



Project no.
513705

Project Acronym
CEEK AGRI POLICY

Project title
**Agro economic policy analysis of the new member states,
the candidate states and the countries of the western Balkan**

Instrument Specific Support Action

Thematic Priority Scientific Support to Policies

**D12-3 Third 6-monthly report
RURAL EMPLOYMENT
IN THE CONTEXT OF RURAL DEVELOPMENT
IN HUNGARY**

Start date of project: 01.05.2005

Duration: 24 Months

Revision Final

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission	
RE	Restricted to a group specified by the consortium (including the Commission	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Acknowledgement

This report forms part of the deliverables from a project called "CEEC AGRI POLICY" which has been awarded financial support by the European Commission under the 6th Framework Programme.

The project aims to establish a network of experts involved in agricultural policy analysis and rural development in the New Member States, in the Acceding Candidate Countries and in the countries of the Western Balkan. More detailed information on the project can be found at www.agripolicy.net.

DOCUMENT HISTORY

see country reports on www.agripolicy.net for full list of authors

Date	Author	Description
October 2006	S. Elek, T. Ferenczi, C. Forgács, J. Tóth	Report on Rural employment in the context of rural development in Hungary
November 2006	JohnWibberley and Martin Turner	Review and editing

CONTENT

1	Introduction and background	4
1.1	An introduction to rural employment.....	4
1.2	Agricultural employment.....	5
1.3	Non-agricultural employment	7
2	The context of rural employment.....	7
2.1	New employment opportunities	7
2.2	Education and skills – levels, access and provision.....	8
2.3	Other key factors in employment (if any)	10
3	Specific rural employment issues	10
3.1	The nature of under-employment	10
3.2	The scale of semi-subsistence farming.....	10
3.3	The implications of the ‘Lisbon Strategy’	10
4	Overview and prospects.....	11
5	References.....	12

1 Introduction and background

1.1 An introduction to rural employment

Since rural unemployment is one of the main consequences of the complex rural problems in Hungary, therefore it is in the focus of rural development policy.

Changes in the labour market (such as rapidly increasing proportion of inactive population and high number of layoffs) resulting from the political and economic changes had already happened before the discussed period. By 1994, the number of inactive population between the ages of 15 and 64 had increased to 2729.3 thousand, then this number has slightly decreased to 2694.7 thousand by the end of the analysed period. In reference to the same age group, unemployment was 124.8 thousand in 1990 (Central Statistical Office, hereinafter CSO, Census 2001). This number had jumped up to 371.5 by 1994, and then decreased to 244.4 in 2003. Although the number of workplaces had increased, the number of employed workers had fallen from the 4516.0 thousand in 1990 (CSO, Census 2001) by almost half a million (3692.5 thousand) by 1994, then showed a small increase (39231.9 thousand) by 2003. The unemployment rate had decreased from 10.8% (1994) to 5.9% (2003).

The significant decrease in the number of employment was accompanied by a higher number of the inactive population. These figures were slightly corrected during the first few years of the transition, when workers close to the retirement age (60 years for men, 55 years for women) could request early retirement, and a lot of workers had become disability pensioners. The growing number of inactive population was caused by the high number of workers permanently out of the labour market or unable to find jobs. Nationally, the rate of inactive population had hardly changed during the analysed period, but had decreased significantly compared to the previous period (58.3% in 1992).

The above mentioned tendencies were more intense in the rural regions of Hungary. Since labour market opportunities had decreased, the employment rate had lagged behind the national average, and at the same time unemployment rate had significantly exceeded the national average. As we look at settlements with small populations and far from regional centres, the unemployment rate is more and more unfavourable and consequently the job opportunities are decreasing.

In the rural regions the unemployment rate is significantly higher and the economic activity (30-40%) is lower than the national average (57%). In 39% of the rural cities, in 46% of the villages, and in 53% of the villages with less than 500 residents, there is no employed earner¹.

The fact that agriculture's share in employment has been constantly decreasing and in rural regions alternative sectors (industry, services) could not take up the laid-off workers explains the above presented situation (e.g. the employment in non-agricultural sectors had increased by only 2.6% between 2000 and 2004). The local employment opportunities are limited; the number of daily commuters had increased (29%).

Regions suffering from decade-long labour market difficulties are geographically concentrated in Northern Hungary, Northern Great Plain, and Southern Transdanubia. The difficulties are present in remote regions (i.e. which are hard of access), have no considerable city serving as centre, and are in regions with small villages and homesteads.

¹ according to the latest census data in 2001.

Based on the methodology² used up to the present (it is under revision at the moment in the Hungarian rural development practice) 87% of Hungary's area and 96% of its settlements are considered to be rural, where 47% of the population had lived³.

Consequently, the category of 'rural regions' cannot be fitted directly to agricultural and undeveloped regions or villages. Furthermore, the problems and idiosyncrasies of the rural regions are not the same, but show significant differences, which are mainly determined by regional differences and diverse settlement structures.

1.2 Agricultural employment

In Hungary, the number of people connected to agriculture in one way or another had dropped by 50% between 1991 and 2003. In 2003, 1,3 million people, 15.9% of the population⁴ was somehow involved in agriculture.

The population connected to agriculture consists of two groups which significantly differ in their number and composition. The larger group comprises **people engaged in agricultural activities**, who are linked to production in a looser way and with various purposes. The second, substantially smaller group consists of people employed in agriculture as main occupation, i.e. **agricultural employees**⁵.

Their number has fallen from 302.4 thousand (1996) to 194 thousand (2005), which is a 34.26% decrease. Today, 5% of the total employment (3.9 million) works in the agricultural sector.

The number and percentage distribution of employees within the main groups of national economy (1996-2005)

	1996	1997	1998	1999	2000	2001	2002	2003
Number of employees, in thousands								
Agriculture	302,4	287,8	278,8	270,4	255,5	243,4	240,9	215,2
Industry, construction	1190,1	1207,9	1264,3	1296,1	1304,0	1325,9	1319,9	1305,9
Services	2185,6	2155,6	2150,6	2154,6	2245,0	2296,7	2299,0	2309,8
Total	3648,1	3646,3	3697,7	3811,5	3856,2	3868,3	3870,6	3921,9
Percentage distribution, %								
Agriculture	8,3	7,9	7,5	7,1	6,6	6,3	6,2	5,5
Industry, construction	32,6	33,1	34,2	34,0	33,8	34,3	34,1	33,3
Services	59,1	59,0	58,3	58,9	59,6	59,4	59,7	61,2
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

² In Hungary, the rural development practice determines rural regions on the settlement level based on 4 criteria (1) demographically unfavourable location; (2) aging population and migration out of the region; (3) regions with development and economic leeway (4) infrastructural leeway. According to these criteria, settlements which population density is **less than 120 people/km² are considered to be rural settlements (in 2003: 2781 settlements, 88% of the total number of settlements, 38% of the population)**. In the case of settlements where population density exceeds 120 people/km² because their area is small, but their population is not more than 10 thousand, an index was designed to eliminate the effect of regional distinctiveness. These settlements are also considered to be rural (an additional 253 settlements).

³ Several attempts based on rural typology had been published to eliminate the effects of this overlap, but none of them has become legitimate so far. For example: Csatári B. (2004), Kovács K. – Koós B. (2003). The ARDOP Monitoring Committee is also trying to resolve the problem of the overlap.

⁴ People over 15 years of age.

⁵ There is an overlap between the groups, because a family member who works on the private farm can take up another fulltime (agricultural) job elsewhere.

Source: Time series of the employment analysis, 1992-2003, CSO

The number of people involved in agricultural production depends on the quality of land, agricultural and structural circumstances. Agricultural employment is also influenced by the number of laid off workers from other sectors of the economy.

The number of people involved in agriculture shows significant differences between the regions. The Northern and Southern Great Plain (20-25%), and Southern Transdanubia (20%) have the highest number of people involved in agriculture⁶.

The number and percentage distribution of people involved in agriculture based on regions (2000, 2003)

Regions	People involved in agriculture				Change, 2000=100%
	number, in thousands	distribution, %	number, in thousands	distribution, %	
	2000		2003		
Central Hungary	158,9	8,0	100,5	7,4	63,2
Central Transdanubium	188,8	9,5	125,4	9,3	66,4
Western Transdanubia	223,3	11,3	147,1	10,9	65,9
Southern Transdanubia	259,9	13,1	181,9	13,5	70,0
Northern Hungary	288,7	14,6	193,3	14,3	67,0
Northern Great Plain	452,2	22,8	309,6	22,9	68,5
Southern Great Plain	410,8	20,7	293,3	21,7	71,4
Nationally	1982,7	100,0	1351,2	100,0	68,1

Note: data does not distinct by farm size.

Source: General Agricultural Census, 2000 – Regional data, CSO 2000., Census of economic structure, 2003 CSO

Regional figures are similar in the case of agricultural employment. The southern part of the Great Plain has the highest rate of agricultural employment (11.6%). This figure is 9.4% in Southern Transdanubia and 7.9% in the Northern Great Plain. (The national average is 5.5%).

The decreased significance of agriculture within the labour market had adversely affected these regions. Contrarily, in Western and Central Transdanubia (as a result of high number of employees at multinational companies) the industry's; in the middle part of Hungary the service sector's labour market share is higher. Because of its socio-economic function, in typically non-agricultural regions the share of agricultural employment is significant.

It can be stated that despite the significant fallback the importance of agriculture within the national economy is still considerable in Hungary. 59% of the total number of people employed in agriculture lives in the Southern and Northern Great Plain and in Northern Hungary.

The sector's social importance exceeds its economic size, which is supported by the fact that 40% of the crop land is cultivated by 760,000 private farmer⁷. The average size of a single holding was 3 hectares. Only 45 thousand out of the above mentioned private farms cultivate more than 10 hectares of land. The number of private enterprises and family members involved in agriculture show a decreasing tendency. For 20% of the 1.3 million people engaged in family farming, agriculture is the only source of income. The ratio of pensioners is 40%. The rest (40%) works a full-time in other sectors.

⁶ Source: Hamza E.- Tóth E. (2006), p. 13.

⁷ In 2000, there were 958,534 registered private agricultural enterprise. This number had decreased to 765,268 by 2003.

Main employment indices by region, compared to total employment (2003)

Region	Activity ratio, 2003, %	Unemployment rate, 2003, %	Employment rate, 2003, %	Ratio of agricultural employment, 2003, %
Central Hungary	57,5	4,0	55,1	1,6
Central Transdanubia	58,0	4,6	55,3	4,9
Western Transdanubia	57,7	4,6	55,1	4,8
Southern Transdanubia	51,3	7,9	47,2	9,4
Northern Hungary	49,8	9,7	45,0	4,6
Northern Great Plain	49,3	6,8	45,9	7,9
Southern Great Plain	50,3	6,5	47,0	11,6

Source: Time series of the employment analysis, 1992-2003, Handbook of the Hungarian Regions, 2002

1.3 Non-agricultural employment

Nationwide decrease in the unemployment rate meant an increased regional inequality. Employment indices show similar picture to economic structure indices, according to which Northern Hungary (especially Borsod-Abaúj-Zemplén County), Northern Great Plain (especially Szabolcs-Szatmár-Bereg County), Southern Transdanubia (southern part of Baranya County, close to the border), and Southern Great Plain (slightly lagging behind) regions have the worst figures.

In regions of Southern Transdanubia, Borsod-Abaúj-Zemplén County, and Szabolcs-Szatmár-Bereg County, which are close to the frontiers, the unemployment rate is almost twice, sometimes three times the national average.

Differences have increased on the smaller scale as well. Employment difficulties are concentrated in the peripheral and backward regions. Contrarily, Central Hungary (especially Budapest) is in the most favourable situation. Therefore, differences in employment, unemployment and economic activity not only appear between urban and rural areas, but also among the regions of Hungary. Disparities between the regional unemployment rates developed during the 1990s became greater, but the order of 'endangered' regions had not changed. The explanation of this order is the decreasing weight of traditional industry (Northern Hungary, Northern Great Plain, Southern Transdanubia) and agriculture (Northern Great Plain, Southern Great Plain) compared to the national average, therefore it can be traced back to structural problems.

Employment opportunities of the village population decrease with the size of the settlements. Employment decline has been greatest in smaller settlements, where the decrease has reached 10% on average, which means that one third of the labour force is affected.

2 The context of rural employment

2.1 New employment opportunities

Detailed information about individual holdings is published in the ÁMÖ (Agricultural Census delivered by the Central Statistical Office in 2000). Based on this information, it can be stated that most of the non-agricultural activities are somehow related to agriculture, in other words processing the products of agriculture and fisheries. The proportion of squarely non-agricultural activities is 13%.

Among the non-agricultural activities connected to agriculture, winery is the most significant (76%), followed by food processing. Within food processing, fruit- and vegetable processing dominates milk and meat processing. Among the squarely non-agricultural activities, trade is the most significant (54%), followed by transport and carriage, and third is rural tourism (14%).

The increasing number of rural (private) accommodation places, public commercial establishments, and choice of local and regional programmes offered for tourists implies structural changes in the economy. The number of accommodation places in rural tourism had increased by 32.7% (44,453 living accommodations) between 2000 and 2005. The number of guest nights in rural areas had also increased by 9.5% (567,880 guest nights) during the above mentioned period. Attempts were also made to focus on the rich culture and natural endowments of rural regions (for example: development of wine regions, wine routes, cultural routes).

In recent years, people (mostly well-off, intellectual families) are migrating from urban to rural areas. People moving back to rural areas usually have innovative and cohesive ideas.

It is necessary to create a complex agro-tourism programme with the help of regional cooperation; to develop small businesses helping the direct sale of local products; to broaden the marketing and management network; and to improve the knowledge and qualification of people directing the services. Creating such conditions for rural tourism, and incentives for enterprises to build on the foundation of the rich cultural heritage and natural endowments of Hungary could help eliminate disparities between regions.

In 2000, only 20 enterprises were involved in renewable energy sources (solar, wind, biomass, and biofuels - biodiesel, bioethanol, biogas). This sector has tremendous growth opportunities, therefore further examination of this issue is necessary.

The most important agricultural services are connected to ploughing. Harvest related services are also significant, similarly to fertiliser application and pest control. Therefore, agricultural contracting services are mainly mechanised (ploughing and harvesting, less significantly fertiliser application and pest control).

A field of diversification is raw material production. According to data about private holdings, most of the produced raw materials are utilised within the same enterprise. Only a small fraction of the raw material is sold.

2.2 Education and skills – levels, access and provision

The restructuring of agriculture is handicapped by the fact that educational and vocational training systems do not meet the conditions and demands of the labour market. It is typical of rural regions, that individuals with up-to-date and high qualifications leave the region creating a shortage of qualified people for thriving economic sectors. The rural and peripheral regions' human resource disadvantage is truly conspicuous, because the opportunities for economic development are highly 'knowledge-intensive'. The rural population involved in agriculture is aging; the ratio of people under 40 was only 11.5% in 2003.

When data about people living in rural regions is compared to national figures, it can be stated that in rural areas the number of people with university or college degree is significantly lower. The picture is similar in the case of secondary education. Accordingly, in rural regions a higher percentage of people have elementary education or vocational training than in urban areas.

Composition of the employment according to level of education (2001)

Level of education	Rural region*		Hungary**	
	Thousand persons	%	Thousand persons	%
Less than 8 years of elementary education	17,6	1	18,1	0,46
Primary school	385,4	26	574,6	14,65
Vocational school	540,8	36	1262,9	32,20
Secondary school	400,4	27	1323,8	33,75
Tertiary education	155,7	10	742,5	18,93

*Source: TEIR Census data, 2001, 6. Regional data; 6.21, Summary data; CSO, 2002

** Source: Time series of the employment analysis 1992-2003; CSO, 2004

Vocational training in agriculture is well established; however most of the private entrepreneurs are underqualified. In 2003, 4.8% of the entrepreneurs had elementary (4.9% in 2005), and 7.6% (7.4% in 2005) had secondary or tertiary agricultural education.

Even in the segment producing to the market, farmers are underqualified, and most of these farmlands (80%, 71 thousand farms) are led by someone who does not have the proper (secondary or tertiary) qualifications. Almost one fourth of the sole entrepreneurs are women, who have a higher average age (7 years higher than the 53 years average age for men) and lower qualification level than men. Only 0.2% of women have tertiary agricultural education, while 2% of men have the highest level of such education.

In the case of sole enterprises, farmers lack knowledge about the European Union (market and production regulations, subsidisation, quality regulations, and environmental regulations) and about management, which is compounded by an undeveloped adult education system. Farmers have a deficient knowledge about management, tenders and marketing. Therefore, farmers are not able to adapt to new circumstances and they are not strong on taking initiative.

There is a noticeable leeway in computer technology. Only 32% of the farmers have a computer, and merely 28% of them use the internet.

The majority of the new entrepreneurs in forestry have proper education neither in forestry nor in commerce.

Despite a slight improvement in the level of education between 1994 and 2003, the differences between rural and urban regions have not changed notably. More importantly, the gap between rural regions remained significant. Spending on research and development has been increasing since 1999, although it is geographically still concentrated (the capital, cities serving as educational or research centres), which adversely affects rural regions. In regards to educational level, backward regions and small settlements are in the most unfavourable position.

In order to efficiently use EU subsidies, it is indispensable to boost entrepreneurship, innovation, and to organise trainings dealing with tenders and market opportunities. Experiences from previous integration programmes prove that rural regions demand the knowledge of working and thinking in partnership. (Source: VÁTI⁸)

Diversification in the agricultural sector is difficult, because farmers lack agricultural education. Most of them 'only' have practical experience and practice. Women's educational level in agriculture is expressly low (only 3% of women have secondary or higher education).

Looking at qualification, it is conspicuous that the northern, north-eastern, and southern part of Hungary is lagging behind. Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg, and Baranya

⁸ VÁTI: Hungarian Public Nonprofit Company for Regional Development and Town Planning.

counties, especially their frontiers are in the worst situation. Therefore, in regions at a disadvantage the labour market problems are the result of lower levels of education, and (in more developed regions) it is age which creates a problem on the labour market.

Main employment indices in regional division, in relation to total employment (2003)

Region	Activity rate, 2003, %	Unemployment rate, 2003, %	Employment rate, 2003, %	Rate of agricultural employees, 2003, %
Central Hungary	57,5	4,0	55,1	1,6
Central Transdanubia	58,0	4,6	55,3	4,9
Western Transdanubia	57,7	4,6	55,1	4,8
Southern Transdanubia	51,3	7,9	47,2	9,4
Northern Hungary	49,8	9,7	45,0	4,6
Northern Great Plain	49,3	6,8	45,9	7,9
Southern Great Plain	50,3	6,5	47,0	11,6

Source: CSO

2.3 Other key factors in employment (if any)

3 Specific rural employment issues

3.1 The nature of under-employment

No significant data and/or literature on this topic.

3.2 The scale of semi-subsistence farming

The share of self-consumption from the agricultural gross production can be estimated below 10 per cent, in a declining trend (in mid 1990's it was still around 15 per cent). A higher share is taking place at eggs (20%), potatoes, pigs and chicken (17% each); and lower at milk (1%), fruits (9%) and vegetables (10%), according to statistics of 2004.

The share of self produced consumption is below 1 per cent of total food expenditures. There are significant regional differences in NUTS-3 level; higher rate takes place in counties Bács-Kiskun, Somogy and Tolna, and insignificant (below 0.01 per cent) in counties Békés and Borsod.

3.3 The implications of the 'Lisbon Strategy'

In conformity with the Lisbon Strategy and the documents of the Göteborg Summit, the sustainable development of rural regions is in the focus of Hungary's development strategy. In a narrower sense, diversification of rural economy would solve labour market difficulties. Measures aimed at these difficulties can be found among the five priorities of the National Agricultural Rural Development Programme 2007-2013 (Source: MARD, 2006). From these,

rural development programmes of the fourth development directive (to ease tensions on the labour market, to improve income opportunities in rural areas) could be effective. On the other hand, the implementation of the first directive to improve competitiveness of agriculture and food processing will not necessarily raise the number of workplaces. This issue requires further analysis.

4 Overview and prospects

In the rural regions of Hungary, the unemployment rate is significantly higher and the economic activity is lower than the national average. The labour market difficulties are especially present in remote rural regions and in rural regions with small villages and homesteads.

The agricultural sector's social importance exceeds its economic size, which is supported by the fact that 40% of the crop land is cultivated by 760,000 private farmers. The number of private enterprises and family members involved in agriculture show a decreasing tendency. However in 2003, 16 % of the population was somehow in agriculture. The number of agricultural employees also decreased and in 2003, only 5.5 % of all those employed worked in agriculture. In regards to semi-substance farming, conclusions can be drawn by grouping private holdings according to their economic objective. In 2003, 11.6% of farms were focusing on market production, which utilised almost half of the private holding's gross area, and employed 13% of the family employees. Between 2000 and 2003, 20% of self-sustaining farms had gone out of business. The fact that agriculture's share in employment has been constantly decreasing and in rural regions alternative sectors (industry, services) could not take up the laid-off workers explains the above presented situation (e.g. the employment in non-agricultural sectors had increased by only 2.6% between 2000 and 2004). The local employment opportunities are limited; the number of daily commuters had increased (29%).

The regions of Hungary which are close to the frontiers (Southern Transdanubia, Borsod-Abaúj-Zemplén County, and Szabolcs-Szatmár-Bereg County), the unemployment rate is almost twice, sometimes three times above the national average. Differences had increased on the smaller area scale as well. Employment difficulties are concentrated in the peripheral and backward regions. Contrarily, Central Hungary (especially Budapest) is in the most favourable situation. Therefore, differences in employment, unemployment and economic activity not only appear between urban and rural areas, but also among the regions of Hungary. Employment opportunities of the village population are decreasing with diminishing size of the settlements. The employment had decreased mostly in smaller settlements, where the decrease reaches 10% on average which means that one third of the labour force is affected.

Despite a slight improvement in the level of education between 1994 and 2003, the differences between rural and urban regions have not changed notably. More importantly, the gap between rural regions remained significant. Spending on research and development has been increasing since 1999, although it is geographically still concentrated (the capital, cities serving as educational or research centres), which adversely affects rural regions. In regards to educational level, backward regions and small settlements are in the most unfavourable position.

In conformity with present situations and EU policies, the sustainable development of rural regions is in the focus of Hungary's development strategy. However, in the next years the unemployment rate of remote rural areas will probably increase.

5 References

FVM (2006): 'New Hungary' Rural Development Strategy Plan. Ministry of Agriculture and Rural Development, 14 August 2006. [in Hungarian]

Hamza E. – Tóth E. (2006): Sustainability of individual farms and their role in living. [in Hungarian] Research Institute of Agricultural Economics, Budapest

Kovács K. – Koós B. (2003): Rural overview. [in Hungarian] A falu, autumn 2003.

B. Csatári, team leader (2004): Theses of Hungary's new rural development strategy. [in Hungarian]. Final report; Regional Research Centre, Kecskemét.