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Table of contents

A. Introduction

- a) **Preface**
- b) **Relations between the European Union and Hungary**
 - Development under the EU-Hungary Europe Agreements (including bilateral trade)
 - Accession Partnership/NPAA
 - Pre-Accession aid : Phare
 - Phare Management system
 - Twinning
 - The negotiations/Screening process

B. Criteria for membership

1. Political criteria

- Introduction
- Recent developments
- 1.1. **Democracy and the rule of law**
 - The Parliament
 - The Executive
 - The Judiciary
 - Anti-Corruption measures
- 1.2. **Human rights and protection of minorities**
 - Civil and political rights
 - Economic, social and cultural rights
 - Minority rights and the protection of minorities
- 1.3. **General evaluation**

2. Economic criteria

- 2.1. **Introduction**
- 2.2. **Economic developments**
 - Macroeconomic developments
 - Structural reforms
- 2.3. **Assessment in terms of the Copenhagen criteria**
 - The existence of a functioning market economy
 - The capacity to cope with competitive pressure and market forces within Union
- 2.4. **General evaluation**

3. Ability to assume the obligations of membership

- 3.1. **Internal market without frontiers**
 - The four freedoms
 - Competition
- 3.2. **Innovation**
 - Information society
 - Education, training and youth
 - Research and technological development
 - Telecommunications
 - Audiovisual
- 3.3. **Economic and fiscal affairs**
 - Economic and Monetary Union
 - Taxation
 - Statistics
- 3.4. **Sectoral policies**
 - Industry

- Agriculture
- Fisheries
- Energy
- Transport
- Small and medium sized-enterprises
- 3.5. **Economic and social cohesion**
 - Employment and social affairs
 - Regional policy and cohesion
- 3.6. **Quality of life and environment**
 - Environment
 - Consumer protection
- 3.7. **Justice and home affairs**
- 3.8. **External policies**
 - Trade and international economic relations
 - Development
 - Customs
 - Common foreign and security policy
- 3.9. **Financial questions**
 - Financial control
- 3.10. **General evaluation**

- 4. **Administrative capacity to apply the *acquis***
 - 4.1 Administrative structures
 - 4.2 Administrative and judicial capacity : key areas for the implementation of the *acquis*

C. Conclusion

D. Accession Partnership and National Programme for the Adoption of the *Acquis*: global assessment of implementation

1. Accession Partnership : assessment of short and medium-term priorities
2. National Programme for the Adoption of the *Acquis* — *Assessment*

Annexes

Human Rights Conventions ratified by the candidate countries
Statistical Data

A. Introduction

a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*.” “In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidate States' ability to meet the economic criteria and fulfil the obligations deriving from accession.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on Hungary follows the same structure as the Commission's 1997 Opinion. It

- describes relations between Hungary and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Hungary's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Hungary's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which

examines the extent to which Hungary has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Hungary's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

This report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* (screening) and in the negotiations were additional sources of information. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

¹ For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

b) Relations Between the European Union and Hungary

Developments under the EU-Hungary. Europe Agreement (including bilateral trade)

Hungary has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The Association Council will meet in December 1999. An Association Committee meeting was held in February 1999. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the last Commission's Report the Joint Parliamentary Committee comprising representatives of the Hungarian and European Parliament met once in February 1999.

Hungary's trade with the EU has continued to increase. Hungarian exports to the EU rose from 11.7 billion Euro in 1997 to 14.5 billion Euro in 1998 and Hungarian imports from the EU from 13.6 billion Euro in 1997 to 16.7 billion Euro in 1998. The most important EU exports to Hungary in the first quarter of 1999 were machinery and electrical goods, transport equipment and chemical products. The most important EU imports from Hungary were machinery and electrical goods, transport equipment and textiles.

Problems related to the implementation of the Europe Agreement continue to exist in the agricultural sector where Hungary granted Israel more favourable conditions than those granted to the EU. However, Hungary has indicated that it will renounce this agreement with Israel upon accession. The issue of tax discrimination on spirits has not yet been resolved. In March 1999, the Council mandated the Commission to open negotiations with the associated countries on new reciprocal concessions in the field of agriculture. In 1999, Hungary amended the procedure for the recognition of the certificate for imported wines originating in the European Union and abolished certificate requirements to which the EU objected.

In March 1999 the EU imposed a definitive anti-dumping duty on imports of polypropylene binder or baler twine originating, inter alia, in Hungary. Further anti-dumping proceedings have been initiated on imports of steel stranded ropes and cables originating, inter alia, in Hungary.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership priorities (see below), and seek to achieve progress in areas like excise duties, competition/state aid and the transition to the second stage to the Europe Agreement. In the competition/state aid context, the implementation of the Europe Agreement (article 62) is hampered by the fact that the Hungarian Constitutional Court declared that some provisions of the Hungarian implementing rules for competition are unconstitutional. The legal effect of this ruling is suspended until 31 December 1999 and the Hungarian authorities and the Commission are currently working on a solution to address this issue. In the area

of industrial and conformity assessment, negotiations on a Protocol on European Conformity Assessment (PECA), designed to speed up the process of aligning Hungarian horizontal and technical legislation in this area to the *acquis*, are in a final stage.

In 1997 Hungary carried out a first Joint Assessment with the Commission Services on medium term economic policy priorities and is working on a medium-term economic strategy together with a second Joint Assessment.

Accession Partnership/ NPAA

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in chapter D of this Report.

In July 1999 Hungary presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see further part D).

Pre-Accession Aid: Phare

In 1999 Phare was the main instrument providing financial assistance to help Hungary's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated €1.030 million to Hungary during the period 1990-1999.

The 1999 Phare Programme for Hungary consists of a national allocation of €102,87million, concentrated on the following priorities :

- integrating the Roma in school and employment (€5 million)
- reinforcing institutional and administrative capacity in financial services supervision, taxation, customs, agriculture and environment, (€35,2 million)
- promoting SMEs, (€6,2 million)
- strengthening co-operation in Justice and Home Affairs (border management, fight against organised crime, visa and migration policies), (€13,6 million)
- infrastructure and transport investments (€20 million)
- development of public health laboratories (€8 million)
- participation in various Community Programmes (€10,87 million) and Tempus (€4 million)

An additional €10 million have been allocated for a cross-border co-operation (CBC) programme with Austria, €5 million for the co-operation with Romania and 2 M€ for co-operation with Slovakia.

Hungary also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAEIX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility.

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall the impact of Phare has been positive. Effective transfer of know-how and scarce equipment and financial resources has taken place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, energy, land registration, etc. Phare support to agriculture and SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

Phare has for example played an important part in :

- agriculture, where Phare has supported the creation of a Rural Credit Guarantee Fund (€20 million). This fund provides guarantees for medium-term and long-term loans to small and medium-sized enterprises which otherwise lack collateral for the development of basic agricultural, commercial, industrial or service activities. So far, over 1,200 small and medium business operations, have received guarantees from the Fund allowing them to consolidate their financial basis.
- the transport sector, Phare funding for the co-financing of major infrastructure projects has contributed to the realisation the Government's ambitious investment programme currently faced with severe domestic budgetary constraints. Through the combined mobilisation of domestic and foreign resources a major road network covering 30.000 km national highway network and more than 70% of the vehicular traffic could be rehabilitated.
- the area of privatisation and restructuring, Phare has provided assistance for developing a restructuring methodology and preparing restructuring projects for lead industrial companies. It has contributed to the stabilisation of around 15000 jobs which would have been lost otherwise.

Phare Management System

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a decentralised basis since it began. The authorities in the partner country have taken responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that

the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the candidate countries.

Phare implementation structures have been rationalised in Hungary to increase transparency and avoid dispersion of funds. This process increases the responsibility of the candidate countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

Since December 1998, a National Fund located within the Hungarian State Treasury is the central entity through which Phare and other EU funds will be channeled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper project information system. A Central Finance and Contracting Unit has also been established within the State Treasury to increase visibility and transparency in financial administration, accounting and payments. As regards the investment side of Phare, Hungary started to establish a limited number of Implementing Agencies which will be responsible for the implementation for specific projects.

After a decline of Hungary's capacity to absorb Phare funds in the last 4 years, substantial efforts were undertaken to increase the overall contracting level in 1999.

Pre-Accession Aid 2000

During the period 2000-2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

In the years 2000-2002 total financial assistance available will be € 96 million for Phare, €38,1 million for Sapard and between €70 and 100 million for Ispa, per year.

Twinning

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. The European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of

administrations and agencies. The vast body of Member States expertise is now being made available to the candidate countries, in particular through the long-term secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For Hungary, 16 projects have so far been twinned under Phare. Germany is leading a project to assist with implementation of the Common Agricultural Policy and, together with Spain, is also helping to plan capacity for structural and agri-environmental development schemes. Three environment projects cover legal approximation in the environmental field, the establishment and management of a Central Environmental Protection Fund, and the implementation of the Habitats Directive. In the area of finance, France is leading projects to develop a state aid monitoring system and to monitor foreign aid, while Austria and the UK are working with their Hungarian partners to adapt the tax system. The UK is leading a project with Germany and Denmark to support the state aid office. Justice and Home Affairs projects include work on the fight against organised crime, development of capacity to deal with asylum and refugees, border management and the training of law enforcement bodies. Work is also underway on Single Market issues, notably the development of a market surveillance system in partnership with the UK, Sweden and France, and of product testing and certification bodies. France is leading a project to establish a framework for regional development and to prepare for pre-accession structural assistance.

Twinning is foreseen for six projects under the Phare 1999 programme and will cover the fields of agricultural statistics, financial services supervision, management of public finances, taxation harmonisation, asylum, and public health.

The negotiations/screening process

The analytical examination of the acquis (screening) has been concluded for Hungary except with regard to the agricultural acquis, which is foreseen to be held in autumn 1999.

Since the opening of accession negotiations in March 1998, Hungary has participated in two rounds of Ministerial negotiations. As a result of these negotiations eight chapters have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, fisheries and consumer protection) while seven (CFSP, company law, free movement of goods, culture and audio-visual policy, external relations, customs union, competition policy) remain open.

B. Criteria for membership

1. Political Criteria

Introduction

In its first regular report on the progress made by Hungary in its preparations for membership, the Commission concluded that:

“Developments in Hungary confirm that Hungary fulfils the political Copenhagen criteria. Hungary’s institutions continue to function smoothly. Elections have taken place in free and fair conditions and allowed a smooth transfer of power in 1998. Continued attention needs to be paid to combating corruption more effectively and to improving the situation of the Roma.”

In the 1998 Accession Partnership with Hungary “Further efforts to improve the situation of the Roma” were also mentioned as a medium-term priority.

Recent developments

In March 1999, Hungary became a member of the North Atlantic Treaty Organisation (NATO). In November 1998, Hungary took over the Presidency of the Council of Europe for six months. In October 1998, local elections were held for the third time since 1989. These included the election of mayors, local councils, county assemblies and local minority self-governments. Following an amendment to the national minority law, all 13 minorities have elected National Minority self-governments.

1.1 Democracy and the Rule of Law

As mentioned in the last Regular Report, Hungary has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

The Parliament

Some preparatory steps were taken to ensure minority representation in Parliament, a right laid down in the Constitution and in the law on Minorities. However, no legislation on minority representation has yet been passed.

The Executive

The Government adopted a new development programme with the aim of enhancing public administration in four major areas: the development and strengthening of regional public administration, the de-centralisation of tasks from the national to the regional level, the modernisation of services for the public and career development for civil servants including financial incentives and training. The programme also

foresees a comprehensive review of salaries which will introduce performance - related pay.

The Judiciary

Vacancies in the Constitutional Court are filled as they arise ensuring that the number of judges is always above the constitutional minimum.

The judiciary continues to function satisfactorily, albeit slowly, due to the high case load. Whilst courts of first instance were able to reduce the backlog of cases registered in recent years, the number of appeal cases at the Supreme Court is increasing (see chapter 4 on administrative capacity). In general, most criminal cases take more than one year, whereas civil cases are usually dealt with more rapidly. Following the judicial reform of 1997, technical facilities at the courts have been modernised and auxiliary staff increased.

Since 1998 the number of posts for judges has remained constant. The judicial reform of 1997 also resulted in improved pay for judges and regular training programmes organised by the National Judicial Council and the Law Training Institute. In 1998 some 500 judges participated in training programmes on European Integration and Community Law. Judges are obliged to attend postgraduate courses on EU law to which they are invited.

Anti-Corruption measures

Hungary continues to face problems with corruption. The fight against corruption is one of the main priorities of the Government.

The following measures have been taken to tackle the problem.

- New rules were introduced with the modification of the Penal Code which came into effect in March 1999. These strengthened public safety and made punishments stricter.
- New anti-corruption units have been set up at the National Headquarters of the Hungarian Police and at every regional border guard directorate. In addition, the Hungarian Border Guards concluded an anti-corruption co-operation agreement with their Romanian counterparts to reinforce controls in the Hungarian-Romanian border region.
- The Government is carrying out a complex review of all legislation in order to identify loopholes which provide potential for corruption. This review will need to be followed up by reinforcing inadequate legislation.
- The Council of Europe Criminal Law Convention on Corruption was signed by Hungary in April 1999. In May 1999, Hungary signed an agreement in the context of the South East European Co-operation Initiative to tackle cross border crime and corruption.
- The recommendation of the OECD on Bribery in International Business Transactions (OECD anti-Bribery Pact) was ratified by Hungary in September 1998.

According to the report of the Chief Prosecutors Office there were 455 registered cases of corruption in 1998 representing a 4% increase against 1997.

1.2 Human Rights and the Protection of Minorities

As mentioned in the last Regular Report, Hungary broadly continues to respect human rights and freedom and has already acceded to the most important human rights conventions (see annex). The following section concentrates only on major developments in the past year relevant to the Copenhagen criteria.

In spring 1999, Hungary promulgated the European Charter for Regional or Minority Languages and the Council of Europe's Framework Convention for the Protection of National Minorities. In March 1999, the third Protocol to the General Agreement on Privileges and Immunities of the Council of Europe came into force. Hungary also adhered to the Council of Europe Resettlement Fund for National Refugees.

Hungary ratified the European Social Charter of the Council of Europe in July 1999, although a number of articles have not been ratified because of their financial implications. The ratification of the Charter is a major step in the alignment of Hungarian social legislation with the Treaty of the European Union.

Civil and Political Rights

Hungary respects the freedom of the press. Nonetheless, there are some concerns about the government's perceived wish to be too directly involved in the operation of the media, by buying a newspaper, for example. The board of trustees of the public service TV is currently formed solely by pro-Government members, despite the fact that the Media Law provides for a politically balanced distribution of seats.

The new asylum law of March 1998 resulted in a substantial improvement in the asylum system in Hungary. However, following the lifting of the geographical reservation to the Geneva Convention as a result of the new law, asylum seekers from any country may now apply to the Hungarian authorities for protection. As a consequence, the number of asylum seekers has grown significantly. This has led to an overburdened administration and a shortage of judges able to hear appeals in a reasonable time. Asylum seekers and refugees are nevertheless accommodated in reception facilities which correspond to international standards.

Illegal migrants, on the other hand, are placed in community shelters until the Court decides on their expulsion. In some community shelters, hygiene and living conditions are sub-standard. Recommendations made by the Ombudsman for Civic Rights led to the closure or up-grading of a number of community shelters.

Official Hungarian statistics show that in 1998, over 30,000 persons were involved in illegal migration thereof around 18,000 persons in illegal border crossing. A new

Penal Code recognising trafficking in human beings entered into force in March 1999. No statistics for this traffic are yet available.

The procedure for illegal migrants is to a large extent aligned with Community standards. The Supreme Court is the final court of appeal. In spite of the new asylum law, some problems remain. For example, there is a lack of clear responsibilities between the Office of Refugee and Migration Affairs and the other authorities involved and there remains limited legal remedy in cases of expulsion or re-admission. In view of the growing flow of asylum seekers, further efforts are needed to upgrade shelters and to increase reception capabilities. Further planning and financial resources should therefore be made available.

The UNHCR Branch Office in Budapest awarded its 1998 Menedek (Refugee) Prize to the Office of the Parliamentary Commissioner for Human Rights in recognition for its work in general and efforts on behalf of aliens, asylum-seekers and refugees in particular. The Refugee Prize was established in 1995 for outstanding contributions in the field of human rights.

Although the authorities have dealt with specific cases, reports of police abuse of suspects continue. Many ordinary people are also reported to be ill-treated by the police in the course of simple identification checks. Persons detained by police complain about abuse and harassment.

Prisons are generally over-crowded. The prison population exceeds capacity by 40% and the situation in many of the prisons is still of concern. (reported by the Ombudsman for Civic Rights)

Restrictions on the purchase of land by foreigners exists only with regard to arable land.

Economic, Social and Cultural Rights

Services for disabled people remain limited. Government legislation sets out that all public buildings need to be made accessible by 2009. Companies employing over 20 persons are required to reserve 5% of posts for people suffering some form of handicap.

A new tri-partite structure for reconciliation, social dialogue and negotiation has been set up in Hungary at the beginning of 1999 (see chapter 3 on employment and social affairs).

Minority Rights and the Protection of Minorities

Following the general elections in Slovakia in September 1998, the Basic Treaty, concluded in 1996, was finally fully implemented in November 1998. A joint Hungarian-Slovak committee supervising the implementation of minority issues as specified in the Basic Treaty began operations. Both the Hungarian minority in Slovakia (over 550,000 people) and the Slovak minority in Hungary (around 100,000 people) are represented in this joint committee.

Whilst the situation of other minorities does not pose any particular problem, continued attention needs to be paid to the respect of the human rights of the Roma by the Hungarian authorities (the Roma minority numbers between 400,000 and 600,000 people). While their situation has not worsened, it has not improved markedly.

Roma continue to suffer widespread prejudice and discrimination in their daily lives. They face discrimination in access to education, employment, public institutions and services. Their health and housing situation remain well below those of the rest of the population. More than 150 segregated schools remain throughout Hungary. International and non-governmental organisations reported institutional prejudice against Roma, and the use of force by the police. According to the Hungarian Government, identifying the ethnicity of offenders is not allowed under the data protection law and thus no statistical evidence on discrimination is available.

In order to tackle prejudices between the Roma and the police, Government set up a specific programme in April 1999. Under the programme, police will have an obligation to receive representatives of the local Roma self-government in case of complaint.

The Ombudsman for Minority Rights has been critical about labour market access for Roma. He stated that there is no *de jure*, but there is *de facto* discrimination against Roma people looking for a job. To remedy the situation, the Ombudsman proposes obliging the labour centres to report on cases of discrimination against Roma, as well as excluding employers engaged in such practices from public works contracts.

The Government has adopted a revised medium-term action programme aimed at improving the living conditions of the Roma. The programme puts particular emphasis on improved education and employment possibilities through extended scholarships along with social, health and housing measures and agricultural projects. It contains a communication strategy and anti-discrimination measures. Yearly action programmes for the implementation of the measures defined in the medium-term programme are worked out in coordination with the National Roma Self-Government and the Office for National and Ethnic Minorities. Line Ministries will have to plan separate budget items for the implementation of the different measures within the action programme. An interministerial Committee for Roma affairs headed by the Minister of Justice will be responsible for handling Roma issues and for supervising the implementation of the action programme.

Public funding for the Roma in 1999 included €0.5 million for the National Roma Government and around €3 million for local minority self-Governments. In addition, €2 million was provided by the state for Roma Foundations. Additional support for the Roma minority was given through the Ministry of Education's public works programmes and in the framework of the development of cultural institutions and services for Roma.

Following the elections of the local minority self-governments, the number of Roma self-governments has almost doubled. This trend can be interpreted as an increasing participation of Roma in public life. Specific Roma Community centres (established with financial support from the State budget) support local communities and contribute to preserving Roma culture.

Despite the steps taken, the situation of the Roma remains very difficult. Further attention needs to be paid to fighting the prejudices of the majority of the population, to ending discriminatory practices in public services, and to the full enforcement of the revised medium term action programme at regional and local level. These actions need to be accompanied by adequate budgetary provisions.

1.3 General evaluation

Hungary fulfils the Copenhagen political criteria. Two areas still need attention. The first is the situation of the Roma, where the government is beginning to implement its medium-term Roma action plan and needs to make available adequate budgetary resources. The second is the fight against corruption where recent efforts need to be re-inforced.

2. Economic criteria

2.1 Introduction

In its 1997 Opinion on Hungary's application for EU membership, the Commission concluded:

“Hungary can be regarded as a functioning market economy”; “it should be well able to cope with competitive pressure and market forces within the Union in the medium term”.

This finding was confirmed in the 1998 Regular Report.

In examining the economic developments in Hungary since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 Regular Report.

2.2 Economic developments

Since mid-1998, economic activity in Hungary has remained strong, inflation has fallen markedly and employment has grown for the first time this decade. The increase of domestic demand and the deterioration of the international environment have led to a widening current account deficit. In the wake of Russian crisis in August 1998, the National Bank of Hungary successfully defended the country's crawling peg exchange rate regime. The 1998 fiscal target was met, but the government's budgetary performance in 1999 has been a cause of increasing concern. On structural reform, Hungary has continued to make progress.

Macroeconomic developments

In 1998, the Hungarian economy expanded by 5.1% and GDP growth became increasingly driven by domestic demand. The recovery of private consumption, which grew by 3.8%, strengthened throughout the year, and retail sales went up for the first time since 1993. Investment continued to be strong; capital expenditure on machinery increased by more than 20%. Exports also expanded strongly in 1998, by 16% in real terms, but their growth dropped from nearly 30% year-on-year in the first quarter to less than 10% in the fourth. This sharp fall is only partly explained by the drop in sales to Russia. Other factors were the general slowdown in world demand, the

increased competition from Asian producers on third markets and the slower expansion of Hungary's export capacity compared to the past. Rising domestic demand for investment goods and consumer durables, on the other hand, led to higher imports. They grew much faster than exports for the first time since the stabilisation package of 1995. In the last quarter of 1998, however, year-on-year import growth dropped markedly, as investment and consumption growth started to decline.

Value added growth in 1998 has largely followed past trends; it increased by 12.1% in the construction sector, by 7.5% in transport and telecommunications and by 11.8% in the industrial sector. Food processing and agricultural value added contracted slightly in 1998, as a small increase in livestock production was offset by a fall in crop output. In the first few months of 1999, year-on-year industrial output growth fell below 10%.

Unemployment fell to 7% in the last quarter of 1998 as a result of the first increase in Hungarian employment of the past decade. In the first quarter of 1999, it edged up to 7.4% of the labour force.

In 1998 the current account deficit increased to almost 5% of GDP - double its 1997 level - and it continued to widen during the first quarter of 1999, albeit at a slower pace. This development was driven by two factors: the divergent trends in the export and import of goods and services, and the rise in profit remittances by foreign companies. Non-debt creating capital inflows (equity and FDI) were insufficient to cover the country's rising external financing needs, causing the stock of foreign debt to increase for the first time since 1996. Nevertheless, debt service indicators continued to improve.

Inflation fell sharply to an average of 14.3% in 1998, dropped to single-digit levels in January of this year, and stood at 8.9% year-on-year in May. This deceleration was initially due to a reduction in the rate of increase of food, energy and regulated prices. However, more recently fuel and energy prices have started pick up. The reduction of inflation was also helped by the slowdown in nominal wage growth and the diminishing pace of the devaluation of the forint. Real wage growth was again higher than planned – at 3.6% – but any inflationary impact of wage increases was offset by more rapid productivity growth.

The National Bank of Hungary (NBH) faced new challenges in the wake of the Russian crisis. The widening of the current account deficit and the unfavourable fiscal performance in 1999 up to now have contributed to an increase in the risk premium on assets denominated in forint. Nominal interest rates have continued to decline, with the notable exception of a spike in bond yields and lending rates at the height of last year's international financial turmoil. Credit growth remained buoyant throughout 1998, reversing past trends by rising in real terms. Its most dynamic part is still loans to enterprises, but from mid-1998 credit growth to households also turned positive.

Hungary has continued to operate the crawling peg exchange rate regime established in 1995, replacing the D-mark by the euro in the currency basket from January 1999. When the forint dropped to the weakened within its narrow fluctuation band in September 1998, the NBH reduced the monthly rate of devaluation, intervened on the exchange market and, eventually raised official interest rates. This successful defence of the forint was followed by a return of official rates to their old levels and by new

cuts in the rate of devaluation (by 0.1 percentage points in January, July and October 1999; it now stands at 0.4% per month). Last year, the real effective exchange rate depreciated as a result of the steeper-than-anticipated decline in inflation.

With an estimated general government deficit below 5% of GDP in 1998, the fiscal authorities consider that they have met their target. As in the last two years, higher-than-expected central government revenues offset a higher-than-targeted deficit on social security. Nevertheless, for the second time in a row, the primary surplus declined and the operational deficit (the fiscal deficit net of all the effects induced by inflation) worsened. The budget for 1999 plans a general government deficit of 4% of GDP with a slight increase in the primary surplus. By May, however, the general government deficit already accumulated to more than 85% of its annual target. The Health Fund continues to overshoot and the budgetary performance of the central government has also been disappointing so far due to lower-than-expected VAT receipts and high spending on agricultural subsidies.

The government has taken a series of measures in an attempt to address the fiscal weakness evident during the first half of 1999. In February the government decided to freeze the recourse to a special contingency reserve, equivalent to some 0.4% of GDP. In July, the government announced that it would leave both VAT and personal income tax rates unchanged during 2000, while the rules on VAT reclaims would be tightened. In an effort to compensate for the increased costs of changes in sickness benefit, the government also announced that it would introduce a new tax on certain types of insurance.

Main Economic Trends					
Hungary	1995	1996	1997	1998	1999 latest

Real GDP growth rate	per cent	1.5	1.3	4.6	5.1	3.8	Jan-Mar
Inflation rate							
- annual average	per cent	28.3	23.5	18.3	14.3	14.9	Jan-May
- December-on-December	per cent	28.4	19.7	18.5	10.4	8.9	May
Unemployment rate, end-year							
- ILO definition	per cent	10.2	9.9	8.7	7.8	:	
General government budget balance	per cent of GDP	-6.6	-3.2	-5.4	:	:	
Current account balance	per cent of GDP	-5.5	-3.7	-2.1	-4.8	:	
	million ECU/€	-1837	-1319	-840	-2059	-759	Jan-May
Foreign debt ²							
- debt export ratio	per cent	186	144	97	104	:	
	per cent			74	72	:	
- gross foreign debt	billion ECU/€	24.5	21.7	20.9	23.9	:	
	billion ECU/€			18.7	18.4	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	10.0	4.4	3.6	3.1	:	
- balance of payments data	million ECU/€	3408	1585	1464	1293	415	

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.

Structural reforms

A few large enterprises are still listed for privatisation, and the state is holding some minority stakes. At the end of 1998, the privatisation agency held stakes in some 388 enterprises, 150 of which were undergoing bankruptcy proceedings; two-thirds of the privatisation agency's total equity portfolio is linked to enterprises which are to remain under state ownership. The privatisation agency is now also responsible for managing the assets which were previously in the hands of the social security funds, as well as for the shareholdings of the state in the banking sector. The latter increased significantly when the bailout of Postabank – the second largest commercial bank at the end of 1997 – returned it to state ownership. The total revenues from divestiture in 1998 amounted to nearly €48 million. In May 1999, a 5.7% minority stake in the telecommunication company MATAV was sold for €300.2 million.

At the end of 1998, the Ministry of Finance provided some Euro 600 million (roughly 1.5% of GDP) for a comprehensive bailout of Postabank in order to prepare it for restructuring and re-privatisation. The smaller Realbank was also hit by a solvency crisis. After being taken over by the National Deposit Insurance Fund and insufficiently re-capitalised, it was filed for liquidation in early 1999. Furthermore, six small brokerage firms went bankrupt as the sharp drop in the stock exchange index following the Russian crisis revealed weaknesses in their operation. In the area of

² The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

Share of agriculture 3 in:		
- gross value added	per cent	5.9 ⁶
- employment	per cent	7.5
Investment-to-GDP ratio	per cent	22.2 ⁶
Gross foreign debt/GDP	per cent	47.0
Exports of goods & services/GDP	per cent	55.0
Stock of foreign direct investment, according to EBRD	billion € €per head	14.1 1395

Source: National sources, OECD external Debt Statistics, IMF, EBRD

2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Last year's change in government did not lead to a fundamental reorientation of economic priorities, confirming the existence of a broad consensus about essential economic policy issues. However, the decision to leave the mandatory contribution rate to the second pillar of the new pension system unchanged, as opposed to the provisions of the pension reform law, casts some doubt on the commitment of the new government to a key reform legacy. The new administration has sketched some tentative proposals for an in-depth reform of the health sector and has already carried out an institutional reform of the social dialogue.

Even though external financing has so far been readily available, the current account deficit should be brought back to a level compatible with a non-increasing ratio of foreign debt to GDP. On this point, fiscal policy has been less supportive than in the past and efforts towards fiscal consolidation should not be relinquished. Although the still high government debt has continued to fall, the decline in the primary surplus has contributed to the deterioration of the external accounts in 1998. Co-ordination between Hungarian policymakers is good, as shown by their adequate response to last Autumn's financial turmoil.

3 Agriculture, hunting, forestry and fishing.

Market mechanisms are working in most sectors of the Hungarian economy, underpinned by general economic stability. The large majority of prices are freely set; regulated prices account for 16.5% of the consumer price index. Moreover, at the end of 1998, the private sector accounted for some 80% of GDP and the privatisation process is nearly completed. Only the power transmission company MVM and Postabank are still up for privatisation. Yet, the government's decision to keep a stake in a number of enterprises, spanning a wide range of sectors, is in sharp contrast with the earlier accomplishments.

Land markets are developing: a large part of the land used by larger individual farms and companies is leased, and part even purchased. Lease contracts grow in terms of duration and sophistication, improving tenure security for the farms and thereby incentives for investment. The main form of agricultural support is market price support policies, as well as credit subsidies and export subsidies.

The establishment of new firms in Hungary remains buoyant, with the total number of entries increasing by 11% in 1998. Bankruptcy procedures also continue to be relatively efficient. Between 1992 and September 1998, there were nearly fifty thousands filings for liquidation; the court backlog has been reduced to less than 20% of all cases filed over the years.

Contract enforcement in Hungary is good and investors generally consider the business climate to be positive. The regulatory framework for the largely privatised utility sector is advanced, although there remains a need to fine-tune regulations and build up experience in implementation.

The financial sector has continued to develop, but the size of its operations leaves much scope for further improvements in intermediation. Competition among banks is strong; the spread between lending and deposit rates has fallen to 3.8% in 1998. Operating costs remain high and profitability varies considerably, so that further consolidation of the banking sector is likely. The share of classified assets fell to 7% in 1998, while the average risk-weighted capital adequacy ratio was 13% for large banks and 17% for medium-sized ones. Credit to households and enterprises is growing, but the access of SMEs, municipalities and house buyers to local banks remains difficult. Similar considerations apply to the non-banking financial sector. The insurance sector is growing rapidly from a low base, while institutional investors are expected to play an increasing role with the emergence of the new pension system. The combined assets of mutual and pension funds amount to some 4% of GDP at this point in time. The capitalisation of the stock exchange is equivalent to 12% of GDP, and its growth is driven by privatisation rather than new equity issues.

Given the pace of development of the financial sector, there is a need to strengthen the supervision and fill in the regulatory gaps of companies which operate on various segments of the financial markets. In particular, the authorities should take great care to warrant the adequate and independent supervision of new pension providers, and avoid that modifications of the original pension reform plans undermine the trust of savers and pension funds in the new institutional arrangements.

Hungary is a functioning market economy and the legal and institutional structures which underpin the market economy have been further strengthened. There remains,

however, a need to fine-tune financial regulation and to enforce its implementation. The sustained pursuit of reform in a stable macroeconomic environment has greatly enhanced the functioning of the Hungarian market economy. To preserve these conditions, the government should clarify its health and social security reform agenda and take the actions needed to ensure fiscal consolidation in the medium term.

The capacity to cope with competitive pressure and market forces within the Union

As set out in Agenda 2000, Hungary's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Over the last decade, the competitiveness of the Hungarian economy has radically improved as a result of widespread enterprise restructuring, extensive green-field investment and high FDI inflows. The early establishment of a functioning market economy has been instrumental in achieving this result. Since the adjustment package of 1995, macroeconomic conditions have also been favourable.

Investment has steadily risen to 23.5% of GDP last year. Hungary has an impressively long record in attracting FDI, which is associated with beneficial transfers of technology and know how. Between 1989 and 1998, Hungary has received foreign direct investment inflows amounting to € 14.1 billion. However, since there is a growing need for returns on the increasing stock of FDI, a larger part of domestic savings should be geared towards investments needed to catch up faster with EU member states.

To a large extent, Hungary has established the institutional infrastructure and initiated the reforms required to reap the full benefits of private initiative in a wide range of activities. This includes utility services, pension provision and research and development. Yet, Hungary still faces many difficult challenges, among which the reform of the health sector. The combination of a weak institutional framework and adverse demographic trends will lead to a worsening of the health situation. A lack of reform in this area would have financial consequences, posing a serious threat to the long-term sustainability of the public finance situation, as well as depressing effects on productivity.

Thanks to its fairly liberal trade regime and its comparative advantage in human capital intensive goods, Hungarian exporters have already reached an adequate degree of competitiveness vis-à-vis EU producers. They sell more than 70% of their exports on the EU markets, which in return are the source of more than 60% of Hungarian

imports. Much of this is intra-industry trade, in particular in manufacturing and, increasingly, the machinery industry. This trend is supported by a continuing real depreciation of the effective exchange rate measured in unit labour costs. Sustained investment and advanced restructuring, often backed by foreign capital and technology, have led to a re-orientation of trade towards higher value-added export goods. Multinational enterprises gradually integrate a larger share of the Hungarian economy into the global network of production and distribution by establishing subsidiaries, taking ownership stakes in Hungarian firms and developing a local chain of suppliers.

Further improvements of the local education system and further reductions in the high non-wage labour costs, notably by moving ahead with the reform of the health system, are needed to preserve the smooth functioning of the labour market. In combination with a fully operational SME strategy, this would also help the development of small and medium enterprises.

The number of SMEs has continued to exhibit dynamic growth. They now generate 45% of Hungary's GDP and employ 70% of the workforce. Most of the SMEs operate in the services and construction sectors and have only a limited involvement in foreign trade. However, micro and small enterprises face difficulties which are partly related to fairly high administrative burdens (complexity of rules) and to tax burdens which are much higher than for large enterprises. The medium term strategy adopted in December 1998 will attempt to address these problems, in particular by improving both the regulatory framework and the access of SMEs to finance.

Individual farms now use more than half of agricultural land in Hungary, but co-operatives and companies remain important. A new form of agricultural labour subsidies was introduced in 1998 to stimulate agricultural employment.

Hungary should be well able to cope with competitive pressure and market forces within the Union in the medium term, provided the conditions supporting investment growth and restructuring remain in place. It has acquired high credentials for efficient macroeconomic management, which has allowed high inflows of FDI, leading to a modernisation of the economy and the resulting trade integration in the EU. This reputation should not be jeopardised. Urgent measures are needed to reform the health system and to put public finance on a sounder footing. This will also foster the further development and competitiveness of the enterprise sector.

2.4 General evaluation

Hungary is a functioning market economy and the legal and institutional structures which underpin the market economy have been further strengthened. It should be able to cope with the competitive pressure and market forces within the Union in the medium term, provided it continues to make further progress in structural reforms.

Macroeconomic stability has been maintained, inflation has fallen and economic growth has continued. However, the widening current account, if unchecked, could threaten the macroeconomic gains achieved in recent years. Progress has been made in a number of structural areas, most notably budgetary reform, pension reform, and

privatisation. However, recent decisions affecting the pension system have called into question the government's commitment to pension reform.

The deterioration of the fiscal deficit needs to be addressed. Priority should be given to health sector reform which continues to be a major drain in the fiscal accounts. In order to ensure current account sustainability, it is important that the fiscal targets for 1999 and 2000 are met.

3. Ability to assume the obligations of membership

This section aims to update the Commission's Regular Report of 1998 on Hungary's ability to assume the obligations of membership - that is to say the legal and institutional framework, known as the *acquis* through which the Union implements its objectives.

In the 1998 Regular Report on Hungary's progress towards accession, the Commission concluded that :

"Hungary continues to approach the approximation process in a balanced manner. The rhythm of transposition has remained steady and has generally been accompanied by adequate institutional and financial provisions facilitating implementation. A slow down in the pace of transposition in certain sectors such as the environment, has been accompanied by an increased focus on strengthening implementation structures. This suggests that the objective of effective application, rather than simply transposition, is being meaningfully pursued. Continued priority is being placed on the completion of internal market legislation. Hungary has shown determination to tackle the complex area of justice and home affairs, putting in place a strategy and adopting measures which are already beginning to show results.

While Hungary has addressed the Accession Partnership short term priorities in the economic reform area, in reinforcing veterinary and phytosanitary and financial control institutions and in justice and home affairs, insufficient attention has been paid to strengthening regional development structures and to the internal market priorities of alignment of copyright and public procurement and enforcement of state aid legislation."

The presentation set out below uses the same structure as the 1998 Regular Report and focuses on progress made since last October. Under each heading, legislative decisions and progress in implementing and enforcing the legislation are reported.

3.1 Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation, but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, as well as effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

The basic principles of EU *public procurement* rules are already in place in Hungary and the current legislation is applied in a transparent manner. The procurement market is in principle open to European companies. However, there are still local preferences in place. In September 1999, Hungary amended its law on Public Procurement to exempt projects co-financed by EU funds from the National Preference Clause. The number of tenders advertised continued to increase over the last year from 4,338 in 1997 to 4,481 in 1998 (with an increase in value of 25%) whilst the number of closed procedures decreased. The remaining discrepancies with the *acquis* relate to the value of thresholds, the lack of choice between open and restricted procedures, the deadlines for submission of tenders as well as the definition of public works and the application of the National Preference Clause. As to the enforcement and the remedies procedures, the rules for initiating proceedings and for utilities need to be further aligned. Despite the fact that the Public Procurement Council has launched a training initiative, enforcement of public procurement rules needs to be strengthened.

The framework legislation in the field of *intellectual property* is to a large extent in line with the *acquis*. In September 1999, further progress has been made with the adoption of amending legislation which provides in particular for protection of computer programmes, rental and lending rights, certain rights related to copyright, including satellite broadcasting and cable retransmission and the legal protection of databases (but for *sui generis* databases). This law contains certain transitional arrangements. In November 1998, Hungary deposited its ratification instruments of the two new intellectual property conventions (the WIPO treaties). Hungary promulgated the WTO/TRIPS Agreement on intellectual property as well as the 1961 Rome Convention on the protection of performing artists, producers of phonograms and broadcasting organisations. However, further and timely legislative alignment is still necessary in respect of Article 10 of the Directive on the term of protection. Further progress has been achieved as regards the enforcement of intellectual and industrial property rights by strengthening controls at the borders and amending the related criminal provisions. Nevertheless, in order to ensure more efficient enforcement, specific training programmes are required. Hungary will also have to make further efforts in the field of patents, in particular concerning pharmaceutical products. Hungary will also have to make further efforts in the field of patents, in particular concerning protection of pharmaceuticals products, in order to fully comply with the EU level of protection.

As foreseen under the Europe Agreement, Hungary has applied to accede to the Munich Convention on the Grant of European Patents and has been invited to become member as of July 2002. The Trademark Law Treaty was ratified by Hungary in November 1998.

Legislation in the field of *company law* is already aligned to a large extent. Further important progress has been achieved, as foreigners can now establish themselves as private entrepreneurs in Hungary (see chapter on free movement of persons). Remaining differences with the *acquis* are few and concern mainly the scope of the 'nullity' provision, rules applied to groups of companies and publicity requirements in the case of mergers.

In the field of *accounting and auditing* law, Hungary had already achieved a high degree of conformity. However, no further progress has been made.

In the area of personal *data protection*, Hungary has already achieved a substantial degree of alignment. A law adopted in June 1999 introduced technical amendments, such as the “data processor” concept beside that of data controller. In the field of customs, provisions on criminal investigations have been further harmonised by amending the Hungarian Customs Law on data handling and data protection within the Hungarian Customs and Finance Guard. Further legislative fine-tuning is still necessary.

The four freedoms

In its Opinion, the Commission indicated that Hungary had already made good progress in guaranteeing the 'four freedoms'. The subsequent Regular Report focused on the continued need for progress in the field of standardisation and in liberalising the service sector.

Free movement of goods

In the field of standardisation the transposition rate of European standards into Hungarian legislation had been rather low. Some further progress in the adoption of European standards has been made and a level of alignment of approximately 45% has been reached. However, Hungary needs to accelerate in order to reach the 80% transposition rate which is a pre-condition for full membership of the European Standard Bodies CEN and CENELEC. Detailed rules on the designation of conformity assessment bodies have been adopted in 1999, implementing the general rules in this field.

Hungary has already put in place the general principles of the New and Global approach. Efforts have been concentrated on the practical implementation of legislation on these principles. In the sectors covered by New Approach Directives important progress can be noted as regards the transposition of the toys, machinery, lifts, pressure vessels, non-automatic weighing instruments and gas appliances directives. In 1999 provisions on classification, packaging and labelling of dangerous preparations have been adopted. Further harmonisation efforts have been undertaken in the sectors of foodstuffs (food additives and hygiene) electromagnetic compatibility, pre-packaging, recreational craft and construction products. The Law on Medicines for Human Use has further aligned Hungarian legislation as regards the distribution of pharmaceuticals. Outstanding issues relate to motor vehicles, pharmaceutical products, cosmetics, legal metrology, wood and crystal glass where additional efforts are still needed to align the Hungarian legislation with the *acquis*.

Further efforts are required as regards the transposition of the directive on general product safety and the creation of the necessary enforcement necessary structures (see also the chapter on Consumer Protection).

Free movement of capital

Hungary has already achieved significant progress in the liberalisation of capital movements. Medium and long term market transactions are liberalised with the exception of outward financial credits and certain operations on collective investment and undertakings. Export of Hungarian and foreign currency is possible. Resident foreign exchange banks have received the full right to operate on non-resident accounts. Following these major steps forward taken in the preceding reporting period, there has been a pause in further liberalisation in Hungary.

In 1998, Hungary experienced notable short-run, knock-on effects on the capital and financial markets. Foreign portfolio outflows amounted to more than €1.1 billion in August to September 1998, concurrent with a sharp fall in stock prices and increase in bond yields, as well as pressure on the Forint. Based on this experience the Hungarian authorities, feeling the need to keep some control on short term capital movements, decided to revise their earlier plans to abolish, by the end of year 2000, the remaining short-term restrictions. No new time-frame has been given other than the pledge to remove all short-term restrictions by the date of accession at the latest.

The main remaining restrictions are on the acquisition of real estate, on portfolio investments abroad by insurance companies and pension funds, as well as on short-term capital movements aimed at sheltering the Forint from external pressure.

Free movement of services

In relation to financial services, Hungary has already achieved a substantial degree of alignment. In the *banking* sector the directives on banking co-ordination, Solvency ratio and bank accounts directives have been further aligned. Universal banking has become possible since January 1999 along with a real Time Gross Settlement System which should facilitate the integration of Hungary's large value payment system with those of Member States. Some progress has also been made as regards alignment in the field of electronic payment systems. Further efforts are needed in particular for the transposition of the Directives on Netting, Capital Adequacy and Supervision on a consolidated basis, as well as of the Directive on the strengthening of the prudential supervision of financial constructions (post – BCCI). Supervision of banking activities is performed by the State Supervising Authority for Money and Capital Market which carried out 161 inspections over the last year. In 15 cases the activity of the financial institutions was suspended and in two cases permission to issue value papers was not granted (see also chapter 4 on administrative capacity). In the insurance sector restrictions still exist on investments abroad as well as certain obligations to invest in State debt instruments. For example, life insurance companies must invest 30% of their reserves in State debt instruments and non-life insurers must maintain 40% of reserves in cash or State debt instruments. The freedom for insurers to set tariffs for motor insurance has been enhanced and rules concerning the supply of insurance have been further aligned with the *acquis*. The supervision of insurance companies has been made more effective.

In the area of *securities* Hungary has already achieved a substantial level of alignment. As regards the UCITS directive on securities, the activity of the fund manager and the composition of the portfolio of the managed fund need to be further defined.

Although Hungary's law on money laundering is to a large extent in accordance with the *acquis*, full alignment will still require some amendments and in particular a phasing-out of existing anonymous accounts.

Free movement of persons

As concerns the freedom of establishment, Hungary had already made considerable progress. The entry into force in February 1999 of the law on self-employment represents a significant step forward. EU citizens can now establish themselves as self-employed persons and operate under the same conditions as Hungarians. Nationality requirements on foreigners wishing to establish themselves as self-employed persons have been repealed, notably for the professions of medical doctor, pharmacists, and veterinarian. Limitations remain, however, particularly in relation to lawyers.

In relation with the mutual recognition of professional qualification and diplomas, Hungary is largely in compliance with the *acquis*. Some progress has been made in the area of agricultural higher education. Further alignment is needed with regard to the distinction between academic and professional recognition. The necessary professional structures exist for most professions, although some further strengthening remains necessary.

Hungarian legislation related to student mobility rights and free movement of workers is only partially aligned.

Competition

Hungarian *antitrust* legislation is to a large extent aligned with the *acquis*. Three further block exemption regulations on Research and Development, specialisation and technology transfer agreements have recently been adopted.

The Hungarian Competition Office has a good enforcement record. In 39 cases the law was broken (including 30 consumer fraud cases, one cartel case and five cases of abuse of position, see chapter 4 on administrative capacity). Although the Competition office has, to date, mainly intervened to resolve minor competition cases, it has also efficiently prevented unfair competition in cases where important Hungarian companies have been involved (for example, the decision to prohibit a merger between the main Hungarian telecom company MATAV and a smaller company in the sector).

Hungary has also progressed in the *state aids* field: the new legislation adopted in May 1999 clearly identified the State Aids Monitoring Authority. Efforts to increase transparency in state aid schemes have also been made, as demonstrated by the annual reports on State Aids submitted by the Hungarian authorities to the Commission in 1998. These reports closely follow the methodology of the Commission's State aid Surveys and fulfil the criteria of transparency. Some State Aids schemes have been aligned with Community rules, but further adjustments will be necessary to ensure compliance.

Further efforts are also necessary to ensure effective implementation of state aid rules. Hungary should also take the necessary steps to ensure the further assimilation of the relevant *acquis*. Special attention should be given to the legal basis for the scrutiny of aids granted to sensitive sectors. The inventory on existing aid should be made more comprehensive by including information on all indirect aid measures such as fiscal aids.

Undertakings with special or exclusive rights in Hungary exist in the fields of: telecommunications, postal services, energy, transport (railway, road), water management, the operation of Budapest Ferihegy Airport and Csepel Port, public water utilities, national public roads, motorways, management of public rivers, lakes and of water facilities. The relevant Community criteria related to special or exclusive rights are respected to a large extent but no progress has been made in the area since the last Regular Report.

Conclusion

Progress has been made in the area of company law and standardisation. In order to reach full membership in the European Standards Bodies, Hungary needs to continue efforts in this area. The short-term Accession Partnership priorities have been met. As to the enforcement of intellectual property rights, further efforts are necessary especially for copyright and patent protection. The short-term Accession Partnership priority has only been partially met.

In the area of the four freedoms, Hungary has already aligned its legislation with the *acquis* to a considerable extent. Further efforts are needed, in particular, for the transposition and enforcement of the directive on general product safety.

Progress has been made in relation to the State Aid *acquis*. The annual reports on State Aid fulfil the criteria of transparency but Hungary should finalise the assimilation of the EU State Aid rules. Special attention should be given to the legal basis for the scrutiny of sensitive sectors and to the adjustment of State monopolies. Hungary has adequately addressed the short-term Accession Partnership priority.

3.2 Innovation

Information society

Hungary is actively participating in the information society. The number of homes having a computer has considerably increased during last year, as has the number of internet users.

The 1997 'intelligent cities/regions' program, which aim to upgrade information infrastructure in bigger cities and regions, is in the process of being implemented. The Hungarian National Council for Communications and Informatics is organising the National Information Society Forum.

Education, training and youth

Hungarian policy in this sector has already to a large extent been aligned with EU policy.

No major legislative nor institutional developments have occurred since October 1998. Hungary is making efforts to implement the Directive on education of children of migrant workers, in particular by increasing the possibilities for these children to have access to teaching in their language of origin and about their cultural. Special training is provided for teachers working in schools with a high number of immigrant pupils. The principle of non-discrimination, in particular on grounds of nationality, must be applied throughout the fields of education, training and youth.

Diploma requirements in Hungary for the various professions and professional qualifications are generally in line with the *acquis*. Hungary has been successfully participating in Community's Socrates, Leonardo da Vinci and Youth for Europe Programmes since September 1999. Vocational training in Hungary has been gradually aligned with EU practices and objectives.

In 1998-99, 3,150 students have benefited from Erasmus mobility grants to study in EU countries and 2,256 young Hungarians have taken part in the Youth for Europe programme. In 1998, 435 Hungarians have participated in exchanges within the framework of the Leonardo programme (vocational training).

Research and technological development

The present Community *acquis* does not require transposition into national legislation. The Government has increased significantly the financial support for the sector from 0.6% of GDP in 1998 to 1% in 1999.

The association of Hungary with the 5th Framework Programme (1999-2002) and with the Euratom Framework Programme entered into force in August 1999. In order to prepare the successful association, several structures have recently been established in Hungary. The real implementation capacity will be tested during the association to the 5th Framework Programme. Hungary has also decided to open its corresponding research activities to enterprises, researchers and universities from the Member States.

Telecommunications

Important progress has already been achieved in the Hungarian telecommunication sector both in terms of networks and services. Several regulatory instruments needed for alignment with the *acquis* have been adopted.

The telecommunications sector has grown consistently. Installation of fixed telephones went up from five to 34 lines per 100 inhabitants during 1998 and the rate for mobile telephones from four per 100 inhabitants to 10. The extent of network digitalization increased by 12% to 81.5%. The Hungarian Government has adopted a

decision which outlines the basic principles of the info-communications infrastructure and services until 2005.

The Hungarian market has been further liberalized, in particular by allowing the commercial provision of voice telephony to closed user groups, by authorizing the provision of internet services by Cable TV operators and by issuing two licenses for internet telephony to a private company. According to a Government decision of May 1999 all free mobile operators received allocations for both GSM 900 and DCS 1800 frequencies providing them with equal chances to compete in the mobile telephone market. The privatisation of the incumbent network operator, MATAV was completed.

In June 1999, new legislation was adopted prohibiting voice telephone providers from having exclusive rights to establish or acquire cable television networks in their area of concession. This aims to promote a competitive environment after the opening of the voice telephony market.

Despite the fact that a new telecommunications law has not yet been adopted, secondary legislation has already been implemented.

The provisions of the *acquis* related to data protection in telecommunications has been implemented for GSM mobile networks. Tariff re-balancing is progressing rapidly as an important reduction of inter-connection and leased lines rates has been introduced. The rental fee for residential subscribers, for business lines as well as local call prices have been increased substantially. The main remaining issues are the alignment of the provisions on universal service, numbering and licensing.

Some progress has been achieved in postal services through the signature of an agreement with UNEX (Unipost External Monitoring System) and the establishment of a department which will assume the responsibilities for licensing and supervising the postal sector.

Audio-visual

Hungarian legislation is already to a large extent aligned with the *acquis*. No significant progress has been made in this area since the last regular report.

Hungary must define the status of broadcasting organisations and the programming of European works, but also the monitoring of satellite broadcasting.

Conclusion

Hungary has continued to put emphasis on the information society, education and training and research and technological development, where progress has been achieved with the full association to the 5th Framework Programme. Progress has also been achieved in the opening in the telecommunication market. Efforts need to be made to complete the regulatory framework, in particular in the field of licensing. In the audiovisual sector, further alignment is also needed.

3.3 Economic and fiscal affairs

Economic and Monetary Union

Hungary has indicated that it accepts and will comply fully with EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Hungary has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Hungary has made little additional progress in its preparation for participation in the Economic and Monetary Union. In particular, for the *acquis* that has to be implemented before accession, the National Bank can still give short-term credits to the central budget in order to overcome temporary liquidity problems. However, this remaining possibility for the direct financing of the public sector has not been used since 1995. The public authorities also still enjoy privileged access to financial institutions, most notably through the preference granted by law to Government securities in the portfolio composition of home and savings institutions. The central bank statutes still need to be aligned with the Treaty to assure the independence of the monetary authorities. The Commission is concerned by recent statements of certain Hungarian politicians which seem to question this independence.

Taxation

The basic elements of the VAT and excise duty structure are already in place in Hungary.

Hungary has made further progress in aligning its legislation with the 6th VAT Directive. In 1999 it adopted a customs table following the combined nomenclature and tightened up the reverse charge mechanisms for certain services. The public services of television and radio are now exempted from VAT, except those with a commercial purpose. Finally, the administrative burden of SMEs have been reduced by introducing annual VAT declarations.

Nevertheless, a number of discrepancies between the Hungarian VAT legislation and the Community rules continue to exist, notably related to tax rates. Furthermore, adaptations are particularly necessary in the areas of taxable persons, taxable transactions, VAT refunds special schemes, tax exemptions and simplification procedures to align fully Hungary's legislation with the *acquis*. Administrative co-operation in the field of taxation between Hungary and the EU Member states is currently based on bilateral agreements. The scope of these agreements and consequently also the mutual assistance between both sides is often limited to avoiding double taxation. To comply by the time of accession with the relevant *acquis* on administrative co-operation and mutual assistance, Hungary will have to amend its legislation as regards data protection.

In the area of excise duties, new legislation was enforced in January 1999 which opened up the possibility of establishing tax warehouses for commercial purposes in

Hungary. The duty suspension system was also set out more precisely. The current practice of levying different rates for fruit brandies and other spirits is in contradiction with Community rules which stipulate a single excise duty for interchangeable products. Other outstanding issues relate to the minimum excise duty rate for cigarettes, and to the duty exemptions in the field of mineral oils and the holding and movements of excisable goods.

The capital tax rate on transactions needs to be adjusted to Community rules. Further alignment is needed in the area of taxation applicable to mergers and to parent companies and subsidiaries of different Member states.

Conclusion

Hungary has made further progress in harmonising its tax legislation with the *acquis* in the field of taxation. The establishment of a work programme for harmonising the Hungarian VAT system with the *acquis* will make an important contribution to achieving further progress.

Statistics

Hungary already compiles and provides statistics in a number of areas according to EU principles. Statistical co-operation with Hungary has been increasing progressively over recent years, both on a bilateral basis with Eurostat and in the framework of international organisations such as UN, IMF and OECD.

The Hungarian Statistical Office is independent and well equipped. The independence of the statistical units of the agencies belonging to the Statistical Office need to be defined in more detail. The provisions on data transmission abroad and confidentiality have been further aligned in 1999.

Hungary has already reached a high level of alignment for price statistics, labour force and other social surveys and business registers. Weaknesses still exist in: social, business, industry and macro-economic statistics. Concerning regional statistics, a first step towards alignment has been made by establishing seven statistical regions. Further efforts are needed on collecting and providing data at regional level, on economic environment statistics and the scope of external trade in goods.

Much remains to be done to comply with the *acquis* in the field of agricultural statistics, particularly as concerns structural statistics and typology, fruit and wine production, milk and slaughter and agro-monetary statistics. As a first step, in May 1999 a law on the General Agricultural Census was passed by Parliament.

3.4 Sectoral policies

Industry

Significant convergence can be noted between Hungarian industrial policy and the principles and objectives of EU industrial policy. Hungary's industrial policy continues to be based on the maintenance of a stable, open and competitive economic environment, offering favourable and predictable conditions for the conduct of profitable private business.

Since last year, the industrial restructuring process has continued. The inflow of Foreign Direct Investment (FDI) has been a major influence contributing to further transfer of technology and management know-how, the modernisation of production facilities and the intensification of other forms of cross-border co-operation. This is illustrated by the fact that Hungary has continued to attract foreign investment (see chapter 2 on economic criteria). Some 35,000 companies are operating today in Hungary with some degree of foreign capital participation: producing around one third of GDP, providing around 80% of the country's gross exports and employing one fourth of the workforce in the private sector. Trade statistics confirm the pace of integration with the Union.

Restructuring is proceeding at a slower pace in Hungarian enterprises not directly affected by inward FDI. Hungary now needs to focus on fostering the local corporate sector. The large number of multinationals with manufacturing operations in Hungary should be a useful base for the development of a local supply industry, but at the moment the linkages are insufficiently developed.

No further substantial progress has been made during the year in restructuring the steel industry. Hungary's major steel producer is still state-owned. To proceed with restructuring it is important that individual viability plans of the steel works are established. An important dimension of industrial policy is control of state aids (see competition chapter).

Agriculture

Agricultural situation

While the overall economic performance in Hungary continued to show growth in 1998 and in early 1999, the output of the agricultural sector has decreased over these two years. Thus, the share of agriculture in the economy is on a declining trend: the agriculture and forestry represent less than 6% of the GDP and employ less than 8% of the working population.

After a slight decline in 1997, Hungarian exports of agricultural and food products managed to recover in 1998 and reached a value of € 1,038 million. This figure represents 7.2% of Hungary's total exports to the Community. The most important Hungarian export product by far is meat and meat preparation with a value of about €365 million.

The Community's agricultural exports also rose by 2.8% compared to 1997 and thus amounted to €546 million, corresponding to 3.3% of total exports to Hungary. As a result of these developments, Hungary's positive trade balance in agricultural and

food products with the Community reached €493 million compared to €488 million in 1997.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance the progressive and orderly liberalisation of bilateral trade.

Agricultural policy

Concerning agricultural support, the 1999 Hungarian system has 4 categories of aids (support for market access, food safety, restructuring and modernisation) with a total budget of € 576 million for agricultural subsidies and € 46 million for rural development measures.

Market price support policies are the main form of support in Hungary and they are based on a system of minimum and guidance prices. The market intervention system (buying-in public storage, processing and selling of intervention stocks) is combined with export subsidies. In 1998, low international and internal prices for supported products (in particular for cereals and pig meat) led to an increase in expenditures for market support (exports were supported through credit, in particular for dairy products and pig meat, poultry meat). Direct export subsidies were used for an increased range of products in accordance with a WTO waiver granted to Hungary from its original export subsidy commitments. A reform of the export subsidy scheme has commenced.

Export licenses are applied to certain products. Direct payments per hectare of agricultural land are granted to farmers producing in less favoured areas. Payments based on use of inputs are provided (interest rate subsidies, capital grants and fuel tax subsidies). A new scheme of direct payments promoting employment in agriculture was introduced in 1998. Income support measures for arable crops were introduced in 1999. A system of registration of producers was introduced, which considers registration as a pre-condition for receiving any subsidy.

There is not a comprehensive rural development support policy in Hungary. Aid is provided through individual measures and schemes (e.g. support for certain investment in agriculture, support for quality protection and utilisation of land, support for rural tourism, co-operatives and other organisations of Producers purchasing and Marketing certain products etc.). Programmes and budgets are currently annual, but the government has prepared a long-term strategy as the basis for multi-annual planning.

As regards the land register, the government has started a registry campaign early this year to register land use (and actual users) as land ownership records do not currently reflect the real structure of land use or plot-size. So far 75% of cultivated land has been registered. A new Law provides the basis for a new agricultural census.

Concerning the situation in the agro-food sector, progress has continued in restructuring and modernization of those companies, which had been privatized. In the field of primary processing (meat, poultry, cereals, fruit and vegetables) full compliance with food safety, hygiene and quality still need to be addressed.

In the *veterinary sector*, the animal health control system applied in the internal market and to imports from third countries still differs from the EU system. Under the current veterinary control systems, inspections are carried out at the place of destination, where no animal records are maintained. Border inspection posts do not meet EU requirements.

The system for registration and identification of bovines is almost completed. The system needs to be extended to cover pigs, sheep and goats. The necessary hardware for setting up the veterinary information system ANIMO is already in place in the 580 veterinary posts throughout Hungary.

A substantial part of the plants processing products of animal origin do not yet meet EU hygiene and public health requirements. A national survey of slaughterhouses and establishments dealing with animal products is being carried out. The hazard analysis critical control point system (HACCP) needs to be introduced in the food processing units.

Hungary is elaborating contingency plans for animal diseases, including an action plan for classical swine fever. National Reference Laboratories exist for all diseases. As regards animal welfare legislation, various rules of slaughtering animals and keeping farm animals have been adopted.

As regards the *phytosanitary sector*, Hungary still needs to develop plant health service in order to implement the Community quarantine rules, introduce a plant passport and protected zone registration systems and apply EC rules concerning marketing of plant protection products and fertilisers. Regulations on the use of pesticides and fertilisers were further aligned in June 1999.

Insofar as financial procedures are concerned, the Agricultural Intervention Centre has been further developed and has been designated as future paying agency. It will also be in charge of pre-accession aid (SAPARD) from 1 January 2000. Substantial progress has been made in preparing the *Rural Development Plan*.

As regards forestry, there is support for afforestation, conversion of forest structure and planting. There is no regime protecting forests against fire or atmospheric pollution. The system of forestry statistics needs to be developed.

As regards the *market organisations* of the main agricultural products, the Hungarian basic management mechanisms are in place but do not reach yet full compliance.

Hungary has achieved some progress in harmonising the fruit and vegetables sector. Standards for the classification of products are applied to exports from Hungary, but not to domestic market and imported products. No comprehensive frame exists for Producers Organisations, although, legal basis for the recognition, establishment, investment and operation of producer organisations has been recently adopted. There is no system of production aid for processed fruit and vegetables products.

Concerning quality control in the wine area, progress has been made on recognition of EU standards with a view to eliminating complex and costly procedures previously applied to imports of wine from the EU. A National Board of appellations and the

Committee of Wine appellations were established in 1998. Collection of data on quality wine production started from the 1998 harvest.

A support scheme exists in the beef sector (quality support for cattle for slaughter; support for female breeding stock and bulls and for high quality semen). The possibility of applying a buying-in system is established. In the pig sector, support is also granted and intervention buying-in for live animals is provided together with export refunds. In the milk sector, quotas for milk delivered to dairies or sold directly to consumers exist. They are transferable independently from the land. The system provides for intervention and for the granting of export refunds.. Subsidies for high quality milk and school programmes are granted.

Conclusion

Over the last year Hungary has made some progress in preparing to implement the common agriculture policy in the medium term. Although building from a strong base, progress in harmonisation of legislation has proceeded at a slow pace.

The implementation of a comprehensive framework for rural development measures also require further efforts.

Fisheries

In such a landlocked country as Hungary this sector plays a very limited role. The basic legal framework is already in place. State aids available for fish producers in 1999 have been regulated in accordance with the Guidelines for the Examination of State Aids in the fisheries and aquaculture sector. The fishing rights of waters owned by local authorities have also been regulated. Further efforts are necessary for setting up the institutions for ensuring import control of provenance and species and for channelling Community financial support. In addition, the institutions for: controlling the implementation of common marketing standards; collecting and transmitting data concerning the price reference regime; and applying the recognition conditions for producer organisations will also have to be established.

Energy

Energy policy

Hungary has already adopted the main principles of the internal energy market and continued to make steps towards further alignment.

The long term energy strategy adopted in July 1999 provides the framework for further alignment with the *acquis*, especially with regard to: opening the national electricity and gas markets, third party access to networks, the creation of an independent Transmission System Operator and the restructuring of the solid fuel sector. The new strategy also provides for the strengthening of the Hungarian Energy

Office in view of creating an appropriate and efficient mechanism for regulation as required by the *acquis*.

The tariff structure for gas and electricity has been adapted. Electricity prices have been further increased and are nearing cost-recovery levels. Remaining price distortions particularly as concern households should be eliminated. In line with the international prices, gas prices have been reduced.

Oil stocks have now exceeded the level of at least 90 days average daily internal consumption, but the legislation on the security and stockpiling of imported crude oil and petroleum products needs to be further aligned with the *acquis*, especially with regard to the rules for the calculation of the stock levels and the setting up of security stocks for each of the oil product categories.

Although production and distribution of crude oil and oil products have been liberalised, further alignment is necessary in order to eliminate the preference granted to companies controlled by the State.

Energy efficiency is still low and further efforts are needed to align with the efficiency *acquis*. In September 1999, Government adopted a new € 6.2 million energy efficiency programme.

Hungary has promulgated the Energy Charter Treaty as well as the Energy Charter Protocol on Energy Efficiency and related Environmental Aspects.

Hungary participates in the JOULE-THERMIE programme and has joined the SAVE II programme as of July 1999.

Nuclear energy

The Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed the importance of this issue in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries. The present section is a response to this request.

Hungary has four VVER 440/213 reactors in operation at Paks NPP. Nuclear power currently provides about 40% of the country's electricity production. The reactors at Paks are a Soviet-type design which is considered to be upgradable to international safety levels. In Agenda 2000 (1997), the Commission called upon the candidate countries operating such reactors to implement modernisation programmes over a period of 7-10 years.

Hungary is pursuing an upgrading programme at Paks nuclear power plant. It is expected that after the implementation of these plant safety improvement measures the plant will be able to reach a level of safety which compares well with plants in Western European countries. Additional work is needed to ensure containment integrity following a severe accident. Periodic safety reviews are conducted similar to Western practices and have already led to an increase in safety.

Since the adoption of the Nuclear Law, which entered into force in 1997, the Hungarian Atomic Energy Authority has pursued an active programme of issuing safety guidelines. The President of the Atomic Energy Authority exercises the supervision in order to meet the international obligations of independent regulatory activities. In connection with the periodic safety reviews and the related Paks nuclear power plant operating license renewal, the Nuclear Safety Directorate carries out an extensive inspection programme.

The attention of Hungarian authorities has been drawn to the Council Conclusions of December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the determination of the EU to keep under close review throughout the accession process the issues covered therein. In this context, Hungary, its nuclear regulatory authorities and nuclear operators are invited to provide regular and comprehensive information in response to corresponding requests from the Commission.

Concerning nuclear safeguards, Hungary signed an additional Protocol to its nuclear safeguards agreement with the International Atomic Energy Agency (IAEA) in November 1998. Hungary also ratified the Convention on spent fuel.

Conclusion

Some progress has been achieved over the last year particularly as regards the adoption of the new energy strategy. Nevertheless, the main recommendations made in the previous report still apply. Particular efforts are needed to: prepare for the internal energy market (electricity and gas Directives); adjust energy monopolies; provide access to networks; develop the Hungarian Energy Office into an appropriate and efficient mechanism for regulation; adjust state interventions in the solid fuels and uranium sectors; eliminate energy price distortions and improve energy efficiency.

No major difficulties are foreseen for compliance with Euratom provisions. Nuclear safety standards including the independence and capacity of the safety authority, should continue to be tackled appropriately. Longer term solutions for spent fuel and nuclear waste need to be developed.

Transport

Hungary had already taken important measures both for legal and institutional alignment and continued its efforts to align its legislation with the *road* transport *acquis*.

New legislation on motorway tolls introduced a single tolling system for high speed roads, including on the M3 motorway. In the area of road safety, speed limiting devices were made compulsory as of October 1999 for a substantial number of vehicles in international transport. Furthermore, new legislation has been adopted on training, examination and qualification of road vehicle drivers. The Government has begun preparations to accede to the AETR Agreement by January 2000. No significant further progress has been made in the areas of access to the profession of

road haulage and passenger transport operator, maximum weights and dimensions of vehicles, vehicle taxes and road user charges.

Combined transport is already aligned to a large extent with the *acquis* and no further progress has been achieved.

As regards *railways*, no new legislation entered in to force in the past year. The current poor economic situation of the Hungarian Railways appears to have had an unfavourable impact on the approximation of the *acquis* on railways transport, especially as regards access rights and allocation of capacity. In this respect, ongoing efforts to restructure the railways and to settle its debt and marketing problems should be encouraged.

Because of its maritime vessels, Hungary has signed a number of international conventions on *maritime* and needs therefore to transpose the relevant *acquis*. A new law on Shipping provides the framework for harmonisation in this area. New legislation on shipping safety qualifications transposes the Council directive on the minimum level of training of seafarers. However, further efforts are necessary as regards maritime safety aspects.

Inland waterway transport legislation is only partially aligned. The key problem for this sector is the outdated fleet capacity. This hampers Hungarian vessels in obtaining significant market shares in the transport service sector.

In the area of *air* transport, the Law on Aviation provides the main framework for harmonisation in this sector, which is already quite well advanced. However, the pace of further alignment is rather slow. Progress in the field of market access is needed. There is still a nationality obligation (51% of the shares in Hungarian hands) attached to obtaining an air carrier license. There are no financial capacity requirements; the technical conditions and insurance requirements also need alignment. Legal transposition of the *acquis* related to airports (slot co-ordination) and environment (noise emissions) still has to be done. Hungary is a candidate member of Joint Aviation Authorities (JAA) since 1995 and is awaiting the conclusions of the JAA inspection in order to be accepted as a full member. Efforts have concentrated on the negotiations of a multilateral European Common Aviation Agreement (ECAA).

Hungarian policy in the field of the Trans-European transport Network (TEN-T) already takes into account the objectives and priorities of the Community guidelines and requirements on TEN financing. Hungary is actively participating in the *Transport Infrastructure Need Assessment* (TINA) activities, which will facilitate the extension of TENs to Hungary. Under the road development programme major motorway projects in the south and east have continued. A part of the railways network has been renewed and the connecting link to Slovenia is being reconstructed

Conclusion

Hungary has continued to take measures for both legal and institutional alignment with the *acquis*. Further efforts are nevertheless needed. It is particularly important to speed up the restructuring of the national air carrier and of the main railway company.

Small and medium-sized enterprises

Domestic SME policy conformed to a large extent to the Community's. As part of the government's medium-term economic strategy, the Hungarian government adopted a new four-year strategy in December 1998 and made appropriate budgetary allocations. Key elements of the strategy are: reduction of the administrative burden, reduction of wage-related costs, improvement in access to bank credits and financial facilities, better access to business information and improvement of training and education for entrepreneurs. Budgetary support to SMEs through various schemes amounts to around € 16-20 million in 1999. Currently, there are around 750,000 SMEs in Hungary. This means that there are 128 undertakings per 1000 inhabitants which is higher than the comparative EU figure (95). In practice, 99% of the registered enterprises in Hungary are classified as SMEs (employing less than 250 people). SMEs produce about half of GDP and employ around two-thirds of the total workforce. Most of the Hungarian SMEs are micro-sized companies (family undertakings). Most SMEs (90%) operate in the service and construction sectors. One of the main problems facing SMEs is the tax structure of the corporate sector which favours large multinationals. While the average tax burden of the multinationals is about 8% (including tax holidays) the average SME tax burden is around 17%.

Hungary has participated in the Third Multiannual Programmes for SMEs since December 1998. This implies an expansion of programmes and networks (seven Euro Info Centres opened) and provides scope for increased contacts between Hungarian and EU business organisations as well as opportunities for direct business-to-business contacts and co-operation. This should contribute in a positive manner to the further European Integration of the business sector.

3.5 Economic and social cohesion

Employment and social affairs

Over the last year the Hungarian unemployment rate has decreased further and stood at 7.4% at the end of the first quarter of 1999. Long-term unemployment represents the largest share and regional disparities remain considerable. Active labour market policies focus on vulnerable groups such as the long-term unemployed and school leavers. The Commission is currently carrying out an employment policy review in 1999 with the Hungarian authorities.

In the area of *Labour Law*, Hungarian legislation is already partially aligned. No progress has been achieved over the last year and further work is needed to secure the adoption of measures transposing the remaining *acquis* requirements, in particular, those on collective redundancies, wage guarantee fund, posting of workers, safety and health at work for temporary workers and European work councils.

Social dialogue in Hungary is in a process of transition. Since the beginning of the reform towards a market economy, trade union membership has declined in Hungary, although the number of trade unions and employer's organisations remains too high to facilitate effective social dialogue. There are currently six national trade union

confederations and nine national employer organisations represented in the National Labour Council, which differ considerably in their membership structure and economic/political strength. The tri-partite National Labour Council, which replaced the Interest Reconciliation Council at the beginning of 1999, discusses labour issues including wages, but not – as its predecessor did – budgetary, tax and social insurance regulations.

Equality of treatment is guaranteed under the Constitution, which also provides the basis for sanctions and equal rights. Implementation is guaranteed through the Ombudsman with recourse available to the Constitutional Court. Hungarian legislation is already partially aligned with the *acquis* in this area.

In the field of *equal opportunities* for women and men, three cases of alleged sex discrimination were handled by the Hungarian Labour Inspectorate in 1998. This demonstrates that the *acquis* is starting to be enforced in this area and further progress is to be encouraged. The Law on the support of families came into force in January 1999. In line with the equal treatment directive this states that parents raising children are entitled to family benefits regardless their financial situation, and without discrimination as between father and mother. Hungary has been participating since November 1998 in the Fourth Community Action Programme on Equal Opportunities and projects have begun in 1999.

Currently the Government is assessing experience to date with the three-pillar pension system introduced in 1998. As regards reform in the health sector, there is still no Government decision on how to move forward in reforming the health insurance system and progress in this important area is becoming urgent.

Hungarian legislation in the area of *health and safety* at work is only partially aligned to the *acquis*. Over the last year only the directive on manual handling of loads has been transposed. Considerable work remains to be done to secure the adoption of measures transposing the remaining part of the *acquis*, especially with regard to workplaces, construction and mining sectors .

Currently, between 5.5 and 8.5% of GDP is spent on health and the need for a strong *public health* system is recognised. Further efforts are necessary to improve the effectiveness of health care provided to vulnerable groups. A new law on public health provides the basis for further implementing measures and actions. Hungary is making efforts to improve the effectiveness of health care provided to vulnerable groups. Considerable preventive work is already done through the school health programme and the health teacher training programme. Various measures have been adopted to combat drug addiction, which is increasing. Public health Community programmes (Combating Cancer, Prevention of Drug Dependence, Health Promotion, Prevention of Aids) were opened to Hungary in November 1998 and projects began in 1999.

Conclusion

Whilst limited progress has been achieved during the last year, Hungary is relatively advanced in terms of legal transposition of the employment and social affairs *acquis*.

Particular attention will need to be paid to the implementation and enforcement of the health and safety at work and labour law *acquis*.

Regional policy and cohesion

The Union supports the strengthening of cohesion, mainly through the Structural Funds. Hungary will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Despite being in an advanced state of preparation for the implementation of structural funds, Hungary has done little as regards concrete implementation of regional policy objectives.

In 1996, average GDP per capita in Hungary was 47% of the EU average. Regional GDP per capita ranged from 70% of the EU average in Middle Hungary to 33% of the EU average in North Hungary.

The Law on Regional Development and Physical Planning specifies the objectives, tasks, institutional structure and financial instruments of regional policy based on the cooperation of counties within regional development councils.

Seven statistical planning regions similar to Nuts 2 were introduced in 1998. The 7 regions will be led by Regional Development Councils. As their establishment is not regulated by binding law, only 5 Regional Development Councils have been established so far. The Regional Development Councils are responsible for the preparation of regional development programmes and for the evaluation of the county development plans. At regional level Hungary is divided into 20 counties similar to regions defined according to EU-methodology (NUTS III) which are led by directly elected County Development Councils. The Councils adopt the county development programmes providing the general framework for regional support measures. The Councils at regional and County level are not yet fully operational.

In the field of budgetary and financial capacity, Hungary needs to review its system. The overall financial responsibility, measures in the case of irregularities and the independence of control bodies within ministries needs to be clarified. A mechanism focused on coordination of financial resources from different sectoral budget lines needs to be introduced. Certain budgetary provisions, in particular as regards co-financing including multi-annual commitments, needs to be put into place.

The appropriate human and financial resources are still lacking and inter-ministerial coordination is weak leading to delays in the establishment of the Development Plans.

The experience in appraisal and evaluation procedures according to the structural funds regulations is limited.

Conclusion

Hungary has advanced in its preparations for the implementation of structural funds support with a legal basis in place and many important procedures now established. Ineffective inter-ministerial coordination caused stagnation in the preparatory process, notably concerning project preparation and implementation. Improvements have been made, but the result of these remains to be assessed.

3.6 Quality of life and environment

Environment

In 1998, Hungary adopted an ambitious programme for National Environment Protection including an investment programme covering the years 1998-2002, but achieved limited progress in 1998.

Hungary has established an inter-ministerial committee on sustainable development, which involves key actors from the ministries of Environment, Agriculture, Transport and others and which establishes guidelines for the integration of environment into other sectors.

In relation to *horizontal legislation*, no particular progress was made, although it should be noted that Hungarian legislation already complies to a very large extent with the access to environmental information directive. More efforts are required to fully align national legislation with the Environmental Impact Assessment Directive, in particular the scope of projects subject to an assessment needs to be extended. This is particularly important, as the relevant legal provisions will be applied for all projects financed by the Community. Particular efforts should be made to include reporting requirements in the corresponding sectional legislation, in order to comply with the reporting Directive.

In the *water sector*, no progress was made in terms of legal alignment and all legislation still requires transposition. Nevertheless, important implementation steps were taken with regard to urban wastewater treatment (capacity enlargement, technological upgrading, sewerage development and construction of mechanical treatment facilities). The timetable and schedule for the transposition and technical needs of the wastewater treatment Directive are currently being studied and the impacts of the drinking water Directive being assessed.

In the field of *industrial pollution control and risk management*, pollution from industrial plants and large combustion plants has been gradually reduced over the last 20 years and the relevant *acquis* is almost fully aligned. However, alignment in the area of integrated pollution and prevention control will require substantial financial efforts to up-grade some 1000 existing installations.

The adoption of the law on catastrophes in June 1999 transposes the *acquis* on the control of major accident hazards (Seveso II). Important implementation steps should be taken for its implementation. The total number of establishments coming under the Directive in Hungary is estimated to be around 80-100 of which around 20-40 will be "upper tier" establishments with an obligation to establish safety management systems and internal emergency plans and to produce safety reports. (The investment cost for

the industry concerned is estimated to be around €80 million). Hungary was one of the first signatories of the UN/ECE convention on industrial accidents and is also the first of the Candidate Countries to have ratified this convention. Co-operation in the framework of this convention, in particular regular signatories' meetings, should facilitate transposition and implementation of the directive. The Directive on the protection and reduction of environmental pollution by asbestos still needs to be adopted.

No particular progress was made in the field of *air quality*, where the main issues remain transposition and implementation of the Directive on the quality of ambient air and its subsidiary Directives, such as on ozone and the Directive on non-road mobile machinery. Institutional strengthening is required in particular as regards monitoring and data exchange. Identification of zones where there is heavy concentration of pollution is still to be carried out. Full alignment still needs to be achieved as regards the Vocational Organic Compounds Directive. Hungary is a party to the Convention on long-range trans-boundary air pollution which also requires the implementation of pollution abatement measures. Hungary fully participates in and implements the Convention.

Hungary is already in line with the *acquis* on the lead content of petrol. Funds have already been allocated by the Hungarian Oil and Gas company to comply with the requirements relating to petrol.

Currently, there are mandatory standards for *noise* produced by lawnmowers and household appliances, but construction plant equipment is not yet covered. Quality assurance and control started in 1998 and further progress will be needed to align with the *acquis* on noise from machines and vehicles. For monitoring purposes the existing laboratories will need to be improved.

In the sector of *Chemicals and Biotechnology*, there has been significant progress in the domain of animal protection. A new Law entered into force on January 1999 that further aligned Hungarian legislation with the directive on animal experiments.

The 1998 Framework Law on Gene technology which entered into force in January 1999 provides the legislative framework for harmonising legislation in the field of genetically modified organisms. The newly adopted Law on *chemical* safety prepares the ground for aligning the *acquis* in the sector of chemicals. The Institute for Chemical Safety has been created and will enhance the implementation of the adopted legislation. In the same field, the laboratory capacity in the Institute for Environmental Management has been improved.

Despite the fact that *waste management* policy is granted a high priority in the key national environmental strategy document, no progress has been achieved over the last year. Waste represents the weakest sector in Hungary, as the entirety of the corresponding *acquis* needs to be transposed. The adoption of a Law on Waste management should be considered as a priority, since it will allow the adoption of subsidiary legislation on specific types of waste that are currently all missing in Hungary. Important implementation measures were taken with the construction of 10 new regional landfills. It remains to be assessed if these comply with the requirements of the recently adopted Community Directive. Environmental product

charges were introduced for oil products, and under this system, the establishment of the collection and processing systems of waste oils was commenced and the collection system for used batteries was created. The collection system for packaging reached 25%.

In the field of *radiation protection*, progress has been limited to aligning national legislation to the "maximum permitted levels of the radioactive contamination of foodstuffs". The main *acquis* still needs to be transposed. A solution needs to be found for disposal of Paks NPP operational waste. Hungary ratified the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management.

In relation to *climate change*, Hungary ratified the climate convention in 1995 and adhered to the Kyoto protocol with a 6% reduction target.

In the area of nature protection a good level of protection had been already achieved (enshrined in the Law on Nature Protection) with an important part of territory being protected under various statutes. No further progress regarding transposition of the Habitats and Birds Directives has been made and a ban on the use of leghold traps still has to be introduced. Hungary is an active party to the Washington convention on trade in endangered species (CITES), which requires implementation arrangements similar to those of the *acquis*. Progress in this area was limited to the adoption of some implementing measures concerning the *acquis* on protected animal species.

Hungary has established in its NPAA a detailed financing plan estimating the costs over 3 years to €95 million.

The issue of nuclear safety is dealt with in the energy chapter.

Conclusion

Some progress has been achieved in the areas of nature protection, pollution from industrial plants and large combustion plants as well as the control of major accidents. However, substantial efforts are still needed, in particular, in the areas of waste and waste management, water and air quality. Hungary has made steps to address the short term Accession Partnership priorities. If Hungary wants to achieve its ambitious target for full transposition in 2001 it will need to urgently speed up both legal alignment and investment in environmental technology and infrastructure. In this context, it would be particularly important that the budgetary provisions made in the NPAA are adequately reflected in the annual budget.

Nevertheless, a number of important steps in relation to implementation are being taken and a very thorough and comprehensive plan, both for transposition and implementation (including costs analysis and investment strategies) has been established in the National Programme for the Adoption of the *acquis*.

Consumer protection

In 1998, Hungary addressed the medium-term Accession Partnership priority on consumer protection when adopting the legal framework in the field of consumers and health protection. The law contains provisions on product liability, but the threshold value for product liability is still much lower in Hungary than in the Union.

Hungary has continued to make progress in this area. Legislation has been further aligned in the fields of unfair terms in consumer contracts, contracts relating to the purchase of the right to use immovable properties on a timeshare basis, contracts negotiated away from business premises, and package travel, package holidays and package tours. However, discrepancies still exist in legislation related to misleading advertisements, consumer credit and indication of prices. Minor differences remain as regards doorstep and distance selling.

A market surveillance system, as well as the necessary structures to implement product liability, were set up in April 1999 but are not yet functioning in a satisfactory manner. Central problems relate to the existence of pre-market control, the lack of competent personnel and lack of some technical equipment. The central laboratories of the inspection bodies are nevertheless reasonably well equipped and the testing instruments used are relatively modern. However, in order to ensure that the whole system operates smoothly, Hungary still needs to enhance consumer awareness, as well as producer awareness, on consumer's rights and producer's responsibilities. Furthermore, although Hungary already has in place the basic instruments to implement market surveillance (legal structures, laboratories, institutional set up), further institutional strengthening is necessary to reach EU standards, in particular through the provision of professional training and the modernisation of certain equipment. Efforts have also to be made to familiarise the legal profession with product liability related cases.

The general inspectorate on Consumers Affairs (the Bureau of Consumer's affairs) is the monitoring body.

3.7 Justice and home affairs

The 1998 Regular Report stated that Hungary had the capacity to made progress in adopting the *acquis*, satisfied the short-term priorities of the Accession Partnership and had made substantial progress in the areas of legislation, asylum and border management.

The Commission underlined the necessity of adopting a new law on foreigners and a visa policy suited to the requirements of the EU. The report recommended among other things, that : “an increase in human resources, with adequate pay and suitable training, so that the new legislation (particularly that on asylum, police cooperation and combating drugs, organised crime and corruption) can be implemented.”

Immigration/border control

In the field of *immigration*, the 1993 law on the admission, residence and immigration of foreigners was amended in March 1999. It introduced the possibility for foreigners to be self-employed and provided a general framework for foreigners working in

Hungary. In the same law, illegal employment has been defined as a criminal act. Further efforts have been made concerning readmission agreements. In 1998 and 1999 Hungary signed bilateral readmission agreements with Bulgaria and Slovenia. Bilateral readmission agreements came into force with France, Germany and Italy. In the field of admission, Hungary has concluded bilateral agreements, which aim at simplifying mutual exchange of seasonal workers. These new agreements include a provision on the issuing of a standard travel document.

In the area of visa policy, Hungary has prepared a programme to harmonise Hungarian visa requirements with the *acquis*. The visa obligation for airport transit for nationals of certain countries, introduced in September 1998 in accordance with the relevant EU Joint Action on airport transit arrangements, has not yet been implemented.

Hungary should continue progressive alignment of visa legislation and practice with that of the EU.

Concerning *border controls*, Hungary has taken steps to implement border checks in accordance with EU requirements. However, the effectiveness of border control and the immigration services have to be improved. In this context, particularly training of the relevant staff and up-grading of the necessary equipment are essential. It is also important to provide for a direct online connection between immigration offices, border posts and diplomatic representations.

Asylum

The number of asylum seekers in Hungary has considerably increased following the lifting of the geographical reservation on the Geneva convention and the start of the crisis in the Federal Republic of Yugoslavia/Kosovo. Out of the 8,521 asylum applications received in the first eight months of 1999, there is a serious backlog of 4,249 where decisions are still pending.

Much effort is still needed in the area (see chapter 4 on administrative capacity). In particular, the operation of the court of appeals in the case of a negative decision as concerns the status of a refugee needs to improve, existing reception centers need to be upgraded and new centers need to be set up in order to cope with the increasing number of asylum seekers.

Police

Hungary has made very significant progress in further aligning its legislation with the *acquis*. Regarding the establishment of an independent national data protection body according to the Europol provisions, Hungary has taken the necessary legal measures in 1999 in order to meet the data protection and supply criteria as well as the communication regulations. An independent national data protection body and the post of a data protection ombudsman have been created.

As far as customs are concerned, a special department has been set up in 1998 to deal with 'risk analysis' and in 1999 a special unit prepared the introduction of a management system for analysing risks. As regards the implementing of the technical

requirements of the Schengen Information System, the Hungarian Government decided in June 1999 to set up an International Police Co-operation Centre housing the national office of Interpol, the future national office of Europol and a Central Information Office.

Concerning the fight against organised crime, the Hungarian authorities increased efficiency, notably through training of police forces and the adoption of new laws in March 1999. These cover witness protection, informants and people leaving and denouncing a criminal organisation. Furthermore, participation in criminal organisations was made a criminal offence and stricter rules for punishment were introduced. Additionally, a comprehensive package of public safety measures ('anti-Mafia package') came into force in September 1999 which increases the police investigative and operational powers when dealing with suspected organised crime cases. Following the bilateral agreements Hungary has concluded with most of its neighbouring countries, foreign law enforcement bodies are allowed to carry out pursuits across the border.

However, Hungary has not yet ratified the Council of Europe Convention on Money Laundering. A further up-grading of equipment and intensification of co-operation between police, customs and border guards is essential. Particularly, the system for information exchange between the different services has to be improved. Hungary should also continue to work on the conclusion of co-operation and mutual assistance agreements in the field of customs with EU Member states and its neighbouring countries.

Drugs

Hungary, a transit country for drug trafficking, is becoming a target country as consumption is increasing.

The 1988 Vienna Convention on the prohibited trading of drugs and other psychotropic substances entered into force in November 1998. In March 1999, the Hungarian Criminal Code was harmonised with the *acquis* concerning the sanctions against illegal drug trafficking. Hungary foresees co-operating with EU law enforcement agencies on drug-related matters through Europol. As regards synthetic drugs, the co-operation with the industry for ensuring precursor control appears to be satisfactory.

Judicial co-operation

Regarding *civil matters*, in February 1999 Hungary promulgated the Strasbourg Agreement relating to Persons Participating in Proceedings of the European Court of Human Rights.

As concerns *criminal matters*, the Penal Code was amended in March 1999 to combat organised crime more efficiently. The provisions of the EU Joint Action making it a criminal offence to participate in a criminal organisation were also incorporated in Hungarian legislation in March 1999. The definition of organised crime has been further harmonised with the *acquis*.

Hungary needs, however, to make further efforts to align legislation with the 1995 EU Convention on the protection of the European Communities' financial interests and its protocols; in particular corporate liability needs to be defined according to EU standards. Particular attention should be given to enforcement of the new legislation on organised crime.

Conclusion

Hungary has made some progress in the area of Justice and Home Affairs. Significant progress has been made in the areas of the police and the fight against corruption with more measured progress on immigration, drugs and justice. However, no real improvement can be reported on border control and asylum.

Further efforts are required in all the above mentioned fields and in particular on border control, both at border posts and on areas without border posts (“green border”) in accordance with Schengen standards, and on asylum through the establishment of new reception facilities for asylum seekers, an increase of qualified staff and further harmonisation with the EU procedures.

Besides, in all Justice and Home Affairs sectors, special attention should be given to the upgrading of equipment, including the improvement of automatic transmission of data system between law enforcement agencies, border checking points and embassies.

3.8 External policies

Trade and international economic relations

Hungary applied tariffs average 12.4 % on all products, 33.3 % on agricultural products 15 % on fishery products and 7.4 % on industrial products.

In January 1999, Hungary signed the agreement on financial services of Protocol V of the General Agreement on Trade of Services (GATS). In November 1998, Hungary signed a Free Trade Agreement with Estonia and with Lithuania and in June 1999 with Latvia. Taking into account that the rights and obligations of membership imply the termination of any international agreement which is incompatible with EU membership, the Free Trade Agreements with the EFTA and CEFTA Member states as well as with Turkey and Israel will have to be renounced by the time of accession.

Outstanding issues concern the safeguard measures regime and accession to the plurilateral WTO agreements on Civil Aircraft, on Government Procurement and on Trade in Information Technology. Hungary has expressed its willing to work closely with the EC in the forthcoming WTO Round, with a view to aligning positions and policies as closely as possible.

Development

Hungary has no special development policy, but 96% of all imports coming from developing countries receive trade preferences. GSP schemes exist for all products. Hungary has no specific budget for developing countries. The Ministry of Foreign Affairs has limited funds of € 80,000) which are mainly used for humanitarian purposes. Hungary should have no difficulties in applying the *acquis* in the field of development policy.

Customs

Hungary had started to align its customs legislation with the *acquis*. However, little progress in harmonising the Hungarian customs legislation has been made since 1997.

Hungary updates its Customs Tariff annually, applying the EU combined nomenclature. The average of the customs tariffs applied by Hungary is 12.4% on all products: 33.3% on agricultural products, 15% on fishery products and 7.4% on industrial products. Binding Tariff Information is not applied. An expert group was established for the development of an integrated tariff.

In the field of Origin of products, Hungary participates in the pan-European system of cumulation which has been applied since January 1999. The use of simplified procedures remains limited. Stricter rules on payment of customs duties and on duty relief are currently maintained and justified by Hungary by the need to combat fraud. Further harmonisation is also needed regarding regulations on customs procedures with economic impact. The Hungarian system for administering tariff quotas, ceilings and duty suspensions is only partially harmonised with the *acquis*. Quotas are allocated on a first come first served basis.

Hungary has a large number of customs free zones (approximately 110). Any company can request the creation of a free zone in Hungary and some free zones contain only one company. The extensive use of such zones, as well as certain rules applied to them, are incompatible with the *acquis*.

Within the headquarters of Hungarian Customs, eight 'accession task forces' were created in January 1999 to develop harmonised legislation and work on its implementation. The Hungarian customs administration has carried out a wide-ranging computerisation programme for phyto-sanitary and veterinary products. Furthermore, a risk analysis system was introduced in a pilot phase with the objective of improving border control efficiency. The pilot phase of an Electronic data exchange initiative has been launched. A strategic training plan for the customs administration was developed in 1998. The efficiency of tax and customs duties collection continued to improve. Strict custom rules have been introduced to curb illegal tobacco and alcohol trafficking. As regards border posts, good progress has been achieved at the main posts which are approaching EU standards, but further efforts are needed for smaller posts which are short of the equipment. In December 1998, one new border post has been opened at the international airport at Férihegy and another has been re-opened at Tiszabecs at the Ukrainian border after modernisation in line with the *acquis*.

Conclusion

The lack of progress in the customs area over the past year has been a cause for some concern. Further efforts are required to: the reform of the Hungarian Customs Code, create integrated tariff structures, introduce binding tariff information, establish binding information on Origin and introduce rules applying to free zones. Progress has been made on up-grading the major border posts, but further efforts are still required to up-grade small posts.

Common foreign and security policy

Hungary continues to orientate its foreign and security policy towards the EU. It participates actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings at political directors', European correspondents' and Working Group level. Hungary has regularly aligned its positions with those of the EU and, whenever invited, adhered to the Union's statements, declarations and démarches, including in the context of the UN and the OSCE. Thus it aligned itself with the common position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia

In March 1999, Hungary became a member of the North Atlantic Treaty Organisation (NATO). In January 1999 it ratified the Treaty on Conventional Armed Forces in Europe. During the Kosovo crisis, Hungary actively supported the NATO operation against Yugoslavia. Hungarian soldiers participated in the humanitarian mission in Albania. Hungary also participates in KFOR and SFOR and sent in this context soldiers to Kosovo.

In view of its full participation in the CFSP, Hungary still needs to make certain structural changes. In the first half of 1999 Hungary assumed the rotating presidency of the Council of Europe.

Hungary strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation, i.a. by participating in the Central European Initiative, the South East European Co-operative Initiative (SECI) and the Royaumont process and the relaunched Visegrad-4 dialogue (involving Slovakia, the Czech Republic, Poland and Hungary). Relations with Romania and, following the general elections of September 1998 there, with Slovakia improved considerably. The Basic Treaty with Slovakia, signed in 1996, is now being implemented. Discussions on a solution to the dispute over the Gabčíkovo dam project are on-going on a technical level without standing in the way of renewed bilateral relations. Hungary participates in the Stability Pact for South East Europe. In the first half of 1999 it assumed the rotating presidency of the Council of Europe.

3.9 Financial questions

Financial control

Hungary has continued to consolidate the policy framework for financial control by defining in more detail the scope of financial audits and the distribution of tasks between the State Audit Office, the external financial control body, the Government Control Office, the internal financial control body and the State Treasury. In addition, an integrated internal control policy was introduced.

The State Audit Office acts as an external auditor independent from the Government. The Office will provide the accounting control of the paying agency in the field of agriculture, which will be established under the supervision of the Ministry of Agriculture and Regional Development.

The role of the Government Control Office has been further strengthened with the extension of its responsibilities to the following areas: ex-post evaluation of the effects of decisions of the Government, control of expenditures from the Central Budget, control of subsidies and of the use of funds (from international donors) by all kinds of beneficiaries including regional and local. At the end of 1998 a new monitoring system was set up to monitor the different foreign aid programmes and the related co-financing. The administrative co-operation agreement of December 1997 between the Government Control Office and the Commission's financial control has led to a first joint financial control mission in Budapest.

The State Treasury is the accountant for the central budget and since 1998 responsible for foreign assistance to Hungary. It executes payments after ex-ante control for the Hungarian central administration, but is also responsible for a nation wide monitoring system for funds and certain state aids devoted to regional development. There is a need to improve co-ordination in cases involving several sectoral budget lines. Following an agreement with the Commission, the National Fund and the Central Finance and Contract Unit have been set up within the State Treasury.

Conclusion

Hungary continued to align its internal financial mechanisms at the central level, but further efforts are needed as regards the provision of skilled staff and of appropriate technical equipment. Particular emphasis should be given to the establishment and the strengthening of the regional and local internal audit units in view of Hungary's participation in the new pre-accession instruments. Within each Ministry a number of issues need to be clarified such as the overall financial responsibility, measures in the case of irregularities and the independence of control bodies within the ministries.

3.10. General evaluation

Hungary continues to make progress aligning and implementing the acquis in most sectors. In the internal market, progress has continued as regards laws on public procurement and intellectual property (except as regards retroactive patent protection) and efforts have been focused on ensuring their effective implementation. Notable progress has been made in adopting legislation on self-employment which removes restrictions on EU-individuals wanting to establish in Hungary. Although efforts need to pick up in transposing EU standards and to ensure the functioning of market surveillance, Hungary is well advanced in implementing the new approach in the standards and certification areas. Hungary has adopted a law on state aids which

should facilitate the development of an effective system of state aid monitoring and control. Progress is quite steady but slow in the agricultural, veterinary and phytosanitary fields and efforts need to be accelerated considerably if a sufficient level of alignment is to be achieved over the medium term. Hungary is relatively well advanced in alignment in the transport sector although the rail sector is lagging behind in terms of alignment and actual restructuring of the railways. Hungary has continued to consolidate the policy framework for financial control by defining the scope of audits and the distribution of tasks and responsibilities between the various institutions involved.

Important progress was made in overall alignment in the VAT/excise area, but discriminatory provisions in the excise area are still causing problems. Further alignment is needed in the audio-visual areas as concerns European works and satellite broadcast monitoring. Aside from the fight against organised crime, the pace of alignment has been slow in the area of justice and home affairs, particularly with respect to border management and asylum. Little progress has been made with regard to labour and health and safety at work. There has been a noticeable slow down in the adoption of environment legislation and no progress has been made in customs. Given the size of the transposition task which remains to be done in these sector, significant efforts need to be undertaken to ensure further progress. While strategic plans have been adopted in the environment and energy sectors, it is essential that they be quickly implemented. In some areas such as regional development, whilst the legislative framework has been in place for some time, progress in implementation has been limited due to a lack of budgetary and human resources.

Hungary has made steady progress in building up its administrative capacity to apply the *acquis*. Steps have been taken toward general public administration reform and continued emphasis has been placed on the development of specific European policy and law training courses throughout the administration and in the judiciary. Most of the key institutions needed for implementation of the internal market are in place. Nonetheless the administration still needs to be strengthened in specific areas such as state aid control, market surveillance (implementation of product liability legislation) and veterinary and plant health. Hungary needs to allocate sufficient budgetary and administrative resources to regional development and environment and improve capacities to use, monitor and control EU financial assistance. There is room for granting further independence to authorities such as the Government Control Office and the Communications Authority.

Hungary has satisfactorily addressed most of its short term Accession Partnership priorities with the exception of administrative strengthening in regional development, steel sector restructuring and alignment in the environment sector. Hungary has also made good progress in implementing the medium term priorities.

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, and more importantly, of implementing it properly in the field, via the appropriate administrative and judicial structures. The administrative capacity became a central issue in the negotiation process.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“Hungary has continued to make progress in building up its administrative capacity to apply the *acquis*. In so doing it has addressed one of the short-term priorities of the accession partnership. The emphasis on training in European affairs throughout the civil service and the judiciary is a positive development which reflects the seriousness of Hungary's preparations for membership. However, administrative capacity in certain key areas such as standardisation, State aid control and regional development is weak and a concerted effort will be needed to strengthen institutions in these areas.”

4.1. Administrative structures

The Hungarian Government has continued to take important steps towards the reform and strengthening of its Public Administration. Since July 1998 the role of the Prime Minister's Office in the overall co-ordination between the Ministries has significantly

increased. The new duties include the supervision of (i) privatisation and (ii) State Treasury Assets Management (KVI). The head of the Prime Minister's Office coordinates governmental work and relations with Parliament. The increased workload of the Prime Minister's Office has been accompanied by a staff increase of 140 people. The total is now 441. In August 1998, a new department was set up to strengthen co-operation with the non-profit sector in the following areas: the drugs situation, social problems and European integration.

In 1998, average pay for civil servants increased by 15%. The total number of civil servants is 103,296 (state administration: 53,717, local government: 49,579), which shows a decline of 1,350 compared to July 1998. Whilst the number of state administration staff has again slightly increased this year (some 1,000 new employees), local governments have been particularly affected staff losses (some 5,000 between 1996 and 1998). Although the professionalism and preparedness of Hungarian civil servants is satisfactory, the relatively high average age and the lack of language skills are a matter of concern. Public administration development foresees a comprehensive review of salaries in the public sector aimed at performance-related pay.

Courses on the European Union continue to provide well-targeted training for public administration and local government staff. Special training in EU languages is provided to Hungarian conference translators of English, French and German.

4.2. Administrative and judicial capacity: key areas for the implementation of the *acquis*

The uniform application of EC law : Since 1998 there has been further progress in preparing the Hungarian judiciary for EU accession. In this respect, special attention was paid to the launching of training programmes and courses for judges in EC law.

In a total of 156 courts there are 2350 posts for judges (almost all are filled). In the last year 11 new judges were appointed, and 23 new auxiliary staff posts created. However, the number of technical support staff is only one third of the average in the EU Member states and the level of computerisation is low. According to the National Council of Justice around €32 million will be needed to adequately equip the courts by 2004.

Judges are appointed and can be removed on the proposal of the National Council of Judiciary by the President of the Republic. Only Hungarian citizens are eligible for the post of a judge and they have to meet certain academic and psychological requirements. Knowledge in EC legislation is not yet required.

There are already 106 registered judges specialised in EU law. A further 700 judges are participating in a training programme. In addition, the National Council of Judiciary has organised several other training courses for Hungarian judges on an ad-hoc basis.

Budgetary support for courts amounted to €122 million in 1999 and €87 million in 1998. Both in 1998 and 1999 the Government was unable to grant the budgetary requests submitted by the National Council for Judiciary. In 1999, these requests are

approximately seven times more than the governmental central budgetary plans submitted to Parliament in the draft bill on the 2000 Central Budgetary Act.

Since 1st January 1999 the system of judicial review of administrative decisions has changed significantly. The two instance system of appeal was transformed into a single-instance judicial review mechanism. This means that these decisions by the county courts and the Capital Municipality Court can not be appealed legally. However, these decisions can be brought before the Supreme Court. This development has led to a significant overloading of the Supreme Court. At present there are 3,249 pending cases at the Supreme Court. In addition, at least 200 new cases reach the Supreme Court each month. The 3 tribunals of the Supreme Court can only decide on 150-160 cases a month. Therefore, it was necessary to set up three new tribunals in September 1999. Currently, the average duration of related litigation is about one year in the lower courts, but one and a half years at the Supreme Court.

Under the constitution the main role of the Supreme Court should be the unification of the court practice and judicial guidance to the lower courts. The backlog of cases reduces the possibility of the Court to execute this function. Additional funding for training of judges should be increased in order to ensure that they are able to apply EC legislation by the time of accession.

Although a number of actions have been taken to improve the function of the judiciary, further efforts in this area will be necessary, especially with regard to the backlog of court cases and the computerisation of Courts. Training of EC law for judges should be continued.

Single market : The *Public Procurement* Council is responsible for the enforcement of public procurement rules. The Council answers to Parliament, to which it is required to report annually. The Council is independent from the Government.

The Public procurement Council monitors the enforcement of the rules of the law; in particular contracts concluded. The Council defines qualification criteria; publishes annually the list of qualified tenders, determines the number of member of the Arbitration Committee; appoints the chairman of the Committee and the Commissioners and publishes the Public Procurement Bulletin.

Within the Council, the Public Procurement Arbitration Commission acts as an independent administrative review body. It can be considered as a semi-judicial body as required by the Remedies Directive. The Public Procurement Council consists of 21 members and the Public Procurement Arbitration Commission of 17.

More than 700 complaints have reached the public procurement tribunals, but only 35 cases were appealed to the Supreme Court for judicial review. In almost 90% of these cases the lower-level decisions were finally upheld by the Supreme Court.

The increase of public procurement procedures and the decrease of negotiated tenders indicate that Hungary has an increasingly effective capacity to implement the acquis in this area.

The enforcement of *intellectual and industrial property* rights is carried out by the Hungarian Patent Office. At the end of 1998, the number of staff was virtually the

same as in the previous year, around 263. In 1999 its budget amounted to €8.31 million compared with €5.4 million in 1998.

There are five collective management organisations administering copyright and related rights. These are associations formed by a representative number of right holders.

The Budapest Metropolitan Court is a special court having exclusive competence to hear most of the industrial property cases. There are two further expert bodies (one for industrial property and one for copyright) administered by the Hungarian Patent Office providing, upon request, expert assistance to courts and other authorities.

In general, the Office works satisfactorily, but continued improvements especially in training of staff and infrastructure are still needed. In the context of training, special attention should be paid to those prosecutors and judges dealing with Intellectual Property Rights-related cases, as up to now courts have often failed in imposing criminal sanctions and penalties.

In the area of *company law*, the 19 County Courts and the Capital Court of Registration are responsible for the registration of companies and partnerships. Following the introduction of legally binding registration deadlines the number of pending cases have been reduced. Currently, these deadlines are generally respected. The courts forward company data to the Companies Information Network, administered by the Ministry of Justice. The courts of registration control the incorporation of companies in Hungary.

As to the new registration procedure defined in the new company law, it should be mentioned that the Company Register is still rather unreliable and its information technology system needs to be up-graded.

In the field of *accounting and auditing*, the Hungarian Chamber of Auditors established in 1997 is responsible for: (1) representing auditors' interests nation wide, (2) education and the training of the auditors, (3) the application of the Rules on Ethics, (4) the qualification of the auditors, and (5) sanctioning infringements of the rules.

There are currently 6683 auditors registered and 1537 registered auditing firms (with legal entity). A further 5146 individuals are authorised to provide auditing services. National accounting standards do not yet exist.

The Hungarian Chamber of Auditors has good record but national accounting standards still need to be introduced.

In the area of *data protection*, a data Ombudsman who is elected by and responsible only to Parliament is exclusively responsible for the protection of personal data and the disclosure of data considered of public interest. The Ombudsman monitors the implementation of law, examines complaints and ensures maintenance of a data protection register. He submits an Annual Report on the data protection situation to the Parliament. At the end of 1998 the Office of the Ombudsman for Data Protection employed a total of 29 staff which shows a slight increase over 1997 (25).

Data protection seems to be well enforced.

The Hungarian *standardisation* body is legally fully independent of the Government. It is the Institute responsible for the introduction of European and international standards. National standards are automatically repealed on the introduction of EU standards. Voluntary standards may also be published in Hungarian, but shortage of funds prevents this in practice. Hungary therefore relies on the 'cover sheet method', with the text of the standard in English and the cover sheet in Hungarian. The Institute has a staff of 104 which shows an overall increase of some 10% over 1997 (95).

Represented by its Standardisation Institute, Hungary is a full member of European Telecommunications Standardisation Institute and affiliated member of the European Standard Bodies CEN/CENELEC since 1992. It has applied for full membership which will only be possible once a 80% transposition rate has been achieved. Hungary applies the relevant rules of these bodies in form and content. The internal rules of Hungarian Standardisation Institute require a standstill at national level when European standardisation work is under way.

Further efforts are needed for speeding up the adoption of the remaining EU Standards in order to achieve the 80% transposition rate required to become a full member of the European standard bodies.

The Hungarian National *Accreditation* Office is a public body called the 'National Accreditation Committee'. This Committee consists of 55 members, representing all interested parties in this activity including ministries and consumers organisations.

The technical capacity of the Office seems adequate. Participation in international accreditation associations is also ensured.

Most of the institutes dealing with testing, inspection and *certification* in Hungary are public limited companies. The majority of the shares of the bodies designated for the implementation of EU technical regulations are state owned.

The infrastructure of testing, inspection and certification bodies is being reinforced, as Hungary has started to transform its system of pre-market control into a system with greater emphasis on market surveillance.

In the field of *metrology*, the National Measurements Office under the statutory supervision of the Ministry of Economic Affairs is legally responsible for measurements. The President of the National Measurements Office is appointed by the Prime Minister on the proposal of the Minister of Economic Affairs. The National Measurements Office has eight regional sub-offices . It also functions as an administrative authority, the decisions of which can be challenged in court. The National Measurements Office is well-staffed, currently 244 employees are working at the headquarters in Budapest (240 in 1997) while in the eight regional sub-offices 232 persons are employed (229 in 1997). In 1999 its budget amounted to some € 7 million (€4.28 million in 1998).

The National Measurements Office is well staffed and seems to have a good enforcement record.

From April 1999, the Bureau of *Consumer* Affairs was transformed into the General Inspectorate of Consumer Protection. It became responsible for market surveillance of all consumer products except for pharmaceuticals, health related products and chemicals. It is a member of the International Marketing Supervision Network and of the International Consumers Association.

There are 20 regional county inspectorates (19 counties including one for Budapest). The General Inspectorate of Consumer Protection has an autonomous budgetary chapter in the Ministry of Economic Affairs, whereas the regional offices come under the Public Administration Offices. Additional income comes from fines paid by distributors and manufacturers, but this income may only be used for publications and training. The number of staff in the Inspectorate was 163 in 1998, which shows a significant increase on 1997 (144). The 20 regional offices employ about 11 people each. Institutional co-operation between the General Inspectorate of Consumer Protection and regional offices should also be improved.

Prior to full participation in the EU RAPEX (Rapid exchange mechanism) system the General Inspectorate of Consumer Protection is involved in the setting-up of a transitional RAPEX system between Central and Eastern European countries. The General Inspectorate of Consumer Protection is also preparing to set-up a Central Information System on Market Surveillance that will contain information on inadequate and dangerous products.

Product liability legislation exists, but is not yet properly enforced.

In the field of market surveillance, the Hungarian Customs and Finance Guard is obliged to refuse the customs clearance of products which are considered hazardous or inadequate pursuant to the product safety rules.

Key problems in ensuring adequate market surveillance are continued pre-market control, the lack of competent personnel and a lack of technical equipment. The central laboratories of the inspection bodies in Hungary are reasonably well equipped and the testing instruments used are relatively modern.

Supervision of *banking* activities and investment firms is performed by the State Supervisory Authority for Money and Capital Market which carries out its activities independently and is supervised by the Government. This body is funded by fees from the financial sector. Its staff has increased from 252 in 1997 to 289 in 1998. Its own budgetary income amounted to €20.78 million in 1999 (€10.39 million /1998). The Chairman of the supervisory authority is nominated and dismissed by the Prime Minister upon proposal of the President of the National Bank and the Minister of Finance. Supervision covers credit institutions and financial undertakings, investment services providers, investment funds, stock exchanges, commodities exchange traders, commodity exchanges, public warehouses and specialised credit institutions. The current staff of 300 carry out three main types of activities: participating in regulatory activities, licensing of companies and public offerings, and inspections. The Supervisory Authority is also empowered to carry out on-site inspections. During the reporting period 21 banks had comprehensive on-site inspection, 2 had targeted inspections and on-site inspections were conducted in 138 co-operative credit

institutions. In case of a violation of the rules by market players, the Authority is empowered to take measures and impose sanctions such as the withdrawal of licenses. In 1999 for example, the activity of the financial institution was suspended in 15 cases and the permission for issuing value papers was not granted in 2 cases. The Authority is allowed to conclude agreements with foreign supervisory authorities and has done so with Germany, France, Italy, Austria and Luxembourg. The information obtained can only be used for licensing, supervision and sanctioning purposes. Hungary is member of IASCO and the Basle Committee.

The State Supervisory Authority for Money and Capital Market has also conducted comprehensive inspections at 29 securities traders and members of the commodity exchange and a targeted inspection was conducted at the Budapest stock exchange. The activities of 9 traders were suspended as result of detected irregularities. The National Supervision of Insurance is under the supervision of the Finance Minister. It is an independent body with its own budget. In 1998 the number of civil servants was 45 (38 in 1997). In 1999 its budgetary revenue amounted to some €2.2 million. A further 12 people are employed part time. The State Private Funds Supervision Office has seen its responsibilities increased as the number of people choosing a second and third pillar private pension fund has increased rapidly. The Agency had a staff of 102 people in 1998. In 1999 its budgetary support amounted to €2 million.

In order to make inspections more efficient, co-ordination among the various supervisory agencies needs to be further strengthened.

Concerning *Free movement of persons*, the Hungarian Equivalence and Information Centre within the Ministry of Education is in charge of the recognition of graduate and undergraduate higher education degrees, accredited higher educational qualifications and the recognition of scientific degrees. In July 1998 the Scholarship Committee was separated from the Hungarian Equivalence and Information Centre and by taking this step of rationalisation an important institutional requirement of EU accession was met. The Hungarian Equivalence and Information Centre, whose responsibilities have been broadened over the last year, has a staff of 12 (an increase of some 50% over the figure of the previous year (8)). Further staff increases are still needed.

It is still of concern that most professional chambers, of which membership is currently compulsory, link membership to Hungarian citizenship. Only the chambers of architects, medical doctors, pharmacists and veterinarians do not require Hungarian citizenship.

Competition : the Hungarian Competition Office set up in 1999 is responsible for the enforcement of competition rules. Currently, it has 115 employees (106 in 1997). In 1999 its budgetary support amounted to € 2.1 million (1.6 million in 1998). The Office has broad powers to enforce competition control, including the seizure of documents, the prohibition of certain types of practices and the possibility of imposing fines including in consumer fraud cases. The decisions of the Office are passed by the Competition Council, which works with full autonomy within the Competition Office. Three-member panels within the Council designated by the President decide on cases. Final decisions can be challenged before the Metropolitan

Court. The qualification of the staff appears to be sufficient to enforce the Competition Act.

In 1998, the Competition Office took 180 decisions. In 39 cases the law was violated (including 30 consumer fraud cases, one cartel and 5 abuses). In one merger case, a negative decision was taken (MATAV).

State aid control is entrusted to the State Aid Monitoring Office of the Ministry of Finance. At present, it employs 6 staff members. It has started to receive notifications on aid plans.

Whereas the Competition Office performed well, the State Aid Monitoring Office needs to be further strengthened in order to enable it to carry out a proper monitoring of State aids.

Telecommunications : the Hungarian Communication Authority is the licensing, supervising, regulatory and administrative agency for telecommunications, postal services and frequency management in Hungary, carrying out its activities under the control of the Ministry of Transport. It is financed from the State budget, has a nation wide competence and independent accounting. The appointment of the President of Hungarian Communication Authority is made by the Minister of Transport on a proposal of the National Council for Communications and Informatics. The President reports directly to the Minister and has specific responsibility for regulatory affairs, informatics and frequency management.

The Hungarian Communication Authority is divided into nine directorates, five inspectorates and the Presidential Office. The directorates provide all central regulatory and resource management functions. The 5 regional inspectorates deal with licensing and inspection. The Presidential Office is responsible for appeals against the decisions of the regional inspectorates.

The staff of Hungarian Communication Authority consists of approximately 516 persons, 269 in central directorates (the same as in 1997) and 247 in the regional directorates (a substantial drop from 341 in 1997). More than half the staff have professional qualifications (of which nearly 90% are engineers). Although compared to similar institutions in the EU the staff figures appear to be somewhat high, the figures also include people employed to work in the Hungarian Communication Authority's various laboratories.

In May 1999, the Communications Authority set up a *postal* department which will in the future assume responsibility for licensing and supervising the postal sector.

Domestic quality control monitoring is currently carried out. The question of cross-border/international monitoring has been addressed by Hungary's signing an agreement with UNEX (Unipost External Monitoring System) to allow the country to participate in monitoring and measuring the quality of external mail, using UNEX's established methods. The main 200 post offices are being equipped with on-line networked terminals.

In the area of telecommunications, further efforts are needed to consolidate the independence of the Regulatory Authority as the influence of the Government bodies is still noticeable in certain areas. In order to be able to face competition in the EU internal market, the financial aspect of the universal service obligations will need to be addressed and Hungary will have to develop further its postal infrastructure. The institutional set up in the postal sector should also cover the establishment of a legally separate and functionally independent regulatory authority.

Audiovisual services : the National Radio and Television Commission (“ORTT”) was set up under the law on Radio and Television Services. The seven members of the Commission are elected by a majority vote in Parliament for one four-year term. The members are backed up by an office of 103 civil servants. The Commission is an independent central public organisation with nation-wide competence under the supervision of the Parliament. Its role is centred on protection of the freedom of speech, the prevention of information monopolies, the protection of the independence of broadcasters as well as monitoring the principles of a free press and reporting its findings to Parliament.

The Commission is empowered by Law to: evaluate broadcasting rights and tender bids for satellite channels; perform supervisory tasks, including the award of licences for commercial radio and television and the levying of fines together with withdrawal of licences in defined circumstances; operate a Complaints Committee (charged with the task of assessing complaints related to the violation of the criteria of providing balanced information) as well as a programme monitoring and analysis service; form and express opinions on the draft bills related to frequency management; and determine broadcasting fees. The Commission undertook approximately 500-550 actions in 1998.

The large number of actions seem to confirm that the National Radio and Television Commission has a good enforcement record.

Taxation : the Ministry of Finance is the supervising authority of the Tax Office. At the end of 1998 the 24 county directorates had a total staff of 9170 which shows a significant increase on 1997 (8308). The Criminal Investigation Directorate was set up in January 1999 within the Tax Office with a staff of 240. It is authorised to investigate tax evasion, fraudulent bankruptcy, accounting discipline, unfair economic advantage and to document forgery matters. Progress has been registered concerning the number of on-the-spot checks in the retail sector and ad-hoc checks of VAT refund claims. The setting up of the Criminal Investigation Directorate has also contributed to improved tax collection.

The Tax Office has improved its control capacity over the last year.

Agriculture : the Department for Agro-Environment Management and Plant Protection at the Ministry of Agriculture and Regional Development, with a staff of 17 members, has two main sections: a Division for Plant Protection which deals mainly with matters concerning the registration of pesticides and fertilisers, plant health regulations, plant protection regulations, quality control of inputs and safety control of outputs and a Division for Agro-Environment Management which is mainly concerned with legislative and administrative matters regarding soil conservation,

environmental aspects of agricultural production, water management, waste disposal, and nature conservation.

The Plant Health and Soil Conservation Inspectorate operates under the responsibility of the Ministry of Agriculture and Regional Development. There are currently 20 Plant Health and Soil Conservation stations (one in each county and one in Budapest) with a staff of 938 persons. There are also 10 specialised laboratories.

Finally, the National Wine Qualification Institute is a joint organisation of various departments. It is in charge of testing and qualifying all wine and wine products in Hungary. The Institute has a staff of 61 which shows a significant increase over 1997 figures (49).

The Animal Health and Food Control Department with a total staff of 2707 and 20 control stations (at the Ministry of Agriculture and Regional Development), headed by the Chief Veterinary Officer, provides the central management and control of animal health in Hungary. The department deals with administrative questions related to licences for veterinary drugs and biologicals, the import and transit of live animals, products of animal and plant origin which might be the carriers of disease-causing agents, and animal welfare during transportation and Food Hygienic and Quality Control.

There are 24 *veterinary* border offices running 30 veterinary border inspection posts, most of which are manned on a 24-hour basis, which control the import, transit and export of animals and animal products.

The Central Veterinary Diagnostic Institute is the central co-ordinating laboratory for animal disease diagnosis and also provides specialist support and a quality control service for the other diagnostic laboratories. At end of 1998 it had a staff of 78 (75 in 1997). The 5 field diagnostic laboratories each cover a designated territory comprising 2-3 counties.

The Control Institute for Veterinary Biologicals, Drugs and Feed serves as a central government advisory agency and laboratory in controlling the quality of veterinary drugs and biologicals intended for sale and use, regardless of whether produced domestically or imported from abroad. It has only diagnostic functions. The number of staff has not changed in the last two years: it was 75 both in 1998 and 1997.

The Food Investigating Institute serves as the central laboratory supporting the food safety activities of the Ministry of Agriculture and Regional Development and its field stations. It comes under the direct management of the Animal Health and Food Control Department and the Chief Veterinary Officer. The number of staff is practically unchanged in the last two years: 97 in 1997 and 98 in 1998

In the field of agricultural market regulation, the Agricultural Market Regime Office is responsible for the principles of market regulation and the Agricultural Intervention Centre has the executive function. Agricultural Market Regime Office is in charge of policy and regulatory matters such as marketing, export policy, buy-up regulation, domestic trade, international trade. It deals with animal and plant products. The Agricultural Market Regime Office has a staff of 42. The Agricultural Intervention

Centre is responsible for organising the payment of state refunds, operating financial control, and ensuring proper use of funds. It has access to the database of Hungarian agricultural foreign trade, through which it identifies unlawful applications of funds. The Agricultural Intervention Centre registers and approves applications for export refunds. It is still funded by the Ministry and has been nominated as the paying agency for SAPARD. Although the Agricultural Intervention Centre is independent from the Ministry, the two are closely linked and the Agricultural Intervention Centre influences agricultural market regulations. It has a staff of 60 and comprises four departments dealing with market, controlling, accounting and organisation. The number of staff shows an impressive increase over 1997 (26). (Its budget amounted to €2.2 million in 1999).

The National Institute for Agricultural Quality Control is in charge of all seed quality, issuing of licences and quality control of breeding animals and semen. The Central Feed Laboratory of the Institute is in charge of diagnosing inorganic components in feeds.

Progress has been made in setting up administrative structures for veterinary and phytosanitary control. Further efforts will be necessary in order to up-grade control standards in accordance with the acquis.

Fisheries : the Department of Fishery, Wildlife and Water Utilisation is in charge of fishery matters within the Ministry of Agriculture and Regional Development. The Department is heavily understaffed (2 staff, including the head of the department). Each county has a wildlife and fishery inspectorate (19 units) which employs one fishery inspector, who is in charge of following up and intervening in fish breeding, illegal fishing and related matters.

Staff in the department of fisheries, wildlife and water utilisation needs to be reinforced.

Energy : the Energy Department within the Ministry of Economic Affairs is in charge of energy policy and has a staff of 28. The Hungarian Energy Office is a state administrative agency with independent responsibilities and jurisdiction on a national level, controlled by the Government, and supervised by the Minister of Economic Affairs. The activities of the Office are performed by individual departments: consumer protection and pricing; energy supply; internal financing; and legal and management. Operating costs are covered by fees levied on the energy price. It has a staff of 85 (1997 : 64). The main tasks of the Office are the regulation and supervision of gas and electricity companies with a natural monopoly position, and the protection of consumer interests. Regulation basically covers licences, operation codes, ownership questions, prices, networks and the general regulatory environment of the companies. (Its budget amounts to €3 million in 1999 and to €2.2 million in 1998)

The Office can levy fines, amend or withdraw licences and approve the separation, union or merger of the licence holder or sale of a substantial ownership share, as well as reduction of capital.

Hungary has to establish an appropriate and efficient mechanism for regulation as required under the gas and electricity Directives. In this respect the further development of the Hungarian Energy Office as provided for in the Government's new long term strategy is significant.

Transport : the competent administrative authority in the field of transport is the Ministry of Transport, Communication and Water Management. In addition, the Civil Aviation Authority, with a staff of 86 in 1998 (52 in 1997), has responsibility for air transport. The Superintendent for Shipping at the General Inspectorate of Transport shares responsibility in the area of maritime transport. The Ministry of Transport, Communications and Water Management is implementing a staff reduction plan which decreased the number of staff by 40 persons since July 97 to currently 302. In 1999, the Hungarian administration is planning further 3% staff reduction.

The transport inspectorate has altogether a staff of 1,706 (1,679 in 1997), divided into 20 geographical divisions (19 counties plus Budapest), with a central Inspectorate Authority located in the capital. Each local office is responsible for road and rail. Its operating costs are financed by fees collected for services and procedures. The Transport Inspectorate also conducts on-the-spot checks, verifying licences, documentation, and state of the vehicle (500,000 or so checks annually excluding excess weight and on-site inspections). Excess weight checks are conducted by the relevant inspectors at border inspection posts, and have a yearly figure of 28,000-30,000.

Hungary needs to strengthen its administrative institutions in charge of allocating railway capacity and monitoring the operations of railways companies. Currently the Railway Superintendent does not have sufficient staff to deal with this responsibility.

As regards inland waterways, six county inspectorates perform the necessary navigation tasks. Some 20,000 cases a year (licensing, examining, monitoring) are administered by 30 people. The navigation unit of the Transport Inspectorate with a staff of 30 people deals with shipping, vessels port matters and maritime navigation issues. There are no people exclusively dedicated to inspection. Staff inspect vessels in addition to their normal duties. The effectiveness of the Office could be improved by increasing its staffing and equipment resources.

The number of checkpoints on the Danube river needs to be increased. Navigation inspections are only carried out in cases of, for example, hazardous substances being transported on the Danube for which reporting and monitoring must be carried out during the substance's passage through Hungarian waters.

The Ministry should ensure that staff reduction plans do not affect the timetable for transposition and implementation of the acquis.

Employment and social policy : in January 1999 the Ministry of Economic Affairs was given formal responsibility for employment strategy. (in particular active labour market policy) and social dialogue. The Ministry of Social and Family Affairs remains responsible for implementing employment policy, such as operating employment centres responsible for job search, retraining and placement. The Ministry is also responsible for the development and implementation of social policies

and has been designated as the lead organisation for preparations for eventual participation in the European Social Fund (ESF). Since under the new ESF Regulation the Fund will, to a large extent, be the operational arm, at European level of the European Employment Strategy. The two Ministries will need to work very closely together. As regards vocational education and training, the Ministry of Education also plays a major role.

Employment relationships are regulated by the national labour inspectorate, which operates as an autonomous body under the supervision of the Ministry of Social and Family Affairs.

The main responsibilities for approximation of law in the field of *health and safety* at work are divided between the Ministry of Social and Family Affairs, the Ministry of Health, the Ministry of Economic Affairs and the State Mining Office. The National Labour Inspectorate, under the Ministry of Social and Family Affairs, is also responsible for seeing to the approximation of a small number of EC measures.

The National Labour Inspectorate is responsible for occupational safety/safety at work and has an overall staff of 600 (including support staff), with about 80 based at the headquarters (64 in 1997) and about 400 inspectors. 200 of these inspectors check on labour law whilst the rest check on health and safety. The Occupational Health Inspectorate operates in the institutional framework of the National Public Health and Medical Officer's Service, and is responsible for health protection of employees and prevention of occupational diseases in Hungary. There are 6,881 members of staff. In 1999 its budgetary income amounted to some €1.28 million (€1.2 million in 1998).

The National *Public Health* Inspectorate forms part of the Ministry of Health and its tasks are to improve public health and prevent diseases. The service is under the central National Medical and Public Health Office and its head, the Chief Medical Officer, reports directly to the Minister of Health and is assisted by four deputies.

The inspectorate covers a total of 149 county/city offices plus the central office in Budapest. It employs some 6,731 staff (2,168 in towns, 3,085 in the counties, and 1,478 in the National Medical and Public Health Office and other national institutes – down from 7,905 (1992) and 7,124 (1995)). It conducts its inspections separately from the National Labour Inspectorate, due to differences in jurisdiction and approach.

Co-operation between the National Public Health Inspectorate and the National Labour Inspectorate needs to be reinforced. Progress is also required in setting up implementation structures for health and safety at work legislation.

Regional policy and cohesion : The law (1996) on Regional development and Physical Planning in Hungary provides the legal basis for regional development policy-making. The law foresees seven development regions in two ways. First of all, it is stipulated that Regional Development Councils shall be (re)established according to the new regulations with an identified residence (still lacking). The Regional Development Councils shall also set up their agencies responsible for the implementation of spatial development programmes. Beyond this, the amendment provides a solid financial base for the above by stipulating that the operational costs

of the implementing agencies shall be born by the central state budget. The Government is going to be authorised by Law to adopt rules on establishing the regulatory framework in terms of the organisational and the operational basis of programme-monitoring.

Although the law provides for the setting up of new bodies, no adequate financial resources were, however, made available to these new organisations in order to have the envisaged system really functioning. The institutional set up for regional development is still very weak and there is lack of permanent staff in development councils. The target is to employ by the end of 1999 8-10 persons assisting the Regional Development Councils. This situation results in a rather limited administrative capacity.

Environment : The Ministry of Environment exercises the main co-ordination responsibility in relation to environment, but the responsibilities are shared with other Ministries or Agencies such as the ministry of Transport, Telecommunication and waste management for waste management issues. The Ministry of the Interior is responsible for household waste management of municipalities. The Ministry of Health is responsible for air and water quality (drinking and bathing water). Responsibility for soil belongs to the Ministry of Agriculture, which is also responsible for forestry and game management. The National Atomic Energy Agency (under the responsibility of the Ministry of Economy) is responsible for nuclear safety issues. The National Radiation Protection and Nuclear SAFETY Agencies (under the responsibility of the Ministry of Health) are responsible for radiation protection.

The Ministry of Environment is responsible for policy making and legislation, whereas implementation and enforcement is carried out by the Regional Environmental Protection Authorities. Only three lawyers work on the transposition of the Community environment legislation within the legal department of the Ministry of the Environment.

There are 12 regional Environmental Protection Authorities , with a total staff of 1,137 (1,134 in 1997), and 12 Nature Conservation Authorities all co-ordinated by a Chief Inspectorate (which falls under the competence of the Ministry of the Environment). There are 19 Public Health Authorities, responsible for public health issues, which come under the Ministry of Health. There are also 12 Water Management Authorities, under the competence of the Ministry of Transport, Telecommunications and Water Management, responsible for water quality issues and environmental disasters. The number of staff of the National Chief Directorate of Water Management has slightly declined from 115 in 1997 to 110 in 1998. Under the same Ministry comes the Traffic Transportation Authority responsible for traffic pollution and noise.

Problems of co-ordination exist between all these Ministries and the allocation of responsibilities needs to be reviewed. Although administrative capacity in the environmental field is relatively good, it needs to be strengthened.

As regards *radiation* protection, the Ministry of Health is the competent authority. In addition, there are eight “radiation protection centres”, responsible for supervision and licensing within each county. Since the entry into force of the Atomic Law, full authority in nuclear safety matters is exercised by the Hungarian Atomic Energy Authority, a

central administration organisation supervised by the Government (its own budget amounted to €4.9 million in 1999 and to €3.8 million in 1998.) The director general and its deputy are nominated by the Prime Minister. The Joliot-Curie National Research Institute for Radiobiology and Radiohygiene (OSSKI) is responsible for the national register on occupational exposure (15000 exposed workers including 6000 in the nuclear industry). Concerning continuous monitoring, Hungary has set up a national monitoring and surveillance system for nuclear emergency cases, but environmental monitoring required for normal circumstances (evaluation of population exposure) still needs a legal basis. Some ninety monitoring stations are operating 24 hours per day. Water and soil samples are taken periodically by the Ministry of Health and by the Ministry of Agriculture. Aerosol samples are taken on a daily or weekly basis, other samples on a monthly and drinking water fortnightly basis. There are no contaminated sites. In 1998, Hungary's only uranium mine was closed.

According to the Hungarian National Programme for the Adoption of the Acquis, the total amount of staff in the Inspectorates and other Ministries should be increased by 1,613 to ensure full implementation of the acquis. The Hungarian Ministry of Environment needs an increase of approximately 52 new staff, especially lawyers, to ensure the completion of the legal alignment by the Hungarian target date. It is important that those provisions are properly implemented.

Consumer protection : From April 1999, the Bureau of *Consumer Affairs* has been transformed into the General Inspectorate of Consumer Protection. It is responsible for market surveillance of all consumer products except for pharmaceuticals, health related products and chemicals. It is a member of the International Marketing Supervision Network and of the International Consumers Association.

There are 20 regional county inspectorates (19 counties including one for Budapest). The General Inspectorate of Consumer Protection has an autonomous budgetary chapter in the Ministry of Economic Affairs, whereas the regional offices are under the Public Administration Offices. Additional income comes from fines paid by distributors and manufacturers, but this income may only be used for publications and training. The number of staff in the Inspectorate was 163 in 1998, which shows a significant increase over 1997 (144). The 20 regional offices employ about 11 persons each. Institutional co-operation between the General Inspectorate of Consumer Protection and regional offices should be improved.

Prior to full participation in the EU RAPEX (Rapid exchange mechanism) system the General Inspectorate of Consumer Protection is involved in the setting-up of a transitional RAPEX system between Central and Eastern European countries. The General Inspectorate of Consumer Protection is also preparing to set-up a Central Information System on Market Surveillance that will contain information on inadequate and dangerous products.

Problems relate to the existence of pre-market control, the lack of competent personnel and lack of some technical equipment. The central laboratories of the inspection bodies are, however, reasonably well equipped and the testing instruments used are relatively modern. However, in order to ensure that the whole system operates smoothly, Hungary still needs to enhance consumer awareness, -as well as producer awareness-, on consumer's rights and producer's responsibilities. Efforts

have also to be made to familiarise the legal profession with product liability related cases.

Justice and home affairs: In February 1999, the International Centre for Co-operation in Combating Crime (National Law Enforcement Contact Point) was set up. A co-ordinating body and a network of liaison officers were established between law-enforcement agencies and national security services to improve the exchange of information and co-ordinate action on national level. A new national police commander was appointed in July 1998. The Directorate Against Organised Crime at the National Police Headquarters was reinforced and now a total of 256 staff are employed including 200 officials. Some 20 organisational units are deployed at regional level. Hungarian liaison officers were accredited to Moscow, Kiev and Wiesbaden.

The Office for Refugee and Migration Affairs is the main government agency dealing with refugee issues and asylum procedures. Staffing in the Office for Refugee and Migration Affairs has not changed: in 1998 it was 60 including 27 eligibility officers dealing with asylum-applications. While Hungary generally applies asylum rules in conformity with the Geneva Convention, there are still gaps in enforcement. A large number of asylum-seekers and illegal migrants, are kept in detention by the Border Guards. Despite funding gaps the budget of the Office of Refugee and Migration Affairs was cut in nominal terms by some €120,000 in 1999. (Budgetary support in 1999 amounts to €3.9 million in 1999 and to €4.1 million in 1998). This means that there is a shortfall in funding for the necessary staff, training and additional infrastructure, including expanded refugee facilities.

The Office for Refugees and Migration Affairs continues to be understaffed and the situation of asylum seekers and refugees continues to be problematic.

In 1999 the newly-established Ministry of Youth and Sports assumed responsibility of the Drug Co-ordination Committee in developing a national anti-drugs strategy. The anti-drug portfolio within the Ministry is headed by a Deputy State Secretary with a staff of 7. The Hungarian National Police had an anti-narcotics strategy since 1994. Its Department for Enforcement of Drug-Related Crime has 36 staff at HQ and 5 regional offices.

Progress has been made in border management and in fight against corruption. The capacity to handle asylum and migration questions need to be further improved together with facilities for refugee reception. The staff number of the Department for enforcement of Drug related crime is considered inadequate relative to the workload.

Customs : the Border Guards, transformed into a law-enforcement agency in 1997, was entrusted with investigative powers in 5 categories of crime including organised crime (trafficking in human beings, document forgery). In some 10 regional Border Guard Directorates there are 29 investigative units.

As regards staffing, Parliament approved a budget for staff of some 14,000 professional staff . The current staff structure comprises : 3,000 passport-handling officers, 3,000 patrols, 1,500 "border hunting staff", 500 alien police officers, 450 anti-crime cover agents. (Its budget amounted to €95.6 million in 1999 and to €70.6

million in 1998). 2,270 posts are not filled due to lack of financial resources. The Border Guard proposes to recruit some 1,500 extra staff in view of EU accession.

From 1998, the Hungarian Customs and Finance Guard was given the responsibility collecting indirect taxes including excise duties. In 1998 the guards achieved record success in uncovering financial irregularities, with the number of cases up 14%. Despite increased needs, the staff level of the Hungarian Customs and Finance Guard grew only moderately, reaching 7866 at the end of 1998 (an increase of 270 persons over 1997).

The general use of electronic forms of clearance (e.g. bar code system) needs to be developed to make the customs guards work more efficient. The efficiency of inspections could be increased further with improved risk analysis methods.

Financial control : The State Audit Office is the supreme audit and control institution in Hungary. Its tasks include the control of the budgets of central and local governments, social security funds and all other funds financed by Hungarian taxpayers. It is responsible for the co-ordination of all development efforts related to external audits, and it has also to ensure that Hungarian audit standards comply with EU requirements. The State Audit Office reports directly to Parliament. Its budget amounted to some €10.4 million in 1999 and to €7 million in 1998.

The Government Control Office was established in 1994 to control central budgetary organisations. In addition to this function, it controls the use of international aid funds provided to Hungary. It is responsible for the co-ordination of efforts aimed at the establishment of a financial control system in Hungary, including a proper monitoring system encompassing both the central and the local levels. The Government Control Office reports directly to the Government with only 66 staff out of which 48 are employed in audit work, the Government Control Office is clearly understaffed. Budgetary support amounts to €1.4 million in 1999. (€1 million /1998).

The audit and financial control units within each co-ordinating Ministry are not involved in spending activities. All central control units rely on the internal audit or control organisations existing within the different institutions or bodies that are parts of their respective budgetary chapters. Internal audit units have not however been set up yet in all organisations. Furthermore, when such units exist, the average number of staff is limited to one single person. The central audit units are entitled to contract-out the work to audit firms of the private sector. In fact they do so in a very limited number of cases but this can not be regarded as a solution in the long run. These units report directly to the top management of the Agency and the Ministry itself.

The Hungarian State Treasury has 860 staff, half of them in the central office in Budapest, half spread over the country in 20 branch offices. The State Treasury is responsible for state accounting. It intends to carry out more and more budgetary functions, including control tasks. Treasury systems are currently a fairly fragmented mixture of IT and manual procedures but there are plans to introduce an integrated online system in the future. Ex-ante control is currently performed by the Treasury on a very limited scale. The checks performed by the branch offices of Hungarian State Treasury are purely formal (authorised signatures, positive balance in the nominal sub-account, positive balance in the appropriation account).

Financial Control is partially in line with good practices in EU Member States. As a priority the Treasury needs to strengthen its control functions. The independence and capacity of the Government Control Office and other internal audit bodies needs to be improved.

C. Conclusion

Hungary fulfils the Copenhagen political criteria. Two areas still need attention. The first is the situation of the Roma, where the government is beginning to implement its medium-term Roma action plan and needs to make available adequate budgetary resources. The second is the fight against corruption where recent efforts need to be re-enforced.

Hungary is a functioning market economy and the legal and institutional structures which underpin the market economy have been further strengthened. It should be able to cope with the competitive pressure and market forces within the Union in the medium term, provided it continues to make further progress in structural reforms.

Macroeconomic stability has been maintained, inflation has fallen and economic growth has continued. However, the widening current account, if unchecked, could threaten the macroeconomic gains achieved in recent years. Progress has been made in a number of structural areas, most notably budgetary reform, pension reform, and privatisation. However, recent decisions affecting the pension system have called into question the government's commitment to pension reform.

The deterioration of the fiscal deficit needs to be addressed. Priority should be given to health sector reform which continues to be a major drain in the fiscal accounts. In order to ensure current account sustainability, it is important that the fiscal targets for 1999 and 2000 are met.

Hungary continues to make progress in aligning and implementing the *acquis* in most sectors. In the internal market, progress has continued as regards laws on public procurement and intellectual property (except as regards retroactive patent protection) and efforts have been focused on ensuring their effective implementation. Notable progress has been made in adopting legislation on self-employment which removes restrictions on EU-individuals wanting to establish in Hungary. Although efforts need to pick up in transposing EU standards and to ensure the functioning of market surveillance, Hungary is well advanced in implementing the new approach in the standards and certification areas. Hungary has adopted a law on state aids which should facilitate the development of an effective system of state aid monitoring and control. Progress is quite steady but slow in the agricultural, veterinary and phytosanitary fields and efforts need to be accelerated considerably if a sufficient level of alignment is to be achieved over the medium term. Hungary is relatively well advanced in alignment in the transport sector although the rail sector is lagging behind in terms of alignment and actual restructuring of the railways. Hungary has continued to consolidate the policy framework for financial control by defining the scope of audits and the distribution of tasks and responsibilities between the various institutions involved.

Important progress was made in overall alignment in the VAT/excise area, but discriminatory provisions in the excise area are still causing problems. Further alignment is needed in the audio-visual areas as concerns European works and satellite broadcast monitoring. Aside from the fight against organised crime, the pace of alignment has been slow in the area of justice and home affairs, particularly with respect to border management and asylum. Little progress has been made with

regard to labour and health and safety at work. There has been a noticeable slow down in the adoption of environment legislation and no progress has been made in customs. . Given the size of the transposition task which remains to be done in these sectors, significant efforts need to be undertaken to ensure further progress. While strategic plans have been adopted in the environment and energy sectors, it is essential that they be quickly implemented. In some areas such as regional development, whilst the legislative framework has been in place for some time, progress in implementation has been limited due to a lack of budgetary and human resources.

Hungary has made steady progress in building up its administrative capacity to apply the acquis. Steps have been taken toward general public administration reform and continued emphasis has been placed on the development of specific European policy and law training courses throughout the administration and in the judiciary. Most of the key institutions needed for implementation of the internal market are in place. Nonetheless the administration still needs to be strengthened in specific areas such as state aid control, market surveillance (implementation of product liability legislation) and veterinary and plant health. Hungary needs to allocate sufficient budgetary and administrative resources to regional development and environment and improve capacities to use, monitor and control EU financial assistance. There is room for granting further independence to authorities such as the Government Control Office and the Communications Authority.

Hungary has satisfactorily addressed most of its short term Accession Partnership priorities with the exception of administrative strengthening in regional development, steel sector restructuring and alignment in the environment sector. Hungary has also made good progress in implementing the medium term priorities.

D. Accession Partnerships and National Programmes for the Adoption of the *Acquis*: Global assessment of implementation

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short and medium-term priorities

Short-term priorities

The *short-term* priorities of the Accession Partnership⁴ and an assessment of the progress made concerning their fulfilment are indicated below.

- **Economic reform:** *review and update the country's medium-term economic policy priorities within the framework of the Europe Agreement; advance structural reforms (particularly with regard to the health care system).*

Assessment : In 1999, Hungary adopted a medium-term economic strategy including sectoral strategies aiming at improving conditions for growth and competitiveness. As part of the structural reform, the reform of the pension system has been completed, although a comprehensive reform of the health care system has not yet been started. The privatisation process is near to completion. A large overshooting in the accounts of the social security funds, makes comprehensive reform urgent. Although there is an ongoing need for restructuring industries such as steel and continued attention needs to be part to structural reforms. On balance, this priority has been met.

- **Reinforcement of institutional and administrative capacity:** *in particular in the areas of veterinary and phytosanitary controls (particularly as regards facilities at the external borders), environment, customs policy, internal financial control and regional development.*

Assessment : In the area of veterinary and phytosanitary controls, progress has only been made as regards computerisation. In the field of environment, Hungary

⁴ Council Regulation 622/98, OJ L85 of 20 March 1998

re-organised the regional inspectorates, institution building plans have been developed including a detailed programme for IPPC, a new institute on chemical safety was established and an information data base for waste water and soil pollution was set up. The Hungarian customs computer system has been further developed and training of staff has been carried out. As regards internal financial control, Hungary has taken steps to reinforce control and monitoring. For the management of EU assistance, a National Fund and a CFCU have been set up. Further efforts are still necessary to establish concrete regional control units, reinforce control units within the line ministries and clarify the tasks between the latter, the local governments, the Government Control Office and the State Treasury in the fields of ex-ante financial control and monitoring. As concerns regional development, Hungary has failed to address sufficiently the short-term Accession Partnership priority. Adequate and sufficient human and financial resources are still lacking within the bodies in charge of programming and control functions. Budgetary efforts need to be reinforced in order to strengthen the local government bodies with a view to political and budgetary decentralisation. Therefore this priority has only been partially met.

- **Internal Market:** *including certification and standardisation (further alignment of legislative measures and conclusion of a European Conformity Assessment Agreement), state aids (adoption of legislative framework, definition of role and powers of monitoring authority, enforcement) and increased transparency through improvement of aid inventory. Enforcement of intellectual property rights and further alignment of company law. Complete alignment of public procurement legislation to cover fully the utilities sector.*

Assessment : Further steps have been made towards meeting the short-term priorities of the Accession Partnership, notably with regard to company law and standardisation. As to enforcement of intellectual property rights progress has been achieved on copyright protection, but further efforts are necessary especially for pharmaceutical products to provide for retroactive patent protection and to change the practice to allow for pre-patent expiry development work carried out by generic companies. Hungary has also progressed in the area of State Aids by strengthening the State Aid Monitoring Authority and by establishing rules for ex-ante control and improving the annual reports on State Aid which now fulfil the basic criteria of transparency. In the area of public procurement further steps have been made in aligning the Hungarian legislation by exempting projects co-financed by EU funds from the national preference clause. Enforcement and remedies procedures need to be further aligned particularly as regards utilities. Therefore this priority has been partially met.

- **Justice and Home Affairs:** *implementation of appropriate refugee legislation consistent with 1951 Geneva Convention, development of effective border management.*

Assessment : In 1998, Hungary addressed this priority by lifting its geographical reserve to the Geneva Convention. Steps have also been taken to improve border management. The border guard has been transposed into a civilian force and preparatory measures have been undertaken to develop a nation-wide and modern border management system in line with to EU standards.

- **Environment:** *continue transposition of framework legislation, establishment and commencement of implementation of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

Assessment : While alignment in the areas of nature protection, pollution from industrial plants and large combustion plants as well as the control of major accidents is well on track, progress is slow in the areas of waste and waste management, water and air quality. Therefore this priority has only been partially met.

Generally Hungary has made good progress in addressing the short-term priorities. Outstanding issues relate in particular to administrative capacity in regional development, the restructuring of the steel sector and the need for further alignment with the *acquis* in the area of environment.

Medium-term priorities

In addition to this progress made on the short-term priorities, Hungary has also moved ahead on the following medium term priorities of the Accession Partnership.

- **Political criteria:** *further efforts to improve the integration of the Roma.*

Assessment : The Government made further efforts to improve the situation of the Roma by adopting a revised medium-term Roma action programme. The programme puts particular emphasis on education and employment and also foresees social, health and housing measures. Despite the steps taken, the situation of the Roma remains difficult and continued attention must be paid to the full enforcement of the new programme at the regional and local levels.

- **Economic Reform:** *continue to consolidate the conditions for strong investment growth through the sustained implementation of prudent macroeconomic policies and the advancement of structural reforms.*

Assessment : After meeting the 1998 target for the general government deficit, Hungary continued to tighten fiscal policy, increase the transparency of the budget through the abolition of the many separate state funds, and set aside a contingency reserve in case GDP growth slows down or the external accounts deteriorate more than envisaged. The new economic strategy provides the framework for improved conditions for growth and competitiveness.

- **Economic Policy:** *regular review of the joint assessment of economic policy priorities, within the Europe Agreement framework, focusing on satisfying the Copenhagen criteria for membership of the Union and the *acquis* in the area of economic and monetary policy (co-ordination of economic policies, submission of convergence programmes, avoidance of excessive deficits); while Hungary is not expected to adopt the Euro immediately upon accession, it is expected to pursue*

policies which aim to achieve real convergence in accordance with the Union's objectives of economic and social cohesion, and nominal convergence compatible with the ultimate goal of adoption of the Euro.

Assessment : Hungary has already finished a first Joint Assessment in 1997 and is progressing on the second Joint Assessment. Hungary has also continued to progress in its preparation for joining Economic and Monetary Union. The Government deficit has been further reduced and the inflation rate has declined. The National Bank is pursuing an exchange rate policy which will result in the Forint being linked entirely to the Euro by 1st January 2000.

- **Reinforcement of institutional and administrative capacity:** *development of anti fraud unit and state audit office, improved operation of the judicial system, training for the judiciary in Community law and its application; reinforcement of justice and home affairs institutions (ensuring sufficient and properly trained personnel in particular police, border guards, ministries and courts), reform of customs and tax administrations to ensure readiness to apply the acquis, the reinforcement of food control administration and strengthening of the nuclear safety authority.*

Assessment : The policy framework for financial control has been further consolidated by defining in more detail the scope of financial audits and the distribution of tasks between the various financial control bodies. In addition an integrated internal control policy was introduced. As regards the judiciary, special training programmes and courses for judges in EU Laws have been launched. Progress can also be noted in the area of Justice and home affairs particularly as regards institution building aspects of the fight against organised crime and combating corruption. The Border Guards were entrusted with additional investigative powers including on organised crime.

- **Internal Market:** *including further development of standardisation and conformity assessment bodies and establishment and operation of a market surveillance system, alignment of technical legislation on industrial products, further alignment of competition law, in particular for state aid, reinforcement of monitoring authorities both for competition and state aids, alignment of capital liberalisation, financial services, audio-visual policies and consumer protection, promotion of enterprise development, including SME's, alignment with the acquis in the fields of telecoms, consumer protection and the internal energy market.*

Assessment : Hungary has made further progress concerning conformity assessment, market surveillance, the adoption of EN standards and of technical legislation on industrial products. In the area of state aids, new legislation has been adopted defining clearly the State Aids Monitoring Authority. The transparency of aid schemes has also been improved. The enforcement practice of the competition Office can be considered as satisfactory whereas the State Aids Monitoring Authority needs to be further strengthened in order to enable it to effectively carry out its duties. As regards the liberalisation of capital movements, consumer protection, telecommunication and energy, significant progress was achieved in 1998 and continued in 1999. SMEs have been further supported through a new strategy combined with appropriate budgetary allocations.

- **Justice and home affairs:** *including implementation of migration policy and asylum procedures as well as the fight against organised crime (in particular money laundering, drugs and trafficking in human beings) and corruption, and clarification of admission provisions for immigrants, and to align visa policy with that of the EU and to complete alignment to international conventions, notably in view of the Schengen acquis.*

Assessment : Hungary has continued to make efforts to improve its capabilities in all Justice and home affairs areas, notably by adopting new legislation on organised crime, corruption and on admission provisions for immigrants. Institutional reform has continued and the various law enforcement bodies have been able to modernise their equipment.

- **Agriculture:** *including alignment with the agricultural acquis (including veterinary and phytosanitary matters, in particular external border controls), attention to environmental aspects of agriculture and biodiversity. Development of the capacity to implement and enforce the CAP, in particular the fundamental management mechanisms and administrative structures to monitor the agricultural markets and implement structural and rural development measures, adoption and implementation of the veterinary and phytosanitary requirements, upgrading of certain food processing establishments and testing and diagnostic facilities, restructuring of the agri-food sector.*

Assessment : Over the last year only limited progress was made in preparations for gradually implementing the Common Agriculture Policy .

- **Transport:** *further efforts on alignment to the acquis in particular on rail and road transport (technical controls), and to provide necessary investment for transport infrastructure, notably extension of trans-European networks.*

Assessment : Hungary continued to develop its infrastructure. A part of the railways network has been renewed and major motorway projects in the south and east have continued. Some progress has been made in alignment with the *acquis* in the road and rail sectors.

- **Employment and social affairs:** *development of appropriate labour market structures and joint review of employment policies as preparation for participation in EU co-ordination; alignment of labour and occupational health and safety legislation and development of enforcement structures in particular early adoption of the framework directive on health and safety at work; enforcement of equal opportunities between women and men; further development of active, autonomous social dialogue; further development of social protection, undertake steps to bring public health standards into line with EU norms.*

Assessment : The joint review of employment policies as preparation for participation in EU co-ordination is being carried out. In terms of legal transposition of the employment and social affairs *acquis* Hungary is relatively advanced. In the area of Labour Law, Hungarian legislation is already to a large extent aligned. At the beginning of 1999, a new institutional framework, the

National Labour Council, has been set up for the social dialogue providing for a tri-partite forum of social partners to consult and negotiate labour issues including wage issues. The social protection system is rather well developed. Progress has been made in the area of public health with the adoption of a new law which forms the basis for a series of implementing measures and actions.

- **Environment:** *including the development of monitoring and implementation control structures and capacities, continuous planning and implementation of approximation programmes related to individual legal acts. A particular emphasis should be given to waste water, waste management, air pollution and integrated industrial pollution control and risk management. Environmental protection requirements and the need for sustainable development must be integrated into the definition and implementation of national, sectoral policies.*

Assessment : Despite the rather ambitious law harmonisation programme, little progress has been achieved in 1999. If Hungary wants to achieve its ambitious target for full transposition in 2001 it will need to urgently speed up both legal alignment and investment in environmental technology and infrastructure. In this context it is particularly important that the budgetary provisions made in the NPAA are also properly reflected in the annual budget.

- **Regional Policy and Cohesion:** *further strengthen budgetary procedures, financial instruments, monitoring and control mechanisms in order to participate in EU structural programmes after membership.*

Assessment : Hungary continued to consolidate its internal financial mechanisms at the central level.

2. National Programme for the Adoption of the *Acquis*

The revised version of the Hungarian National Programme for the Adoption of the *Acquis* (NPAA) was adopted by the Hungarian Government on 29 June 1999. The NPAA is part of the Government's strategy 'for catching up with Europe', adopted in June 1999. This strategy sets out the economic framework for the NPAA. The planning documents required for the pre-accession financial instruments will be completed in the autumn and will form part of the NPAA.

Following the Hungarian Government's strategic goal to complete preparedness for EU membership by December 2001, the NPAA foresees full alignment by that date, except in certain areas. The NPAA thus covers the period 1999-2001.

The revised version of the NPAA follows a similar structure to the Commission's Opinion and First Progress Report on Hungary. It introduces each chapter with a brief description of the current situation of the sector, particularly highlighting the achievements made in 1998.

The NPAA is in general coherent with the priorities of the Accession Partnership. The different tasks to accomplish the various Accession Partnership priorities are spelled out in a necessarily comprehensive manner and cover all aspects, such as law

harmonisation, institution building and budgetary implications. However the non-*acquis* related areas of the Accession Partnership, for example the economic criteria of restructuring the health care system, do not appear in the NPAA which only covers *acquis*-related matters. These areas are supposed to be covered by the documents elaborated for the Joint Assessment of Hungary's Medium-term Economic Policy Priorities to be prepared jointly by the Hungarian Ministry of Finance and the Commission . Given the Hungarian working hypothesis to become Member by 2002 no distinction is made in the NPAA between short-term and medium-term priorities.

The NPAA covers all chapters of the *acquis*. It is focusing particularly on the binding parts of the *acquis*, but also covers harmonisation in the non-binding areas. The sections on common trade regime and data protection do not provide sufficient information. The information provided on the sector of banking, insurance and securities is too general. Clear links are consistently made between the relevant EU legislation and the proposed Hungarian actions. The information given in the different sub-chapters seems to be complete.

In general, there is a systematic implementation timetable.. The major steps planned in the approximation of laws are subdivided in goals to be achieved in 1999, 2000 or 2001. As indicated above, the NPAA does not go beyond 2001, as full harmonisation with the *acquis* is scheduled to be achieved by December 2001, except for certain areas. However, the scheduling for the EMU, standardisation and conformity assessment and energy, chapters is not clear. Some target dates, for example those in the field of Justice and Home Affairs seem to be too optimistic given the important financial implications of alignment in the sector.

In general, institution building aspects are adequately handled in the respective chapters. The last chapter of the NPAA, called 'administrative capacity', provides an overview of the institution building actions described in detail in the relevant chapter. The information given is in most cases quite detailed. Budgetary needs, staff requirements, training aspects and the necessary technical equipment are described. In the market surveillance section, it is not clear how the system will be implemented on regional and local levels.

The budgetary implications of the different actions are clearly spelled out for each sub-sector. There is always a clear division between the contribution from the national budget and expected Phare funding as well as expected contributions from the International Financing Institutions.

The Hungarian NPAA is a good accession policy instrument, covering the key issues of the process. It provides for the necessary budget and is an integral part of the budgetary decision making process.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LIT	MT	PL	RO	SK	SV	T
ECHR (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	O	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	O	X	O	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	O	O	O	X	O	O	X	O	X	O	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LIT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

Annex

STATISTICAL DATA

STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
Population (average)	10 261	10 229	10 193	10 155	10 114
	in km ²				
Total area	93 030	93 030	93 030	93 030	93 030
National accounts	1000 Mio Forint				
Gross domestic product at current prices	4364.8	5614.0	6893.9	8540.7	10210.7
	1000 Mio EURO				
Gross domestic product at current prices	34.9	34.1	35.6	40.4	42.4
	EURO				
Gross domestic product per capita ⁵ at current prices	3400	3300	3500	4000	4200
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	2.9	1.5	1.3	4.6	5.1
	in Purchasing Power Standard				
Gross domestic product per capita ¹ at current prices	7800	8100	8600	9200	9800
Structure of production	% of Gross Value Added ⁶				
- Agriculture	6.7	6.7	6.6	5.9	:
- Industry (excluding construction)	25.3	26.3	26.3	28.1	:
- Construction	5.1	4.6	4.3	4.6	:
- Services ⁷	62.9	62.3	62.8	61.4	:
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	84.2	77.3	74.3	72.6	:
- household and NPISH	58.0	53.8	52.2	50.6	:
- general government	26.2	23.6	22.0	21.9	:
- Gross fixed capital formation	20.1	20.0	21.4	22.2	:
- Stock variation ⁸	2.2	3.9	5.4	5.7	:
- Exports of goods and services	28.9	36.9	38.9	45.5	:
- Imports of goods and services	35.4	38.2	39.9	46.0	:
Inflation rate	% change over the previous year				
Consumer price	19.2	28.3	23.5	18.3	14.3
Balance of payments	Mio EURO				
-Current account	-3 696	-1 837	-1 319	-840	-2 059

⁵ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁶ Including FISIM.

⁷ The item "Services" includes statistical discrepancies.

⁸ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

HUNGARY - Regular Report – 13/10/99

-Trade balance	-3 388	-1 828	-2 088	-1 525	-1 904
<i>Exports of goods</i>	6 974	9 911	11 215	17 386	18 505
<i>Imports of goods</i>	10 362	11 739	13 302	18 911	20 409
-Services, net	145	531	1 186	1 051	610
-Income, net	-1 282	-1 366	-1 139	-1 264	-1 675
-Net current transfers	829	826	721	897	910
<i>-of which government transfers</i>	12	10	-12	-4	-41

	1994	1995	1996	1997	1998
Public finance	% of Gross Domestic Product				
General government deficit/surplus	-9.2	-6.6	-3.2	-5.4	:
Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy	69.0	65.5	60.8	46.3	43.3
Monetary aggregates	in 1000 Mio EURO				
- M1	7.1	5.7	6.0	6.8	7.0
- M2	14.5	12.8	13.8	15.6	:
- Total credit	30.9	26.0	24.6	25.3	25.3
Average short-term interest rates	% per annum				
- Lending rate	27.2	32.4	28.2	23.0	20.1
- Deposit rate	20.3	24.8	20.6	17.6	15.4
EURO exchange rates	(1EURO=..National currency)				
- Average of period	125.0	164.5	193.7	211.7	240.6
- End of period	136.7	183.3	206.9	224.7	252.4
- Effective exchange rate index	1990=100				
	64.6	50.2	42.9	38.6	32.0
Reserve assets	Mio EURO				
-Reserve assets (including gold)	5571	9203	7847	7703	8106
-Reserve assets (excluding gold)	5536	9170	7817	7676	8081
External trade	Mio EURO				
Imports	12235.2	11824.1	14289.4	18724.2	22929.5
Exports	8996.1	9837.1	12367.8	16842.4	20520.2
Balance	-3239.1	-1987.0	-1921.6	-1881.8	-2409.3
Terms of trade	corresponding period of the previous year = 100				
	102.3	101.3	97.7	101.2	101.7
	as % of total				
Imports with EU-15 (EU-12 in 1994)	45.3	61.5	62.3	62.8	64.1
Exports with EU-15 (EU-12 in 1994)	51	62.8	69.7	71.2	72.9
Demography	per 1000 of population				
Natural growth rate	-3.0	-3.3	-3.7	-3.8	-4.3
Net migration rate	0.0	0.0	0.0	0.0	0.0
	per 1000 live-births				
Infant mortality rate	11.5	10.7	10.9	9.9	9.7
	at birth				
Life expectancy : Males	64.8	65.3	66.1	66.4	:
Females	74.2	74.5	74.7	75.1	:

HUNGARY - Regular Report – 13/10/99

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	% of labour force				
Economic activity rate	54.0	52.4	51.8	51.2	51.7
Unemployment rate, total	10.7	10.2	9.9	8.7	7.8
Unemployment rate of persons < 25 years	19.4	18.7	18.0	15.9	13.5
Unemployment rate of persons >= 25 years	9.2	8.7	8.5	7.5	6.7
Average employment by NACE branches (LFS)	% of total				
- Agriculture and forestry	8.7	8.0	8.3	7.9	7.5
- Industry (excluding construction)	27.6	26.7	26.7	27.1	28.0
- Construction	5.4	5.9	6.0	6.0	6.2
- Services	58.3	59.4	59.1	59.0	58.3
Infrastructure	Km per 1000 Km2				
Railway network	83	83	83	83	83
	Km				
Length of motorways	293	335	365	381	448
Industry and agriculture	previous year = 100				
Industrial production volume indices	109.6	104.6	103.4	111.1	112.6
Gross agricultural production volume indices	103.2	102.6	106.3	96.2	99
Standard of living	Per 1000 inhabitants				
Number of cars	212	220	223	227	220
Telephone subscribers	173	208	261	303	335
Number of Internet connections	:	:	:	:	8.2 ⁹

* **Provisional**
: **Not available**

⁹ Source: United Nations.

Methodological Notes

National account

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

Inflation rate

Consumer price The EU Member States have designed a new consumer price index in order to meet the obligations in Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

Financial indicators

Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

Reserve assets are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics)

methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

Interest rates Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of 1990.

External trade

Imports and exports (current prices). The data is based upon the special trade system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services as well as licences, know-how and patents. Since 1997, trade data includes trade between industrial customs free zones and foreign markets. Since 1997 also, operative leasing and repair are excluded from external trade turnover. The data for 1996 were recalculated according to the methodological changes in 1997. The data for periods up to 1996 are published in the original content, therefore they are not comparable with the data of 1996 and 1997. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.).

Trade classification. Until end of 1996, the recording of merchandise trade occurred by two types of classification in parallel: the Hungarian External Trade Classification (KTJ) and the Harmonised Commodity Description and Coding System (HS) nomenclature. The customs documentation is the statistical data source of external trade turnover. Since 1996, the data are collected according to the Combined Nomenclature. The earlier data are updated on the basis of the later processing.

Imports are recorded on CIF basis and are captured on the date of custom clearance. Exports are recorded on FOB basis and are captured with the date on which the commodities cross the state border.

Terms of trade. "Unit value" index calculation is used for measuring price changes in external trade, with the exception of heterogeneous commodity groups, where the sample method is applied for the price observation. Since the I quarter of 1996 due to the modifications in the calculation of unit value indices and the application of Fisher indices instead of Paasche indices, the quarterly volume indices has been changed.

Imports and exports with EU-15. Data declared by the republic of Hungary.

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to

migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

Economic activity rate (ILO Methodology). according to the Labour Force Sample Survey (LFS), represents the labour force as a percentage of population at working age (15 years or more), where:

- Labour force: employed and unemployed persons (in the sense of the ILO definitions).
- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, and members of co-operatives or contributing family workers. Members of armed forces are considered as employed.
- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:
 - (i) have no work,
 - (ii) are actively seeking a job and,
 - (iii) are ready to take up a job within a fortnight.

LFS monitors only person's aged 15-74.

Unemployment rate (by ILO methodology). Percentage of the unemployed in labour force.

These rates are derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations mentioned below.

Average employment by NACE branches (LFS). This indicator is derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations.

Infrastructure

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

Index of total industrial production includes the data of all industrial enterprises. The indices by branches refer to enterprises with more than 10 employees.

Gross agricultural production volume indices. Indices were calculated using the fixed price basis applied for national accounts. Until 1996 the prices of 1991, from 1997 the prices of 1995 serve as fixed price basis in the calculation.

Standard of living

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Connected main line Actually operating or temporarily suspended, private and institutional/communal main lines that connect terminal equipment to a switching exchange. Connected main lines (installation) include lines of subscriber's equipment, lines of public payphones which are open for anybody, and telecommunications service lines of the operator. Residential and institutional/communal subscribers have been defined in the tariff. Installation can also be classified by the purpose of the station into the classes of dwelling, business and public main lines. Mobile sets are excluded.

Note: Since the passing of Hungarian Telecommunication Law Hungarian Central Statistical Office (like the countries of the EU) has been collecting data of the main lines. Before 1993, the new Telecommunication Law, statistics surveyed main stations.

Number of Internet connections. Data collection of Internet connections starts in 1999.

Sources

Total area, infrastructure, industry and agriculture, external trade, labour market:
National sources.

National accounts, inflation rate, balance of payment, public finance, finance,
demography: Eurostat.