

## **Higher Education Finance and Cost-Sharing in Hungary**

### **I. A Brief Description of Hungarian Higher Education**

Hungary was one of the first Central European nations to make the transition in the 1990s from the rule of the Communist party to a multi-party democracy, and from a socialist, centrally-planned economy to a market economy. For a variety of reasons, including a history of governmental flexibility and relative political freedom, Hungary was more ready than most to make this transition.

The 1993 Law on Higher Education regulates admission to Hungarian higher education institutions. Any student with a valid high school final examination or equivalent high school degree can submit an application. The National Office of Higher Education Admissions (NOHEA) co-ordinates admission procedures and processes all submitted admission application forms in cooperation with higher education institutions. Each institution has its own requirements and measuring methods though the Ministry of Education (OM) is currently developing a plan for the reform of the admissions process. Just recently, the Ministry of Education has changed the admissions process in that more weight will be given towards the marks received in secondary school than the standardized examination given nationally.

Higher education institutions (with the exception of the University of National Defense and the Police Officer Training College) are under the supervision of the Ministry of Education. The Hungarian Accreditation Committee (MAB) and the Higher Education and Scientific Council (FTT) serve as intermediary institutions that provide additional advice and supervision. The Secretariat of the Council co-ordinates the activities of the Office of the National Credit Council, and that of the Basic Higher Education Developmental Programmes.

Local governments have no role whatsoever in the supervision of higher education institutions. Responsibility for the activities of the non-state higher education institutions lies with the Ministry of Education. The higher institutions' interests are represented by three national conferences: the Hungarian Rectors' Conference, the Hungarian Conference of College Directors and the Chair of Rectors of Academies of Art and Music.

Hungary has a binary system of higher education system made up of colleges and universities. This system was developed in response to the demand for training that meets practical needs in contrast to the longer and more theoretical courses offered by the universities. Consequently, universities generally provide a high standard of theoretical knowledge, and colleges offer more practical and generally shorter courses.

The 1996 Amendment to the Law on Higher Education divided higher education into four levels: 2 years for accredited higher vocational training; 3-4 years for college programs (equivalent to bachelor's degrees), 4-6 years for university programs (equivalent to master's degrees), and 3 years for doctoral programs, together with other specialized post-graduate programs. Ten years later in 2005, Act CXXXIX on Higher Education moved Hungary to a three year baccalaureate, a two year master's degree, and a PhD degree in accordance with the Bologna process.

Hungary has a highly developed, but small, system of private higher education. Non-state higher education institutions are required to gain state recognition and approval from the Parliament. In addition to the requirements that state institutions must fulfill, non-state institutions also have to show the existence of appropriate personnel, material, and financial capacities. All higher

education institutions must be accredited at least once every eight years. According to the administrators of several private higher education institutions and some ministry officials, gaining state recognition is a long and bureaucratic process.

In 1999, Act LII reduced the number of public higher education institutions from 55 to 30. At present (2007), there are 18 state universities, 13 state colleges, 2 private and 5 church universities and 12 private and 22 church colleges.

### Student expansion in Hungary

Higher education enrollments in Hungary quadrupled between 1989 and 2005 with most of the enrollment growth taking place in the public sector (Berde and Vanyolos 2007). Hungary's population of university-age individuals is on the decline<sup>1</sup>; thus the ratio of those enrolling has been rising even though the absolute numbers have remained quite level. Because of the decrease in university-age individuals, by the year 2012, there will be a surplus of places for graduates of secondary school in almost all Hungarian colleges and universities.

**Table 1**  
**Higher education in Hungary, 1990/91 versus 2006/07**

Total								
	State Institutions		Religious Institutions		Private Institutions		All	
	Number of institutions	Number students						
1990/91	66	107,607	10	550	1	219	77	108,376
1998/99	55	243,077	28	14,291	6	22,020	89	279,397
2006/07	31	359,758	26	24,403	14	32,187	71	416,348

Source: Berde and Vanyolos 2007

### Financing Higher Education

The growth in student numbers was not accompanied by a proportionate increase in budget subsidies. On the contrary, funding for higher education, which currently consumes approximately 1 percent of GDP, has declined. The real value of budget support per student was 40 percent lower in 1998 than it had been in 1990. Therefore, higher education institutions have been forced to spend their internal reserves and make use of non-governmental revenues.

In 1996, a system of normative financing was introduced – the first step towards the distribution of support awarded for achievement and accomplished in a more transparent manner. Standards were established on state support per student, differentiated in the fifteen major branches of training (public and nonpublic institutions receive the same support per student, but the latter do not receive additional funds for maintenance, etc.). Simultaneously, initiatives were launched to calculate admission projections more accurately in response to the demands of the economy and of society. Ten to fifteen percent of state budget support for higher education is now distributed in a differentiated manner, favoring fields that have been targeted for further development.

<http://www.tudosz.hu/sajto/sajttar.html> (in Hungarian)

<sup>1</sup> It is anticipated that by 2012, the number of university applicants for first year student will decline to 110,000 to 120,000 from the present 160,000 to 170,000 (Morgan 2006).

The new system of financing assumes that institutions of higher education will become more self-sufficient, however, the imposition of general tuition fees has met with fierce resistance over the past 15 years. Tuition fees were introduced in 1995 in the public institutions at a monthly rate of \$15 for full time students. Part time students were charged supplementary fees of up to \$60 per month. Due to the influence of social, political, and financial debates, the original regulation on tuition has been amended several times. In 1996, differentiated fees were introduced, and in 1998, education was made free for first degree state-funded full time students. Since 1996, public higher education institutions have been allowed to accept self-financed students who are responsible for covering their own tuition fees (annual tuition fees range between HUF 180,000 to 800,000), room and board, book purchases and other expenses. The higher education institutions can set their own fees and differentiate these fees across fields of study. State funded students do not have to pay a tuition fee and have traditionally received free accommodation in the university dorms, however, space constraints means that some of them do not.

In the spring of 2008, the government tried to introduce moderate (\$550) yearly student *improvement contributions* to be paid by all students starting in the fall of 2008 as part of its deficit cutting reform package. However, a nationwide referendum in March 2008 rejected the package and Parliament voted to ban tuition fees as required by the referendum. No Parliamentary votes to alter the laws affected by the referendum may be made for three years (Politics.Hu 2008).

According to Act CXXXIX of 2005 on Higher Education by the Ministry of Education, state funded graduate students must equal 35 percent of the number of students admitted three years prior to the due year. For doctoral students, 10 percent of admitted students are state funded.

In regards to scholarships for undergraduate students, in mid-2007, the Ministry of Education decided to allot 35-40% of its scholarship funds to needy students, and allot about 60 percent of its scholarship funds to merit based students. The standard yearly scholarship is about Ft 116,500 (\$678.19)

The World Bank has been working with the Hungarian government to implement the Higher Education Reform Project that started in 1998. As part of the reform process, state sponsored (and guaranteed) student loans were introduced in August 2001 by a new student loan company, Diákhitel Központ (the Hungarian Student Loan Centre). The Student Loan Centre is a company limited by shares, owned by the Hungarian State.

The loans, made directly from the Hungarian Student Loan Centre to students, are not means tested and are available to all students (whether state financed or privately funded) who are registered in accredited public and private higher education institutions in Hungary or the European Economic Area. The loans covers tuition fees and living costs.

In the first two academic years (2001/02 and 2002/03), the student loans were financed from loans taken out by the state-owned investment bank with a subsidy from the central budget. In 2003/04, bonds were issued, which furnished a high percentage of necessary funds. In 2005, the European Investment Bank, provided long term loans at favorable interest rates. At present (2008) funds for loan disbursement are financed exclusively by money and capital markets including international domestic investment banks, commercial banks and savings cooperatives and bonds listed on the Budapest Stock Exchange. The State provides a guarantee for all of the payment obligations undertaken by the Loan Centre to finance the loan scheme (therefore while

there is no guarantee for repayment of the individual loans, government incurs a substantial contingent liability on behalf of the Loan Centre).

The Loan Centre adds a risk premium (which cannot exceed 4.5 percent) to cover credit risks (default, losses due to loan write offs when borrower retires, or becomes disabled or dies) and an operating premium to cover operating costs. In the past seven years the risk premium has varied between 1 and 2 percent. The interest rate is calculated as the sum of the average cost of funds, the risk premium and the operating cost premium. As of June 2007, the interest rate on loans was 9.5 percent.

The loan program's regulatory framework was overhauled in 2006 in Government Decree 86/2006 on the Student Loan Scheme and Student Loan Centre and the pool of eligible students was enlarged to include PhD students and Hungarian students studying in EEA member countries, the upper loan limits were raised (to HUF 300,000 per year for state financed students and HUF 400,000 for self-financed students), the eligibility period for student loans was set at 10 semesters and the age limit was increased to 40 years old.

As of 2006/07 a total of 234,162 students had borrowed out of a total of 416,324 higher education students. About 85,338 of the borrowers were in the repayment phase. Of those who borrowed, fifty-nine percent of these were state financed students and 41 percent were non-state financed students.

Repayment begins after a three month grace period and, for two years, is set at 6 to 8 percent of the previous year's minimum wage. After the second year, students must pay 6 to 8 percent of their average gross monthly income two years before the current year or 6 to 8 percent of the minimum wage until the loan is repaid. If the borrower takes a parental leave or temporary disability leave, he/she may request a suspension of repayments. The government may cover the interest payments of borrowers with young children who receive the maternity allowance or the child aid care allowance. Debt is cancelled if the borrower reaches retirement age, becomes eligible for a permanent disability pension or dies.

The Student Loan Centre has set up an arrangement with the higher education institutions to deal with the "improvement contribution" that will be implemented for state-funded students in the fall of 2008. Under this arrangement students with student loans will be able to defer payment of their upfront improvement contributions and the Student Loan Centre will transfer the funds due to the institutions once the loans are repaid.

## II. Estimated Expenses of Higher Education

### Hungary Higher Education Expenses Borne by Parents and Students First Degree, [Academic] Year 2006 - 2007

[National currency (HUF) converted to \$US by 2006 PPP \$1=128 HUF [133]]

		<i>State-funded Students low- year=10 months</i>	<i>Non State-Funded Students year=12 months</i>
<b>Instructional Expenses<sup>2</sup></b>	Tuition	0 <sup>3</sup>	180,000-800,000 HUF [US\$1,406-6,250]
	One-time Fees	0	0
	Other Fees	0	0
	Books & Other Educational Expenses	30,000-70,000 HUF [US\$234-546]	30,000-70,000 [US\$234-546]
	Subtotal Costs of Instruction	30,000-70,000 HUF [US\$234-546]	210,000-870,000 HUF [US\$1,640-6,797]
<b>Student Living Expenses</b>	Lodging	0 <sup>4</sup>	350,000-450,000 HUF [US\$2,734-3,515]
	Food	150,000-300,000 HUF [US\$1,171-2,343]	300,000 HUF [US\$2,343]
	Transportation	69,000 HUF [US\$539]	69,000 HUF [US\$539]
	Other Personal Expenses	150,000-200,000 HUF [US\$1,171-1,562]	150,000-200,000 HUF [US\$1,171-1,562]
	Subtotal Cost of student living	369,000-569,000 HUF [US\$2,882-4,445]	869,000-1,019,000 HUF [US\$6,789]
<b>Total</b>		399,00-639,000 HUF [US\$3,117-4,992]	1,079,000-1,880,000 [US\$8,429-14,757]

*Note: Fees are differentiated across the academic disciplines.*

<sup>2</sup> Calculated data

<sup>3</sup> Starting in the fall of 2008, state-funded students will have to pay an improvement contribution of 105,000 HUF per year.

<sup>4</sup> If he/she receives free access to a place in the dormitory. Due to space constraints not all state-funded students have a place.

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