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**Squeezed out from the policy-making processes? The European Semester in a context of weakened social partnership**



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Fruzsina Albert

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## **Squeezed out from the policy-making processes? The European Semester in a context of weakened social partnership. Case study Hungary**

**Fruzsina Albert**

Hungarian Academy of Sciences, Centre for Social Sciences – MTA TK

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## Executive summary

The aim of this OSE Research paper is to analyse the involvement of Hungarian trade union organisations in both the domestic and EU cycles of the European Semester. The research focuses on specific policy areas particularly relevant for trade unions: employment, wage setting, social protection and social inclusion policies under the Europe 2020 Strategy, especially between 2014-2018. The case study is based on desk research and eight semi-structured interviews with representatives of various stakeholders involved in social dialogue in the European Semester.

Hungary can be characterised as a country with a weak to moderate degree of EU pressure, low and decreasing levels of TU representativeness, and belonging to the Central-Eastern cluster of industrial relations' systems, with limited collective bargaining coverage. Against this particular background, the degree of trade union (TU) influence on the Semester process can be regarded as strictly limited. TU involvement through national bodies, although there is a formal structure for it, can be considered non-existent, as unions cannot meaningfully influence the national processes (at least according to the social partners interviewed). The TUs have limited resources, both politically —due to low union density and a strong, centralising government —and financially, which results in low levels of organisational and cognitive resources. The strong governmental media-presence together with the low mobilising capacity and the underfinanced status of trade unions inhibit effective reconciliation of interests. The changes made to the legal regulations on strikes and the new Labour Code (introduced in 2012) further limited the room for manoeuvre of trade unions and their representatives.

TU involvement through EU bodies can best be described as consultation, mostly connected to the preparation of the European Commission's Country Report, i.e. regarding the outputs of the Semester process. TUs can mostly only contribute information about the national context, which may appear in the Country Report and thus indirectly influence the Country-specific Recommendations (CSRs). They perceive that one of the CSRs for 2018 regarding social dialogue is partly a result of their efforts to influence the EU level. TUs are generally quite satisfied with the EU recommendations regarding poverty reduction, social provisions, education, the labour market, wage-setting and social dialogue. However, they are quite sceptical about how much these are reflected in actual government policy measures.

TU representatives have limited awareness of the European Semester processes; this knowledge is often limited to top members of the social partner organisations. Actors evaluate their interaction with EU level bodies (notably the European Trade Union Confederation (ETUC) and the European Commission) positively, although they see room for improvement. However, regarding the national government, TUs see a need for more regular, transparent and formalized/institutionalized co-ordination regarding their involvement in the Semester. That is why the social partners try to influence the ES debate at the EU level, to gain EU support and thus influence the national

agenda, rather than the other way around. The Commission's fact-finding missions are seen as the main and almost only official opportunities for access, where social partners can express their priorities directly, apart from occasional bilateral meetings organised with the help of, and the venues available via, European organisations (ETUC or BusinessEurope).

In view of the limited resources trade unions have, formalisation of their involvement in the Semester — both through EU and national bodies — may enhance and facilitate TU participation in the process. Trade unions could take a more pro-active stance in some key questions related to the Semester. Thus, directly addressing the Commission with position papers could provide it with ideas during the drafting phase of the Country Reports, so that their most important points could already be reflected in the preparatory work for the Semester documents. Trade unions could boost their organisational resources by promoting interaction and coordination among confederations and with other social partners regarding involvement in the Semester, as well as increasing interactions with NGOs. The national process should ensure the involvement of social partners from the early stages of document-drafting and throughout the whole process, allowing adequate time for trade unions to present their contributions, especially in relation to the 'national' cycle of the Semester. The government should use the existing consultation forums in a meaningful and transparent way.

Contact address: Fruzsina Albert, Senior researcher, Center for Social Sciences, Hungarian Academy of Sciences.

E-mail: [albert.fruzsina@tk.mta.hu](mailto:albert.fruzsina@tk.mta.hu)

## 1. Introduction and setting the scene

The aim of this study is to examine the evolution and dynamics of Hungarian trade unions' involvement in the 'European' and 'national' cycles of the Semester. This Working Paper will a) map the features of national trade unions' involvement in the European Semester; b) assess the extent to which the Semester and national policy-making (in particular social dialogue) interact and the role played by Hungarian trade unions in this interaction; c) assess the influence of national trade unions on the European Semester in the 'EU' and 'national' cycles of the Semester, and d) provide recommendations to trade unions and decision-makers on how to increase trade unions' involvement in the European Semester. The research focuses on specific policy areas of the European Semester which are particularly relevant for trade unions: employment and wage setting, together with social protection and social inclusion policies under the Europe 2020 Strategy, especially between 2014-2018 (for the details of the research hypotheses of the INVOTUNES project, see Sabato 2018).

This case study on the Hungarian situation <sup>(1)</sup> uses qualitative methods: desk research analysing the existing scientific literature on the topic and secondary sources (i.e. documents produced at the EU or national level or by the trade unions) and eight semi-structured interviews with representatives of various stakeholders involved in social dialogue in the Semester process: the Trade Union Semester Liaison Officer (TUSLO), trade unionists from national confederations, EU and national policy makers (including the European Semester Officers) and a national employers' representative (see Annex 1). It was quite difficult to find suitable interviewees in the given stakeholder categories for our research topic and most of the interviewees preferred to remain strictly anonymous. The interviews took place between May and September 2018.

The remainder of this report is organised as follows. Following the 'Introduction and setting the scene', Section 2 describes the access channels and resources for Hungarian trade unions' involvement in the Semester. Section 3 looks at the linkages between the Semester and national social dialogue, while Section 4 is concerned with trade unions' strategies for involvement. Section 5 then provides a qualitative assessment of the (very weak) influence of Hungarian trade unions in the Semester. Section 6 provides an in-depth case study explaining the role of social dialogue in setting the minimum wage, as tripartite negotiations are mostly limited to this issue. Conclusions and recommendations for improved and meaningful involvement of Hungarian trade unions in the European Semester trade union are provided in Section 7.

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1. The INVOTUNES project covers eight countries: Belgium, Bulgaria, Finland, Germany, Hungary, Italy, Portugal and Sweden. See the project website for further details: <http://www.ose.be/invotunes/>

### *Degree of EU pressure*

Hungary is subject to weak to moderate EU pressure (Stamati and Baeten 2014; Sabato 2018) as it is not a member of the Eurozone, but it adapts relatively effectively to EU recommendations in the context of the Semester. Regarding the level of implementation of the Country-specific Recommendations (CSRs) between 2011-2017, 64 % of all the CSRs addressed to Hungary have recorded at least 'some progress', and 36 % recorded 'limited' or 'no progress' (European Commission 2018:8). Substantial progress has been achieved in the financial sector and improving the labour market, but limited or no progress has been made regarding several aspects of social exclusion, for instance in improving the adequacy and coverage of social assistance and unemployment benefits or inclusive mainstream education.

The Hungarian government and all stakeholders involved claim to see the European Semester (ES) as an important framework; according to the respondents, trade unions have a positive attitude towards the EU. However, the Semester itself rarely appears in domestic public policy debates. The most important and recurring Semester themes in the CSRs addressed to Hungary have been related to the strengthening of public finances, reducing tax burdens, improving tax compliance, strengthening active labour market policies and reviewing/targeting the public works scheme, improving the adequacy of benefits including unemployment benefit, promoting inclusive mainstream education, preventing early school leaving and discrimination against the Roma (See Annex 2). The Government representative interviewed highlighted the realignment of the public works scheme and the reduction of the tax wedge for low-wage earners as the most important Semester topics for Hungary, but the social partners considered all Semester topics relevant, as they have an impact on the life of the population (macroeconomic situation, education, social policy, taxation etc.).

### *Main trade union and employer organisations*

As surprising as it may seem, there are more than one thousand registered trade union organisations in Hungary (Németh and Girndt 2018). Trade unionism is fragmented, with six competing confederations, although in 2013 three of these set up a new confederation (the Hungarian Trade Union Confederation, *Magyar Szakszervezeti Szövetség*, MASZSZ) as an umbrella body.

The six Hungarian **trade union confederations** in 2018 are (Németh and Girndt 2018:4):

- Hungarian Trade Union Confederation (*Magyar Szakszervezeti Szövetség*, MASZSZ, <https://www.szakszervezet.net>); Membership in 2013: 104,461;

- Trade Union Confederation of Professionals (*Értelmiségi Szakszervezeti Tömörülés, ÉSZT*, [www.eszt.hu](http://www.eszt.hu)); Membership in 2013: 27,000;
- National Confederation of Workers' Councils (*Munkástanácsok Országos Szövetsége, MOSZ*, [www.munkastanacsok.hu](http://www.munkastanacsok.hu)); Membership in 2013: 53,112;
- Democratic League of Independent Trade Unions (*Független Szakszervezetek Demokratikus Ligája, LIGA*, [www.liganet.hu](http://www.liganet.hu)). Membership in 2013: 100,200;
- Forum for the Co-operation of Trade Unions (*Szakszervezetek Együttműködési Fóruma, SZEFE*, [www.szef.hu](http://www.szef.hu)) Membership in 2013: 65,500;
- Democratic Trade Union of Hungarian Workers in the Social and Health Sectors (*Magyarországi Munkavállalók Szociális és Egészségügyi Ágazatban Dolgozók Demokratikus Szakszervezete, MSZ EDDSZ*, <http://eddsz.hu/>). Membership: no data available.

These confederations are members of the European Trade Union Confederation (ETUC). The trade union confederations essentially cover different parts of the economy, but the lines of demarcation are not precise <sup>(2)</sup> and political affiliation also plays a significant role (pro-government or not).

The most important cross-sector, peak-level **employer organisations** are:

- the Confederation of Hungarian Employers and Industrialists (Munkaadók és Gyáriparosok Országos Szövetsége MGYOSZ, <http://www.mgyosz.hu/>);
- the National Federation of Traders and Caterers (Kereskedők és Vendéglátók Országos Érdekképviseleti Szövetsége, KISOSZ, <http://www.kisosz.hu/>);
- the National Federation of Craftsmen Boards (Ipartestületek Országos Szövetsége, IPOSZ, <http://www.iposz.hu/>);
- the National Association of Strategic and Public Utility Companies (Stratégiai és Közszolgáltató Társaságok Országos Szövetsége, STRATOSZ, <http://www.stratosz.hu/>);
- The National Association of Entrepreneurs and Employers (Vállalkozók és Munkáltatók Országos Szövetsége, VOSZ).

The only peak-level employer organisation that is a member of BusinessEurope is MGYOSZ.

### *Representativeness of trade unions*

Since the transition to a market economy, trade union membership has declined sharply and the level of trade union density in Hungary fell to 9% by 2015 <sup>(3)</sup>. Union membership is also ageing

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2. <https://www.worker-participation.eu/National-Industrial-Relations/Countries/Hungary/Trade-Unions>

3. Labour Force Survey data, see: [http://www.ksh.hu/docs/hun/xstadat/xstadat\\_evkozi/e\\_szerv9\\_01\\_16.html](http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_szerv9_01_16.html)

and there are decreasing numbers of workplaces with union representation, especially in the public sector (Kelemen 2016).

Between 1992 and 2012, union rights to bargain depended on the support for their candidates in works council elections. However, the 2012 Labour Code made membership the key to representativeness. Trade unions can now only conclude collective agreements at company level if their membership exceeds 10% of those employed at the company. The same 10% rule also applies to industry level agreements, where unions must have 10% of those employed in the industry to be able to reach an agreement (<sup>4</sup>).

### *Industrial relations system and state of social dialogue*

International comparative analysis on national industrial relations systems considers Hungary as a country belonging to the so-called 'Central-Eastern' cluster, together with Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Croatia (Visser 2009; Eurofound 2016). Collective bargaining is quite limited in Hungary: around 23% of wage earners work in a sector where there is wage bargaining, and this figure has fallen from 32.8% in the mid-1990s (<sup>5</sup>).

Until 2011, trade unions could influence bargaining developments through a tripartite body, the National Interest Reconciliation Council (*Országos Érdekegyeztető Tanács*, hereafter referred to as NIRC), which provided a forum to agree on the national minimum wage for the coming year. However, in 2011, the FIDESZ-led government decided to replace it with a new bipartite body, the National Economic and Social Council, (*Nemzeti Gazdasági és Társadalmi Tanács*, hereafter referred to as NESC). The latter consists of a wider range of organisations (32), including chambers of commerce, civic, social and scientific organisations and Hungary's traditional churches, and no longer sets the minimum wage. The government is not a member of this body, but participates regularly as an observer. NESC members may only make proposals to the government. In reality, the government presents draft regulations and laws to the NESC without giving it proper time to prepare, and the time for consultation is limited (<sup>6</sup>). Since 2011, Hungary's national minimum wage is set by government decree, although the government should, formally speaking, consult the NESC. The change was strongly criticised by the unions.

In 2012, a new national tripartite forum, the Permanent Consultation Forum of the Industry and the Government (*Versenyszféra és a Kormány Állandó Konzultációs Fóruma*, hereafter referred to

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4. <https://www.worker-participation.eu/National-Industrial-Relations/Countries/Hungary/Collective-Bargaining>

5. Source: ICTWSS database (version 5.1).

6. Interview with a TU representative.

as PCFPSG) was established, in which three employers' organisations (MGYOSZ, ÁFÉOSZ and VOSZ) as well as three trade union confederations (LIGA, MSZOSZ, and Munkástanácsok) discuss industrial policy, but its role is more limited than that of the former NIRC. It operates at three levels: at least every six months a high-level meeting takes place, which is not public, with the Prime Minister (in 2017 there was none). The second level is the Monitoring Committee, with the participation of the State Secretary responsible for employment and a number of other deputy state secretaries in relevant fields – only the agenda is available publicly. Thirdly, the PCFPSG can also set up temporary and permanent committees. In 2017, PCFPSG did so in two areas, one regarding the revision of the Labour Code, the other regarding the setting-up of a new system replacing the previous early-retirement regime, but neither committees achieved substantial progress (Belyó *et al.* 2018:45-46).

In 2018 February, a new tripartite consultative forum, the Public Service Providers' Consultative Forum (PSPCF) (*Közszolgáltató Vállalkozások Konzultációs Fóruma, KVKF*), similar to the PCFPSG, was established for public service workers. The activities of this new body are separate from those of the PCFPSG and NESK (?).

The Sectoral Dialogue Committees (*Ágazati Párbeszéd Bizottságok*) are the main forums for bilateral and sectoral social dialogue between the private sector social partners: they form the Council of Social Dialogue Committees. These might be understood as a kind of inter-sectoral bargaining, but it is only an administrative forum for sectoral social dialogue.

The National Labour Council for Public-sector Employees is an institutional framework for social dialogue in questions affecting the public sector, related to labour, employment and wages. The role of the Forum has been waning because of the increasing influence of the sectoral consultation forums (e.g. in the field of public education, culture). The National Consultation Council for Public Service (*Országos Közszolgálati Érdekegyeztető Tanács, OKÉT*) discusses issues related to labour, employment and wage policy regarding public service employees. There are no regional/local levels of cross-sectoral bargaining.

There are no rules on the national representativity of trade union confederations. Since 2011, only three out of six trade union confederations and only three of nine employer organisations have remained in the main consultation body, the PCFPSG. There has been no explanation from the government as to which criteria were used to select these particular organisations. There is some rivalry among organisations concerning the right to participate in the PCFPSG, partly for financial reasons, as organisations that participate in this body receive finances from the state budget. Others, which have been excluded, have been experiencing serious financial problems.

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7. [www.liganet.hu/news/9710/KVKF.pdf](http://www.liganet.hu/news/9710/KVKF.pdf)

Both trade unions and employer organisations agree that the weak cross-sectoral bargaining system has been depleted even further by the changes initiated by the government since 2010. Although there is an institutional framework, the stakeholders are only formally involved in the policy-making process; they themselves consider that they have no influence on the decisions taken (Eurofound 2014).

### *Political background*

Union relationships with the government changed after the 2010 election, which produced a landslide win for the FIDESZ <sup>(8)</sup> -KDNP coalition. In April 2018, the government, with Prime Minister Orbán Viktor, was re-elected for the third term in a row, with a large majority, and his system is characterised by strong political centralisation of decision-making. Important changes in this period include the reshaping of the institutional framework for industrial relations and social dialogue. The current Labour Code reformulated the 20-year practice of industrial relations. New criteria were established for trade union representativeness and entitlement to collective bargaining; trade unions' rights have been curtailed, such as the abolition of their right to a veto, and the time-off system has also been cut; new roles for works councils have been established. Information and consultation rights have been given to works councils, while previously they were shared between works councils and trade unions. The Labour Code allows collective agreements to derogate from the provisions of the Labour Code, to the detriment of employees (Eurofound 2016: 45).

This altered political atmosphere provides limited opportunities for the already weakened trade unions (Németh and Grindt 2018). As the White Book prepared by the trade unions before the 2018 elections states: *'No matter how important is the organisational setup of interest reconciliation, its efficiency is determined...by political culture, the real existence of a partnership relation'...**'a key characteristic of the policy of the current government is to squeeze out non-governmental bodies, including trade unions from policy-making processes and their preparatory phase'* (Fehér könyv 2018: 58, 60).

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8. Fidesz – Hungarian Civic Alliance – is a national-conservative, right-wing populist political party. Viktor Orbán has been the leader of the party for most of its history. Source: Wikipedia.

## **2. The involvement of national trade unions in the European Semester: access channels and resources exchanged**

### ***2.1 Access channels***

#### **Potential channels for access**

According to the Hungarian government, the social partners and other civil society organisations are mainly involved in the European Semester through the preparation of the National Reform Programme (NRP) and, indirectly, the CSRs. The key documents in the Semester process – the Annual Growth Survey along with the draft Joint Employment Report, the Country Report, NRP and Convergence Programme, CSRs – are regularly presented to, and debated by, the Parliament's Committee on European Affairs.

The NRP is considered to be the document through which social partners' opinions could potentially impact the Semester process. According to government representatives, the public consultation and the involvement of stakeholders in the NRP have been carried out in two stages. In the first stage, the ministries responsible for the measures involve their own partners (i.e. professional and civic organisations as well as public bodies which each ministry selects based on their own preferences) in the preparation and planning of certain laws, programmes and other measures. The form this involvement takes varies depending on the nature of the particular measures and how these are approached. The Ministry of Finance (as the coordinating ministry) asks for information from the relevant ministries for the most important public consultations, and some best practices regarding the most important public consultations are presented in the NRP. As some measures partly financed from EU funds are also presented in the NRP, these consultations, preceding the introduction of such measures, are also presented.

In the second stage, the Ministry for National Economy organises several workshops so that the ministries and professional organisations implementing the Europe 2020 Strategy can jointly evaluate the progress made on the strategy, and make proposals for more effective achievement of the objectives. For example, most of the proposals in the 2017 employment workshops covered issues related to stronger promotion of the Youth Guarantee Programme and how better to encourage public workers to enter the primary labour market. In 2018, due to the parliamentary elections in April, the Ministry for National Economy did not organize such workshops; however, in 2019, they are planning to return to this practice. These preparatory activities take place before the submission of the NRP to the central consultative body, the National Economic and Social Council. In theory, NESOC and PCFPSG meetings are the main forums for discussing the Semester documents.

The European Commission Representation in Hungary also organises events where social partners can voice their opinions: they are invited to talks during the Commission's fact-finding mission, to public events presenting the Country Reports and the CSRs and to meetings with high level guests from the EU. The ETUC is perceived to be taking the Semester process seriously and has a special committee on the matter, in which Hungary is represented by the Trade Union Semester Liaison Officer (TUSLO).

The yearly thematic review of the Employment Committee (EMCO) on Social dialogue was mentioned in two interviews as a forum where governments are invited to discuss the situation of social dialogue in their country. Unions and one employers' organisation are invited, and they can openly ask their governments questions – the government may or may not answer, and further impact has not been observed, but social partners still see it as an opportunity <sup>(9)</sup>.

### **Trade unions' assessment of the effectiveness and usefulness of access channels**

Overall, the social partners feel that there is a lack of meaningful debate and real partnership, as the government does not see the need to take the opinions of the social partners into account. 'The government is informing the TUs only about resolutions taken and adopted legislation.... Several pieces of labour market legislation of high importance... were executed without any prior consultation with the trade unions' <sup>(10)</sup>. The government sees the social dialogue as a box-ticking exercise, and often informs social partners only ex post. There are consultations regarding some issues but they are not public or transparent. The lack of formal consultation criteria is a problem. Consultation does not work in practice, according to the social partners interviewed: 'If there was meaningful tripartite social dialogue in the country, this all could be discussed in an institutional framework, kept on the agenda.'

According to trade unions, the existing legal regulations are not adhered to, or not applied in an appropriate manner. It is general practice that only 3-5 days (often including weekends) are provided for the legally mandatory social conciliation <sup>(11)</sup> process, which means that there is not sufficient time for organisations to prepare a position. The legally prescribed summary account of

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9. An ongoing research project, CEELAB, funded by the European Commission's DG EMPL ('Improving knowledge on the impact of Central and Eastern European social partners on competitive labour market reforms facing the global crisis') aims to find out more about the contribution of the cross-sectoral industrial relations structures to labour market reforms, and about the role of social partners in the European Semester in Slovakia, Romania, Croatia, Montenegro and Hungary. The case study on Hungary can be downloaded from: [http://www.ceelab.eu/assets/images/HUNGARY\\_FINAL.pdf](http://www.ceelab.eu/assets/images/HUNGARY_FINAL.pdf)

10. Written notes provided by one of the interviewees, also found in ETUC 2017a:69.

11. This is regulated by law (2010. CXXXI) on wide-scale social dialogue in the preparatory phase of new legislation. The law differentiates between a *general* conciliation via a relevant official website and *direct* conciliation, in which the minister in charge can involve specific individuals, institutions and organisations. <https://net.jogtar.hu/jogszabaly?docid=A1000131.TV>

the opinions received is often not prepared, and the opinions can hardly be read on the websites. In other cases, those affected only learn from the Parliament webpage that laws are being prepared that affect their basic interests. Regarding direct conciliation <sup>(12)</sup>, the 'strategic partnerships' can also be criticised, as those putting forward the initiative decide whether an organisation is entitled to interest conciliation; the government tends to select NGOs and interest representation organisations with whom they prefer to cooperate, and to exclude others (interviews, and Fehér Könyv 2018: 60). One trade union representative, for example, referred in the interview to a particular public works scheme. Some trade unions had been asking for some years for this to be changed, supported by CSRs. When the Government finally modified the scheme, it failed to consult the social partners about the change, and about the ensuing reallocation of financial resources to active labour market measures.

Regarding national level consultation, the social partners' views are therefore very negative, as they stated they had not been involved in the Semester process at all. Contrary to the government view, both trade unions and employer organisations claim that no consultations regarding the Semester took place (interviews with trade union and employers' organisation representatives and ETUC 2018a).

Unsurprisingly then, there is no meaningful debate on the NRP at NESC meetings. The bipartite NESC is too large a body for meaningful consultation. It consists of many organisations in addition to the social partners, and can only deal with issues superficially; there is no room for substantial debate. In 2016, for example, discussion on the NRP was removed from the agenda and was therefore not debated, in 2015 the item was included in the 'other issues' section and is not reported in the memorandum of the meeting (interviews, and Eurofound 2017b:10). Since its formation, the NESC has had on average four meetings a year. The Minister of Human Capacities, responsible for the development of social and civic relations, has to prepare a report by the end of March each year on how the NESC discussions, proposals and statements have been used in legislation and governmental work – it is quite telling that only two such reports (for 2015 and 2012) can be found on the organisation's homepage (Pásztóy 2018b; NGTT Dokumentumtár). In 2017, the NESC had four meetings as scheduled; out of the four topics on the agenda, two were not discussed. One of them was the national review of the European Pillar of Social Rights (Belyó *et al.* 2018:42).

The tripartite PCFPSG could be an effective body for such discussions on the key Semester documents, but this institutional framework does not operate as intended. PCFPSG, members were selected randomly, and not transparently, by the government, the meetings are not public, neither are the agendas, nor the issues discussed or conclusions achieved, so the operations of this

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12. See previous footnote.

important forum are completely lacking in transparency. The PCFPSG 'has been working infrequently, the activity is so far concentrating on the once a year negotiation about setting the minimum wage. Topics that are valued as not important, or uncomfortable for the government were delayed, or simply not put on the agenda' (13). Also, the interviews suggest general agreement that some social partners are unnecessarily excluded from this framework. Even when the NRP or CSRs appear on the agenda, there is no meaningful debate on these. The government, rather, only informs the social partners, often in very limited time-frames (14). In 2017, there were 23 substantial topics discussed in the national consultative forums and only one of these ended with an agreement which had a substantial impact on national legislature (Belyó *et al.* 2018:47).

The government has a different view on the participation of social partners in the Semester process. In their view, in the first years of the European Semester, the Ministry for National Economy organised partnership conferences related to the Europe 2020 Strategy, the basis of the European Semester, to which the trade unions and civil and professional organisations were also invited. The representatives of the ministries responsible presented the state of progress on the relevant Europe 2020 targets and the measures planned and implemented. They expected opinions and proposals on the measures, but:

*'not so much people came to the conference and few people gave their opinion. Therefore in 2016, the Ministry suggested public consultation in the form of workshops where the ministries and professional organisations implementing the Europe 2020 Strategy could jointly evaluate the progress in the strategy and make proposals for a more effective achievement of the objectives' (15).*

According to the interviews, this lack of interest from the social partners may be related to a lack of sufficient resources to participate, together with their perception regarding how useful it is to make such contributions.

Trade unions are somewhat sceptical as to how much policy impact even the EU can make at the national level. 'What we tell the Commission may be included in the Country report, however, it does not mean that it affects political decisions of the government' (16).

According to the ETUC TU-Involvement Index, which shows how trade unions are involved at key points in the Semester cycle at national level, in Hungary there was no involvement in 2017, while

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13. Written notes provided by one of the interviewees, also found in ETUC 2017a:69.

14. *'If we receive a material on Friday, it is difficult to provide an opinion about it on Monday. An expert may have read it, but you cannot provide an organisational statement about it'*. Interview with a TU representative.

15. Interview with government representative.

16. Interview with trade union representative.

for 2016, it indicated poor involvement (ETUC 2018b). In 2017 Hungary was among the ten Member States where no consultations took place (ETUC 2018a:2), where national social partners had no role in drafting or implementing NRPs (Eurofound 2017a) and even claimed not to have received the draft NRP. Trade union activity in the Semester even seems to be decreasing, according to the three available ETUC reports on national trade union inputs to the early-stage consultation on the consecutive Country reports (ETUC 2018a, 2017b, 2016): the volumes for 2016 and 2017 include reactions from three Hungarian trade unions, while for 2018, no responses are included. According to Eurofound evaluations, the situation seems not to have changed since 2011 (Eurofound 2017a, b) <sup>(17)</sup>.

### **Shortcomings and limitations of access channels**

According to the government, there are no problems with the unions' capacities or their involvement; financing and capacity building is funded from national as well as European sources. The trade union and employers' representatives, however, describe several problems, as discussed above.

The interview with one of the Hungarian European Semester Officers (ESO) highlighted some problems which help to explain the discrepancy between the opinions of the social partners and the government regarding the state of social dialogue and the Semester:

*'The government may not involve other stakeholders in a very spectacular way...the Semester affects quite a wide range of topics. They may not consult on the NRP as such, and they present it only after its submission, e.g. they share its table of contents with NESCE, but on individual important measures, there is consultation. On the other hand, it is questionable how much policy consultations are public, or happen in a closed circle in a way that we cannot know whether there was a consultation, only those invited know about it, we do not know what was the criteria of selecting these participants, and we do not know what their opinion was and finally what impact it made on legislation. So often there has been a consultation when we believe there has not been one.... and yes, it is problematic.'*

So, the lack of transparency and of a formal framework, and the ad-hoc nature of the process seem to be important issues. One interviewee commented that in other Member States *'civil partners and government representatives are invited together. It is usually not the case in Hungary, as they would not share their opinion openly.'*

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17. Interviewees corroborated this Eurofound evaluation.

## **2.2 Availability and 'exchange' of key resources**

TU participation in the Semester process, including in-depth evaluation of its documents, is clearly limited by the insufficient capacities of the organisations on both sides of industry: for financial reasons, there are few full-time employees, very few experts, and the limited knowledge of foreign languages is also a problem: *'they would need more people, better foreign language skills and a formalized process for the NRP'*. No change is expected in this regard in the near future. Thus, the TU representatives interviewed claimed that their organisations have no resources to take part in the Semester process per se, but as the topics overlap with those they deal with anyway, they can connect to that.

The lack of resources is connected to the ongoing decline in TU membership in Hungary, and therefore in their income from membership fees. One solution to this problem could be if confederations co-operated, which rarely – if ever – happens: coordination only takes place prior to the meetings of various forums (NESC, PCFPSG, NCRIPS), to discuss agendas and materials (interviews with TU representatives).

According to the interviews, employers' organisations seem to have more resources than trade unions, especially foreign language skills and funding. As a result, they interact more pro-actively, for example by sending the ESOs material and newsletters more often. The low level of involvement of the social partners in the ES process is also linked to their limited capacity to review the available material. *'They have no capacity to read some materials, let alone to have studies prepared for them...That is why they focus on certain topics, such as the right to strike or early retirement, with which we deal with in any case, Semester or not'*<sup>(18)</sup>.

Trade union representatives noted that EU-financed programmes are *'not suitable for direct capacity building'* and that these funds cannot be spent on the assessment of government policies or on the elaboration of alternative policies. They complain that EU structural funds available for social dialogue are distributed according to political priorities and not to professional criteria.

On the other hand, according to a trade union representative, existing resources are rarely used for the preparation of expert analyses, the main exception to this rule being studies and programmes supported by the Friedrich Ebert Stiftung, as the spending of its funding is strictly regulated. One of the reasons for this – according to one of our interviewees – is that TUs *'do not feel the need to prove a professionally grounded opinion, as the government would not care anyways.'* Another problem linked to resources, which came up as a very sensitive topic in some interviews, is that the government provides financing for organisations participating in the

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18. Interview with the ESOs.

PCFPSG; this is also a means to indirectly 'blackmail' them, and suppress more critical voices (see also Kiss A: 2018).

With regard to political resources, it seems that due to the low representation of trade unions and the overwhelming majority support that the government received for the third time in a row, the government believes that it best represents the interests of the population, so there is no real need for other such organisations (one of the trade union representatives quoted the Prime Minister on this point).

In the existing institutional framework, both the issues discussed and the quality of consultations depend on the government's intentions. The government is not committed to meaningful consultation and furthermore, the criteria for participation in the national social dialogue are not transparent. Several governments (not only the present one), seeing the decline in the interest-representation potential of trade unions, have focused on merely formal consultations, rather than substantial cooperation (see in more detail: Pásztóy 2018a, 2018b).

As to legal resources, the social partners are in theory entitled to be involved in policy-making processes, including the European and the national social dialogue, but they perceive the latter as being without real substance and impact. Decisions as to who receives certain information and data seem to be rather *ad hoc*.

### **3. Linkages between the European Semester and national social dialogue**

As stated above, the social partners feel there is no real social dialogue in Hungary, as there is no political will to engage in it. From the interviews with TU and employers' organisation representatives, it seems that the European Semester is considered to be a relevant process and its topics are considered important. However, as the social partners feel they are not involved in the process, they consider its relevance to be limited, although they, in general, agree with the contents of the Commission's Country reports and the CSRs. From this perspective, one could expect social partners to evaluate the Semester process as 'not relevant', but they rather agree that it would be desirable and important to achieve a more active and meaningful discussion on it. The Semester topics are and should be among the topics discussed in the social dialogue at national level.

Among the Semester-related documents, interviewees from the social partners and the government all consider the CSRs and the NRP to be the most important, as '*these have the*

*greatest impact on national policy processes*'<sup>(19)</sup>. These documents receive at least some publicity in the media and the government seems to consider it important – even if only on the surface and to an international audience – to comply with EU expectations <sup>(20)</sup>. Nevertheless, CSRs in general do not receive much publicity in Hungary. The Government has not indicated which reforms or measures have been introduced in response to the CSRs.

Interviewees highlighted that even though some influence can be exerted on the topics of the Semester and on the content of the Country report and CSRs, this does not mean they will have an impact on the national policy processes – and this is not to be blamed on the Semester. Although the social partners consider one of the 2018 CSRs, i.e. to 'improve the quality and transparency of the decision-making process through effective social dialogue and engagement with other stakeholders' (CSR 2) as due to their successful input '*it does not guarantee that there is going to be a political will at the national level to actually change the current state of affairs*'<sup>(21)</sup>. The government, they believe, ignores CSRs that are not in line with their intentions, but where a certain issue also appears on their agenda, the CSR is used to support their case. For example, regarding public works the CSRs had been calling for changes to be made for years when the government modified its policy – not necessarily because it was recommended, but because the labour shortage in the country made it necessary.

The limitations of the NESC and PCFPSG, the major bi-and tripartite bodies for social dialogue in the Semester, have been described in Section 2.1. above. Their functioning could be improved so that they could fulfil their tasks better. The trade unions have proposals as to how this could be done <sup>(22)</sup>.

## 4. Trade unions' strategies for involvement

### 4.1 Strategies for involvement

The INVOTUNES project's analytical framework distinguishes between *insider strategies*, basically consisting of direct contacts with either bureaucratic bodies (e.g. the European Commission or national administrations) or elected bodies (e.g. parliaments); and *outsider strategies*, generally consisting of media campaigns to reach the broader public or mobilising members to organise

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19. Interview with the employers' Semester liaison officer.

20. The ESOs interviewed are of the opinion that the Hungarian government considers the ES process to be very important and tries to do its best to comply with expectations, e.g. they provide lengthy 'often 100-page long written answers' to the Commission's queries.

21. Interview with a social partner.

22. Mentioned in an interview with a trade union representative.

protests (Sabato 2018). Hungarian trade unions mainly use insider strategies to become involved in the Semester.

According to the interviews with TU representatives, they at present cannot really influence the government. They perceive that the employers' organisations may do so more effectively (e.g. regarding vocational training).

On the European Commission side, the fact-finding missions provide a good chance to gain insights from social partners. It is also a good opportunity for social partners to try and influence the Semester topics and the content of the Country report, by highlighting issues they consider important and which they cannot put forward at a national level, thus trying to influence national policy-making indirectly. The Commission's European Semester Officers organise meetings, mainly to test whether or not the opinions previously formed by the Commission's country desks are viewed the same way by the social partners. The desk officers find these meetings meaningful, with competent participants. Usually separate meetings are organised with the government and the social stakeholders: NGO representatives, in particular, voice different views in the absence of the government. But sometimes, e.g. in 2018 in the case of the health sector, there was a discussion with the government and all the stakeholders.

As one of their tasks after the publication of the Country report, Commission representatives mainly consult representatives of the government, with the aim of achieving a consensus regarding the CSRs. NGOs and social partners are also invited to the presentation of the Country report. However, this event is not very 'interactive': there may be 2-3 opinions given but there is no meaningful discussion, and in fact it is too late to incorporate new aspects from social partners at this stage.

Since the social partners feel they can have no impact within the country, they try to exert influence through international organisations, such as the ETUC or BusinessEurope. Influence is also brought to bear more informally, by the holding of various posts in international organisations and thus having direct contact with high-ranking EU officials. *'My organisation interacts via the personal networks of its international director' (23). 'This is an important topic in BusinessEurope, and generally they can make an impact on the process, and we can influence their position. BusinessEurope also happened to organise a meeting for us and the representatives of the Commission in Brussels where we could state what we would welcome to see in the country report or among the CSRs' (24).*

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23. Interview with TU representative.

24. Interview with employers' representative.

*Significantly, the European Pillar of Social Rights was mentioned only once in an interview. 'When initially the Hungarian and Polish governments did not want to sign the agreement on the Social Pillar, we organised that the president of ETUC came to Hungary a couple of times, even met the Prime Minister, who finally signed it. We were very proud of ourselves that we could do it. But in practice, it made no impact...a nice declaration is one thing, reality is another'* (25).

As we explained above, the strategies for involvement are mainly insider strategies: direct contact with bureaucratic bodies such as Commission representatives or members of the existing tripartite consultation bodies (mainly the PCFPSG) or international organisations.

Outsider strategies are deemed not feasible, as trade unions do not feel they have enough power to implement these. Indeed, even if they are dissatisfied with the state of social dialogue, they have limited scope for action, as there is no significant social opposition.

#### **4.2 Channels for 'internal' coordination**

Both the employers' and employees' organisations have very few employed staff. Typically, only one of the staff members deals with international affairs, and most often this person knows the most about the Semester (and speaks a foreign language). When different bodies (e.g. the European Commission Representation, ETUC, ILO) invite representatives of the organisations, they mostly invite the president/leader of the organisation, who then may appoint – often *ad hoc* or based on availability – someone to represent the organisation. Other employees, even policy experts, seem to have very limited knowledge of their own organisation's role in the Semester. Several TUs cannot employ any such experts, others may employ only one.

There is no coordination among trade unions, or between unions and the employers' organisations or other stakeholders, mainly due, as they explain during interviews, to a lack of resources. *'The lack of coordination is a mistake, partly due to negligence and to limited knowledge of the Semester...We know we should deal with it, but it gets lost among everyday problems'*. As explained above, coordination is further hindered by the government's lack of interest in a meaningful social dialogue, which is *'further worsened by some Euroscepticism in the background'* (26).

Trade unions have only recently started to collaborate with NGOs and civil society; one good example of this were the large-scale protests on the democratic restructuring of the educational system in 2016. The VASAS trade union initiated co-operation with church representatives. Such

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25. Interview with TU representative.

26. Quotes from interview with employers' organisation representative.

cooperation would be welcome on both sides, but must result from mutual trust and intense dialogue (Németh and Grindt 2018).

The Trade Union Liaison Officers (TUSLOs) could play an important role in the nearly non-existent national coordination among TUs, but do not seem to exercise this role in a systematic way. TUSLOs could indeed help TUs to invest in the Semester process, despite very limited resources. For example, the Hungarian TUs provided written feedback on the NRP to the ETUC twice in recent years, but not in 2018. This may have something to do with the change of the TUSLO. If so, it may show how important it is to find the right person for this post, or the need for a more formalised set of expectations regarding the activities to be performed by the TUSLO.

Political affiliation seems to be very important. *'As the European Semester is a strategic issue, they need a pro-government person in the position of TUSLO'* (27). It is interesting to note that the government representative we contacted was not aware of the appointment/existence of a TUSLO (28). The establishment of the TUSLO post has not yet brought about significant changes, as Hungarian trade union confederations do not use the EU Semester documents in their advocacy work, although they could usefully do so. The European Semester officers see the role of the TUSLO position as organisational.

## 5. Influence of national trade unions in the European Semester

The Hungarian trade union influence on agenda setting is low: as described above, they have limited ability to influence the setting of priorities either at European or national level. Examples of influence mentioned in the interviews mostly concern outputs, via consultations. BusinessEurope and ETUC both made efforts to enable their Hungarian members to share the topics they would have liked to see among the CSRs with Commission representatives. According to the interviews with social partners, these efforts had an impact, as these points appeared in the 2017 Country report and some were featured in the 2018 CSRs (29).

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27. Interview with a trade union representative.

28. *'Even if Trade Union Semester Officers were appointed in Hungary, they have not tried to contact us.'* (interview with government official).

29. In the words of one interviewee: *We asked them (Business Europe) to pay attention to the issues of vocational training, labour shortage and social dialogue, and these appeared in the country report in 2017 and among the CSRs in 2018.* Another respondent explained: *'formally we achieved it participating in the various committees of the ETUC, but not through the TUSLO, and also we tried to talk about it via our informal connections to other high-level officials, directors.'*

Trade unions can provide feedback on Semester topics via the ETUC, as they regularly ask for the insights of member organisations. However, *'they may not respond due to lack of capacities: they have 3-4 experts, without sufficient foreign language skills'*<sup>(30)</sup>.

## **6. The involvement of national trade unions in setting the minimum wage: case study**

Cross-sectoral collective agreements do not exist in Hungary. The only agreement suitable for a case study analysis has therefore been the annually-agreed level of minimum wage increase (which is however not a 'collective agreement' in a legal sense), which is negotiated through tripartite negotiations. The minimum wage is valid for all employees in all sectors and regions of Hungary, i.e. 3.8 million people. The government representative interviewed for the study claimed that the six-year wage agreement, signed in 2016, was partially based on one of the key Country-specific Recommendations for Hungary, namely the reduction of the tax wedge for low-wage earners. However, no reference has been made in national public discourse, nor even in the national social dialogue, to a link between minimum wage setting and the European Semester process.

The new practice of consultation on national minimum wages (both minimum wages and guaranteed minimum wages)<sup>(31)</sup> takes place in the PCFPSG. When agreement is reached, it is submitted to the government, which consults the NESC on it and makes an announcement, codifying the agreement. The problems related to the social dialogue have already been described in more detail in Section 2.1. They surface regarding the issue of the minimum wage: at the NESC meeting, why should trade union representatives agree on the minimum wage with, for example, representatives of the church? The NESC often has to negotiate on issues concerning only a fraction of the members. What is more, the most important party, the only one with decision-making power, the government, is not a member of the NESC, although by law the decision on the increase of the minimum wage can only be taken after the government has consulted this body.

A more substantial consultation takes place in the PCFPSG. However, there are no (or at least no publicly accessible) memos or minutes of the PCFPSG meetings, and even written materials are rarely submitted. The meetings, moreover, are not open to the press. The members have no legal right to veto decisions, and social partner representatives feel that their opinions and arguments have no significant impact on government decisions. Still, the only meaningful consultation does

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30. Interview with a trade union representative.

31. There have been two levels of minimum wage in Hungary since 2006: the *basic minimum wage* and the *guaranteed minimum wage*. The latter, higher amount is for jobs requiring at least secondary school or a vocational training qualification.

take place in the PCFPSG and its Monitoring Committee (Szabó 2016). In the new legal framework (established by the present government), the government is not obliged to consider the proposals of the social partners (although decision-makers must formally respond to the NESC proposals). Neither are there any statutory provisions concerning which issues must be put on the PCFPSG agenda: it is completely up to its members. Although in theory, all issues concerning wages in the private sector should be covered, in reality this does not happen. The government is no longer obliged to accept the proposed percentage or even a range of possibilities, when determining the following year's wage increase.

A six-year wage agreement was agreed by the government in the autumn of 2016. As a result, from 2018 January the minimum wage reached the minimum subsistence level for the first time since its introduction in 1989. It had been on the trade unions' agenda since the 1990s, and in 2013, three trade union confederations merged into a joint confederation to achieve this goal. At first sight one could think the 2016 agreement was a victory for the social partners. However, it turns out that although trade union confederations (e.g. MSZSZ) had long argued for this and raised this issue, they had not achieved a breakthrough. They even commissioned a think-tank, Policy Agenda, to prepare a plan on how to increase the level of the net minimum wage to the minimum subsistence level ('Programme against in-work poverty!')<sup>(32)</sup>, and in 2014 the trade unions unanimously brought this proposal to the wage negotiations. In 2014, neither the government nor the employers' organisations supported it, and no meaningful debate on it took place<sup>(33)</sup>. The employers argued that such a significant increase would lead to the bankruptcy of several companies in the then economic situation. The government, on the other hand, expected the employee and employer sides to come to an agreement which would then be accepted by the government: as they could not agree on the long-term programme, the usual, low increase was implemented. In 2015, an updated version<sup>(34)</sup> of the previous programme was submitted by the trade unions, and they threatened to initiate a referendum if talks remained unsuccessful. However, neither the government nor the employers supported the initiative, and, finally, no referendum was held.

In this climate, in 2016, the minister of national economy himself introduced the topic of a two-step wage increase for 2017 and 2018. The government, then, 'stepped out of its facilitator role' at the tripartite consultations and made an offer 'instead of trade unions' (Kiss N. 2018:4). No modifications, it must be added, could be made to the government's proposal. So, although the government's proposal was even more generous than the proposal the trade unions had submitted, it differed in several aspects, and the trade unions did not achieve this increase: it was

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32. <http://szakszervezet.net/images/dokumentumok/Tobb%20bert%20a%20dolgozoknak%0922.pdf>

33. As there are no accessible documents of the PCFPSG meetings, this information can only be based on interviews.

34. [http://www.vdsz.hu/files/1/466/program\\_a\\_dolgozoi\\_szegenysegi\\_ellen.pdf](http://www.vdsz.hu/files/1/466/program_a_dolgozoi_szegenysegi_ellen.pdf)

the government's own intention, based on economic reasoning (the ever-more serious labour shortages and intensifying internal demand).

In its official declaration, the government explained that *'measures have been taken based on the Agreement of the PCFPSG on the amount of minimum wage and the minimum wage of skilled workers, the real wage growth and the reduction of employers' burden, signed on 24 November 2016. The programme aims at creating a predictable business environment, improving competitiveness, increasing wages and reducing tax burdens on employment'* <sup>(35)</sup> They also claim to have consulted the PCFPSG, the state employers and public service unions (Kiss N. 2018).

The social partners are dissatisfied with the decision-making process, as they feel that they were involved only formally. Although the outcome of this particular case is in line with Semester recommendations to Hungary – and also with long-held trade union goals for which they had been fighting for years – they are not satisfied with this outcome. As they perceive things, their previous arguments had been completely ignored, this new suggestion was made without their contribution or prior consultation, and the modifications proposed (by the employer side) were also ignored; in their view, the employers were not treated as partners in this process either.

It remains unclear to what extent the minimum wage increase was the result of EU pressure, or, rather, reflected the government's own interests, and was then 'sold' as a response to EU expectations – but only in Brussels, not in the national policy discourse.

## 7. Conclusions and policy recommendations

### 7.1 Conclusions

This Working paper aimed to understand the involvement of Hungarian social partners (with a particular focus on trade unions) in both the domestic and EU cycles of the European Semester. Hungary can be characterised as a country with a weak to moderate degree of EU pressure, low and decreasing levels of TU representativeness and belonging to the Central-Eastern cluster of industrial relations' systems, with limited collective bargaining coverage. Hungarian trade unions' involvement through EU bodies can be best described as *consultation*, mostly connected to the preparation of the Country report, i.e. regarding the outputs of the Semester process. However, TU involvement through national bodies, although there is a formal structure for it, can rather be considered to be *no involvement*, as unions cannot meaningfully influence the national processes (at least according to the social partners interviewed). The TUs have strictly limited resources, both politically (due to low union density and a strong, centralising government) and financially,

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35. Interview with government representative.

which results in low levels of organisational and cognitive resources. The TU strategies at EU level are relatively effective, but at the national level there is some scepticism regarding impact on actual outcomes. Because of this situation, it is deemed unlikely that the European Pillar of Social Rights will significantly change the processes at the national level.

Besides the lack of meaningful dialogue, in spite of the existence of formal structures, the strong governmental media-presence together with the low mobilising capacity and the underfinanced status of trade unions significantly inhibit effective reconciliation of interests. The changes made to the legal regulations on strikes (Balczer 2016) and the new Labour Code (introduced in 2012) further limited the room for manoeuvre of trade unions and their representatives (Laki *et al.* 2013).

Trade unions can mostly only contribute information about the national context, which may appear in the Country report and thus indirectly influence the CSRs, although they perceive that one of the CSRs for 2018 regarding social dialogue is a result of their efforts at the EU level. TUs are generally quite satisfied with the EU recommendations regarding poverty reduction, social provisions, education, the labour market, wage-setting and the social dialogue. However, they are quite sceptical about how much these are reflected in government policy measures.

The analysis shows some improvement in involvement at the EU level, compared to the period before 2014, but no improvement within the period analysed. This may be related partly to the change of the TUSLO, but mostly to the resources available to TUs and the government's approach to social dialogue. Both trade unions and employer organisations agree that the weak cross-sectoral bargaining system has been weakened even further by the changes initiated by the government since 2010.

TU representatives have limited awareness of the European Semester processes; this knowledge is often limited to top members of the social partner organisations. Actors evaluate their interaction with EU level bodies, such as the ETUC or the Commission, positively, although they see room for improvement. However, regarding the national government, they see a need for more regular and institutionalized co-ordination regarding their involvement in the Semester. The government seems to consider that the mere existence of an institutional framework and some government involvement is sufficient. The lack of meaningful debate and consensus are not considered problematic by government representatives. That is why the social partners try to influence the ES debate at the EU level, to gain EU support and thus influence the national agenda (and not the other way around, as could be expected). Commission fact-finding missions are seen as the main formal opportunities for access, where social partners can express their priorities directly, apart from occasional bilateral meetings organised with the help of European organisations (ETUC or BusinessEurope) and the venues available via the ETUC.

Trade unions have very limited resources so only perform those tasks that seem essential or very important. Formalisation of TU involvement in the Semester, both with EU bodies, and especially at the national level, could enhance and facilitate TU participation in the processes.

## **7.2 Policy recommendations for good-quality and meaningful involvement**

### *Recommendations to trade unions (incl. the ETUC)*

1. It would be an asset if trade unions took a more pro-active approach in some key questions related to the Semester (e.g. if trade unions directly addressed the Commission with position papers, which could provide it with ideas during the drafting phase of the country reports). With this, their most important points could already be reflected in the preparatory work for the Semester documents;
2. TUs should try to maximize their involvement in the Semester through the ETUC and cooperation with the European Semester officers, even in an unfavourable national political climate;
3. Trade unions could boost their organisational resources by promoting interaction and coordination among confederations and with other social partners regarding involvement in the Semester, as well as increasing interactions with NGOs.

### *Recommendations to national authorities*

4. The national process should ensure the involvement of social partners from the early stages of document-drafting and throughout the whole process, allowing adequate time and deadlines for trade unions to present their contributions, especially in relation to the 'national' cycle of the Semester;
5. The government should consider including a mandatory annex to the National Reform Programme, with the opinions of social partners and their consultation forums on the NRP;
6. The government should use the existing consultation forums in a meaningful and transparent way.

### *Recommendations to European authorities*

7. The European Commission should regularly check with the government how social partners were involved in the Semester and in evaluating its documents <sup>(36)</sup>. If the opinions of social partners are not incorporated into the NRP, their input should be set out in a mandatory annex <sup>(37)</sup>;

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36. For example, in the past two years the Employment Committee's multilateral surveillance review on the 'Involvement of the Social Partners in relevant reforms and policies' for Hungary contains only the views of the government; the parts that should have been written by the social partners are missing.

37. 'The EU should design an agenda which then should be followed: they should define what the 'meaningful involvement of social partners' exactly means, all these are described as balloons floating in the air and thus member states do whatever they want.' (interview with a TU representative). A positive example was cited: the annual report on the activities of the National ILO Council must contain a

8. National-level consultation by the EU Commission with representatives of the social partners could be formalized, with clearly-defined quality standards, timeframes, actors to be involved and the criteria for their selection. It could also be stated which written materials should be submitted;
9. The EU should monitor much more closely how its funds are actually spent, including on capacity building.

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publicly accessible Appendix to the National Report prepared by the government, containing the observations of the organisations representing employees (see the latest one at: [http://www.kszs.org.hu/images/pdf/2018/MVO\\_velemenye\\_ILO\\_2017\\_kormanyjelenteshez.pdf](http://www.kszs.org.hu/images/pdf/2018/MVO_velemenye_ILO_2017_kormanyjelenteshez.pdf))

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## Annex 1

### LIST OF INTERVIEWS

Interview no.	Organisation	Date	Mode	Code
1	EC desk officer	20.06.2018	telephone	I1
2	representative of a trade union	03.08.2018	Face-to-face, plus written notes provided separately	I2
3	representative of a trade union	25.07.2018	telephone	I3
4.	representative of a trade union	06.09.2018	telephone	I4
5.	representative of an employers' organisation	09.09.2018	Written form	I5
6.	government representative	16.08.2018	Written form	I6
7.	European Semester Officers	23.07.2018	telephone	I7

Several other potential interviewees were contacted but they did not wish to be interviewed, either due to a lack of expertise on the issues at stake, because they were not authorised to do so, or because of time constraints.

## Annex 2

### COUNTRY-SPECIFIC RECOMMENDATIONS TO HUNGARY (2014-2018)

2014	CSRs
1.	Reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.9% of GDP relative to the Stability and Growth Pact requirements, namely the debt reduction rule, based on the Commission 2014 spring forecast. In 2015, and thereafter, significantly strengthen the budgetary strategy to ensure reaching the medium-term objective and compliance with the debt reduction requirements in order to keep the general government debt ratio on a sustained downward path. Further enhance the binding nature of the medium-term budgetary framework through systematic ex-post monitoring of compliance with numerical fiscal rules and the use of corrective mechanisms. Improve the transparency of public finances, including through broadening the mandatory remit of the Fiscal Council, by requiring the preparation of regular macro-fiscal forecasts and budgetary impact assessments of major policy proposals.
2.	Help restore normal lending flows to the economy, inter alia by improving the design of and reducing the burden of taxes imposed on financial institutions. Adjust the financial transaction duty in order to avoid diverting savings from the banking sector and enhance incentives for using electronic payments. Investigate and remove obstacles to portfolio cleaning inter alia by tightening provisioning rules for restructured loans, removing obstacles to collateral foreclosure as well as increasing the speed and efficiency of insolvency proceedings. In this respect, closely consult stakeholders on new policy initiatives and ensure that these are well-targeted and do not increase moral hazard for borrowers. Further enhance financial regulation and supervision.
3	Ensure a stable, more balanced and streamlined tax system for companies, including by phasing out distortive sector-specific taxes. Reduce the tax wedge for low-income earners, inter alia by improving the efficiency of environmental taxes. Step up measures to improve tax compliance — in particular to reduce VAT fraud — and reduce its overall costs.

4.	Strengthen well-targeted active labour market policy measures, inter alia by accelerating the introduction of the client profiling system of the Public Employment Service. Put in place the planned youth mentoring network and coordinate it with education institutions and local stakeholders to increase outreach. Review the public works scheme to evaluate its effectiveness in helping people find subsequent employment and further strengthen its activation elements. Consider increasing the period of eligibility for unemployment benefits, taking into account the average time required to find new employment and link to activation measures. Improve the adequacy and coverage of social assistance while strengthening the link to activation. In order to alleviate poverty, implement streamlined and integrated policy measures to reduce poverty significantly, particularly among children and Roma.
5.	Stabilise the regulatory framework and foster market competition, inter alia by removing barriers in the services sector. Take more ambitious steps to increase competition and transparency in public procurement, including better use of e-procurement and further reduce corruption and the overall administrative burden.
6.	Implement a national strategy on early school leaving prevention with a focus on drop-outs from vocational education and training. Put in place a systematic approach to promote inclusive mainstream education for disadvantaged groups, in particular Roma. Support the transition between different stages of education and towards the labour market, and closely monitor the implementation of the vocational training reform. Implement a higher-education reform that enables greater tertiary attainment, particularly by disadvantaged students.
7.	Review the impact of energy price regulation on incentives to invest and on competition in the electricity and gas markets. Take further steps to ensure the autonomy of the national regulator in establishing network tariffs and conditions. Take measures to increase energy efficiency in particular in the residential sector. Further increase the sustainability of the transport system, inter alia by reducing operating costs and reviewing the tariff system of state-owned enterprises in the transport sector.
2015	
1	Achieve a fiscal adjustment of 0.5% of GDP towards the medium-term objective in 2015 and of 0.6% of GDP in 2016.
2	Take measures to restore normal lending to the real economy and remove obstacles to market-based portfolio cleaning considerably reduce the contingent liability risks linked to increased state ownership in the banking sector.
3	Reduce distortive sector-specific taxes; remove the unjustified entry barriers in the service sector, including in the retail sector; reduce the tax wedge for low-income earners, including by shifting taxation to areas less distortive to growth; continue to fight tax evasion, reduce compliance costs and improve the efficiency of tax collection. Strengthen structures in public procurement that promote competition and transparency and further improve the anti-corruption framework.
4	Reorient the budget resources allocated to the public work scheme to active labour market measures to foster integration into the primary labour market; and improve the adequacy and coverage of social assistance and unemployment benefits. .
5	Increase the participation of disadvantaged groups in particular Roma in inclusive mainstream education, and improve the support offered to these groups through targeted teacher training; strengthen measures to facilitate the transition between different stages of education and to the labour market, and improve the teaching of essential competences.
2016	
1	In view of the high risk of a significant deviation, achieve an annual fiscal adjustment of 0.3 % of GDP towards the medium-term budgetary objective in 2016 and of 0.6 % of GDP in 2017, unless the medium-term budgetary objective is respected with a lower effort, by taking the necessary

	structural measures.
2	Further reduce sector-specific taxes and reduce the tax wedge for low-income earners. Strengthen transparency and competition in public procurement through e-procurement, increased publication of tenders and further improvement of the anti-corruption framework. Improve the regulatory environment in the services sector and in the retail sector by addressing restrictive regulations and ensuring predictability.
3	Facilitate the transition from the public works scheme to the primary labour market and reinforce other active labour market policies. Improve the adequacy and coverage of social assistance and unemployment benefits. Take measures to improve educational outcomes and to increase the participation of disadvantaged groups, in particular Roma, in inclusive mainstream education.
2017	
1	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Hungary's public finances.
2	Complete the reduction of the tax wedge for low-income earners and simplify the tax structure, in particular by reducing the most distortive sector specific taxes. Strengthen transparency and competition in public procurement, by implementing a comprehensive and efficient e-procurement system, and strengthen the anti-corruption framework. Strengthen regulatory predictability, transparency and competition in particular in the services sector, notably in retail
3	Better target the public works scheme to those furthest away from the labour market and provide effective support to jobseekers in order to facilitate transitions to the labour market, including by reinforcing active labour market policies. Take measures to improve education outcomes and to increase the participation of disadvantaged groups, in particular Roma, in inclusive mainstream education. Improve the adequacy and coverage of social assistance and the duration of unemployment benefits.
2018	
1	1. In 2018, ensure compliance with the Council recommendation of XX June 2018 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. In 2019, ensure that the nominal growth rate of net primary government expenditure does not exceed 3.9 %, corresponding to an annual structural adjustment of 0.75 % of GDP.
2	Continue simplifying the tax system, in particular by reducing sector specific taxes. Improve the quality and transparency of the decision-making process through effective social dialogue and engagement with other stakeholders and by regular, adequate impact assessments. Reinforce the anti-corruption framework, strengthen prosecutorial efforts and improve transparency and competition in public procurement inter alia through making data gained from the e-procurement system accessible to the public. Strengthen competition, regulatory stability and transparency in the services sector, notably in retail.
3	Unlock labour reserves through improving the quality of active labour market policies. Improve education outcomes and increase the participation of disadvantaged groups, in particular Roma, in quality and inclusive mainstream education. Improve the adequacy and coverage of social assistance and unemployment benefits.