

Key questions of the transposition of the EU minimum wage directive in Hungary

Almost two years after the European Commission presented the proposal for a directive on fair and adequate minimum wages, it was adopted by a majority of EU Parliament members in September 2022. The Directive 2022/2041 on adequate minimum wages in the EU proposes mandatory criteria for increasing the minimum wage. It intends to affirm the role of the social partners in setting its level. The directive requires the Member States to set out an action plan to increase minimum wage coverage through collective agreements in countries where this rate is lower than 80 %.

The proposal of the EU directive on adequate minimum wage aims to establish a framework to improve the adequacy of minimum wages and increase workers' access to minimum wage protection. According to the supporting evidence (Impact assessment) of the proposal, the level (and the adequacy) of minimum wages highly depends on the framework and methods of collective bargaining; thus the Directive does not intend to influence the amount of the minimum wage in the EU member states, only provides the legal framework for sustainable and meaningful social dialogue.

The key message of this policy brief is that the minimum wage level can be increased by improving the social dialogue framework in Hungary. Despite the fact that social dialogue on minimum wage exists in practice in Hungary, the practice of setting the minimum wage is not in line with its legal background. Therefore, MGYOSZ believes that an effective transposition of the Directive is possible if the role of the social partners in setting the minimum wage is also laid down and strengthened in future legislation.

Social partners negotiate the minimum wage and guaranteed wage for workers with vocational qualifications¹ in Hungary every year, but there were multi-annual agreements in the last decade as well. The forum is the tripartite Reconciliation Forum of Competitive Sector and the Government (Versenyszféra és a Kormány Állandó Konzultációs Fóruma, VKF), where the government initiates the negotiations every year. When the agreement is concluded between the social partners, the government approves the agreement by law, which makes the agreed minimum wage mandatory for every worker. (Parties can make recommendations on the average wage increase in the competitive sector; however, it does not happen every year.) The government's legal action can be considered an extension mechanism during collective bargaining. However, there are no legislative provisions for this

¹ The guaranteed minimum wage requiring at least upper secondary education or vocational training qualification in case of a full time contract



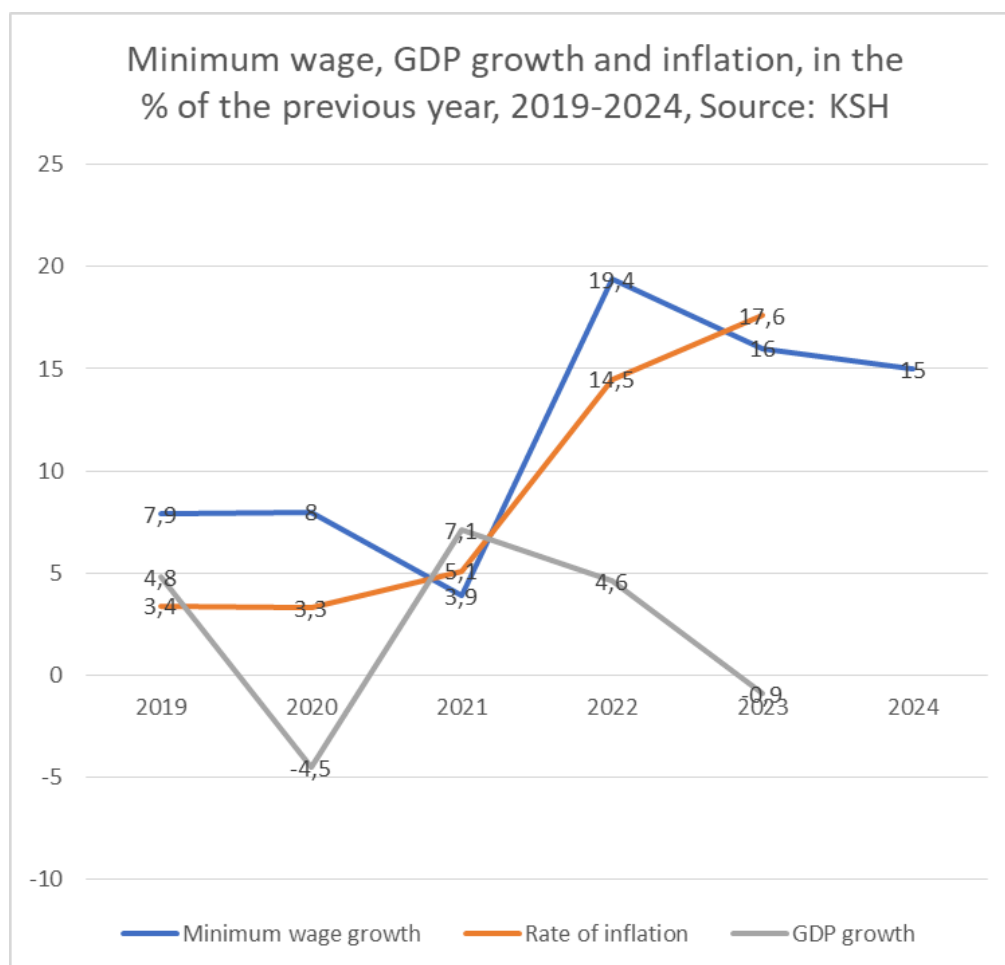
mechanism. Due to this reason, this type of wage settlement cannot be considered as collective bargaining, and the extension is just a functional equivalent, but not the extension of collective bargaining (Neumann, 2017). Despite national social partners considering the issue of the minimum wage setting as their most important right and responsibility in national social dialogue, the interpretation of the directive highlights the fragility of the national social dialogue in Hungary.

MAIN POINTS OF THE DIRECTIVE

- The Directive aims to establish a framework at the Union level to ensure that minimum wages are set at an adequate level and that workers have access to minimum wage protection in the form of a statutory minimum wage or wages set by collective agreements (Article 1).
- The Directive aims at increasing the collective bargaining coverage. To this end, Member States must promote social partners' capacity to engage in collective bargaining on wage setting and encourage constructive, meaningful, and informed wage negotiations. It requires that Member States where collective bargaining coverage (as defined in) does not reach at least 80% of the workers provide a framework for collective bargaining and establish an action plan to promote collective bargaining (Article 4).
- The Directive requires social partners to effectively and timely participate in setting and updating statutory minimum wages, including through participation in consultative bodies and tripartite agreements. Effective social partner involvement is also an element of good governance that allows an informed and inclusive decision-making process (Article 7).
- Member States with statutory minimum wages shall establish the procedures for setting and updating statutory minimum wages, introducing national criteria to define „adequacy”. The national criteria shall include the purchasing power, the general level of wages and their distribution, the growth rate of wages, and productivity developments. Member States may use an automatic mechanism for indexation adjustments based on appropriate criteria and under national laws and practices, provided that applying that mechanism does not decrease the statutory minimum wage. They may use indicative reference values commonly used at the international level, such as 60 % of the median gross salary and 50 % of the gross average wage, and/or indicative reference values used at the national level (Article 5).



The tripartite council is based on a statute and not mentioned by the law. Despite the existing Labour Code having some provisions on minimum wage negotiations, it mentions the quadripartite National Economic and Social Council (NESC) as the relevant body (section 153.), which has no mandate with the minimum wage fixing. Still, in practice this is only a point on the agenda once a year. It is often mentioned by the government as a social dialogue body. Still, it raises the concerns of social partners since it includes academics, churches, NGOs, and economic chambers but not the government. Albeit envisaged as a diverse consultative forum, NESC lacks the necessary elements to qualify as a national tripartite forum for social dialogue. First, it is not tripartite, and due to its composition, employers and employees always hold a minority position. Second, the government is not represented on the council platform, and the range of actors is too broad: representatives of various organisations, including the huge, pro-government-oriented body of artists and religious leaders, are the members of the NESC. The transposition of the law started recently with an amendment of the Labour Code, which stipulates that the government is empowered to establish by decree the forum and the rules for consultation on the compulsory minimum wage and the guaranteed minimum wage. However, the content of this enforcement decree is still unknown.



MGYOSZ-BusinessHungary considers that the agreement between the social partners is the best way to ensure that the aims of the Directive are fully implemented, and meaningful social dialogue could ensure an adequate level of minimum wages in Hungary. Well-prepared, transparent, evidence-based, and timely negotiations can reduce economic uncertainty because the minimum wage is crucial to business planning. Thus, first of all, MGYOSZ considers that the aim of the Directive could be fully achieved in Hungary through the creation of collective bargaining's legal background on the minimum wage setting.

In an uncertain macroeconomic and global environment, minimum wage negotiations must be based on indicators from the previous economic year (e.g. inflation, GDP/PPP/productivity etc.) as well as forecast for the next year to ensure that the economic and social interests of both sides of the industry are broadly reflected to real economic performance in the minimum wage. Transparent and handful statistics on basic pay (development of actual monthly payment without wage supplement) are also necessary to get full picture about about the wage development in the country. At the moment, statistics on this latter are not available for social partners.

Initiating bipartite discussions with trade unions on the sectoral level is also highly recommended to reveal if it is possible to replace the existing system of guaranteed minimum wage of skilled workers by any sectoral wage agreement. It is important to improve the legal framework, effectiveness, and performance of sectoral social dialogue, not only on minimum wages.

MGYOSZ/BusinessHungary aims to reveal the possible areas of incentives for employers to engage in sectoral social dialogue in several fields, including the minimum wage, in the project titled "SECCEE- Improving the understanding of the role of sectoral collective bargaining in the times of multiple crises in CEE."

You can help this work by filling out the questionnaire in this link (in HUN), which aims to reveal those areas where sectoral collective agreement could serve employers' needs and promote competitiveness.

<https://www.surveymonkey.com/r/SECCEEHU>



REFERENCES:

1. Laszlo Neumann- Szilvia Borbély (2017) Neglected by the state: the Hungarian experience of collective bargaining, Collective bargaining in Europe, published by ETUI
2. European Commission (2020): IMPACT ASSESSMENT Accompanying the document Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union

