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Anticipating and Managing restructuring Hungary

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Executive summary

THE MAIN CHARACTERISTICS OF THE ECONOMY AND EMPLOYMENT

Hungary's economy went into deep recession during the first years of the transition from the country's state-socialist system, with GDP contracting by 17% between 1990 and 1993. During this 'transitional recession' between 1990 and 1994, Hungary lost almost one million jobs – the equivalent of virtually one-quarter of all jobs. The main driving forces of the recovery period were intensive restructuring in manufacturing industries, including fast and far-reaching privatisation, as well as an inflow of foreign direct investment (FDI). The period from 2000 marked a new stage in the development of FDI: an increase in labour costs resulted in relocation of low-technology, labour-intensive, assembly-line style manufacturing from Hungary. The 1990s saw profound restructuring of the Hungarian economy: a rapid decline in the share of the primary sectors and to a lesser extent job losses in manufacturing, while the share of services steadily grew. However, with 23% of all jobs in manufacturing and 8% in construction Hungary is far for being a post-industrial society similar to those of the EU15 countries.

From 2000 onwards Hungary's export-driven post-socialist development model faced new challenges: in particular, decreasing FDI inflow coupled with fiscal problems stemming from subsequent governments' 'neo-Keynesian' style policies between 2000 and 2006 have resulted in major budget imbalances. In October 2008 the credit crunch hit Hungary hard owing to the country's high level of indebtedness, and in November the International Monetary Fund (IMF), the European Union and the World Bank provided Hungary with a substantial credit of approximately €20 billion to stabilise the national currency. The crisis also exposed the structural weaknesses of Hungary's economy. By the second quarter of 2009 GDP had dropped by 7.5% from the level of a year before. The export-driven manufacturing sector and the construction industry suffered from the biggest decline. The unemployment rate had grown by 2.2 percentage points in a year and had reached 9.9%, the highest figure for 13 years.

ANTICIPATING CHANGE AT NATIONAL, REGIONAL AND LOCAL LEVELS

In Hungary there is practically no public discourse or forum of social dialogue for addressing structural changes and preparing for them. The lack of institutions forecasting and planning economic change is rooted to some extent in the economic ideology accompanying the change of regime. Essentially, economic policy in the 1990s was based on faith in the omnipotence of the market, including the phasing-out of the State's function as the agent of economic development. By Western European standards, there was no planning of structural change or industrial policy worth mentioning.

Under the centre-right government in power between 1998 and 2002 an institutional system to support SMEs (subsidies for entrepreneurs, special lending schemes, credit guarantees, incubator houses etc.) was set up to help develop domestic businesses, especially the supplier network for large multinational companies. From 2004 EU subsidies financed company investments and structural change. The EU context made it necessary to create short- and medium-term policies and development plans, which resulted in a cautious come-back of forecasting and planning.

Labour market forecasting and prognosis tools developed more or less independently from those of economic development policy. It was mainly when companies reported a shortage in skilled workers that the government was compelled to finance new research in 2007, using a multifaceted approach to identifying the expected changes in the occupational structure. In addition to research on demand for skilled workers, shorter-term training objectives were identified by the Regional Training Councils with participation by the social partners. Yet despite all these efforts to collect information, in Hungary the restructuring of a company is regarded an internal affair as long as the company does not request help or subsidy from the Public Employment Service or a higher-level government agency.

According to company HR consultants, the lack of anticipation of structural changes in Hungarian subsidiaries of multinational companies is primarily due to the fact that strategic planning is done outside Hungary and decisions are made in the company headquarters abroad. Often the Hungarian management is itself only informed about plans at the last moment and is left with the responsibility for implementing decisions and crisis management.

SUPPORTING RESTRUCTURING

The development of ways of supporting restructuring took place during the 'transition recession' of the early 1990s. As regards institutional development, in 1992 the Labour Code introduced a system of statutory works councils as a second channel of worker representation. The role of the trade unions in collective bargaining was retained, while works councils were created as institutions for workplace participation. From the point of view of restructuring it is noteworthy that works councils and trade unions have information and consultation rights in respect of economic issues affecting workers' interests, according to the Labour Code. Nevertheless, there is no reliable information on the extent to which works councils and trade unions are informed and consulted in practice.

As Hungary joined the EU in May 2004, the country had to adopt national legislation to align itself with the *acquis communautaire* and, as a Member State, it is now obliged to transpose new directives. This fact fundamentally influences the legal context of company restructuring. Legal regulations on the information and consultation procedure, collective redundancies and transfer of undertakings are in line with the relevant EU directives. However, the Hungarian bankruptcy law does not provide an effective instrument for assisting with the reorganisation of companies; instead, as a rule the filed insolvency culminates in liquidation.

During the transition period, beyond introducing the unemployment benefit system and building up the nationwide Public Employment Service network, various governments tried different Active Labour Market Policies (ALMPs). With the constantly high inactive population, promoting employment growth became the primary objective, but to meet escalating skills demand the economy also badly needed to improve the employability of people out of work. This shift was enhanced by the country's accession to the EU, for the EU's Employment Policy Guidelines also highlight employability. In recent years labour market training, public works and wage subsidy schemes have been the most widespread ALMP measures. The Hungarian Public Employment Service (PES) provides registered job seekers with various direct services, such as group career guidance, counselling, short-term training or vocational training, and financial and technical assistance for those willing to become self-employed. Special tools are available for tackling company restructuring, even 'on the spot' services which are provided on the basis of cooperation between the company, PES, local government and the trade unions. Furthermore, initiatives like Employment Creating Companies and Territorial Employment Pacts are noteworthy in developing local alliances between government agencies, social partners and companies.

Although lifelong learning as a national level policy objective, as along with various issues concerning vocational training, are widely discussed in the plethora of social dialogue fora, the participation rate of the population aged 25-64 in adult learning continues to be very low in Hungary. In 2008 it was 3.1% compared with 9.6% in the EU as a whole, and is even decreasing as a year earlier it was 3.6%.

In Hungary the company is the dominant level of collective bargaining, sectoral agreements signed by sectoral social partners being limited to only a few industries. The regulatory force of collective agreements varies greatly from company by company, depending on the bargaining strength of the local union. Despite the high frequency of restructuring-related regulations, most of the agreements merely reflect the conditions and procedures laid down in the Labour Code. However company-level agreements say very little about employers' strategy on human resource development, training as a company policy being in practice missing from collective agreements.

MANAGING THE CURRENT ECONOMIC RECESSION

The government introduced a 'crisis management and economy boosting package' and an 'employment policy package'. The first included direct micro-loans, loan guarantees, support for lower interest rates, and especially the refinancing of bank loans. Elements of the latter include setting up of regional crisis-management funds and subsidies both for vulnerable enterprises to help them retain their personnel and for those employers hiring workers laid off by other companies. Essentially, enterprises have access to job preservation subsidies through three different channels. In addition to financial help, and in an attempt to alleviate the effects of the economic crisis, the Hungarian government amended several laws in favour of employers as of 1 June 2009. (The legal modifications affected the Labour Code with respect to several working-time-related issues, as well as laws stipulating the rules for exclusion of law-breaking employers from State subsidies and public procurement.) However, the job preservation programmes have been mostly criticised for – apart from shortage of funding – the slowness and onerousness of their procedures. As far as support to workers is concerned, the loss of income due to a shortened working week may be compensated for by government subsidies provided on a tendering basis. Nonetheless, the rules of the unemployment benefit system have not changed as a result of the crisis, although labour market experts proposed a temporary extension of the duration of the benefit.

A series of surveys addressed measures taken by companies to tackle the recession. The common finding of the research is that companies seem to use a very narrow range of anti-crisis measures: to save costs they reduce costs (including wages) and lay off employees. At the same time the studies have found that companies failed to forecast the crisis and plan anti-crisis measures, and that they have no crisis management or crisis communication strategy. In the terminology of the HR management literature, a 'knowledge management' attitude has not yet developed, and the preservation and development of human capital has not yet become a general practice. To the question of what external assistance companies would request, the majority cited reduction of wage levies (80%) and business taxes (71%). An interesting finding was that the companies primarily expected the government's economic policy measures to solve their problems arising from the crisis.

Restructuring – The main characteristics of the economy and employment

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Hungary slipped into a deep recession in the first years of the transition from the country's state-socialist system, with GDP contracting by 17% between 1990 and 1993. During this 'transitional recession' between 1990 and 1994, Hungary lost almost one million jobs – the equivalent of virtually one-quarter of all jobs. The unemployment rate grew steeply, reaching a record 13% and amounting to about 700,000 unemployed persons in 1993. Nevertheless another 800,000 chose to withdraw from the labour market in some other way: many opted for pension (early retirement and disability pension); women were more likely to choose childcare support; and so on.

Economic growth began from 1997 onwards, and was accompanied by a relatively rapid increase in real wages. The main driving forces of the recovery period were intensive restructuring in manufacturing industries, including fast and far-reaching privatisation, along with an inflow of foreign direct investment (FDI). In the early 1990s Hungary had the highest proportion of FDI among the Central and East European Countries (CEECs); many multinational companies in the automotive and auto-component industries, and in electronic equipment manufacturing, relocated their production facilities to Hungary.

The period from 2000 marked a new stage in the development of FDI. With the opening-up of Romania, Bulgaria, Ukraine and even China to FDI, the increase in labour costs generated new trends. On the one hand low-technology, labour-intensive, assembly-line style manufacturing began to move out of Hungary into cheaper locations, especially in the textiles, clothing, shoe-making and electronics industries. On the other hand there was a marked growth of inward FDI into technology-intensive, export-oriented manufacturing industries. In the 2000-2005 period about two-third of FDI inflow went into the car manufacturing, engineering and machine building industries. This investment process further strengthened the dependence of the Hungarian economy on foreign-owned firms, which in 2003 accounted for 80% of exports. The share in total employment of private companies with at least 10% foreign equity was about 35% in 2006; 48.8% in the manufacturing sector and 27% in the private service sector (source: Hungarian Central Statistical Office)

From 2000 onwards Hungary's export-driven post-socialist development model faced new challenges: in particular, decreasing FDI inflow coupled with fiscal problems stemming from subsequent governments' 'neo-Keynesian'-style policies between 2000 and 2006 resulted in major budget imbalances. The second socialist-liberal government had to tackle the problems arising from the extravagant budgetary policies of previous governments. In June 2006, immediately after its re-election, the government announced a comprehensive package of austerity measures and reform proposals to redress budget imbalances and to ensure that the country would meet the strict macroeconomic conditions required for joining the eurozone. Consequently in 2007 real wages dropped by 8%. The adoption of these measures and reform initiatives mainly affected the public sector and welfare provisions. However, the government soon backed away from reforming the health insurance system and introducing tuition fees in higher education after its plans generated overwhelming opposition in a referendum held in March 2008.

Table 1 Major economic indices (200-2009)

Index	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 fore-cast*
Gross domestic product (%)	5.2	4.1	4.4	4.3	4.7	3.9	4.0	1.2	0.9	-6.5
Final consumption of households (%)	4.9	5.7	9.9	7.8	2.8	3.6	1.9	-1.4	0.6	-7.0
Public consumption (%)	1.2	1.0	5.3	5.1	-0.1	-0.1	5.8	-4.5	0.7	-8.0
Gross fixed capital formation (%)	7.7	5.2	10.2	2.2	7.6	8.5	-6.2	1.8	-2.3	-8.0
Export (according to national accounts, %)	21.7	7.7	5.9	9.1	18.4	11.5	18.0	16.4	4.6	-15.0
Import (according to national accounts, %)	20.8	4.0	5.1	10.1	15.2	6.1	14.4	13.4	4.0	-17.0
Foreign trade balance (goods only, €bn)	-4.3	-3.6	-3.4	-4.2	-3.9	-2.9	-2.4	-0.1	0.2	
Annual consumer price index (%)	9.8	9.2	5.3	4.7	6.8	3.6	3.9	8.0	6.1	5.0
Balance on current account (% of GDP)	-4.4	-3.6	-4.9	-5.9	-6.9	-6.0	-5.5	-6.6	-7.4	-2.2
FDI (€bn)	3.0	4.4	3.2	1.9	3.6	6.2	6.0	4.4	4.4	
State budget, ESA95, % of GDP	-3.0	-4.0	-8.9	-7.2	-6.4	-7.8	-9.3	-5.0	-3.2	3.8
Unemployment rate (%)	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4	7.9	10.0
Gross average earnings (%)	13.5	18.0	18.3	12.0	6.0	8.8	8.1	7.7	7.4	
Industry (%)	18.1	3.6	2.8	6.4	7.4	7.0	9.9	7.9	0.0	-10.0
Construction (%)	7.9	8.3	17.8	2.0	5.8	16.1	-1.8	-14.4	-6.3	-5.0
Volume of retail trade (%)	1.1	4.1	8.8	9.0	5.8	5.5	4.1	-1.8	-1.8	-9.0
Hungarian Central Bank base rate at the end of the year	11.0	9.8	8.5	12.5	9.5	6.0	8.0	7.5	10.0	

Source: ECOSTAT (http://www.ecostat.hu)
** Forecast published in October 2009 by GKI (http://www.ecostat.hu/english/newsletter/newsletter27.html)*

All in all the 1990s saw profound restructuring of the Hungarian economy. According to Kõrösi (2007), during the 1993-2000 period 15% of all jobs were destroyed and created each year, which is much higher than the gross job reallocation in other transition countries. The overall restructuring trend is a rapid decline in the share of the primary sectors and, to a lesser extent, job losses in manufacturing while the share of services is steadily growing. However, with 23% of all jobs in manufacturing and 8% in construction Hungary is far for being a post-industrial society similar to those of the EU15 countries. As in the last fifteen-year period, massive

FDI-driven re-industrialisation occurred, which resulted in relocation of industrial jobs into Hungary and thus the industry's share has only decreased slightly . Nonetheless, the new trend of relocation out of Hungary has outweighed industrial job creation in the most recent period. Although statistical data is not yet available, obviously this process was somewhat accelerated by the economic crisis.

Table 2 Employees* by industry, per cent

Industry	1980	1990	1995	2000	2001	2002	2003	2004	2005	2006
Agriculture	18.0	15.8	6.9	5.2	4.9	4.8	4.4	4.1	3.8	3.7
Mining and quarrying	2.2	1.8	1.0	0.7	0.4	0.4	0.4	0.4	0.4	0.4
Manufacturing	29.2	29.5	24.3	25.9	26.5	26.4	25.2	24.4	23.6	23.3
Electricity; gas; steam; water supply	2.9	3.0	2.9	2.3	2.3	2.1	1.9	1.8	1.8	1.9
Construction	7.0	5.9	5.5	6.4	6.5	6.4	7.0	7.3	7.6	7.7
Wholesale and retail trade	8.7	8.9	10.7	13.0	13.1	13.1	13.2	13.1	14.3	14.0
Hotels and restaurants	2.3	2.4	2.9	3.2	3.5	3.4	3.4	3.6	3.9	3.9
Transport; storage; communication	7.4	6.7	8.6	8.3	8.3	8.1	7.8	7.7	7.4	7.9
Financial intermediation	1.1	1.4	2.5	2.2	2.1	2.0	1.9	2.1	2.1	2.0
Real estate; renting; business activities	3.2	2.9	3.4	5.0	5.4	5.5	6.1	6.5	6.6	6.7
Public administration and defence; compulsory social security	4.0	5.6	9.6	8.1	7.9	8.1	8.4	8.5	8.4	8.4
Education	6.0	7.1	10.1	9.1	8.9	9.1	9.2	9.4	9.0	8.9
Health and social work	5.3	5.5	6.9	6.8	6.6	6.7	7.3	7.4	7.2	7.3
Other	2.7	3.4	4.7	3.9	3.7	3.7	3.8	3.7	3.9	3.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Includes members of cooperatives and partnerships.
Source: 1980 –1990: Census based estimates.; 1992–: KSH MEF.

Source: Fazekas Károly, Cseres-Gergely Zsombor, Scharle Ágota (eds): The Hungarian Labour Market 2008

Table 3 Hungarian off-shoring/delocalisation cases in t he European Restructuring Monitor (2005-2009)

Company	Group	Geographic location	Announcement date	Threatened jobs	New location	Sector
Leoni Hungária	Leoni AG	Hungary, Alfod es Eszak, Eszak-Magyarorszag	02-06-2005	250	NMS12	Electrical
Artesyn Hungary Electronics	Artesyn Technologies	Hungary, Dunantul, Kozep-Dunantul	27-07-2005	370	NMS12	Electrical
Aikawa Hungária Elektronikai Kft.	Exas Philippines	Hungary, Kozep-Magyarorszag , Kozep-Magyarorszag	03-08-2006	120		Electrical
Henkel Hungary	Henkel	Hungary, Alfod es Eszak, Eszak-Alfold	09-02-2006	124	various locations	Chemical
Carl Zeiss Vision	Carl Zeiss International	Hungary, Alfod es Eszak, Eszak-Alfold	18-07-2006	220	South and Central America	Metal and machinery
Tulipán Ruhaipari Rt.	Grupo Cortefiel	Hungary, Dunantul, Kozep-Dunantul	27-06-2006	250	various locations	Textiles and leather
Delphi Packard	Delphi Corporation	Hungary, Dunantul, Nyugat-Dunantul	05-05-2006	100	NMS12	Electrical
Sanyo Hungary Kft.	Sanyo	Hungary, Dunantul, Kozep-Dunantul	25-01-2008	641	China	Electrical

Note: The classification of European Restructuring Monitor is seriously biased, for many well-known relocation cases are marked as 'internal reorganisation'. Therefore the above table only illustrates the trend, and by no means represents a reliable measure of relocation. In Hungary there is no official data on, or regular monitoring of, the movement of employment in connection with inward and outward FDI.

As far as mitigating the social cost of the 'transition recession' is concerned, various forms of early retirement have been of vital importance. To avoid social and political tensions arising from the radical contraction of the labour market and the wholesale elimination of workplaces, the new political leadership made it possible, through a variety of methods, for older people whose workplace was eliminated to go into retirement. The most preferred method in this context was claiming for disability pension, submitted on the basis of some official medical justification. The share of the inactive population remained high, even in the later period when the unemployment rate fell substantially. The other constant feature of the labour market is significant regional differences, largely coinciding with inequalities in economic development: the capital and North-Western counties have the lowest unemployment rate, the highest being in the North-East.

In October 2008 the credit crunch hit Hungary hard for several reasons, including in particular credit shortages and capital withdrawals (ECFIN 2009). A domestic financial crisis magnified the recession, comprising the country's high level of indebtedness, including high level debts amassed by the population mainly in Swiss Francs, and a sudden collapse in consumer demand. (The reason for the popularity of Swiss-Franc-denominated loans was partly due to the monetary policy of the Hungarian National Bank (MNB), which maintained base interest rates of the Hungarian Forint relatively high for a while, so that foreign-currency-based mortgages and other consumer loans were cheaper.) The credit crunch first led to an unprecedented devaluation of the Hungarian currency, which threatened a 'bankruptcy of the State', similarly to that of

Iceland. In order to avoid further devaluation of the Hungarian Forint, on 22 October the Monetary Council of MNB raised the base interest rate to 11.5% from 8.5%. In November Hungary rapidly negotiated with the International Monetary Fund (IMF), the European Union and the World Bank a substantial credit of approximately €20 billion.

The loan agreement entailed only relatively soft restrictions on budget expenditure, such as abolishing 13th month pension and 13th month salary for public service employees. Despite the crisis the government initially sought to decrease the budget deficit to meet the Maastricht criteria. However the government, afraid of social discontent, retreated from introducing any major reform and even partially revoked the cancellation of 13th month pension and public sector salary. In January 2009 Dominque Strauss-Kahn, Director of the IMF, on a visit to Hungary expressed concern about the government's commitment to the programme and remarked that the reduction in reserves significantly raised the risk of failing to meet the targeted fiscal adjustment.

The crisis also exposed the structural weaknesses of Hungary’s economy. By achieving a high level of integration through foreign direct investment (FDI), Hungary remained highly vulnerable to a turn of the tide. Parallel to the devaluation of Hungarian currency, manufacturing industries experienced rapid contraction. December 2008 saw a 23.3% drop in industrial production compared to a year earlier.

In 2009 GDP has dropped by 6.3%. The export-driven manufacturing sector and the construction industry suffered from the biggest decline. In the first two months of 2009 the volume of exports was 27% less than a year before, while imports dropped by 28%.

The decline in the construction industry had begun somewhat earlier: the volume index grew up until 2005; then production dropped 1.5% in 2006, 14.8% in 2007 and 5.1% in 2008. A comparison of the Eurostat data for Hungary with those for the EU average also reveals that the recession has been far deeper in Hungary; with year 2000 as the basis, output fell from its peak by 24.5%, while the comparable figure for the EU as a whole was 2.4%. Nonetheless the construction boom (or bubble, given that most projects were funded by credit) was among the highest in Hungary after the year 2000. Small firms were clearly hit harder by the credit crunch than were large firms, mainly because of growing difficulties in access to credit. Since November 2008 the number of bankruptcies has grown steeply in the construction industry. In January 2009 the firms in the company register which had been closed outnumbered new firms, which had never happened before. These changes mainly affect small firms as cash flow is a critical issue for many of them, and in the subcontractor chain the bankruptcy of a single firm may result in a domino-like effect. Media news about big project scandals attributable to problems in small subcontractor firms are quite frequent in Hungary. This however is not a new phenomenon; the ‘vicious circle’ of overdue payments has been a critical issue in the sector for many years.

The other crisis-ridden industries are food-processing and agriculture. Structural problems in these sectors date back to the early 1990s when former cooperatives were dissolved and restitution affected arable land ownership which dismantled the value chains established by the previous regime. The decline in agricultural and food production and the fall in employment in these sectors was further aggravated by Hungary’s joining the EU in 2004, as local producers faced fierce competition from their foreign counterparts, not only in terms of subsidies under the CAP system, but also in the domestic market which was opened up under EU regulations.

As far as the employment impact of the global recession is concerned, by the fourth quarter of 2009 the unemployment rate had grown by 2.5% compared with a year earlier. At the time of writing it was 10.5%, the highest figure for 13 years. On the other hand the employment rate in the age group 15–64, which had been almost the lowest in Europe, dropped by 1.1%, and its current level is as low as 55.1%. The Labour Force Survey showed that the number of employed persons dropped by 100,000 compared to 2008, and according to the Public Employment Service the number of registered job seekers has grown steeply; in January 2010 their number was 653,000, 28.3% higher than a year earlier. The share of male unskilled and skilled workers grew fastest, while employees with higher education degrees are still under-represented among those laid off during the crisis. However, it is difficult to measure how many people were made redundant by the recession, as employers' advance reports on collective redundancies only cover cases affecting more than 50 people. In the first half of 2009 the employers reported their intention to lay off 24,700 people. A new feature here was that the larger firms no longer predominated as was previously the case; for example in April firms employing fewer than 300 outnumbered larger firms. In other words the recession began with the contraction of large firms and is now also affecting SMEs.[1]

Mainly because of the shortened hours introduced for economic reasons, the number of part-timer workers increased by 17.3% (31,000) in 2009. However with this increase only 5,2% of the employed aged 15–64 (of whom two-thirds were women) worked part-time in 2009, while the corresponding EU-27 average was 18.2%.

As an unofficial estimate, the popular news portal Index runs a "lay-off counter" which shows that almost 40,000 job losses have been published since last October; but this account is based on media releases which are also biased by lack of data on non-collective redundancies. However, according to expert estimates, so far more than 100,000 people have lost their jobs as a result of the recession, and the number of employed people has decreased by 80,000.

[1] Source of data: Hungarian Central Statistical Office (KSH) and National Employment and Social Office (FSZH)

The lack of anticipation of structural change

In Hungary there is practically no public discussion or social dialogue forum for sectoral and enterprise-level negotiations on structural changes and the need to prepare for them.

The lack of institutions forecasting and planning economic changes is rooted to some extent in the economic ideology accompanying the change of regime. As State socialism was a command economy, albeit quite softened-up in its last decades through a series of reforms, after 1990 the primary concern was how to dismantle it by replacing "bureaucratic coordination" with market regulations, to borrow János Kornai's terminology. Essentially, the economic policy of the 1990s was based on faith in the omnipotence of the market, including privatisation of State-owned enterprises on a market basis and the phasing out of the State's function as the agent of economic development.

It was during this period that industrial companies, the major utilities and commercial banks were privatised, mostly to foreign investors. As the structural changes were essentially financed from incoming foreign capital, decisions on the new structure were made to serve foreign investors' expectations of a return on invested capital. The State interfered only minimally (by making development and sometimes employment requirements a precondition in privatisation contracts, although often it did not have the power to enforce contractual clauses.) Essentially, the central development policy was limited to attracting and encouraging foreign investment for which the institutional framework was the newly set up ITD-Hungary. The largest investors, however, negotiated directly with the government on subsidies. By Western European standards there was no planning of structural change or industrial policy worth mentioning.

By 1997 mass privatisation was over and domestic small and medium-size enterprises (SMEs) became the targets of the centre-right government in power between 1998 and 2002. An institutional system to support SMEs (subsidies for entrepreneurs, special lending schemes, credit guarantees, incubator houses, etc.) was set up to help develop the domestic supplier network for large multinational companies. At the same time the post-socialist structural change continued in companies now in foreign ownership. As with SMEs and infrastructural development, foreign-owned companies could apply for State subsidies for their investments in the framework of the so-called Széchenyi plan. The central subsidy policy also played a crucial role in enhancing the R&D functions of privately owned companies.

Cautious come back of forecast and planning

From 2004 EU subsidies also financed company investments and structural change. Both the Economic Competitiveness Operational Programme of the National Development Plan (2004-2006), and later the Economic Development Operational Programme of the New Hungary Plan provide investment subsidies for enterprises. Industrial policy priorities are implicitly served by the subsidy schemes and special projects launched in the framework of the operational programmes. The focal points of subsidy schemes are innovation, R&D programmes, subsidies for SMEs, complex technological development, and creation of international service centres; the only specific sectoral priorities are in the areas of logistics and environmental technology. For implementation of the programmes the Hungarian government set up the Hungarian Economic Development Centre (Magyar Gazdaságfejlesztési Központ) as the only organisation distributing the economic development resources emanating from the EU.

The policy of supporting structural change is part of the government's medium-term science, technology and innovation policy strategy (2009-2010). However, the EU context also made it necessary to create short- and medium-term policies in other fields and sketch a comprehensive development path up until 2020. Such policy documenrs are the National Action Plan 2006-2009 (on employment policy), the Convergence Programme 2006-2009 (on macroeconomic development), the Rural & Agricultural Development Plan 2007-2013, the National Development Strategy 2020, and the National Regional Development Plan 2020.

Labour market forecasting and anticipation tools have been developed more or less independently of those of economic development policy. While in the State socialist system it was the Planning Office that set the number of pupils to be enrolled in the various State-run schools in accordance with the expected demands from the economy, after 1990 the Hungarian educational system substantially changed as a consequence of spontaneous processes (preferences of pupils and parents, resources of municipalities as maintainers of schools, the schools' ambitions in terms of development, etc.), as a result of which the numbers of students in higher education tripled and traditional vocational training declined. The need to plan educational output first arose in the late 1990s when the World Bank financed a study to forecast the expected changes in labour market demand and supply until 2015. But it was mainly company reports of a shortage in skilled workers that impelled the government to finance new research in 2007 using a many-layered approach to identifying the expected changes in the structure of the professions. These research projects could of course form the basis for reforms of the educational system, the effects of which would be felt in the labour market only in the longer run. In addition to research on demand for skilled workers, shorter-term training objectives are identified by Regional Training Councils (see below). Their work is supported by surveys conducted by the Hungarian Chamber of Commerce and Industry, primarily to ascertain employers' short-term demand for labour.[2]

Several research institutes (for instance, the Economic Research Company (ECOSTAT)) undertake short term forecasting of economic changes, providing information primnarily on macro-economic indicators, business and consumer confidence indices, and sectoral trends and

2 For a comprehensive review of the labour market forecasts see: Cseres-Gergely, Zsombor (2008): "Improving the capacity to anticipate EU-wide labour market and skills requirements" – Hungary. European Employment Observatory.

forecasts. As for the labour market, the oldest forecasting tool is the Short Term Labour Market Prognosis developed in the 1990s. This facilitates anticipation of expected changes in labour demand at regional and sub-regional levels, broken down by profession on the basis of the Public Employment Service's survey of companies. Currently the Short Term Labour Market Prognosis is made by the Ministry of Employment and Labour and the Hungarian Chamber of Commerce and Industry on a quarterly basis with unchanged methodology. As both economic and labour market prognoses rely on aggregated data, they primarily provide information for local public administration units about expected changes; but there is no information available on whether these labour market prognoses are actually used and whether the central public administration and regional labour centres have developed mechanisms for implementing specific interventions based on the information collected.

The Public Employment Service prepares a Quarterly Labour Utilisation Survey (Munkaerõ-gazdálkodási Felmérés), a system designed primarily to provide information on companies that work in areas where the particular sub-regional branches of the Service operate, and its main function is to help the branch contact as many employers as possible and obtain information on vacancies and possible redundancies. Furthermore, employers are required by law to report planned collective redundancies to the local service which, however, happens only 60 days before implementation of the redundancies (see below). Usually labour centres have a separate unit to liaise with companies so that they have direct information from the more important employers in the region about expected structural changes.

Despite all these efforts to collect information, in Hungary the restructuring of a company is regarded as an internal affair as long as the company does not request help or subsidy from the Public Employment Service or a higher-level government agency. In such cases, the company report is about the planned or intended number of redundancies, that is it concerns imminent action rather than anticipation. The situation is somewhat better if the company plans to expand and needs skilled workers as it involves longer-term planning and longer-term cooperation between the company and the training institutions in the area. Both domestic and foreign large companies are reported to have engaged in this kind of cooperation.

Case Study 1: The Hungarian Post (Magyar Posta)

The Hungarian Post is a State-owned company, currently the biggest employer in the country, employing about 35,000. As a universal service provider, Hungarian Post is both a provider of statutory functions (traditional postal services) and a competitor for international and local courier companies and other agents in the liberalised market. Currently only 30% of its revenues come from universal services. Over the past decade, the central issue of company strategy has been obtaining a foothold in the competitive market through organisational rationalisation (resulting in a reduction in the workforce of about 10%), an expansion of services, and diversification of activities. One element of the strategy for expanding activities involves bidding for State contracts (for instance, building access to websites and client ports of public administration organisations in the national network, and managing the system of internal electronic correspondence in public administration) against other participants in the IT service market. While privatisation of the company as a whole is not yet on the agenda, a barely-secret objective of the structural change is to keep the company viable in the long run, even under a new owner with different priorities.

In its capacity of owner, the Hungarian State Holding Company provides only an overall business strategy (covering profitability, rationalisation and stabilising employment); the corporate governance structures and management bodies are fairly autonomous in designing the strategy. The HR management, which has been undergoing centralisation over the past ten years, participates in strategic planning. The central HR organisation has separate units for education, operational HR administration, welfare services, and strategic development issues. Thus anticipation and human resource management aspects of the structural change can be regarded as part of company strategy. Outplacement services (training to ensure better opportunites, re-training, contacts with the Public Employment Service etc), developed in the course of rationalisation over the past few years, belong in the realm of management competence. Nevertheless, the company has introduced several award-winning measures in the areas of equal opportunities programmes and company social responsibility.

Three recent restructuring programmes are worth mentioning:

1. *"Postal-Partner Programme".* The objective of this programme is to close down unprofitable post offices in some 1,000 very small villages in the country by outsourcing the function. As in other European countries postal services, not really profitable on their own, can become profitable when linked up with other activities. The Hungarian Post has therefore launched a public procurement tender for companies to undertake the universal service function. Keeping post office employees in work, however, is not part of the contract for it would violate equality considerations for competitors. Hungarian Post is of course interested in having its workers employed by the new business, and the company is also interested as this is the easiest and cheapest way of securing the necessary postal service skills; otherwise the new employees would need training, obtainable from no one apart from Hungarian Post. The current practice is that Hungarian Post lays off employees in the units to be outsourced, who then register as unemployed and – given the lobbying clout of the Post – the new company is offered several kinds of central subsidy to help with their re-employment. The new companies are typically eligible for wage and wage tax subsidies for recruiting unemployed people. So far about 500 small post offices have been outsourced, but the success of the programme will only be evaluable a few years later when the company has to take care of

postal services in small localities without central subsidies

2. *Restructuring logistics.* In line with international trends, Hungarian Post is centralising the processing of letters by establishing large logistics centres near the capital city (one is already in operation in Budaörs and the next will be built in Gödöllõ.) The centralising of logistics lays the foundations for restructuring the traditional type of post office organisation by separating the sales and delivery functions. Separating these functions is a source of grave conflicts and grievances.
   One element of restructuring logistics was the transfer of the so-called video coding unit (reading and electronically capturing addresses which cannot be read by automated pattern recognition) to the countryside. By building up the IT system, about 100 jobs were relocated to Szigetvár from the processing plant in the central region of the country. The Labour Market Fund provided a substantial subsidy for this job creation programme in the disadvantaged South Transdanubia region.

3. *Introducing commerce in the delivery network.* One important element in the diversification is the introduction of commercial functions (such as selling of various financial services, insurance packages, lottery etc.) into the delivery network. One such idea, which gave rise to several scandals, was the job-enlargement of postmen, who were required to try to sell various services to clients in addition to handing over the mail. However the postmen, mainly older males, refused to do so and their trade union called for a strike and sued the company in the labour court for changing their job description. Eventually the management stepped back and selling services was not made a compulsory part of the job although significant bonuses were offered to those who did it. This solution, however, was a new source of conflict: postal workers at the counters in the offices, who also had to do the sales work, demanded additional remuneration.

Given its size and traditions, the Hungarian Post is a bureaucratic organisation resisting management's attempts at restructuring. At the same time, because of trade union pluralism, again as a result of tradition and the regime change, it has a large interest-group representational structure with several trade unions and works councils operating in the company, which are granted extensive participation rights by the Labour Code and also collective agreement rights in the matters of restructuring. At the same time the top HR management points out that employee participation in decision-making is still not well developed in the local post offices.

Legal context

Hungary joined the EU in May 2004. As a precondition for its accession, the country had to adopt all previous EU Regulations as a whole, and as a Member State it is now obliged to adopt all new Regulations. This fact fundamentally influences labour legislation, the establishment of labour standards and, to a lesser extent, their enforcement.

INFORMATION AND CONSULTATION PROCEDURE[3]

In 1992 the Labour Code introduced a system of statutory works councils as a second channel of worker representation. The role of the trade unions in collective bargaining was retained, while works councils were created as institutions for workplace participation. Works councillors may be elected by employees at establishments with at least 51 employees. Nevertheless, in establishments employing at least 15, a single works representative may be elected with the same rights and obligations as a works council. A 2003 survey of 2,600 companies, each with more than 50 employees, shows that 49% of workplaces in the private sector had works councils, 9% of them in companies with no trade union representation. Among the works council members, 75% were also trade union delegates. The 2004 Labour Force Survey found that works councils represented 36% of employees in medium and large companies but only 18% in companies with 14–49 employees in which a single person is assumed to be the elected representative according to the law. Most employees have no representation, especially in newly-established companies, in the service and construction sectors, and in SMEs. The survey also found that only 33% of respondents reported a trade union at their workplace, compared with 37% in 2001.

The adoption of information and consultation framework Directive (2002/14/EC) required an extension of existing provisions. The main novelty of the 2005 legislation was that representatives of employers and employees are legally bound to consult with each other in good faith and with a view to reaching agreement. The latter was not a precondition for formal consultation procedures, with the exception of consultation in cases of collective redundancy and transfer of undertakings. Before the new harmonisation measures, the majority of the information and consultation rights were vested in the works councils; however trade unions also had similar rights to a certain extent. The new Act has slightly modified the information and consultation rights of the works councils and at the same time extended the rights of trade unions. Where there is a reference in the law to 'employees’ representatives', this should be understood as the trade unions or the works councils. In consequence the information and consultation rights apply only if there is one or more works councils or at least one trade union in the organisation.

According to the Labour Code, the most important information and consultation rights are in connection with various types of reorganisation plans, the employer’s economic and employment

3 Based on Gábor T. Fodor - László Neumann (2005): EU information and consultation Directive implemented. EIRO. http://www.eurofound.europa.eu/eiro/2005/05/feature/hu0505102f.htm

situation, and wage systems. Both trade unions and works councils have these information and consultation rights. Furthermore, trade unions have additional information and consultation rights in connection with labour safety issues, while works councils have rights in connection with certain human resource policies, early retirement and disabled worker issues, the annual leave schedule, performance-based wages and certain internal regulations with an important bearing on employees’ interests. While the amendment basically has not changed this list of issues, the law now stipulates that trade unions must be consulted on all these issues when no works council is in place at the given workplace.

The list of topics for information and consultation rights can be extended by agreement between the employer and the employees’ representatives, and therefore the topics listed by the Labour Code are obligatorily subject to the information and consultation procedure, and no exclusion can be made by way of agreement. However, no consultation needs to be held if the employees’ representatives waive their rights.

With respect to the above rights, the most important novelty is that prior to March 2005, the date when the new Act came into force, consultation between the works council and the employer could be quite formal, involving merely an exchange of letters. The wording of the law inherited from the State-socialist period was 'presenting opinions' (véleményezés), which did not mean more than that the employer was required literally to 'hear the opinion' of employee representatives without really taking into consideration the arguments. Under the new Act, consultation has to mean a genuine exchange of views through dialogue. A little more strictly than in the terms of the Directive, the new Act provides that all consultations have to be held with a view to reaching agreement.

According to the new Act’s provisions, the employer has to inform the employees’ representatives on all matters subject to the information and consultation procedure with a 15-day notice period. If consultation is then initiated, the employer is not allowed to implement the planned measure for a period of at least seven days (which can be extended by agreement with the parties), so the parties have at least a week to try to conclude an agreement in cases where the information and consultation procedure relates to reorganisation plans or performance-related wages. A peculiarity of the Hungarian law that unlike the Directive, it does not allow employers to withhold certain 'qualified' business secrets from the employees’ representatives. Instead, employees’ representatives are required to handle business secrets forwarded to them as confidential information.

From the point of view of restructuring it is noteworthy that works councils and trade unions do have information and consultation rights with respect to economic issues affecting workers’ interests according to the Labour Code. Nevertheless, we have no reliable information on the extent to which works councils and trade unions are informed and consulted in practice.

REGULATION OF COLLECTIVE REDUNDANCIES

Collective redundancies can be implemented for reasons connected with the operations of the employer. On the other hand the employer is not obliged by law to prove that the operational decision is economically justifiable. The Labour Code sets thresholds for collective dismissals as follows:

- at least ten workers, when employing more than 20 but fewer than 100 employees,

- 10 per cent of employees, when employing 100 or more, but fewer than 300,
- at least thirty 30 persons when employing 300 or more.

The above criteria should be met within a period of thirty days. The above figures are related to the size of the establishment (plant), not to that of the company. On the other hand, in cases of collective redundancies affecting more than one establishment within the territory of the same county or in the capital city, the numbers have to be totalled.

The employer has to notify the workers' representatives of the planned redundancies at least 15 days in advance of the final decision. By default works councils are deemed to be workers' representatives, and in the absence of works councils consultations should take place with trade unions (if they exist) and a committee representing non-unionised workers. There are no detailed provisions on how to elect or appoint these representatives. Seven days prior to the consultation the employer should provide information on the causes of collective redundancy, the employee groups affected and the total number of employees. Then at least a 15-day consultation period commences (it can be shortened by mutual agreement). During the consultations the employers shall give further information on the period over which the projected redundancies are to be effected, the criteria proposed for the selection of workers to be laid off, and the method to be used for calculating redundancy payments and other allowances not specified by the law or collective agreement. The consultation agenda has to cover possible ways of avoiding collective redundancies, mitigating their consequences, or reducing the number of workers affected. The consultation must be held 'with a view of reaching an agreement'. Then the decision is made (no time limit is set), and the workers shall be notified 30 days prior to the commencement of the notice period. The notice period itself should be at least 30 days, and can be as long as one year under special collective agreement provisions (usually it between 30 and 60 days).

There is more than one deadline prescribed in the Labour Code for giving public authorities (the regional employment centres of the Public Employment Service). First, any document presented to the workers' representatives during the consultation procedure shall also be sent to the employment centre. Thus the first announcement of planned redundancies shall be sent at least 15 days in advance of the final decision. Furthermore the employment centre shall also be notified of any concrete termination under the collective redundancy procedure 30 days prior to the commencement date of the notice period. This second notification includes detailed personal data on the employees made redundant (social security code, job category, qualifications, average wage). Ordinary dismissals during collective redundancy shall be unlawful if the worker or the employment centre is not notified thereof 30 days in advance, or if the employer breaches the agreement made during the consultation. If the employer breaches the rights of the works council or the trade unions, they may have recourse to court, which decides the case within 8 days.

Dismissed employees, regardless of whether they were laid off as part of a collective redundancy, are entitled for severance pay, except those eligible for old-age pension, if the length of the service period had been at least three years. The law specifies the amount of severance pay as a function of the service period, the maximum mandatory severance pay equalling eight months' wages, which can be topped up with another three months' wages if the employee will be eligible for pension within five years. Collective agreements or individual employment contracts may include higher figures than the mandatory severance pay.

REGULATIONS RELATING TO BANKRUPTCY AND LIQUIDATION

Unlike the US Chapter 11 bankruptcies, the valid Hungarian bankruptcy law does not provide effective instruments for assisting with the reorganisation of companies; instead, as a rule the filed insolvency ends up with liquidation. In 2008 liquidation was initiated in more than 11,000 companies, but there was not even one bankruptcy procedure. Experts say that this is due to the fact that it is impossible to have a moratorium unless two-thirds of the creditors with mature claims agree. The creditors' position is fully understandable, given the fact that, at the conclusion of liquidations, on average only about 2% of claims are settled. This is the main reason behind the current legislative efforts to amend the bankruptcy law. The new legislation's goal is to provide companies with effective bankruptcy defence. The most important novelty will be that once the claim is filed, an automatic temporary moratorium will be given to the debtor, which will be issued by the court within one day. Another novelty is that the creditor can also start the bankruptcy procedure.

The employees, the trade unions, and the works council must be informed of the filing of a bankruptcy. The Bankruptcy Act states that during the bankruptcy or liquidation procedure, within 15 days of the request the CEO or liquidator, as applicable, must inform the creditors' meeting, employees, trade unions, and works council on questions relating to employees. However, the law fails to specify further the contents of information to be given to employees. Bankruptcy and liquidation are usually accompanied by collective redundancy, therefore the Labour Code's regulations on collective redundancy also apply, and the liquidator or trustee has to follow the same information, consultation and notification procedure as the employer. The amount of the severance pay is the same in cases of bankruptcy or liquidation as in other cases of dismissal.

THE WAGE GUARANTEE FUND

Companies under liquidation can request help from the Wage Guarantee Fund (Bérgarancia Alap) to pay the wages of employees or former employees whose employment had been terminated before the beginning of the liquidation procedure, for paying their sick leave and the severance pay. The request is handed in by the liquidator to the public employment service which must fulfil this request, unless certain circumstances prevail under which it can exercise its discretionary rights (e.g. if the liquidation started more than a year previously, or if the amount already requested exceeds a certain limit). The company under liquidation must pay back this amount to the Fund within 60 days of its disbursement or, if the closing balance of the liquidation is submitted before this time, then on the day before submission of the closing balance. The maximum wage guaranteed by the fund is five times the national average wage that was in force two years prior to the date of the request.

Regulations prevent companies in financial difficulties from using company pension funds as a means of covering their debts or as a source of borrowing. Although company pension funds have only legally existed since 2007 in Hungary, the law prevents companies from using those assets for their own business purposes; in other words, the assets of the fund have to be separated from the assets of the company.

State support for company restructuring

ACTIVE LABOUR MARKET POLICIES

During the transition period, beyond introducing the unemployment benefit system and building up the nationwide Public Employment Service network, various governments tried different Active Labour Market Policies (ALMPs); as commentators noted, "there is no such programme that cannot be found in Hungarian practice". In 1994 the number of participants in ALMPs was 218,000, when the number of registered unemployed was 568,000. However, from the beginning of the economic growth period the Public Employment Service brought about strategic shifts in key objectives. With the constantly high level of the inactive population, promoting employment growth became the number one objective, but to meet the escalating demand for skills in the economy there was a serious need to improve the employability of people out of work. This shift was enhanced by the country's accession to the EU, for complying with the EU's Employment Policy Guidelines also highlights the employability issue. In terms of policy measures this strategic shift was translated into piecemeal government reforms of the unemployment aid system with the emphasis variously on 'making work pay'; enhancing assistance for job seekers by modernising the Public Employment Service; and introducing special programmes targeting groups facing extreme difficulties in job search (the Roma, school-leavers, etc.).

The development of ALMPs following the Millennium, however, has been inconsistent. Although the labour market budget increased by nearly 50% between 2000–2006, its share in GDP remained around 1% – that is approximately half the EU Member States' average. The share of active measures, services and programmes within the labour market budget fluctuated between 28.4% and 40.8%. The number of participants in active labour market programmes shrank from 2.6% in 2001 to 1.5% of the economically active population in 2006 (Frey 2008). In line with the emphasis on employability, labour market training is at the top of the list in terms of the number of people affected, but this number is continuously shrinking. In terms of expenditure, by 2006 the government was spending more on wage subsidies (for job creation and preservation) than on labour market training.

Table 4 Total number* and distribution of participants in ALMPs, 2001–2006

Active labour market measures	2001	2002	2003	2004	2005	2006
Participants (persons)						
Labour market training	91,519	82,835	82,895	59,894	43,725	47,141
Public work	80,742	84,498	76,892	63,998	79,429	66,403
Wage subsidy	48,089	40,838	41,064	36,313	37,708	33,150
Job-creation schemes**	9,086	6,452	4,595	4710	3,816	3,325
Support for business start-up	5,016	4,326	4,011	3,225	3,394	2,736
Contribution to commuting costs	9,356	9,774	7,495	5,517	5,015	3,910
Schemes for new entrants	16,758	16,108	17,551	17,527	18,206	17,976
Subsidy for self-employment	6,025	6,138	5,493	4,689	4,086	2,941
Job-protection schemes***	653	12,634	12,668	10,698	13,703	7,390
SI contributions assumption	9,702	10,008	11,883	10,092	10,753	6,552
Support for intensive job-search	-	100	109	64	64	-
Subsidy for part-time employment	-	-	-	791	1,285	1,253
Total	276,946	273,711	264,656	217,518	221,184	192,777
Increase from previous year (previous year = 100)	94.0	98.8	96.7	82.2	101.7	87.2
Distribution (%)						
Labour market training	33.0	30.2	31.3	27.5	19.8	24.5
Public work	29.1	30.8	29.1	29.4	35.9	34.5
Wage subsidy	17.4	14.9	15.5	16.7	17.0	17.2
Job-creation schemes**	3.3	2.4	1.7	2.2	1.7	1.7
Support for business start-up	1.8	1.6	1.5	1.5	1.5	1.4
Contribution to commuting costs	3.3	3.6	2.8	2.5	2.3	2.0
Schemes for new entrants	6.1	5.9	6.6	8.1	8.2	9.3
Subsidy for self-employment	2.3	2.4	2.1	2.2	1.8	1.5
Job-protection schemes***	0.2	4.6	4.8	4.9	6.2	3.8
SI contributions assumption	3.5	3.6	4.5	4.6	4.9	3.4
Support for intensive job-search	-	-	-	-	-	-
Subsidy for part-time employment	-	-	-	0.4	0.7	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

** The total number includes all those who participated in active policies at least for a day in the given period.*
*** The number of participants in job-creation schemes indicates the number of newly created and ?lled jobs (in accordance with relevant labour regulations) during the year.*
**** The scheme was redesigned in 2002. In the earlier version in 2001 participation was very low.*
Source of data: National Employment Office.
Source: Frey, Mária: Evaluation of active labour market programmes between 2001–2006 and the main changes in 2007: In: Fazekas Károly, Cseres-Gergely Zsombor, Scharle Ágota (eds.): The Hungarian labour market - review and analysis 2008 http://www.econ.core.hu/file/download/mt/5_frey.pdf

DIRECT SUPPORT FOR WORKERS

As far as direct support for workers is concerned, the Hungarian Public Employment Service (ÁFSZ) provides individual and group career guidance and counselling services free of charge. Registered job-seekers can file a request for career guidance, counselling, short-term training or vocational training at the local labour offices. In every county there is at least one Guidance

Centre, a psychology department and a Job Club. At the front desks, the (approximately) 170 local offices employ 60-80 specially trained employment counsellors. Apart from the public bodies, accredited private adult education firms offer applied human resource services and training (e.g. career guidance, vocational guidance, assessment of the applicant's skills and knowledge). About 1,300 State and private tutors or trainers are accredited in compliance with the Act CI of 2001 on Adult Education. Currently one component of the EU co-funded 'Social Renewal' operative programme is devoted to the methodological and substantive development of the career guidance system within the PES. (TÁMOP 2.2.2 – A pályaorientáció rendszerének tartalmi és módszertani fejlesztése)

The Hungarian State provides or finances these services and training facilities under Decree No. 30/2000 (IX.15.) of the Ministry of Economy and Decree No. 24/2004 (VI.24.) of the Ministry of Employment and Labour Affairs. These two laws list the options for registered job-seekers or for those who are not registered. In both cases employees have a right to request services before they actually lose their jobs. Preventive counselling and guidance can be covered by the State and the company. Under Decree No. 30/2000 (IX.15.) of the Ministry of Economy, the subsidised services are the following: career and vocational guidance; rehabilitation guidance; job search guidance; job club; employment counselling; and local or regional guidance. Further free services are regulated by Decree No. 24/2004 (VI.24.) of the Ministry of Employment and Labour Affairs, such as career orientation and reorientation guidance and counselling; a pre-assessment session prior to training; job search guidance; skills assessment; individual and group guidance for job-searching strategies; and vocational guidance. Vocational training organised by the PES is always co-financed: unemployed job-seekers registered for three months do not pay for the applied human resource services and training but pay a small amount towards vocational training (between 10-50% of the total costs), while non-registered job-seekers may use the subsidised training options provided by Government Decree No. 206/2006 (X.1.). It worth noting that the EU-funded National Development Plans also contain vocational training programmes. Within the first Hungarian National Development Plan (Nemzeti Fejlesztési Terv) the Human Development Operational Programme for 2004-2006 offered subsidised counselling and vocational training. One of the largest programmes was "Make one step ahead!" ('Lépj egyet elõre!'), in which free training was offered to 11,000 - 15,000 citizens without appropriate skills/qualifications.

On the other hand the performance indicators for labour market training are depressing. "The success rate for job searches by unemployed persons leaving training programmes did not reach 50% in any year between 2001 and 2005. ... a decreasing proportion (recently around 80%) of unemployed people taking up employment after labour market training were able to use their new knowledge and skills in the job. It can be seen as clearly negative that one-?fth of the bene?ciaries of these programmes found jobs where the new knowledge and skills were not necessary. This suggests that a fairly large number of people taking part in labour market training would probably anyway have been able to ?nd a job because they had marketable knowledge." (Frey 2008) One of the possible explanations for the low performance of efforts to improve the employability of the unemployed is that there is no adequate, well-defined demand for skills in the labour market that is manifested in a virtual absence of job creation.

Special financial and technical assistance is available for unemployed willing to become self-employed or to start up their own business. According to Act IV. of 1991 on Job Assistance and Unemployment Benefits, registered job-seekers have a right to apply for three different forms of self-employment assistance: financial guidance, an interest-free loan in the range HUF 1m-3m (€3,636-€10,909), or six months' extension of theirs job-seeker's benefit if the applicants already have been beneficiaries. Under the modernisation of the Public Employment Service a new ‘service pack’ was designed, primarily for SMEs. PES trained new consultants, who offer their services for free of charge. The curriculum for these consultants’ training is also available for other users willing to take up such education. Some private HR adviser companies also offer services prior to restructuring. Since January 2006 the Ministry of Social Affairs and Labour has been operating a specially designed programme to help micro-enterprises and SMEs develop their employment capacities. Micro-businesses and SMEs are also supported by the central government through a state guaranteed loan scheme (“Széchenyi”credit card).

As shown in Table 4, only 1.3–1.6 per cent of the ALMPs’ participants received support for starting up a business. However, the performance indices for this scheme are satisfactory. The business survival rate three months after the end of the subsidy was 90% and nearly half of the recipients said they would have postponed the business start-up in the absence of the subsidy. More than one-quarter of recipients saw no other way of exiting from unemployment. The combined share of these two groups of over 75% of the total number of participants, and thus the 25% deadweight loss was not excessive (Frey 2008).

Active Labour Market Policy (ALMP) measures are funded by the Labour Market Fund and the European Social Fund through the Social Renewal Operational Programme. The Ministry of Social Affairs and Labour is responsible for coordinating the use of the Labour Market Fund, in practice the Ministry elaborates proposals on utilisation, while a tripartite body, the Steering Committee of the Labour Market Fund, makes the final decisions. Until the end of 2006 County Labour Market Centres were responsible for handling notifications of collective redundancies and of restructuring processes. From 2007 onwards regional offices took this job over in line with the reform of the territorial public administration. The county or regional Labour Market Centres make decisions on the utilisation of the so-called ‘decentralised portion’ of the Labour Market Fund. Prior to decisions, consultations are held with the social partners at the Regional Labour Market Councils. In addition, along with the Public Employment Service another set of consultative bodies, the regional development and training committees (RFKB), work with the participation of the social partners (see below).

The National Interest Reconciliation Council OÉT provides the framework for consultations with key organisations of the social partners on draft economic, social, employment and other labour-related laws, as well as on underlying policies and priorities. It is also the forum for general discussions and exchanges of opinions on economic and social issues of national relevance and of major interest to the actors in the workplace. Beyond the regularly-held plenary sessions, several subcommittees and other tripartite bodies take part in the preparation of bills. In addition, special subjects of consultation include labour market questions, social policy, minimum wage and wage increase recommendations, and tax reforms; working time reductions and vocational training are also on the agenda.

The Ministry of Employment and Social Affairs uses various ALMP tools to promote job creation, and implementation of such ALMP tools is also deployed to PES offices. In the past two years tax incentives played an increasing role in attracting new employment (e.g. “Start card” is issued by the local tax offices to young people, and the employer who hires them enjoys a waiver of part of the wage levies). SMEs also receive some taxation relief if they employ people from special disadvantaged groups. Using these new tools the role of PES is only limited to administration (i.e. PES issues the verification for SMEs or young people.) Also, given the fact that in the past decade the vast majority of new jobs in the country have been created by green-field investments, one must also mention government efforts to attract Foreign Direct Investment; in this field the Ministry of National Development and Economy and its Hungarian Investment And Trade Development Agency (ITD Hungary) play a major role. The Hungarian National Development Agency also has several programmes under the II National Development Plan for the years 2007-2013 (Hungarian code name: 'New Hungary Development Plan') to promote restructuring.

SPECIAL TOOLS FOR TACKLING COMPANY RESTRUCTURING

Originally, the 'Fast Response to the Threat of Unemployment' project was a joint initiative of the US and Hungarian ministries of labour and was financed by the US Agency for International Development. It was launched in the summer of 1994 with the purpose of providing technical assistance and training to meet the programme goals.

In Hungary two models of the Fast Response Project have been implemented. The first helps in preventive management of the collective redundancy process by setting up a so-called Employment Assistance Committee (munkába helyezést elõsegítõ bisottság (MEB)); the second model involving local economic development and enterprise initiatives (helyi gazdaságfejlesztési, vállalkozásélénkítési kezdeményezések (HGVK)) seeks to revive the local economy and rural life. Right from the start the project has worked in cooperation with the county and Budapest labour centres, and especially with their regional employment advisors.

In the MEB model the regional employment adviser of the county labour centre works together with the employer to set up a committee made up of representatives of the employer and employees, including of course representatives of redundant workers. Furthermore, representatives of local governments of municipalities affected by redundancy, labour centre specialists, training and enterprise development organisations, and civil organisations can all be members of a MEB. Usually a MEB starts by making an assessment of the needs and ideas of employees on the future and on the kinds of problems likely to arise in connection with redundancy (level of qualification, labour law, retirement, taxation, business start-up, family assistance, individual career advice, individual and family crisis management). After that, on the basis of the assessment an action plan is developed. Usually an action centre is set up at the employer's premises with support from the labour centre, mostly in the form of lending experts.

In March 1998 a ministerial decree made the Fast Response model an active labour market tool. Now, on the basis of that decree, an employer is eligible for a subsidy if it decides on redundancy (or is forced to implement it), and in the course of carrying out the redundancy endeavours to make it least disadvantageous for the employees. MEB is entitled to a maximum of HUF1m (€3,636) per employer for not more than 12 months (6/1996. (VII. 16.) Decree of the Ministry of Labour on employment enhancing supports and on the support disbursable from the Labour Market Fund for the management of employment crisis; Par 21/A was promulgated by Par 8 of the decree of the Ministry of Labour a 6/1998. (III. 4.)).

The HGKV model encourages local self-organisation, initiative and the ability of the social and economic participants to create a community at a given level (municipality, sub-region, or potentially a county or region) that will help them address their relative underdevelopment and deep-rooted employment problems. This model offers practical methods and techniques of thinking together about ways of managing local conflicts and channelling individual interests into wider community interests.

The economic development projects were eventually launched in 34 sub-regions and two regions as pilot projects. These projects gained encouragement from each another's success, and their respective experience became the basis for the logic and theory of a model tailored to local conditions. Special training material (a self-help handbook, trainer's manual for workshops and a textbook with practical illustrations) on the basics of the Fast Response HGVK model was also prepared.

While the ministerial decree is still in force, and the terms of the assistance are still on the websites of labour centres, there are no statistics on its usage. One could presuppose a decline in company interest, for the amount of support (HUF 1 million) has become rather negligible. In any case, support for employers implementing redundancy has meanwhile been partially incorporated into services provided free of charge by labour centres. For instance, one regional centre has the following advertisement on its website:

> „ SERVICES AVAILABLE IN CASE OF COLLECTIVE REDUNDANCY
>
> The purpose of this service is to mitigate the disadvantageous effects of redundancy, help carrying out the redundancy in a lawful way, prevent redundant employees from becoming unemployed and help them find new jobs through counselling and provision of labour market information. Available services: legal advising; counselling on work, career, job-seeking, rehabilitation and employment; provision of labour market and employment related information; information and counselling related to support promoting employment; information and counselling related to job-seeking benefits (unemployment benefit)."[4]

In some restructuring cases 'on the spot' services are also provided, usually based on cooperation between the company, PES and trade unions. In instances of large-scale collective redundancy an *ad hoc* cooperation agreement between the company, trade unions, relevant local government and the local PES office often ensures that enhanced services are provided on the spot. For example, an example of such co-operation occurred during the course of the closure of the IBM plant in Székesfehérvár in 2002. The local Employment Centre, in cooperation with IBM, set up a special office at the plant to facilitate re-employment and retraining. The city also created a special fund to assist former IBM employees. The Ministry of Employment and Labour and the Ministry of Industry and Transportation were also involved in developing an action plan. [5]

4 Source: http://www.nyugatrmk.hu/pls/apex/f?p=101:735:8454305630871836520::NO::P735_XID:57

5 See: http://www.eurofound.europa.eu/eiro/2002/11/inbrief/hu0211103n.htm

Continuous Vocational Training (CVT)[6]

The enrolment rate of the population aged 25-64 in adult learning continues to be very low in Hungary (3.1% in Hungary in 2008, 9.6% in the EU) and is even decreasing (in 2007 it was 3.6%). In 2005 49% of enterprises provided some CVT opportunities for employees, but only 34% supported formal training (an opportunity available to only 23% of their employees), although these numbers varied greatly by sector and company size.[7] According to the Short-term Labour Market Prognosis, 32% of the respondent firms provided training for their employees in 2008. The proportion was strongly correlated with the size of the firm: while only 13% of micro-enterprises (with less than 9 employees) provided training, 77% of large firms trained their employees.

The rights of an employee to participate in training are regulated by the Labour Code: the employer may support the employee's training through a study contract on paying tuition fees, travel and accommodation expenses, allowing training leave, and so forth. The Labour Code, however, guarantees study leave only where the training is provided within the school system or if further training is mandatory in that job or required by the employer. There is a mandatory further training system for employees in the public sector (e.g. civil servants) and in some parts of the private sector where the nature of the work requires it. That apart, the system of CVT awarding a State-recognised vocational qualification of the National Qualifications Register (Országos Képzési Jegysék, OKJ) is uniform and is regulated by the Adult Training Act and Act LXXVI of 1993 on Vocational Education and Training.

One of the main CVT actors outside the school system is the Public Employment Service which provides training opportunities for the unemployed and registers and inspects the adult training providers. Although CVT providers include the nine public regional training centres, the majority of participants study under private training providers which incorporate training companies, NGOs and employers providing in-house training for their employees.

There is a wide range of adult training programmes including the following (in addition to foreign language and general, skills developing courses):

- programmes awarding an OKJ qualification;
- courses preparing participants for the master examination (*mestervissga*),
- training courses regulated by public authorities (*hatósági jellegû képzés*) and awarding nationally or internationally recognised qualifications and licences, primarily in the fields of road, water and air transportation, plant and veterinary health inspection, and food hygiene; *and*
- courses of various types and duration that do not award a nationally-recognised qualification.

6 Based on Bükki, Eszter: Reform of the vocational education and training system. http://www.eurofound.europa.eu/ewco/2008/02/HU0802049I.htm

7 The percentage of companies providing CVT opportunities for employees increases in line with the size of enterprise, and companies in the financial, post, telecommunication and public utility sectors (electric power, gas, water, etc.) support the CVT of employees to a larger extent than the national average, while those in the textile, clothing and leather, catering, wood processing and other sectors are lagging behind.

The funding of the system of CVT for adults consists of contributions from the State (more precisely, from the Labour Market Fund), employers and participants. In 2005 State financing accounted for about 40% of all the costs of adult training. A financial incentive to support private investment in CVT is an opportunity available to employers since 1997 to spend at most one-third – or, since 2007, in the case of micro- and small enterprises, 60% - of their so-called vocational training contribution (a kind of tax levied on enterprises to the tune of 1.5% of total labour costs) on financing the vocational training of their employees. A personal income tax deduction opportunity for training participants was available from 2003 until 2007. The European Social Fund has provided financial assistance for various development programmes.

Social partners are involved in devising the CVT system through participating in the development of State-recognised vocational qualifications and advising on the use of funds available for the improving the structure, methods and programmes of VET and adult training. The National Vocational and Adult Training Council (NSZFT), a consultative-advisory body of the minister responsible for VET and adult training (created in 2007 by merging the two formerly independent consultative bodies of VET and adult training), reviews proposals on creating, modifying or deleting an OKJ qualification. The Hungarian Chamber of Commerce and Industry (MKIK) and the Hungarian Chamber of Agriculture have since 1996 developed – in cooperation with national economic interest organisations – the outcome requirements of a new, special form of CVT awarding a higher-level vocational qualification (a masters title), as well as organising master examinations (*mestervissga*)

Regarding the governance of the CVT system, the NSZFT and the regional development and training committees (RFKB) advise on the use and allocation of and evaluate and coordinate tenders from sources available from the training sub-fund of the Labour Market Fund (MPA) for the development of VET and adult training and the training of target groups. The Governing Board of the Labour Market Fund decides on the use of the employment and rehabilitation sub-funds of the MPA.

Employers in SMEs are reluctant to let their employees participate in CVT partly because of the problem of substituting for them during the training, given the small workforces. Another problem, according to SMEs, is the lack of a wide range of short-term, appropriate and efficient training programmes and materials, due to the fact that their special training needs are not adequately met by the traditional training offered by adult training institutions, although this is likely to improve with the introduction of the new OKJ developed in 2004–2006, which awards partial and 'built-on' specialised qualifications and also shorter, cost-effective modular training. For all these reasons, increasing the flexibility of training, promoting non-formal learning, and development of training programmes delivered in alternative modes (e.g. e-learning), are of outstanding importance for SMEs. This is currently supported by various measures within the operational programmes of the National Development Plan as well as through tenders from the National Employment Foundation and the Leonardo National Agency.

Although lifelong learning as a national-level policy objective, as well as various issues in respect of vocational training, are widely discussed in the plethora of social dialogue fora, CVT as a company policy is in practice missing from collective agreements. Exceptionally CVT may occur under situations of collective redundancy, as the packages negotiated between the employer and works councils to mitigate the consequences of job losses include retraining of redundant workers.

Further initiatives for cooperation between government agencies and companies

EMPLOYMENT-CREATING COMPANIES

The model of employment-creating companies was developed on the territory of the former GDR in the 1990s. These companies took over employees on the collective redundancy lists, and through various services helped them improve their employability and find new employment. In Hungary this kind of employment policy tool was primarily used in the foundries of Northern Hungary facing shut-down (Ózd, Diósgyõr) in the 1990s. According to contemporary research findings these companies, which were set up by the State, primarily functioned as a prolonged unemployment benefit.

Case Study 2: Steel Fundation of ISD Dunaferr

The Steel Foundation of ISD Dunaferr was set up essentially with this purpose in 1994 by the State-owned company itself (rather than directly by the State), in the knowledge that the crisis in the foundry industry would hit this company, too. The Fund was retained after privatisation of the company and now works to achieve its original goals in the current economic crisis. So far 500--700 employees have been laid off following the trade union's and employer's failure to agree on the introduction of shortened working time, and the Ukrainian owner's failure to agree with the Hungarian government on the terms of the job preservation subsidy.

The Fund helps laid-off employees who have waived severance pay and opted for the “Life Career” programme, providing a longer-term and broader range of assistance. At the same time as a worker's employment relationship with the company is terminated, the Steel Fund signs an assistance contract and the DUNAFERR Temporary Work Agency, run by the Fund, signs a one-year fixed-term during which the remuneration roughly equals to the average wage during the previous year. According to calculations, it is worth choosing the Foundation after 25 years of service with Dunaferr. The services offered by the Fund are the following:

1. mentoring and developing a personal professional career plan on the basis of the employee's needs and labour market possibilities;
2. organising education, training, or re-training;
3. help with the psychological problems caused by job loss;
4. assistance in active job seeking;
5. collective and individual labour market counselling;
6. helping with and advice on entrepreneurship;
7. social aid in very special cases;
8. once-off re-start support on expiry of the period of assistance from the Fund;
9. ensuring temporary jobs through the DUNAFERR Temporary Work Agency.

The period of assistance provided by the Fund is one year, which can be prolonged by one additional year at the request of the assisted employee. The value of the services provided by the Foundation is about 50% of the wages paid. Four full-time employees manage the Foundation. In cases of collective redundancy, the company supports the Foundation with an amount agreed in the collective agreement. In addition the Foundation also receives revenue from its own enterprise, the temporary work agency which provides the workforce to meet the demand of ISD Dunaferr. This agency concludes the contract with the assisted employee, since only in this way is payment of wages allowed during a period when no specific work is done.

Until now, out of 450 assisted employees 350 have returned to work in various workplaces. During the current economic crisis period a total of 213 people came to the Foundation, of whom 130 have already been re-employed by ISD Dunaferr, and 79 are still supported.

TERRITORIAL EMPLOYMENT PACTS

An employment pact is a cooperation contract between regional actors in the labour market (educational institutions, civil organisations, local governments, sub-regional associations, employers and their interest organisations) designed to identify the possibilities for job creation and human resources development in the sub-region or region, and to develop and implement a common strategy as well as an action plan to promote employment.

Based on the Austrian model, the first employment cooperation efforts took place in 2002. Currently 52 pacts are registered of which two operate in the Austrian border region and involve Austrian participants. According to experts, however, the full potential of these pacts has been largely unexploited, and in an economic crisis situation enhanced cooperation between the actors in the local labour market would be warranted to identify local solutions to global problems. The cooperation routines developed within the employment pacts (cooperation with HR staff and civil organisations) can be equally useful in managing labour market tensions, facilitating the flow of information, submitting applications for job preservation programmes, administering public works and developing the vocational training strategy. To achieve these goals, in 2009 the Social Dialogue Centre organised a regional training series with the participation of experts involved in the employment pacts.

Case Study 3. West-Danubian Territorial Employment Pacts

It is a characteristic of the West-Transdanubian region that it has borders with four countries (Slovakia, Austria, Slovenia and Croatia). Therefore regional cross-border cooperation is an important element in the employment partnership. Prior to the crisis workers used to commute mainly from Slovakia to the manufacturing plants in the vicinity of the border, in particular to Audi and Suzuki. Because of the economic crisis and the adverse floating of the €/HUF exchange rate, such daily commuting has essentially ceased to exist. However the purchasing power of Slovakian citizens has made itself felt in the border region, and despite the crisis has resulted in increasing retail turnover. Hungarian labour had already appeared on the Austrian labour market before the crisis (although Hungary' Accession Treaty includes a derogation clause restricting free movement of workers until 2011). In this respect, however, the crisis has not led to substantial change, although Austrian shopping tourism (particularly in the field of services) significantly increased in response to the exchange rate movements. On the other hand the predominance of export-oriented manufacturing industry in the economy of the region (in certain sub-regions manufacturing amounts to 47-48 %) - particularly the high share of multinational companies which meant that the current economic crisis hit the area harder than the average - should be noted.

Vocational training is a priority area of the employment partnership. The participants (jobcentres, employers, employees' organisations, experts, etc.) have agreed that in the coming recovery period in particular the shortage of skilled workers in construction and manufacturing may represent the major problem, which is why the training priority for core occupations should be maintained. At the same time, partly with a view to the forthcoming expiry of restrictions on the free movement of labour, vocational training in service sector skills is also considered an issue of importance. The decision of the Regional Development and Training Commission (RFKB) has also confirmed this standpoint of the partnership.

The economic crisis has highlighted cooperation between local employers which is promoted by the Public Employment Service through the partnership. In Szombathely - where several multinational companies settled - a Club of HR managers has been created with the participation of the companies which had previously excluded themselves from similar cooperation. The companies' experience of various aspects of crisis management was on the club's agenda. In addition an Austrian-Hungarian 'expert academy' was established, which addressed the expected labour demand in the post-crisis recovery period. This forum also concluded that employment growth will start later than the recovery in GDP. The previous very high share of manufacturing employment, however, is not sustainable, and it is primarily the service sector professions that should be the focus of State-supported vocational training.

Career guidance is one of the essential activities of the partnership. To this end the partnership tries to identify flexible approaches which meet the needs of young people. In the Szombathely area involvement of actors in the local theatre "who can speak the language of the young" is envisaged.

In sum, the employment partnerships are capable of bridging those gaps that exist owing to deficiencies in the current Hungarian Industrial Relations system, through extending links to child-parent, employer and local community relations, along with cross-border cooperation.

The role of collective agreements and works councils

In Hungary the company is the dominant level of collective bargaining. Sectoral agreements signed by sectoral social partners are limited to few industries. As mentioned above, at workplace level - in parallel with trade unions - works councils also represent employees' interests.

Company agreements provisions vary greatly depending on the bargaining strength of the local union. The Ministry of Employment and Labour runs the registry of collective agreements, which provide information on the coverage of various agreement stipulations including those relevant to restructuring. For instance, 53% of company level agreements address the issue of severance pay; such stipulations cover 13.5% of total employees in the competitive sector (private sector plus State-owned companies.) However, no statistical information is available on whether these stipulations ensure payments higher than the mandatory amount or only those prescribed by the Labour Code. An even higher share (76%) of company agreements address the length of the notice period. A high proportion (60%) of agreements regulate how long employees need to work under the notice period and identify special employee groups who may be laid off only in an exceptional situation (31%). According to the registry 84% of company level agreements address continued training of employees.

Despite the high frequency of restructuring-related stipulations, most agreements merely replicate the conditions and procedures laid down in the Labour Code. However, company level agreements say very little about employers' strategy on human resource development. CVT as a company policy is mostly missing from collective agreements. Instead the majority of agreements indicate only the general intentions of employers to support training and broad prescriptions and framework rules, leaving the details for the individual 'study contract'. The role of social partners is also rather limited with respect to supporting workers in cases of bankruptcy. Generally collective agreements tend to be limited to issues that are mandatorily regulated, but at the same time the Labour Code also offers the possibility of deviating from the mandatory rules through collective agreements. By definition company policies such as the human resource and training policy are not mandatorily regulated issues, apart from the meagre regulations on individual study contracts, severance pay, notice period, and a few others. Furthermore, collective agreements (and trade unions' bargaining policies) usually insist on a fairly traditional approach to defending workers' interests: focusing on annual wage increases, preserving traditional wage supplements and non-wage allowances, maintaining wage-effort parity under performance-related pay systems, and so forth. This traditional approach equally forecloses implementation of modern policy guidelines such as flexicurity, and any serious reflection on modern HRM techniques.

As far as training policy is concerned, the Labour Code entitles works councils to be consulted on the intentions of the employer, but in practice this is far from being the most highlighted issue on the agenda of works councils. Furthermore, the relatively weak information and consultation rights do not allow works councils to be active partners in drawing up training strategies, their scope for action being limited to a reflective-defensive approach. All in all, deficiencies in workers' representation in CVT issues could well be a significant contribution to the very low level of lifelong learning in the country, as shown by the statistics above on the share of workers undergoing CVT at the workplace. Of course there may be exceptional cases, even cases that would qualify as 'best practice', but given the lack of media reports, trade union education or targeted research, they do not come to light.

The study[8] on the content of collective agreements found that several sectoral agreements included regulations serving the needs of employment policy. Typically, most of them were drafted in the 1990s when employment was regulated to meet the requirements of imminent privatisation. Signatory parties committed themselves on the one hand to developing a short and medium term employment plan and on the other to finding ways of ensuring income-earning potential in the longer run for employees made redundant (through early retirement, internal reorganisation and retraining, promotion of labour mobility within the industry, ensuring re--settlement, job creation investments and part-time employment.)

In an unprecedented move, in the electricity industry 1% of privatisation revenues was set aside for creating an employment fund. At the same time the sectoral collective agreement does not specify the operation of this fund as it is managed on the basis of an agreement signed by the government and the trade unions in 1998, leaving employers out. In addition to early central funding, the Fund works as a classical mutual self-help fund with regular payments by employers and is also regulated by collective agreements.

Several enterprise collective agreements included a stipulation that, in cases of recruitment and where candidates are equal, preference should be given to those who had earlier been laid off, to victims of workplace accidents who had regained their ability to work, or to relatives of victims of fatal workplace accidents. Some of the local collective agreements included an policy clause on continued employment of workers; the primary goal of such an employment policy was to avoid termination of employment relationships through, for instance, re-training, placement in other jobs or paying part of travel costs and housing allowances in the event of relocation to other workplaces. If continuing employment is not possible, the employer undertakes to pay the employees' payments into the supplementary pension fund as well as to lay off mainly retired employees.

Some of the sectoral collective agreements require employers and trade unions to work together to find employment for laid-off employees within the sector. A special case was the effort to introduce a "sectoral employment relationship" in the electricity industry and in hotels and restaurants. In the latter the stipulation was that if an employment relation is terminated with mutual consent, and the day after the termination the employee enters into an employment relationship in the same industry, his or her employment was to be regarded as uninterrupted. Local collective agreements, however, fail to regulate sectoral employment. It remains a question even if they do so because they apply the higher level agreement anyway or because – and this seems to be the more probable explanation – through not creating the necessary implementation rules they disregard the industry-level efforts. According to employers in the electricity industry, the "sectoral employment" arrangement did not in practice serve the goals of the agreement.

Some of the collective agreements included special stipulations for collective redundancy, such as the introduction of a restriction to lay off first job seekers with qualifications (in the 18 months following their probation period their employment relationship can be terminated only in specially justified cases), increasing the pre-retirement age period from five to six years during which an employee cannot be laid off, an obligation to make early retirement possible, an obligation to offer other jobs to those on the redundancy list (along with retraining), helping those affected find new employment, and so on. It is, however, another matter if trade unions can always manage to enforce these stipulations in situations of emergency.

8 Fodor, T. Gábor – Nacsa, Beáta – Neumann László (2006-7): Egy és több munkáltatóra kiterjedõ hatályú kollektív szerzõdések összehasonlító elemzése. [Comparative study of single-employer and multi-employer collective agreements] Kende Ügyvédi Iroda,

In recent years, typically in large companies undergoing major reorganisation, sectional interest organisations successfully negotiated a complex employment package with the employer that regulated both the extent and the terms of redundancy, and the different kinds of assistance for laid-off employees. Such agreements were signed for instance at MATÁV (Hungarian Telecom) and MÁV (Hungarian Railways).

In the summer of 2004 the management of **Hungarian Telecom (MATÁV)** announced a plan to 'streamline' the company’s 8,000 strong workforce. In search of a 32% productivity increase in terms of main telephone lines per employee, the company - formerly State-owned but now fully owned by Germany's Deutsche Telekom (DT) - envisaged contracting-out affecting almost 500 employees by the end of 2005, and redundancies affecting another 2,100 employees during the first half of 2005. A delegation of employee representatives - consisting of the company sections of the Hungarian Telecommunication Sectoral Trade Union (Magyar Távközlési Ágazati Szakszervezet, MATÁSZ) and the Telecommunication Trade Union (Távközlési Szakszervezet, TÁVSZAK), plus the company’s central works council - responded by submitting an extensive package of proposals for counter-measures in order to mitigate the social consequences of the workforce reduction. Following lengthy debates, management and employee representatives concluded an agreement on the conditions accompanying the job losses and on pay and benefits for 2005. With regard to the workforce reduction, the main provisions were as follows.

- Termination of employment at the initiative of the employer' will affect only 800 employees. The agreement includes planned figures for reducing management positions and for dismissing managers.
- The number of employees affected by contracting-out will be increased to 805, and employee representatives may participate in preparations for decision-making in this area.
- Part-time employment will be introduced for mothers with children aged 14, lone fathers and people aged over 50. This solution will be offered to all employees in certain units, or through individual agreements between the company and employees, provided that the employees concerned accept a 20% wage cut in exchange for a 25% decrease in working hours. At the same time the non-wage benefits of the workers concerned remain unchanged. Moreover management guarantees that those who agree to these terms will not be made redundant in the coming three-year period.
- A complicated departure scheme has been drawn up for employees aged over 50. Those reaching pensionable age (57) before the end of 2008 may until then be treated as having 'non-active status' (rendelkezési állomány), provided that they agree that their wages (exceeding the current national minimum wage) during this period can be covered from the severance pay and other allowances due on termination of their employment. As the collective agreement stipulates severance pay equivalent to almost 36 months’ wages, women will not suffer from a wage cut due to their lower pensionable age. Men with 'non-active status' reaching 57 may then be eligible for early retirement. The details of the 'non-active status' scheme will be jointly elaborated later by the signatories of the agreement.
- At the request of a redundant employee, the notice period can be increased at the expense of the severance pay stipulated under the relevant company collective agreement.
- Management accepts the employee representatives’ right to monitor the implementation of the workforce reduction. In order to avoid excessive overtime or abuse of working time rules, a special control system will be developed by improving the registration of clocking-in and clocking-out times.

- Further measures deal with improving the company's outplacement service, training and provision of redundant employees with an extended period of company welfare cover, in particular through contributions to various insurance policies.
- Taking into account all the above measures, the company will implement four phases of staff reduction in the period up to 1 January 2006, by which time the number of employees will be reduced by a total of 1,800. [9]

In November 2003, the Hungarian government made several decisions concerning the future of **Hungarian State Railways (MÁV)**, one of these being a major reduction in MÁV's workforce. The company's board decided that by the end of 2006 the number of employees should be reduced from about 53,000 to no more than 42,000. The redundancy of around 11,000 employees, representing 20% of the workforce, was the largest lay-off in the history of MÁV.

Negotiations began at the Railway Interest Reconciliation Council (Vasúti Érdekegyeztetõ Tanács, VÉT), the company's standing body comprising representatives of the management and each representative trade union at the company. In a company with a multiple union structure, this body is a forum for collective bargaining. At the VÉT, the parties finally concluded an agreement on the treatment of workers who had been made redundant in 2005, two years after the lay-offs began. The agreement, with a legal status similar to that of a collective agreement, envisaged helping men aged over 50 and women aged over 45 to continue their working career or choose early retirement.

MÁV established the New Chance Foundation (MÁV Új Esély Alapítvány) with the aim of supporting older employees affected by the redundancies and helping them achieve a long working life. The target profile of the employees concerned included women aged over 45 and men aged over 50. The New Chance Foundation has seven regional offices with specialists recruited from the labour market who support the company's former employees nationwide. As part of the service a personal mentor assists individuals throughout the six-to-nine-month programme. Services are free of charge and are financed by MÁV and the National Employment Foundation (OFA), which is funded by the National Labour Market Fund (Munkaerõpiaci Alap) through compulsory employer and employee contributions. The foundation's new chance programme offers a wide range of opportunities for the employees concerned, including:

- assessment of the employee's background during an individual interview;
- labour market training, such as writing a CV and preparing for a job interview;
- support in searching for a job *via* the internet and newspapers;
- counselling and exchange of experience and information in job clubs;
- training.

9 See: Agreement reached on terms of MATÁV workforce reduction. http://www.eurofound.europa.eu/eiro/2004/12/inbrief/hu0412101n.htm

From its establishment in 2005 up to October 2007, more than 700 former MÁV employees registered with the programme and almost one-third of them were able to find a job. OFA and MÁV supported the foundation to the value of HUF 170 million (€618,000) over a two-year period. [10]

[10] See: Government launches support scheme for redundant railway employees. http://www.eurofound.europa.eu/eiro/2007/10/articles/hu0710039i.htm

Subsidies and other financial supports

The goal of the crisis management and economic revitalisation package launched by the government in the autumn 2008 was to address simultaneously the problems both of the financial market and of the labour market. In October 2008 the Ministry of National Development and Economy announced a ‘crisis management and economy boosting package’, to be funded mainly from the New Hungary Development Plan – the current framework for the utilisation of the European Social Fund – and partly through reallocating monies from ongoing programmes, and it was to be complemented with more rapid commencement of other planned projects. NFGM envisaged providing subsidies totalling HUF 1,400 billion (€5 billion) in support of companies, including those operating in financial services, on a tendering basis. Of this budget, according to the National Development Agency HUF 500 billion (€ 1.8 billion) was available for businesses, with paramount importance attached to direct micro-loans, loan guarantees, support for reduced interest rates, and especially refinancing of bank loans as many companies faced increasing difficulties accessing regular credit on account of the credit crunch affecting the commercial banks. Nonetheless, it is worth noting that the government in Hungary, unlike that in other countries, was not in a position to launch generous State programmes to bail-out endangered companies, owing to the indebtedness of the Hungarian state budget, a lack of foreign currency reserves and the limited share of publicly-owned enterprises, the last-mentioned being an obvious consequence of the far-reaching privatisations of the 1990s.

As for the employment policy package announced by the Ministry of Social Affairs, the primary goal of central assistance was preservation of jobs through helping economic organisations to stay in business. At the same time, however, maintaining unviable enterprises was not a goal: if an enterprise is beyond help, assisting the individual becomes the primary objective. The main forms of State subsidies involve:

- paying part of wages and wage levies;
- subsidising the introduction of shortened working hours;
- contributing to the costs of training and re-training;
- provision of State-run services in the labour market;
- contributing to travel and mobility costs.

Essentially, enterprises have access to job preservation subsidies through three different channels, and the following:

- three National Employment Fund (OFA) programmes, HUF 7.13 billion (€47m);
- central programme “For the Preservation of Jobs” of the Public Employment Service HUF 10 billion (€ 36 million); *and*
- programme 'Reduced Working Time Combined with Training' run by one of the components (TÁMOP 2.3.3) of the „New Hungary Program”, co-financed by the EU, HUF 20 billion (€ 73 million);

were earmarked for promoting employment. Thus funding totalling HUF 47 billion (€171m) was made available, from which the government planned to solve the employment of 100,000 people. However, the OFA job preservation programmes had to be suspended as early as in February 2009 because of massive excess demand, although in the end the addition of HUF 1 billion (€3.6m) to the original HUF 6 billion ensured that all applications already received and reviewed were funded.

In view of the current economic situation, the European Commission adopted new legislation on temporary *de minimis* subsidies.[11] As the Commission approved the Hungarian job-preserving programme, the Government is therefore entitled to apply the rule. An Order of the Minister of Social Affairs and Labour No. 10/2009 (IV. 14.) adopted the €500 000 rule by amending the relevant regulations.

OFA designed three programmes to encourage different kinds of employer behaviour. The programme „Preservation" („Megõrzés") is basically a wage subsidy programme in which the enterprise commits itself to keeping employees, who would otherwise be laid off, in full employment. In this programme 75% of the wage costs of enterprises with 3 to 50 employees, 50% of the wage costs of those with 51 to 250 employees, and 24% of the wage costs of larger companies, is subsidised. Another form of support is the "wage subsidy to reduce the disadvantageous effects of measures affecting employees"; in practice this means paying the wage lost through shortened working time. In this programme the employer may provide training to the employee during the time not spent in work, although this is not an obligatory condition of the subsidy. The goal of the programme "Into Work" („Munkába") is to help laid-off workers find employment with other enterprises by providing wage subsidies similar to those in the other programme. A condition of obtaining either kind of subsidy is that the employer must retain the same average number of employees during the subsidy period, independently of the number of employees for whom the employer was granted the subsidy. "New Prospects", the third OFA programme, is open to companies who strive to make the redundancy procedure humane. The programme is designed to encourage outplacement precisely because that is not yet a practice in Hungary. In this programme an outside service provider helps the employer find a job as soon as possible, and the subsidy covers the costs of companies buying the service.

The programme of the Public Employment Service is also available for companies employing at least three workers, on condition that they prove by a market analysis that temporarily – that is for not more than a year – they are unable to use their full employment capacity because of the economic recession. The primary goal of the programme is to preserve jobs and, in conjunction with this, to encourage work organisation measures (especially shortened working time), placement of laid-off employees in a new enterprise, support for their training, provision of direct services promoting employment, and increased labour force mobility. Employers wishing to participate in the programme must inform the regional labour centre of their plans of redundancy or their employment difficulties, and in exchange for the subsidies they do not implement the planned workforce rationalisation. While applications and subsidies are handled by the regional labour centres, decisions on granting the subsidy are made centrally by the Minister of Social and Labour Affairs. In practice, what employers apply for is simply a wage subsidy or, where

[11] The Commission adopted new legislation the Temporary Community Framework for state aid on 17 December 2008 (OJ, C16 of 22.1.2009). The Temporary Framework was introduced due to the financial crisis and its impact on the economy. Its aim is (1) to support access to finance to companies which, although not structurally weak, find themselves facing a sudden shortage or even unavailability of credit due to the current financial crisis; (2) to encourage companies to continue investing in the future. The Temporary Framework has a number of specific features. For example its timeframe is limited i.e. aid under this framework is to be granted no later than 31 December 2010, or the aid granted to any one undertaking shall not exceed a cash grant of €500 000 gross (i.e. before any deduction of tax or other charge). The aid can only be granted to firms which were not in difficulty on 1 July 2008 but found themselves in difficulties thereafter as a result of the global financial and economic crisis.

shortened working time is introduced, a subsidy for up to 80% of lost wages, and the costs of the training offered combined with shorter working time. The subsidy for shortened working time is regulated by a recent government decree (70/2009. (IV. 2.)).

While the call for and review of applications, and conclusion of contracts, went unprecedentedly fast by Hungarian standards (5 months from submitting the application to first payment in TÁMOP programmes, 3 months in OFA programmes), the job preservation programmes have mostly been criticised for – apart from shortage of funding – the slowness and onerousness of their procedures. Of the total of HUF 47 billion to be spent by end of July, only HUF 13 billion (€47.3 million) had been granted to applicants of which only HUF 1 billion (€ 3.6 million) had actually been paid.

Case study 4: Job-preservation programmes of the National Employment Fund (OFA)

Altogether 1,323 companies applied for the HUF 7 billion (+) of the OFA programmes designed to help preserve jobs, subsidise wages and introduce part time work, the requests totalling HUF 20.5 billion (€ 75.3m). 448 applications were granted covering a total of 18,000 employees and, with the subsidy scheme, ensuring the preservation of altogether 33 000 jobs during the subsidy period. Preservation of jobs mostly meant working time reduction (9 600 employees) and simple wage subsidy (7 400 employees); only 1 700 of the laid-off found new employment. At the same time as few as 375 of those who could keep working through reduced working time or who found new employment received training, which is a mere 2% of all subsidised persons.

According to the latest data, HUF 757.7 million (€ 2.8m) has been paid to companies. Most of the preserved jobs are in the Central Hungarian and West Transdanubia regions while the fewest are in the Southern Hungarian and Southern Great Plain regions. Two-thirds of the subsidies have been paid to manufacturing companies. The overwhelming majority of applicants are small enterprises: 2 962 employees are covered by job preservation wage subsidies for an average period of 7.03 months in enterprises with fewer than 50 workers. Most of the preserved jobs (13000), are in medium-sized companies. Shortened working time in large companies was introduced for 7 833 persons, and training was chosen mostly by these companies. The majority of participants in the job creation programme were from companies employing fewer than 50, predominantly in transport, manufacturing and trade.

Sadly, no application was submitted for the “New Prospects” programme. The reason for this is that eligible companies were supposed to hire a sub-contractor service provider through a public procurement procedure. It would have been more expedient for the service provider to be the applicant as many large companies have longstanding external HR contractors which would have been interested in obtaining this extra funding, and the company would then have been spared the onerous public procurement procedure.

In the framework of the crisis management and job preservation programme “For the Preservation of Jobs” of the Public Employment Service, with an objective similar to that of the OFA programme, a total of 2 521 applications were lodged by employers. The overwhelming majority of them applied for the wage subsidy to preserve jobs while far fewer requested the wage levies subsidy designed to promote re-employment and part-time work. On the basis of the preliminary review of applications, the Minister of Social Affairs and Labour granted HUF 6.2 billion (€22.5m) from the HUF 10 billion fund for 497 applicants to preserve a total of 21 299 jobs. Up until 10 July 195 contracts were signed by the regional labour centres. Grantees were primarily SMEs along with a few large companies such as GE Hungary (7 784 persons), a Rába (1 236), Michelin (933), Hungarian Aluminium (604), Knorr-Bremse (587) and General Motors Powertrain-Hungary (530). Nearly two-thirds of the subsidies were awarded to manufacturing companies.

The National Development Agency launched its 'Reduced Working Time Combined with Training' scheme, '4+1 programme' by its popular name used in the press, with a funding of HUF 20 billion (€72.7m) for micro-enterprises and SMEs to finance the introduction of shortened working time. The subsidy is available for companies to cover their costs of training and wages for one day a week. (Participating companies have to organise a training programme for at least two employees, covering at least 20% of their usual contractual working time, with a minimum duration of 60 hours for full time employees). The training programmes can last from 3 to 12 months. Employers are requested to commit themselves to preserving jobs for at least six months. According to NDA data 100 applications have been received to a total of slightly more than HUF 2 billion (€7.3m), but they have not yet been reviewed. Following employers' complaints that the conditions were hardly fulfillable, the documents requested by the Regional Labour Centres in respect of statements of recommendation and the system of evaluating financial data were made simpler from the end July. In programme 4+1 large companies will have access to HUF 10 billion (€36.4m). Originally the subsidy programme was planned to be launched in June, but actually opened only in September.[12]

The above-mentioned measures apply generally to the whole economy. Another package of measures specifically targets SMEs. Sector-specific measures aim to improve the situation of construction firms. At the end of 2008 NFGM announced an economy-boosting package to the value of HUF 1.868 billion (€6.8bn). It included 636 major construction projects, mainly renovation of public buildings (schools, nurseries, etc.), road and track works, and the package was expected to safeguard tens of thousands of construction jobs. As the majority of public investments are co-funded from EU sources, the review of the tender procedures and the increased advance payments from 25% to 30-40% were also expected to remedy the cash flow problems of construction firms. In 2008 an overhaul of the legal regulation also took place, involving the amendment of 30 laws and decrees regulating the construction process. In December 2008 the Parliament amended the law on public procurement procedure with a view of improving the situation of SMEs.

Research findings from the 1990s proved that the effectiveness of job-preserving measures is roughly the same as that of other kinds of wage subsidy. So far no statistics are available on the impact of the new measures. However labour market experts share the view that job-preserving subsidies are prone to great wastage, since many companies that would anyway retain jobs without government support are able to exploit the subsidies. Moreover, in a crisis period the entitlement for such subsidies cannot be unequivocally justified or assessed.[13]

12 Sources: Szabó, Brigitta: The payment of job preservation subsidies is a slow business. Népszabadság, 25th July 2009.; Bonfig, Ágnes: Report to the Employment and Labour Affairs Committee of the Parliament on job preservation subsidy programs. Ministry of Social Affairs and Labour, June 2009

13 See: Controversy over government plan to tackle economic crisis. http://www.eurofound.europa.eu/eiro/2008/12/articles/hu0812029i.htm

In addition to financial help, the government initiated an employer-friendly modification of several employment-related laws to tackle the economic crisis. Allegedly the modifications were lobbied for by employer organisations and have two main aims. The first aim was further flexibility of working time provisions which had already been made more flexible in previous years. The second aim was to amend the former very strict rules on exclusion from State subsidies (such as active labour market policy measures) and public procurement, as a result of which companies could not receive State subsidies or take part in public procurement even if they only committed relatively minor breaches of the labour law.

SUPPORT TO WORKERS

As mentioned above, the loss of income due to shortened working week is compensated for by the government on a tendering basis. The criteria for support include *inter alia* agreement between employees and employer on shortened hours and reduced compensation, as well as the company's obligation to maintain the number of employees for at least the period of support. Companies under bankruptcy or liquidation processes, however, are excluded.

Generally speaking, working time reduction was accompanied by wage reductions in many companies not receiving subsidies. This turned out to be the focal point for employees in deciding whether or not to accept management offers to implement shorter working time. Furthermore, another significant factor directly influencing the matter was that the Hungarian Labour Code defines working 40 hours a week as full time employment, while fewer hours qualify as part-time employment. Working part-time has direct negative repercussions with respect to employees' future retirement pensions, as the service period is calculated in proportion to the actual working time of part-time jobs. As far as can be surmised from various sources, employers reduced salaries in proportion to the shortening of the time worked. Moving from a 40-hour working week to 32 hours would implies a 20% lower salary (as well as the above-mentioned problem of retirement pensions).

Company information reveals that early retirement is among the measures used to reduce the workforce. The scope of implementing such measures must be limited, as no state subsidy is available for their support. Although in 2008 the Minister of Social Affairs and Labour announced the possible introduction of early retirement schemes, this plan has not been implemented. Indeed it later became a declared policy intention of the government not to make use of early retirement schemes.

The rules of the unemployment benefit system have not changed following the onset of the crisis, even though labour market experts proposed temporary extension of the duration of the benefit. With the unfolding of the recession, however, the government is implementing a recently-legislated policy measure called 'Pathway to Work' (*Út a munkához*). Somewhat in contradiction to the growing rate of unemployment, this programme tightened the eligibility criteria for welfare provisions for those long-term unemployed who have already exhausted the duration of their unemployment benefit, the rationale behind which was an effort to encourage more effective training and job-seeking activity.

ACTIONS TAKEN BY COMPANIES

The main finding of the survey of DSG Global Research with HR staff of 180 domestic organisations employing a total of over 100 000 is that a large number of employers were not prepared for crisis management, notwithstanding the clear signs of the imminent crisis. Only 23% of respondents said that the company had some kind of crisis plan or emergency scenario. Internal and external crisis communication is even worse: hardly 18% had a crisis communication strategy at a time when 70% of respondents experienced a slow-down of business and 50% had already been forced to implement some kind of anti-crisis measures – typically companies employing fewer than 50.

The most frequent reaction to the crisis was a drastic cutting-back on costs (50%), followed by restructuring the organisation and cutting back on educational expenses (each 23%). Reducing costs primarily meant paying smaller premiums and bonuses and to a lesser extent freezing wages. While redundancy was only the fourth most frequent measure (21%), a total of 10 000 jobs were lost through it in the surveyed firms. 40% of organisations laying off workers employed fewer than 50 and are therefore not required by law to report redundancies; moreover they receive no media coverage.

To the question of what external assistance the companies would request, the majority cited reduced wage levies (80%) and reduced business taxes (71%). An interesting finding was that the companies mainly expected economic policy measures to solve their problems arising from the crisis. In addition to tax reductions, they expected central assistance to be able to introduce shorter working time combined with training and to apply the annual reference period. (It should however be noted that the two latter measures were in preparation even though legislation had not yet been passed.) At the same time the research highlighted that atypical forms of employment (part time, telework, short term contracts, job sharing, temporary agency work, etc.) are known and applied only to a very limited extent and only 4% of respondents mentioned the introduction and large-scale application of such measures as crisis management tools. But while 61% of companies do not plan to use them in future either, nearly 30% were considered introduction of part-time work as a possibility.

A conclusion of the research is that the majority of companies see a reduction in their labour force rather than restructuring as the solution. Leaders and HR staff have experience neither of crisis management nor of a strategy for solving the problems and overcoming the crisis. In consequence, with the crisis deepening, a series of bankruptcies, drastic production cutbacks and soaring unemployment are to be expected.[14]

According to another recent survey conducted by the University of Pécs, laying off employees is a last resort for companies struggling to surmount the crisis. The questionnaire sent out in late November 2008 was correctly completed by 86 companies. Over half of the participants in the research were SMEs in terms both of number of employees and of sales revenue. The crisis had hit almost all of the respondent companies: sales had fallen heavily in three-quarters of them during the recent period and 40% were forecasting a drop in sales revenue for 2009. All of them saw clearly that they would have to act to mitigate the effects of the crisis. Over 90% of

[14] DSG Global Research: Research on Crisis Management: What Do Leaders and HR Staff Do in Recession? Summary, February, 2009. While 50% of the sample consisted of small enterprises (below 50 employees), only 14% employed more than 1,000. As to the ownership of respondent companies, the majority were domestic, 26% fully foreign owned, 13% in mixed ownership and the rest from the public and not-for-profit sectors.

respondents thought reducing costs and increasing organisational efficiency as the most important measures while 40% were trying the find new markets to offset the recession. A bad sign is that quite a large proportion of them planned to postpone investment.

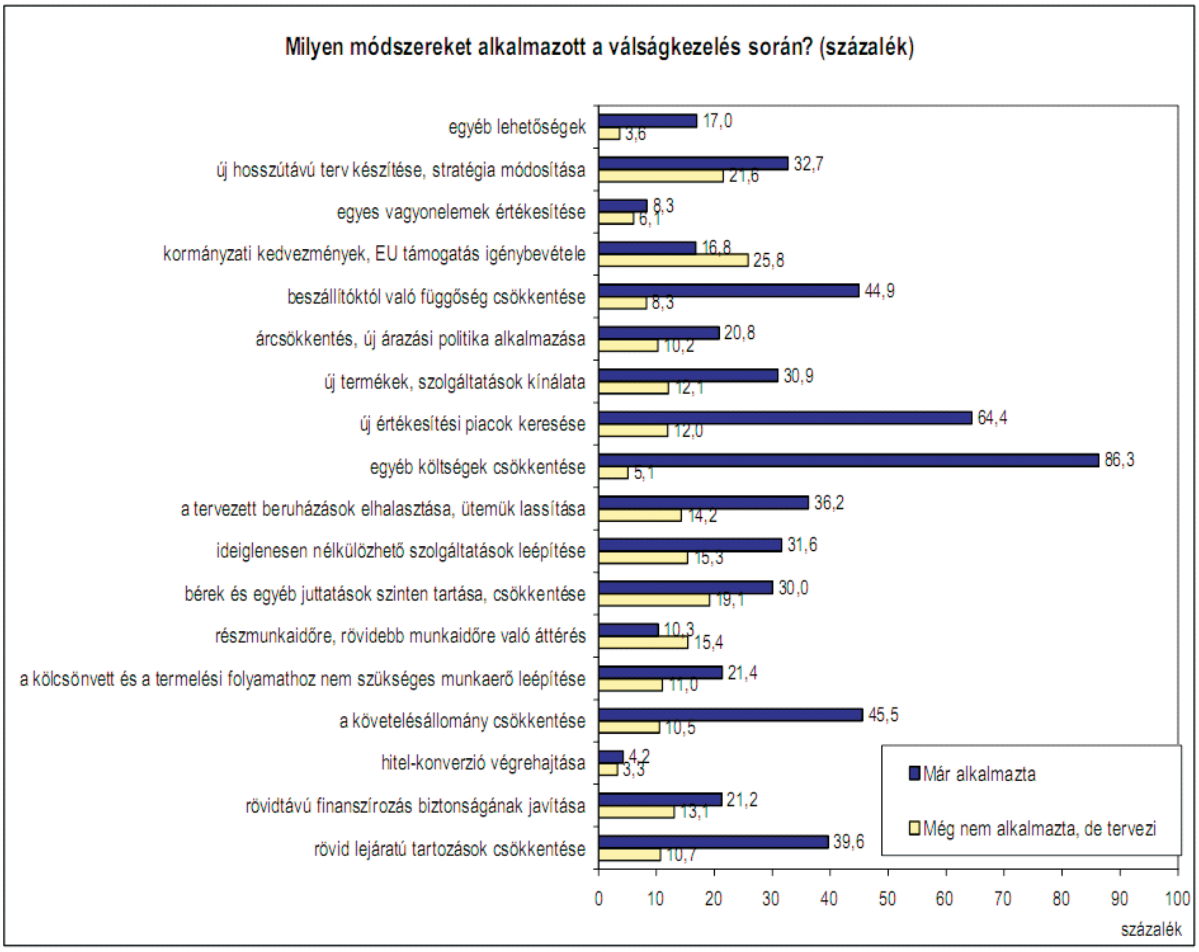
Paradoxically, companies mentioned that a positive outcome of the crisis is an expected growth in supply in the labour market. They considered that because of the redundancies it would be easier to find highly qualified and experienced labour while they themselves were not planning mass redundancies. Clearly companies strive to get through the crisis without sacrificing their workforce; 40% were planning minimal lay-offs at most. It is, however, doubtful how realistic these plans were, especially that nearly 90% of them expect substantial growth in unemployment at national level.

Companies participating in the survey prefer to save labour costs by curbing wage increases. The planned average wage increase for 2009 was 3.4%, and only 2.5% for senior managers. Managers cannot expect any increase in their incomes in the trade and IT sectors.

Companies were not preparing to change paradigm and introduce fundamentally new tools in their human resources management. Most simply froze the number of employees although quite a large number – about 40% – expected smaller or greater redundancies. A relatively large share of companies reported restructuring of performance management – probably meaning tying wages more tightly to performance and increasing labour-intensity. A surprisingly large share, 40%, planned to change internal communication, apparently in an effort to win the cooperation and loyalty of employees in the crisis period.[15]

Finally, in the spring of 2009 the Economic and Enterprise Analysis Institution of the Hungarian Chamber of Commerce and Industry (MKIK GVI) and Kopint-Tárki conducted a survey of 314 Hungarian companies to map the effects of the economic crisis as well as the anti-crisis measures the companies took or were planning to take. In terms of crisis management measures, the largest share of respondent companies were applying cost reduction measures; in addition to general cuts in costs, 36% postponed planned investments, nearly one-third froze or even reduced wages, and nearly as many cut back on services they could do without temporarily. Of those companies who had so far not resorted to these kinds of cost reduction measures, 20% were preparing to reduce wages and 15% were planning to postpone investments or stop buying in external services. Cost reduction appeared to be widely applied in all sectors and regions and by all companies, large and small, producing for export or dependent on domestic markets. In addition, nearly four-fifths of respondent companies made efforts to improve their market position, two-thirds tried to stabilise liquidity and nearly one-half adopted other anti-crisis measures. One-third of the companies had already been forced to change strategies and review their long term plans, and 17% had submitted applications for government subsidies or EU support. (Barta et. al. 2009)

[15] Hámor, Szilvia, Companies are reluctant to sacrifice workforce. Népszabadság, 6th January 2009.



TITLE OF THE FIGURE: WHAT ANTI-CRISIS MEASURES HAVE YOU APPLIED? (PERCENTAGE)

Row Titles:

- Other options
- Developing a new long-term plan, changing strategies
- Selling some of the property
- Applying for government subsidies or EU support
- Reducing dependence on suppliers
- Reducing prices, applying a new pricing policy
- Selling new products and services
- Finding new markets
- Reducing other costs
- Postponing or slowing down planned investments

- Cutting back on services that are temporarily unnecessary
- Freezing or reducing wages and other remuneration
- Switching over to part-time employment and shorter working time
- Reducing temporary agency workforce and permanent staff unnecessary for production
- Reducing receivables
- Carrying out credit conversion
- Improving the safety of short-term financing
- Reducing short term liabilities
- BLACK: already applied
- YELLOW: not yet applied but planned

The most frequently used method that directly affects employees is freezing or reducing wages and other benefits (30% had already done so and 15.3% were planning to); the second most frequent is reducing the number of temporary agency workers and permanent workers “not necessary for production” (21.4% and 11%), followed by switching over to shorter working time or part-time work (15.4% and 10.3%).

Construction companies, however, had already been forced to apply all of the anti-crisis measures. Problems of liquidity had clearly hit this sector hardest (80% of companies), and it was this sector that had also suffered the greatest loss of markets. It is not surprising then that more than half of the construction companies could not escape wage reductions: 35% had already done so and 20% were planning them. As for wages, in addition to trading companies which have reduced wages even more than construction companies, 17% of manufacturing industry as well as the services industry, which so far had been less intensive in crisis management, had already reduced wages and 32% planned to do so.[16]

The common finding of the three research programmes is that companies seem to use a very narrow range of anti-crisis measures: to save costs they reduce expenses (including wages) and lay off employees. At the same time the studies have found that companies fail to forecast the need for crisis and plan anti-crisis measures and have no form of crisis management or crisis communication strategy. In the terminology of the HR management literature, the ‘knowledge management’ attitude has not yet developed in these companies, and preservation and development of human capital as part of their non-material assets has not yet become general practice.

The lack of advance notice and warning, preparation and proper communication is clear from media coverage of the uncertainty generated by the inadequate information which interested organisations receive from management on restructuring plans. Of several similar news reports a typical one, cited below, appeared in July 2009 at the time of drafting this report:

On 25th June 2009, trade unions and General Electric Hungary negotiated the transformation of the hitherto private company limited by shares into a limited company. A few days after handing

[16] Source: MKIK GVI – Kopint-Tárki: The Economic Crisis from the Perspective of Companies, June 2009. The sample included 314 companies; both SMEs and large companies, one half of them were manufacturing and construction firms and the other half belonged to the service sector. Companies having bank loans were deliberately over-represented in the sample.

over their written opinion, however, interest organisations learnt through informal channels that on the instructions of the US headquarters of the Consumer & Industrial branch a series of decisions were being prepared on stopping light-source production in Hungary in a drastic way. In response to these planned actions, trade unions sent a letter to the management requesting negotiations to preserve as many jobs as possible and to ensure the fairest redundancy terms.

The Communications Director of the General Electric-Hungary light-source production announced that both the economic situation and legislation were changing with as yet unknown effects. What was known, however, was that in accordance with EU regulations, light bulbs over 80 Watts would not be sold from September and all traditional types would be phased out. At the same time energy-saving bulb production could increase, but the exact types would be decided once consumer preferences were known. He added that production would not be reduced but would only be tailored to orders. As a consequence of the crisis, GE introduced a four-day working week in March 2009. In its various branches in Hungary, GE employs altogether 14 500, of whom 9 500 work in the regional centre of the Consumer & Industrial branch in Budapest and in eight plants (two in Budapest and six in the countryside), and in the European technological centre. [17]

According to company HR consultants, the lack of advance information on structural changes in Hungarian subsidiaries of multinational companies is primarily due to the fact that strategic planning is done outside Hungary and decisions are made in the company headquarters abroad. Often the Hungarian management itself is informed of plans only at the last moment and is left only to implement decisions and crisis management measures. In addition, several manufacturing multinational companies only have production facilities in Hungary employing low-qualified labour. In times of crisis the only option is redundancy in the cheapest possible way, as rehiring is easy once production grows again, and the training of such a workforce is also fairly cheap.

[17] Source: Liga Trade Unions and Index, 30 July 2009.

The first round table of the seminar addressed in particular the problems of anticipating change.

Although in the two recent decades Hungary has undergone two crisis periods, substantially the Hungarian social science “did not see, that it comes”, neither concerning the regime-change, nor it could anticipate the current crisis with certainty. In Hungary one can speak primarily of change management but scarcely at all of anticipation of change. In comparison with the rest of Europe the policies of successive Hungarian governments have more resembled competition policy (as in Germany) than industrial policy (in the French sense). One sign of this phenomenon is the absence of sectoral strategies (apart from the four strategic sectors designated by the government in 2008, and for which recently action plans have been prepared). For a more effective industry policy, on the one hand employment and economic policy should be more harmonised, and on the other hand stronger designation of prospective industrial sectors is needed.

To understand the nature of structural change in Hungary, not only should the continuous change in the economy be taken into account, but also the long-lasting legacies of the transition period: the one million jobs still short of the optimum level of employment, the persistent regional disparities, and the lack of regions with functioning territorial-administrative capacity. Although the government recognised the current crisis in time, it was unable to provide an adequately rapid response.

Nevertheless medium-term employment forecasts, and forecasts of the expected sectoral weights and employment structures were made within the framework of the EU co-funded Social Renewal Operational Programme (TÁMOP). Even “mainstream” economic thinking accepted the “efficiency gain” of such a State intervention, asserting that the State should provide economic actors with information through public services. The current professional initiatives aim to provide this information on about 200 professions in a sustainable and transparent manner, essentially by using administrative databases.

At the same time, according to the representative interest bodies in the various undertakings, the EU-supported training courses and the needs of the economy do not match. More than half of the people trained for the most needed professions have found jobs elsewhere. Reconciliation between the interests of society and of schools is unsatisfactory. There are problems with career orientation, for 80% of pupils do not choose vocational training, but instead want to sit a high school final exam (’érettségi’). In the opinion of the trade unions a continuous change is taking place in the education system but mainly through a series of *ad hoc* public interventions. A growing proportion of skilled workers seek jobs abroad, owing to the significantly lower wage levels in Hungary.

The way in which the economy is divided makes anticipation of change even more difficult: along with the range of competitive enterprises, consisting mainly of multinational corporations, there is a domestically-owned SME sector; the latter clearly requires a different method of forecasting, and specially-targeted responses would be needed to address their problems. At company level it is impossible to anticipate changes if the given plant belongs to a multinational company: obviously restructuring is dependent on decisions made in the foreign headquarters, to which even trade unions equipped with the most developed industrial relations systems have no direct access. In the case of other firms, the plural trade union structure works properly at company level, but the appropriate social dialogue platforms at national and sectoral levels do not operate adequately. All in all, in a country with an open economy and capital shortages, and where external forces define the room for manoeuvre, it is particularly difficult to forecast changes. However it seems a realistic requirement that at least public policy measures should be transparent and agreed on through the social dialogue institutions.

The second round table addressed management of change, and more specifically the responses to the current crisis indicated by companies and the government.

The SME sector, in particular family firms, had already been hit hard before the economic crisis; from 2006 onwards austerity measures reduced the financial resources available to businesses on a tendering basis. Nonetheless, the situation of SMEs might be improved slightly by the new company law legislation (e.g. individual firm) and tax rules to be introduced in the near future. According to trade union opinion, it would be important to invest in human capital, especially in times of crisis; however a system of training during normal working hours has not yet been developed by many companies. Along with introduction of government subsidies for promoting shorter working time, however, the possibility of training in non-working hours is often faded. The regulation of company resources set aside for training has changed several times, and they have become less attractive to the companies. Meanwhile the adult training funded from public resources underwent commercialisation (that is it was actually performed by private service providers), under which training courses became shorter and the system generally more effective. The introduction of decentralised decision-making in the vocational training system and integration of training places (TISZK), introduced two years ago, also presented problems. The changes controlled from the top have not solved the long-lasting problems of the vocational training system, so the expected breakthrough has not materialised.

Regional development is one of the priority area of the EU-supported programmes (Social Infrastructure Operational Programme, TIOP), but in fact the regional approach has not yet developed, regional and sectoral approaches are often mixed, and in general the latter proves more influential. Nonetheless industrial clusters have been established and there is common interest in cooperation between universities and companies on R&D themes. To harmonise training and labour market needs is an obvious priority for each sectoral policy, but the decisions made in the Regional Development and Training Committees represent arbitrary interventions on which the local community does not receive any relevant information. Sub-regional efforts are not transparent at all; sub-regions lacking a sufficient number of enterprises and with little or no enterprise culture are unable to secure their own development.

As far as industrial relations are concerned, according to the trade unions the modifications in labour law in respect of crisis management are having an adverse effect. Whereas flexibility in working time can already be ensured without a collective agreement, the employers' willingness to bargain has diminished. In the opinion of employers' representatives, the extended collective agreements currently in force in the construction and bakery industries are likely to be terminated as the non-wage benefits stipulated by these agreements will be significantly more costly under the tax laws to be introduced in the next year. The conditions previously negotiated have become unsustainable, because of relatively minor State interference.

During the evaluation of the case studies, participants in small groups reached the following conclusions:

At **Hungarian Post** it is a measure of the degree of anticipation of the changes that the management, recognising the challenge of liberalisation due in 2013, worked out a restructuring strategy and made it acceptable to the public owners in a way that will ensure efficient and competitive operation by the time competitors enter the market. To improve efficiency the company opened up new business branches (e.g. banking) and raised the level of the working culture. All these changes were introduced using the social dialogue institutions and keeping the representative interest bodies informed and consulted. The strategy also provided workers with a secure vision. However, the methods used here are hardly transferable in unchanged form, since in this case a special company is involved (State ownership, extensive usage of public employment policy tools, strong trade unions, etc.) On the other hand there are also other international examples of postal service privatisation which also show the importance of State regulation. In this respect the goal of the trade union is to maintain quality service and ensure that during the privatisation process the profitable areas cannot be ‘creamed-off ‘ by privatisation.

The major strength of the **West Transdanubian Employment Partnership** is that it has direct impact on the development of local employment and enhances the responsibility of local authorities in employment matters. Alongside regional level, micro-regions are the most appropriate levels for employment policy; it will be recalled that the current “The Way to Work” programme concept was born in the micro-regions. In addition the partnership could also be a place for more efficient social dialogue as well as promoting better mobilisation of local actors. The experience of strengthening cooperation culture and establishing methods of reconciling local interests is clearly transferable.

In the case of **Dunaferr Steel Foundation** the most remarkable feature is the corporate philosophy, strategy and organisational culture, in which the instruments for “outplacement" constitute an organic development. The Foundation's effectiveness and sustainability are considered strong points, re-employment of redundant workers becoming cheaper for the State in consequence - and at the same time it is not expensive for the company either, because the Foundation also produces revenue and profit. This solution ensures common benefits for both workers and the employer, since it fulfils the company's needs for flexible labour, while it helps the worker avoid unemployment. Thus, it could be a good example of corporate social responsibility. The weaknesses are the limited period of support, and exposure to the willingness and the economic situation of companies. The method could be transferable into other companies, but at present one of the obstacles to replication is the non-participation of higher-level social partners. To facilitate wider application the following preconditions would be appropriate: the “outplacement” should appear as part of the company HR strategies, the social partners (including actors from the local community) should play a more active role, and knowledge-sharing and exchanges of experience should be established. In the last-mentioned the State could play an organising and managing role.

The strength of the **OFA crisis management programmes** is that they fulfil a form of mission role. Nonetheless, the tardiness of the whole Hungarian tendering system cannot be ignored; it is rigid and bureaucratic, and more flexible management of contracts and amendments is necessary. In respect of managing the current crisis, three different tender invitations were opened. Those who received aid had a good chance of surviving the crisis, whereas those undertakings “just able to be saved” did not receive support. The weakness is therefore that it is not at all clear that those receiving assistance were in fact those most in need.[18] Many of the applicants were not able to submit their already worked-out tenders because the tenders after the opening-up, in the absence of money, were closed rapidly, that is to say expected needs were not sufficiently rated up. These programmes helped only temporarily with rapid, ad hoc aid without due thought for what would be needed later; thus in preparation for a prolonged crisis attention should also have been paid to recovery strategies. An independent monitoring organisation is missing, and the programme also lacks a culture of support that would help applicants. Experiences of other countries' tendering practices should be drawn on and, finally but crucially, special attention should also be paid to small enterprises.

[18] In fact, temporary measures are meant for those who have a good chance to survive the crisis. Aid is supposed to be granted to firms that were not in difficulty before the crisis but encountered difficulties as a result of the crisis and have a good chance of survival. Firms that are not viable and would go bankrupt in the short or medium terms should not be supported. Contrary to this underlying concept, the relevant group session concluded with the above opinion.

Summary and conclusions

6

In Hungary there is practically no public discussion, or social dialogue forum, in relation to structural changes and the need to prepare for them. The lack of institutions anticipating and planning economic change is rooted to some extent in the economic ideology that followed the regime change. By Western European standards there was no planning of structural change or industrial policy worth mentioning. Under the centre-right government in power between 1998 and 2002 an institutional system in support of SMEs was set up to help domestic businesses develop, especially the supplier network for large multinational companies. From 2004 EU subsidies also financed company investment and structural change. Moreover the EU context created a necessity for short-term and medium-term policies and development plans, which resulted in a cautious come-back of anticipation and planning measures.

Regular labour market anticipation and forecasting tools were developed from the mid-1990s. In particular it was company reports of a shortage of skilled workers that impelled the government to finance new research in 2007 using a multi-faceted approach to identifying the expected changes in the occupational structure. In addition to research into the demand for skilled workers, shorter-term training objectives were identified by the Regional Training Councils with participation by the social partners. Despite all these efforts to collect information, in Hungary the restructuring of a company is regarded an internal affair as long as the company does not request help or subsidy from the Public Employment Service or a higher-level government agency.

The way in which the economy is divided makes anticipation of change even more difficult: alongside the range of competitive enterprises, consisting mainly of multinational corporations, there is a domestically-owned SME sector; the latter requires clearly a different method of anticipation, and specially-targeted responses would be needed to address their problems. At company level it is impossible to anticipate changes if the given plant belongs to a multinational company: obviously restructuring is dependent on decisions made in the foreign headquarters, to which even trade unions equipped with the most developed industrial relations systems have no direct access. In the case of other firms, the plural trade union structure works properly at company level, but the appropriate social dialogue platforms at national and sectoral levels do not operate adequately. All in all, in a country with an open economy and capital shortages, and where external forces define the room for manoeuvre, it is particularly difficult to forecast changes. However it seems a realistic requirement that at least public policy measures should be transparent and agreed on through the social dialogue institutions.

The trends underpinning restructuring took place during the 'transition recession' of the early 1990s. As Hungary joined the EU in May 2004, the country had to adopt national legislation to be in line with the *acquis communautaire*, and as a Member State, it is now obliged to adopt new directives. This fact fundamentally influences the legal context of company restructuring. Legal regulations on information and consultation procedures, collective redundancies and transfer of undertakings are in line with the relevant EU directives, but no information is available on the enforcement problems. Special tools are available for tackling company restructuring, and even 'on the spot' services are provided based on cooperation between the company, PES, local government and trade unions. Furthermore, initiatives such as Employment Creating Companies and Territorial Employment Pacts are noteworthy in the context of developing local alliances between government agencies, social partners and companies.

To tackle the current recession the government introduced a 'crisis management and economy boosting package', as well as an 'employment policy package'. A series of surveys addressed the measures taken by companies to tackle the recession. The common finding of the research is that companies seem to use a very narrow range of anti-crisis measures: they reduce expenses (including wages) and lay off employees. At the same time the studies found that companies failed to forecast the crisis or plan anti-crisis measures, and still lack any kind of crisis management and crisis communication strategy. In the terminology of the HR management literature, a 'knowledge management' attitude has not yet developed, and the preservation and development of human capital as part of their non-material assets has yet to become a universal practice.

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Abbrevations

ÁFSZ – Hungarian Public Employment Service (Állami Foglalkoztatási Szolgálat)

ALMPs – Active Labour Market Policies

CAP – Common Agricultural Policy

CEEC – Central and East European Countries

CEO – Chief Executive Officer

CVT – Continuous Vocational Training

ECFIN – Directorate General for Economic and Financial Affairs

ECOSTAT – Economic Research Company

EU – European Union

EU15 – Member States of the European Union prior to 2004

FDI – Foreign Direct Investment

FSZH – National Employment and Social Office (Foglalkoztatási és Szociális Hivatal)

GDP – Gross Domestic Product

GDR – German Democratic Republic

GE – General Electric Corp.

GKI – Economic Research Institute

HGVK – Local Economic Development And Enterprise Initiatives (Helyi Gazdaságfejlesztési, Vállalkozásélénkítési Kezdeményezések)

HR – Human Resource (Management)

HUF – Hungarian Forint

IBM – International Business Machines Corp.

IMF – International Monetary Fund

ITD-Hungary – Hungarian Investment And Trade Development Agency (Magyar Befektetési és Kereskedelemfejlesztési Ügynökség)

KSH – Hungarian Central Statistical Office (Központi Statisztikai Hivatal)

MATÁSZ – Hungarian Telecommunication Sectoral Trade Union (Magyar Távközlési Ágazati Szakszervezet)

MATÁV – Hungarian Telecom (Magyar Telekom)

MÁV – Hungarian Railways (Magyar Államvasutak)

MEB – Employment Assistance Committee (Munkába Helyezést Elõsegítõ Bisottság)

MEF – Labour Force Survey (Munkaerõfelvétel)

MKIK – Hungarian Chamber of Commerce and Industry (Magyar Kereskedelmi és Iparkamara)

MKIK GVI – Economic and Enterprise Analysis Institution of the Hungarian Chamber of Commerce and Industry (Magyar Kereskedelmi és Iparkamara Gazdaság- és Vállalkozáskutató Intézete)

MNB – Hungarian National Bank

MPA – Labour Market Fund (Munkaerõpiaci Alap)

NFGM – Ministry of National Development and Economy (Nemzeti Fejlesztési és Gazdasági Minisztérium)

NSZFT – National Vocational and Adult Training Council (Nemzeti Szakképzési és Felnõttképzési Tanács)

OÉT – National Interest Reconciliation Council (Országos Érdekegyeztetõ Tanács)

OFA – National Employment Foundation (Országos Foglalkoztatási Közalapítvány)

OJ – Official Journal of the European Union

OKJ – National Qualifications Register (Országos Képzési Jegysék)

PES – Public Employment Service

R&D Research and Development

RFKB –Regional Development and Training Commission (Regionális Fejlesztési és Képzési Tanács)

SMEs – Small and Medium sized Enterprises

TÁMOP – Social Renewal Operational Programme (Társadalmi Megújulás Operatív Program)

TÁVSZAK – Telecommunication Trade Union (Távközlési Szakszervezet)

TIOP – Social Infrastructure Operational Programme (Társadalmi Infrastruktúra Operatív Program)

TISZK – Integrated Vocational Training Center (Térségi Integrált Szakképzõ Központ)

US – United States (of America)

VET – Vocational Education and Training

VÉT -Railway Interest Reconciliation Council (Vasúti Érdekegyeztetõ Tanács)