

Labor Regulations in Hungary, 2013 Including the Changes from 1th of July 2012

EU conform legal environment

Hungary, as member state of the EU, continuously implements the employment related EU directives.

THE NEW LABOUR CODE Act I of 2012 on the Labor Code (the "New Labor Code") entered into force as of July 1, 2012. The main purpose of the New Labor Code is to create a labor law system that is harmonized with new market conditions (with a greater acknowledgement of the needs of the service industry and SMEs). The New Labor Code also offers more flexibility; parties have more freedom to negotiate the terms of the employment agreement.

Terms of employment

Employment contracts must be made in writing and cannot contradict the law or the provisions of the collective agreement, except in cases when the contradicting provision is more favorable to the employee. In addition, the minimum provisions established in the Hungarian Labor Code must be met.

In collective agreements, parties are free to agree on the conditions except if there is a provision to the contrary.

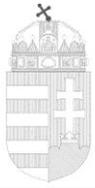
Minimum wage

The employer must pay at least the minimum wage set by the Government, valid throughout Hungary. As of January 1, 2013, the **statutory minimum is gross HUF 98,000 (USD 436 / EUR 331)¹ per month** for non-qualified workers, while for employees having at secondary education the minimum is gross HUF 114,000 (USD 508 / EUR 384). However, that is a very low wage, and employers seeking to attract and motivate qualified people should expect to pay more than that.

Retirement age

Date of birth	Age of employee
Before 1952	62
1952	62,5
1953	63
1954	63,5
1955	64
1956	64,5
1957 or after	65

¹ 1 EUR = 296,51 HUF; 1 USD = 224,63 HUF
Source: Hungarian National Bank, 2013 Q1



Employment contracts

The terms of employment are established by a written **labor contract**, which has to contain at least the following: personal basic wage, duties of the employee, the place of employment.

The mandatory content of employment agreements is reduced to the basic personal salary and the position. The definition of the place of employment can be important but is no longer mandatory. One or more places can be indicated or a geographical area can also be referred to as the place of work (e.g. a county, a region, or the whole territory of Hungary).

With entering into the agreement, the employee has to be informed in writing of: basic work schedule; other components of his/her remuneration; the date of payment of wages; the date of entering into work; the duration of basic leave and the procedures for allocating and determining such leave; the rules governing the periods of notice concerning the employer and the employee in case their contract or employment relationship is terminated; whether a collective agreement applies to the employee; name of trade unions and/or work council operating at employer.

Labor contracts can be set for definite or indefinite period. In both case the Parties may agree on a probation period. The duration of a fixed-term employment relationship may not exceed five years.

The maximum probation period remains 3 months. If the probation period is shorter than 3 months, it can be extended once, but still cannot be longer (together with the extension) than 3 months. Collective agreements may stipulate a probation period of a maximum 6 months.

Mandatory amendment of the employment agreement is that the employer is obliged to amend the employment agreement to a part time agreement upon the request of the employee until the third birthday of the employee's child.

Termination of employment

The termination rules have also been amended. The employment relationship can be terminated: by mutual agreement, by (ordinary) notice and by termination with immediate effect. Termination during the probation period is categorized as a termination with immediate effect.

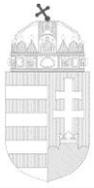
Termination of labor contracts

Under the New Labor Code, the termination of employment relationships governed by contracts with a definite period has been more flexible. Employment established for a **definite** period can also be terminated by (ordinary) notice in the following cases: during bankruptcy and liquidation proceedings on grounds based on the incapacity of the employees and if the maintenance of the employment becomes impossible due to external reasons out of the parties' control.

Employees may also terminate employment established for a definite period by (ordinary) notice if the maintenance of the employment becomes impossible or disproportionately difficult with respect to the employee's circumstances.

One novelty of the New Labor Code is that the notice period cannot be longer than 6 months.

The exercise of the right of (ordinary) notice can be excluded for one year from the commencement of the employment. Another novelty is that the behavior of employees out of working hours also matters and may cause grounds for disciplinary action.



- ❖ The employment relationship established for ***indefinite*** period can be terminated in writing:
 - by mutual agreement,
 - by (ordinary) notice,
 - by notice with immediate effect,
 - during the probation period with immediate effect.

- ❖ The employment relationship established for ***definite*** period can be terminated in writing:
 - by mutual agreement,
 - by (ordinary) notice in some cases,
 - by notice with immediate effect,
 - during the probation period with immediate effect,
 - by notice of the employer, with immediate effect, without giving reasons, paying the salary for the remaining part of the definite period, but maximum of 1 year's salary.

Termination by mutual agreement

The employment relationship for definite and indefinite period of time can be terminated by mutual agreement between the Employer and the Employee. The mutual agreement can be initiated by any of the Parties. The mutual agreement should be concluded in writing.

Termination of employment relationship by ordinary notice

The employment relationship for ***indefinite*** period of time can be terminated by the Employer and the Employee by ordinary notice. The notice shall be in writing.

The Employer should give reasoning to the notice. The reasoning should describe the cause of the notice clearly. In case of dispute the Employer should prove the validity and causality of the justification for its notice. The Employee is not obliged to justify his/her notice.

The notice period is basically 30 days. The notice period is longer, if the duration of the employment exceeds 3 years.

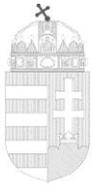
In case of ordinary notice by the Employer, the Employee shall be exempted ½ part from work during the notice period. During this exemption period the Employee is entitled to his/her average salary.

Termination of the employment relationship by notice with immediate effect

The employment relationship for definite and indefinite period of time can be terminated by any of the Parties with immediate effect.

The termination with immediate effect shall be in writing.

Any party may terminate the employment relationship with immediate effect only in case the other party commits a serious breach of a major employment-related obligation with wilful misconduct or gross negligence.



During the probation period the Employer and the Employee are entitled to terminate the employment relationship with immediate effect without any reasoning. Termination of the employment relationship during the probation period has to be made in writing form.

New protection system:

- Prohibition on termination
- Protection against termination
- Limitation on termination

The provisions regarding the employees' protection from (ordinary) notice has been changed significantly. Under the New Labor Code employees may be under a prohibition from termination, or they may be subject to protection or a limitation.

Prohibition on termination

The employment relationship cannot be terminated (i.e. the notice cannot be delivered) during:

- pregnancy,
- maternity leave (24 weeks),
- unpaid leave for nursing a child,
- military service,
- during a treatment related to a human reproduction procedure (a maximum of 6 months from the commencement of such a procedure).

It is worth highlighting that prohibition on termination during pregnancy and human reproduction treatment applies only if the employer was informed before the handover of the termination notice.

Protection against termination

The employment relationship may be terminated, thus the notice may be delivered, but the notice period may not commence during:

- sick leave,
- sick leave for the purpose of caring for a sick child, or during
- unpaid leave for providing home care for a close relative.

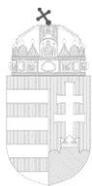
Limitation on termination

A limitation applies to employees:

- who have reached a protected age (i.e. they have 5 years until they reach their entitlement to an old age pension), and
- to a mother or single father until the child reaches the age of three.

The result of the limitation is that the employment may be terminated but only for the following serious reasons:

- for reasons in connection with the employees' behavior (in the case of a very serious breach, i.e. the same reason which is needed for immediate termination),
- due to the employee's incapability, or
- for operational reasons (only if no other position is available at the work place that is appropriate with respect to the employee's abilities, degrees and practice, or if the employee refuses such an offer).



Severance pay

- after 3 years – 1 month salary
- after 5 years – 2 month salary
- after 10 years – 3 month salary
- after 15 years – 4 month salary
- after 20 years – 5 month salary
- after 25 years – 6 month salary

Sick pay rates

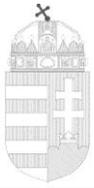
Employers shall contribute to sick-pay expenses.

For the duration of sick leave (the first 15 days) seventy per cent of the absentee pay has to be paid by the employer. From the 16th day the amount of sick-pay, has to be paid, is sixty per cent of the calendar daily average of the applicable income. (1/3 by the employer and 2/3 by the social security) (Fifty per cent, in that case, if the period of insurance cover is less than two years and during the period of treatment in an inpatient medical institution)

Contributions

Contributions payable by the Employee	%	<i>e.g. Assume gross 150 000 HUF/month</i>	<i>e.g. Assume gross 300 000 HUF/month</i>
Employee contributions	1.5%	2 250	4 500
Employee health contribution	7%	10 500	21 000
State pension contribution	10%	15 000	30 000
Personal income tax	16%	24 000	48 000
Total deduction from the gross salary		51 750	103500
Net income / month		98 250	196 500

Contributions** payable by the employer	Gross salary =100% (e.g. assume gross 150 000 HUF/month)
Social contribution tax	27%
Training contribution	1.5%
Total	128,5%
<i>Total cost of salary (HUF/month)</i>	<i>192 750</i>



**Rehabilitation contribution is paid by employer if the number of employees exceeds 25 but the number of disabled persons is less than 5 %.

The contribution payable per year is the missing number from the obligatory employment level multiplied by the amount of the rehabilitation contribution (964 500 Ft/person/year, approximately EUR 3400). When calculating the headcount temporary employees from agencies should not be taken into account.

Working time

The rules relating to the breaks from work and the weekly resting days will also become more flexible under the New Labor Code. The breaks shall be provided to the employees after at least three hours of work, but before less than six hours of work.

Full time working means: 8 hours/day 40 hours/week (shorter period can also be defined as full time working schedule). 12 hours daily working schedule also allowed but it should be in line with the actual monthly working hours.

Part time work also allowed, normally 4-6 hours/day allowed for employees.

The work time of employees working according to a **non-stop work schedule** or on legal holidays shall be established and scheduled in accordance with the general provisions.

According to the the New Labor Code, ordinary working hours can be ordered on Sundays in the case of employees employed: ²

- if the employer generally operates on Sundays by the nature of its business;
- in seasonal work;
- if working in continuous shifts;
- for workers working in shifts;
- in stand-by jobs;
- for part-time workers working Saturdays and Sundays only;
- in connection with the provision of basic public services or transfrontier services, where it is necessary on that day stemming from the nature of the service;
- in the case of work performed abroad; and
- at employers engaged in commercial activities covered by the Trade Act, and at providers of services auxiliary to commercial activities and providers of tourist services of a commercial nature.

If an employee working in a stand-by job is scheduled to work on Sunday within the framework of regular working time, he may not be scheduled to work on the preceding Saturday.

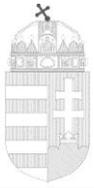
Generally employees may not be required to perform work on the non-working days.

Employees can also be required to **work on legal holidays**:³

- in the case of provision of services to abroad if – because of the nature of the service and irrespective of the organization of work – performance of information technological work and

² (101. §)

³ (102. §)



work by information technological instruments is necessary on that day (e.g. international service centers) ; and

- in the case of an assignment to abroad if according to the applicable law of the place of assignment work can be ordered for that day.
- in case of seasonal work
- in working order without interruption
- at employers, operating on legal holidays too, due to their function

Official holidays are: January 1, March 15, Easter Monday, May 1, Whitsun Monday, August 20, October 23, November 1 and December 25-26.

The **length of working cycles** can be determined on 16 weeks bases at most.⁴

Adopting collective agreement the length of the working cycles can be prolonged to a maximum of 26 weeks.

in cases of:

- continuous working system
- employees employed in multiple working shifts
- seasonal work
- working in stand-by jobs

Companies are allowed to adopt 52 weeks cycles, but only if the collective agreement allowed, and the nature of the technology and the organization of work requires.

In case of determination of daily work time, the working time may not exceed 12 hours and the weekly work time cannot be more than 48 hours, and except the part-time work, it may not be less than 4 hours pro day.⁵

In case of working cycles, this above rule has to be applied on a weekly average basis (so the weekly average of working time may not be more than 48 hours). The minimum of working time is 4 hours, except for part-time workers.

Employees shall be allowed at least eleven hours of rest time between the conclusion of a daily shift and the commencement of the next day's work. If no actual work was done while the employee was on call, then the employee is not entitled to a rest period. The uninterrupted resting time is at least 8 hours for those employees who are employed in split shift.⁶

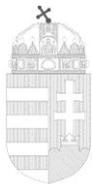
A collective bargaining agreement or the agreement of the parties may depart from the provision laid down in the Law, however at least eight hours of rest time shall be provided in such cases as well.

Employees shall be entitled to two days' rest per week, one of which shall fall on Sunday. The employees employed in a work schedule other than described in the Law shall be entitled to an uninterrupted rest period of at least 40 hours weekly. Such period shall include a Sunday or, if the work, by its nature, is also performed on Sunday, another full calendar day.

⁴ (94. §)

⁵ (99. §)

⁶ (104. §)



Shifts

There is no afternoon shift (between 2 pm and 10 pm) or night shift (between 10 pm and 6 am) according to the New Labor Code. Instead of supplements being paid for these particular shifts, the employer has to pay a **shift supplement of 30%** to employees who work between 6 pm and 6 am in alternating shift.⁷

Shift allowances are dependent to numerous aspects therefore it is strongly recommended to make a calculation before establishing new shifts.

Extra (Overtime) work

Overtime work means the work performed beyond the employee's regular daily working hours (and work performed during standby or call-on). In the event that work time is not established for work days in advance, overtime means the work performed above the hours specified for the working time cycle. Overtime has to be required by the employer in written format to the employees.

For the aspects of ordering, work performed on a rest day or on an official holiday shall be construed the same as overtime. If they are instructed to work on a weekly rest day, employees shall preferably be given another rest day (rest time) instead, by the end of the month following the performance of such work.

Under the New Labor Code, employees may be obliged to do **extra work (overtime) up to 250 hours / year.**⁸ In Collective agreements, this may be increased to 300 hours / year.⁹ This introduces an important flexibility, as previously the maximum overtime was 200 hours/year.

From 1st of July 2012 the upper limit for overtime work increased **250 hours per calendar year, which can be extended by an agreement between employer and employees and also by the collective agreement:**

- up to 300 hours by the agreement between the employer and the employees. The employer is entitled to conclude such an agreement with an employee only if the employer had filed a request to the government employment agency to refer a worker in a similar position as the employee in question, and it proved unsuccessful.
- up to 300 by collective agreement.

Type of overtime	Allowance		
<i>During the week</i> ¹⁰	50%	<i>or</i>	<i>1 day off (for 1 day overtime)</i>
<i>During weekend (Sunday)</i> ¹¹	50%	<i>or</i>	
<i>Weekly rest day</i> ¹²	100%	<i>or</i>	<i>50% allowance + 1 day off</i>

⁷ (141. §)

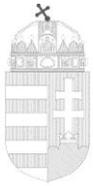
⁸ (109. § (1))

⁹ (135. § (3))

¹⁰ 143. § (1)

¹¹ 140. § (1)

¹² 143. § (3)



<i>Working on paid national holiday</i> ¹³	100%	<i>or</i>	
Other supplements			
Shift supplement (working between 6 pm and 6 am in alternating shift) ¹⁴	30%		
<i>Night work supplement</i> (working between 10 pm and 6 am, but not in alternating shift) ¹⁵	15%		

Vacation time

The definition of basic vacation days has been changed in the New Labor Code, which means that employees are entitled to 20 days as basic vacation. The number of vacation days increases with the age of the employees, however such vacation days are labeled as additional vacation days and parties are free to agree in collective agreements even to decrease the number of these additional vacation days.

The Employee is entitled to ordinary paid leave in each calendar year spent in employment relationship that consists of basic and additional paid leave.

The basic paid leave is 20 working days. The paid leave increases to

- 21 days for Employees over 25 year age,
- 22 days for Employees over 28 year age,
- 23 days for Employees over 31 year age,
- 24 days for Employees over 33 year age,
- 25 days for Employees over 35 year age,
- 26 days for Employees over 37 year age,
- 27 days for Employees over 39 year age,
- 28 days for Employees over 41 year age,
- 29 days for Employees over 43 year age,
- 30 days for Employees over 45 year age.

The young (younger than 18 years) employee is entitled to 5 working days per year as additional paid leave, last time in the year in which the young Employee becomes 18 years old.

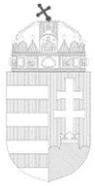
The employee shall be entitled to extra vacation time amounting to

- two days a year for one child,
- four days a year for two children,
- a total of seven days a year for more than two children

¹³ 140. § (2)

¹⁴ (141. §)

¹⁵ 142. §



under sixteen years of age. In respect of extra vacation time, a child shall first be taken into consideration in the year of his birth and for the last time in the year in which he/she reaches the age of sixteen.

Referring to the additional paid leave the child should be first considered in his/her year of birth, and at last in the year when the child becomes 16 years old.

In case of establishing or terminating employment relationship during the year, the Employee is entitled to paid leave proportionally.

The paid leave should be allocated in the year when it is due.

The employer shall allocate the paid leave at latest until March 31st after the subject year exceptionally in case of extraordinary important economical reason, or in the event of the employee's illness or another unavoidable restraint affecting the employee, within a period of thirty days following the cessation of such restraint subsequent to the year in question.

The allocation of vacation days also became more flexible:

- if the employment started on October 1 or later, holidays can be used until March 31 of the next year;
- if the employee starts his/her vacation in the given year, a maximum of 5 working days can be used in the next year (continuously);
- Collective agreements can set out that one fourth of the vacation days can be allocated before March 31 of the following year; and
- parties may agree that one third of the basic vacation days due in accordance with the age of the employees may be carried over to the following year.

Trade unions

With a view to protecting the social and economic interests of workers and to maintaining peace in labor relations, Act I of 2012 on the Labor Code shall govern the relations between trade unions, works councils and employers, and their interest representation organizations. Accordingly, it shall guarantee the freedom of organization and the employees' participation in the formation of working conditions, furthermore, it shall regulate collective bargaining negotiations, as well as the procedures for the prevention and settlement of employment-related conflict.

Unions could be organized at or outside the employer. Only Unions can conclude Collective Bargaining Agreement with employer. It is the public sector (railway-company, health-care institutions, educational institutions etc.), where the number of union members is significant. In the private sector the rate of union member employees is very low.

Work council

Representative body of the employees at a company, which shall be elected over 50 employees. The work council has extensive scope of consultation right, as well as the right for information on the Company's business situation.

Last updated: 16th of April 2013

(Prepared by HITA, Sources: Act I. of 2012 on the Labor Code and other Hungarian rules)