

# Public Sector Pay and Procurement in Hungary

## National report

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## Introduction

In the past ten years public sector pay reform has not been a serious issue on the political agenda in Hungary. However, some major changes have taken place as a result of the budgetary austerity measures introduced since 2006 and the measures taken by the right wing government that came to power in 2010.

In order to understand the changes, it is necessary to begin with an analysis of the wage-setting system in the public sector that emerged after 1990, including different labour law regulations in the various segments of the public sector, the predominantly seniority-based wage tariff system and the limited role of national social dialogue and local level collective bargaining.

In addition, the first part of this report explores the impacts of wage freezes, in effect since 2006, on actual wages and wage differentials in various segments of the public sector and provides an overview of more recent institutional and labour law changes. Besides the role of the private sector in public service provision (as a result of privatisation, outsourcing and public procurement in various forms), which has built on its pre-crisis presence, a major change today lies in the transfer of educational, healthcare and social care institutions from the municipalities to the central government and the church.

The second part of the report presents a more detailed analysis of the local government sector, which constitutes more than half of public sector employment, and assesses issues of financial management, service provision and employment practices of municipalities. While there is legislation that prescribes the services that municipalities are obliged to provide, they are nevertheless free to choose the contractual framework for these services. The case-study research conducted during the course of this research project involved the investigation of two towns in Hungary. Having different population sizes, the municipalities provide a wide range of services, involve the private sector and the church to varying degrees. The most interesting question of the empirical research seems to be related to the transitions between various service providers (privatisation and transfers, as well as 're-municipalisation'). The report identifies the motivations behind such decisions on the part of the municipalities, as well as their consequences for employment and pay. The report concludes with an assessment of the main lessons and policy recommendations.

## Part One

### I. The regulatory background

Labour law regulations of the public sphere, including regulations on collective rights, were modified at the time of the regime change in parallel to the changes imposed on the labour law regulation of the private sector. This process of regulation created five separate major groups of employees within the state/local government-funded public sector financed from the central budget<sup>1</sup>:

1. Professionals and contract agents working in the field of defence and law enforcement;
2. Civil servants working in the state and municipal administrations;
3. Public service employees providing community services for the population;
4. Employees of state and municipal companies likewise providing community services;
5. People working in public works programmes organized by the local governments or the state.

The regulation of the individual and collective rights and obligations of the five groups cited above (often referred to as employment statuses) is based on the difference in the relationship of the respective groups of employees to the exercise of executive power. As a result, the regulation of the working conditions of those providing services is more akin to the rules of the private sector if not completely identical with them, while taking part in the practice and exercise of executive power entails the limitation of individual and collective labour rights.

Employment in the five groups referred to above is regulated by separate laws that were modified several times in recent years:

1. Act XLIII of 1996 on the Service of the Professional Members of the Armed Forces was the last piece of legislation to be adopted among when the legal rules on employment conditions were modified in the wake of the regime change. After an extended series of debates, this regulation provided for the rights of professionals in the ranks of the army and the police. When Hungary joined NATO, separate legislation was passed on the status of professional soldiers (Act XCV of 2001). As time progressed, the differences between the two

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<sup>1</sup> There are some further groups with different employment regulations: judges, public prosecutors, mayors, MPs, etc, however the paper ignores them due to their small headcount.

professional groups grew owing to further modifications. The provisions of both regulations dealing with collective rights were modified in December 2011.

2. Act XXIII of 1992 on the Status of Civil Servants regulated working conditions of employees in the field of public administration, treating managers, key administrators and administrators separately. Furthermore, the Act called for the application of certain provisions of the Labour Code (regulation of the private sector) governing employment in the private sphere. Since 2011, manual workers have been employed according to the terms of the Labour Code in these workplaces as well.

Since the adoption of Act LVIII/2010 on the Status of Government Officials, the officials working within the central governmental authorities have been covered by this regulation, which includes several provisions that are significantly stricter than those of its predecessor. The new legislation decreased the independence of the officials in the central administration, reduced their remunerations, while no significant change took place as far as collective rights are concerned (as we shall soon see, the latter had already been quite poor to start with).

On 30 December 2011, the Act CXCV/2011 on the Status of Public Administration Officials was promulgated, merging the two civil servant groups once again. The scope of this legislation impacts the status of those working in the state and local administration (in line with the original Act on the Status of Public Servants, but it will also cover some of the civilians working in the ranks of the police and the emergency services. The new regulation will enter into force on 1 March, 2012.

3. Act XXXIII/1992 on the Status of Public Service Employees covers the institutions financed from the budget providing services for the population (mainly in education, health and social care). Its approach resembles the Labour Code, as it does not address issues concerning the exercise of power, or only to a very limited extent. The application of the law is basically different from the above, partly in that its provisions shall be applied in conjunction with the Labour Code, and partly in that special rules governing individual sectors are defined by governmental decrees or, in some cases, other regulations (such as the Act on Public Education and Act on Public Health).

4. Act XXII/1992 on the Labour Code covers community service providers operating as business organisations (state or local government owned companies), such as in the field of community transportation and waste management. The Labour Code also applies for non-profit organisations, e.g. church organisations, foundations. The Labour Code also undergoes substantial changes in 2012. The new Act entered into force on 1 July.<sup>2</sup>

5. Public works programmes were regulated by Act IV/1991 on Employment until 2011. They were chiefly organised by the municipalities. In this framework, the unemployed were primarily hired to manage public places. The new Act CVI/2011 on Public Employment defines their earnings below the minimal wage, while the public works themselves are to be

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<sup>2</sup> In the practice of Hungarian statisticians, this group is not treated as part of public service even if (part of, a majority of or the totality of the shares of) the company is owned and partly funded by the state/local government.

organised by the Ministry for the Interior as opposed to the Public Employment Service. From 2011 on, the governments links means-tested social benefits to work, based on the welfare-to-work principle, which will probably increase the amount of public works.<sup>3</sup>

### 1.1. Collective rights

For the different groups of employees within the public sector, the laws on employment status provide for very different sets of collective rights, which fundamentally determine their bargaining opportunities. These are summarized in Table 1. The industrial relations institutions that apply for each group are contrasted with the labour law of the private sector – also applying to state-owned companies. In principle, this is accompanied by a two-tier system of workplace representation (works councils and trade unions), and allows for a two-level (sectoral and company) system of collective bargaining.

The rights of public service employees are close to the rights of employees in the private sector: they can conclude collective agreements in the workplace, but they may not do so at the sectoral level (as there is no employers' association which would be able to conclude collective agreements). At the sectoral level, however, there are a number of consultative bodies. At the workplace, there is an institution of participation, i.e. a council of public service employees, although it only enjoys very limited information and consultation rights.

Trade unions of civil servants and government officials have consultation rights only, accompanied by limited rights to strike. However, no collective agreements may be concluded and there is no institution of workplace participation either.

*Table 1. Collective rights and institutions of labour relations in the public sector compared to the private sector (√ = exists, - = does not exist)<sup>4</sup>*

Institution	Employee of private and state-owned business.	Public service employee	Civil servant	Government official	Law enforcement professional	Military professional
Trade union	√	√	√	√	√	√
Collective agreement at the workplace	√	√	-	-	-	-
Sectoral collective agreement	√	-	-	-	-	-
Elected employee representation (participation)	√	√	-	-	-	-
Consultation at the sectoral level	√	√	√	√	√	√
Consultation	-	√	√	√	-	√

<sup>3</sup> Statistical practice treats employees in public works organised by local governments with financial support by the state as public service employees, but also provides data on this group separately.

<sup>4</sup> The Table does not include those employed in public works. Though in principle, they are covered by the rules of public service employees, in practice they have no collective representation, and thus the present text does not treat them explicitly.

regarding employment status						
National consultation	-	√	√	√	√	√
Right to strike	√	√	limited	limited	-	-
Collective dispute resolution procedure	√	√	-	-	-	-

Based on the Constitution, the collective rights for the ranks of military and law enforcement organizations are limited by the regulations on these services. Thus these professionals have the right to establish trade unions, but they will only have information rights at the workplace. The relevant kinds of status recognise no collective bargaining, elected workplace representation (participation), and it is forbidden to go on strike. Collective bargaining and contracts are in some cases replaced by agreements, which in their substance are conform to the definition of collective bargaining, but which are not recognised by Hungarian law as contracts, i.e. their enforcement may not be imposed by a court. Furthermore, the law does not deal with the collective disputes emerging in the course of these negotiations, which means that there are no regulated collective dispute settlement procedures either.

The public sphere is characterized by the existence of high-level forums for groups of different employment status where trade unions may consult with the relevant government offices. Previously, there existed three such forums, which had to be partially transformed as the status of government official was created. The consultative forums are basically entitled to deal with three kinds of issues and concluded relevant agreements in the respective fields in previous years:

- The annual wage increase of those in the given employment status
- The number of employees in public service
- The reform of legislation on the public service.

Since 2000, there has been a national forum of consultation in operation which covers all groups of public sector employment status – except for state-owned companies and public service employment. The National Public Service Interest Reconciliation Council (OKÉT) is made up of the representatives of the government, local government advocacy bodies (as employers) and trade union confederations working in the public sector. As will be shown later, this forum provided room for a centralized quasi collective bargaining until 2011; agreements were made on the amount of the yearly wage increase, or as it has been lately the case, wage cuts.

In the public sphere trade union coverage is somewhat above 20% (in the table below, sectors in italics are mostly characterized by budgetary organizations). Similarly, transportation, storage, as well as water provision, sewage and waste management are equally mostly state-run. While these sectors have been traditionally highly organised, it is likely that measures adopted by the government and Parliament in 2010 will lead to a further decrease.

Table 2. Trade union coverage by sector and gender (2001-2009, %)

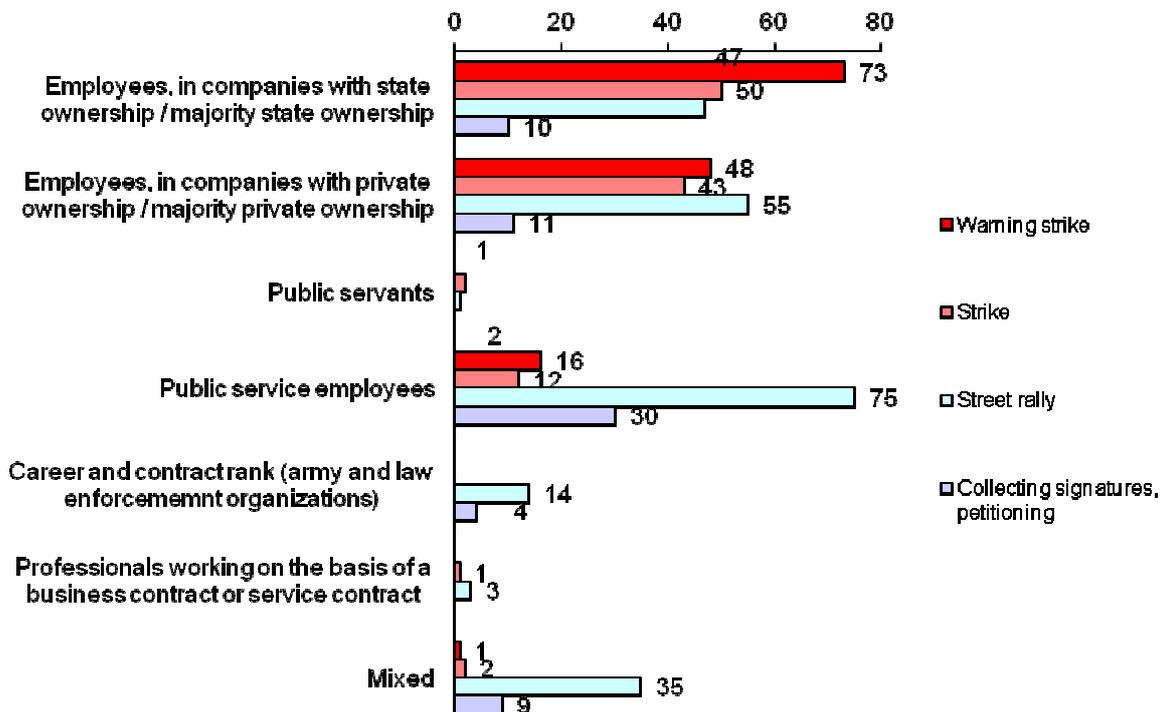
Sector of the economy	2001			2004			2009		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
A - Agriculture, forestry and fishing	5.4	8.0	6.0	9.4	12.6	10.1	3.9	1.1	3.9
B - Mining and quarrying	30.3	28.2	30.1	34.6	51.4	37.6	23.3	7.8	23.9
C - Manufacturing	16.4	14.9	15.8	14.6	14.6	14.6	9.8	8.1	10.0
D - Electricity, gas, steam and air conditioning supply	28.0	36.4	30.0	31.9	30.6	31.5	25.1	21.7	29.7
E - Water supply; sewerage, waste management and remediation activities	23.1	31.1	24.8	24.0	28.1	25.0	15.9	28.8	20.7
F - Construction	3.8	4.7	3.8	3.5	9.7	4.1	2.7	2.5	2.4
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	5.9	8.1	7.1	4.3	6.2	5.3	2.3	4.0	2.8
H - Transportation and storage	39.3	41.6	40.0	32.9	37.6	34.2	24.6	25.9	27.5
I - Accommodation and food service activities	2.6	6.1	4.4	3.2	4.6	4.1	0.6	3.0	1.6
J - Information and communication	19.4	21.5	20.2	14.8	19.3	16.4	4.3	2.1	2.9
K - Financial and insurance activities	12.1	17.9	16.2	10.2	13.2	12.3	9.0	17.9	11.4
L - Real estate activities	6.9	7.1	7.0	4.5	6.5	5.5	8.2	9.1	5.2
M - Professional, scientific and technical activities	9.1	8.3	8.6	6.3	7.0	6.7	4.7	3.4	3.2
N - Administrative and support service activities	9.8	14.4	11.8	7.5	11.8	9.3	6.6	3.6	3.0
<i>O - Public administration and defence; compulsory social security</i>	25.4	33.4	29.3	26.7	25.3	26.0	24.2	20.9	22.4
<i>P - Education</i>	37.4	40.0	39.4	26.9	29.9	29.3	19.1	24.1	23.9
<i>Q - Human health and social work activities</i>	33.1	34.0	33.8	26.9	26.1	26.3	21.7	21.1	20.0
<i>R - Arts, entertainment and recreation</i>	12.2	13.6	12.8	12.1	17.0	14.2	9.5	24.8	14.5
S+T+U Other service activities	10.6	12.8	12.0	9.9	14.6	12.9	3.9	6.8	6.4
<b>National economy, total</b>	17.3	22.4	<b>19.7</b>	15.3	18.7	<b>16.9</b>	11.1	13.3	<b>12.0</b>

Note: Sectors highlighted with italics dominantly belong to the public sector

Source: Labour Force Survey, HCSO (Hungarian Central Statistical Office)

It is partly a result of regulation that even when they are better organized, public service employees carry out fewer industrial actions than employees in the private sector. Furthermore, employees in the public sector will rather **opt for demonstrations** even if they have the right to strike. State-run public transportation is an exception, where strike action is much more frequent than in the private sector.

Figure 1. Numbers of various industrial actions by employee groups (1989-2010)



Source: Berki (2011)

## 1.2. Legal and organizational changes, 2010-2012

The scope of the present study does not allow room for a detailed investigation of all the changes that have taken place in the field of workers' rights since the right-wing government came to power. The most significant changes are discussed here with respect to the legally differentiated public sector groups of employees.

A first important reform is the revision of the Labour Code, which came into effect on 1 July 2012. The government's declared intention is to foster flexibility in employment, and to create jobs as a consequence. The employer is given free rein regarding the organization of working time. Essentially, the employer can avoid paying for overtime, limits are removed from relying on temporary forms of employment and redundancies can be made more easily. Over and beyond forcing the unions into the background, a further important change in the field of industrial relations is that the new Labour Code introduces new rules regarding the works councils. These new rules do not impact upon co-decision rights (welfare-related funds and real estate), but when there is no union, the works council is entitled to conclude a 'works agreement' with the employer, on the basic issues of employment, with the exception of wages (which further reduces the chances of organizing trade unions). The limitation of collective bargaining for state-owned enterprises is a novelty: as a consequence, wages in state and local government employers may not deviate from the statutory amount as defined

by the law, and the system of industrial relations can not be regulated differently than as provided for in the Act.<sup>5</sup>

Public service employees have on the whole not been impacted by an otherwise uniform 'reform' of the labour law, although the law banned collective bargaining for unions of public service employees working within law enforcement bodies from 1 January 2012, effectively eliminating the very possibility of collective wage bargaining.

The abolition of the government official employment status can be framed in terms of a general revision of the rights of civil servants. Running parallel with the role of trade unions, the law established a chamber-like representation of employees, the Hungarian Government Servants' Faculty, with compulsory/automatic membership. In effect from 1 March 2012, the new Act calls for more stringent rules of conduct than previous regulations did. (The conduct of public service officials may be adjudicated by the Ethics Committee and the Court of Honour<sup>6</sup> of the Hungarian Government Servants' Faculty.) Introducing the institutions of posting, secondment, temporary transfer and transfer in the interests of the government are all intended to promote flexibility in employment. The consent of the official involved is not required for these measures.

For the professional rank of employees in the army and law enforcement bodies, the rules of employment have not changed fundamentally. However, chamber-like representation of employees is to be established for army and law enforcement personnel too. Recently, there were two changes on the agenda (both of them already in force) which lead to dissatisfaction among the professionals involved: 1) as opposed to the previous arrangement, the (reduced) pension of those retired after 25 years of service was converted into social benefit and taxed, while the system was phased out for professionals still in active service (the Government / Parliament linked this to the elimination or transformation of all options of early retirement pensions). 2) Further restricting the privacy rights of the professional staff and the introduction of so-called rules of immaculate conduct.

Furthermore, the transformation of public service employment that is currently on the agenda will not only affect the legal framework. In 2012, government decisions mean that a centralization process is taking place: the majority of the institutions that to date have been governed by local government will soon belong to the central government administration - especially the hospitals and the entire public education system. In preparation for this change, county government offices have been established under the direct supervision of the ministry of Public Administration and Justice. A significant part of the supervision rights and employers' rights over former local government institutions will be transferred to these offices - including, for example, the right to make recommendations for the reorganization of the institutions or the right to appoint the head of the institution -, while other functions will directly belong to the competence of the ministry in charge (such as, for example, appointing

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<sup>5</sup> It is not yet clear how the notion of „wages defined according to the law” should be interpreted.

<sup>6</sup> The legislator is clearly not familiar with the meaning of the term. In feudal times, the role of the Court of Honour was to check if someone was of sufficiently noble standing to participate in a duel.

headteachers in public education and setting mandatory curriculum requirements). Even prior to the centralization of public schools, a significant share of institutions of public education was placed under the management of religious institutions. This was a significant change since labour relations in religious institutions are essentially governed by the Labour Code, although wages are determined in the view of regulations of the public sector law. Except for those institutions managed by the churches that enjoy supported status in the new Act on Churches (14 churches altogether), the survival of these institutions (hospitals, schools and social care facilities) is on the whole questionable.

## 2. Pay determination in the Public Sector

Within the private sector covered by the Labour Code, wages are primarily determined by bargaining between unions and employers. The statutory national minimum wage and the skilled workers' minimum wage complicate the wage bargaining process insofar as the process of minimum wage fixing has since 2011 been rather disconnected from decisions made by social partners and instead depends on the discretion of the government. In addition, wages may be established through sectoral agreements and local collective agreements, the regulatory power of which is rather limited, mainly owing to the low level of unionization. Formally, state and local government-owned companies are characterised by a similar procedure of wage bargaining, with somewhat higher bargaining coverage, in line with the level of unionization. In the latter case, however, the proprietary body (a central government agency or the local government) may impose on the management the degree of wage increase they may agree on. Until 2011, this limit was normally set by considering the recommendations issued by the national tripartite forum, and with the recent elimination of the forum it is an unsettled question how the state or local governments will intervene in wage negotiations. This section details wage-setting in the remaining parts of the public sector, namely for civil servants and public service employees, as defined in section 1.

### 2.1. Wage scales

Unlike the private sector and government-owned companies, wages for civil servants and public service employees have to be determined on the basis of a set of legal regulations. Thus, in theory at least, wage setting follows predefined wage rates. In practice, however, the proportion of cases deviating upward from these predefined wage rates is so significant in certain parts of the public sector (e.g. in civil servants at government offices) that one can conclude that actual earnings are much more dependent on the budgetary resources available to the institutions than on the wage rates defined by the law. However, employers generally comply to the mandatory wage grid, which is far from being a guarantee for decent wage levels. In addition to the resources, the relevant budget regulation laws (passed by the Parliament or the local government) include definite stipulations on the headcount of each institution.

According to the regulations, each public sector employment status is covered by a mandatory classification and salary system. Specific qualifications are required for filling determined positions. The base salary depends on the qualifications as well as on the amount of professional experience one has. The seniority principle applies: employees with an increased amount of time spent in the job advance automatically up the ladder of job classification and this is accompanied by a salary increase. Once the minimum wage or the guaranteed skilled minimum exceeds the salary in the wage scale, the mandatory minimum wage should be applied as base wage. In fact, this situation applies to almost half of the wage bands in 2012, including some that require higher education qualifications. (Full details of the Public Service Employees' Wage Scale are provided in Appendix 1).

The base salary is in all cases supplemented by further mandatory salary elements, some of which are mandatory allowances designed to compensate for special working conditions, such as night-work, dangerous physical conditions. The employer may generally deviate both upwards and - in the case of civil servants to a limited extent - downwards from the salary as specified in the centrally regulated classification. A common rule was introduced in 2010 to curb excessive public service salaries (including within companies with some state or local government ownership) to the effect that the monthly salary may not exceed HUF 2 million (approximately €7,200<sup>7</sup>). As we shall see, this limitation has no direct impact on the majority of civil servants.

For the three key groups of civil servants, public service employees and the armed forces/law enforcement, the salary received in practice consists of the following elements:

*i) Public service employee status*

- Base salary as stated in the wage grid (The base salary of the public service employee may not be less than the amount specified in the wage rate; the wage rate table has remained unchanged since 2008.)
- Mandatory allowances (e.g. overtime) and optional extra allowances (e.g. language skills, special qualifications)
- Pay supplement (contingent on the own revenue of the institution)
- Performance-related reward (optional, depending on the budget of the institution)
- Non-wage benefit / Cafeteria (optional, depending on the budget of the institution)

*ii) Civil servants and government officials*

- Base salary derived from the centralised system consisting of three wage rate tables (separate wage rate tables for public service employees and administrators with higher and secondary education). The salary base is specified each year in the Budget Act, but the system itself has remained unchanged since 2008. (Based on executive decisions and performance reviews, a deviation of -20% / +50% is applicable.)
- Pay supplement (varies between 10% and 80% of the salary as per the wage rate, depending on the place of the institution in the hierarchy of public administration as defined by the law).
- Earmarked allowance (for a „premium job”, amounting to up to 50% of the annual salary)
- Mandatory and optional allowances,
- Rewards (optional, depending on the budget of the institution)
- Non-wage benefit / Cafeteria (fixed by law, HUF 200,000 (€ 720) yearly)

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<sup>7</sup> Exchange rate as of 18<sup>th</sup> October 2012. This rate is used throughout the study.

### *iii) Armed forces and law enforcement*

- Salary according to position (two wage rate tables for officers and non-commissioned officers with higher and secondary education, respectively, based on executive decisions and performance reviews, a deviation of -20% / +30% is applicable.)
- Salary according to rank (based on a system of military or service advancement, where it is possible to advance several ranks at one time)
- Length of service allowance (Allowance depending on the length of service, only within law enforcement bodies)
- Allowance based on national defence multiplier (military professionals only, all military professionals)
- Other mandatory allowances (for special tasks, e.g. flight supplements, dog trainer allowance, hazard allowance, etc.).
- Non-wage benefit/ Cafeteria (specified by government or ministerial decree, regulated by commander's instructions, the amount may vary each year).

As a result of the factors detailed above, significant differences have evolved in the specific wage systems and wage levels of public service employment, with strong differentiation even within a single employment status. The strict application of seniority-related pay rules, characteristic of earlier times, has become more lax in recent years. The total salary allocated to staff with longer service history has declined steadily, while higher salaries have been specified for new entrants. While in some sectors, the earnings of most workers are barely above the minimum wage, higher positions – relying on optional deviations from the wage rate – the executives have set very high salaries.

## **2.2. Centralized quasi-collective bargaining on wages**

Governmental measures in response to the crisis from 2006 onwards attempted to freeze or reduce wages in the public sphere. Despite a wage rate freeze, the average wage slightly increased in certain groups of the public sector (civil servants and public service employees), partly as a result of various compensation packages, which until 2010 were based on the agreement concluded with trade unions, in line with the annual budget and tax policy.

In 2006, the public service unions established what was referred to as the Unified Public Service Strike Committee, whose main demand was an increase in public service salaries. It demanded a nominal wage increase of around 10%, which in 2007 would have been sufficient to keep real values at an even level in light of modifications in the tax rules and inflation. As a temporary solution, the government brought forward the payment of the 13<sup>th</sup> monthly salary which otherwise would have been due only by January 2008 in a way that half of it was paid

monthly in equal instalments from 1 July 2007 on.<sup>8</sup> It was also agreed that the wage rate items would be raised by an average of 5% in 2008, creating the wage scale currently in force.<sup>9</sup>

Then, at the beginning of 2008, the remaining half of the 13<sup>th</sup> monthly salary was paid, but the monthly earnings of all public sector workers were reduced at the completion of the previous advance payments, and thus the Strike Committee became active once again. To compensate for the level of inflation which turned out to be higher than previously expected, an agreement was reached with the National Public Service Interest Reconciliation Council (OKÉT) that all employees of budgetary institutions (mostly education and health) will receive two flat-rate compensation instalments of HUF 15,000 (€ 54) from the central budget in 2008.<sup>10</sup>

In 2009, the government announced the abolition of the 13<sup>th</sup> monthly salary, as a result of which it was the lower wage categories of employees in particular that were hit hard (meaning roughly 40-50% of the staff). After lengthy negotiations, another agreement was concluded with the Strike Committee in October such that in 2010 two compensation instalments totalling a gross sum of HUF 98,000 (€ 353) would be paid (in February and April, respectively) to all employees earning a monthly wage less than HUF 340,000 (€ 1,224).<sup>11</sup> When the terms of the agreement were met, the Strike Committee was dissolved.

After the elections in 2010, owing to regressive changes to the structure of income tax, net wage income for the lower income categories decreased, while wage earners in the top categories enjoyed higher net earnings.<sup>12</sup> During this period, trade unions protested against some of the most detrimental changes in the laws (cf., for example, dismissal without justification within the Act on Government Officials, decrease of the period of notice, stricter severance terms, and a 98% tax on severance payments above HUF 2 million – around €7,200). However, there was no strong debate on the negative effects of tax changes on the distribution of net earnings. The incoming new government did not intend to enter into serious negotiations on wages with trade unions,<sup>13</sup> although it did announce (in response to political considerations) that nobody would experience a fall in their net earnings.<sup>14</sup> 2011 saw

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<sup>8</sup> Cf. Neumann, László: Annual wage agreement in public sector finally reached. EIRO, <http://www.eurofound.europa.eu/eiro/2007/03/articles/hu0703029i.htm>

<sup>9</sup> National Public Service Interest Reconciliation Council (OKÉT) agreement, 4 December 2007, [www.szmm.gov.hu](http://www.szmm.gov.hu)

<sup>10</sup> Berki, Erzsébet: Tensions continue over restructuring in public sector. EIRO. <http://www.eurofound.europa.eu/eiro/2008/08/articles/hu0808029i.htm>

<sup>11</sup> Agreement of the Unified Public Service Strike Committee and the Government. 15 October 2009, [www.szmm.gov.hu](http://www.szmm.gov.hu)

<sup>12</sup> According an article in Napi Gazdaság, an online daily, published on 8 December 2011, "The income status of the people in the lowest income decile (the bottom tenth of the population) deteriorated in 2010, as their per capita annual net income decreased with about HUF 9,000 compared to the previous year. The position of top earners improved dramatically at the same time, with the net income of those in the highest decile growing in particular (by HUF 314 thousand). Based on the index reflecting income inequalities among the population, the difference ration between lowest and highest income deciles was 7.2-fold in 2010."

<sup>13</sup> As opposed to the case of the national tripartite forum, the government did not abolish the National Public Service Interest Reconciliation Council (OKÉT), but today it serves the purposes of disseminating information rather than consultation; an agreement was out of the question.

<sup>14</sup> In the private sector, it intended to achieve this goal first through persuasion, then through coercive measures.

the controversial transformation of Hungary's system of income tax with the introduction of a highly regressive flat income tax (set at 16%). The reforms also eliminated tax exemptions on minimum wage earners and transformed the system of family tax benefits thereby reducing net income still further among low earners. In response, largely to salvage some of its reputation, the government subsequently introduced a regressive system of so called 'wage compensation' for public sector workers who earned less than HUF 294,000 (€ 1,058) in 2011. The objective of the 'wage compensation' system was to maintain the nominal level of earning, for those low-wage employees who otherwise earn less in 2011 due to the changes in the taxation system.<sup>15</sup> Gross salary increase according to aggregate statistical data considering compensation was 2.3% between January and September 2011.<sup>16</sup>

Further government reforms of the tax system in 2012 involve the establishment of additional 'wage compensation', data on the extent of which are not yet available. The system classifies beneficiaries according to eight groups (12 when further details are taken into account). The factors considered include: the date when the public service employment status started, the employment status and salary of the spouse, the number of children and the gross salary earned. The maximum salary level at which the compensation is still due according to the regulation is HUF 255,200 (€ 919). According to a declaration by the Ministry for National Economy on 6 February 2012, "the state provides full 'wage compensation' (i.e. maintains the same gross salary as was before the change in taxation) for all public sector employees earning less than HUF 216,000 (€ 778), covering 690,000 people."<sup>17</sup>

In 2011 the longstanding national tripartite forum was replaced by a quarterly convened representative consultative council which includes – apart from the social partners – economic chambers, civil organisations and churches. With this move, setting the minimum wage, which was the single decision-making right of the earlier tripartite forum, has been made a government competence. The high-level social dialogue forum of the whole public sector, the National Public Service Interest Reconciliation Council (OKÉT) was the only social dialogue institution that remained formally intact in 2011-12. Nevertheless, its functioning has been to some extent restrained since in practice it has exercised no influence or voice over the series of major laws reshaping public administration and public services. Moreover, it has not been able to negotiate on wage scales which have been frozen in the public sector since 2006. Interestingly, the only successful wage negotiation in the public sector was the result of the high profile industrial action by junior doctors, which was negotiated outside the framework of OKÉT and the health sector's standing body, and which also circumvented the traditional trade unions in the health sector (see further details below).

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<sup>15</sup> 44% of the full-time working population (not including public work scheme employment) received wage compensation, on average a gross monthly amount of HUF 5,300 (€ 19).

<sup>16</sup> Source: <http://fn.hir24.hu/karrier/2011/11/18/a-kozzszolgak-felenek-csokkent-volna-a-bere>. On the other hand, conserving net earnings means a decrease in real wages, just as a 2,3% gross nominal increase does: inflation in 2011 was 4,9% according to the Central Statistical Office.

<sup>17</sup> Bucsy, Levente: Végrehajtjuk a teljes átválást. ("We'll implement total transformation") Magyar Nemzet online, <http://mno.hu/belfold/vegrehajtuk-a-teljes-atallast-1049209>, 6<sup>th</sup> February 2012.

Overall, the public sector trade unions until 2010 pursued a bottom-weighted pay strategy in the centralized quasi-collective bargaining in order to maintain the real value of earnings of the low-paid employees. From 2010 onward, unions lost their influence and the unilateral government measures have sought to maintain the net value (although only in nominal terms) of low wages.

### 3. Patterns of employment in the public sector

It is clear that the proportion of employees in the public sector is relatively high. Parallel to the unfolding of the economic crisis when public work schemes were used excessively, their numbers grew in the second half of the decade, then dropped by a few percentage points in 2010 due to redundancies within budgetary institutions (just as they had in 2003). If state-owned companies are considered as part of the public sector, then the numbers of public sector employees is around 35%.<sup>18</sup> Excluding state owned companies, this proportion remained between 27 and 29% percent, with the lowest figure reached in 2008.<sup>19</sup>

*Table 3. The number of employees by employee status (units with more than 4 employees, unit, 1000 people)*

Year	A. Civil servant	B. Public service employee	C. Other	D. State-owned companies ****	E. In public works employment	Total public sector (A+B+C)	Private sector (excluding state owned companies)****
2000	109,8	557,5	124,2	276,1		791,5	1614,2
2001	109,8	550,8	128,0	252,9		788,6	1639,9
2002	107,9	554,5	138,1	265,3		800,5	1614,7
2003	100,6	573,3	144,8	277,2		818,7	1607,7
2004	119,3	552,5	144,8	283,6		816,6	1635,3
2005	112,5	546,5	147	243,6		806	1679,5
2006	109,8	533,7	144,8	253,1		788,3	1681,4
2007	103,9	507,7	137,2	204,4		748,8	1728,9
2008	105,7	479,3	137	190,9	104,4**	722	1761,7
2009	108,6	470	169,3	196,3	196**	747,9	1625,6
2010	108,4	465,3	198,9	219,0	142,7**	772,6	1607,7
2011	109,4*	453,2	172	213,2	60,9***	734,6	1638,1

Source: HCSO, STADAT

Due to methodological reasons, the data from 2010 can only be compared to a limited extent with data from the previous years.

\*Public servants and government officials together; 62,700 are government officials, 46,700 are public servants.

\*\* Source: Statisztikai Tükör, 23. March 2011. <http://www.ksh.hu/docs/hun/xftp/idoszaki/fmf/fmf21012.pdf>

\*\*\* KSH Gyorstájékoztató (HCSO Brief) 21. February 2012, no. 29.

<http://www.ksh.hu/docs/hun/xftp/gyor/let/let21112.pdf>

\*\*\*\* National Labour Office wage survey figures

In the first half of the past decade, the number of people employed in the budgetary sector grew significantly (not independently from the wage increases in 2001-2002, when earnings of public sector employees grew by almost 50%). From 2005, however – due to the government’s restriction scheme – the number of employees in the public sector has constantly been dwindling, while the number of employees in the defence/law enforcement

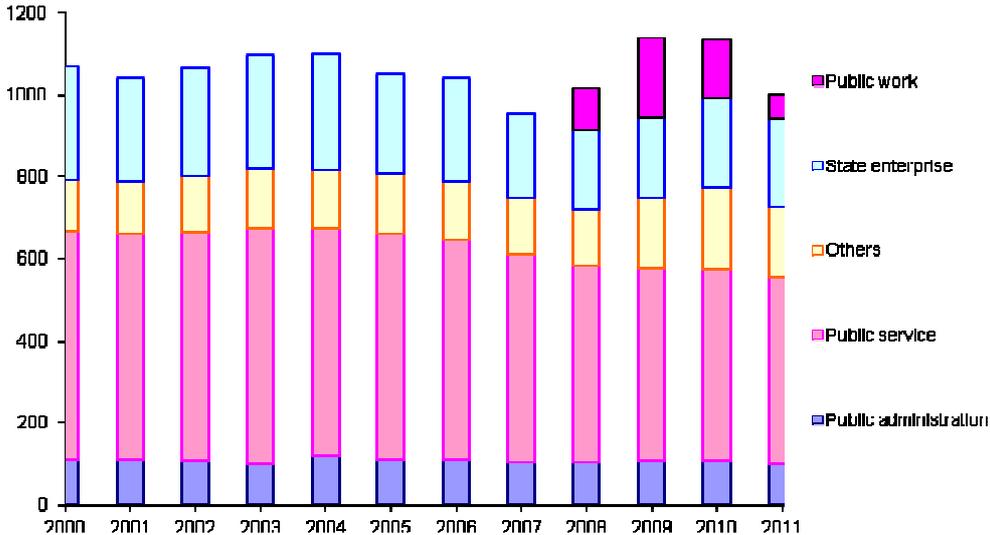
<sup>18</sup> The number of all people employed is about 1 million people higher than this figure. Taking all the employed into account the share of public sector is 25-30%. Hámori –Köllő 2012)

<sup>19</sup> Cf.: [http://www.ksh.hu/docs/hun/xstadat/xstadat\\_eves/xls/2\\_1\\_20i.xls](http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/xls/2_1_20i.xls)

services, justice and prosecution grew. Within civilian public service, the number of public service employees dropped by about 150,000 thousand, while the number of public servants and government officials increased slightly in the second half of the decade (due to the Hungarian EU presidency), then dropped, eventually to rise again.<sup>20</sup>

The number of employees in the state-owned companies changed as a consequence of changes in the number of such companies. These changes were determined after 2004 by selling state-owned companies, then by acquisitions after 2010. These companies did not strongly react to the crisis as far as their headcount is concerned. Headcount in the system of public works employment, however, was subject to extreme swings. Earlier employment formats of a similar nature can not be compared to the present system, thus our data do not cover the whole period. The present system was introduced during the economic crisis, while as a result of the conversion to the new system in 2011, first the yearly headcount fell significantly, contrary to the intentions of the government. (Two thirds of the people thus employed did not work full time, or did not work throughout the whole year.) However, in 2012 the number of employed in public work schemes began to grow again.

Figure 2. Variations in the number of people employed in the public sector, 1000 people



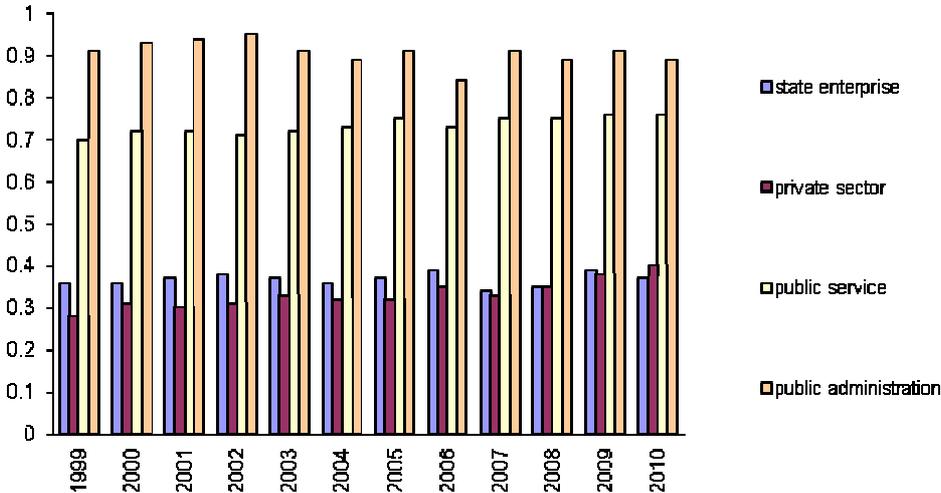
The above data including state owned enterprises do allow only very imprecise estimation of the public sector’s share in total employment because of methodological problems. The official calculations take into account only employees working under different statuses, other than the Labour Code; the share of such employees decreased from 29.1% to 27.3 % between

<sup>20</sup> The number of civil servants, especially of those working in government offices, is always exposed to the government’s budgetary targets and streamlining campaigns. Major campaigns were in 2002 under the Medgyessy-government when 10,000 civil servants were laid off and in 2007-8 the Gyurcsány-government cut 12,000 jobs in public administrations. However, in the years following the government actions the number of civil servants gradually grew again. According to the latest leakages appeared in the media, the government plans to cut 6-8,000 government administration jobs in 2013. (Népszabadság, 22 September 2012)

2000 and 2011 (for employers with at least five employees). If we add the above number of employees of state owned enterprises the share of public sector employment is similarly declining: from 39.3% to 35.3%.

Regarding the public sector as a whole, the variations in average earnings are mostly defined by a high proportion of public service employees on the one hand, and as we shall see, their low wage levels on the other hand. The other significant difference in contrast to the private sector is this: reflecting the high share of administrative and professional occupations, the proportion of people in white collar positions, and specifically of people with college/university degrees, is much higher than in the private sector; moreover, their proportion shows significant stability (figure 3).

Figure 3. The proportion of white-collar (non-manual) employees in specific sectors



Source: National Labour Office

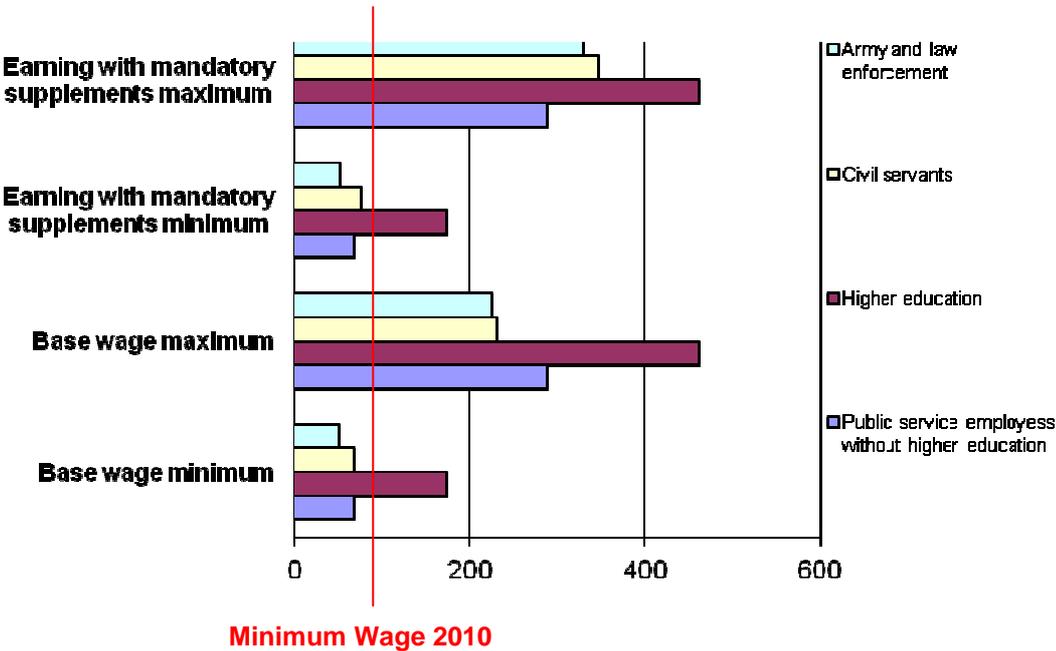
## 4. Patterns of pay

### 4.1. Wage rates

The wage systems themselves by no means provide for equal opportunities for the employees working in the framework of different kinds of public service employment status. Figure 4 shows the comparison of monthly salaries according to the wage grid.<sup>21</sup>

According to the centralised system of wage rates, it is employees in higher education who can earn the highest salary.<sup>22</sup> In this sector, earnings at the start of a career and the highest mandatory payment item are both set at levels that are approximately HUF 100,000 (€ 360) higher than in other types of employment status, while according to the public service wage rate table generally used, they in fact correspond to the minimum wage. For both public service employees and employees in the defence/law enforcement services, earnings start from the minimum wage level, but due to the various compensation schemes the maximum wage available exceeds that of public service employees by about HUF 50,000 (€ 180). The differentiation of the base wage (maximum / minimum) is as follows: a factor of 6.22 according to regulations in the defence/law enforcement services, 4.57 for public servants and government officials, 4.19 for public service employees, and 2.65 in higher education.

Figure 4. Public service wages based on the wage rate systems, HUF/capita/month



<sup>21</sup> We can only investigate the wages of employees in the civilian public service employment status categories. Regarding the wage figures of those in the defence/law enforcement employment status, only indirect information is available.

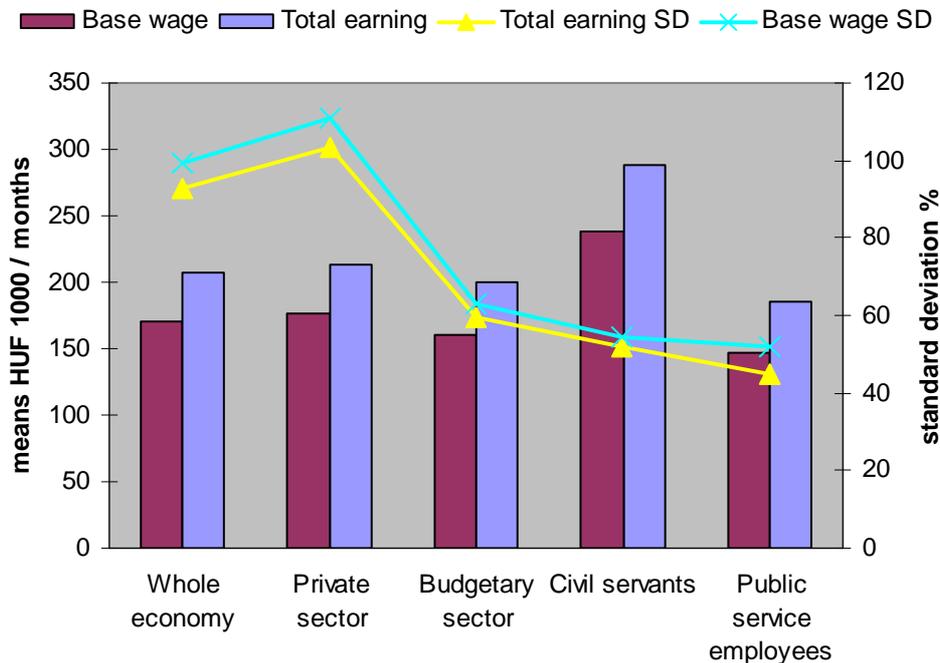
<sup>22</sup> The calculations our estimate do not include calculations the various instances of allowances, as a multitude of mandatory and optional allowances can be found in public service which are not uniform across different kinds of employment status.

Source: authors' calculations

Total earnings in the public service deviate from the personal base wage according to the wage rate. The deviation might be explained by various allowances, bonuses, as well as the 13<sup>th</sup> month pay in existence until 2008. In the civil service, the payment of performance-based bonuses proved to be a temporary phenomenon: the system applied from 2006 to 2009 in the case of civil servants failed to live up to expectations, having no incentive effect, while enabled subjective management decisions to take place, leading to widespread dissatisfaction among employees. As a result of the crisis, the practice of awarding bonuses has been terminated just as the performance appraisal system was.

Nevertheless, there are still significant differences between the personal base wage and total earnings in the public service today. Comparing the different sectors, the standard deviation of the base wage and total earnings is much greater in the private sector (103.3% and 111.1% of the average, respectively) than in the public sector (59.5% and 63.2%, respectively). (Figure 5) Within the public service, standard deviation is smaller for public service employees (44.8% and 52%), than for civil servants (52.0% and 54.6%, respectively). These rates follow the rates set in the wage rate systems. At the same time, the proportion of the personal base wage and the total earnings is roughly identical across the sectors: the deviation remains in the 20-27% range.

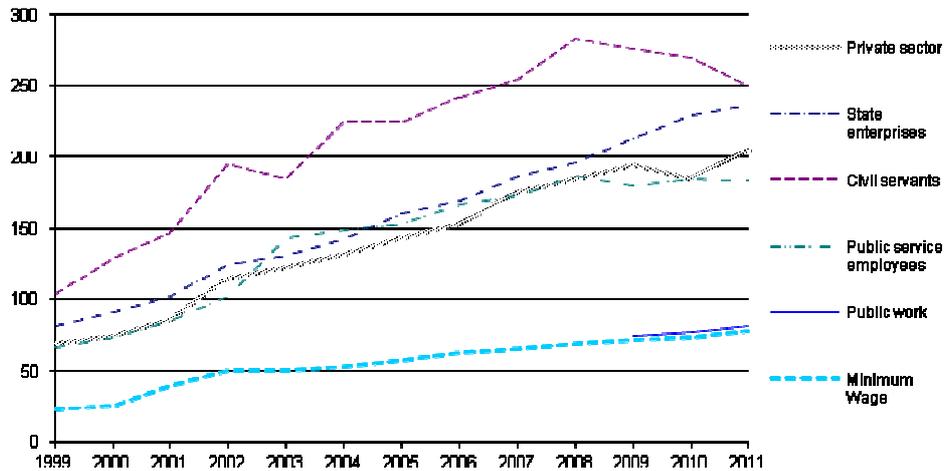
Figure 5. Personal base wage and total earnings in specific sectors (2010)



Source: National Labour Office

## 4.2. Evolution of average public sector pay

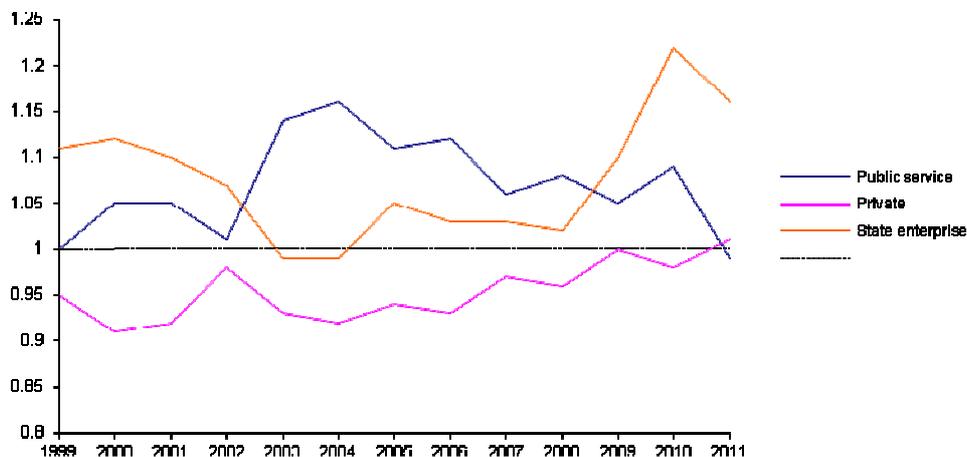
Figure 6. The trend of the average salary (HUF 000s)



Source: National Labour Office

In the last decade or so, until 2006 the increase in the average salary exceeded the minimum wage increase in all the sectors examined. It is remarkable, however, that the growth curve of the public sector is broken in 2008 (as a direct consequence of the government measures), while the growth curve of private firms is broken in 2009 and indeed recovered during 2010-11. On the other hand, earnings in state-owned companies were characterised by a steady increase – the wages in this sector appear to show no influence from the crisis. In 2010, these earnings show a 22% unadjusted premium over the average pay of public service employees (figure 7).

Figure 7. Trends in average public and private sector pay (national average wage=1, without public works employment)

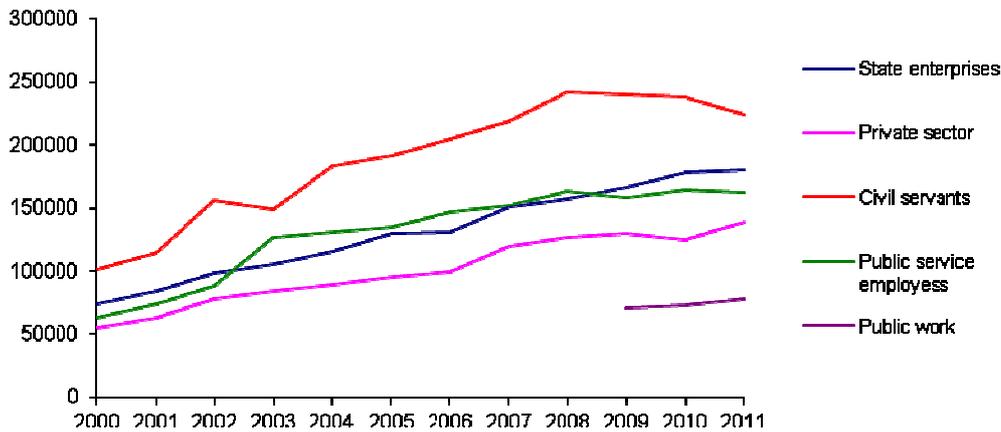


Source: National Labour Office

Average public sector pay, excluding state-owned enterprises, exceeded the national average during a transitional period (2003-2006), but this advantage in earnings began to diminish and then disappeared altogether during the second half of the decade (2007-2011). It can be observed that there are significant differences between groups under different laws within the public sector, which cannot always be explained by the composition of staff working in specific areas.

The median earnings present a picture that is somewhat more balanced. Though their median wages decreased somewhat in the last few years, civil servants enjoyed a steady advantage compared to other categories. There is little difference in the median wages of public service employees and employees of state-owned corporations, and their growth rates are also close to each other, even if at the end of the decade, state-owned enterprises grow more, as opposed to the period 2002-2008, when median earnings of public service employees were higher.

Figure 8. The growth of median wages

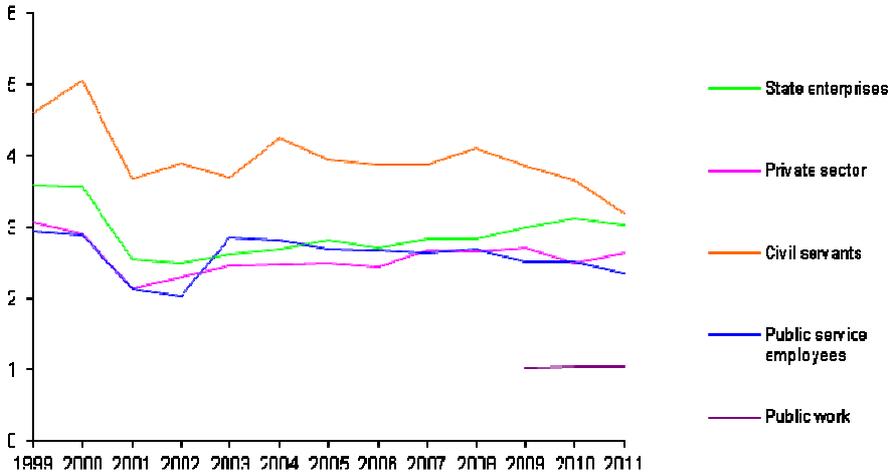


Source: National Labour Office

Comparison of average pay for the different public sector groups against the statutory national minimum wage confirms our previous statements: civil servants earn the most and public service employees the least, while state-owned company employees are located between the two. Those in public works earned the minimum wage level.<sup>23</sup>

<sup>23</sup> In 2011, the monthly salary of public works employees is lower than the minimum wage. With or without qualifications it is HUF 57,000 and 78,000 Ft respectively while the minimum wage is HUF 93,000 and HUF 108,000 in the two respective groups.

Figure 9. The proportion of the average wage relative to the minimum wage (Minimum Wage = 1)

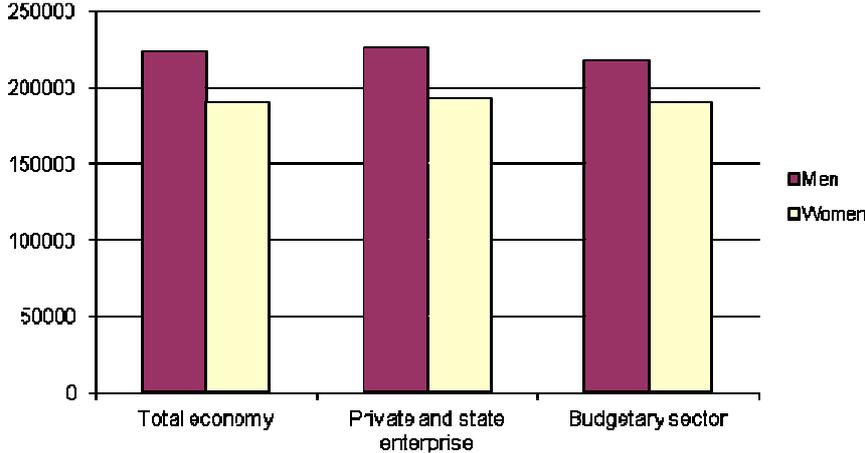


Source: National Labour Office, HCSO (minimum wage)

4.3. Pay differentials

Even though the wage rate system does not differentiate between men and women, the gender pay gap is still significant as a result of patterns of horizontal and vertical sex segregation. From this respect, the raw pay gap is smaller in the budgetary sector, however there is no significant difference between the private sector and the state enterprise sector.

Figure 10. Average pay by sector for men and women in 2010

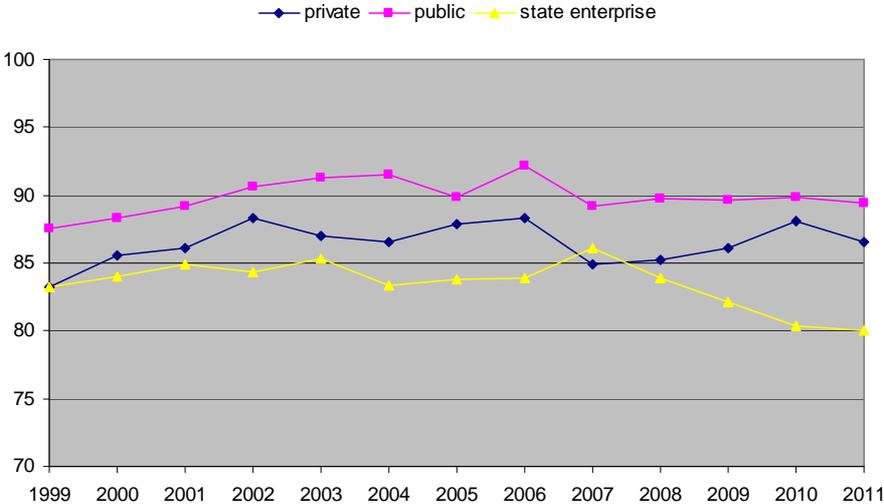


Source: National Labour Office

A more precise estimation of the gender wage gap can be compiled by regression analysis. In our compilation the individual wage surveys' log wage data were controlled for the following

variables: age, educational attainment, type of settlements, industries and regions. The gender wage gap was estimated separately for budgetary institutions (public sector), for state owned enterprises and for the private sector (figure 11). As might be expected, the gap is consistently the smallest in the public sector, where base salaries are regulated by mandatory tariffs. (Hámori-Lovász 2012) In the private sector the gap is higher, but it is interesting to note that it seems to have narrowed temporarily during the years of minimum wage hikes (2002 and 2006) - although it widened again subsequently. The state owned enterprise sector follows a similar pattern with a one year delay - although the gap has been growing since the crisis. This unexplained phenomenon deserves further research.

Figure 11. Adjusted gender pay gap in the public, state-owned and private sectors (regression results, %, 1999-2011)



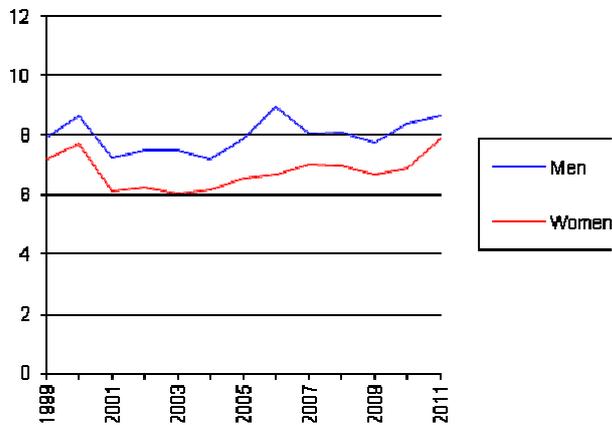
Source: Own compilation based on individual wage survey data

Patterns of pay for men and women are further explored in figure 12 according to inter-decile wage differentials for the different sectors.. It is striking that the inter-decile pay differential is larger for men than for women in all cases. The size of the pay differences shows very significant variations between each group: it is the highest for male workers in private firms, state enterprises and civil servants. The range of pay among women is lower in all cases.

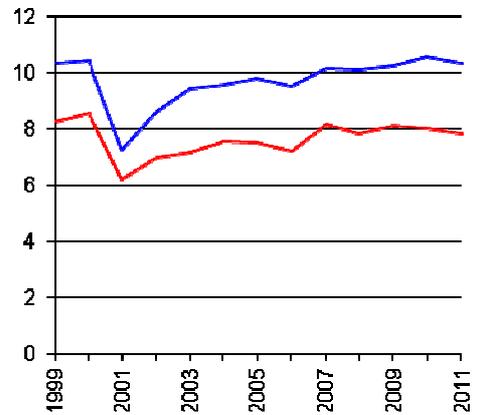
The **gender pay gap** is significantly dependent on the level of pay. Gaps at the top and bottom wage deciles are presented by sector in figure 13. In the 1st deciles, women steadily earned less throughout the decade in the groups of public service employees and within state-owned corporations, while for civil servants, there were significant fluctuations throughout the decade, with female earnings actually exceeding male earnings in the bottom decile since 2004. The explanation is that many areas of male-dominated manual work in public administration are either no longer carried out in the framework of this employment status, or has been outsourced to companies.

Figure 12. Pay differences by sector and gender (D 10 / D 1)

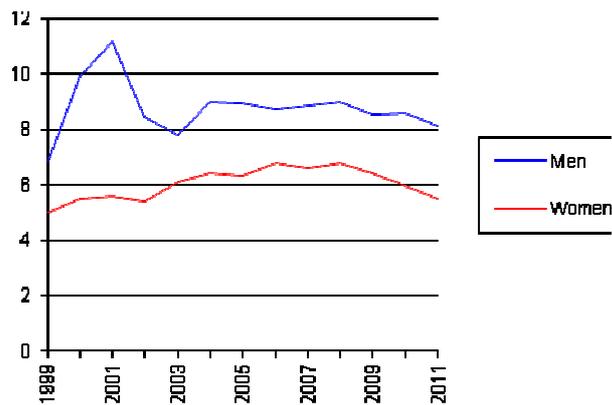
**State enterprises**



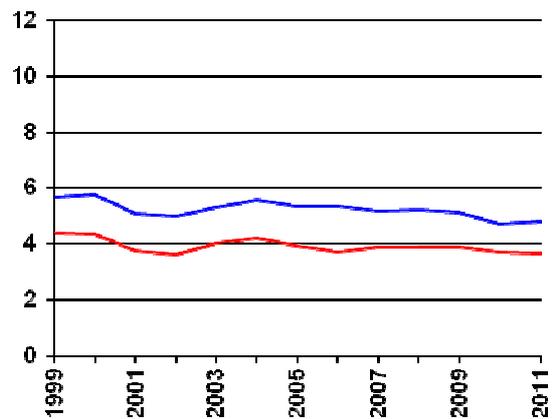
**Private sector**



**Civil servants**



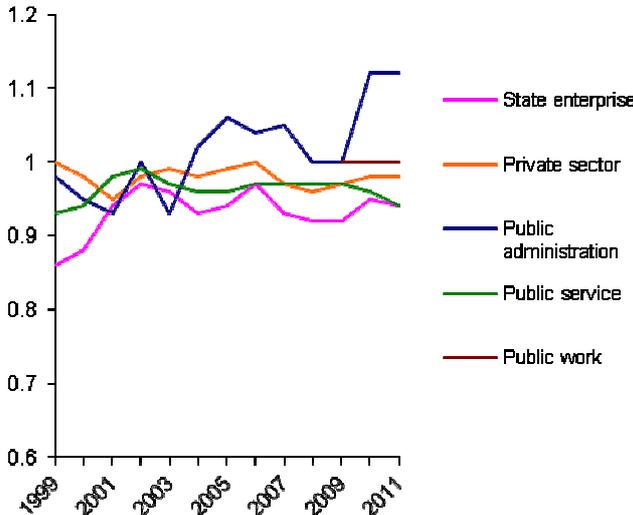
**Public service employees**



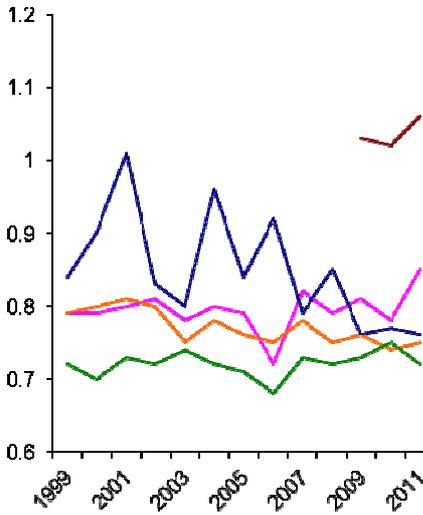
Source: National Labour Office

Figure 13. Gender pay gap in the 1st and 10th deciles (female/male average wage)

1. decile



10. decile

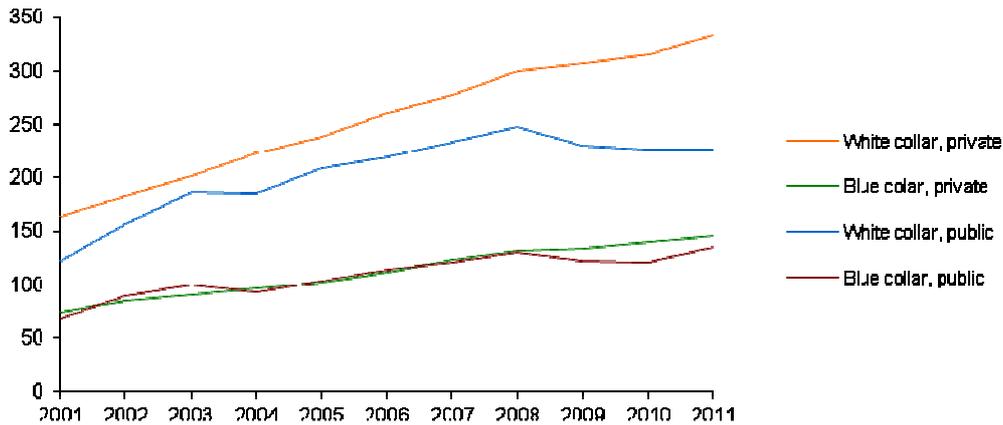


Source: National Labour Office

In the top decile, however, the gender pay gaps are much larger. In the case of state-owned enterprises, women earn about 20% less, while among public service employees, the difference reaches close to 30%. Women civil servants suffered the most significant losses: by the end of the decade, the average female wage in the top decile was approximately 30% lower than the average male wage, the gap being the greatest in 2010.

Pay gaps according to **level of education** and non-manual/manual jobs are obviously interrelated. The crisis affected mainly non-manual employees of the public sector, with the average wage in decline since 2008 (figure 14).

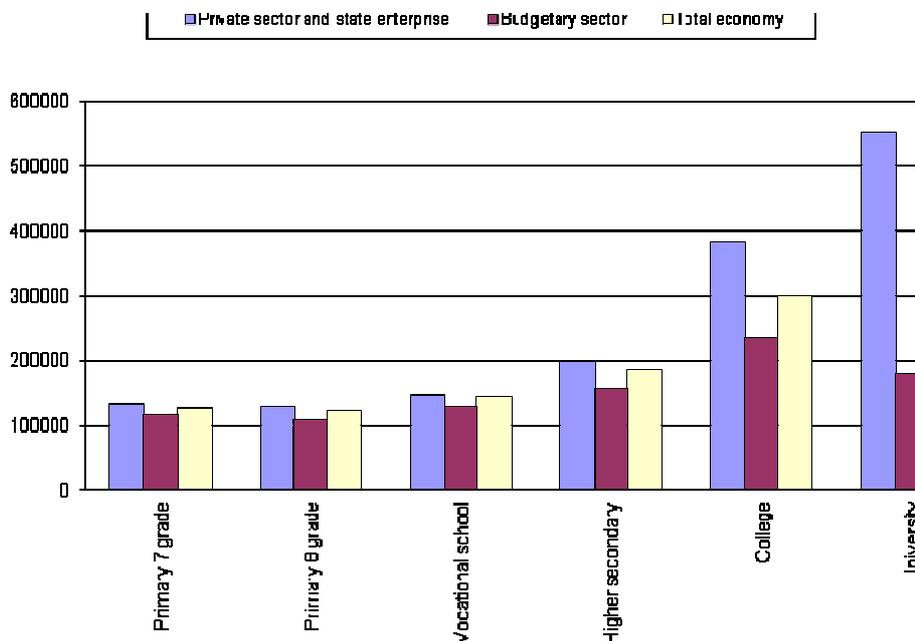
Figure 14. Wages in white collar / manual jobs



Source: HCSO Statat

This effect is particularly apparent when one contrasts salaries according to level of education in 2010 (figure 15). While in the private sector, the relative position index of employees with a university degree is well above that of lower-skilled employees, in the budgetary sector college graduates take the lead, though their average wages amount to only 43% of university graduates in the private sector (HUF 234,000 compared to HUF 551,000, respectively (€845 and 1,989)).

Figure 15. Earnings by level of education for each sector in 2010



Source: National Labour Office

Figure 15 clearly shows that a higher education degree makes all the difference regarding the level of pay: while employees with a high school diploma or less can reach nearly the same

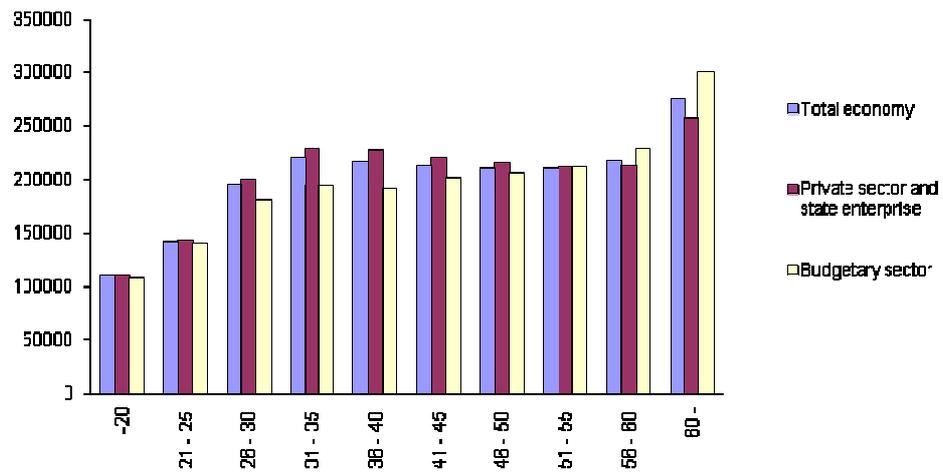
salary in any sector of the economy, a college/university degree entails a much greater disadvantage in the public sector.<sup>24</sup>

The pay gap between age groups also suggest that employment in the public sector is disadvantageous regarding pay compared to the private sector throughout almost all one's active age (26-50 years of age), with wages only becoming equal again in the 51-55 age group (figure 16). It is only in the senior age groups that an unadjusted (except for age) public sector pay premium becomes manifest, which is partly secured by the wage rate systems with their strong emphasis on seniority enhancements. It is also partly due to the fact that manual labour is more characteristic in the private sector, entailing no rise in performance by age and, therefore, no salary increase by age.

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<sup>24</sup> For a more detailed treatment of wage differences among employees with a college/university degree, cf. Hámori-Köllő (2012)

Figure 16. Average pay by age and by public/ private sectors, 2010



Source: National Labour Office

## 5. Law enforcement professionals, teachers, nurses

### 5.1. Law enforcement professionals

Wage figures for law enforcement professionals may not be separated from the payment data of the members of the other armed forces. Law enforcement employees make up of about two thirds of the headcount detailed here. The goal of the present government is to raise the total police population; the number of civilian and armed employees reached 48,000 in 2011.<sup>25</sup>

Table 4. Armed forces' headcount, wage and earnings data by occupation

Description of occupation type	Headcount	Personal base wage		Total earnings	
		average	standard deviation	average	standard deviation
	Person	HUF/capita, month	%	HUF/capita, month	%
Occupations in defence/law enforcement bodies requiring higher education degree	16692	317684	28,0	397636	28,6
Occupations in defence/law enforcement bodies requiring secondary education degree	41647	174016	33,5	244008	33,1
Occupations in the defence/law enforcement bodies requiring no secondary education degree	11534	128556	18,8	172537	27,8
Total	69873				

Source: National Labour Office (NMH)

In the case of the Police, the positions requiring a secondary degree that make up most of the headcount come from the rank of non commissioned officers. The difference, HUF 70,000 on average, between the total earnings and the personal base wage is due to the various instances of extra allowances and additional payments. With a higher education degree, officers earn about 1.5 times this amount a month. Except for the positions that do not require a secondary degree, standard deviation is clearly identical in the case of the base wage and the total earnings. Thus one can draw the conclusion that the earning above the base wage is not variable pay, say on the basis of performance, but a form of extra allowance that the rank received to compensate for the general wage rise which failed to take place. Non-wage allowances provide an attractive set of additional extra payment factors in this occupation range (especially the cash allowance for police uniform).

The largest police trade union carried out a survey to investigate the living conditions of its members.<sup>26</sup> Out of 1,589 respondents, 70% were armed rank, 17% were public service

<sup>25</sup> 48 ezerre nőtt a rendőrség létszáma ("Police headcount reaches 48 thousand"; National Police Headquarters (ORFK) press briefing) 21. November 2011. <http://www.nepszava.hu/articles/article.php?id=493281>

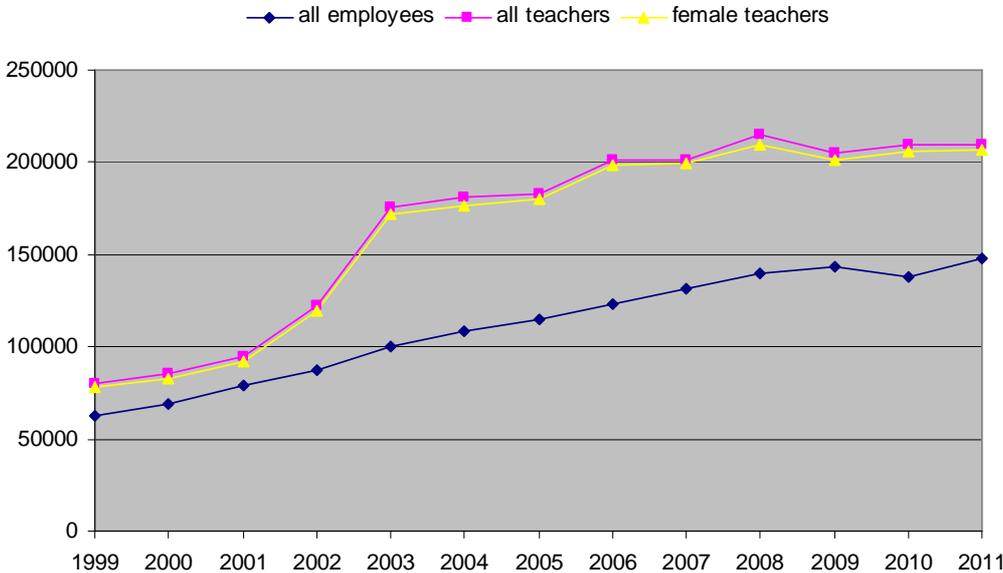
<sup>26</sup> Nehéz élethelyzetben a rendvédelmi dolgozók („Police rank in a situation of hardship”) [http://www.brdsz.hu/html/main/2011/nehez\\_helyzetben.pdf](http://www.brdsz.hu/html/main/2011/nehez_helyzetben.pdf)

employees, 9% worked as civil servants and government officials; while 49% of them worked in the ranks of the Police. Based on the responses, it is a fair estimate that half of the law enforcement families live on a net income of HUF 250,000, barely above the subsistence level<sup>27</sup> (usually earned by two wage-earners in the household), while the average number of dependents is 2 (33 of the families had no dependents) and 91% of respondents have a bank loan. Under these circumstances – despite the fact that salaries according to the wage rate table seem high enough in the case of the Police just as with armed organisations in general – it is fair to say that this is a low-income occupational group (with income levels in line with values characteristic of public service employees).

**5. 2. Teachers**

Remuneration for teachers in primary and secondary schools is determined on the basis of the public service employee wage scale. (Higher education differs in this respect, in that a separate wage scale is used.) Median wages indicate that teachers' wage advantage increased significantly as a result of the general public sector wage hike in 2002, it persisted until 2008, when - along with other public employees - teachers were affected by the abolishment of the 13th month salary and the pay freeze. Beyond the wage scale, teachers may receive bonuses for extra hours taught in addition to the mandatory (weekly 22) hours and for various extra assignments they may undertake, the maximum and minimum amounts of which are laid down in the Public Education Act.

*Figure 17. Median wages for of teachers by sexes (HUF/month, 1999-2011)*



Source: own compilation based on National Labour Office data

There are two key trade unions representing teachers: the Trade Union of Teachers (Pedagógusok Szakszervezete, PSZ), a member of the Trade Unions’ Cooperation Forum

<sup>27</sup> According to the HCSO the subsistence minimum for couples with two children was HUF 228,000 in 2010.

(Szakszervezetek Együttműködési Fóruma, SZEF) is the successor of a trade union operating before the change of the regime; the Democratic Trade Union of Teachers (Pedagógusok Demokratikus Szakszervezete, PDSZ) has a smaller membership and is a member of the Democratic League of Independent Trade Unions (Független Szakszervezetek Demokratikus Ligája, LIGA). Both trade unions have been represented in national level interest reconciliation forums (currently at the National Public Service Interest Reconciliation Council (Országos Közszolgálati Érdekegyeztető Tanács, OKÉT), and previously in sectoral forums, carry out lobbying and participate in demonstrations. In the absence of a sectoral one, collective agreements are concluded at the school level, the coverage of which is relatively high in the public sector: 79% in primary education, 21% in general secondary education, and 46% in public education as a whole. In the private sector (schools maintained by the church and foundations), however, only a couple collective agreements has been concluded. (Source: Registry of collective agreements). Although local level collective agreements could determine higher supplements than the legal minimum, this very rarely happens due to budgetary constraints. Because budgets are set by school providers (in the case of public schools, typically the local governments), the formal employer (school directors) is left with only limited elbowroom. Collective agreements therefore have a role within the budgetary confines only, in the allocation of wage supplements and fringe benefits among employee groups.

The transferral of state schools under church authority leads to a change in the employment status of teachers; their wages, however, cannot lag behind the minimum that has been set in the Act on the Legal Status of Public Service Employees. By the beginning of the 2011-2012 school year, the number of schools under church authority increased by close to one fourth compared to the year before (Váradi, 2012). Former school maintainers, i.e. local governments, are inclined to hand over schools to churches mainly for two reasons. On the one hand, through concluding agreements with churches, local governments can retain a greater and more direct influence over schools than in the context of centralized school management envisaged by the government. On the other hand, the school transfers allow them to save significant amounts of money as well. Depending on their capacity and willingness, local governments maintaining public education institutions may supplement the state provided per capita funding for schools, determined in proportion to the number of students. Schools maintained by churches receive, on top of the per capita funding, the average sum of the supplementary funding paid in the preceding year by the local government. In an attempt to encourage school transfers, a law amendment of 2010 abrogated the regulation that required local governments to provide the above-mentioned supplementary funding for five years from its own sources to the school taken over by a church.

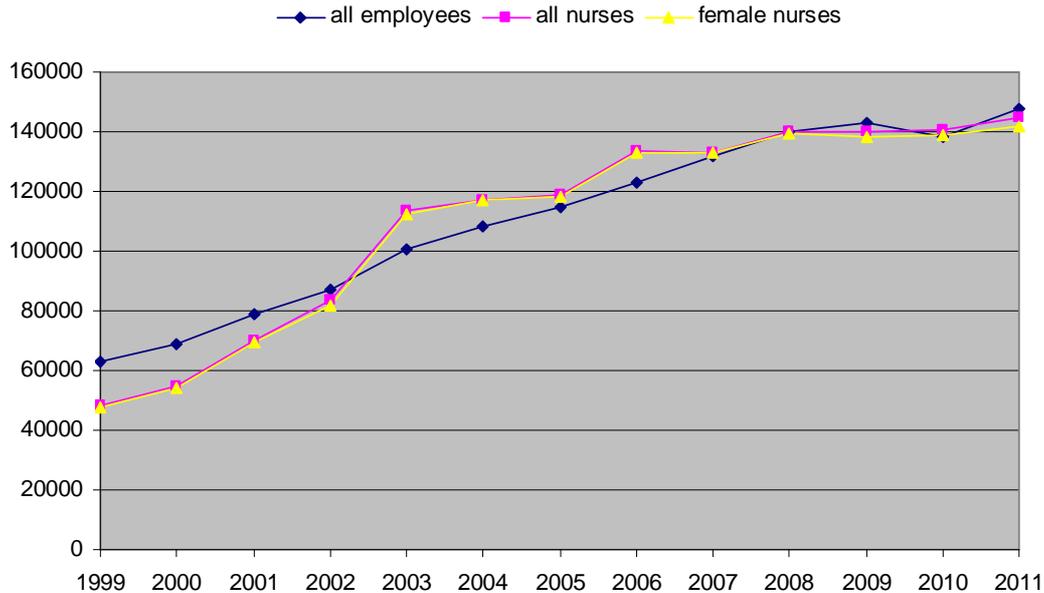
The new Public Education Act, adopted in 2011, implies further changes both with respect to the remuneration, as well as to the workload and the number of teachers. The relevant provisions of the Act, however, will not come into force before the 2013/2014 school year. The new Act stipulates that the mandatory class hours shall be increased from weekly 22 to 22-26 and, as a new regulatory element, it prescribes that teachers shall spend 80% of their mandatory working time (32 hours per week) at the school. Consequently, teachers are most

likely to lose the bonuses they receive for extra work, which they received in addition to the base salary defined in the wage scale. In an attempt to compensate for this loss, the government envisages the introduction of a kind of merit-based salary increase that would be based on individually qualifying teachers (or as the government has euphemistically put it, a "career model for teachers" would be put in place). Qualification, however, will not take place on the basis of teachers' performance at school but will be subject to an assessment carried out in the context of a state-run school inspection system to be set up. Trade unions are to a large degree sceptical about the about the promised rise: neither do they see any guarantee or funds for it in the central budget, nor are they convinced that the amount to be paid cannot be manipulated via the school inspection evaluation. Furthermore, according to PDSZ's calculations, the higher the number of class hours, the lower the hourly fees would be. The greatest concerns, however, are connected to the fact that a greater number of class hours may generate a lower demand for teachers, which may further increase the scale of dismissals that is expected as a consequence of demographic changes.

### 5.3. Nurses

In the segment of the health care sector, where the paymaster is either central or local government, remuneration for nurses is also determined by the general public employee wage scale, at least until 2012. Median wages also indicated that nurses' wage advantage was significantly increased by the general wage hike in 2002; this, however, had not only melted away, starting from 2006, when public sector wages were frozen and the 13th month salary terminated, but nurses also ended up with lower salaries than other employees. In addition to their pay defined according to the wage scale, nurses may receive various benefits on the basis of overtime or working conditions (bonuses for shift work, on-call duty, and working in hazardous circumstances, etc.). Simultaneously with the new Labour Code that seeks to make employment relationships more flexible, a new Health Care Act came into effect in 2012. It goes into detail listing a great variety of ways which ensure flexible labour use, specific to the sector: on-call duty, voluntary overtime, etc.. Starting from 1 March 2012, employers are authorized to unilaterally demand at most 16 hours of on-call duty per week against the regular working hours, however, if an employee chooses to perform additional health care activity beyond the daily 12 hours of working time, it is qualified as "voluntarily undertaken extra work" under all circumstances. The Act, however, counteracts some measures of the new Labour Code, which imply a decrease in the bonus for shift work. Were this not the case, health care workers' monthly gross pay would come to be 8-12,000 HUF less on average, as one trade union of the sector estimates.

*Figure 18. Median wages for nurses by sexes (HUF/month, 1999-2011)*



Source: own compilation based on National Labour Office data

Even though the Democratic Union of Health Care Employees (Egészségügyi Dolgozók Demokratikus Szakszervezete, EDDSZ) has had the greatest tradition and is supposed to be the key trade union in the sector, due to significant internal conflicts, it practically lacks bargaining power at sectoral level. The same applies to the Federation of Hungarian Physicians (Magyar Orvosok Szövetsége, MOSZ), which was established more recently but has an unstable membership. The Hungarian Resident Doctors' Association (Magyar Rezidens Szövetség) is a strong lobby organisation of junior doctors, which is based on voluntary membership. Nurses are also free to join the Council of Hungarian Paramedical Professionals (Magyar Egészségügyi Szakdolgozói Kamarának, MESZK), whose mission is to represent and protect health care employees in matters related to their trade. MESZK has legal authorization in matters related to ethics procedures. Chambers, however, are not mandated to conclude collective agreements.

There is no sectoral collective agreement in the human healthcare services, however, the coverage of organisation level collective agreements in the public sector is relatively high (85%) (Source: Registry of collective agreements). In the non-profit sector (institutions maintained by the church and foundations), however, there are virtually no agreements. At the same time, the pay-related regulations of collective agreements are - for reasons similar to those in the case of teachers - mostly restricted to the transposition of legal regulations and adjusting them to the local context. A study on the sector's collective agreements concludes "We found few cases where salaries set in the studied collective agreements were higher than what the relevant salary grade determines... Based on the studied collective agreements, it seems that the majority of health care trade unions have been defeated by employers when it comes to agreements addressing wage increments." (Kisgyörgy 2008)

There is some evidence of fragmentation of wage-setting in the sector. The introduction of a separate wage scale in health care, following resident doctors' wage claim, has been a new development in 2012. The Hungarian Resident Physicians Alliance (Magyar Rezidens Szövetség) made use of the growing rate of emigration among medical staff. Following the pattern of actions of their Czech and Slovakian counterparts, around 2,500 resident physicians deposited their resignation note, signalling a clear intention to leave the country for much better paid positions in old EU member states. (Szabó 2013) The government's response was twofold. First, it prepared a new legal regulation addressing a 'health care emergency' situation, authorising the government to introduce extraordinary measures; it was passed by the Parliament with urgency. Second, the state secretary started negotiations with the resident physicians' representatives on an exceptional pay increase for the medical staff effective retrospectively from the beginning of the year. They signed an agreement in March 2012, which allocates HUF 30 billion (EUR 110 million) for wage increases for 86,000 doctors and paramedical staff; however, doctors will get a more generous hike than nurses. According to the aim of improving wage conditions of the young, the higher the employee's base salary, the lower the wage increment will be. For physicians the increment is HUF 65,800 if the monthly salary is below HUF 350,000, it is lower in higher brackets, while it is not more than HUF 10,000 above the HUF 450,000 base wage. This agreement and the following law practically established two new wage scales for physicians and paramedical staff, separated them from the universal public service employee wage scale, valid for the sector before. According to the government's promise, even self-employed GPs will get a raise included in their fees. However, nurses with the same qualification at primary care providers and residential elderly care seem to be left out, partly due to the sectoral nature of the law. The sectoral union of social care, representing 3,000 members, petitioned the government, however, the chances of such a small union to be heard are insignificant.

Unlike in the public sector, the new wage scale for health care employees builds on the premise that minimum wage and the minimum wage for skilled workers have to be paid in any case, therefore salary grades in the sector are calculated by taking into account vocational qualifications and the length of service. If minimum wage and the wage floor for skilled workers are taken into account, the actual wage increment exceeds 10% only in the case of unskilled young workers and older employees without university degree (at most with a tertiary vocational qualification of category 'E'). Nurses, depending on their qualifications, fall into categories A-F.

*Table 5. Health care workers' actual base salary increase by salary category, following the introduction of the 2012 Health Care Act (%)*

Salary grades by length of service	Salary categories by educational attainment									
	A	B	C	D	E	F	G	H	I	J
1.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,3
2.	20,0	1,6	1,4	2,3	3,2	1,0	1,2	0,8	1,4	0,7
3.	33,1	3,2	2,8	4,6	6,5	1,6	1,7	1,5	1,9	0,9
4.	32,2	4,8	4,2	6,9	9,7	2,3	2,2	2,1	1,9	1,3

5.	31,4	6,5	5,6	9,3	13,0	2,8	2,6	2,0	2,1	1,7
6.	32,0	9,1	7,9	12,5	16,2	3,4	3,0	2,1	2,1	2,0
7.	30,8	10,8	9,3	14,8	19,4	3,9	3,4	2,1	2,2	2,7
8.	29,8	12,4	10,6	16,2	20,6	4,0	3,7	2,1	2,7	3,1
9.	28,6	14,0	12,0	17,6	20,1	4,1	3,7	2,2	2,8	3,5
10.	27,4	15,6	13,4	19,0	19,7	2,8	3,6	2,2	2,9	3,9
11.	26,1	17,2	14,8	20,4	19,2	1,6	3,5	2,9	3,0	4,3
12.	25,0	18,8	16,2	21,8	19,5	1,6	3,4	3,5	3,1	4,7
13.	23,9	20,4	17,6	22,4	19,8	1,7	3,3	4,0	5,0	4,5
14.	22,9	21,8	19,0	20,5	19,5	1,7	3,2	4,6	5,0	4,4

Source: own compilation based on statutory wage grids

## 6. Public procurement and outsourcing

From 2004 until 2011, public procurement in Hungary was regulated by a law in conformity with EU directive 2004/18/EC. This law was replaced by a new law on 1 January 2011 (Act CVIII/2011), which specifies various forms of public procurement process. It may be open, restricted (tenders are only open to selected prequalified vendors or contractors), by negotiation starting with the publication of the tender, unpublished and negotiated, by competitive dialogue or by framework agreement. A procurement process must be applied if the value of the order – depending on its subject matter – is above a sum of HUF 8 to 100 million (€27,000 to 330,000). The conditions published in the invitation to tender shall specify the criteria of assessment, which may either be the lowest price or the best overall offer. In the latter case, professional standards may be prescribed (such as providing references, having the proper experience), and the bidder may be disqualified based on a failure to fulfil these criteria. The contracting authority is legally bound to choose the cheapest offer among candidates otherwise fulfilling all the criteria. Special rules apply to public works in construction and service concession contracts.

There is only limited information available regarding the actual practice of public procurement.<sup>28</sup> Based on feedback from contracting authorities, procurement practice was investigated by the State Audit Office and the Public Procurements Council, particularly focusing on the issue of corruption. The Public Procurements Council reported that budgetary institutions relied on public procurement in about 50% of their acquisitions in the period 2006-2008<sup>29</sup>.

This same survey revealed that almost 86% of the procurement processes consisted of open procedures. Providing the best offer overall was the assessment criterion applied in 61.2% of the cases. The more complex was the procedure, the more likely that this kind of assessment was used. Respondents ranging the procurement procedures in terms of being corruption-free on a 1 to 5 scale from gave an average evaluation score of 3.1. Significantly, more than half of the respondents expressed the view that public procurement has a negative impact on economic efficiency, while two-thirds of respondents thought they make purchases more expensive. According to a control report<sup>30</sup> and a study<sup>31</sup> by the State Audit Office, the main corruption risks in the field of public procurements are linked to the following factors: the collusion of the contracting authorities and bidders, bidder cartelism, the withdrawal of public procurement funds if the apparently winning bidder is judged undesirable, low participation rates (about 30%) by local governments in centralised public procurement, unreasonably high prices in public-private partnership (PPP) schemes. Note equally that the investigation by the

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<sup>28</sup> No overall statistics are available on procurement in the public sector

<sup>29</sup> Corruption and public procurement corruption in Hungary.

<sup>30</sup> State Audit Office 2008 .

<sup>31</sup> Báger 2007a

State Audit Office was centred on PPP schemes, among others reasons for the fact that they generally entail exceptionally high prices and require very complicated contract structures.

There is no reason to doubt, therefore, that the procurement process is a hotbed of corruption which can actually be one of the motivating factors behind deploying procurement processes. The government which came to power in 2010 created several new institutions with the mission to keep watch over the spending of public funds. In a number of cases it was suggested that some contracts (mainly PPP construction projects) need to be revised and that some utilities previously privatized (e.g. community water providers) should be acquired by the state/local government once again.

Concession contracts constitute a special segment in the field of procurement. They are used by local governments and government agencies to conclude service contracts in order for a service to be provided (typically including services linked to water, gas, heating, hot water, local and long distance public transports.) The key motivation behind this kind of outsourcing has been to downsize the public sector headcount (which the government was prompted to do by the credit policy implemented by the IMF), to provide market-based legitimization to rising prices (sewage fees, water fees, funeral expenses), to attract investment funds as well as to streamline activities and to reduce their costs. The latter, however, typically did not occur.

In public institutions employing public service employees, outsourcing chiefly gained ground in the fields of health care, social care and education (table 6). In the former mainly at the level of service units (e.g. laundry, meals, modern diagnostic procedures, etc.), but some local governments did experiment with concession schemes and privatization. In the latter churches and other non-profit institutions run a gradually growing share of schools in primary and secondary education. As a result, about a quarter of health care employees lost their status as public servants, as a result of which, they ceased to be part of a system offering the public service wage compensation schemes detailed above. The extent of labour shortage in this area is such that job security was not seriously threatened on a large scale.

*Table 6. Employment share of private and not-for-profit employers in the education, human health and social care by sectors (%)*

<b>Sector</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Education	19,3	21,2	21,9	21,6	20,4	21,4
Human health care	13,3	15,4	21,0	26,6	31,0	32,3
Social care	11,4	14,6	14,3	14,8	13,2	12,7

Source: Own compilation based on HCSO data (institutions with at least 5 employees)

Outsourcing had already been an established practice earlier in auxiliary fields where public servants and defence/law enforcement employees used to work (security, printing services, software development, real estate management). At present, some of these activities are being "insourced back" into the field of public service, with the expectation that a number of

soldiers, police officers and fire-fighters having relied on early retirement schemes can once again be reintegrated in the system to provide some of these activities.

Employees providing the activities outsourced from budgetary institutions are covered by Hungarian regulations in accordance with the TUPE Directive. These fairly complicated regulations deal with the transition areas between organisations falling under the scope of diverging regulations of employment law. Nevertheless, neither the government nor trade unions pay these workers the attention that would make their career paths in some way similar to those found in the public sector. With the exception of the case of the defence and law enforcement employment status, there are no special pension arrangements in the public sector, thus the employment status is neutral from this perspective.<sup>32</sup>

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<sup>32</sup> There is no occupational pension system in Hungary, therefore there is no need for special protection of pensions. The individual accounts of compulsory private pension funds (operated until 2010) were independent of the employers, alike the current universal, state run pay-as-you-go system. (The only exception was the early retirement system for armed force personnel which was phased out in 2010.)

## Part two. Pay and procurement in local government

### 7. Specificities of the Hungarian system of local government

The principle "one settlement - one local government" became established in Hungary in the 1990s. It replaced the system of centralized management common in the early phase of socialism, and the reformed system of "local councils" of the 1980s, which was pointing in the direction of integration. The municipalities of the capital, along with its districts, as well as those of the 23 largest towns (the so-called towns of county rights) stand out among the 2,300 local governments. Additionally, the county level public administration is an interim level, which also provides the county's inhabitants with certain services. The Local Government Act assigns the provision of a wide spectrum of functions and services (local development, public education, healthcare and social welfare services, maintenance of the entire local infrastructure, environmental protection, housing, running fire brigades, ensuring public safety, etc.) to local governments that were given a free hand to determine the organisational framework of service provision. For this they have public liability, irrespective of population size or economic power which may be radically different from one town to another. The "Hungarian model" resembles the Mediterranean one with respect to its fragmented nature, and is similar to the Scandinavian system, as far as the wide range of assigned functions are concerned. (Vígvári, 2011) In order to mitigate fragmentation, nearby settlements have established district notary offices (where several local governments team up to employ a public notary) and organised, albeit in a rather ad hoc manner, micro-regional associations with the aim of facilitating infrastructure development and maintenance, and which have received legal and financial backing since 2004.

Despite the existing legal framework that envisages strong decentralization, centralization pushed forward in the 1990s, mainly as a result of fiscal incentives. Local governments' own revenues are primarily based on revenues from property sales, the local business tax and the distributive system of the personal income tax, which has generated considerable financial disparity among local governments. Therefore the state has from time to time intervened by providing uniform per capita support for mandatory services, development subventions and by reorganising the tax system. A core principle of the municipal financing system is a great amount of independence given to local governments in how they use their revenues. In order to guarantee steady operation, some local governments - those that are "in a disadvantaged situation through no fault of their own" - are entitled to supplementary state support. Support for development purpose provided for local governments is predominantly used to ensure own funds required in EU grants.

The government in power has taken a number of steps which promote the centralization of public administration and institutions providing public services. As of 2013, local governments' functions of authority will be transferred to the government agencies, set up at district (micro regional) level. This will imply the transferring of employees, involved in such tasks, to the new offices. The centralization of service providing institutions has also begun in

healthcare: hospitals belonging to small town municipalities have typically come under state control so far - together with the debts they had accumulated. From 2013 onwards, a large part of public education will come under state management, to the extent at least that teachers will be employed by the above-mentioned government agencies, while the facility management will remain with the local governments.

## 8. Research design: introducing the two local government case studies

During a first stage of the research we mainly interviewed experts who have insight into particular aspects of the operation of local governments on a national level. Thus we conducted interviews with experts from two sectoral trade unions (Trade Union of Local Industry and Municipal Workers 2000 (Helyiipari- és Városgazdálkodási Dolgozók Szakszervezete 2000, HVDSZ 2000) and the Trade Union of Employees of the Social Sector (Szociális Területeken Dolgozók Szakszervezete, SZTDSZ) as well as from a local government alliance (National Alliance of Local Governments (Települési Önkormányzatok Országos Szövetsége, TÖOSZ)).

It was clear from the very start that it would be difficult to establish a comprehensive picture of Hungary's highly heterogeneous local government system by studying two cases only. When identifying local governments for case studies, we excluded Budapest and its district municipalities, given the capital's unique status due to its size and political weight, and also because districts are independent administrative units with separate budgets, so the "tug of war" between the capital and its districts is atypical. This left us with towns and other settlements in the country, the smallest of which had to be skipped again, for they provide a narrow range of services only and therefore the scale of outsourcing can only be limited (although it would have been interesting to examine forms of cooperation, e.g. micro-regional associations of municipalities, prompted by efforts at economies of scale). We realised early on that we would not be able to conduct our research without the municipalities' cooperation, meaning that official requests for cooperation needed to be reinforced through informal contacts as well.

Taking these issues into consideration, we selected a small town (A), quite typical in many respects, with some 10,000 inhabitants, and a larger one (B) of county status - both situated in the Transdanubian region (one in Central, the other in Southern Transdanubia). The difference in their size is in itself significant: while town A hardly ever appears in the media, nor does it have any political significance of national level, town B's affairs are well-known across the country and, evidently, the local media gives extensive coverage of the town's events as well (see boxes 1 and 2). At both case studies we sought to interview a range of personnel, including members of the senior management team with knowledge of the overall strategic plan, as well as human resources, plus a range of senior managers responsible for procurement (in the identified five service activities). A total of 20 interviews in the two case studies were undertaken (table 7).

There are undoubtedly some political reasons behind town B's better visibility: local government elections were held here in 2009, in the course of which the former socialist mayor and the municipal council made up of representative of socialist-liberal coalition were replaced by a mayor nominated by FIDESZ and a municipal council of predominantly ring-wing representatives. Thus the political turn in this town preceded the general elections and the governmental change a year later, while the newly elected mayor made a head-start at

implementing the new brand of right-wing politics, in the town's context, in a style that would arrive on the national stage a year later. This fact offered a number of advantages for the research: on the one hand, the mayor's actions sparked heated debates both locally and on the national level, and the views and assessments of opposition parties and trade unions received extensive publicity. This way we were able to gather information about those service areas as well which we were unable to cover through the interviews. On the other hand, the town's mayor came to be a vanguard of right wing local politics and implemented measures that have since become typical of local government policies across the country (e.g. the withdrawal of privatization contracts and transfers of institutions to the church). Therefore during the period of field-work we were able to collect information on the impact of the new operational approach on employees, and the mix of related experiences.

**Box 1. Introducing the case study of local government 'Town A'**

**Town A** is a micro-region centre; its current administrative area was established by the unification of a town and two villages. In 2011, its permanent inhabitants counted 11,458. All the functions of a town are fulfilled, and the town also provides services for the surrounding settlements, covering altogether 28,000 people. Its total budget has been around 5 billion HUF (€ 18 million) over the past four years.

The Hungarian Railway Company, MÁV Ltd., continues to be the largest employer here; in addition, an industrial business park has been operating in the town with ten companies. The largest employers are assembly and production plants with Austrian/German capital share, or 100% in Austrian ownership. The industrial structure is determined by the fact that local men predominantly work for the Railway Company and its related services, therefore incoming companies relied mainly on the available female labour pool. Through its institutions and companies, the local government is also a key employer, especially for the local intelligentsia. The town has all the necessary institutions needed to cater to the needs of its inhabitants (hospital, special clinics, family doctor service, nursery, primary, secondary and vocational school, music school, cultural centre, social care home, social care home for people with mental health problems, day-care centre for the elderly, cemetery), and manages public services through its companies (public transportation, waste collection and waste treatment, water supply, sewage). The local government and its institutions are the third largest "employer" employing over 700 public sector employees and civil servants. The largest institutions are the hospital, the integrated primary school and the Social Welfare Service. The town has the following companies:

- water works - 100% owned by the local government, providing the town's drinking water supply and carrying out wastewater management,
- Waste management company - 51% owned by the local government,
- A thermal bath that was operated as a budgetary organisation until the local government incorporated it into a joint venture,
- Local TV Nonprofit Ltd., which publishes the local newspaper and operates the TV station.

A special feature of the town is the strong presence of the Catholic church, given some places of religious importance. The Catholic church owns several real estates in the town centre and operates a primary school established after the change of the regime.

## Box 2. Introducing the case study of local government ‘Town B’

**Town B** had 156,000 inhabitants in 2012, which signals a decrease of close to 12% compared to the highest number of population counted in the middle of the 1980s. In the wake of the change of the regime a number of large industrial companies - producing dairy, leather and housing panels - were closed. Uranium and coal mining outside the town also ceased; there are ongoing negotiations with foreign investors about their partial restarting. The closure of large companies at the beginning of the 1990s generated unemployment at a greater scale, which the town leadership tried to mitigate by establishing an industrial park through the recultivation of industrial districts. This attracted a number of multinational companies, engaging mainly in electronic production, which provided employment opportunities for the population in the town and its commuting area. Simultaneously with this, the town's profile began to raise in knowledge intensive areas, as well as a cultural centre. The onset of the economic crisis in 2008 did not spare the newly settled companies either; when one multinational company closed its plant in October 2011, the number of unemployed exceeded 10,000. Unemployment indicators in the town, reaching 12%, are still worse than the national average. The town's total budget has been around 40 billion HUF (€ 144 million) over the past four years. The town is heavily indebted, mainly due to the infrastructural “prestige investments” carried out under the previous mayor, nowadays its cumulated debt roughly amounts to 40 billion HUF.

As a result of its size and facilities, the town has an extremely varied employment structure. The largest employer in the town is a university, employing over 6,000 people. Until its closure, the above-mentioned multinational company had also been a key employer with around 6,000-8,000 workers. The local government is also important in this respect: together with its offices, institutions and companies, presently it provides work for over 3,000 people (these data do not include employees in recently outsourced social care institutions, nor those working in educational institutions being transferred to the church). Other important employers include another electronic production company (2,400 employees) and the regional bus company (1,000 employees). There are 24,000 enterprises of various sizes (data from 2006).

Given its size, the town maintains a significant number of public institutions and provides a full spectrum of local government services, one exception being the hospital that has always belonged to the university. A large part of services related to care for the elderly were taken over by the church in 2011, while many schools will come under church maintenance in 2012. Another part of services are provided through companies that are at least 51% owned by the town, or have ownership rights of. The most important municipal companies include:

- Water and Sewage Works (almost 100% owned by the local government)
- Waste management (100% owned by the local government)
- District heating service (the local government owns a 51% of shares)
- Local public transportation (owned 100% by the local government, however, buses are rented from a company, which is 51% owned by the municipality, nevertheless it does not have management rights over it)
- Former cultural public institutions that in previous years were transformed into city-owned associations/companies.

*Table 7. Persons interviewed for case studies*

Location:	‘Town A’	‘Town B’
Mayor's office	- mayor - human resource head at the local	- notary - head of social services department

	government - specialized lawyer responsible for the budget	- person overseeing municipal companies
Local transportation	company owner	- administrator responsible for employment affairs - trade union leader
Care for the elderly	Head of City Services Management*	- head of employment affairs - trade union leader - finance manager of church organisation
School cafeteria	- Head of City Services Management	-
Cleaning	- Head of City Services Management	-
Waste treatment	- CEO - person in charge of overseeing waste management at the local government	- trade union leader
Water supply and sewerage	Senior manager	- company director - trade union leader
Others	Micro region consultant at the local government	
No. of interviews altogether	9	11

Note: \* He oversees service provision by non-independent budgetary institutions

## 9. Municipal management: state subventions, revenues, finances and indebtedness

Local government revenues are made up of a variety of sources. Besides per-capita state subventions, the most important source of revenues include the local business tax, a certain proportion of the personal income tax which remains in the settlement, vehicle tax and other taxes imposed locally on an ad hoc basis. A part of the income generated by companies in which the local government holds shares, must also be mentioned (the structure of profit share is laid out in the contract between owners), in addition to some other minor sources of revenues (e.g. procedural and other fees). Development works are financed primarily from tenders.

In its budget, the local government has to allocate funds for services that the settlement's population is entitled to for free or for a fee lower than the cost price. As to service providing companies owned by the municipality, the local government has to provide complementary funds in case the income should not cover expenses; in addition, it has to ensure - depending on development intentions - the amount of own funding required for tenders. Repayment of loans - previously taken, often to ensure the provision of basic services - also needs to be taken into consideration at budget planning. Within these confines, the local government is free to use its revenues. (This also means that state subventions can be temporarily allocated to cover other costs but, all in all, what is in fact needed is providing supplementary subvention funds.)

The funds that became available as a result of the EU accession process, and subsequently of EU membership, have fundamentally transformed municipal management and finances. Due to the decrease in state subsidies, EU tenders emerged as the sole source of funds to finance development works. The importance of EU grants is indicated by the fact that their winning prompts an opportunistic approach; as one interviewee, a mayor, put it, before they sought grant opportunities for what the community needed, today they would apply to any open call for proposals, like for building a football pitch, as is the case now: "if the prime minister is mad about football, .... then we will build a football pitch next to the pool, we will join the crowd. What we build stays here and adds to the town's assets". Local governments have generally made great efforts to establish industry in the settlements; this had proven to be an appropriate policy up until 2008, as in the case of a small town the local business tax (the volume of which is set by the local government, but generally it makes up 1-2% of the income from business activities) is sufficient to provide for the entire community.

State subventions for local government functions have been continuously decreasing since 1995. On joining the EU, the state undertook the obligation of observing budgetary discipline, based on the Maastricht criteria. Thus the 2006 convergence programme brought a new phase in budget cuts in the local government system. The brunt of stabilization costs was borne by local government. Direct cutbacks in the municipal subventions is estimated to have improved the balance by 0.7% of the GDP (Vigvári 2011). In addition, cutbacks in the healthcare sector

affected local governments ability to maintain hospitals. (Local government expenses make up 11% of the GDP.)

Local government municipalities reacted to the austerity measures by raising considerable external funds, predominantly by issuing bonds denominated in foreign currencies. This unlocked the process which resulted in the indebtedness of local governments; even the credit limit stipulated in the Local Government Act was not enough to close the loopholes that used various "financial innovations". The financial crisis triggered considerable increase in instalment payments of loans, while the economic crisis led to a dwindling of local tax income and increasing claims for social assistance; this was accompanied in many places by the failure of municipal enterprise, which was also realised from credit, to generate the expected level of profit. There are substantial differences among local government municipalities as to the level of their indebtedness; in some towns bankruptcy is an everyday threat.

While the crisis brought a decrease in state subsidies, cuts in subventions (grants?) provided from the central budget for mandatory functions did not necessarily take the form of limiting the wage bill paid to local government employees. According to a study conducted by the Stat Audit Office in the capital and among counties and cities of county status, the lack of resources which emerged between 2007-2010 was compensated by institutions' own revenues and increasing local government support (see tables 7 and 8).

*Table 7. Composition of financing of mandatory functions at local governments of cities of county status in 2007 and 2010 (%)*

		Kindergarten	Primary school	High school	Vocational school	School dormitory	Social care	Other child welfare
<b>State subsidy</b>	2007	47,2	52,4	61,9	63,8	72,4	34,8	41,7
	2010	45,1	46,6	59,0	56,8	56,5	31,6	41,1
<b>Own revenue (fees, etc.)</b>	2007	9,5	9,7	10,5	15,1	18,1	28,0	17,9
	2010	11,3	12,2	14,2	15,4	20,7	30,9	15,4
<b>Local government subsidy</b>	2007	43,3	37,9	27,6	21,0	9,5	37,2	40,4
	2010	43,7	41,3	26,8	27,8	22,8	37,5	43,5

Source: ÁSZ (2011)

*Table 8. Share of state subsidies in incomes at various levels of public administration*

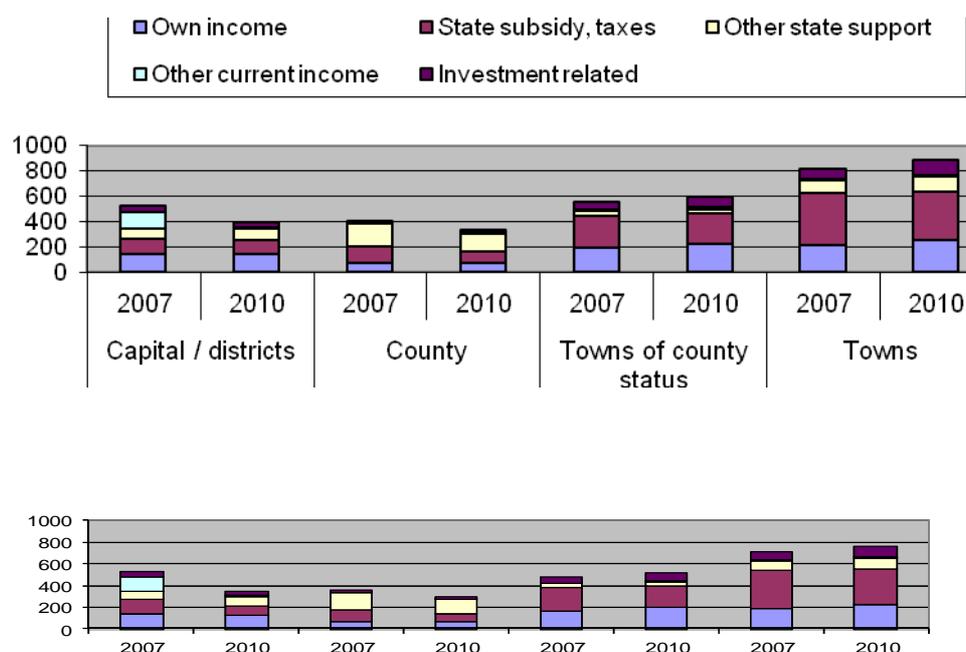
	Capital / districts		County		Cities of county status		Cities	
	2007	2010	2007	2010	2007	2010	2007	2010
<b>Own income</b>	145	147	83	83	194	229	223	260
<b>State subsidy, state tax</b>	126	108	123	84	251	239	402	381
<b>Other state support</b>	79	95	181	146	41	36	107	115
<b>Other current income</b>	134	11	6	6	10	14	8	13

<b>Investment related</b>	48	40	20	24	64	82	83	122
<b>Total</b>	532	401	413	343	560	600	823	891
<b>All state</b>	205	203	304	230	292	275	509	496
<b>State subsidy %</b>	39	51	74	67	52	46	62	56

Source: Domokos (2011)

The cuts in municipality budgets between 2007 and 2010 are not at all affected equally the different levels of the public administration. However, state subsidies decreased at all levels. Taking the 16% consumer price index inflation of the three years into account, the overall budget of municipalities has been surprisingly shrinking at the capital and count level, which is occurred along with narrowing the scope of services provided by these municipalities or perhaps with transferring some services' funding to the central state level. (figure 19) It worth to note that municipality budget cuts also occurred before 2007 and under the current right wing government since 2010, unfortunately similar data for these periods are not available.<sup>33</sup>

Figure 19. Budgetary impact of the crisis: Share of state subsidies in incomes at various levels of public administration (Upper figure: nominal values, lower: corrected with inflation)



Source: own compilation based on Domokos (2011)

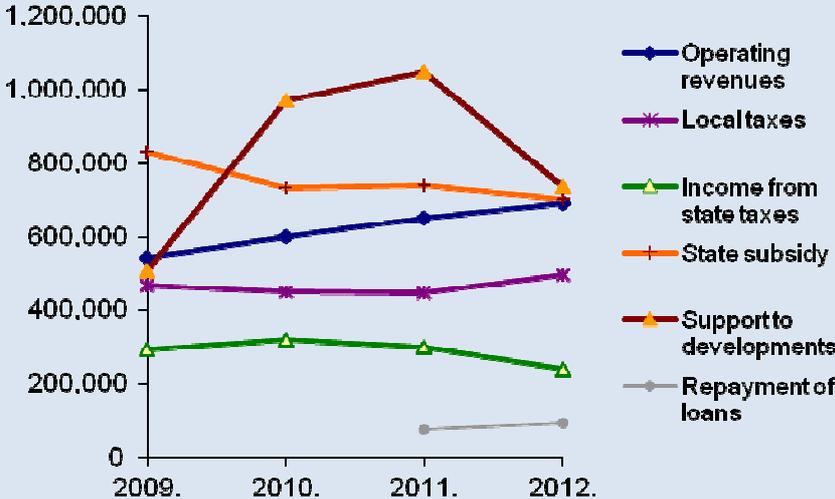
<sup>33</sup> Despite the lack of appropriate data cuts in state subsidies to municipality budgets and the indebtedness of municipalities are topical issues in Hungary nowadays. In November 2012 the Prime Minister announced that the government intends to bail out local governments, the state budget would take over full debts of municipalities with less than 3,000 inhabitants and for bigger localities in a regressive way, depending on the personal income tax income of the given municipalities. No further details are known at the time of writing the report, thus the possible outcome of the measure can not be predicted either.

With the decrease in revenues, local governments had to adopt a new approach towards private enterprises - in some settlements this meant a withdrawal of benefits (for instance, tax-exempt status) provided for them earlier. Others opted for a strategy of not only maintaining the level of levies imposed on enterprises but also made efforts to retain their presence by easing their situation, hoping that they would expand their operation after the crisis and tolerance on the part of the local government would pay off later in employment creation and the increase in local business tax. Nevertheless, the local economic situation is very unstable and uncertain, as the case of ‘Town A’ reveals (see box 3).

**Box 3. A precarious local economy and a development project in ‘Town A’**

In the past ten years Town A has implemented an intensive development programme that it has no plans to discontinue. At the same time, funds from the central budget are doubtful even looking at the following year only, since factors like the budgetary impact of the centralization process, the state budget, legislative developments that cannot be foreseen at present, and the volatility of the HUF exchange rate all add to the precariousness of local government operation. The town's economic programme states the following: "Decreasing per capita payment by the state for educational institutions and the sharp increase in energy prices are causing increasing budget deficit which cannot be made up for by the locally generated revenues to ensure adequate funding for service provision at a level prescribed by legal provisions." During the years of the crisis, there has been a considerable decrease in state subventions (grants?) and the amount of taxes retained locally, while investment subsidies and revenues from the local government’s operations have increased.

*Figure 19. Changes in key municipal revenues and loan repayment (Town A)*



The unemployment rate increased in the wake of the crisis, such that the local government's income deriving from personal taxes has also declined. The level of revenues from the local business tax has also become unpredictable with the onset of the crisis. In the case of foreign currency loans, the fluctuation of exchange rates has a negative effect on repayment instalments. The local government prognosticates steady growth of loan repayment.

A good example: Thermal bath development in town A

The story of the thermal bath begins in the 1980s, when it first emerged that there may be thermal water in the town's territory. At the time the town did not have a swimming pool, although swimming lessons were included in school curricula as a compulsory element. At first the investment included the construction of two indoor pools and an outdoor one, as well as connected facilities. A couple of year later it was verified that the thermal water is fit for special medical treatments. Then the municipality decided on a development of sports and recreation. The economic crisis did not spare the bath: the turnover dropped by about 10%. Today schools use the bath's facilities, which may as well change once schools will be maintained by the state.

As to the development plans, a new enterprise was set up in the summer of 2012, in which the municipality holds 51% of the shares and other owners include the subsidiary of an Austrian tourism company; an Austrian-born entrepreneur, the town's resident, who is a key player in the field of waste management and transport in the region; and the Austrian owner of local bakery. All 24 public service employees of the bath have been taken over by the company from the budgetary institution under TUPE regulations.

As to management, one company director is delegated by the local government, the other by the Austrian tourism company. The latter has plans to build a hotel, a camping and a new pool on the plots of land which have been purchased, or are leased for 25 years. On longer term, the hotel and the camping may create 20-30 jobs. "The question is whether there will be purchasing power or not. Everything depends on this... This is the question.", the director said in the interview.

This development fully fits the municipality's strategy implemented thus far, a key element of which is attracting and retaining enterprises, and building fair relationship with them with the aim of bringing in more and more funds into town development. The Austrian hotel company is a key player, being the only investor with extensive experience and a long history in tourism. Behind all this rests the long-term view that if the town does not back such development, then it will continue to depend on the fate of small and larger private enterprises which promptly close or cut jobs if they should get into a difficult situation, which would imply an increase in municipality commitments vis-a-vis the local population. In terms of a few years, the implementation of investments may considerably contribute to mitigating unemployment in the micro-region.

## 10. Wage bargaining and employment policy in local government

It is impossible to tell the number of civil servants and public sector employees working for municipalities on the basis of publicly available statistical data. An old registry reveals that in 2004 there were 493,000 employees working in mayor's offices or municipal institutions. (This number represented a 10% decrease compared to the 1991 figures.) In 2004, this amounted to 60% of the number of all civil servants and public service employees. Of this workforce, 9% were civil servants, 83% public sector employees, 2% were regular fire-fighters, 6% elected officials and other employees. (Darázs 2005) We have no data on employees working at municipal enterprises.

Despite local governments' budgetary autonomy, the base salary of public sector employees and civil servants is defined according to the wage scales specified in the relevant laws. As we have shown in Part one of this report, besides trade union confederations, local government alliances also take part, in their capacity of employers, in national level interest reconciliation related to legislation and government policies. Pluralism prevails here as well, as there are three such organisations: the National Alliance of Local Governments (Települési Önkormányzatok Országos Szövetsége, TÖOSZ), the Alliance of Hungarian Local Governments (Magyar Önkormányzatok Szövetsége, MÖSZ), and the Association of Cities of County Status (Megyei Jogú Városok Szövetsége, MJVSZ).

Employees of municipal companies are subject to the Labour Code, which implies there is no tariff system to apply to their wages. Sectoral level interest reconciliation takes place at the Subsectoral Social Dialogue Committee on Communal Services (Településszolgáltatási Alágazati Párbeszéd Bizottság), which includes the Trade Union of Local Industry and Municipal Workers (Helyiipari- és Városgazdálkodási Dolgozók Szakszervezete, HVDSZ 2000) and the Coalition of Public Sanitation and Communal Service Providers (Településszolgáltatás- Köztisztaság Koalíció) (the latter consisting of two employer organisations). The Committee's work covers the following areas: steam and hot water supply, real estate management, cleaning, waste water and solid waste management, public sanitation, maintaining parks and public spaces, funeral services. Its main responsibility is to consult with the relevant ministries and municipal bodies. The Commission has no direct influence over wages; its members did not conclude a sectoral collective agreement since, according to the trade union, negotiations were hampered by the excessive diversity of activities.

In the local government sector collective agreements are concluded only at the local level and are most often relevant to one employer. On the employer side, the agreement is signed by the management of the institution or company; however, the owner/maintainer heavily restricts budgetary autonomy, thus the institution/company has no real opportunity to influence the level of wages, fringe benefits or extra-wage allowances. As to the typical remuneration practice of local government organisations, a recently conducted survey found that although a large proportion, 84%, of local government organisations carry out performance evaluation, only at 17% of them did the results influence annual pay (at 16% of the surveyed municipalities they hardly did though) and at 43% of them not at all. (Bordás 2012) Although

the lack of management autonomy is a common barrier to collective wage bargaining in the entire public sector, this is particularly so at municipal companies. According to the head of the sectoral trade union, local governments, as owners, are not represented at collective agreement negotiations and the management does not have the necessary authorization. Moreover, the management is often unable to meet its legal obligation to provide information because the local government as owner disallows it. As a consequence, there is no consultation on important or strategic decisions of the owner. The competence of the local company's management to enter into negotiation is further curbed by the practice that larger towns set up a holding-organisation over their municipal companies, which determines company managers' space of action and centralizes resources.

Therefore in the local government sector trade unions strive to have direct negotiations with the owner, i.e. the local government. Even though there is a legally provided possibility for this during the conclusion of multi-employer collective agreements (covering e.g. all the educational institutions of a town), this nevertheless remains only a theoretical possibility and is not done in practice. In larger towns there is an interest reconciliation forum where trade unions can have direct negotiations with the local government's chief officials. In Budapest, for instance, the Budapest Consultative Forum has been operating since 1993, where the vice-mayor consults with trade unions on topics like the implementation of organisational transformation. Although, legally speaking, this is not collective bargaining, yet each year they develop guidelines that are provided as recommendations for local wage agreements. It seems that a prerequisite to operating a Local Government Interest Reconciliation Forum is having a large number of institutions and companies, as well as stronger organisation of trade unions, which was given only in one town in our sample (town B).

During our case studies we found that only the larger Town B's public utility companies had strong trade unions that were successful in wage bargaining and were able to preserve the high, privileged salaries of the workforce during the crisis, despite the budgetary austerity measures that affected the entire town and other public sector employees. In the other location (Town A), however, there was no evidence of collective bargaining, and wages at the public service companies were low, corresponding to the condition of the local labour market (see box 4). The interview with the head of the sectoral trade union underlines this situation at national level as well: as conditions in the public sector are deteriorating, there is an effort to extend the wage freeze to municipal companies as well.

Nevertheless, it has to be said that in town A, just like elsewhere in the country, public utility companies are considered respected employers because wage payment is guaranteed and they provide exceptional employment stability even at times of crisis. This image prevails despite the fact that we noted rationalization efforts at organisations employing public service employees and a shrinking of the scope of services, which imply job cuts, even if small scale.

**Box 4. Town A: The absence of collective bargaining**

According to our interview data, everyone employed to work at town A municipality is 'on the minimum wage'. This means that employees receive the lowest level of remuneration allowed by the law. Consequently, the budget per capita for staff expenditures increased by just 2,900 HUF (€ 10.50)

during the last three years from 2009 to 2012. This rise may have been sufficient to cover mandatory salary upgrading (due to aging or new qualifications gained), but not necessarily.

Although the law makes possible social dialogue among civil servants, in this case study this is not made use of. We asked all interviewees if there is a trade union in his/her institution or company and everyone answered in the negative. When rephrasing the question several times, it was revealed that there are in fact several trade union members among civil servants and there are three workplace level trade unions of public service employees; every year the local government organises an informational meeting for the latter, where the budget of the following year is presented.

Two organisations had previously had collective agreements (in a vocational secondary school and at the local hospital). However, subsequently, both organisations were integrated with a third that is non-union and as a result their collective agreements will become void 12 months after the merger. In any case, the collective agreement at the hospital included no provisions on wages and benefits. Because employees of local government organisations and local government-owned companies practically have no interest representation whatsoever, there is no collective wage bargaining that could influence employment conditions and remuneration practices.

## 11. Local government policies of procurement and re-municipalisation

The Local Government Act and other sectoral laws specify the services that local governments, depending on the settlement's population size, are obliged to provide. Additionally, the municipalities may undertake other services on voluntary basis. As we have seen, local governments are free to decide how service provision will be organised. A traditional arrangement is for local governments to maintain institutions with public service employees providing services. In such institutions the administration of finances is carried out according to the - rather rigid - protocol, customary in budgetary institutions; according to this arrangement, the maintainer (i.e. the local government) may determine, beyond the institutions' budget, the number of employees and also the wage costs. The other arrangement implies that the local government outsources some public service, which might take the following forms:

- the municipality establishes and operates a business association. It does not necessarily need to keep 100% ownership, but may also sell some of its shares or may involve an external investor. This was the most common form of the privatization of public utilities in the 1990s;
- the municipality runs a public procurement procedure to select an enterprise for service provision or the beneficiary of a concession,
- the municipality concludes an agreement, generally with civil organisations or churches, for providing the mandatory tasks,
- it joins up with other local governments to provide the public service using any of the above three approaches.

In each of the above-mentioned outsourcing forms, the municipality signs an agreement with the selected enterprise / non-profit organisation. Nevertheless, the local government bears secondary liability for ensuring uninterrupted delivery of public services; if the contracted enterprise is unable to provide an adequate level of service, then the municipality has to take back the responsibility of provision. Depending on the contract and the legal provisions, for services the local government continues to have the competence to determine service fees (e.g. water bill, public transportation fees).

Establishing business associations began right after the change of the regime, although at first it meant that corporations belonging to the communist era local governments, or councils (*tanács*) underwent a change in legal form and transformed into 100% local government owned business associations. According to a survey conducted in 2011, 55% of local governments have shares in business associations and in 28% of such associations local governments have controlling stakes. (Bordás, 2012)

Privatisation of local government operated corporations, and involving external investors, became a major trend in the mid-1990s. At this time the privatisation of state-owned

companies got into full swing as well; at this point it was not only manufacturing companies that the state was selling but also public utilities companies (e.g. telecommunication and almost the entire energy sector) and commercial banks. The reason behind privatisation was the intention to modernize financially weak state corporations that had partially lost their markets, with the involvement of foreign technology and expertise in marketing and management; on the other hand, the budget revenue generated by privatisation was equally important for an indebted state. We have no reason to assume that there were other reasons behind the selling of municipality corporations and raising capital. However, municipality level privatisation was even less transparent than that of state corporations; instead of the central State Property Agency, decisions were made by the elected general assemblies.<sup>34</sup> (While state privatisation processes had been thoroughly regulated, well documented and extensively studied by the end of the 1990s, this is not the case with the privatisation of local government property.) A great deal of publicity was given to contracts that had been scandalous in being greatly disadvantageous for the local community, which were not untypical in small settlements either. Such cases include the privatisation of the public utilities in Budapest, in the course of which minority holdings were sold to foreign investors that also received management rights and they were able to extract large sums for providing management services - at the same time service fees imposed on the public kept increasing.

Outsourcing or purchasing certain auxiliary activities (cleaning, security and maintenance services, etc.) has for decades been a common practice at state and local government institutions. As of 2004, however, service providers, or the beneficiary of a concession, have to be selected through a procurement process. The motives behind local governments' outsourcing or purchasing are not sufficiently well known, however, and public statements rely on the same rhetoric as in the private sector (increasing efficiency, bringing in special tools and knowledge, etc.). It is probable that the attempt to evade regulations on headcount may have been a more important factor here than in the private sector, although this is more likely to hold true for centrally managed institutions than for local governments that have more flexible financial administration. According to the above-referred survey from 2011, 31.7% of local governments outsource services; 25.1% of the outsourced services pertain to basic (compulsory) services of municipalities, 9.6% to specialized tasks, while 65% are linked to voluntarily undertaken functions of municipalities. As much as 37.9% of local governments have long-term cooperation agreements with civil organisations, although it is unknown what proportion of them covers the outsourcing of public services. (Bordás, 2011)

The present government - referring in part to some well-known examples of privatisation debacles - has embarked on a policy of nationalisation and re-municipalisation. In this spirit

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<sup>34</sup> A study, prepared on the basis of a research by the State Audit Office on corruption, also uses the conditional tenses when discussing this issue: "Ownership in a business association is, among others, a risk factor from the point of view corruption because the motivation behind owners' decisions is not necessarily to serve public interest, and there are no legislative or other kind of controls. In the case of privatisation, it would require an extensive study on efficiency and cost-effectiveness to decide whether an enterprise, selected to run a public utility service, is any better at it - or put otherwise, if privatisation serves the public interest or not -, and to answer the question whether they were undersold. (Bordás, 2011)

the government has bought back some manufacturing companies that it deemed strategically important; the mayor of Budapest, head of a government associated city leadership, has done the same with the previously privatized water works. Service providing enterprises and the beneficiaries of concessions are a different story: the government's approach in these cases is renegotiation, i.e. not necessarily their deprivatisation but announcing a new procurement process and replacing former providers. In doing so, the buzzword is providing opportunities for Hungarian companies versus foreign ones. Such attempts, however, have engendered scandals, such as when the new beneficiary turned out to be an entrepreneur from the clientele of the party in government, or a family member or friend of a well-known politician of the ruling FIDESZ. Such cases are widely covered in the popular media and qualify as notable examples of political corruption, the analysis of which unfortunately goes beyond this research.

## 12. The changing organisation of five priority public services

Our two case studies focused primarily on elderly care and local public transport, but we also gathered information about other services listed below from indirect sources. In addition, the following analysis presents country level statistics related to elderly care.

### 12.1 Public transport

Among all Hungarian cities and towns only four organise their own public transport network locally, besides the capital; state-operated interurban bus companies provide for the majority of other towns. Thus, contrary to the EU policy, municipal bus service provision has virtually not been liberalized yet. Other local governments organise public transportation on an ad hoc basis, covering a limited scope only.

In the relatively small-scale Town A, local transportation is limited to one bus line. It carries around 1000 passengers a day, 600 of whom have a pass. The reason behind the launching and the maintenance of the bus service is that the nearby vineyards cannot always be reached on foot or by bicycle and this is the only way to ensure that people from the villages that had been merged into the town reach their work. The privatised service is provided in the legal framework of the so-called public service contract, the conclusion of which must be preceded by a bidding process similar to public procurement.

The subject of competition among bidders is the ticket price proposed. Although a number of companies submitted their offers in the last procurement process, the same enterprise won the job in two consecutive cycles. The state-owned interurban bus company was also among the bidders but did not offer a low enough price. The transport company employed 20 people but not everyone was working on the roads. Drivers earn a gross amount of 100-120,000HUF (€ 360-430) and receive no additional benefits.

In Town B, the public transport company has been operating since 1993; in the beginning it was jointly owned by a state-owned company and the municipality but since 2002 the local government has been the sole proprietor. In the hope of replacing old vehicles with modern ones, partial privatization took place in 2008. At this point a private investor bought minority shares (32%) and received management rights through an increase in share capital in the amount of 1 billion HUF (€ 3.6 million).

At this point the story becomes extremely complicated and intricate, tinted by contract abrogation, pressing charges, tax authority investigations and court cases. The new investor started off by, together with the town's transport company, establishing a new company with only a minimum founding capital (the distribution of shares being 60%-40%). This was followed by a business transaction, in the course of which the municipality transport company sold the buses to the newly established entity for 2 billion HUF (€ 7.2 million), only for the former to lease back the vehicles at a high fee in the following ten years. In exchange for this the new company agreed to upgrade vehicles. A couple of months later, however, the opposition party, FIDESZ, came to power at the municipal elections, and decided that the

contract concluded by the previous town administration was disadvantageous for the community. Bitter dispute ensued, at the end of which the municipality decided to take public transportation into its own hands. The mayor pressed charges with the police in connection with the bus sale and the tax authority imposed a huge fine on the company, claiming that buses were sold on the basis of a sham contract. At the beginning of April 2011, the local government set up a new company with 100% ownership and signed a contract with it for providing public transportation. Buses were returned to the original transportation company and now the newest company is renting buses from the old one.

There seem to be two fundamental reasons behind the 'remunicipalisation'. On the one hand, the public transportation company had a long-term contract for purchasing new vehicles, which the local government was unable to accomplish given its financial difficulties. On the other hand, it may well be that the new administration at Town B did not even intend to do so, given perceptions that the private investor's profit was too high.

Finally it is worth noting that the company, operating since 1993, has fulfilled only those tasks that are directly needed for operating local transportation; for instance, the vehicle maintenance, as well as cleaning, has been outsourced since the very beginning.

## 12.2 Elderly care

The Law on Social Care assigns the duty of providing care for the elderly to local government. Paradoxically, however, municipalities can freely decide about the scope of beneficiaries, as well as about the quality of services provided. Although the law defines the minimum standards in this respect, the government itself sought to narrow the extent of service provision in response to the crisis, and ordered in 2009 that entry to residential care facilities, run by the state (local government), ought to be subject to a doctor verifying the need for care of a minimum of four hours per day in the case of each person. This resulted in a dramatic increase in the proportion of in-patients with dementia, whose care implies far greater workload and is subject to specific standards. In reality, municipally provided care for the elderly has always been equivalent to care for the poor, and local organisations have traditionally made decisions about whether or not to accept residents in view of medical and social considerations.

According to official statistics, in 2011 there were 52,140 people living in "residential homes and social care homes for the elderly". Figures have been increasing year by year and there appears to be no break in the data since 2009. In 2010, 61% of places/beds were in institutions maintained by the local government, 20% were in homes operated by the churches, while 8% were provided by non-profit organisations<sup>35</sup>. We have no data, however, on the break-down according to the quality of the services provided, i.e. what proportion of care was of good quality, nor do we know anything about private home care which is, by and large, based on informal arrangements.

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<sup>35</sup> Source: HCSO [Magyar Statisztikai Évkönyv 2010, KSH 2011]

The small **Town A** provides the elderly with two residential homes, home care and day-care, all integrated into the Public Welfare Service, a municipality organisation with public service employees. A micro-regional association was established in 2012 to support it, as a result of which the services cover the elderly living in the town's catchment area as well. The establishment of the micro-regional association allowed for the expansion of the resources of the Public Welfare Service, which is also important from the point of view of local government. In 2012 the headcount was 121 full-time and 16 part-time public service employees in the whole Service.

Residents have to pay for the services in the two residential care homes. Day-care usually involves meal delivery and home care; the former is subject to a fee, while home aid and various other forms of home care are free. Such services are crucial from the point of view of the community, while they also facilitate better use of the local government's capacity (one of the homes is operating in a former kindergarten building, meals are prepared in the municipally-run kitchen, etc.) and contribute to the alleviation of employment problems.

In **Town B** the organisation of elderly care is different. In the past two years, Town B transferred the majority of social service provision to churches, as well as three educational institutions, formerly run by the municipality. In both areas, outsourcing was justified by the local government's financial situation: in its severe state of indebtedness the possibility of abandoning the obligation of financing these organisations, made possible by the system of selective state subsidy, proved very attractive.

Prior to the transfer, the system of social service provision had been reorganised twice for reasons of cost saving. In the framework of the first reorganisation in 2007, the institutional system was centralized and brought back in-house the delivery of cleaning services that had previously been outsourced. In the second reorganisation the local government carried out further streamlining of the service profile and retained in-house only three organisations: one for day-care services, one for care for people with disabilities and another one for elderly care. In the latter the number of residents decreased to 491, even though it continued to operate in two locations. The transfer of residential elderly care took place in 2011; in the course of this four sites of service provision and 343 employees were taken over by the Hungarian Baptist Aid church. Two of the remaining three sites were closed, and one was taken over by the Jewish Community.

The main reason behind the transfer of social care organisations to the churches is the same as in the case of schools: churches are entitled to higher per capita funding than local government. The amount is calculated every year on the basis of the financial resources provided by the municipalities to supplement state funds for service provision. Having outsourced these activities, the town is no longer obliged to subsidize elderly care, and at Town B this saved 0.5 billion HUF (€ 1.8 million) per year (1.25% of the entire town budget); moreover, it proved to be advantageous despite the fact that the municipality undertook the responsibility of renovating some of the buildings after the transfer. The contract includes a clause stipulating that the municipality shall be obliged to take back the home in case changes in financing should occur. This is relatively easy to put into practice, given that outsourcing is

restricted to the operation and does not extend to the organisation's movables assets and real estate. At the same time, the contract does not include guarantees as to the quality and price of services, beyond what is laid down in the relevant law. Thus in 2012 the new provider was allowed to effect a significant increase in fees; not only did the local government not interfere with this action but it appreciated the advantages that it did not have to take such an unpopular measure.

### 12.3. School catering

In **Town A** every school, social care organisations and hospitals would traditionally have included a communal kitchen. However, these were integrated a few years ago resulting in the present situation of six kitchens in the town and one in the hospital. The town is unique in the county in that communal kitchens are operating as public sector budgetary institutions - in other locations meals are provided by catering companies. Our interviews suggest the local government retained these facilities in-house in order to ensure quality service. Communal kitchens generate only minor profit; "investments are a problem, when large-scale renovation is needed. A private company could do with fewer people, it would refurbish the kitchen, but we value employment and quality more", the mayor explained. Wages are defined according to the public sector wage scale and amount to a net monthly wage of 70-80,000 HUF (€250-290).

In **Town B**, communal catering was outsourced in two stages. First, in 2004, a company closely associated with the socialist politicians in power gained the right to operate communal catering service in social care organisations. Two years later a significant share of school catering services was outsourced as well. A mixed system emerged as a result. The local government and six companies shared, more or less evenly, the operation of the 30 municipally owned kitchens.

Of the contracts concluded for five years in the framework of the procurement process, the first to expire was the one involving catering services for social care organisations. The new procurement was announced after the elections by the ring-wing municipality, but only until 2011, intending to integrate communal catering from this year onwards and replace the old service operator company. Only one valid bid was submitted, however, namely by the previous service operator. Therefore the local government had no choice but to conclude an agreement with this bidder, despite its intentions.

The first attempt to outsource the entire sector of communal catering was made in April 2011. The procurement specifications included the requirement that at least 60% of the ingredients used should be Hungarian products and at least 10% should come from the town's region. In the absence of acceptable bids, the procurement was annulled and there remained the system of mixed service provision. A new public procurement took place in February 2012, with an increased value limit, at which the winner turned out to be the same Budapest-based company that the local government gave preference to back in 2011. The company won the provision of communal catering (for all schools, hospitals and social care organisations) for ten years despite the fact that it did not meet all the requirements specified in the announcement, which led to police investigation for forgery of private documentation.

## 12.4. Cleaning

In **Town A** the Town Maintenance Office (a budgetary institution) performs all tasks related to the running of the city, including cleaning of public institutions and public spaces. Cleaners are public service employees and earn the lowest possible level of remuneration, which is currently equivalent to the statutory national minimum wage. In **Town B**, the situation is varied: as we have seen in the case of service providing companies, the majority of them outsource cleaning services but the elderly care home, for instance, has its own personnel for this.

## 12.5. Waste management

In **Town A**, communal selective waste collection and transport is provided by a local enterprise, owned partially by the local government and a private enterprise. While the municipality holds 51% of the shares, management positions are filled by the private enterprise. Altogether nine people are on staff at the company.

This local joint venture is operated with the backing of a regional enterprise. The region's 280 settlements established an association to carry out this task and the association set up a limited liability company, which set up waste disposal and waste treatment facilities, and established sites on municipally owned plots of land. The equipment and machines, including garbage trucks, are owned by the Ltd. but are operated by the local enterprise.

This construction allows the local government to set a relatively low fee for waste collection. The local government is not seeking to increase the profit through the enterprise, for the number of those who do not pay waste collection fee has been increasing and preserving the enterprise's cash-flow liquidity is often problematic.

During the interviews we asked about the rationale behind having this enterprise, given that the local government would also be able to fulfil this task in the framework of the Town Maintenance Office. Everyone we asked said that the structure is left intact because of the private owner's person. The municipality is hoping to attract the same company owner to commit to further investments, which was exactly the case with the development of the local spa and swimming pool.

**Town B's** waste management company was established by the municipality in 1993; however, the company, employing 500 people back then, soon came close to bankruptcy. Facing this situation, the local government decided on the company's privatisation. The bid was won by a French multinational company, which acquired 49% of the shares. Following the privatisation, a focus on core activities, reorganisation and investment (e.g. upgrading of vehicles) took place and the company became profitable.

What followed next was that in 2003 the municipality bought back the foreign partner's shares; to do this, it relied on the profit generated by the company and the revenues from the sale of some of the company's real estates. Further change followed in 2011, when the municipality allocated all its mandatory functions, connected to the maintenance of all public spaces, to the company. This implied partial in-sourcing of the tasks, since the operation of paid parking zones, road maintenance and snow removal were previously carried out by

private enterprises. In the case of pay parking, the motivation behind re-municipalisation was to increase revenues, while in the cases of road maintenance and snow removal quality concerns were the main driver.

The headcount at the company has fluctuated with changes in the company's activities. The lowest number of employees was 180-200 following rationalization efforts and outsourcing. Today it has increased to 310. In addition, some people are employed in the framework of the public work programme, especially park maintenance.

### 13. The impact of procurement and re-municipalisation on employment and pay

Whether it is a private company, a church or other non-profit organisation that takes over service provision from the local government, employees' legal status will change regardless the new provider: instead of the Act on the Legal Status of Public Service Employees, they will be subject to the Labour Code after the transfer. Both laws refer to the question of transition, more or less in compliance with the TUPE Directive. In case public sector employees refuse to accept a position offered to them, they receive a lower amount of severance pay than they would otherwise be entitled to. This is an exceptional ruling in Hungarian labour law, as in other cases employees do not have the right to refuse a transfer and are automatically taken over by the new employer. In general – and particularly after the relevant changes in legislation effected in 2012 – the Labour Code implies far less constraints for the employer than the Act regulating the employment of public service employees, especially when it comes to pay: instead of applying mandatory wage tariffs, only the two-level statutory national minimum wage system must be observed.

Given that Hungarian law is in compliance with the TUPE Directive, dismissals cannot be effected at the moment of transition. However, as in other EU member states there is a possibility to do that before and after. As we have indicated elsewhere, in our case studies we have come across restructuring, implying lay-offs of moderate scale, and the narrowing of the scope of services. In the case of institutional transferrals, looking to the higher per capita payment that church institutions are eligible for, there is no point in narrowing the scope of service, at least as long as the relevant law is in effect, although the issue of rationalizing operations is raised because of efforts at cutting costs. In the same manner, management is more rationalized in the case of services provided by the private sector than by state institutions. All in all, however, our case-study data suggest the stability of employment has been retained despite the transfer. Moreover, in some cases some improvement in employment stability has been noted, compared to a precarious situation before.

With respect to the wage level and wage bargaining after outsourcing, the case studies permit only limited conclusions. Outsourcing and the subsequent re-municipalisation of public utility services in Town B, where trade unions have a strong bargaining position, had practically no impact on the advantageous position of employees. Interestingly enough, in this town the organisation acquired by the church made no changes in pay conditions. As the new provider, the church followed the guidelines laid down in the law and gave in to trade unions demands, resulting in the retention of base salaries set according to the public sector wage scale and, in addition, also restored fringe benefits previously withdrawn by the local government. It was in a position to do so without any risk in the short term, since the majority of employees were paid the minimum wage anyhow and a large state subvention covers extra costs. It is telling, however, that the new collective agreement for this particular organisation does not fix base wages or benefits. Therefore it is possible that in the longer run it will be easier to deviate from the wage scale and it also signals that the employer does not foresee any wage

bargaining to take place. In the small Town A, wages in the local government sector are low, irrespective of whether the service is run by the municipality or a private company; all employees' pay is set according to the minimum wage commensurate with their qualification level, and the minimum salary determined for public sector employees. Although drivers working at the bus company, operated by a private entrepreneur, earn somewhat more than the minimum wage their salaries are precisely half of what bus drivers in town B receive, not to mention the difference in fringe benefits. The striking regional wage differentials are thus replicated in the case of services outsourced by the local government to the private sector, while the public sector wage scale - though at a very compressed wage level - has had a levelling effect.

The law prescribes the obligation to provide information in case public service employees become subject to the Labour Code, which may ideally facilitate collective bargaining. The case studies of the two towns indicate that such bargaining takes place only if the trade union had carried out robust interest representation before, as outsourcing in itself does not provide the conditions for establishing trade unions, or for conducting negotiations.

### **13.1. Employment and collective bargaining at the local transportation company in Town B**

As a result of the unsuccessful privatisation, the number of buses suitable for transportation has decreased since 2008, which has had a crucial impact on the number of employees. In addition, the municipality's budgetary problems prompted a 7% cut in the number of services. The new municipal enterprise employs 460 people, while four years ago the number of employees was over 500.

There is a trade union with considerable bargaining power at the company; its organisation rate among drivers is 100%, and 87% on the whole. Although there has not been a strike here since a two-hour warning strike took place in 1995, the trade union is adept at using other means of pressure (which they are forced to do, given the tightening of the strike law). Their last action was a work-to-rule strike. When the municipality attempted to cancel fringe benefits, the so-called Cafeteria package, the trade union organised an action of road safety and bus drivers refused to go to traffic in buses other than those that had everything working perfectly in them. After a couple of hours, the action could be stopped, as the local government gave up its intention.

There is a collective agreement at the company, which is renewed every year during the yearly wage negotiation. The agreement includes the seniority-based pay system of drivers (which the trade union considers its greatest achievement), the proportional rates (%) of benefits, the extent of overtime and details of working time arrangements. As a rule, the yearly wage increases hardly go beyond the forecasted inflation rate but the trade union was sometimes able to achieve higher raise for some groups (e.g. in 2010, a 15% raise was pushed through for the traffic control personnel, compared to 7.5% for bus drivers). In the past years the company moved in the direction of performance based pay.

Although change in the ownership implied changes in the company management, it did not affect the employment relations, as it remained to be subject to the Labour Code all along. Similarly, there was no change with respect to payment conditions or other acquired rights of employees neither as a result of the company's partial privatisation, nor their return to the new company fully-owned by the municipality. Trade unions had no role whatsoever in the transformations, although information provision always took place as required by law. Although a new collective agreement is in the making because of the new Labour Code, the trade union does not expect major changes.

The basis of the wage scale applied to drivers is a uniform grade wage (currently 750HUF/hour (€2,7)), which is increased by a seniority-related pay increment (presently 5.5HUF/hour per year). In addition to their base wage, drivers receive a bonus in accordance with the number of tickets sold, a bonus (on a yearly basis), as well as a cafeteria package (in the amount of 200,000HUF/year (€722)). An important source of income comes from the overtime bonus and the benefits; the company makes full use of the 300-hour quota allotted to each employee. Depending on the work arrangements, employees may receive bonuses for afternoon, night or weekend shifts. Nevertheless, salaries are high only by local standards. Virtually all drivers received the wage compensation introduced by central government in 2012 to counterbalance the regressive impact of the shift to the flat-rate income tax system (see part one), and which is paid to low-wage employees who lose out on the shift bonus. At present the average monthly income of blue-collar workers is 211,000HUF (€762).

### **13.2. Town B: Working conditions when elderly care transferred to the church**

In the residential care home taken over by the Hungarian Baptist Aid, a church organisation, the largest group among employees is nurses and mental health professionals. As services are not outsourced, cleaners, laundry and kitchen personnel and drivers are also employed. The proportion of employees qualified as specialized nurses is over 80%. Given the nature of the work, the majority of workforce is made up of women.

Prior to the takeover, employees experienced a great amount of precariousness. They did so, on the one hand, because - being aware of the municipality's grave financial problems - they were seriously concerned that their wages would not be paid. Such concerns were not without any basis, in light of the fact that the local government had previously revoked the cafeteria package and other benefits. On the other hand, they were afraid that the new maintainer would bring in its own people to replace the original personnel.

The sectoral trade union is recognised at the organisation and has an organisation rate of 60-65%, although this has been registering a decreasing trend. Before the transfer, two trade unions had local organisations operating here as well, but they had managed to merge by the time of the takeover in 2011. In the spirit of renewal, young people were taken in among shop stewards as well.

At the negotiations preceding the transfer, the church's representative made a promise to take over employees under the same terms and to retain the system of base salaries, defined according to the public sphere wage scale, and bonuses as set out in the collective agreement.

Since the new provider was not going to take over more employees than the minimum prescribed in the Law on Social Services, the transfer was preceded by a collective redundancy of 49 people out of a workforce of 400. Those who were laid off this way included mainly two groups of employees: those who were eligible for retirement, since they did not have to be paid severance pay; and those whose work the new provider was planning to dispense with. The trade union and the works council consulted with the local government about the dismissals and the parties also took the potential need of church into consideration. Contrary to the general practice in Hungary, the consultations also included the selection of the jobs to be eliminated and persons to be dismissed.

Among those selected for transfer to the church employer, an estimated 20-30 people refused to accept the particular job they were offered. Some were planning to find employment abroad, others had hoped to get, in addition to the severance pay, a notice period and with the respective salary. The local government, however, refused to pay the latter, referring to the TUPE regulations according to which it was not due. Although the local government proceeded according to the TUPE regulations, the new church provider refuses to comply. This is mainly due to the fact that the church organisation was concerned about the obligations incurred under the previous provider and which could have brought about instability.

Following the takeover, the collective agreement was renegotiated but only minor changes were made; the scale of bonuses and other benefits were retained also. The weakness of the new agreement, however, is that it is completely lacking a wage scale. This could also be explained by continuity, given that its predecessor omitted it as well. However there is a crucial difference in the conditions: previously, under the scope of the public sector law, it was not necessary given the centralised wage-scale. In 2012 there were works council elections at the organisation, in compliance with the legislation for employees covered by the Labour Code.

With regard to pay, the new employer has so far kept to its promises and provides salaries according to the public sector wage scale, although the national minimum wage for skilled workers applies to the majority of employees. Various bonuses are added to the basic wage so that in practice the majority of employees receive a net monthly wage of 100,000-130,000 HUF (€360-470). In addition, the employer relaunched the cafeteria package and resumed paying premiums that had been abolished by the local government. In essence, HR management practices remained the same also. The only novel element concerns employees with a higher education degree, as they are given the possibility to attend a college of theology for free of charge.

## Conclusions

The main problems of the public sector highlighted in this report can not be separated from the state of the Hungarian economy and the problems associated with the current right-wing political regime. However, focusing on the public sector only, the main lessons and policy recommendations are as follows.

- The long-lasting pay freeze has eroded public sector wages so much that the negative consequences of a pay penalty is already palpable: migration of highly skilled employees; lack of motivation among employees; and a deteriorating quality of services. In addition, the forthcoming austerity measures and prospective lay-offs will further aggravate the crisis in the public sector. So far, government promises about securing the 'career path model' in different occupations (civil servants, teachers) remain dead letters. Therefore, reducing the pay penalty and restoring the reputation of public sector jobs are matters of urgency.
- Pay restraint has also caused too much a compression of the public sector wage scale. Therefore, policy should also seek to reform the wage system by improving the seniority-based system and introducing an element of performance-based pay with appropriate management techniques and controlled by social dialogue institutions.
- The current wave of centralisation of public services and transfers of institutions to the church (especially in health care, education and social services) is overly motivated by ideological and political considerations rather than by professional impact studies and thorough negotiations with stakeholders. A rethinking of institutional change is therefore required, involving all stakeholders, including the social partners.
- The autonomy of municipalities has been undermined by fiscal measures and the recent centralisation of institutions. Their freedom should be restored in order to take local stakeholders' interests into consideration since this would have a positive influence on the quality and scope of services.
- Social dialogue needs to be strengthened by not only restoring the centralised quasi-bargaining on pay and consultation on labour legislation, but also granting greater scope for collective bargaining. Beyond the decentralised (local) level, the preconditions for sectoral collective bargaining (that is, the establishing of representative bodies of employers) should be created in the public service sector too.
- Finally, the processes of procurement (including privatisation and 're-municipalisation') are seriously burdened by corruption and political considerations at central and local levels. Anti-corruption initiatives, such as the projects of the State Audit Office, should be continued and their recommendations should be implemented.

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**Appendix table 1. Public service employees' wage scale in 2012**

(Guaranteed base monthly salary in the 1<sup>st</sup> grade in HUF, multipliers in other grades. Salaries in the highlighted brackets are lower than the National Minimum Wage (with green) or Skilled Workers' Minimum Wage (with grey))

Salary grades by length of service	Salary categories by educational attainment									
	A	B	C	D	E	F	G	H	I	J
1.	69.000	77.000	78.000	79.000	89.000	122.000	127.000	129.500	142.000	154.500
2.	1,0175	1,0175	1,0200	1,0250	1,0275	1,0350	1,0350	1,0500	1,0450	1,0600
3.	1,0350	1,0350	1,0400	1,0500	1,0550	1,0725	1,0725	1,1000	1,1025	1,1350
4.	1,0525	1,0525	1,0650	1,0750	1,0900	1,1100	1,1100	1,1500	1,1675	1,2100
5.	1,0700	1,0700	1,0900	1,1000	1,1250	1,1475	1,1475	1,2000	1,2425	1,2850
6.	1,0875	1,0875	1,1125	1,1250	1,1600	1,1850	1,1850	1,2600	1,3175	1,3600
7.	1,1075	1,1075	1,1375	1,1525	1,1975	1,2225	1,2225	1,3350	1,3925	1,4200
8.	1,1275	1,1400	1,1625	1,1875	1,2350	1,2650	1,2725	1,4100	1,4675	1,4825
9.	1,1500	1,1725	1,1950	1,2250	1,2725	1,3075	1,3325	1,4850	1,5275	1,5450
10.	1,1725	1,2075	1,2300	1,2625	1,3100	1,3675	1,3950	1,5600	1,5875	1,6075
11.	1,1950	1,2425	1,2675	1,3000	1,3475	1,4275	1,4575	1,6250	1,6475	1,6700
12.	1,2175	1,2775	1,3050	1,3375	1,3775	1,4875	1,5200	1,6900	1,7075	1,7325
13.	1,2400	1,3125	1,3425	1,3750	1,4075	1,5475	1,5825	1,7550	1,7775	1,8025
14.	1,2625	1,3500	1,3800	1,4125	1,4425	1,6075	1,6450	1,8200	1,8475	1,8725

Source: Act on State Budget, 2012. Annex 11.