemzeti Gazdasági és Szociális Tanács, NGTT) and the Reconciliation Forum of Social Partners in the Competitive Sector (Versenyszféra Érdekegyeztető Fóruma, VÉT or VKF). The first one is a consultative body, besides social partners it also includes churches and NGO's. The second body consists of three employers' organisations and three trade union confederations. With the new Labour Code in effect since July 2012 unions at state-owned companies cannot negotiate better conditions for employees than the minimum standards regulated by the law. Only unions at privately owned companies can negotiate better conditions, in a collective agreement (Eurofound 2013).

e. Cultural setting

After the transition and the privatization process a managerial system of capitalism based on diffuse ownership was established in Hungary. The labour demand has also changed due to the establishment of market economy and another type of business (also promoted by multinational companies), the closing of big firms in the production industry, a rising level of unemployment, and many people with out-dated knowledge. Members of the class of managers were recruited from the elites of the previous system (i.e. elite reproduction theory) through their cultural and social capital (Szelényi 1999)

⁴ palyazat.gov.hu/download/2737/TAMOP_adopted_en.pdf

⁵ According to OECD statistics trade union density was 21.7% in 2000 and 16.8% in 2008 (no recent data available). This follows approximately the OECD average.

as change of the decision-making elite groups has started before the transition. After the transition, the elite's evaluation of unemployment differed from the majority of society: they thought that a certain level of unemployment is unavoidable (Lengyel – Bank 2014).

During the state-socialism there were several cultural specificities of the labour market that are still affecting current dynamics. As opposed to “carrier markets” provided by multinational companies where promotion happens through formalized channels, the socialist firm operated with selective wage agreements and informal ways of promotion. Another legacy of the past is the second economy. During state-socialism people often had a second job besides their primary employment. With the reduction of work places many people had to make their living on this second economy, often in an illegal way (Medgyesi – Róbert 1998). Whereas in 2011 grey economy represented about one-fifth of the economy in the EU, this proportion is higher, about one-quarter in Hungary (Lengyel – Bank 2014).

The other side of the coin is labour supply. Welfare attitudes of the (working) population are equally important when dealing with the question of cultural setting of the labour market as it determines to some extent the policy outcome and also have a feedback effect. In this regard as well, the state socialist past of the countries of Eastern Europe plays a determining role. The universal character of the welfare state and the full employment followed by important social changes during and after the transition has lead to certain specificities in this respect in these countries. The democratization process and the transition to market economy comprised both institution building and culture building. The sources of these latter can be found in the state socialist past, in national traditions and “westernization”. Common characteristics of these countries are a low level of active citizenship and participation, low level of trust in institutions and the lack of the spirit of capitalism (Sztompka 1999). In general, in Eastern countries there is a strong need for state intervention (Svallfors 2012). High risk groups are even more in favour of state intervention, while they have a negative evaluation of the state's performance, and have the highest anticipation of risks (Blomberg et al. 2012). All in all, there is a high support in these countries for a redistributive welfare state and a consensus on that richer people should pay larger share of taxes (Cerami 2006), whereas solidarity varies according to social status (higher social status meaning lower level of solidarity).

Analyzing attitudes towards social justice in Hungary Örkény and Székelyi found a domination of individualistic ideology together with etatist egalitarian attitudes, however, fatalism was also prevailing in exposed social situations. The ideology of a fair meritocratic approach is seldom present, albeit such attitudes show an increasing trend over the past two decades. The instrumentalist logic is primarily defining wage distribution: those with very low wages would favour more radical increase for themselves than for those who are in a better situation. Those with higher revenue on the other hand would increase their own wage less than the wage of unskilled workers. It seems this way, that the level of revenue determines what one considers fair. Nevertheless, ideologies and the practice are generally not consistent with each other, especially among those who are not present on the labour market (Örkény – Székelyi 2010). Another study based on 2008 data finds that Hungarians hold rather negative attitudes towards the welfare state or welfare redistribution thinking that welfare

transfers represents excessive burden to the economy and to the firms, that they are rather not efficient in reducing social inequalities (Bányai et al. 2012).

2. Current labour market situation

a. *Employment situation*

The adjustment process of firms to the challenges posed by the crisis resulted in decreasing real wages and rising unemployment that lowered the general income level. This, together with the foreign exchange rate dominated debt of the households, domestic demand permanently decreased. Consumption of households is stagnating while investments are still decreasing. As a result, firms' production for the Hungarian market is still at a lower level than preceding the crisis also leading to a lower labour demand.

A decreased labour demand characterizes all countries in the region. Firms, nevertheless, followed a strategy to preserve their best workforce. Preservation of jobs was also supported by governments through support for the firms although to various extent. Since the crisis, firms using a labour hoarding strategy just slowly increased their labour demand, first of all relying on their existing employees more intensively. This way, current labour demand still lacks behind the level preceding the crisis. In Hungary, the employment rate is still behind its 2005–2006 level, despite the efforts of the government to counterbalance lower labour demand in the private sector increasing public working schemes.

Recent dynamics in the economic activity rate (or participation rate) show opposing tendencies. On the one hand, constantly low labour demand leads to the withdrawal of people who can't find a job for a long time. Furthermore, demographic factors also decrease economic activity rate: the baby boomers⁶ are reaching their retirement age. On the other hand those who were not present in the labour market before might re-enter in order to supply for the lacking household income. Furthermore, structural factors drives people back to the labour market as well: conditions of retirement, rules of disability pensions and other social transfers are becoming stricter in Hungary since the early 2000s. Severity of social transfers is increasing since 2008. As a result, activity rate increased to its highest level ever since the transition. Hungary, this way, shows tendencies of a positive labour supply and negative labour at the same time.

Already preceding the crisis, Hungarian employment rate has started to decrease in 2007. Nevertheless, firms assuming that the crisis would be temporary, there were tendencies of labour hoarding as well: firms trying to preserve jobs with the aid of government supplies. As part of the crisis management, in 2009 labour hoarding, part-time employment and training was also subsidised by the government. On the other hand, due to permanent budget deficit there were continuous efforts to rationalise

⁶ The so called Ratkó-children are named after the health minister in the early 1950s when abortion was restricted that resulted in a significantly higher level of natural increase in 1950–55.

public sector employment resulting in a decreasing number of public and civil servants since the crisis.

Overall, employment rate in Hungary was below the EU average in 2012 (68.5% vs. 62.1% with regards to the population aged 20-64). Employment rate was stagnating until 2007, showing a decreasing trend after and increasing again after 2012. Similar tendencies were at work among men and women; although employment rate of the latter group is permanently lower (see Table 7).

Table 7. Employment and unemployment rates in Hungary by sex as the proportion of the population aged 15-64 (2000-2013) (%)

Year	Employment rate	Unemployment rate	Long term unemployed	Employment rate	Unemployment rate	Long term unemployed	Employment rate	Unemployment rate	Long term unemployed
	Total			Male			Female		
2000	56.0	3.8	1.9	62.7	4.8	2.4	49.6	3.0	1.4
2001	56.2	3.4	1.6	62.9	4.3	2.0	49.8	2.6	1.1
2002	56.2	3.5	1.6	62.9	4.1	1.9	49.8	2.9	1.2
2003	57.0	3.6	1.5	63.4	4.2	1.8	50.9	3.0	1.3
2004	56.8	3.7	1.7	63.1	4.1	1.9	50.7	3.3	1.4
2005	56.9	4.4	2.0	63.1	4.8	2.2	51.0	4.1	1.8
2006	57.3	4.6	2.1	63.8	4.9	2.3	51.1	4.4	1.9
2007	57.3	4.6	2.2	64.0	4.9	2.3	50.9	4.2	2.0
2008	56.7	4.8	2.3	63.0	5.2	2.5	50.6	4.5	2.0
2009	55.4	6.2	2.6	61.1	7.0	3.0	49.9	5.4	2.3
2010	55.4	7.0	3.5	60.4	8.0	4.0	50.6	6.1	3.0
2011	55.8	6.9	3.4	61.2	7.6	3.7	50.6	6.2	3.1
2012	57.2	7.1	3.3	62.5	8.0	3.7	52.1	6.2	2.8
2013	58.4	6.7	3.3	64.3	7.4	3.7	52.8	6.0	2.9

Source: Hungarian Central Statistical Office, LFS

Employment rate also show important differences across the different regions in Hungary. The Central region, first of all because of Budapest (56.9%) has the highest employment rate followed by Western and Central Transdanubia. The other regions, especially Northern Hungary is performing the poorest.

Table 8. Employment and unemployment rates in Hungary by region (2013) (%)

Counties, regions	Employment rate	Unemployment rate
Central Hungary	55.6	8.7
Central Transdanubia	53.8	8.8
Western Transdanubia	54.8	7.8
Southern Transdanubia	48.8	9.1
Northern Hungary	45.4	12.9
Northern Great Plain	47.7	14.4
Southern Great Plain	49.9	11.3
Total	51.6	10.2

Source: Hungarian Central Statistical Office

b. Unemployment situation

In 2012, Hungary's unemployment rate was around the level of the EU average (10.2% vs. 10.9% among the population aged 15-74). Economic restructuring in the 2000s (e.g. depression of textile industry and construction while increasing manufacturing) resulted in increasing unemployment rate since the middle of the 2000s, further aggravated by the crisis and the following recession in the economy.

In terms of regional disparities in this respect unemployment rate increased in all regions. Central Hungary, besides its highest employment rate, had the lowest unemployment rate as well; however, it increased in 2009 and is still higher than before the crisis. The reasons why, despite of the economic recovering, the unemployment did not decreased to its level preceding the crisis, is that the number employed in a public work scheme is the highest in the capital (increasing labour participation as well), and that the decreasing jobs in public administration were also concentrated in Budapest. Western and Central Transdanubia were regions severely hit by the crisis due to the presence of the car and manufacturing industry. Unemployment increased after the crisis, but lowered after the recovery of the industry in 2011. Unemployment rate in the regions with the highest unemployment (Northern Great Plain and Northern Hungary) and Southern Great Plain, Southern Transdanubia, have been increasing since the early 2000s. The crisis just aggravated this tendency. Public working schemes focused on these regions, however, are also increasing labour market participation resulting in a stagnating unemployment rate. Despite all measures, unemployment even increased in Northern Hungary and Southern Transdanubia.

The proportion of long-term unemployment is just slightly higher in Hungary than the EU average in 2012. Due to the constantly low labour demand, the share of long-term unemployed (for 12 months or more) represents about half of the unemployed over the period of 2000-2013. In 2011, however, the number of long-term unemployed dropped when long-term unemployed entered public working programmes. In 2012, those who dropped out from these short-term programmes had even less chance to find a job falling back to unemployment status making the level of unemployment rise again. The duration of unemployment increased significantly after the crisis, showing the difficulty to find a job.

c. NEETs' situation

The youth, specifically young entrants under the age of 25 years have been defined as one of the disadvantaged groups on labour market from the 1990s. From the early 1990s the educational level of the newer cohorts gradually increased and higher education improved the labour market position of young people (although for the young with low level of education the unemployment rate was permanently high). Nevertheless, these trends slowed down after 2000 and the changes in public education from September 2012 reduced the school-leaving age from 18 to 16 and encourage young people to choose a vocational training and enter the labour market earlier.

In 2000 youth unemployment rate was the double of the general population's (6.6 and 12.3 %) by 2012, with gradually worsening situation in both group, the difference has increased (11 and 28.1%).

According to a Eurofound report on young people "not in education, employment, or training" (NEET) youth unemployment in 2011 in Hungary (18.3%) is higher than the EU average of 33.6%. In line with overall tendencies in Hungary, the number of young people employed in the public sector has also decreased during the crisis, while part-time employment still plays marginal role. In Hungary, one young adult in every four or more is a NEET. As opposed to EU trends that NEET rate is higher among men aged 15-19 years than women of the same age, this is not the case in Hungary.

In Hungary, the majority of NEETS are classified as inactive which suggests that there might be structural problem in engaging young people with the labour market or the education system. Among those who are available for work not everyone is looking for a job as they believe that there is no work available: the proportion of these 'discouraged workers' is higher than 40% among the inactive NEETs in Hungary (Eurofound 2012).

For more details on NEETs please refer to the WP2 country report.

d. Contracts and working hours

Hungary lags behind the EU average in terms of atypical employment. The share of temporary contracts in 2012 in the EU was 13.7%, while the same proportion was lower, 9.4% in Hungary. Part-time time employment was 19.9% in the EU (male: 9.4%, female: 32.6%), while much less, only 7% in Hungary (male: 4.7%, female: 9.7% HU). The difference is especially marked among women. Nevertheless, atypical employment was somewhat increased with the crisis. Part-time employment increased first in manufacturing and then expanded to market services as well. This increase especially concerned firms with more than 5 employees, where part-time employment rose from 8% prior to the crisis to above 11% by early 2012. Similarly, temporary employment showed an increasing tendency amongst these firms. This trend showed, however, regional differences, affecting employment in the Eastern part of the country to a higher extent (Cseres-Gergely et al. 2013).

Table 9. Atypical employment in Hungary (2000-2013)

Years	Temporary contracts (%)			Part-time employment (%)		
	Male	Female	Total	Male	Female	Total
2000	7.67	6.53	7.12	2.96	5.11	3.93
2001	8.13	6.78	7.49	3.01	5.07	3.95
2002	7.90	6.62	7.29	2.95	5.06	3.91
2003	8.33	6.69	7.54	3.19	6.03	4.49
2004	7.47	6.15	6.84	3.16	5.89	4.41
2005	7.58	6.45	7.04	2.66	5.81	4.10
2006	7.37	6.04	6.74	2.62	5.61	3.98
2007	7.71	6.82	7.29	2.75	5.80	4.14
2008	8.65	7.02	7.88	3.32	6.17	4.62
2009	9.02	7.82	8.45	3.92	7.49	5.56
2010	10.09	9.21	9.67	3.90	8.03	5.82
2011	9.44	8.40	8.94	4.74	9.18	6.78
2012	10.27	8.53	9.44	4.68	9.66	6.98
2013	11.16	10.46	10.83	4.44	9.31	6.68

Source: Hungarian Central Statistical Office

According to a Europe-wide firm survey conducted in 2007-2008 among firms (including 1959 firms in Hungary) about 80% of employees are employed full-time with a permanent contract, part-time and temporary work concerns only 20% of them – slightly below the Euro area, tendencies in this respect are in line with other countries of the region. Hungarian firms, however, are somewhat different in this respect employing less temporary, but more part-time work. Hungarian firms using less temporary contracts do not take the advantages of these constructions that consist of making labour markets more flexible. This shows lower flexibility of Hungarian firms when it comes to hiring and firing. Furthermore, depending on the firm size, these trends show disparities. Large companies follow trends similar to other large companies in the EU. Whereas small and medium sized firms in Hungary seems to avoid temporary employment (Kézdi – Kónya 2011). Part-time employees are rather the poorly educated, and more typically women, especially aged 15-29 and 50 or more. Those already leaving on welfare, receiving pension, childcare allowance or unemployment/social benefit are also more likely to have part-time jobs, while the rate of part-time work decreases at higher level of education (Köllő 2012). Nevertheless, according to LFS data, before the crisis, 4% of employees had a part-time contract, however, only 1% worked less than 30 hours. Consequently it seems that part-time and full-time work are overlapping to a great extent: 1.3% of those describing themselves as part-time workers worked more than 40 hours a week (Köllő 2012).

The analysis of the LFS data in 2005 showed that the average working hours of Hungarian men (41.6 hours a week) was 36 minutes longer than the EU average, while working women worked 6.5 hours more per week (39 hours) than the EU average. Atypical work is less spread in Hungary; more than 90% of all employees have a fixed daily working time. The main tendency is that in Hungary the work is done by fewer people, and within a rigid employment frame (Köllő 2012).

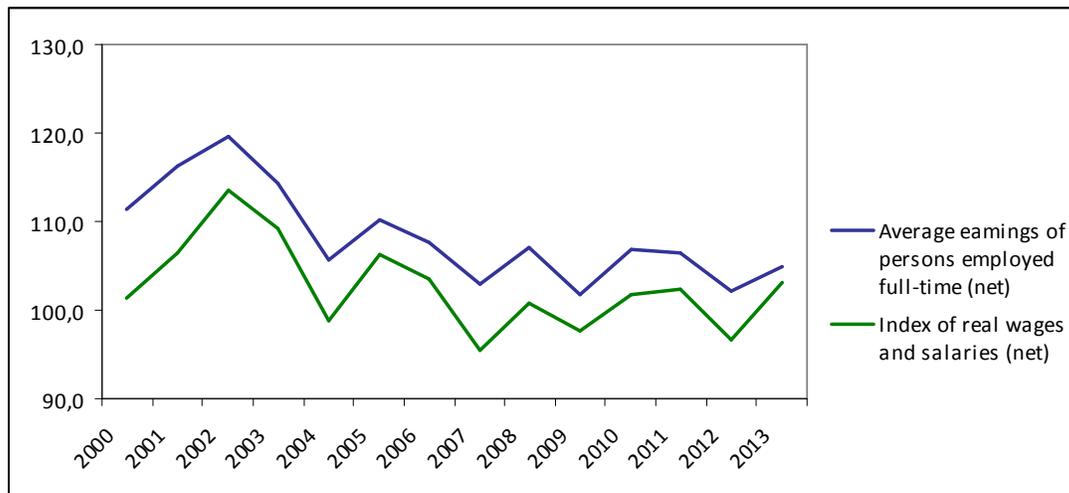
e. Wage levels

In 2013 the average gross wage was 230 664 HUF corresponding to an average 151 085 HUF net wage, while the gross minimum wage was 98 000 HUF, 42.5% of the average wage. Public work programmes provided salaries far lower than the minimum wage: unskilled workers got 75 500 HUF gross wage (49 453 HUF net wage), 32.7% of the average wage, while skilled workers got somewhat higher revenue with a gross payment of 96 800 HUF (63 404 HUF net) that was 42.0% of the average salary that year.

In parallel with the economic recession caused by the crisis real wages also decreased, although with differences related to industry segments. The decrease in real wages was most important in the public sector, as nominal wages were unchanged since 2008 making real wages decrease by about 25% by 2012 compared to their 2007 level. Real wages in the private sector, on the other hand did not decrease significantly.

The recent changes in personal income taxation (introduction of a flat rate system) also affected gross wages after 2011. These changes decreased the tax burden of families with more than one child and those with higher (over the average) wage, while tax burden for those without children and lower salary (below the average) increased. Due to the decrease in income taxes, net wages of the employed could increase. Nevertheless, the expected wage moderation effect did not happen, eventually firms used the decrease in taxation to “whiten” the wages: paid gross wages did not change.

Figure 4. Net wages in Hungary (2000-2013) (previous year = 100.0)



Source: Hungarian Central Statistical Office

The subsequent change in personal income taxation in 2012 abolished tax deduction. This meant in practice the introduction of a new bracket leading to a double rate tax system with tax rates of 16% and 20.3%. Compensating for the decreased net wages due to the abolition of tax deduction affecting low income, the minimum wage was increased

by 20% percent. To counterbalance these tendencies, firms could apply for wage compensation covering the rise in wage costs (Cseres-Gergely et al. 2013).

According to the already mentioned firm study conducted in 2007/2008 in Hungary, time-dependent wage setting predominates. About 70% of employees work in firms where wages are reset in January or another previously fixed month of the year. Another important finding of the survey was that wages do not depend on temporary shocks. These shocks are rather handled by cutting other costs, or changing prices, margins and output. All in all, Hungarian firms do not have constraints in wage setting other than the minimum wage (Kézdi-Kónya 2011). The flexibility of the labour market in this sense further increased with the new Labour Code in 2012.

f. Poverty and social exclusion (AROP, SMD, LWI households etc.)

Risk of poverty or social exclusion⁷ in 2012 has increased in Hungary by 4 percentage points compared to 2008. In terms of severe material deprivation (SMD) there was an increase all over the European Union due to the crisis between 2008 and 2011. Hungary experienced a rise of around 4 percentage points, while it increased slightly more among children (about 5 percentage points) (European Commission 2013).

Table 10. People at risk of poverty or social exclusion in Hungary (% of total population)

	2008	2012
Total	28.2	32.4
Central Hungary	23.1	28.4
Transdanubia	23.9	28.2
Great Plain and North	35.1	38.7
Less than 18 years	19.7	22.6
From 18 to 24 years	18.1	19.8
From 25 to 54 years	12.1	13.1
From 55 to 64 years	7.3	10.8
65 years or over	4.3	6
Pre-primary, primary and lower secondary education	18.5	26.4
Upper secondary and post-secondary non-tertiary education	9.4	9.2
First and second stage of tertiary education	2.3	2.7

Source: Eurostat

The proportion of people at risk of poverty affected more developed regions (Central Hungary and Transdanubia) slightly more than less developed regions (Great Plain and North), although the share of this population increased in the latter as well. Young and older people were the most affected groups (those aged less than 18 and those from 55 to 64 years). The most exposed group were the already most disadvantaged ones, those

⁷ At risk-of-poverty (AROP) are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).

whose education level were below primary, primary or lower secondary education. More educated groups were nearly not affected by this increase. In European comparative perspective it can be said that Hungary was and still is above the EU average in terms of the risk of poverty (23.7% in 2008 and 24.7% in 2012). Nevertheless, risk of poverty for the older population, aged 55-64 and 64 or above is lower than the EU average (15.6% and 14.9% respectively in 2012).

Taking other measures of social deprivation into account, Hungary performs extremely poorly compared to the EU average in terms of severe material deprivation⁸: 25.7% of the population is affected in 2012 as opposed to the 9.9% EU average. There was an 8-9 percentage points increase in this respect compared to the situation in 2008 – all regions were equally affected. The share of people living in households with very low work intensity⁹ is also above the EU average in Hungary, albeit to a much lower extent (12.8% as opposed to 10.3%), and with no significant change over the period, while the shortfall of the less developed regions is also less marked in this respect.

Table 11. Severe material deprivation and people living in households with very low work intensity in Hungary (% of total population)

	Severe material deprivation		People living in households with very low work intensity	
	2008	2012	2008	2012
Hungary	17.9	25.7	12	12.8
Central Hungary	15.6	23.6	7.4	10.1
Transdanubia	14.8	21.9	9.2	12
Great Plain and North	21.8	30.2	17.2	15.3

Source: Eurostat

Taking all three components into account (at-risk-of-poverty, severely materially deprived, and living in a household with very low work intensity) Hungary is categorized in the group of country with both a high risk of entering, and low chances of escaping poverty (together with Bulgaria, Estonia, Greece, Italy, Latvia, Lithuania, Malta, Portugal, Romania and Slovakia) (European Commission 2013).

Furthermore, consumer survey questions about the current financial situation of households showed a negative change from 2008 to 2012 in Hungary, including an increase on responses stating that the household had to draw on savings, or go into debt, in order to cover current expenditures. This was particularly marked among the lowest income quartile group. Similarly, people in the EU-SILC reporting that their household is only managing to 'make ends meet' with great difficulty has risen sharply in Hungary

⁸ Severely materially deprived (SMD) persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.

⁹ People living in households with very low work intensity (LWI) are those aged 0-59 living in households where the adults (aged 18-59) work less than 20% of their total work potential during the past year.

and Ireland since 2008 (around 10 percentage point of increase). The share of those people stating that their household had great difficulty in making ends meet in 2011 was more than 1-in-5. The share of the population reporting 'being in arrears on utility bills' increased by about 12 percentage point between 2008 and 2011, exceeding 20% in 2011. There was a similar increase in terms of 'falling into arrears on mortgage or rent payments' (EU: from some 3.3% in 2008 to nearly 4% in 2011), the rise in Hungary was among the most important with more than 1-in-20 persons in 2011. Overall, the rise in the population in arrears on mortgage or rent payments partly reflects the changes in the burden that this major element of household expenditure represents. Among the population at-risk-of-poverty the proportion of living with a heavy financial burden due to housing costs increased with 16-18 percentage points from 2008 to 2011 – higher than the EU average. The worsening financial situation of households has affected their ability to cope with unexpected financial expenses as well (European Commission 2013).

As already stated before, there are high economic and social differences along the urban vs. rural dimension in Hungary. Those living in villages are more at risk of poverty than those living in towns and cities. The level of education and activity status also determine how much one is affected by poverty. Poverty and social exclusion, on the other hand, affect larger families to a higher extent. The risk of poverty in families with more than 3 children is 2.5 times higher than in families with no child. Roma ethnic origin, besides higher income poverty rates (estimations: 35–55 %), also increases likelihood for worse housing conditions, worse health status and shorter life expectancy. Labour market participation among the Roma is low, while child poverty is especially high, partly due to the higher number of children. Most importantly, smaller settlements are more likely to be less developed, and have larger proportions of poor, undereducated, unemployed people, socially excluded groups and larger families (Vukovich 2008).

The main groups at risk or vulnerable groups this way are: large families, single parent families, people with lower education, the unemployed, inactive persons of working age, Roma/Gypsy population, aged persons especially in one-person households, and people living in smaller villages, especially in the eastern part of Hungary (Vukovich 2008).

g. Vulnerable groups

Vulnerable groups in Hungary, with priority in labour market policies, were well defined already in 1996, when the “Decree No 6/1996 (VII. 16.) MüM (Ministry of Labour) on aid for promoting employment and on the aid that can be provided from the Labour Market Fund for the management of employment crises“ was enforced. The decree listed the following job-seekers as disadvantaged:

- job-seekers whose highest educational level is less than upper secondary
- job-seekers aged over 50
- job-seekers aged below 25
- registered as job-seeker for more than 6 months at the Employment Office

- job-seekers living in his own household as the only adult with one or more dependents
- job-seekers receiving parental benefits within the preceding 12 month
- job-seekers who were in detention within the preceding 12 month

Furthermore, non-job-seekers were also identified as vulnerable in the case they were at risk of loosing their job if:

- they were aged above 50
- they had primary education or less

This way, people with low level of education, young people (under 25) and elderly (over 50), women with young children, long-term unemployed, the only bread-winners in the households and people recently released from prison are considered as disadvantaged groups. The 1996 decree, however, did not mention the Roma, the disabled (included with a 2006 amendment) and people in general living in disadvantaged regions of the country. Overall, research confirms that on the Hungarian labour market the Roma, women, elderly, and disabled workers are discriminated against most often. It worsens the situation that yet nearly two-thirds of the working-age population belongs to these groups (Lovász 2012).

Nevertheless, due to low participation rate of Hungarian labour force, vulnerable groups form a target for activation/ job creation policies as in the short run, employment can be boosted by the labour market integration of these groups.

Women, especially women with young children were one of the named vulnerable groups partly because of the generous characteristics of the Hungarian system of maternity leave¹⁰ and its function to provide welfare and unemployment support for those who had weak ties to the labour market (Bálint and Köllő 2008) added considerably to the exclusion of women from the labour market. The average length of maternity leave is 4.7 years which further leads to the amortization of the already not too high skills (Bálint and Köllő 2008). Often employed in low-paid jobs, the proportion of women in managerial positions, among entrepreneurs and in government is small, whereas there is also an average 15 per cent unexplained wage gap between men and women which is caused partly by employers' prejudices, partly by the occupational segregation by gender (Sik et al., 2011).

The Roma (or Gipsies), the largest ethnic minority group in Hungary has not been identified as a disadvantaged groups despite their low educational level, the high presence of long term unemployment, more often living in deprived regions. Employment policy programmes, nevertheless, sometimes include objectives to reach certain proportion of the target population being of Roma origin, and there are specific policies destined to them. One of the problems of these policies, however, is how to identify Roma persons. Roma is not a clear cut ethnic category, racially non-Roma

¹⁰ For two years it gives a generous benefit proportional to previous earnings and for one further year a flat rate for everyone.

underclass families are easily labelled as 'Roma' if they fail to meet certain social expectations (Janky- Pogátsa 2013). The employment rate of the Roma population had started to decrease some years before the transition (before 1990), and it has decreased further until now. The main reasons are the low education of the Roma, and the fall in the demand for unskilled labour, while they also have to face discrimination from employers. Although several employment policy programmes targets this population these are usually ineffective or even counter-effective (Fleck and Messing 2010). They contribute to the welfare-dependence of the permanently unemployed, reinforced the existing patron-client system in local communities, and further deteriorated the stereotypical view of unemployed Roma people by the majority society. Furthermore, employment situation seems to be unrelated to ethnicity, while educational, residential and regional issues are primary determinants.

After the increase in the number of disability pensions during the 1990s, the regulations on disability pensions were first tightened in 1997–1998 due to economic reasons. Disability pensions ceased to be granted on a permanent basis and some of the previously acquired entitlements were also reassessed as temporary, tied to more frequent medical assessment. A new wave of reforms came with the economic crisis in 2008. By then, the share of disability pensions has increased among early retirement due to the increased age of retirement. In 2008 a complex assessment was introduced to promote the complex rehabilitation of persons with changed working capacity: instead of concentrating on health impairment, the new assessment system focuses on preserved capacities, mapping abilities that can still be used and issuing an opinion on the chances of successful employment rehabilitation. Policies addressing the employment situation of disabled people both consist of incentives for disabled and support for employers.

Older people are also a disadvantaged group on the Hungarian labour market. However, after the transition, early retirement was used over becoming unemployed. The lowest point of the employment of elderly workers were in the middle of the 1990s, nevertheless, a 2007 study (Augusztinovics and Köllő 2008) also confirmed that large numbers of people chose early retirement as an escape from imminent or expected job loss. Skills and professional knowledge of older people might not follow the high speed modernization and erode over time – a tendency that was especially remarkable after the transition. The chance of being employed decreases markedly with age (Galasi and Nagy, 2002). Lifelong learning, this way, could enhance the labour market position of elderly workers, but it is poorly developed in Hungary. In 2011, only 14% of the unemployed were in training. Education level is an important determinant of labour market situation among the elderly as well: people with low level of education are overrepresented both among unemployed and the inactive group as well. Low levels of education are also predicting increased risk of poor health, partly related to physically more demanding work activities in unskilled jobs. Despite their disadvantageous situation, older workers performed relatively better than other groups after the economic crisis, staying in the labour force and increasing their participation. This might be partly explained by the postponed retirement decisions, and the increasing austerity regarding early retirement and disability pensions.

For more details on vulnerable groups please refer to the WP2 country report.

3. Trends in innovation

a. Content and forms of policy innovations

Hungary's state socialist legacy includes a lower level of innovation in general. A system specific characteristic of the socialist regime was the incapacity of radical innovations due to centralization (high bureaucracy), and the lack of competition, incentives and capital. Nevertheless, innovations were followed and implemented although in a lower quality. The economic recession after the transformation forced enterprises to a quick adaptation to market economy and despite it is a long process, the innovative capacity of the country started to grow leading to some radical innovations during the 2000s (Kornai 2011). Nevertheless, innovation is rather perceived to come through transnational companies, via intrafirm transfer as already mentioned (Hancké et al. 2007, Nölke and Vliegthart 2009, Bohle and Greskovits 2012, Bluhm et al. 2014). Furthermore, innovation is rather incremental as in coordinated market economies.

In terms of labour market measures and employment policy, as other post-communist countries the Hungarian welfare state is also oriented towards social transfers and state-funded wage compensations (Cerami 2006). Furthermore, EU accession and the preceding/ following Europeanization process also affected employment policy and labour market measures since the transition. Innovation in this respect, i.e. the establishment of labour market measures similar to Western societies, was very much determined by this process, while policy responses reflected those already in use in other Western countries. Nevertheless, the START card programmes represented real innovation according to expert interviews. The National Employment Non-profit Public Company Ltd. (OFA) also had several experimental projects related to employment. The Institution's duty is to support innovative (and experimental) employment programmes that serve labour market integration. Nevertheless, the supported programmes are often local, experimental, and, although sometimes successful, they usually remain with no follow-up – due to these reasons they will not be addressed in this report.

The centralized nature of Hungarian economy and polity also affected policies related to labour market and employment in the period 2000-2013. These policies mainly had a national focus, with no or few territorial differentiation – with the exception of a certain margin of manoeuvre of local labour offices and the experimental (pilot) projects of the OFA. Selective measures, on the other hand, were implemented targeting disadvantaged groups on the labour market such as low skilled work, new entrants, people with disabilities, older employees with high risk of becoming unemployed, persons returning from parental leave, unemployed or people of Roma ethnic origin. Another special target group for policies were civil servants. Throughout this period the main objectives of policies were to help labour market integration or reintegration of unemployed, inactive and disadvantaged groups, create jobs, provide better services, lifelong learning or to increase the flexibility of labour market. These priorities have been similar before and after the economic crisis. The main intended outcomes were to increase participation in employment, to address problems of low wages, to reduce labour costs related to social security. The main tendency over the period seems to follow a liberalisation strategy (Obinger et al. 2012) with a decreasing social and employment protection in

combination with workfare activation, especially since the increased importance of public work schemes starting from the 2009, together with the new labour code (in effect since 2012) that reduces employment protection.

The majority of policy innovations related to labour market resilience and employment in the period of 2000-2013 took the form of new or reformed policy, new or reformed measure or new or reformed instruments with new strategy to reach similar objectives. These innovations were primarily destined to change the behaviour of actors such as employers or workers on the labour market or to change the institutional structure of the labour market by changing regulation or reforming institutions.

Policies related to employment and the labour market included labour market regulation, wage policies, eligibility criteria, level, type and duration of benefit transfers, services, subsidies and tax-credits for employers, leave schemes, training or vocational schemes. These were insured through different policy fields involving employment policies, wage policies, fiscal policies, pension policies, education policies and family policies, while the institutional setup was also reformed several times. Main measures during the period consisted in the reduction of the period of unemployment benefits several times, increasing the minimum wage (most importantly in 2001-2002, but afterwards as well). Wage and tax subsidies (reducing health and security contribution) were common measures provided for employers when employing disadvantaged workers (low skilled, new entrants, people with disabilities, older employees, those with high risk of becoming unemployed, persons returning from parental leave, unemployed or Roma people). These measures were applied with the objective of job creation, but also to promote telework or part-time work. Furthermore, firms also had access to subsidised investments for the improvement of the workplace and working conditions of disabled people (in 2004).

The studied policies and labour market measures were either implemented separately or they took form under a complex programme combining several measures such as subsidies and services. Such complex programmes during the period were the “100 steps programme” (2005 – including other measures such as health, support of the families, taxation, etc. besides employment measures), the “Pathway to work” programme (2009-2011 and 2011-present) including direct job creation through public work schemes and the SROP (Social Renewal Operative Programme, starting from 2007) programmes. Nevertheless, due to the centralisation tendencies, case-to-case evaluation and personalized measures, just as measures taking into account local specificities follow a decreasing trend.

b. Main trends in employment policy innovations

During the period 2000-2013, following international trends, more resources have been allocated to active labour market policies together with an increased proportion of personalized services within the programmes funded by the EU, and a more pronounced targeting on disadvantaged people. This way, active labour market measures dominate the studied innovations including measures for unemployed, inactive and disadvantaged groups as well as some measures for employers. Another important general tendency is

the liberalisation process that happened on the Hungarian labour market through the 2000-2013 period including a severe shift to workfare approach mainly manifested in the increased role of public employment.

Many of the measures had the objective to increase participation on the labour market by leading inactive people back to the labour market and decreasing poverty this way. Nevertheless, no significant improvement occurred in terms of the employment figures or poverty indices (Albert 2013).

Overall, five trends in innovation were identified in terms of their content:

1. Activation/ job creation including measures focusing both the demand and supply side of the labour market (decreasing passive measures, increasing minimum wage, employment incentives, public employment)
2. Risk prevention measures
3. Increasing flexibility and reduction of employment protection
4. Immediate crisis measures
5. Re-organization of public administration

These trends will be presented in the following, while a detailed description of the individual policies is provided in Part Two of the report.

1. Activation/ job creation

Matching the demand and the supply side of labour and increasing labour market participation have been one of the main priorities since the transition and the main task of Hungarian employment policy. This way, activation measures have the objective to increase labour market participation both through increasing labour supply and demand. Achieving a higher participation rate is also seen as a way to decrease long-term benefit dependency. In terms of policies, starting from 2000, and especially since Hungary's accession to the EU an increasing number of measures were destined to involve the unemployed and inactive population, however, the most recent approach of the issue through public work schemes seems to be rather inefficient. In terms of the minimum wage regulation, fiscal or political considerations dominated while potentially negative employment effects were usually not dealt with (Scharle 2012). Throughout the studied period a liberalisation tendency can be observed: social and employment protection lowered while workfare activation gained significant importance.

1.1. Decrease passive measures/ incentives (conditionality and sanctions)

Labour market participation or labour supply can be increased through providing more incentives for participation or making participation more attractive by decreasing passive labour market measures (e.g. unemployment benefits). Nevertheless, the changes in the duration of unemployed benefits might deteriorate the chances of finding a job finding and might also affect the quality of the job obtained (i.e. lower salary, worse working conditions). Furthermore, without appropriate labour services to find a job, an

obligation to participate to public work and the low level of benefits, people might decide not to register as unemployed. This, however, is difficult to measure due to the seasonal fluctuation in registration (30% in 2011, 10% in 2012) (Cseres-Gergely et al. 2013).

In 2000 the entitlement period of the Unemployment Insurance Benefit was reduced and the means-tested Unemployment Assistance abolished. Local governments were put in charge of administering the Regular Social Assistance (RSA) which is given to people who have exhausted the entitlements to IUA (*Policy #1*). A new responsibility of the local governments was to organise public work schemes for at least thirty days for applicants of the Regular Social Assistance.

In 2003 a new incentive system was initiated for those who have exhausted their unemployment benefit entitlement period to stimulate life-long learning, employability of disadvantaged groups and better quality of work. Long-term unemployed, participants of training programs under a certain level of income were entitled to receive special cash benefits to increase motivation to participate in training. Furthermore two new schemes were also introduced. The “job search incentive” could be provided for those people without jobs who have passed their unemployment benefit entitlement, while the “job finding incentive” was provided for those who find employment before their job search incentive period ends. Both initiatives implied a positive discrimination in favour of older workers (*Policy #4*).

The system of unemployment benefits was changed in 2011, the registered unemployed were entitled to a job seekers’ allowance during 270 days before that has fallen to 90 days after the reforms (in the case of the unemployed above age 50 for 180 days). Besides the duration of the benefits the reforms also covered the conditions of the benefits (*Policy #56*).

1.2. Labour supply: Increase minimum wage

Increasing the minimum wage can increase labour demand and also addresses problems of low wages. The minimum wage seriously increased at the beginning of the studied period (2001/2002) when the monthly amount of the mandatory minimum wage was raised from HUF 25,500/month to HUF 40,000 in 2001, and then to HUF 50,000 in 2002 (*Policy #2*). The minimum wage remained high since then with annual revisions, although in 2009 and 2010 the increase was below the expected inflation rate (*Policy #53 #54*).

1.3. Complex labour market services, trainings

Investment in human capital is another way to activate labour supply and improve skills in order to better match labour supply with labour demand. Over the period, complex measures consisting in a combination of various services gained importance targeting disadvantaged people, including Roma population (*e.g. Policy #36*).

Before 2002 the various measures of active labour market policy were strictly separated and one client was entitled to participate only in one program at the same time. From February 2002 the law has been made more flexible (*Policy #5*). When the target group is selected from the unemployed in the most disadvantaged position, it is possible to combine various employment policy measures meaning more generous benefits to those involved.

In 2004 the Government launched labour market insertion programmes that combined training and work practice for the young unemployed, the positive discrimination of Roma applicants in labour centres when hiring new staff, and the improvement of the public work programmes to help participants to enter and remain on the open labour market (*Policy #16*).

In order to cope with the effect of the crisis the 'Complex Programme for the Employment of Job Seekers and Inactive Individuals' program (SROP 1.1.) offered a personalized combination of subsidies and services such as labour market counselling, mentoring, vocational training and wage subsidies (*Policies #32 #33*). 5.776 people took part in the programme.

The 'One step ahead!' programme (SROP 2.1.1) provided vocational training in high demand vocations or opportunity to complete primary education. During their training participants also received cash transfers. The programme targeted people with low education level (having at most elementary school degree) and those with outdated vocational qualifications (*Policy #35*).

Furthermore, Roma employment co-ordinators employed in local PES since the end of 2009 (*Policy #36*) contributed to 2,132 Roma people taking part in human services and employment promotion training.

1.4. Start-up incentives

As an active labour market policy measure, supporting business start-up aims at increasing labour market participation and reliance on benefits by enabling unemployed to start their own business.

Prior to January 1, 2007 business start-up was supported by two schemes: the business start-up scheme for unemployed persons and the self-employment scheme for unemployed persons. In 2007 the two measures were merged into a new scheme with new conditions (*Policy #26*). The new scheme provided up to 3 million HUF interest-free loan or non-repayable grant, and a monthly allowance of up to the minimum wage for a period of no longer than six months, regardless of eligibility for job search benefit.

In 2010 the regional PES centre managed to support the highest number of starting entrepreneurs, more than 1,600 people, in the most disadvantaged Northern Great Plain Region (*Policy #29*).

1.5. Employment incentives, measures for employers

Within the active labour market measures employment incentives such as wage support, tax subsidies, reduction of social contribution are destined to help employment of people in a disadvantaged situation (young, elderly, long-term unemployed, disabled, those returning from parental leave). These measures are usually provided for employers and are reducing the cost of labour.

Employers were totally or partly exempted from the payment of the flat-rate health contribution (*Policies #12, #17*) or the employers' contributions (*Policy #23*) for hiring people in a disadvantaged situation. Usually the reduction is valid for a given period (e.g. one year in the case of *Policy #23*) and there is an obligation for maintaining employment for an additional period (e.g. one year in the case of *Policy #23*).

From January 1, 2007 a new active measure was introduced: the wage cost subsidy. This can be used exclusively in complex labour market programmes, and it provides a sum of up to 100 per cent of the total wage costs for up to three years (*Policy #25*).

Employers' incentives also took the form of subsidies supporting investment in infrastructure when it leads to the creation of a new job that is filled by an unemployed person (*Policy #7*) or tax relief provided for investments triggering job creation (*Policy #6*).

Furthermore, wage support was also provided to offset the side-effects of the minimum wage increase in 2001 in the form of a 2 billion HUF compensation program to trigger job creation (*Policy #3*). Wage support also destined to increase atypical employment: a grant program was launched in 2004 for firms and for public administrative bodies transforming regular jobs into tele-work jobs as part of the administrative reform process. The pilot programme targeted the creation of 1.400 tele-work jobs with a total available funding of 300 million HUF (*Policy #9*).

Furthermore, according to expert interviews conducted in WP2, the START programme can be truly considered as an innovative policy within the studied period. To tackle youth unemployment the Government introduced new measures strengthening active labour market measures to support the acquisition of work experience. As of January 2005 various incentives were introduced that promote the employment of school leavers such as paid internship, 50% reduction of social security contributions with the aim to make the hiring of young people more attractive for employers. Employers, however, considered the support too bureaucratic and not being high enough. In order to tackle these problems the mentioned incentives were replaced by the START Programme valid from October 1, 2005 (*Policy #22*). The target group of the programme was young people under the age of 25 years (30 years for people with higher education) who wished to enter their first job. Employers are eligible for a subsidy during a period of 2 years, as opposed to the 9 months under the previous regulation. The subsidy takes the form of a reduction of contributions: employers have to pay 15% as contributions in the first year and 25% in the second year (Frey 2006).

Based on the positive experiences the START Programme was expanded from 2007 (*Policy #24*) with the support of the European Social Fund the Programme. The START Plus programme targets people returning to work after child care or caring for a next, in their case social contributions payable by the employer are partly covered by the Labour Market Fund. The START Extra Programme assist the return to work of long term unemployed facing other difficulties as well such as due to their age (over 50) or because they live in deprived areas. In their case the Labour Market Fund fully covers the employer's contributions in the first year and partly in the second year. The measure contributes to increase demand for older workers through decreasing non-wage labour costs. Until the end of 2010, more than 17 thousand people aged 50-64 had been employed in the framework of this programme. Overall, the START programme since 2005 assisted around 38 thousands persons monthly) (Frey 2007).

Although considered innovative and successful by some experts, others argue that only those young people found employment who could have found anyway. This would make only employers benefit from this measure, while disadvantaged young people could not really be reached (Albert 2013).

1.6. Public work

The importance of public work as a workfare measure of activation of long-term unemployed and decreasing long-term benefit dependency increased throughout the 2000-2013 period and the different programmes were reformed several times. Public work schemes are destined to increase labour market participation and employing otherwise unemployed persons. Public work is organised by local governments and creates an added value to the whole community and the settlement (Frey 2006). Within active labour market measures public work schemes were already present during the 90s, but until 2009 they did not involve more than 15-20 thousands people a year (Albert 2013). They gained further importance during the 2000s and the crisis.

In 2000 a new responsibility of the local governments was to organise public work schemes for at least thirty days for applicants of the Regular Social Assistance (*Policy #1*). In the framework of the “100 Steps”¹¹ Programme the Government has launched in 2005 a new public work programme to address seasonal employment problems and to involve long-term unemployed (*Policy #20*). During this period an average of 14 to 16 thousands people were employed in public works programmes each year providing employment to approximately 10–12% of the long-term unemployed (20–22% in total) (Köllő – Scharle 2012).

Public work schemes were extended with the “Pathway to Work” programme involving almost 100 thousands people in public work projects each year (Albert 2013). Launched in 2009, the objective of the programme are to reintegrate long term unemployed people with low education living in disadvantaged small settlements to the open labour market and provide them with revenue through increasing their employability (*Policy #27*). These employment measures are linked with social welfare measures taking into account the capacity to work of the individual: in the first year of the programme, the average number of participants went up to 60,000 that made up 27% of income replacement claimants (Köllő – Scharle 2012). In 2009, nearly 280 thousands persons participated in these schemes. In the less developed regions such as Northern Great Plain and Northern Hungary the number of participants was more important with 26-28% of the total number of participants in 2009. More developed regions such as the Centre or the Western/ Central Transdanubia took much less part in it (5-6%) (KSH 2010).

The public working programme replaced the “Pathway to work” programme (2009) in 2011, joining the former three types of community work (*Policy #27*). The new programme offered employment for a short period (2–4 months) and typically part time. In 2012, full-time employment was put into the focus and the average duration increased to eight months. Meanwhile, employment decreased in the private sector (in early 2012 by about 30 thousand persons) (Cseres-Gergely et al. 2013). Approximately 148 thousands people were involved in 2011, 200 thousands planned for 2012 and 250 thousands for 2013 (Albert 2013).

As a result of the expansion of the public work schemes, in 2009 83% of the employment policy budget was spent on public work, while there is less left for trainings,

¹¹ Social and economic program of the Gyurcsány government in order to improve social cohesion addressing labour market issues as well.

rehabilitation programmes, significant contribution allowances, although these latter are proved to be efficient in promoting labour market participation (Albert 2013).

In terms of the efficiency of these programmes it seems that public works do not contribute to the reduction of long-term unemployment and do not improve the employment prospects of participants. According to research (data from the monitoring evaluations between 2001 and 2006), on the one hand, approximately 1-5% of those with short fixed-term contracts in any type of public works programme found unsubsidised employment from one quarter to the next in the period before 2009. On the other hand, about 20–40% of those employed in public works in a given quarter will return to become registered unemployed in the following quarter. "Within the first three months following the end of public works 21% of the participants found work, within four to six months a further 8%, two per cent within seven to nine months and one percent within ten to 12 months. This meant that 32% of the participants worked for some time either in open employment or in another subsidised job, mainly public works after leaving the programme" (Köllő – Scharle 2012). Another question is the willingness to participate in the programme that further impact on efficiency. It seems that while 65% of training participants and 67% of wage subsidy programme participants said that they volunteered to participate, this proportion was lower (55%) for public works: 27.9% of unemployed participants were solicited by the job office. Furthermore, public work is not seen as attractive in terms of income or prestige, but creates dependency and a loss of motivation – especially during the participation for the third time (Köllő – Scharle 2012).

Municipalities hold a significant amount of power concerning the implementation of public works. They decide about the kind of work (cleaning the streets or work in the office), who they employ and in what form (e.g. 8 hours/ day, 4-6 hours/ day) and other eligibility criteria (e.g. decent living arrangements). Due to the lack of control on municipalities in this regard, all this power may give way to further discrimination (Albert 2013).

Another important criticism regarding the 'Pathway to work' programme is that it does not produce real value, while using significant amount of the financial resources. In doing so, it takes away funding from other, eventually more efficient active measures such as training or wage subsidies (Albert 2013).

Furthermore, those participating in public works do not fall under the same legislation as regular employees: as the Labour Code do not apply to public work the rights of employees risk to be not respected. In addition, the revenue of public employment being lower than the minimum wage, the public works scheme does not ensure basic needs or minimum standards of living either. On the other hand, from the point of view of labour statistics they are considered as ordinary employees. As the participants' unemployed status is suspended for the period of their participation, it reduces the number of registered unemployed and improves the employment rate. This way, the public work schemes contributed to make labour statistics look better (Albert 2013).

2. Risk prevention measures

In the short run, employment can be boosted by the labour market integration of those groups of working age that are not present on the labour market, people with disabilities and older workers, or keeping pensioners on the labour market were all

target groups of such measures. These measures contributed to the prevention to rely on social allowance, they were also destined to help the exit of older workers from the labour market and to prevent unemployment. These active labour market policies took first of all the form of employment incentives such as tax subsidies, wage support for the employment of disabled or to provide the opportunity to retire gradually. It also could take the form higher pensions for those remaining on the labour market.

Prolonging employment after reaching the statutory retirement age in 2004 (*Policy #13*) increased the bonus in the form of higher pension entitlement for those pensioners remaining in the labour market. While tax subsidies wage support and direct funding for the employment of disabled people were provided for employers (*Policy #14 #15 #21*).

These measures were sometimes accompanied by other services such as education and training forming a complex program for the individual. Under the 1.1 'Complex Programme for the Employment of Job Seekers and Inactive Individuals' SROP (TÁMOP) 1.1.1 'Rehabilitation and improvement of employability of disabled people' program priorities in 2010 a project (*Policy #31*) focused on supporting people with changed working capacity who needed several forms of personalised services and support in order to improve their employability and promote their integration in the open labour market. The programme included personalised combination of subsidies and services: vocational rehabilitation, including covering the costs of training and vocational education; psychological counselling; coaching; covering commuting and other related costs of working; wage subsidies; etc.

3. Increasing flexibility and reduction of employment protection

During the past two decades Hungarian labour policy has consistently tried to encourage part-time employment through different policy measures. People were allowed to undertake part-time work while being beneficiary of social subsidies (e.g. childcare allowances, early retirement pension). Following the crisis, a temporary reduction in working hours has been supported by government measures (assistance for keeping jobs in 2008–09), while part-time jobs were also directly under the public work programmes as well (from 2000 to the present). Nevertheless, the measures did not have a significant effect on promoting part-time employment (Köllő 2012).

In 2004 for example a *new chapter on tele-work* was included to the Labour Code - promoting non-standard employment. The Act XXVIII of 2004 on the Amendment of Employment-related Legislation (Labour Code, Act on the Personal Income Tax, Act on Labour Inspection, Employment Act) was in force as of 1 May, 2004 (*Policy #8*). According to the new legislation a tele-worker could be defined as an employee who carries out activities that fall within the scope of the enterprise, outside the premises of the employer, using ICT tools for both producing and sending the output. The main objectives of the government with the measure was to introduce new forms of employment (i.e. telework) that would promote adaptability to changes on the labour market so that both employers and employees can respond in a flexible way to economic challenges, and to promote the employment of people with disadvantages on the labour market with special attention to those combining family and working life.

In 2004 the Act XX. on the Amendment of Certain Acts Related to Temporary Agency Work allowed non-profit, public interest organisations to offer temporary agency work for disadvantaged people contributing the labour market flexibility (*Policy #11*).

Flexibility and raising labour market participation were also the objective of a new regulation that made the conditions for the seasonal employment of migrant workers in the agricultural sector easier (*Policy #10*).

The Parliament adopted a *new Labour Code* in 2012 - the most important change of the regulation of labour market in Hungary since 1992. The objective of the government was to make labour market more flexible leading to job creation (*Policy #55*). Although several changes have been made to the Labour Code since 1992, the intention of the creation of a new Labour Code was long existent. It was justified by changes in the structure of the economy since 1992 and from the need of harmonisation of EU law (the Preamble refers to the European Commission's Green Paper on Modernising Labour Law in the 21st century based on the EU's Lisbon Strategy) (Busch et al. 2013). The short time frame and the economic context, nevertheless, do not allow evaluating the effects of the change in terms of the objectives. However, other effects have been identified. Studies observed the decline of the bargaining power of trade unions, the deteriorating labour conditions and the bargaining power of the individual employees as well, wages decreased, allowances were shortened, especially in the public sector (Laki et al. 2013). The decreased bargaining power of trade unions came in 2012 when national wage negotiations were reformed and in the new system, replacing the old one with tripartite dialogue, the Government decides independently on the level of the minimum wage. The new law made quantitative changes in the workforce easier (hiring and dismissal) while the conditions of employment also became less severe (e.g. working time arrangements). Costs for employers diminished (lower wage supplements, lower cost of dismissal); while the financial risks associated with employing people (indemnity and guarantees) were also reduced. In terms of recruitment, the extension of the probationary period allows the termination of employment without justification and consequences. There were changes in terms of dismissal as well. Procedural rules of dismissal have been limited, while its costs to employers decreased (e.g. redundancy pay) (Busch et al. 2013). The new Labour Code within its efforts to increase flexibility also created a new conceptual framework. „The main innovation of the new law is that it shifts the approach of the regulation from public to private law. This breaks the traditional protective function of labour law that aimed to balance out the asymmetric bargaining positions of the two sides of an employment relationship and at protecting workers in the weaker market position. Therefore the new Labour Code allows more scope for collective and individual agreements and by default these can even be unfavourable for employees.” (Busch et al. 2013).

4. Immediate crisis measures

The priorities of Hungarian employment policy remained unchanged throughout the crisis: improving labour market participation (unemployed and inactive people) and promoting the labour market integration of vulnerable groups. The Government's response addressing the negative effects of the economic crisis in 2008 included measures of crisis management and an economic stimulus package. These measures, announced in autumn of 2008, both addressed financial and labour markets (Frey 2010). The approach chosen by the Hungarian government seems to be unusual compared to other countries. Some countries created public employment opportunities and/or assisted working time reductions just as Hungary did, however, these were accompanied by additional cash transfers, extended unemployment benefit, additional social assistance and protection measures, and capacities of the public employment

services were increased – as opposed to Hungary (Köllő 2011). The extremely large scale of public work can be also considered unique within the EU.

Nearly 18 billion HUF were spent on **job protection schemes** in 2009. These schemes had a three-fold objective (Frey 2010):

- job protection through maintaining the operation of businesses (*for example Policies #43 #48 # 48 #49*);
- facilitating the transfer and re-employment of redundant workers (*for example Policies #39 #40 #43*);
- support newly unemployed to find a job (e.g. through training or by providing incentives for employers to hire newly unemployed) (*for example Policies #28 #41 #46*).

The main forms of assistance were subsidy towards labour costs (wage and contributions), introducing short-time work, assistance towards training and re-training expenses, the provision of labour-market services, assistance towards the cost of commuting and housing (*Policy #41*).

Nearly half of the 18 billion HUF spent on job protection was distributed to employers to support more than 18,000 workers to remain in work and this way protect nearly 34,000 jobs. However, the scheme had to be suspended due to the early exhaustion of the budget (in March instead of November). Another programme “For the Protection of Jobs” has been launched (10 billion HUF) until September 2009. Under this scheme another 27,000 workers were supported and the subsidies paid to employers helped to protect nearly 48,000 jobs. After the completion of these measures EU funding was made available under the New Hungary Development Plan with the following elements:

- a. 1.4 billion HUF for SME-s (working capital loans, microloans, loan guarantee) (*for example Policies #44 #45*);
- b. construction investments - 1.8 billion HUF;
- c. 20 billion HUF for integrated job retention and training schemes that (for the preservation of more than 50 thousand jobs).

New initiatives were launched to increase employment and labour market participation. As part of the crisis management the Government initiated **structural reforms** in order to reach this objective and to reduce the number of people dependent on transfers. The period of parental leave schemes was shortened to increase women’s participation; old-age pension system was change so as to increase activity of older workers. The new system provides two kinds of assistance for (1) those who are capable of work (employment substituting benefit) and for (2) those who are not (regular social assistance) (*Policy #52*). Furthermore, the level of pension benefits changed as well: „Thirteenth-month” state pension bonus was abolished as of 2009 (*Policy #50*) followed by a new indexation system of pension benefits starting in 2010 (*Policy #51*). A two-component index is applied based on consumer prices and net earnings for the calculation of the pension benefits that depends on the rate of economic growth, with a higher weight on the price index during slower economic growth.

The aim of the structural reforms was to restore the sustainability of the system. Furthermore, there was a change in the principal as well: a clear distinction was made between active earnings from work and passive benefits from the state, with a preference given to the former (Albert 2013).

Besides the measures destined to manage the effect of the crisis, the usual measures of the employment policy were also in place. To strengthen active labour market policies, nevertheless, to better cope with the expectation to integrate job-seekers into the open labour market, the Government claims to have reinforced services and supports available for job-seekers. Decentralised, comprehensive labour market programmes were introduced for the employment of disadvantaged people (SROP 1.1.2 and 1.1.4) (Albert 2013) (*Policy #32*). Nevertheless, the structure of active measures changed significantly in 2009 with the increasing importance of **public employment**. This programme destined to re-integrate long-term unemployed ("Pathway to Work" – *Policy #27*) doubled in terms of the number of participants. Overall, the beneficiaries of the active labour market policies increased with 37.7% in 2009. While the importance of programmes (number of beneficiaries) destined to disadvantaged people and new entrants decreased (KSH 2010).

5. Re-organization of public administration

Labour market services were reformed and made more flexible at several occasions during the period (e.g. one could benefit from more than one services as opposed to previous regulation), just as the National Employment Office. In terms of the re-organization of public administration connected with employment-related policies the Public Employment Service was reformed and modernized several times. The service quality and data collection capacities of the institution were significantly improved over the period of 2000-2013, nevertheless, the analytical or policy evaluation possibilities were not fully utilized (Cseres-Gergely – Galasi 2012). As the most important organizational change of the period, in 2007 local labour centres were reorganized according to regions – nevertheless, great discrepancies exist between the different centres in terms of workload and professional capacities (Bódis 2012).

In terms of the modernization of the Public Employment Service, a large project running in the period of 2009 Febr-2012 July was destined to *develop and improve efficiency* of the institution (*Policy #34*).

The programme '*Establishment of the framework of an integrated labour and social service system by developing the infrastructure of the Public Employment Service*' (SIOP 3.2.1. – *Policy #37*) was a continuation of previous programmes of the PES (Phare, HEFOP 1.2.). Within this project the infrastructure of 80 local PES offices was modernised. In 2010, the improvement of the infrastructure and IT instruments of 12 other local PES offices started, thus creating the conditions of operation of a new, modern service model.

The '*National Virtual Labour Market*' (SROP 1.3.1/1.1.3) sub-project aimed at the co-ordination of the services of the public and private employment agencies (*Policy #38*). The development resulted in an internet service assisting jobseekers to find employment, and containing the vacancies offered by the Employment Service, EURES and the joining private employment agencies, and providing also access to the CV data of jobseekers and individuals seeking mediation registered by PES to the private agencies

and employers which joined the system. This system had the objective to accelerate the process of jobseekers finding employment and to make the market of employment agencies more transparent by verifying the data provided by the joining parties and by structurally registering such data.

In order to better address employment problem of the Roma population twenty-eight Roma employment co-ordinators were employed in the SROP 1.3.1./1.1.4 subprojects, who have been operating in seven regions and twenty-five local PES since the end of 2009 (*Policy #36*). Their main responsibilities include the registration of minority self-governments and NGOs operating in the area of competence of the offices, the expansion of the relationship with them, the identification of jobs for Roma employees, and contacts with the employers for promoting the employment of Roma people. The Roma employment co-ordination managers assisted 3,134 individuals of Roma origin, of whom 2,132 took part in human services and employment promotion training and were given placement assistance.

4. Factors impacting labour markets resilience

Important source of flexibility of the labour market during the state-socialism came from the second or informal economy that provided unprotected, unrecognized and unorganized workforce with high vulnerability (Cerami 2006). Nevertheless, this made possible the existence of family enterprises and the accumulation of certain capacities and knowledge related to entrepreneurship, while this was also an important sector where women could play a crucial role made possible by the long maternal leaves (Szalai 1999). Transition hit female jobs significantly characterized by their unskilled, semi-skilled nature; nevertheless, female unemployment was lower than the male one due to the home-based strategies followed and the increased number of housewives.

Since the transition the main characteristics of the Hungarian labour market remained unchanged. The most important problem is the low employment rate especially affecting vulnerable groups, disadvantaged geographical regions, and small settlements. Furthermore, the economic structure, types of firms, the legal and institutional context did not contribute to increase resilience during the past two decades. Consequently, there is a substantial labour mismatch in Hungary in terms of the imbalance between labour supply and demand across geographic regions, sectors, occupations and skills (Fazekas and Scharle, 2012).

The factors affecting labour market resilience on the demand side are as follows. The economic structure is characterized by the relative lack of those sectors that could massively employ unskilled labour (see Chapter 1.c). Furthermore, there is a lack of small and family enterprises that employ this workforce in other countries (e.g. in Southern Europe). Reasons of low participation or low labour demand are also due to the high level of costs related to formal employment (high taxes, social contribution, etc.). In 2008, Hungary was the country in the EU with the highest share of compulsory and voluntary social contributions paid by the employer within the labour cost (the rest is the wages and salaries paid to the employees) (70.54%) followed by Sweden and

France¹². High labour cost in Hungary is due to high personal income tax rates and more importantly to significant social security contributions. High tax wedge further decrease productivity of cheap (unskilled) labour force. These tendencies also increase the importance and the share of informal work. Although a new, flat-rate personal income tax system was introduced in 2011 its intended effect on job creation seems to have failed.

The 2001-2003 period reflected the effects of minimum wage rises (which remained high ever since) and public sector wage rises (continued despite the change of government in 2002). This however, had a counter-effect in labour demand especially in labour-intensive sectors and contributed to a wage path not compatible with productivity growth. This change first of all affected private sector employment – partly absorbed by the public sector at the beginning of the period (Horváth – Szalai 2008).

The results of a survey (already mentioned) conducted among firms exploring the response to different types of shocks, seem to confirm that Hungarian firms are less likely to adjust to shocks than firms in other CEE or Euro Area countries. Hungarian firms are more likely to cut costs as opposed to other adjustment strategies such as output, price or mark-up adjustments. Temporary employment is an important way to address shocks in the Euro Area, but not in the CEE countries, including Hungary. Hungarian companies usually would not cut production, but will rather cut non-labour costs, probably by cutting on investments (Kézdi – Kónya 2011).

Another important factor influencing labour market resilience is the relatively low level of atypical work in Hungary. Although the share of temporary work increased somewhat during the crisis, the main tendency is that the work is done by fewer people, and within a rigid employment frame (Köllő 2012).

Union density in Hungary is relatively low (see Chapter 1a/d), while their competences have been restrained with the new Labour Code introduced in 2012. Furthermore, the traditional wage bargaining institution (system) ceased to exist in 2011. All this factors, on the other hand, play in favour of labour market flexibility and easier adaptation, eventually contributing to labour market resilience.

Other factors on the supply side also affect labour market resilience. These factors are, however, rather due to the institutional/ legal context or originate in infrastructure rather than individual motivations. The reason for the low employment indicators and the low participation rate on the Hungarian labour market is the high share of unskilled workers with low education level. Policy responses aiming to increase participation during the period of 2000-2013 remained weak. Rather than employment policies, public education could deal with the low education level of the workforce. From the early 1990s the educational level of the newer cohorts gradually increased, however, the present transformation in public education as of September 2012 might have counter-effects. Originally aimed to match labour demand and supply it reduced the school-leaving age from 18 to 16 to encourage young people to go to vocational school until age of 16 and then leave the education and enter the labour market.

¹² http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_structural_statistics

Furthermore, the Hungarian labour force is not geographically mobile due to bad public transportation and occupational mobility is also low that further decrease flexibility of the labour market.

Besides these contextual factors affecting labour demand and supply, labour market institutions are also of crucial importance when addressing the question of labour market resilience. In terms of regulation, a new labour code was adopted in 2012 in order to increase labour market flexibility. Nevertheless, Hungarian labour market was already one of the most flexible across the EU in 2006 – also providing the least security for workers (Horváth – Szalai 2008). Before the introduction of the new Labour Code in 2012, Hungary was already characterised by relatively high labour market flexibility. Nevertheless, as this flexibility was due to low a level of employment protection, it could not be further exploited because of the low level of employability and human capital of the available work force. On the other hand, compared to other EU countries, Hungary shows the highest level of insecurity because of ungenerous unemployment benefit system and low ALMP expenses.

After the transition passive labour market policy measures remained relatively generous that would raise the fear of adjustment from both the supply side (low supply, low motivation), and the demand side (by the high level of tax wedge) resulting in lower labour market flexibility. Nevertheless, other institutional dimensions (employment protection, union density and the wage setting system) were rather kept liberal and could contribute to higher labour market flexibility (Horváth – Szalai 2008). The welfare compensating measures of the transition period as followed by structural reforms in the Hungarian economy (i.e. the Bokros package, 1995-1998) including a cut-back of social expenses, i.e. unemployment benefits and the entitlement and duration of child care allowances. While passive measures became more selective, active measures of employment policy gained importance starting from 2000. Nevertheless, those participating in these latter measures did not necessarily succeed in finding a job. Participation is low, and, although these measures represent more than half of policy expenses, they couldn't contribute to solving the long-standing employability problem of the Hungarian work force due to the low level of human capital. Due to these efficiency problems, ALMPs are not significantly contributing to labour market resilience (Horváth – Szalai 2008). Overall, Hungarian labour market institutions are formally flexible favouring quick restructuring of the firms and industries. However, not efficient ALMP do not favour flexibility in terms of re-employment of a high share of the potential labour force, currently not active on the labour market. Furthermore, about 60% of the ALMP measures are currently spent on public employment, which is largely criticized in terms of its efficiency and capacity to help re-employment on the real labour market (see Part two of the report for more details).

5. Challenges for innovative policies contributing to labour market resilience and labour market inclusion

The aim of this part is to review all the elements of the process that draws back increased unemployment to systemic uncertainties, declining productivity and growth, a weakened functioning of the market as a result of external shocks generating economic recession. These elements can all be considered as challenges for the innovative policies

that are contributing to labour market resilience and labour market inclusion. While the context and previous dynamics of these policies was presented in the previous parts, the main challenges addressed in the followings will all be presented in relation to the effect of the global economic crisis. Nevertheless, all factors impacting labour market resilience presented in the previous part can also be considered as challenges for innovative policies that aim to contribute to increase labour market resilience.

It is worth to mention beforehand that Hungary, as other post-communist countries lived a constant state of exogenous shocks. During the past two decades since the transition Hungary witnessed increasing competition, increasing volume and speed of capital flow (Hancké et al. 2007). Furthermore, s opposed to the other dynamically growing countries in Central and Eastern Europe, Hungarian economy has slowed down earlier facing a crisis since 2006, preceding the effects of the global economic crisis in 2008. This way, Hungary faced a double challenge in 2008. On the one hand to respond to the external recession and correct structural distortions that were long overdue, while stay within budget constraints caused by the high debt and government deficit on the other hand. In terms of the management of the crisis in Hungary the IMF loan helped to avoid bankruptcy at the first place signed in 2008. With the 20-billion euro loan package (jointly provided by the EU, IMF and the World Bank) Hungary engaged into increasing fiscal stability and reducing the budget deficit, and implementing structural reforms. These constraints limited manoeuvre in crisis management (e.g. by ruling out anticyclical fiscal policy), including labour market issues. Regarding the latter measures, Hungary followed a liberal approach mainly consisting in general support measures, guarantees and tax-cuts, and training and employment subsidies to some extent (Frey 2010). Furthermore, "as the crisis is not quite over yet, it is often impossible to decide whether it is the crisis or the pre-crisis Hungarian fiscal consolidation measures that can be held responsible for the observed phenomena. We have similarly no way of knowing whether recent changes in various processes constitute a turn in the trend or are simply temporary fluctuations" (Molnár 2011:191).

The 2008 global economic crisis was followed by a labour market crisis, labelled by many as the most important after the period following WWII. Hungary's situation in this respect is somewhat different. Similarly to other countries with a state socialist past, this is the second employment shock in the past two decades, and in terms of its effects, it is not the most important one. Whereas about 1 million jobs disappeared during the 90s, the recent loss was about 100 thousands. An important difference, however, is that, while in the first case, most of those falling out of the labour market permanently left (leading to high share of inactivity), in the second case those falling out remained among the active population. In 2009, there was a decrease of 107 thousands persons working in the private sector, at companies with more than 50 employees compared to the previous year, together with a loss of 51 thousands at companies with 5-50 employees (a decrease of 7.8%). The crisis first hit companies producing for export markets. The sectors the most affected were the metal industry and the automotive industry where about one fifth of jobs disappeared. The decrease of labour demand was most noticeably in the processing industry (60% decrease). Those who were not affected by loosing their job could also felt the effect of the crisis: nominal wages decreased by 4.5% affecting about 750 thousands employees in the public sector (due to discontinuation of the 13th month salary). These tendencies affected the non-base elements of the wages and overall affected the private sector to a lesser extent (KSH 2010). Nevertheless, while the public sector responded by wage cuts to the crisis, in the private sector the reduction of

the workforce was more typical. Furthermore, due to the crisis “undeclared employment and pretended subcontracting became more wide-spread, and within the total remuneration received for works done, the share of cash in hand payments and payments on invoice increased” (Semjén – Tóth 2011:157).

As opposed to European tendencies (decreasing unemployment until March 2008), Hungary’s unemployment rate was increasing since 2001 and stagnated since 2006-2007, while the increasing trend manifested slightly later (end of 2008). Because the most affected sectors were the automotive, construction sectors and financial services, unemployment affected men to a higher degree than women. Those in a more precarious situation such as with temporary or placement contracts, commuters (i.e. at the Slovak border), or youth in general were also more impacted. The effect of the crisis was most noticeable in more industrial, more developed regions leading to higher unemployment, whereas less developed regions were less affected. Unemployment increased the most significantly in the Western and Central Transdanubian regions (from about 5% to about 10% from 2008 to 2009); while the worst region in terms of unemployment experienced only an increase of 2.2 percentage points (Northern Hungary). The least affected territories were the capital and the Győr-Moson-Sopron district (Western Transdanubia) (KSH 2010). All in all, the more developed regions with export-oriented industrial enterprises and regions with a high share of commuting near the border were affected more at the beginning of the crisis, having an equalizing effect on the regional disparities. Later on, however, the increase of unemployment became a general phenomenon affecting less developed regions as well (Lócsei 2011). Further on, however, programmes destined to the most disadvantaged micro-regions lead to certain improvement in these regions further closing the gap of regional disparities. It is this way not clear, whether the convergence can be maintained on the long run (Molnár 2011).

As opposed to the employment crisis during the 90s this current crisis mainly affected those active on the labour market (being either employed or unemployed) and did not change the share of the inactive population. Which, nevertheless, continue to be among the highest in the EU. The reason of this is that the newly unemployed are strongly tied to the labour market, while, as opposed to the permissive governmental attitudes in the 90s, the current Government’s objective is to increase participation on the labour market and re-integrate the potential work force (more rigorous conditions for retirement, disability pension, parental leave) (KSH 2010).

Nevertheless, the main problematic characteristics of the Hungarian labour market – the main challenges – remained unchanged after the 2008 crisis. The high share of inactivity, the low participation rate, although did not increase, did not decrease either. Regional disparities decreased somewhat as the crisis first of all affected more developed regions, however, the spatial duality of the Hungarian economy due to differences in productivity, efficiency and foreign direct investments did not change, furthermore, the disadvantage of smaller settlements did not disappear either. Atypical work increased somewhat as a way to handle the crisis, nevertheless, its importance is still lagging behind other EU countries: working time cuts were applied as cost saving measures and was primarily used by companies receiving job preservation support (Molnár 2011). Furthermore, the situation of the vulnerable groups, as presented earlier, became even more precarious over the crisis. In terms of the Governmental measures to undertake long overdue structural reforms such as to increase labour

market participation (through revising conditions for retirement, disability pensions, parental leave); to reintegrate potential work force (e.g. through public work schemes); to decrease the mismatch between labour demand and supply (i.e. through the reform of the public education); to help job creation by lowering the costs of labour (i.e. introduction of a flat rate tax system); or make it easier for employers to hire and fire (i.e. the new Labour Code); it is still not clear whether they were capable to reach the objectives and are often criticized. These measures are going to be addressed in the following section.

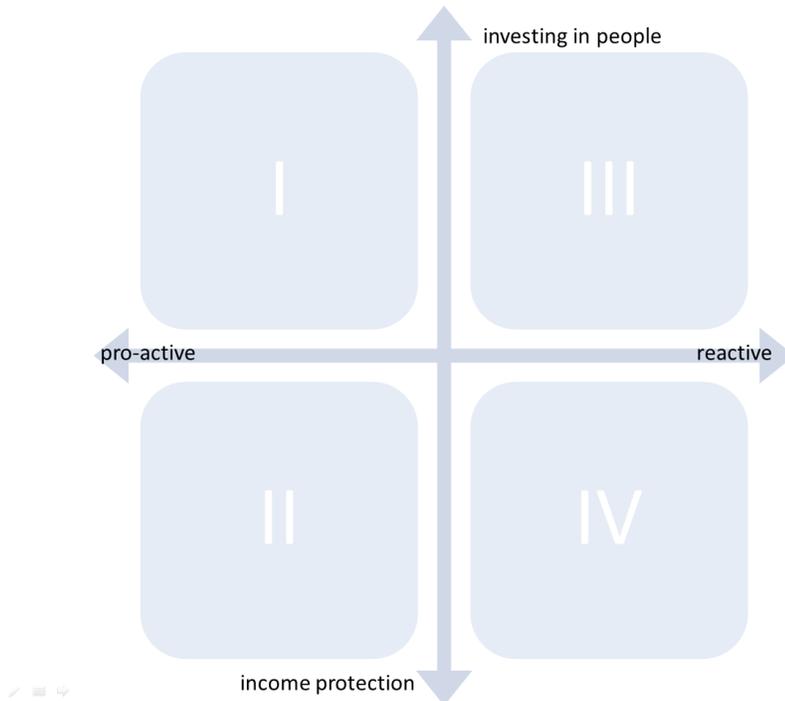
PART TWO

Selected policy innovation in the period of 2000-2012

In the following all selected policy innovations dealt with in Chapter 3 of this report will be presented in chronological order including the main trend they represent.

“Furthermore, innovative measures can be grouped according to two dimensions. The first dimension is a continuum representing the timing of the innovation (proactive/reactive). The distinction between both ends of this dimension corresponds to before or after dismissal. In a second dimension, measures are categorized according to their main functional dimension: innovations aimed at human capital investments or those which focus primarily on income protection. The latter dimension can be understood either in a positive (income support or compensation) or a negative (financial incentives to increase active job search behaviour) way.¹³ These two dimensions can be represented in a matrix (see Figure 5). The following table also includes in case a policy measure fits in one these quadrants.

Figure 5. Innovations according to their main dimensions



¹³ see Belgian country report

Policy measures were regrouped according to these quadrants if it was possible. In general, measures destined for job creation in the form of helping enterprises to develop could not be included in this matrix. Other wage or tax subsidies provided for employers if disadvantaged people were employed are also a form of job creation, nevertheless, they could eventually be considered as reactive measures aiming at income protection (quadrant IV). Similarly public employment measures were also included in this quadrant being reactive and aiming at some form of workfare provision – that might be considered as a measure of income protection. Furthermore, training measures and incentives or subsidies motivating participation were often used together. In these cases the reactive measure was at the same time aiming investing in people and income protection (quadrant III & IV).

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
1	Amendment of the Employment Act ("workfare reform package") - 2000	Long-term unemployed	Public/national	Reduction of the entitlement period of the Unemployment Insurance Benefit and the abolition of the means-tested Unemployment Assistance. Local governments were put in charge of administering the Regular Social Assistance (RSA) which is given to people who have exhausted the entitlements to IUA. A new responsibility of the local governments was to organise public work schemes for at least thirty days for applicants of the Regular Social Assistance.	Unemployment benefits, Active labour market policy, social policy	Activation/ job creation (unemployment benefit)	n.a.
2	Increasing minimum wage - 2001/2002	Workforce	Public/national	The monthly amount of the mandatory minimum wage was raised from HUF 25,500/month to HUF 40,000 in 2001, and then to HUF 50,000 in 2002	Minimum wage	Activation/ job creation (Minimum wage)	Pro-active, income protection (quadrant II)
3	2 billion HUF compensation program to trigger job creation - 2001	Companies	Public/national	To offset the side-effects of the minimum wage increase.	Wage support	Activation/ job creation (employers' incentives)	Reactive, income protection (quadrant IV)
4	New incentive system for those who have exhausted their unemployment benefit entitlement period to stimulate life-long learning, employability of disadvantaged groups and better quality of work - 2003	Long-term unemployed	Public/national	Life-long learning: After January 2003 participants of training programs under a certain level of income receive special cash benefits. Higher cash benefits increase the motivation of the clients to participate in training. The aim of certain organizational changes was to improve the conditions of adult training. Employability of disadvantaged people: In May 2003 the government introduced a new scheme called "job search incentive". This benefit can be provided for those people without jobs who have passed their unemployment benefit entitlement period and co-operated with the employment office. The other scheme runs under the title "job finding incentive". A modest sum will be provided for those who find employment before their job search incentive period ends. Both initiatives imply a positive discrimination in favour of older workers.	Unemployment benefits	Activation/ job creation (unemployment benefit)	Reactive, income protection& investing in people (quadrant III&IV)

#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
5	Amendment of the Employment Act - 2002	Roma and older unemployed	Public/national	In the past the various measures of active labour market policy were strictly separated according to the Employment Act. One client was entitled to participate only in one program at the same time. From February 2002 the law has been made more flexible. When the target group is selected from the unemployed in the most disadvantaged position, it is possible to combine various employment policy measures within the frame-work of one labour market program. Compared to the individual schemes the complex programs can offer more generous benefits to those involved.	Active labour market policies	Activation/job creation (combination of services)	Reactive, income protection (quadrant IV)
6	New tax incentives for business development and investment, which also contribute to raising the employment level - 2004	Companies	Public/national	Eligibility criteria for the tax relief for business development and investments were reduced from 10 billion HUF to 3 billion (in disadvantaged regions from 3 to 1 billion). The same tax relief applies for job creation regardless of the amount of investment if at least 300 new jobs are created (150 jobs in disadvantaged regions) and at least 20 per cent of the new employees are career starters.	Tax subsidies	Activation/job creation (employers' incentives)	n.a.
7	Call for proposals to support job creation investments - 2004	Companies	Public/national	The non-refundable subsidy supported investment in infrastructure, purchase of machinery, equipment, technology, and the acquisition of real estate. The amount of the investment subsidy for a new job was 0.8 million HUF, 1 million HUF if the vacancy was filled by an unemployed person, and 1.2 million HUF in disadvantaged regions if an unemployed person was hired for the job.	Fiscal	Activation/job creation (employers' incentives)	n.a.
8	Addition of new chapter on tele-work to the Labour Code - promoting non-standard employment - 2004		Public/national	Act XXVIII of 2004 on the Amendment of Employment-related Legislation (Labour Code, Act on the Personal Income Tax, Act on Labour Inspection, Employment Act), in force as of 1 May, 2004. According to the new legislation a tele-worker can be defined as an employee who carries out activities that fall within the scope of the enterprise, outside the premises of the employer, using ICT tools for both producing and sending the output	Employment, general fiscal	Increasing flexibility and reduction of employment protection	n.a.
9	Grant programme for complementary wage subsidies for creating new tele-work jobs - 2004	Companies, public administration	Public/national	For firms and for public administrative bodies transforming regular jobs into tele-work jobs as part of the administrative reform process. The pilot programme targeted the creation of 1,400 tele-work jobs with a total available funding of 300 million HUF provided by the 2004 central budget of the Labour Market Fund.	Wage support	Activation/job creation (employers' incentives)	n.a.

#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
10	Easier conditions for the seasonal employment of migrant workers in the agricultural sector - 2004	Immigrant seasonal workers	Public/national	21/2004 (IV. 28.) MoEL decree on the Amendment of 8/1999. (XI. 10.) Ministry of Family and Social Affairs Decree on the Issue of Work Permits for Foreign Workers in Hungary	Employment	Activation/ job creation + Increasing flexibility	n.a.
11	Allow non-profit, public interest organisations to offer temporary agency work for disadvantaged people - 2004	Disabled people	Public/national	Act XX. of 2004 on the Amendment of Certain Acts Related to Temporary Agency Work. In force from May 20, 2004	Employment	Activation/ job creation + Increasing flexibility	n.a.
12	Exemption from health care contribution when hiring for part time work (child care allowance or child raising support recipients or long-term unemployed over the age of 50) - 2004	Companies, Long-term unemployed, mothers on maternity leave	Public/national	Article 7, points (1) a), c) and h) of Act LXVI of 1998. Employers were exempted from the payment of the flat-rate health contribution in the situation where they hire child care allowance or child raising support recipients for part-time work. The same incentive applies for the hiring of the long-term unemployed over the age of 50	Active labour market policies, social contribution	Activation/ job creation (employers' incentives)	Reactive, income protection (quadrant IV)
13	Prolonging employment after reaching the statutory retirement age - 2004	Elderly	Public/national	See article 12 and 21 of Act LXXXI. of 1997 on Social Security Pensions and article 12. of the 168/1997. (X. 6.) Government Regulation. Those remaining in employment were previously entitled to a bonus however it was considerably less generous: they had to spend at least a full year in employment after reaching the retirement age of 62 to become entitled to a 0.3 per cent monthly pension rise. As a result of the new rules the monthly rise increased to 0.5 per cent. Thus, as of January 1 2004, those who continue working after reaching the retirement age are entitled to a pension rise of 0.5 per cent following each period of 30 days spent in employment.	Pensions	Risk prevention measures	Pro-active, investing in people (quadrant I)
14	Tax subsidies for small enterprises and employing disabled people - 2004	Companies, disabled people	Public/national	Tax relief for firms with less than 20 workers and employing people with disabilities has increased considerably: the amount which can be deducted from the tax base doubled compared to the previous year and currently is equal to the amount of the minimum wage	Active labour market policies, tax subsidies	Risk prevention measures	Reactive, income protection (quadrant IV)

#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
15	Funding for employment of disabled people - 2004	Companies, disabled people	Public/national	Based on Article 19 of the Employment Act, the Rehabilitation Sub-fund of the Labour Market Fund provides subsidies for investments related to the employment of people with disabilities, or the expansion of existing facilities, or other developments. Funding is awarded through open competition. Funding can be obtained for the following purposes: <ul style="list-style-type: none"> - the creation, upgrading or maintenance of workplaces for vocational rehabilitation in a regular work setting, or - the creation, upgrading or maintenance of sheltered workplaces in special firms, or - the purchase and upgrading of equipment facilitating the employment of people with disabilities. These subsidies enjoy considerable popularity: last year 542 firms applied for funding, out of which labour centres approved 349 applications, which created altogether 2461 new jobs (MoEL 2004:6).	Subsidies	Risk prevention measures	n.a.
16	1021/2004. (III. 18.) Government Resolution on a Government Strategy and Action Plan to Promote the Social Integration of the Roma Population	Roma	Public/national	Launch of labour market insertion programmes that combine training and work practice for the young unemployed, the positive discrimination of Roma applicants in labour centres when hiring new staff, and the improvement of the public work programmes to help participants to enter and remain on the open labour market.	Employment and placement services, ALMP	Activation/job creation (investment in human capital)	Reactive, investing in people (quadrant III)
17	Incentives for Hiring Disadvantaged Workers - 2005	Employers - Young, Women, long-term unemployed, older	Public/national	Employers hiring school leavers, people returning to work after child care, the long-term unemployed aged 50 years and over and young people in the framework of the paid internship programme are eligible for a reduction of social security contributions	Active labour market policies	Activation/job creation (employers' incentives)	Reactive, income protection (quadrant IV)
18	Premium Years Programme in Public Administration - 2005	Older	Public/national	The Premium Years Programme gives a fair opportunity to older civil servants, public servants and administrative assistants to retire gradually.	Unemployment benefits	Risk prevention measures	Pro-active, income protection (quadrant II)
19	Extending the Premium Years Programme to the Business Sector - 2005	Older	Public/national	Part of "100 Steps Programme". To take part in the programme, employees need to have an employment record of at least 25 years and be within 3 years of retirement age. The employer agrees to provide part-time work of at least four hours/day.	Unemployment benefits	Risk prevention measures	Pro-active, income protection (quadrant II)

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
20	Model Public Work Programme - 2005	Long-term unemployed	Public/ national	In the framework of the "100 Steps" Programme the Government has launched a new public work programme to address seasonal employment problems and to involve the most disadvantaged groups. Public work is organised by local governments to carry out the tasks that are delegated to them by the law and to provide seasonal employment for the long term unemployed, including regular social allowance recipients. It is important that public work creates an added value to the whole community and the settlement, as set out by the local government	Active labour market policies	Activation/ job creation (public work)	Reactive, income protection (quadrant IV)
21	Reform of the Employment Subsidies for Disabled Workers - 2005	Disabled people	Public/ national	The essence of the reform is that employment subsidies are linked to the real and proven costs related to the employment of disabled workers. Parts are wage subsidies, reimbursement of costs, rehabilitation support for non-profit organisations. Companies need to be accredited.	wage support, tax subsidies	Risk prevention measures	Reactive, income protection (quadrant IV)
22	START Programme - 2005	Young people (under 25/ 30)	Public/ national	Employers are eligible for a subsidy during a period of 2 years, as opposed to the 9 months under the previous regulation. The subsidy takes the form of a reduction of contributions: employers have to pay 15% as contributions in the first year and 25% in the second year.	Active labour market policies, tax subsidies	Activation/ job creation (employers' incentives)	Reactive, income protection (quadrant IV)
23	Increasing Employment and Promoting Flexibility - 2005	Unemployed	Public/ national	Micro-, small- and medium-sized enterprises and NGOs with less than 250 employees are exempt from the employers' contributions if they have been hiring registered unemployed people for 3 months. The reduction is for one year during which the new workers should be retained and their employment should be maintained for an additional year	Active labour market policies, tax subsidies	Activation/ job creation (employers' incentives)	Reactive, income protection (quadrant IV)
24	Expanding the Start Programme - 2007	People returning to work after child care, long-term unemployed	Public/ national	In the framework of the Start Plus programme for people returning to work after child care or caring for a next of kin the statutory contributions payable by the employer are partly covered by the Labour Market Fund. The Start Extra Programme aims to provide assistance to return to work for people in long term unemployment who face difficulties in the labour market because of their age or because they live in deprived areas. In their case the Labour Market Fund fully covers the employer's contributions in the first year and partly in the second year.	Active labour market policies	Activation/ job creation (employers' incentives)	Reactive, income protection (quadrant IV)

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
25	Employment subsidies in complex labour market programmes - 2007	Workforce	Public/ national	From January 1, 2007 a new active measure was introduced: the wage cost subsidy. This can be used exclusively in complex labour market programmes, and it provides a sum of up to 100 per cent of the total wage costs for up to three years.	Active labour market policies	Activation/ job creation (employers' incentives)	Reactive, income protection (quadrant IV)
26	Reform of Subsidies for business start-up - 2007	Workforce	Public/ national	Prior to January 1, 2007 business start-up was supported by two schemes: the business start-up scheme for unemployed persons and the self-employment scheme for unemployed persons. The aim of the scheme is to promote entrepreneurship and skills, and to encourage unemployed people to set up their own business. To this end, as of 2007 the two previous measures were merged into a new scheme with slightly altered conditions. The new scheme provides: - up to 3 million Forints interest-free loan or non-repayable grant, and - a monthly allowance of up to the minimum wage for a period of no longer than six months, regardless of eligibility for job search benefit.	Active labour market policies	Activation/ job creation (business start-up - subsidies)	Reactive, income protection&i nvesting in people (quadrant III&IV)
27	Pathway to Work (2009-2011 and from 2011 up to the present)	Long-term unemployed	Public/ national	Pathway to Work is a direct job creation through public works programmes as a temporary substitute for insufficient labour demand. For long-term unemployed (more than 100 000 affected per year) was introduced in early 2009. The aim was to identify those long-term unemployed who had the physical capability to work and make financial support for them conditional on their participation in public works organised by local authorities. The programme was terminated in early 2011. A new public employment scheme has been launched since then (managed by the Ministry of Interior since June 2011), characterised by a higher enrolment rate and a high prevalence of part-time and short-time (2-3 months) employment (220 000 people but 100 000 full-time equivalents in 2011), a fixed budget (of 0.2% of GDP in 2011, around half of the expenditure on the previous programme), and a stronger involvement of local authorities in its funding. There are plans to expand the new programme and related expenditure will be scaled up to 0.5% of GDP in 2012. The objective is to create strong financial incentives to resume work by providing a higher income than social assistance, but a lower one than the minimum	Public work, ALMP	Activation/ job creation (public work)	Reactive, income protection (quadrant IV)

				wage. Between September and December 2011, unskilled workers could earn 73% of the minimum wage for full-time work and this ratio increased to 77% in 2012.			
#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
28	Job Retention (2009-2010)	Employed	Public/national	The programme aimed at retaining the employment capacity of the existing workplaces, at retaining jobs and the capacity and willingness of the employees to work, as well as at improving the labour market status and re-employment within the shortest possible time of employees concerned by layoffs. The programme helped keeping on total 68,076 jobs and was implemented in the form of an open tender in the cooperation of the Ministry, the National Employment and Social Office and the regional PES offices.	Subsidies	Immediate crisis measures	Pro-active, income protection (quadrant II)
29	Supporting start-up enterprises (2010)	Would be entrepreneurs	Public/national	In 2010 the regional PES centre managed to support the highest number of starting entrepreneurs, more than 1,600 people, in the most disadvantaged Northern Great Plain Region.	Services, ALMP	Activation/job creation (business start-up - subsidies)	Reactive, income protection& investing in people (quadrant III&IV)
30	Wage and wage-type support (2010)	Young people	Public/national	Wage and wage-type support was provided to 48,535 individuals, of which the local offices supported the employment of 20,359 individuals from the decentralised budget of the employment fund segment of the Labour Market Fund. The wage costs of a further 27,950 individuals were supported within the framework of the labour market programme. The employment promotion support is used primarily by the enterprises active in the market sector. The budgetary agencies also employ a large number of people within the framework of wage support. In 2010, 83.4% of the supported enterprises were micro and small enterprises. 25% of the individuals employed with wage support had 8-year primary school education, and 65.3 completed secondary education.	Wage support, ALMP	Activation/job creation (employers' incentives)	Reactive, income protection (quadrant IV)

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
31	1.1 'Complex Programme for the Employment of Job Seekers and Inactive Individuals' SROP (TÁMOP) 1.1.1 'Rehabilitation and improvement of employability of disabled people' 2010	people with disabilities (recipients of a disability benefit)	Public/national	Priority project focuses on supporting people with changed working capacity who need several forms of personalised services and support in order to improve their employability and promote their integration in the open labour market. The scope of the programme was smaller than expected, because it reached only a smaller group of people with changed working capacity than required. Programme elements: A personalised combination of subsidies and services: vocational rehabilitation, including covering the costs of training and vocational education; psychological counselling; coaching; covering commuting and other related costs of working; wage subsidies; etc.	Combination of subsidies and services, ALMP	Risk prevention measures	Reactive, income protection& investing in people (quadrant III&IV)
32	1.1 'Complex Programme for the Employment of Job Seekers and Inactive Individuals' SROP (TÁMOP) 1.1.2 Improvement of employability of the disadvantaged (first period: Jan 2008 – Apr 2011; second period: May 2011 – 2015) (Decentralized Programmes in Convergence Regions)	<ul style="list-style-type: none"> - the uneducated (having primary education or less) - school leavers - people aged above 50 - parents with young children - the long term unemployed - those at risk of long term unemployment 	Public/national	The objective of the SROP 1.1.2 programme is to promote the integration in the primary labour market of disadvantaged jobseekers and people who lost their jobs in relation to the crisis by providing personalised complex assistance to them. The programme helps the labour market integration of people with low school education, career starters, individuals over the age of 50, those returning from child raising support and child raising benefit and from the care of relatives and individuals, who became unemployed as a result of the crisis. 15,409 individuals were involved in the programme in 2010, 16,604 people took part in labour market training, 11,617 individuals received wage cost support, 455 people were granted self-employment support, 359 received mobility support and labour market services were provided in 26,865 cases. Programme elements: A personalised combination of subsidies and services: labour market counselling, mentoring, vocational training and wage subsidies.	Combination of subsidies and services, ALMP	Immediate crisis measures	Reactive, income protection& investing in people (quadrant III&IV)
33	1.1 'Complex Programme for the Employment of Job Seekers and Inactive Individuals' SROP 1.1.3 "The Way to Work" - Road to the world of work	the long term unemployed	Public/national	Programme elements: A personalised combination of subsidies and services: labour market counselling, mentoring, vocational training and wage subsidies. Provided complex support for improving the employability of the same target group. 5,776 people took part in the programme.	Combination of subsidies and services, ALMP	Activation/ job creation (combination of services)	Reactive, income protection& investing in people (quadrant III&IV)

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
34	SROP (TÁMOP) 1.3.1. - „The development of the Public Employment Service as part of the integrated labour and social system” (2009 Febr-2012 July)	Institutions		The programme aimed to develop and improve the efficiency of the Public Employment Service	services	Re-organization of public administration	n.a.
35	HRDOP (HEFOP) 3.5.3 & SROP (TÁMOP)2.1.1 'One step ahead!'	the uneducated (having at most elementary school degree) those with outdated vocational qualifications	Public/ National	Programme elements: Vocational training in high demand vocations or opportunity to complete primary education. During their training participants also received cash transfers.	ALMP	Activation/ job creation (investment in human capital)	Reactive, income protection& investing in people (quadrant III&IV)
36	SROP (TÁMOP) 1.3.1./1.1.4 subprojects	Roma employment	Public/ National	Twenty-eight Roma employment co-ordinators were employed in the SROP 1.3.1./1.1.4 subprojects, who have been operating in seven regions and twenty-five local PES offices all over the country since the end of 2009. Their main responsibilities include the registration of minority self-governments and NGOs operating in the area of competence of the offices, the expansion of the relationship with them, the identification of jobs for Roma employees, and contacts with the employers for promoting the employment of Roma people. They assist in finding tender applications and programmes aimed at improving the living conditions and labour market status of the Roma population, in finding and encouraging potential applicants and in preparing the applications. The Roma employment co-ordination managers assisted 3,134 individuals of Roma origin last year, of whom 2,132 took part in human services and employment promotion training and were given placement assistance.	ALMP	Activation/ job creation (investment in human capital) + Re-organization of public administration	n.a.

#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
37	SIOP 3.2.1. 'Establishment of the framework of an integrated labour and social service system by developing the infrastructure of the Public Employment Service'	Institutions	Public/National	Project is the continuation of the previous programmes of the PES (Phare, HEFOP 1.2.), as a result of which the infrastructure of 80 local PES offices was modernised. In 2010, the improvement of the infrastructure and IT instruments of 12 other local PES offices started, thus creating the conditions of operation of a new, modern service model.	Service, modernization	Re-organization of public administration	n.a.
38	SROP 1.3.1/1.1.3 'National Virtual Labour Market' sub-project	Institutions	Public/National	The project aims at the coordination of the services of the public and private employment agencies. The development resulted in an internet service assisting jobseekers to find employment, and containing the vacancies offered by the Employment Service, EURES and the joining private employment agencies, and providing also access to the CV data of jobseekers and individuals seeking mediation registered by PES to the private agencies and employers which joined the system. This system accelerates the process of jobseekers finding employment and also makes the market of employment agencies more transparent by verifying the data provided by the joining parties and by structurally registering such data. The employment services made up a considerable chunk of the activities of the Public Employment.	Service, modernization	Re-organization of public administration	n.a.
39	Regional Employment centres increased labour-market services and training measures (Mar 2009 - Dec 2010)		Public/National	RPEC (Regional Public Employment Centres) managed several measures with the aim to preserve jobs. RPEC interventions were covering: a) labour-market services, b) training (among other measures). The RPEC was fully in charge of implementation, and no public information is available on the form of social dialogue.	services, training, ALMP	Immediate crisis measures	n.a.
40	Increased training subsidies for employers who would otherwise lay off their employees (May 2009 - Dec 2009)	Low skilled workers	Public/National	Extension of the SROP (Social Recovery Operative Program) measure. The aim was to pay for training employees who would otherwise be laid off. The implementation of the program is in charge of the National Development Agency. The Operative Program was consulted with a broad set of civil and professional organizations.	training, ALMP	Immediate crisis measures	Pro-active, investing in people (quadrant I)

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
41	Extension of ALMP (active labour market policies) measures for newly unemployed (Jun 2009 - Dec 2013)	Unemployed	Public/ National	SROP (Social Renewal Operative Program) 1.1.2: Active programs available to the newly unemployed (TÁMOP 1.1.2) were extended. A preplanned EU (ESF) co-funded measure was sped up because of the crisis. The policy objective was to promote job creation, thereby decreasing the chance of unemployment. The targeted services were: a) search-assistive services to unemployed, b) training + financial support, c) wage subsidy to gain new experience + commuting support. The National Development Agency is in charge of the implementation of the program (SROP Managing Authority). A rather formal social dialogue took place much earlier during the planning period of the SROP (w.r.t. the setting of the program's priorities, in 2005-2006).	Services, ALMP	Immediate crisis measures	Reactive, income protection& investing in people (quadrant III&IV)
42	Outplacement support program (Sep 2009 - Nov 2009)	Unemployed	Public/ National	National Employment Fund's „New Prospects” program (Országos Foglalkoztatási Alap (OFA) Új Kilátások, 9111) Support outplacement of laid-off workers (grantee: previous employer and service provider). The objective of the program is to decrease unemployment. The implementation is in charge of the National Employment Fund in form of subsidies granted to previous employers and service providers. No public information is available on social dialogue connected to the specific measure.	services, ALMP	Immediate crisis measures	Reactive, investing in people (quadrant III)
43	Implementation and extension of a venture capital program for SME start-ups (Nov 2008 - Dec 2009)	SMEs and MSEs	Public/ National	"New Hungary Venture Capital Program" - early-stage equity financing by the state, it is a measure to increase labour demand. The program finances SMEs in their seed and start-up stages, and it was also introduced within the framework of the Economic Development Operational Program (EDOP) as one of the so-called JEREMIE instruments. The program has already been launched in November 2008. Its funds has, however, been increased as a reaction to the crisis in July 2009 (by HUF 6 billion). The management of the program is delegated to the Venture Finance Hungary Plc. (MV Zrt.). As the fund manager it relays resources to venture capital funds. The partners of Venture Finance Hungary Plc. are venture capital fund management firms, which were selected by open tender in the second half of 2009.	Financial	Immediate crisis measures	n.a.

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
44	Implementation of micro and small credit program (2008 - Dec 2016)	SMEs and MSEs	Public/ National	"New Hungary Micro- and Small Credit Program" Capital investment loans to micro- and small businesses (max. HUF 10 million, max 10 years). The aim of the program is to develop micro and small enterprises with no or limited access to financial resources provided by commercial banks, in order to increase labour demand. It provides the micro and small enterprises with reimbursable funds with favourable interest rates, and it eases the collateral expectations faced by the SMEs by giving them guarantee. Credit institutions and specialized micro-financing organizations are financial intermediaries following a selection procedure by open tendering. In November 2008 a couple of modifications in the terms and conditions have been introduced as a response to the financial crisis (see easing the credit conditions, broadening the set of potential beneficiaries).	Financial	Immediate crisis measures	n.a.
45	Implementation of a SME credit program/ asset loan program (Nov 2008 - Dec 2013)	SMEs and MSEs	Public/ National	"New Hungary SME Credit Program" Investment loans to SMEs (max. 100 mill HUF, max 10 years) in order to increase labour demand. The objective of the credit program is to provide micro, small and medium-size enterprises in Hungary with discounted interest credit options offering a maturity period exceeding one year through the combined utilization of co-funding by the European Regional Development Fund (available within the framework of the Economic Development Operational Program 2007-2013) and refinancing resources provided by Hungarian Development Bank (MFB Zrt.). Credit institutions participating in the program are required to allocate refinancing resources for the target group in the form of investment credits of HUF 10-100 million, with a maximum 10 year maturity. The credit program was announced in November 2008 as part of the government's package of measures designed to offset the impact of the crisis on financial markets. Some technical modifications have been introduced in the credit conditions in October 2009. "New Hungary Asset Loan Program" Working capital credits (max. 200 million HUF, max. 2 years) in order to increase labour demand. The objective of the loan program is to bridge financing of SMEs by	Financial	Immediate crisis measures	n.a.

				<p>using working capital credit. It aims at the transitional lack of financial resources necessary for activity expansion conducted by enterprises carrying out producer or service-provider activities. Credit institutions participating in the program are required to allocate refinancing resources for the target group in the form of working capital credits of HUF 1-200 million, with a maturity period exceeding one year. The measure has been designed and implemented in close and intensive cooperation with professional partners and stakeholders.</p> <p>Resources necessary for activity expansion conducted by enterprises carrying out producer or service-provider activities. Credit institutions participating in the program are required to allocate refinancing resources for the target group in the form of working capital credits of HUF 1-200 million, with a maturity period exceeding one year.</p>			
46	Support for hiring laid-off workers (Sep 2009 - Nov 2009)	Unemployed	Public/ National	National Employment Fund” program „To Work” (OFA “Munkába, 9124). The objective is to support companies hiring workers laid off because of the crisis. The implementation is managed by the NEF (OFA). Public consultation was introduced simultaneously with the launch of the program.	Support	Immediate crisis measures	Reactive, income protection (quadrant IV)
47	Implementation of fund providing wage subsidies for larger enterprises (Jan 2009 - Sep 2009)	Large enterprises	Public/ National	Introduction of a centralized, discretionary fund targeted at saving jobs. The objective was to preserve jobs within larger enterprises. The fund management was delegated to the Ministry of Social Affairs and Labour. In case of planning to fire more than 50 employees, large enterprises could ask for a temporary (max. four months) support not exceeding 135% of the minimum wage.	Support	Immediate crisis measures	Pro-active, income protection (quadrant II)
48	Subsidizing wages for jobs endangered by the crisis (Sep 2009 - Jan 2010)	Enterprises affected by the crisis	Public/ National	National Employment Fund’s program: „Preserving” (Országos Foglalkoztatási Alap, OFA Megőrzés, 9122; Megőrzés 2-9123/2009). The aim of the program is to prevent jobs being shed through a) subsidizing “endangered” jobs, b) supplementing wages in STWAs, possibly combined with training.	Wage subsidies	Immediate crisis measures	Pro-active, income protection (quadrant II)

#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
49	Wage subsidies (Mar 2009 - Dec 2010)	Enterprises affected by the crisis	Public/National	RPEC (Regional Public Employment Centres) managed several measures the aim of which was to preserve jobs. RPEC interventions were covering: a) wage subsidy to prevent layoff [firms], b) wage subsidy to support STWA [firms], c) wage subsidy to support the re-employment of crisis-related unemployed [firms], and also providing d) commuting cost subsidies. The RPEC was fully in charge of implementation.	Wage subsidies	Immediate crisis measures	Pro-active, income protection (quadrant II)
50	Abolishment of „Thirteenth-month“ pension bonus (starting date: Jul 2009)	Elderly / pensioners	Public/National	„Thirteenth-month“ state pension bonus was abolished.	Pensions	Immediate crisis measures	n.a.
51	Changes in the indexation of pension benefits (starting date: Jan 2010)	Elderly / pensioners	Public/National	Concerning the indexation of pension benefit, new rules will be effective from 2010. The weight of the two components of the index, changes to consumer prices and net earnings, will depend on the rate of economic growth, with a higher weight on the price index during slower economic growth. Under 3% of GDP growth, state pension payouts should be increased by the price index. In case of a 3 to 3.9% of GDP growth, mixed indexation should be applied in a proportion of 20% to 80% between valorisation and following real wage growth; for 4 to 4.9% of GDP growth, the proportion would be 40 to 60%, and for 5% or higher growth, the (originally universal)“Swiss indexation“ would apply.	Pensions	Immediate crisis measures	n.a.

#	Name	Target group	Type/scope	Short description	Policy field/output	Trends in innovation	Resilience - Quadrant
52	Contraction of unemployment assistance for individuals considered "able to work" (Starting date: Jan 2010)	Low income group	Public/National	Restrictive changes were implemented in non-contributory unemployment assistance (UA). Recipients of the old UA were divided into two groups: those considered able to work, and those too frail to work. For the latter group, the benefit amount was kept the same and the work test was removed. For the former group, the benefit amount was flattened (a reduction of 60% at the benefit ceiling) and the work test extended to 90 days of public works a year paid at least at the minimum wage. Job seekers aged over 55 were automatically put in the 'frail' category. Due to a further restriction, only one long-term unemployed person per family may receive UA. The cut of the unemployment assistance (UA) benefit amount widened the gap between unemployment insurance and unemployment assistance recipients. The two groups converged however in terms of job search requirements and also in benefit administration as UA recipients are now served by the PES instead of the municipalities (public works remained their responsibility).	Unemployment benefit	Activation/job creation	n.a.
53	Increase of National minimum wage (Starting date: Jan 2009)	Low wage earners	Public/National	Minimum wage was increased in January 2009 but the increase was below the expected 4.5% inflation rate. Increase in the national minimum wage by 3.6% from 1st January 2009. Increase by 2.8% from 1st January 2010. From 1 January 2009, the national minimum wage amounted to HUF 71,500 (€239).	Minimum wage	Activation/job creation (Minimum wage)	Pro-active, income protection (quadrant II)
54	Raise of minimum wage (Jan 2010 - Dec 2010)	Low wage earners	Public/National	Minimum wage of unskilled workers was increased to preserve real value of net earnings. The measure was the resolution of the National Council for the Reconciliation of Interests (Országos Érdekegyeztető Tanács) for 2010. Guaranteed minimum wage for skilled workers and people with secondary-level education was increased in order to preserve real value of net earnings. The measure was the resolution of the National Council for the Reconciliation of Interests (Országos Érdekegyeztető Tanács) for 2010.	Minimum wage	Activation/job creation (Minimum wage)	Pro-active, income protection (quadrant II)

#	Name	Target group	Type/ scope	Short description	Policy field/ output	Trends in innovation	Resilience - Quadrant
55	Labour Code (entered into force on 1 July 2012)	Every stakeholder of the labour market	Public/ National	The new Labour Code (published in the Hungarian Official Gazette No. 2 of 2012 on 6 January 2012) entered into force on 1 July 2012, on the 20th anniversary of the implementation of the 1992 Labour Code No. XXII. There is a significant policy change in the new Labour Code, when compared to the previous Code. The new Code aims to adapt to the needs of the employment market, reflecting the trend for flexibility in EU labour regulation. To increase the flexibility of the labour market, a new Labour Code (in effect from July 2012) promotes flexible forms of employment and flexible workplaces, ease the return of young parents to the labour market and support companies to flexibly adjust working hours. Employers should employ part-time employees with a child under 3 returning from parental leave upon request of the employee. There is a contribution allowance available for employers after the employment of those returning from parental leave. The new features of the Labour Code include among others the extension of trial period for new employees from 3 to 6 months; enhancing the flexibility of working time by extending the possibilities of short-time and overtime; the employer's unilateral discretion to offer paid leave instead of complement for employees working extraordinary overtime. The expectation of the government is that the law will make employment more flexible, cheaper and more market-compliant.	Labour market regulation	Increasing flexibility and reduction of employment protection	n.a.
56	Job seeker benefit and job seeker aid (2011)	Unemployed	Public/ National	Part of the „making work pay” policy: The law provides for the job-seeker benefit to be paid for maximum 90 days, and the allowance equals 60% of previous contribution base, but the amount cannot be higher than 100% of the minimum wage (i.e. HUF 101,500).	Unemployment benefit	Activation/ job creation (unemployment benefit)	n.a.

Quality of resources used

Due to the lack of thorough policy evaluation there is no adequate and consistent measure on the effectiveness of these policies (Scharle 2012). The information was gathered through official sources and through the expert interviews realized for WP2. These latter helped to summarize the main tendencies and focus on the most important trends in terms of innovative policies. One of the main sources for policy innovations is the annual review on labour market trends prepared by the Centre for Economic and Regional Studies, Hungarian Academy of Sciences and financed by the National Employment Non-profit Public Company Ltd. The Hungarian Labour Market Yearbook series is published since 2000 and presents, besides more focused in-depth analyses on a different topic each year, the main labour market tendencies, statistics, and the legislative and institutional background and changes of the Hungarian employment policy (<http://econ.core.hu/kiadvany/mt.html>). The last issue presented 2012 trends covering this way the totality of the target period of the INSPIRES project (2000-2012).

The other main source to gather policy innovations in Hungary are the policy analyses and evaluations prepared by the National Employment Service (http://www.afsz.hu/engine.aspx?page=full_AFSZ_KOZOS_Statisztika). The NES evaluates the efficiency of the most significant active labour market tools since 1994 every 6 months. The main indices are the proportion of those still at work after a given time period and also the calculated costs (Albert 2013).

Other than these two official sources of information that enable a continuous overview of the tendencies, case by case analyses were also consulted. Furthermore, The ILO/World Bank Inventory of policy responses to the global financial and economic crisis of 2008, (<http://www.ilo.org/dyn/crisis-inventory/f?p=17030:2:7103301946105726::NO::>) and Eurofound country reports were also of use.

Nevertheless, it is important to differentiate between policy monitoring and policy evaluation. As mentioned during an expert interview, while the former is increasingly required, especially when EU funds are used, there is no consistent regularity of the latter. Policy evaluation is seldom prepared and with different depth, meaning that there is no adequate and consistent measure on the effectiveness of these policies, partly due to the lack of political interest (Scharle 2012). Usually independent research institutes are involved in evaluation tasks such as Hétfa Research Institute (<http://hetfa.eu/>) or Budapest Institute (<http://budapestinstitute.eu/index.php/en>).

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