

Hungary 2000

2000 REGULAR REPORT

COM (2000) 705
8 November 2000

FROM THE COMMISSION

ON

HUNGARY'S

PROGRESS TOWARDS
ACCESSION

8 November 2000

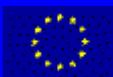


Table of contents

A. Introduction	5
a) Preface	5
b) Relations between the European Union and Hungary	7
Recent developments under the Association Agreement (including bilateral trade) ..	7
Accession Partnership / National Programme for the Adoption of the Acquis.....	8
Community aid	8
Twinning	11
Negotiations / screening	12
B. Criteria for membership.....	13
1. Political criteria.....	13
Introduction	13
Recent developments.....	13
1.1. Democracy and the rule of law	13
The Parliament	13
The executive	14
The judicial system.....	15
Anti-corruption measures	16
1.2. Human rights and the protection of minorities.....	17
Civil and political rights	17
Economic, social and cultural rights	18
Minority rights and the protection of minorities	19
1.3. General evaluation	20
2. Economic criteria.....	22
2.1. Introduction.....	22
2.2. Economic developments	22
2.3. Assessment in terms of the Copenhagen criteria	24
The existence of a functioning market economy.....	24
The capacity to cope with competitive pressure and market forces within the Union.....	28
2.4. General evaluation	30
3. Ability to assume the obligations of membership.....	32
Introduction	32
3.1. The chapters of the <i>acquis</i>	33
<i>Chapter 1: Free movement of goods</i>	34
Overall assessment	35
<i>Chapter 2: Free movement of persons</i>	36
Overall assessment	37
<i>Chapter 3: Freedom to provide services</i>.....	37

Overall assessment	38
Chapter 4: Free movement of capital.....	39
Overall assessment	39
Chapter 5: Company law	39
Overall assessment	40
Chapter 6: Competition policy.....	41
Overall assessment	41
Chapter 7: Agriculture.....	42
Overall assessment	44
Chapter 8: Fisheries.....	46
Overall assessment	46
Chapter 9: Transport policy.....	46
Overall assessment	48
Chapter 10: Taxation	49
Overall assessment	49
Chapter 11: Economic and monetary union.....	50
Overall assessment	50
Chapter 12: Statistics	50
Overall Assessment	51
Chapter 13: Social policy and employment.....	51
Overall assessment	53
Chapter 14: Energy.....	54
Overall assessment	55
Chapter 15: Industrial policy.....	57
Overall assessment	57
Chapter 16: Small and medium-sized enterprises	58
Overall assessment	58
Chapter 17: Science and research.....	59
Overall assessment	59
Chapter 18: Education and training	59
Overall assessment	60
Chapter 19: Telecommunications and information technologies.....	60
Overall assessment	61
Chapter 20: Culture and audio-visual policy.....	61
Overall Assessment	61
Chapter 21: Regional policy and co-ordination of structural instruments .	62
Overall Assessment	63
Chapter 22: Environment	64
Overall assessment	66
Chapter 23: Consumers and health protection.....	67
Overall Assessment	68

<i>Chapter 24: Co-operation in the field of justice and home affairs</i>	68
Overall assessment	71
<i>Chapter 25: Customs union</i>	73
Overall Assessment	74
<i>Chapter 26: External relations</i>	74
Overall Assessment	74
<i>Chapter 27: Common foreign and security policy</i>	75
Overall Assessment	76
<i>Chapter 28: Financial control</i>	76
Overall assessment	77
<i>Chapter 29: Financial and budgetary provisions</i>	77
Overall assessment	78
3.2. Translation of the <i>acquis</i> into the national language	78
3.3. General evaluation	79
C. Conclusion	81
D. Accession Partnership and National Programme for the Adoption of the <i>Acquis</i>: Global assessment	84
1. Accession Partnership	84
Short-term priorities	84
Medium-term priorities	88
2. National Programme for the Adoption of the <i>Acquis</i>	89
Annexes	91
<i>Human Rights Conventions ratified by the Candidate Countries, September 2000</i>	92
<i>Statistical data</i>	93

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 Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Hungary is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Hungary’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Hungary’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Hungary in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Hungary and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Hungary’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Hungary's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000, in some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Hungary in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Hungary's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Hungary's economic performance.

The report contains also a separate section examining the extent to which Hungary has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as

additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

b) Relations between the European Union and Hungary

Recent developments under the Association Agreement (including bilateral trade)

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

The Association Council met in December 1999 and September 2000. An Association Committee meeting was held in April 2000. The system of sub-committees continued to function as a forum for technical discussions. The Joint Parliamentary Committee comprising representatives of the Hungarian and European Parliaments met in November 1999 and April and October 2000.

Hungary's trade with the EC continued to increase. Hungarian exports to the EC rose from € 14.7 billion in 1998 to € 17.3 billion in 1999 and Hungarian imports from the EC from € 16.9 billion in 1998 to € 18.6 billion in 1999. The most important EC exports to Hungary were machinery and electrical, transport equipment, chemical products and base metals and materials. The most important EC imports from Hungary were machinery and electrical, transport equipment and textiles.

In February 2000, Hungary transmitted its programme for restructuring aid to the Hungarian steel industry. As the plan did not fully meet the Commission's criteria for granting restructuring aid, the Commission requested the Hungarian authorities to amend the plan accordingly.

In April 2000, a second Joint Assessment of the Hungarian authorities and the Commission services on medium term economic policy priorities was signed.

Hungary was the first of the associated countries to pass to the second stage under the Europe Agreement in June 2000. This led to further liberalisation as regards the provisions on establishment.

In March 1999 the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interests of the European Community, the EU Member States and those of Hungary. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP.

¹For the European Parliament, the *rapporteur* is Luis Queiro.

The negotiations with Hungary were concluded between negotiators in May 2000. As a consequence of the new agreement approximately two thirds of bilateral trade in agricultural products will benefit from preferences. The regime entered into force on 1 July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. For processed agricultural products, negotiations are still ongoing.

This development constituted a firm step forward in progressively liberalising access to agricultural markets as a necessary step in the accession process, which will help Hungary to prepare for the Single Market.

Also in July 2000, the Protocol to the Europe Agreement on European Conformity Assessment (PECA) was initialled. The Protocol will facilitate trade by way of the "pre-extension" of the rules for the internal market prior to accession. The required Association Council decision is under preparation.

In the same month, the Road Transit Agreement was signed. This facilitates further road transport services between Hungary and the Union.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership priorities and seek to achieve progress in the areas like excise duties and competition/state aids. In the competition/state aid context, the implementation of the Europe Agreement (article 62) is still hampered by the fact that the Hungarian Constitutional Court declared that some provisions of the Hungarian implementing rules for competition are unconstitutional. The Hungarian authorities and the Commission continued to work on a solution to address this issue. There is also a need to conclude quickly the negotiations in view of a global wine and spirits agreement that would cover both tariffs and name-protection issues, as the current agreement on wine trade concessions will expire at the end of this year.

Accession Partnership / National Programme for the Adoption of the Acquis

In December 1999 a revised Accession Partnership with Hungary was adopted by the Council. On this basis a revised National Programme for the Adoption of the *Acquis* was prepared and adopted by the Government in July 2000. (*see also chapter D: Accession Partnership and National Programmes for the Adoption of the Acquis: Global assessment*)

Community aid

Since January 2000, there are three **pre-accession instruments** financed by the European Community to assist the applicant countries of central Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to Hungary will amount annually to € 96 million from Phare, € 38.7 million from SAPARD, and € 87.7 million from ISPA.

The **Phare** programme has been providing support to the countries of Central Europe since 1989, helping them through a period of massive economic restructuring and political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and accompanying investment support projects, to help them in their efforts to adopt the *acquis* and strengthen or create institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for “institution building”, while the remaining 70% is used for financing investments.

During the period 1990 – 1999, the Phare programme allocated € 1.030 million to Hungary. The **2000 Phare Programme** for Hungary consists of a national allocation of € 65 million, supplemented by € 9,8 million out of the 2000 reserve, concentrated on the following priorities:

- priority 1: *Political criteria;*
- priority 2: *Agriculture;*
- priority 3: *Environment;*
- priority 4: *Border Management;*
- priority 5: *Social Affairs;*
- priority 6: *Judicial Sector Institution Building;*
- priority 7: *Structural Policy and investment in Social and Economic Cohesion.*

An additional € 19 million was allocated for cross-border co-operation programmes (CBC), namely: € 10 million for a CBC programme with Austria; € 5 million for co-operation with Romania; € 2 million for co-operation with Slovakia and € 2 million for co-operation with Slovenia.

Hungary also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility. Furthermore, Hungary participates in the following relevant Community Programmes: *Third multi-Annual programme for Small and Medium-sized Enterprises; Equal Opportunities for men and women; 5th EC Framework Programme on R&D; 5th Euratom Framework Programme on R&D; Save II; Combating Cancer; Drug Dependence; Health Promotion and Prevention of Aids, Leonardo, Socrates, Youth.* Hungary has

applied for participation in the *Culture 2000* programme and has taken steps in preparation of this participation. Following the opening of negotiations regarding Hungary's participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Hungary will become member of the Agency.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources took place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, environment, energy, land registration and training. Phare support has developed sector strategies and essential institutional structures.

In Hungary, the achievements of the Phare programme itself can be seen across a range of sectors, for example:

- In the field of **microcredit**, the Phare Microcredit Programme has assisted more than 10,000 small enterprises in the last seven years. The microcredit scheme thus contributed to the development of a healthy business environment, and created jobs where most needed. (€ 15 million)
- With regard to **training courses**, about 250-300 professionals working in the field of regional development received training in project management with a special focus on EC requirements. This initiative provided a good basis for preparing the administration to handle future structural funds. (€ 3 million)

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare's programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare's projects in institution building, investment in compliance with the *acquis*, and economic and social cohesion.

In relation to Hungary, good co-operation between authorities led to a backlog from previous years finally being eliminated by the end of September 2000 and the programmes are now on track in a way that will maximise their impact.

The Hungarian SAPARD plan was declared admissible on 24 March 2000 and got a favourable opinion in the STAR Committee of 13 September 2000. The plan was approved by the Commission in October 2000. The plan is based on two major priorities, namely the improvement of the competitiveness of the agricultural sector and processing industry focusing on environmental protection aspects and enhancing the adaptation capabilities of rural areas (renovation and development of villages, diversification of activities, development and improvement of rural infrastructure). The average annual public expenditure will amount to € 50.5 million (at 2000 prices) during the period 2000-2006, of which € 38.7 million forms the Community contribution.

The setting up of the Sapard Agency and the preparation of its accreditation are underway. Although it was originally envisaged that the Agriculture Intervention Centre was to function as the Sapard Agency, this has now been made the responsibility of the Ministry of Agriculture and Regional Development. This change in the organisational structure has regrettably resulted in a number of delays in preparing for the implementation of the Sapard programme.

As concerns the **ISPA** programme, starting in January 2000, implementation made good progress. In February 2000 the main financial rules and procedures were approved by the ISPA management committee. The total budget available to Hungary in 2000 amounts to € 87.674 million and broad consensus exists between the Commission and the Hungarian authorities about the priorities for investment. Work is already underway to prepare in detail sufficient projects to ensure that the full budget available to Hungary in the current year will be committed. ISPA is expected to assist with a number of major investments which will require support over a number of years. An additional major aim of ISPA will be to lay the foundations for the future structural funds by providing the national authorities in Hungary with the experience of managing large-scale strategic investments in partnership with the Commission. The European Investment Bank is also likely to be involved in almost all the projects supported by ISPA. In the area of transport, projects will be in the road and in the rail sectors, whilst environment projects will focus on waste water and solid waste.

Implementation of the ISPA projects will follow the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of the overall financial management and a number of Implementing Agencies responsible for the technical implementation. For the programme and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, 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 through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

For *Hungary*, 17 twinning projects under the 1997 and 1998 programmes are currently being undertaken. Another 6 projects will shortly be commencing under the 1999

programme, and a further 8 are planned under the 2000 programme. The projects currently being implemented cover *inter alia*: the agricultural sector, (support to the information system, planning capacity for structural and agri-environmental development scheme); the public finance sector (adaptation of the Hungarian tax system, monitoring system for State aid and foreign aid); and justice and home affairs (fight against crime, asylum and refugees, border management and training of law enforcement bodies). Furthermore, twinning assistance is being provided to prepare for operation of pre-accession aid (ISPA and SAPARD) and in the framework of institution building for the development of testing and certification bodies and of a market surveillance system. Concerning the Phare twinning projects for the 1999 programme, the focus is on the following issues: agricultural statistics; fair and careful treatment of asylum seekers and refugees; chemical safety; harmonisation of the tax system; government accounting; and social security for migrant workers.

Negotiations / screening

The analytical examination of the *acquis* (screening) for Hungary started in April 1998 and concluded in autumn 1999 with the examination of the agricultural chapter. The update screening started in February 2000 to cover the new *acquis* up to 1st January 2000.

Since the opening of accession negotiations on 30 March 1998, Hungary has already participated in four rounds of ministerial negotiations. As a result of these negotiations, eleven chapters were provisionally closed (“Economic and monetary union”, “Small and medium-sized undertakings”, “Science and research”, “Education and training”, “Statistics”, “Fisheries”, “Consumers and health protection”, Telecommunications & information technologies”, “Industrial policy, ‘CFSP’ and Financial Control) while negotiations continue for the remaining chapters.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Hungary’s progress towards accession, the Commission concluded that:

“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 reinforced.”

The section below aims to provide an assessment of developments in Hungary since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Hungary’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Hungary’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this report.

Recent developments

In June 2000 Parliament elected a new President. No other significant new developments are to be reported.

1.1. Democracy and the rule of law

As mentioned in the previous regular reports, Hungary has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year.

The Parliament

Parliamentary work continued in line with the Law Approximation Programme for 2000. As regards parliamentary representation of minorities foreseen by the Constitution no further progress could be noted. This issue remained on the agenda without concrete results.

The executive

The structure of the administration has remained stable. Some limited reorganisation took place in the Foreign Ministry, which from February 2000 took over trade policy from the Ministry of Economic Affairs, including relations with OECD and WTO. The Ministry of Economic Affairs continued to be responsible for market protection and licensing, but shared with the Foreign Ministry the promotion of trade development and investments. In June 2000, responsibility for the telecommunications sector was transferred from the former Ministry of Transport, Telecommunications and Water Management to the Prime Minister's Office. In the Prime Minister's Office, a Government Commissioner responsible for information technology was appointed, recognising the need for government efforts overall in this field.

A new Regional Development department within the Ministry of Economic Affairs was set up at the beginning of 2000, to take charge of ensuring the link between internal economic cohesion and regional development policy. At local government level, the modernisation of public administration continued with the provision of training for civil servants in EU matters. Government also allocated € 2 million for helping small municipalities integrate themselves into so-called micro-regions, composed of various local municipalities. This should increase efficiency, and contribute to a clear identification of needs and measures in the context of the regional development planning process. However, in the 2000 budgetary law, the share of Personal Income Taxes which is freely available to local governments was reduced from 13.5% to 5%. The cut was offset by an increase in financial transfers from the central budget which however could only be spent for specific purposes. Consequently the gap between the political autonomy granted to the local governments and their financial autonomy increased further.

The Public Administration Development Programme adopted in May 1999 continued to be implemented. The three main principles for developing the Hungarian public administration are deregulation, de-concentration and decentralisation. Progress was in particular achieved in the modernisation of the legal environment under which public administration is operating. This concerned five major areas: the re-definition of the functions and responsibilities within the ministries in order to improve the operation of the central administration; widespread use of cost-benefit analysis in the daily work of the public administration; rationalisation of public services; IT development with the aim also of ensuring the proper link between the different territorial offices; and development of regional and local administrations.

As regards salaries, the usual practice is to raise nominal wages above the inflation level (real wage increase), partly as a result of joint pressure from several civil servants' unions. In line with this practice an increase of 8.25%, slightly above the officially targeted inflation rate of 6-7%, is also planned for 2000. The Hungarian Institute of Public Administration is in charge of a Training Programme preparing Hungarian Officials for EU accession, with stronger emphasis being put on sectoral knowledge and language training (English, French and German). As an example, 2,000 law-enforcement officials were trained in the area of Justice and Home Affairs. Further initiatives were launched in September 2000 at local level, with the institutionalised training of notaries public working in Self-Governments. The number of local government officials receiving some EU training is estimated at about 17,000 in the period 1999-2002.

Sustained efforts should be made to guarantee the efficiency and effectiveness of the Hungarian public administration.

The judicial system

There are three levels of courts (local, county, supreme). The highest level of appeal is the Supreme Court.

In addition, the Constitutional Court is charged with reviewing the constitutionality of laws and statutes brought before it. The number of judges at the Constitutional Court is 11 and it is now operating at full strength. No judge or member of the Supreme Court or Constitutional Court may belong to a political party or engage in political activity.

Original jurisdiction in most matters is with local courts. Some 80%-90% of all cases are dealt with by local courts within one year. Cases which begin at county level are referred to the Supreme Court in the case of an appeal, involving considerable extra work for the Supreme Court. Thus, there is still a large backlog of cases at the Supreme Court, whereas the number of pending cases at local and county courts has started to decrease over recent years. This situation at the Supreme Court has reduced the scope for fulfilling its main function, namely the unification of court practice and the provision of judicial guidance to the lower courts.

In order to remedy the situation, the government undertook a series of measures:

- New procedural legislation came into effect in January 2000 which shortened the duration of civil procedures.
- The new law on legal assistants, which entered into force in September 2000, should also result in the reduction of the administrative workload of judges.
- Considerable investments were made in the field of the Court Information System which provides direct support to judges in their work.
- Also, the Parliamentary decision of 1998 on the introduction of a regional court will finally be implemented in 2003. This regional court will hear cases from the entire country. In future approximately half of the cases currently arriving at the Supreme Court will fall within the competence of the regional court.
- Finally, the overall number of judges was increased and during the first 9 months of 2000 about 94 additional judges were appointed, so that the total number of posts for judges reached 2590 (compared to 2438 in 1999), out of which 2492 are filled. 109 judges work for the Supreme Court (1998: 87, 1999: 96). The appointment of additional judges was made in particular in the area of administrative law where the case backlog is the most significant (in particular at the Supreme Court). The number of court clerks is also steadily increasing (11% in the last two years) which shows that more and more young jurists are interested in becoming a judge in Hungary.

However, the new Code on Misdemeanours, which introduced the possibility of legal remedy for petty offences, has added new tasks for the judiciary over recent years which have not been accompanied by the necessary financial means. On the contrary, the budget

allocation of the National Council for the Judiciary was reduced by one third of the original request.

On the other hand, training of Hungarian judges in EC laws and European Court of Justice case law progressed. With the help of the Phare programme, around 700 judges were trained in the area of the *acquis* in a systematic manner. In addition, 46 law-trainees in EU matters completed their studies in this field. These lawyers will be responsible for training Hungarian judges in the framework of a National Training Institute for Judges due to be set up by 2001 according to a recent decision of the National Council of Justice (the central body of the self-governing system of the Hungarian judiciary).

Overall, while the judiciary continues to function satisfactorily, the situation at the Supreme Court is still a matter of concern. It remains to be seen whether the steps already taken will be sufficient to address this issue.

Anti-corruption measures

The fight against corruption, which remains a problem, continued to be high on the political agenda of Hungary's preparations for accession to the EU. The government - on the initiative of the Justice Ministry as the main co-ordinator of a national strategy against corruption - took the following action to address the situation:

- A large-scale development programme was launched within the law-enforcement and public safety services following a substantial increase in the number of cases. The programme comprises a special psychological test, and new training and operational methods which help police and border guards to recognise and avoid situations of corruption. The administrative capacity of the forces of law and order was also improved through additional staff (86) for the Security Service of the Forces of Law and Order, the reinforcement of the Mobile Controlling Unit at the National Police Command (these forces are to fight corruption internally within the police) and the upgrading of audio-visual equipment. The internal security force monitors some 80,000 officials in the police, tax police, customs and finance guards, fire departments and penal institutions. Since January 2000, policemen have also worn a name tag so that citizens can more easily identify them. Citizens can call a free telephone number if they suspect police corruption.
- A discussion paper on the Code of Ethics was presented to the broader public with the aim of basing the forthcoming Code of Ethics on broad social and professional consensus. Under new conflict-of-interest legislation concerning local government representatives, economic and other leadership positions considered to be incompatible with the mandate of local government representatives have to be given up. Such positions include the leading positions at budgetary institutions within the Central State administration. In addition, elected local government representatives are not allowed to be involved with companies which have contractual relationships with local government, or to occupy leading positions at public foundations and/or companies set up by local Self-Governments.
- The Council of Europe Convention on Criminal Law was signed in April 1999, but is not yet ratified.

- The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime was ratified by Parliament in December 1999.
- The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was promulgated by Parliament in May 2000.

1.2. Human rights and the protection of minorities

As mentioned in the previous regular reports, Hungary has continued to respect human rights and freedoms. The following section concentrates on major developments since the previous regular report.

Hungary has already acceded to most of the major human rights instruments (see Annex).

Civil and political rights

According to the Ombudsman for Human and Citizen's Rights, the basic institutions of the rule of law are functioning satisfactorily, and constitutional rights are adequately protected. Fewer complaints were lodged with the Office of the Ombudsman in 1999 than in 1998.

Following the lifting of the geographical reservation to the Geneva Convention and the modification of the *Asylum* Law in 1998, the number of people seeking asylum in Hungary has continued to grow in significant terms. In September 1999, new provisions on the outright return of travellers from the airport were incorporated into the Asylum Law. These related in particular to the introduction of suspensive effects to appeals lodged at the airport against first instance decisions, and a time limit of 18 months of confinement at border-guard community shelters. According to a report of the Ombudsman for Human and Citizen's Rights, the rights of asylum seekers detained at the airport have been violated on a regular basis. Asylum seekers arriving at the airport without valid passports or documents are transferred to a so-called transit zone which is considered to be extraterritorial, i.e. Hungarian legislation is not in effect. In response to the recommendations of the Ombudsman, the Border Guards began an investigation into the behaviour of guards, and a new building for accommodating asylum seekers was also completed. A recent UNHCR report is critical about the timing of deportation procedures. According to the report, asylum seekers are kept in detention for too long in Hungary. In several cases asylum-seekers have been returned to the borders despite ongoing appeal procedures. The report also criticised the health care conditions at community shelters, which are overcrowded and below standard. In order to protest against the conditions prevailing in those centres and the slow asylum procedures, several illegal migrants went on hunger-strike in a number of community shelters in autumn 1999. They also disagreed with the rejection of visa applications. In response, some community shelters were closed down for renovation. The detention of illegal migrants has continued to pose problems similar to those experienced in previous years. Although setting a time limit for detention was a positive step, the overall period of 18 months is still excessively long. A legal framework which would facilitate the integration of recognized asylum seekers into society is still lacking.

Hungary respects the *freedom of the press*. The market for news is highly competitive and the major part of the print media and of radio and television stations are in private hands providing a wide variety of high-quality, uncensored national and local information.

There are three national public TV channels and approximately 26 commercial television stations. Already in 1997 national television licenses were granted to two Western private consortia. In addition, about 30 radio stations are operating throughout the country.

The public service TV and radio (representing around 10% of the market) are supervised by Boards of Trustees in which approximately one third of the posts are open on equal terms to representatives of the Government coalition and the opposition. Out of the three Boards of Trustees, two are currently filled solely with Government coalition partners, due to a lack of consensus on the distribution of posts between the opposition parties. In order to avoid any risk of political influence on the public service Media this situation should be remedied as soon as possible.

Hungarian and international human rights organisations continued to report on *ill-treatment* by the police. Roma and foreigners appear to be targeted most by such actions. The number of complaints lodged with the Ombudsman for Human and Citizen's Rights and the number of his investigations are increasing. A recent study by the National Institute for Criminology revealed that only a small proportion of complaints lodged by detainees on the grounds of police mistreatment had resulted in final court rulings. According to data from the Prosecutor's Office, only one third of the complaints resulted in a court proceeding. Consequently only a very limited number of policemen were found guilty of mistreatment during a police investigation, and of forced interrogation. However, some 20% of non-Roma detainees and 80% of Roma detainees complained about police mistreatment in the course of investigations. Some 30% complained about forced interrogation, and some 15% reported that they were hindered by the police in contacting their lawyers. The practice of keeping detainees in preliminary custody in police cells, often for indefinite time and under sometimes difficult conditions, runs counter to Council of Europe rules and practice in the Union. The new law on criminal proceedings, adopted in 1999 but entering into force in 2003, will limit the duration to 60 days.

Overcrowded *prisons* are a growing problem in Hungary. Currently the prison population exceeds capacity by around 60% (compared to 40% in 1998/99). Most Hungarian prisons were built in the second half of the 19th century, and prisoners are kept often under conditions below international standards. Also the number of guards is very low compared to the number of detainees. Following the adoption of the programme for improvement of prison facilities, the government has continued to modernise existing facilities or to construct new ones. A new remand prison was opened in Budapest in September 2000 and another new prison in Veszprem is under construction (completion foreseen for 2002). They should fully meet international standards.

Economic, social and cultural rights

Further progress was made in the area of *equal opportunities* with the new Law on Labour Inspection of January 2000. The Law introduced the reversal of the burden of proof in case of discrimination. This burden of proof now lies with the employer in legal and labour inspection disputes. Related studies found that the proportion of working women had dropped to 30% from 50% over the last 10 years. Women at work earn 10 to 40% less than their male counterparts in the same position, and most leading posts are filled by men. According to equal opportunity experts, lay-offs usually affect women first. The unconstitutional practice of questioning women candidates about their desire to have children is also an example of typical problems.

Following the adoption of the law on rights and equal opportunities for *people with disabilities* in January 1999, the Council on Disability Matters was established. Its role is to advise on the legal framework, to co-ordinate activities related to the target group, to inform the government on a regular basis regarding the living conditions of people with disabilities, and to establish the National Disability Programme and the Action Plan. The 2000 Action Plan, adopted in March, provided funding of € 19 million for promoting employment of people with disabilities. As a result of the programme, rehabilitation working groups were created within the special employment facilities; a pilot programme was launched and specially equipped housing was established. Another element of the programme is to ensure that companies employing over 20 persons reserve 5% of the posts for people with disabilities. The most difficult part of the programme is the accessibility of public buildings. According to the latest report from the Ombudsman for Human and Citizen's Rights, only 18% of public buildings, 25% of health and child institutions and 86% of institutions for the handicapped are accessible to people with physical disabilities.

However, very recently Hungary earned international recognition for its efforts to improve the situation. In May 2000, Hungary received the Franklin Delano Roosevelt International Disability Award Prize. The Prize committee also praised the implementation of the laws on social provisions and public education, and the job-creation schemes with expanded opportunities for people with disabilities.

Hungary has numerous sector-based *trade unions*, most of which are affiliated to one of the six representative confederations. Trade union membership accounts for approximately 30% of the workforce. Collective agreements covered 1.2 million people in 1999, representing over 45% of the labour force in businesses employing five or more people. Most of these agreements are concluded at company level, pointing to a weakness at the intermediate (branch/sub-branch) level.

Social dialogue was restructured in 1999, with the aim of distinguishing between labour issues and issues of national economic and social policy and to widen consultation on economic issues. The government also launched a three-year programme to strengthen the capacity of the social partners and to prepare for participation in social dialogue at European level. There are however some concerns about the results of the dialogue and the government should make additional efforts to ensure that real dialogue is taking place and is followed up in the appropriate manner.

Minority rights and the protection of minorities

In line with the short-term Accession Partnership priority and with the medium-term Roma action programme adopted in April 1999, the Government has provided specific support for addressing the difficult situation of the Roma minority. In particular, measures were launched in the areas of education (scholarships and support for educational institutions), culture (opening of Roma Community houses which play a very important role in strengthening the local Communities and preserving Roma culture), employment (public work programmes and public utility work programmes), housing, health and anti-discrimination. Under the "Roma Policemen Programme" the number of Roma police officers was increased and co-operation with Roma organisations was reinforced. In 2000, specific budgetary resources totalling € 19 million were made available, representing an important step forward in the implementation of the medium-

term action programme which was also recognised by the Parliamentary Ombudsman for Ethnic and Minority rights.

However, concrete results from the action programme can only be expected in the medium term. In the meantime, the situation of the Roma population continues to be difficult. Due to poor health and living conditions, life expectancy for the Roma is on average 10 years shorter than for the rest of the population. As regards education, less than 46% completed their primary school education, and only 0.24% obtained a university or college degree. Roma have continued to suffer prejudice and widespread discrimination in society. The Ombudsman for Ethnic and Minority Rights noted that discrimination was present in the judiciary, in the police, in employment and education. According to data from the Legal Defence Bureau for National and Ethnic Minorities, a majority of discrimination cases were lodged against the practices of local Self-Governments - most of the cases involved “everyday racism”, e.g. the denial of entrance to bars, or in relation to employment. Discrimination in housing and access to public institutions also remained a serious problem.

In the meantime, the legal system has slowly responded to complaints of discrimination and Hungarian courts have started to launch court proceedings in cases of labour discrimination, of police ill-treatment and in cases of denial of entrance to bars.

As regards Roma children, the majority are placed in special schools. This proportion is 94% in certain parts of the country (North-Eastern Hungary) and is considered to be a sign of institutional prejudice and the failure of the public education system. The Ombudsman for Ethnic and Minority Rights repeatedly noted that the disproportionately high number of Roma pupils in these schools is unjustified and a sign of discrimination.² There are altogether 132 special schools in Hungary.

As a positive step, the government appointed an Ombudsman for Educational Affairs (under the Minister of Education), who will study the issue. In addition, a Hungarian court made an appeal decision to uphold a ruling ordering a local government to pay compensation to Roma pupils whose primary school had organised a separate school-leaving ceremony for Roma students.

1.3. General evaluation

Hungary continues to fulfil the Copenhagen political criteria.

Further progress in the modernisation of the public administration is apparent from the continued implementation of the 1999 development programme.

Although the judiciary functions satisfactorily and the training of judges in the EC *acquis* has progressed, the large backlog of cases before the Supreme Court hampers the unification of Court practice and the development of a consistent jurisprudence. Efforts should be made to remedy this. Sustained training programmes for civil servants and judges should continue, in line with the medium-term priority of the Accession Partnership.

² However, the government contests these claims by international and non-governmental organisations and states that these special schools are designed for helping disadvantaged children.

Despite a number of important measures taken to fight corruption, this remains a problem and renewed efforts should be made to address this issue.

Hungary continues to respect human rights and freedoms. However, overcrowding of prisons is a growing problem, which needs to be remedied.

In line with the short-term Accession Partnership priority, Hungary started to implement the medium-term Roma action programme, supported by financial means at national and local levels. This programme facilitates the integration of the Roma and their fight against discrimination in the fields of education, culture, employment, housing, health and social services. However, sustained implementation of this programme is needed in order to obtain concrete results in the medium-term.

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 the competitive pressure and market forces within the Union in the medium term".

This finding was confirmed in the 1998 and 1999 Regular Reports. In its 1999 Regular Report, the Commission found that:

"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 pressures and market forces within the Union in the medium term provided it continues to make further progress in structural reforms”.

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 the competitive pressures and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion, as well as in the previous Regular Reports.

2.2. Economic developments

The macroeconomic situation has improved since the last Regular Report. The concerns about the size of the current account and the fiscal deficits have subsided. Economic growth has accelerated, while the current account deficit narrowed, notwithstanding significant import growth. The employment losses associated with economic transformation have been clearly offset as export-oriented sectors of the economy have grown rapidly and hired new workers. The fiscal deficit narrowed during 1999, and fiscal performance during the first half of 2000 was better than expected.

Hungary		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	1.3	4.6	4.9	4.5	6.2 Jan-June
Inflation rate ³						
- annual average	per cent	23.5	18.5	14.2	10.0	10.2 ⁴ June
- December-on-December	per cent	19.9	18.6	10.1	11.4	9.3 June
Unemployment rate, end-year						
- ILO definition	per cent	9.9	8.7	7.8	7.0	6.5 April-June
General government budget balance	per cent of GDP	-3.2	-5.4	-4.8	-3.7	:
Current account balance	per cent of GDP	-3.7	-2.1	-4.9	-4.3	:
	million €	-1,319	-840	-2,059	-1,969	-676 Jan-Aug
Foreign debt						
- debt export ratio	per cent	155.9	116.3	106.5	106.3 E	:
- gross foreign debt	million €	21,561	21,350	22,595	25,398 E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP	5.1	4.8	4.3	4.1	:
	million €	1,803	1,928	1,815	1,849	1,346 Jan-Aug

E = Estimates

However, there are concerns that the Hungarian economy may be overheating. Considerable speculative capital inflows forced the central bank to cut interest rates, raising fears of a further expansion of domestic demand. Over the last 18 months, progress towards lower inflation has been limited.

Reflecting the advanced stage of the reform process, the pace of structural reform has slowed. Nonetheless, during 1999 and mid-2000 Hungary started a number of important reforms, in the areas of healthcare, rail transportation and the consolidation of financial sector supervision. In addition, the government sold some of its remaining shares in financial institutions. More generally, the privatisation process is almost complete and the enterprise sector is principally in private ownership. Nonetheless, the government continues to hold a significant number of residual minority stakes. The implementation of the far-reaching pension reform continues, although the government has failed to raise the contribution rate to the second pillar.

³ PROXY HICP since 1996 (see methodological notes).

⁴ Moving 12 month average rate of change.

Main indicators of Economic Structure in 1999		
Population (average)	thousand	10,068
GDP per head ⁵	PPS-€	10,705
	Per cent of EU average	51
Share of agriculture ⁶ in:		
- gross value added	per cent	5.5 ⁴
- employment	per cent	7.1
Investment-to-GDP ratio ⁷	per cent	23.9
Gross foreign debt/GDP ⁸	per cent	55.9
Exports of goods & services/GDP	per cent	52.6
Stock of foreign direct investment (End of 1999 - National source)	million € € per head	19,111 1,898

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.

There is a broad political consensus on the key aspects of economic policy, in particular, on the importance of European Union accession, support for private sector enterprises, and the need for foreign direct investment to finance industrial restructuring. In April 2000, Hungary and the European Commission services signed a Joint Assessment of Economic Policy Priorities. This document outlines the medium-term structural reform

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

⁶ Agriculture, hunting, forestry and fishing.

⁷ Data refer to Gross fixed capital formation as % of GDP.

⁸ The 1999 data for foreign debt are estimates.

agenda, which commits the government to a number of significant initiatives in the areas of healthcare, local government finance, railways, the labour market, and the financial sector. Although the implementation of these reforms is at an early stage, Hungary has shown a strong commitment to this new agenda.

In 1999, the Hungarian economy expanded by 4.5 percent. While the rate of growth was somewhat slower than in 1998, growth accelerated from the second half of the year, boosted by the strong cyclical recovery in EU markets. GDP growth for the first half of 2000 was estimated to have been 6.2 percent, while the volume based industrial production index surged by 21 percent. Exports have performed extremely well with export volumes increasing by 17 percent year-on-year. New construction permits have increased by 32 percent, indicating that housing investment will be strong in the second half of 2000.

While external sector growth has taken the lead, domestic demand also increased rapidly. After slowing sharply during the first nine months of last year, consumption picked up in the fourth quarter, with the year-on-year growth rate for the first quarter of 2000 reaching almost 6 percent. Reflecting the sharp decline in interest rates, the savings rate fell from 10.5 percent at the end of 1998 to 6.6 percent in March 2000.

Unemployment has fallen significantly. According to labour force survey data 6.5 percent of the workforce were without work in June 2000, compared to 7.4 percent during the same period last year. However, there are significant regional differences in unemployment rates, with Western Transdanubia recording a rate just above 4 percent, while Northern Hungary has a rate of almost 12 percent. Furthermore, certain high growth sectors are reporting an increase in the number of hours worked, which provides further evidence of a tightening labour market, highlighting the danger that as the economic upswing continues, economy-wide wage pressures could emerge.

The current account began to narrow towards the end of last summer. Preliminary data for 1999 suggest that the deficit was about 4.3 percent of GDP, more than 0.5 percent of GDP lower than in 1998. This favourable trend continued into the first five months of 2000. The deficit came in at € 0.43 billion, compared to € 0.76 billion for the same period in 1999. Initially, the better than expected current account performance was due to the pronounced deceleration in investment-related imports, particularly within the public sector, and lower profit repatriation by foreign investors. More recently, the current account consolidation has been due to the strong growth of exports, and higher service revenues, particularly tourism receipts. Moreover, the current account was easily financed by non-debt creating capital inflows, while overall external indebtedness and debt service indicators fell.

A disappointing aspect of macroeconomic performance has been inflation. Progress towards price stability has been slow. After dropping into single figures during the first half of 1999, the downward trend of inflation, which lasted for 4 years, was reversed. The downward movement in inflation was resumed in January 2000. However the data in July indicated that the trend to lower inflation was again reversed when the year-on-year rate was 9.6 percent. Rising oil prices and food prices have made a considerable contribution to the inflation rate. In an effort to limit inflationary pressures, the government has capped regulated price increases in 2000 to 6 percent. Inflationary expectations have kept the first quarter year-on-year nominal wage growth above 13 percent. The government has conceded that it will not achieve its 6 to 7 percent inflation target for 2000.

Nominal interest rates have declined steadily since the end of 1998. The 3-month interbank interest rate fell from 16.4 percent in December 1998 to 10.1 percent in April 2000. During the first two months of 2000, the central bank has been forced to reduce interest rates rapidly in an effort to limit the large speculative capital inflows, which forced the exchange rate towards the upper limit of the intervention band. In contrast to previous capital surges, which have been dominated by FDI inflows, recent capital inflows have been heavily dominated by interest sensitive portfolio investments.

A potential conflict between the exchange rate and inflation objectives has emerged. While the crawling peg exchange rate system has functioned reasonably well, the central bank has tried to put downward pressure on prices by tightening the monthly rate of crawl by 0.1 percent in April 2000. For the short term, the central bank's efforts have contained the upward pressure on the exchange rate, as speculative inflows appear to have subsided. Nonetheless, the sharp fall in interest rates threatens to give a further boost to aggregate demand and give a further impetus to inflation.

The general government deficit in 1999 was 3.7 percent of GDP. Fiscal performance during the first half of the year was weakened by a shortfall in revenues, and some slippage in current expenditure, particularly in the area of social security. The authorities responded by making a number of unannounced expenditure cuts, the bulk of which fell in the area of capital expenditure. Only three-quarters of the budgeted investments were actually carried out during the fiscal year. Towards the closing months of the year, the causes of the earlier fiscal problems went into reverse. Revenue performance improved as economic growth accelerated and inflation picked up. Over the years, Hungary has taken gradualist approach to fiscal consolidation.

Fiscal accounting practices have suffered a set back in 2000. Government has entrusted the Hungarian Development Bank with financing the motorway construction programme. The bank is not included in the general government accounts, and there is a danger that large off-budget government liabilities may emerge.

The deficit included revenues from social security fund assets sales. The removal of these sales will push the deficit to 4.5 percent of GDP in 1999. Part of this divestiture included the transfer of assets directly to the state privatisation agency - an off-balance-sheet budget. An accounting contradiction has now developed within the general government accounting framework. Whereas the central budget regards privatisation receipts as budgetary financing, the social security fund now treats such receipts as revenues. A similar smaller divestiture of assets has been included in the 2000 budget.

The first quarter fiscal sector performance was better than expected, and the government is likely to achieve its 3.5 percent general government deficit target for 2000. Strong GDP growth and higher than expected inflation has led to a surge in tax revenues, particularly VAT, profits tax and personal income tax. Fiscal credibility was enhanced by the government decision that it will not revise its June 1999 medium term budgetary guidelines. Furthermore, the medium term fiscal framework will also be strengthened by the decision to submit a budget which will cover the next two years. A number of important fiscal challenges remain, notably the railway sector, healthcare and local government. In the immediate future, the achievement of lower inflation will require a tighter fiscal response to counter the recent fall in interest rates.

While in recent years the government has made sizeable progress towards restructuring the rail transportation sector, it continues to be a major drain on public sector resources. By the end of this year, the state Railway Company plans to further reduce its public obligations by 1200 km. The separation of freight and passenger transportation is progressing and it should be completed by 2003. Plans to introduce a differentiated tariff structure have been given less priority than the restructuring plans.

The healthcare system is the most urgent structural reform confronting Hungary. Healthcare indicators compare unfavourably with other OECD countries, while the weak financial structure places a heavy burden on public finances. The reform process is at an early stage, and no political consensus has yet been reached. More generally, the government needs to develop a coherent and systematic programme of reforms, which will both improve healthcare outcomes and address the difficult financing issues.

Hungary has adopted a highly decentralised form of local government, which in certain areas has led to the inefficient provision of services, and strains on local finances. The government has recognised the issue and the financial incentives to encourage the pooling of facilities and activities through the creation of local government associations have had some success. In the absence of a comprehensive restructuring of local government responsibilities, the government will have to adopt a flexible and innovative approach to both local government financing and the provision of services.

In 1997, Hungary introduced a comprehensive multi-pillar reform of the pension system. Regrettably, the government has again deferred the planned increase in the contribution rate to the second pillar of the reformed system. While this does not immediately endanger the financial viability of the second pillar, the failure to increase contributions calls into question the government's commitment to the pension reform.

The price mechanism functions effectively in most sectors of the Hungarian economy, with most prices freely set. However, government has been criticised by the way in which it has intervened to fix gas prices and the prices of pharmaceutical products. Regulated prices, which mainly comprise of certain energy related products, pharmaceuticals, local government housing rents, public transport, and telephone tariffs, account for 18 percent of the consumer price index.

The privatisation process is almost complete. The private sector has grown rapidly and at the end of 1999 the private sector accounted for over 80 percent of GDP. Recently, the government has sold its remaining stakes in a number of financial institutions but no progress has been made in selling minority stakes in privatised companies. The State Privatisation Agency holds assets with a book value of €3.4 billion, and continues to maintain a majority ownership in 134 enterprises, compared to 1,859 enterprises in public ownership in 1990. The State Privatisation Agency is proceeding with the privatisation of the pharmaceuticals retailer, Hungaropharma, and the largest steel company, Dunaferr.

The growth of new enterprises is strong, particularly those related to foreign direct investments. The net total of private enterprises increased by 3 percent in 1999. In most sectors, there are no significant barriers to entry, although there appears to be some problems with the implementation of bankruptcy procedures. However, many small and medium enterprises face a higher tax burden relative to foreign firms, since many of the tax incentives offered to foreign investors are not available to domestically owned firms.

The legal system functions well, property rights are fully established, contract enforcement is good, and in general, public procurement procedures are effective. However, in an effort to speed up the motorway construction programme outlined in the National Development Plan (the Széchenyi plan), the Hungarian authorities have not applied the normal public procurement procedures required under national law. They chose to negotiate with a short list of pre-qualified companies, suggesting a lack of transparency and giving the impression of corruption. The Budapest stock market provides for the efficient transfer of property rights.

Land markets are developing: a large part of the land used by the larger individual farms and companies is leased, and some has been purchased. Lease contracts are growing in terms of duration and sophistication, improving tenure security for the farms and thereby incentives for investment.

A strong and well-regulated financial sector is now in place. Many of the principal banks and financial institutions were privatised through sales to strategic foreign investors with considerable expertise in financial sector management. Postabank is still state-owned but plans are being made for its privatisation. Banking sector profitability has declined dramatically in recent years, due the impact of the Russian crisis, and greater competition among the banks. Lending activity is increasing, as competition is strong, although the provision of financial services to small and medium enterprises is somewhat limited. Credit to the corporate sector is only 27 percent of GDP. The financial sector is paying greater attention to the banking requirements of the household sector. Household credit is rising, albeit from a low base, while competition is increasing among alternative financial intermediaries for household savings. Financial sector supervision is now consolidated into a single institution, although there are still questions about the new institution's discretionary powers, its financial independence and the implementation of consolidated banking supervision. Concerns about the effective supervision of the pension funds have also emerged.

Hungary is a functioning market economy. It has made considerable progress towards consolidating macroeconomic stability, enhancing current account sustainability and strengthening the institutional basis of the market economy. However, fiscal prudence remains essential and there is a need to continue fiscal consolidation over the medium term. To preserve present gains, the government should proceed with the implementation of the new reform agenda, particularly in the areas of healthcare, transportation, and local government finances. The slow progress towards price stability is a cause for concern and the Hungarian authorities will need to pursue a prudent and flexible monetary and exchange rate policy. Among remaining improvements, the intermediation role of the financial sector needs to increase the delivery of services to domestic small and medium enterprises.

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.

Hungary is a functioning market economy with the necessary macroeconomic stability and institutional infrastructure required for reaping the benefits of private sector initiative, and providing the basis for a sustained growth of the economy.

Hungary has made good progress towards re-orientating its human capital base towards meeting the requirements of the fast growing export sector. However, labour market reform continues to be an ongoing priority. Recently, new growth related problems have emerged within the labour market. There are significant regional disparities, while many firms are now reporting significant skill shortages. The Hungarian authorities have a strong track record in labour market reforms, particularly in the areas of employment legislation and wage setting arrangements. Such reforms have laid the basis of a flexible labour market and have now started to bear results in terms of employment growth. However, bottlenecks in housing and transportation need to be tackled to increase labour mobility.

High levels of investment have led to considerable productivity gains. Investment as a percent of GDP has steadily risen from 22.3 percent in 1995 to 26.6 percent in 1999. Rapid productivity growth, particularly within the enterprise sector, coupled with wage restraint, has been reflected in a significant depreciation in the unit labour cost based real effective exchange rate.

Foreign direct investment has been the primary instrument of economic transformation. In 1999, Hungary received net foreign direct investment inflows amounting to € 1.8 billion, representing 4.1 percent of GDP. Between 1989 and 1999, Hungary has received foreign direct investment inflows amounting to €15.2 billion, increasingly in the area of green-field investment. Foreign investors have been encouraged by the stable macroeconomic framework and the strong commitment to the objective of European Union accession.

In an effort to enhance the economy's infrastructure, the Hungarian authorities have embarked upon a programme of public investments, called the Széchenyi plan. The primary objective of the plan is to open up the economically less developed eastern part of the country. Public sector investment will focus upon motorway development, the development of small and medium-sized enterprises, home construction, flood prevention, tourism, research and development, information technology and employment (see also chapters 15 and 16).

However, economic transformation has led to significant regional imbalances. While the central and north-western regions have benefited enormously from the large foreign direct investments and re-orientation of economic activity towards EC related exports, the eastern regions have fared less well. Furthermore, significant infrastructure investments and an environment supportive of small and medium size enterprises are clearly necessary in the depressed areas; this will raise difficult public expenditure choices for the government. The government's main forms of agricultural support are market price support subsidies, as well as credit subsidies and export subsidies.

Recent export performance has been impressive, and emphasises the open and competitive nature of the Hungarian economy. The Hungarian economy is now deeply integrated with the EU. In 1999, the EC accounted for 76.2 percent of Hungarian exports and 64.4 percent of imports. In the manufacturing sector, the extent of trade integration is even higher, with over 90 percent of exports going to the EC. The engine for this remarkable export performance has been foreign owned firms. Hungary has made considerable progress towards eliminating tariff protection. By the end of 2000, tariffs on all EC industrial imports will be zero.

The export base of the economy has continued to expand and has become increasingly diversified. The composition of exports has shifted towards high value added products, particularly in the areas of technology and human capital-intensive products. Production by foreign invested companies in custom-free zones accounted for 43% of total exports and 70% of exports in machinery. A significant proportion of exports consists of intra-industry trade, in particular in manufacturing and, increasingly, the machinery industry.

The small and medium enterprise sector, in particular, has continued to exhibit dynamic growth. Last year, the number of firms employing 50 or less people increased by 10.5 percent. They now generate 45 percent of Hungary's GDP and employ 70 percent of the workforce. Most of the SMEs operate in the non-tradable sectors such as services and construction and their contribution to export growth has been more modest. They still experience poor access to finances (*see also chapter 16 – Small and medium-sized enterprises*).

Hungary should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it stays with its present reform path. Considerable progress has been made concerning the development of infrastructure, and in enterprise restructuring, in a context of macroeconomic stability. Hungary's export performance has been particularly remarkable. Nonetheless, continued external competitiveness will require that the government keep a well-balanced policy mix, and reduces its dependence upon monetary policy instruments. Although unemployment has fallen, there are significant regional differences and shortages of skilled labour in high growth sectors. As the economy develops, measures need to be taken to reduce regional disparities and to increase the flexibility and mobility of labour.

2.4. General evaluation

Hungary is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it stays with its present reform path.

Considerable progress has been made towards consolidating macroeconomic stability, enhancing current account sustainability and strengthening the institutional basis of the market economy. Hungary has further developed its infrastructure, and proceeded with enterprise restructuring. The creation of new enterprises, particularly those fostered by foreign direct investment, is strong.

However, the slow progress towards price stability is a cause for concern and maintaining external competitiveness will require an appropriate policy mix, including continued fiscal consolidation, in particular in the areas of healthcare, transportation and local government. Although unemployment has fallen, there are significant regional

differences and shortages of skilled labour in high growth sectors. The intermediation role of the financial sector needs to improve the delivery of services to domestic small and medium enterprises.

The Hungarian authorities will need to maintain a well-balanced policy mix and pursue a prudent and flexible monetary policy. Financial sector supervision needs to be further improved, in particular for the pension funds. Measures need to be taken to reduce regional disparities and to increase the flexibility and mobility of labour. The implementation of the above-mentioned structural reforms must proceed in order to address fiscal consolidation.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Hungary's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*⁹, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Hungary's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Hungary's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Hungary in translating the *acquis* into its official language.

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. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Hungary's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

“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 EC 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

⁹ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Hungary's application for EU membership.

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 EC 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."

3.1. The chapters of the *acquis*

As indicated, the review of Hungary's ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called "four freedoms", the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Further steady progress was made in the field of free movement of goods. In the area of **horizontal and procedural measures**, Hungary accelerated the adoption of European standards as Hungarian national standards in line with the Accession Partnership priorities. By September 2000, the Hungarian Standards Institution had implemented 7428 EN standards as national standards, including 1137 European standards harmonised to the New Approach Directives. This represents 76.6% of all European standards and 79.7% of European standards harmonised to the New Approach Directives. In December 1999, the modules for the various phases of the conformity assessment procedures and the rules on the use of the CE marking of conformity were transposed. The CE marking will thus be used in Hungary, except in cases requiring third party certification where the 'H' mark will replace the CE marking until accession, except for the sectors covered by the protocol to the Europe Agreement on Conformity Assessment and Acceptance of Products, which was initialled in July 2000. This agreement covers machinery, electrical safety, electromagnetic compatibility, hot water boilers, gas appliances, medical devices, good laboratory practice for human medicines, and good manufacturing practice for human medicines as regards inspection and batch certification. In 1999, the Hungarian Accreditation Board became a full member of EA, the European Co-operation for Accreditation. Furthermore, a Notification Information Centre was set up in the Ministry of Economic Affairs in September 2000 that will prepare for Hungary's *acquis* obligations in the field of notification and information regarding technical standards and regulations.

Following good progress noted last year as regards **sector specific legislation**, Hungary has continued its alignment in the following fields: good manufacturing practice for human medicines, good laboratory practice of human medicines and pesticides, wholesale distribution of human medicines, medical devices for human use, colorants for medicines, residue limits of veterinary medicinal products in foodstuffs, novel foods and ingredients, natural mineral waters, packaging and labelling of foodstuffs, and the migration of plastics coming into contact with foodstuffs. Alignment was also pursued in the areas of motor vehicles, quality of petrol and diesel fuels, tyre pressure gauges, electromagnetic compatibility, electrical equipment used in potentially explosive atmospheres in mines, calibration of the tanks of vessels, good laboratory practice for chemicals, crystal glass, and recreational craft. Some pieces of legislation were adopted in the field of legal metrology.

Further progress was made in institutional development. In nine sectors where alignment is completed, market surveillance bodies have been designated. Hungary adopted legislation in 1997 authorising each Ministry in its area of competence to designate bodies for testing, inspecting and certifying the conformity of products in the context of the New Approach Directives. This has already been done for industrial products falling under the responsibility of the Ministry of Economic Affairs (machinery, toys, electrical equipment, gas-burning appliances, certain construction products), as well for telecommunications and information technology products, medical devices and personal protective equipment. The technical capacity of a number of these bodies is being upgraded, as requested in the short-term Accession Partnership priority.

With regard to **non-harmonised areas**, Hungary started an internal screening of its domestic legislation in order to identify legislation that could prevent de jure or de facto the free movement of goods.

In the area of **public procurement**, no further legislative progress was made during the reporting period. In line with the Accession Partnership priorities, provision was made to allow tendering under the EC's new structural pre-accession instruments ISPA and SAPARD to respect EC requirements, in particular by excluding national preference. The total number of public procurement procedures declined somewhat to 3,828 in 1999. In value terms, public procurement grew slightly in real terms to an aggregate € 1.7 billion, which corresponds to approximately 4-5% of GDP. About two-thirds were open tenders as opposed to negotiated or restricted procedures, and in the first half of 2000 the share of open procedures rose to 72%. Bidders from EU Member States won contracts in 5% of the cases in the first semester of 2000, but in value terms they accounted for almost a quarter of Hungary's public procurement.

The Public Procurement Arbitration Committee received 283 complaints in the first half of 2000. Infringements were found in 180 cases and 150 contracts were annulled. Against this background, an ad hoc Parliamentary committee was set up to supervise tenders.

Overall assessment

Hungary continued to make good progress concerning **horizontal and procedural measures**. The general principles of the New and Global Approach were introduced and the necessary infrastructure for regulation, standardisation, accreditation and certification is being established. The Hungarian Institute for Standardisation is a full member of the European Telecommunications Standards Institute and the International Standards Organisation. The current effort to accelerate the adoption of European standards will need to be sustained to meet the requirements to become a full member also of CEN and CENELEC. The organisation and procedures of the Hungarian Institute for Standardisation, the Hungarian Accreditation Board and the Hungarian National Office of Measurements broadly appear to meet the needs of the *acquis*. As regards safety checks on products, Hungary still needs to establish appropriate customs and market surveillance infrastructure as well as effective administrative co-operation between competent authorities. At present, no safety control takes place at the border. The capacity of testing and certification bodies should be further enhanced and their independence from the regulator should be ensured. The main market surveillance body, the General Inspectorate for Consumer Protection, also houses the secretariat of the Transitional Rapid Information System on Dangerous Products (TRAPEX), an information exchange mechanism among ten candidate countries.

A large part of the **sector-specific acquis** is also in place. The outstanding legislative issues relate mainly to pharmaceutical products (including pricing rules and marketing authorisations), cosmetics, chemical substances, metrology, construction sector products. Where alignment is completed, the previous pre-market control should be clearly abandoned in line with the Accession Partnership priorities. Also, sufficient administrative capacity needs to be built up in the field of marketing authorisations for medicines. As regards foodstuffs, Hungary needs to continue to introduce the relevant structures for inspection and analysis.

In the **non-harmonised areas**, the internal screening by the Ministry of Economic Affairs of measures hindering the movement of goods should be continued and should lead to the elimination of incompatible provisions. The principle of mutual recognition will have to become well established by accession. The State Secretariat for European Integration in the Ministry of Foreign Affairs will be responsible for notifying national

measures derogating from the principle of free movement. Further institution-building and adoption of implementing regulations are necessary for the proper implementation of the harmonised law of 1997 on the protection of cultural objects. The *acquis* on firearms is not yet transposed.

The alignment of legislation on **public procurement** is well advanced, but further efforts are necessary especially with regard to value thresholds, time limits, exemptions, evaluation criteria, the treatment of utilities, the abolition of national preference. Some rules are presently stricter than the *acquis* allows. In the area of enforcement and remedies, the rules for initiating proceedings and for utilities need to be further aligned.

Hungary has already put in place the necessary bodies to implement this part of the *acquis*. Public procurement policy is developed by the 19-member Public Procurement Council. It consists of interested central government bodies, contracting agencies and bidders. The Council is legally independent from the Government and answers to Parliament, to which it is required to report annually. The Council oversees the application of public procurement rules and may initiate amendments to the relevant legislation. It provides information and training, and publishes the notices for procurement procedures. The monitoring and review of procurement procedures is carried out by the Public Procurement Arbitration Committee. This law enforcement body can be considered to be a semi-judicial body as required by the *acquis*. The present number of 15 arbitration Commissioners is to be increased in the coming years to cope with the growing workload. In 1999, the Committee received 367 complaints, i.e. in about 10% of all procurement procedures. The Committee has the power to suspend the conclusion of public contracts until a complaint is examined, which happened in 121 cases in 1999. The decisions of the Committee are challenged in court in only about a quarter of the cases. Also, negotiated procedures must be notified to the Committee when they are initiated, allowing the Committee to intervene when the negotiated procedure is used unlawfully. Intervention takes place in about one-fifth of the cases. A sustained effort is needed to ensure the respect of procurement rules in all sectors and at all levels of government, including at the local level, but there is encouraging evidence that remedial action is increasingly being taken. Further work is expected to provide both the procurement agencies and the supervisory bodies with sufficient staff and modern information systems.

Chapter 2: Free movement of persons

In the area of **mutual recognition of professional qualifications** some further progress was registered with the entry into force of the law on public health in January 2000, which aligned with provisions on mutual recognition of the health care professions.

No progress can be reported on **citizens' rights**. Legislation on non-active persons and student rights needs to be further aligned.

In the field of **free movement of workers** some progress has taken place such that work permits can now be issued automatically to key personnel as defined under the Europe Agreement. Also, some preparatory steps were taken to facilitate Hungary's participation in EURES (European Employment Services) with the development of the IT infrastructure and the strengthening of staff in numbers and training.

Hungary has continued to strengthen bilateral relations with a view to the future **co-ordination of social security** matters. A bilateral agreement with Germany entered into force in May 2000 and covers health insurance, pensions and family allowances. Another bilateral agreement with Austria, covering health insurance, pensions, unemployment benefits and family allowances is awaiting ratification by Austria. Such agreements will facilitate Hungary's compliance with the regulations from accession, as they rely on the principles of the social security co-ordination regulations and familiarise the administration with the procedures. In addition, the inter-ministerial social co-ordination council was established in May 2000 to co-ordinate preparations for the application of Community law nationally and to assist those institutions that will be responsible for the social security of migrant workers.

Overall assessment

Some preparatory work has taken place and these efforts will need to be continued to ensure that, by accession, there are no provisions in Hungarian legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements. This is the case in the field of the **free movement of workers**, where legislation is only partially aligned and efforts are required to ensure that, by accession, all such provisions are removed.

For the *acquis* in the area of **mutual recognition of professional qualifications**, legislation needs to be monitored to ensure that it distinguishes between academic and professional recognition. Hungary was already largely aligned with the *acquis* in this area. Outstanding issues relate to alignment with EC legislation on lawyers, the preparation of simpler procedures to allow the provision of services and the assurance needed that Hungarian legislation will provide for a clear distinction between academic and professional recognition, notably taking into account the fact that the bodies responsible for academic and mutual recognition merged recently. The appointment of a national co-ordinator, responsible for co-ordinating the activities of the competent authorities and the designation of the latter should take place without delay.

As regards future participation in EURES, efforts should be continued, especially with regard to language training. With a view to the future **co-ordination of social security systems**, further work to develop the necessary administrative structures is needed.

Chapter 3: Freedom to provide services

Some progress has been made since last year's regular report, in particular in the field of insurance and in the area of administrative capacity.

As regards the **freedom of establishment and freedom to provide services**, no new developments have taken place.

In the field of **financial services**, a new Insurance Law was adopted in June 2000 providing substantial further harmonisation, with the exception of those parts of the *acquis* which can only be applied by Member States.

No particular development can be reported in the banking sector and investment services and security markets.

The three supervisory authorities for the banking, insurance and securities sectors were merged as from April 2000 into the Hungarian Financial Supervisory Authority with a view to providing more effective supervision of integrated financial operators and dealing with new types of risks. This institution has its own separate budget and is legally independent. It is guided by the Basle Core Principles for Banking Supervision. It has to protect the interest of clients of financial institutions, to enhance transparency of the markets and the to ensure maintenance of fair and regulated market competition through the permanent surveillance of the prudent operation of organisations and entities engaged in financial services in the largest sense. This includes not only the classical sectors of banking, securities and insurance but also depositories, private pension funds and the whole commodity market. However, it has no regulatory power itself, as the adoption of prudential rules remains the prerogative of the Government and the Minister of Finance. Regulatory power is expected to be transferred to the Supervisory Authority in the near future. The Supervisory Authority is managed by a President who is appointed by Parliament upon the Prime Minister's proposal. The Authority has a staff of around 440. The Supervisory Authority also houses the secretariat of the contact group for the Regional Co-operation Network for Financial Supervision in Central and Eastern Europe, grouping 17 countries of Central and Eastern Europe.

Banks in Hungary are subject to monthly and quarterly reporting requirements, and together receive approximately 300 on-site inspections per year. In recent years, remedial action has had to be taken in a substantial number of cases, including fines (91 in 1999), suspensions (18) and other supervisory and exceptional measures (94). Also in 1999, operating licenses were granted or withdrawn in 634 and 61 cases, respectively. Similar supervisory activity, but on a smaller scale, has been undertaken in respect of insurance companies and securities. Pension funds have received several hundred on-site inspections in 1999.

The rules on the **movement and protection of personal data** were further aligned in December 1999. No measures were taken in respect of **information society regulations**.

Overall assessment

In most areas, Hungary has already achieved a substantial degree of alignment. Whereas legal persons and self-employed persons from the EU were already granted in February 1999 the basic right of **establishment** based on national treatment, the **freedom to provide cross-border services** does not yet exist. The respective rules to facilitate effective access of non-nationals to industrial, trade, tourism and agricultural activities, inter alia through the recognition of qualifications, still need to be aligned. Also, the rules on self-employed commercial agents need to be further aligned. Restrictions on the acquisition of real estate equally hamper effective access.

On the other hand, Hungary has already achieved a substantial degree of alignment in **financial services**. Outstanding issues relate mostly to capital requirements, contractual netting, bank accounting and deposit and investor compensation schemes. Some adjustments remain to be made as concerns motor insurance, solvency requirements and investment rules for insurance companies. Hungary appears to have the necessary supervisory institutions in place, but the newly merged authority will have to demonstrate its effectiveness in the coming years.

Further work is required to align with rules related to **information society services**, in particular on the provision of information in the field of technical standards and regulations and the legal protection of services on conditional access. The legislation on the **protection and movement of personal data** requires fine-tuning. A fully independent Ombudsman for Data Protection elected by Parliament for a term of six years is responsible for the independent monitoring of the data protection regulations and for investigating complaints.. He can order the destruction by other authorities of illegally collected or processed data, but he is not himself endowed with investigative powers or powers of intervention or litigation. In practice, however, his recommendations are generally respected and in general the enforcement capacity of the administration is already quite satisfactory.

Chapter 4: Free movement of capital

In the area of **capital movements and payments**, the gradual liberalisation was continued by allowing credits and loans in foreign currency with a maturity of more than one year to be granted by residents to non-residents in OECD countries as of January 2000. From July 2000, liberalisation was extended, under certain conditions, to collective investment securities from OECD countries denominated in foreign currency.

No further progress is to be reported as regards **cross-border credit transfers** or **money laundering**. In particular, no progress was made on the elimination of anonymous accounts even though the Accession Partnership identified a ban on the opening of new anonymous accounts as a short-term priority.

Overall assessment

Hungary is already very advanced in the liberalisation of medium and long term **capital movements**. Liberalisation should be extended to the system of restrictions on short-term operations, transactions denominated in HUF and deposits abroad, as well as to capital movements vis-à-vis third countries insofar as required by the *acquis*. Restrictions remain on direct investment in sectors such as air transport, inland waterways and telecommunications. The state maintains golden shares in a number of privatised companies. In real estate, restrictions exist on the purchase of agricultural land and land in nature conservation areas, as well as on residential property. Institutional investors in Hungary still face restrictions on investment in foreign assets.

Partial harmonisation was already achieved in the area of **cross-border credit transfers**. The implementation of a real-time gross settlement system is an important accomplishment. The complaints and redress procedure for the settlement of disputes still needs to be introduced. Hungary's law on **money laundering** provides already a good basis for alignment, but further efforts are necessary in particular regarding the phasing out of anonymous accounts. A financial intelligence unit within the National Police is the main enforcement body.

Chapter 5: Company law

In the area of company law, Hungary has made some further progress to align its legislation with the *acquis*. A new law on accounting was adopted by Parliament in September 2000 and will enter into force from 2001. This law provides for alignment

with the *acquis* in this area. It also establishes the legal basis for the introduction of national accounting standards.

Some progress was made in March 2000 in the area of **industrial and intellectual property rights** with the entry into force of an amendment to the Penal Code which introduced stronger penalties for the violation of copyrights. Also, the circumvention of measures to restrict access to protected material and the copying of industrial property were made punishable. Since the beginning of 2000, the Hungarian Patent Office is the single government institution responsible for the protection of both intellectual and industrial property rights. The Office is self-financing, and has over 250 staff. There are six collective management organisations administering copyrights and related rights. These are associations formed by a representative number of rightholders. The Budapest Metropolitan Court has exclusive competence to hear most of the industrial property cases, whereas intellectual property cases are handled also in county courts. There are two further expert bodies administered by the Hungarian Patent Office providing expert assistance to courts and other authorities upon request. Hungary has been invited to join the European Patent Organisation as of July 2002.

In the field of trademarks, in March 2000 the Hungarian Patent Office concluded a memorandum of understanding with the Office for Harmonisation in the Internal Market (Trade Marks & Designs). One of its aims is to exchange information on trademark filings so as to minimise as much as possible potential future conflicts between national Hungarian and Community trademarks.

Overall assessment

In the field of **company law** a significant degree of alignment has been achieved so far. The few outstanding issues are mainly of technical nature. Provisions on economic interest groupings need also to be introduced.

The 19 county courts and the capital court of registration are responsible for the registration of companies and partnerships. The deadlines for registration are now respected, and the register has been computerised. The Hungarian Chamber of Auditors established in 1997 is responsible for the accreditation of auditors. As of June 2000, 5237 auditors were registered. Hungary does not have an accounting standards body, and has yet to begin introducing national accounting standards.

Hungary has filed for accession to the Lugano Convention, which is equivalent to the Brussels Convention and open to third countries. So far, only seven countries have ratified the Hungarian accession.

In the field of **industrial and intellectual property rights**, the Hungarian legislation is largely in line with the *acquis*. Some further efforts are required, notably on the protection of designs and the supplementary protection of patented pharmaceutical and plant protection products. Alignment with the *acquis* on databases also needs to be completed.

The Hungarian Patent Office and the collective management societies are acknowledged to provide good administrative enforcement, but the specific training of bodies in charge of enforcement –police, customs, prosecutors, judges– should be continued. Further

efforts are also required to reduce the delays in court proceedings and to make border control measures more efficient.

Chapter 6: Competition policy

Since last year's report, Hungary has made some limited progress in this area and its enforcement practice has continued to develop.

In the field of anti-trust no new developments took place. With 110 employees including 35 case-handlers, the Office of Economic Competition is well staffed but still about 40% of the cases dealt with concern consumer protection issues. In 1999, 96 anti-trust decisions were taken including a growing number of merger cases.

In the area of **state aid**, new limits were introduced in January 2000 on the intensity of investment aids, and a methodology was adopted for measuring their grant equivalent. Furthermore, following the scrutiny of existing state aid rules an overall work programme for the alignment of substantive and procedural state aid rules was adopted by the Government in February 2000.

An Inter-ministerial Consultative Committee was set up to assist the authorities in aligning with the *acquis* and to support the State Aid Monitoring Office by providing data, reports, and arguments on the necessity of measures within their ministry. The scope of aids that must be notified in advance to the State Aid Monitoring Office was broadened to include aids awarded to sensitive sectors and to large investment projects, as well as some of the aids awarded by the State Privatisation Agency. However, Hungary failed to meet the short-term Accession Partnership priorities to enhance the Office's role in controlling aids and to make the State aid inventory fully comprehensive.

Over the reference period, the State Aid Monitoring Office received 140 aid notifications, of which 83 were found to constitute state aid. Of the 39 measures found to be incompatible with the *acquis*, 37 were adjusted, one was rejected by the Government and one was accepted in its incompatible form.

Overall assessment

Hungary's **anti-trust** legislation is already to a large extent aligned with the *acquis*. It contains the main principles of the rules on restrictive agreements, abuse of dominant position and merger control. A number of block exemptions regarding restrictive agreements have been adopted, but further alignment is still necessary, especially in view of developments in the *acquis* on vertical restraints. Investigations are conducted by the legally and financially independent Office of Economic Competition, whereas decisions are taken by the Competition Council, whose members are appointed by the President of Hungary. . The main challenge is now to ensure that the application and enforcement of the anti-trust rules is effective and that priority is given to such cases that concern the most serious distortions of competition . In this context it is also important that investigative powers are sufficient, that sanctions have a deterrent effect and that the judiciary is adequately trained.

As regards **State aids**, the obligation of prior notification of new aid is still not yet fully comprehensive (in particular, local authorities are not included). In relation to existing aid schemes, the comprehensiveness and the timetable for alignment programme is not

yet satisfactory, in particular as regards aid granted in form of tax benefits, as well as aid granted in sensitive sectors. Furthermore, a regional aid map is to be prepared, in order to ensure a differentiation of maximum aid intensities in assisted areas.

The State Aid Monitoring Office has to give an opinion on notified aid, which is submitted to the Government for decision, but has no formal role in assessing existing aid measures. The Office should be given sufficient powers and resources to ensure a full and proper State aid control.

Chapter 7: Agriculture

The share of agriculture in the economy continues its declining trend, representing 5.5 %¹⁰ of the GDP and employing 7.1%¹¹ of the working population. The crop output declined by 7.3%¹² in 1999 and the livestock production increased by 0.7%. EC imports of agricultural products originating in Hungary amounted to € 1 093 million¹³ in 1999 while EC exports to Hungary reached € 481 million. The trade balance in favour of Hungary amounted to € 612 million compared to € 521 million in 1998. The most important product groups in terms of EC imports from Hungary were meat and edible meat offal, vegetables, cereals and oil seeds. As far as EC exports to Hungary were concerned, the most important sectors were animal fodder, alcoholic beverages and fruits and nuts. In this context, the new reciprocal concessions on agricultural products negotiated under the Europe Agreement at zero duty cover a substantial part of the bilateral trade (*see section A.b. – Relations between the European Union and Hungary*).

The structure of the agricultural sector has been changing in the past few years and recent data shows that in 2000, the agricultural sector included nearly 960 000¹⁴ private holdings and more than 8 200 enterprises engaged in agricultural activities (in 1991, there were 2 600 enterprises and 1 396 small units).

The state agricultural budget amounted to € 645 million in 2000. Out of the total budget, € 553 million are for agricultural subsidies and € 92 million for rural and regional development measures. The agricultural support system was modified in 2000 to introduce credit contracts and ‘farmers credit programmes’ providing for interest support. The share of support for market access slightly decreased. Following the introduction of registration of producers, a precondition for receiving agricultural subsidies, around 80% of producers applied for registration.

As regards land reform, legislation on the register of title deeds, adopted in 1997, entered into force in January 2000, providing the data on the rights attached to real estate, including agricultural land. Also, the rules on the registration of land use by land offices, separated from the register of title deeds, entered into force in January 2000.

¹⁰ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹¹ In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Further information can be found in the Eurostat publication “Central European Countries’ Employment and Labour Market Review” available free of charge through the Eurostat Data Shops.

¹² Source: FAO.

¹³ Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMEXT (see Agriculture in the European Union statistical and economic information 1999 p.36 for definition of the products).

¹⁴ “Source: Preliminary data of the Hungarian Agricultural Census 2000”.

Horizontal issues

As regards the implementation of measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, the Agriculture Intervention Centre (AIC), currently responsible for export refunds and licensing, is being restructured to execute further functions in respect of EAGGF expenditure and the Integrated Administration and Control System (IACS). However, the role and the additional functions to be performed by the Agriculture Intervention Centre have not yet been defined. The number of staff, currently 131, has doubled since last year.

The SAPARD programme was approved by the Commission in October 2000. It focuses mainly on investments in farms and improvements in the processing and marketing of agricultural and fishery products (*see section A.b – Relations between the European Union and Hungary*).

As regards preparations to establish the IACS in Hungary, progress has taken place mainly in the registration of animals. Identification and registration of bovine animals are compulsory since the entry into force of the law on individual registration and identification in January 2000. The identification and registration of bovine animals was completed. Progress in establishing the land register has been much more limited.

No significant progress was made in the field of quality policy. As for organic farming, the National Agri-environmental programme will provide support for organic plant growing and animal breeding.

Concerning preparations for Hungary's participation in the *Farm Accountancy Data Network*, the collection of data for an agricultural census was completed in April 2000.

Common Market Organisations

Since last year's regular report, Hungary made little progress as regards the introduction of a legal framework and administrative structure for the establishment of the Common Market Organisations.

Concerning fruits and vegetables, a system of production aid for processed tomatoes, partly in line with EC requirements, was introduced in 2000. The 1999 budget allocation for producer organisations was assigned to other purposes. Only three producer organisations received preliminary recognition. As regards tobacco, a quality premium system was introduced in 2000.

In the field of specialised crops, the law on statistical survey of the area under vines and fruit orchards was not adopted, as expected, in 2000 and consequently the establishment of a vineyard register, identified as a short-term priority by the Accession Partnership, is delayed. The legal conditions for keeping the cellar register (inwards and outwards register) were adopted. As regards animal products, the classification system for bovine carcasses, introduced in 1998, became compulsory. A system of price bound support for beef and milk was established under which measures may be taken to support producers or processors depending on whether the market price has reached the lower or upper limit of the bound price. The Ministry of Agriculture and Regional Development is responsible for fixing the prices on a yearly basis.

Rural Development and Forestry

A national Agri-Environmental Programme (2000-2006) was adopted in autumn 1999 to support farmers who apply environment friendly agricultural production methods. The programme, amounting to € 26 million, is only being partially implemented due to budgetary constraints.

No progress was made as regards forestry.

Veterinary and phytosanitary issues

Progress in the **veterinary sector** was also limited. The identification and registration of bovine animals was completed and preparations for developing the pigs identification and registration system were initiated. The identification and registration of bovine animals has become compulsory from January 2000. The contingency plan for classical swine fever has been drawn up.

No progress was made in the field of common measures, including animal waste treatment and animal welfare.

As regards the administrative capacity in this field, the National Veterinary Information System has been developed to complete the animal health, food hygiene and feedingstuffs sub-systems by the end of 1999. The central database is placed in the National Veterinary Institute and the Veterinary and Food Inspection Department of MARD, the county veterinary and food inspection stations and 20 Border Inspection Posts are connected to the network. Semi-on-line connection has been established to 8 Border Inspection Posts and the 110 regional chief veterinary offices. An animal welfare service was established within the State Veterinary Service. Progress in upgrading the Border Inspection Posts at Letenye, Roszke, Zahony and at the airport has been limited to installing inspection equipment and training of staff.

In the phytosanitary sector, with the adoption of the Plant Protection Law in May 2000 Hungary will gradually introduce the EC requirements concerning plant health, registration and marketing of plant protection products and fertilisers.

No progress has been registered as regards plant hygiene and animal nutrition.

Overall assessment

Overall, progress made so far by Hungary provides a good basis for implementing the *acquis* in the agricultural sector, however, the strengthening of the administrative capacity over the last year has been hindered by slow decision making in regard to Common Market Organisation mechanisms and structures relating to the European Agricultural Guarantee and Guidance Fund.

In the field of **land reform**, the laws on land consolidation and on the national land fund are still pending submission to the Parliament.

As regards **horizontal issues**, the existing databases and data networks should be improved to establish the Integrated Administrative and Control System. Progress still needs to be made to complete the land parcel identification system, especially as regards digitalisation of land parcels according to EC requirements. The identification and registration of animals, completed for bovine, needs to be extended to pigs, sheep and goats.

The current Farm Accountancy Data Network, operated by the Ministry of Agriculture is still to be harmonised with EC requirements. The results of the agricultural census, carried out in 2000, will provide the basis for setting up the farm registry.

Concerning the implementation of **Common Market Organisations**, the tasks of the Agriculture Intervention Centre as regards the management of the market organisations need to be clarified. The key management mechanisms for cereals are yet to be harmonised and the conditions for intervention established. The marketing standards for fruits and vegetables, currently applied on exports to the EC, need to be extended to imported and domestic products. Further support is essential to promote the establishment of producers' organisations. The law on statistical survey of the area under vines and fruit orchards needs to be adopted in order to establish a national vineyard and orchard register.

In the area of **Rural Development and Forestry**, the adoption of the National Agri-Environmental Programme should be followed by the establishment of the institutional structure and the budgetary allocations necessary to implement it.

Concerning the **veterinary field**, the existing framework legislation provides the legal basis for transposing most of the veterinary *acquis* but further amendments are required regarding the control system, compensation to farmers in the case of an outbreak of disease and the reform of the statute of the veterinary professional activities. Work also remains to be done in adopting the implementing legislation necessary to transpose the veterinary public and animal health, animal welfare and zootechnical legislation.

As regards veterinary control in the internal market, the central database for identification and registration of cattle meets all the requirements to record all cattle movements. However, it is not used to record any veterinary information, either animal or public health. The State Veterinary Service should have direct on-line access to the central database, which should also be used for establishing an epidemiological surveillance network system. Controls of the future external border of the EU are not yet in compliance with the *acquis*.

In the field of *control of animal diseases and animal health*, Hungary still needs to introduce legal provisions for compensating farmers in the case of an outbreak of an infectious disease.

Although the national survey of conditions and development possibilities of slaughterhouses and meat processing establishments has been completed, the action plan to comply with EC standards concerning hygiene, food safety, environment and animal welfare is still to be approved.

Hungary has largely transposed the *acquis* in the field of animal welfare. Outstanding issues relate to alignment with EC welfare rules on the slaughter of animals (setting up of stunning parameters) and on keeping farm animals (minimum standards for laying hens), the preparation of an action plan for the transport of live animals, the extension of the animal welfare inspector network and the development of the animal welfare sub-system of the national veterinary information system.

In the **phytosanitary sector**, the adoption of the Law on Plant Protection represents an important step in transposing the phytosanitary *acquis*, however, the provisions of the law and the required implementing decrees will enter into force gradually from August 2000

until January 2003. The phytosanitary information system at the plant protection and soil conservation stations and at the border inspection posts needs to be further developed. The facilities for phytosanitary diagnostic, including establishment of a quarantine greenhouse have to be upgraded as well as the analytical laboratories related to pesticides registration and residue control.

Chapter 8: Fisheries

Over the reference period no progress was made in terms of alignment with the *acquis* or as regards **market policy**.

In the fields of **resources management, inspection and control**, one inspector was employed in each of the 19 regional offices for agriculture. The staff in charge of fisheries in the Ministry of Agriculture and Rural Development was also slightly reinforced.

State aids available for fish producers in 2000 were regulated in line with the EC Guidelines for the Examination of State Aids in the fisheries and aquaculture sector. All aid schemes were decided by the annual budget with the exception of support for fisheries in natural waters which were financed from state revenues (fees of fishing licences, fines)

Overall assessment

The basic framework legislation is in line with the Common Fisheries Policy. Nevertheless further amendments are needed in order to implement marketing standards and to establish the conditions for the control of live and fresh imported fish.

As regards the administrative structure, further efforts should be made to improve the control of the implementation of common marketing standards, the collection and transmission of data concerning the price reference regime, the application of the recognition conditions for producer's organisations and the implementation of the structural policy for fisheries.

Chapter 9: Transport policy

During the reference period Hungary continued to align with the transport *acquis* although progress was limited.

Hungary has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999 that should form the basis for extending the Trans-European Networks to Hungary. Following the recent adoption of the Szechenyi Plan for economic development, the motorway construction programme, which has not progressed for about two years, will be speeded up, also with the help of the ISPA-programme. Hungary and Slovakia continued preparations on the reconstruction of a bridge over the Danube at Esztergom- Sturovo.

In the area of **road transport** some progress was achieved through alignment with provisions on the use of vehicles hired without drivers for the carriage of goods. In April 2000, Hungary acceded to the European Agreement on the Work of personnel of Vehicles Engaged in International Road Haulage (AETR). After several years of

negotiations, a bilateral Road Goods Transit Agreement with the Community was signed in July 2000.

Public bus-transport companies began to align the system of drivers' driving and rest periods and increased the number of bus drivers with a view to aligning progressively with the social requirements of the *acquis*. € 12,3 million and € 8.4 million were made available in 1999 and in 2000 for modernising the vehicle fleet for long-distance public passenger transport by road. The law on vehicle taxes introduced tax reductions for utility vehicles ("green lorries") with reduced environment pollution. The resulting tax levels are lower than the required EC minimum levels. Furthermore, Hungary aligned its legislation to some parts of the 1999 *acquis* on transport of dangerous goods. It should nevertheless be noted that Hungary does not comply with the *acquis* on weight limits of trucks yet, as it provides for lower axle weight limits than those in the EC.

In December 1999, the reform programme of the Hungarian State **Railways** was adopted providing also a basis for the further alignment with the *acquis*, notably the network rationalisation and the establishment of separate railway commercial and track companies in 2001, thus serving the improvement of the financial situation of railway companies.

The General Transport Inspectorate (GTI) is responsible for road, rail, inland waterways and maritime issues. The major part of its budget is funded through the fees, the levels of which are set by the Ministry of Transport. Some 60-65% of fee revenues come from vehicle inspection. In addition, the Government provides around € 1 million (2% of overall budget) for development and investment. Of this subsidy, 60% goes to IT investment in the GTI, while the remainder is used to purchase equipment. The vehicles register is kept by the Police. Since the database of the Police includes criminal files, the GTI does not have access to it. There is therefore a need for reinforcement of the GTI capacity and for a better administrative co-operation between the GTI and the police.

Some progress was achieved as regards the alignment with the *acquis* in **the air transport** sector. The Government adopted in April 2000 a national strategy on aviation which provided the basis for: the restructuring and privatisation of the national flag-carrier (MALÉV); the development of Ferihegy airport towards a European hub and the reorganisation of Air Traffic and Airport Management; the establishment of an independent civil aviation authority; the establishment of an independent accidents investigation body; the development of (regional) airports and personnel development. In August the Government adopted a privatisation strategy for MALÉV, aiming at selling a minority stake to an investor from the airline industry.

Progress in alignment was made in December 1999, in particular as regards environmental protection, through legislation on the limitation of noise emissions for subsonic and engine driven aircraft and the limitation of noise emissions in the vicinity of airports. The provisions on common rules for the allocation of slots at airports and to a certain extent on rules for the technical investigation of civil aviation accidents were aligned in January 2000. In November 1999, a new automatic air traffic management system was set up at Ferihegy airport and Hungary became member of the common air traffic control system for Central Europe - CEATS-UACC. Hungary also participates actively in the Safety Regulation Commission of Eurocontrol.

The Civil Aviation Directorate, located at Ferihegy Airport, is the first level state authority in the field of aviation. It supervises both the air traffic management and the airport administration (which are currently together in one entity), licenses air operators, provides certificates of airworthiness, and licenses air traffic management staff. State control is secured at ministry level, as are regulatory policy-making and international activities.

In the area of **inland navigation and maritime transport**, the main development was the adoption in May 2000 of the Act on Water Transport (to enter into force in January 2001), creating the basis for enhanced alignment with the *acquis*. In January 2000, Hungary joined the International Convention on Maritime Search and Rescue (SAR). The Law on Water Transport also entrusts the General Transport Inspectorate with more responsibilities and provides the framework for staff increase in the Shipping Superintendence in the Inspectorate.

The modernisation of the national public ports continued in Győr-Gönyű with the connection to external infrastructure and in Baja with the construction of a Ro-Ro port.

Overall assessment

Hungarian policy in the field of transport infrastructure already takes into account the objectives and priorities of the Community guidelines on the Trans-European Transport Network (TEN-T) and the requirements on TEN financing. In the area of road transport, there is, despite progress, a need to further align throughout the subsector with, among others, particularly the provisions on market access, fiscal matters, social legislation and technology, safety and environment (e.g. maximum weights and dimensions).

The new restructuring programme for the state **railways** should become a basis for speeding up alignment in the sector. Any further delay should be avoided. The administrative capacity of Hungarian railways should be further developed. Hungary needs notably to set up an independent rail-path allocation body which would also be responsible for dispute settlement, a separate commercial railway as well as an independent regulator which would oversee capacity allocation and charging schemes. Also accounting rules of railway undertakings need to be brought further in line with the *acquis*.

In the area of **inland waterways** the port authorities and the General Transport Inspectorate should be strengthened.

Further legislative alignment is necessary for the modalities on the transfer of ships from one register to another and the safety system of certain fishing boats and of passenger boats.

Further enhanced efforts to align with the **air transport** *acquis* are needed, notably concerning market access and air carrier liability. New institutions such as an independent accident investigation authority, an independent slot co-ordination authority and a body for licensing and safety need to be established. Hungary should make further efforts to ensure the progressive incorporation of the aviation *acquis* by joining the European Common Aviation Area. Negotiations between the EC and Hungary on this multilateral agreement have unfortunately not yet been completed.

Chapter 10: Taxation

Hungary continued alignment.

In the area of **indirect taxation**, limited progress was achieved. The law on Special Scheme for travel agents was further aligned with the *acquis* as far as rules for the tour package are concerned. A system of classification of services in line with the *acquis* was also introduced. Reduced VAT rates were abolished for a number of goods and services, but reduced VAT rates of 12% are maintained for social reasons in the areas of heating materials and district heating services, foodservices and transportation and storage of goods.

The amendment of the law on Excise Duty eliminated a major structural difference between the Hungarian legislation on **excise duty** and the *acquis*. As from 1 August 2000 an excise duty is levied on wine. Progress was also achieved in the area of excise duties on sparkling intermediate alcoholic products, cigarettes and fine cut tobacco intended for the rolling of cigarettes. Hungary however continued to levy different rates for fruit brandies and other spirits, which is in contradiction with Community rules, which stipulate a single excise duty for interchangeable products.

In the area of **direct taxation** no particular developments can be reported.

As regards the Hungarian Tax and Financial Control Administration, its effectiveness was further improved by the introduction of new measures of tax control, such as the integration of the social security system into the system of tax collection. At the same time, rules for taxpayers were simplified. Also staff at the Hungarian Tax and Financial Control Administration was increased to 13,575; 300 of whom worked in the Criminal Directorate established in 1999. In total, some 700 people work at the central administration, while county directorates employ staff of 400-1400 depending on their size. A new training centre for the tax administration was inaugurated in May 2000 and a new division in charge of education and training was created in order to improve the qualifications of the staff of the tax administration.

The tax current account register was modernised by the introduction of a new Centralised Tax and Contribution Current Account (CAJF) in autumn 1999 and an on-line access to the data in the Court of Registration for the tax authorities was established.

Compared to 1998, the number of inspections increased by 5% in 1999 to 17,700 and the number of audits by 6% to 323,200. Following the above 2,860 investigations were initiated by the Directorate of Criminal Affairs in 1999, of which 717 cases were handed over to the Prosecutor's Office.

Overall assessment

The basic structures of the *acquis* related to VAT and excise duty are already in place. Since January 1999, Hungary has applied a product identification system based on the Combined Nomenclature also for VAT purposes. In the area of VAT the list of products and services with reduced rates will have to be further limited and the zero-rate system will have to be abolished. Excise duties will need to be adjusted concerning mineral oil products, cigarettes, intermediate alcoholic products and fine cut tobacco. The rules on obligatory tax exemptions will have to be brought in line with the *acquis*. In the area of

direct taxation, Hungary has to finalise the review of its legislation in line with the Code of Conduct for Business Taxation. Further progress is also needed concerning the Central Liaison Office (CLO) where preparatory activities have only just started and concerning **cooperation and mutual assistance with tax administrations in Member States**, which needs to be improved.

Chapter 11: Economic and monetary union

A detailed assessment of *Hungary's* economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis*--as defined by title VII of the EC treaty and the other relevant texts--which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Hungary has made little additional progress in its preparation for participation in the Economic and Monetary Union, although in January 2000, the Hungarian currency was linked 100% to the Euro by modifying the currency exchange rate basket previously consisting of 70% Euro and 30% US-Dollar.

No further progress can be reported in ensuring the full **independence of the National Bank** which was a short-term Accession Partnership priority. There has been no other legislative development.

Overall assessment

Hungary will participate in EMU upon accession with the status of a country with a derogation as per Article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Although Hungary's legislation is already to a large extent in line with the *acquis*, further alignment is still needed as regards the independence of the National Bank and in particular the possibility for **direct public sector financing by the National Bank** should be removed together with the **privileged treatment of the Hungarian State Securities**.

Furthermore, the accounting and statistical services of the Central Bank will have to be improved and the institutional framework for the preparation of the convergence programme and excessive deficit procedure will have to be established.

Chapter 12: Statistics

Hungary continued its alignment with the *acquis*.

The **statistical infrastructure** was consolidated with a new law in December 1999 modifying the Statistical Law of 1993 strengthening the independence and impartiality of all official statistical bodies. The law redefined the Hungarian Central Office as a

professionally independent public administrative institution with national competence. Consequently, the president and vice-president of this institution are now appointed for 6 instead of 4 years, thus making the appointment independent from the election cycles. The law also reinforced the protection of personal data transferred to international institutions. The 2000 National Programme of Statistical Data Collection adopted in October 1999 introduced the Classification of products according to activities (CPA).

Concerning **migration statistics** the scope of data collection has been extended with new registers and data sources used providing information on foreigners staying in Hungary. A population census law has been adopted to conduct the census in March 2001.

The **Quarterly Labour Force Survey** (LFS) is conducted in line with EC requirements and data transmitted to Eurostat.

As regards the availability of statistics at **regional** level, more statistics, on services for example, are available on a NUTS II (7 regions) and NUTS III (20 regions) level.

As concerns **macro-economic statistics**, input-output tables and commodity flows were compiled according to the European System of Integrated Economic Accounts (ESA95) methodological recommendations. Quarterly National Accounts on current prices is available. The National Bank has compiled, but not yet published, financial accounts for 1997 and 1998.

In the field of **agricultural statistics**, a census was finalised in April 2000, covering almost 2.2 million households. The census created the basis for the farm register and for structural agricultural statistics and the processing of the data is being carried out. Hungary has not yet set up a vineyard register.

Overall Assessment

Hungary already reached an overall high level of alignment in the field of statistics. Statistical co-operation with international organisations runs smoothly. The Hungarian Central Statistical Office is independent and well equipped and works professionally. However, further efforts are still required in the areas of regional statistics, agricultural statistics, macro-economic and industry statistics.

Chapter 13: Social policy and employment

Amendments to the **Labour Law** further aligning with the *acquis* on collective redundancies, the contract of employment relationship, health and safety of temporary workers, the organisation of working time, the protection of young people at work, European Works Councils and posting of workers are before Parliament.

Since January 2000, following a reorganisation, the National labour inspectorate was operating as the national enforcement authority, with the 20 county inspectorates again operating under the supervision of its headquarters. It was already upgraded technically in 1999 and staff underwent training, in particular in the area of languages.

The amendments to the Labour Law will also have implications for the further alignment of the *acquis* in the area of **equality of treatment**, in particular with respect to burden of proof and equal pay. Efforts were undertaken to promote mainstreaming, train the legal

profession, raise awareness and to offer free legal advice. Hungary has also continued to participate in the Community programme on equal opportunities.

Legislation on **health and safety** was further aligned with the *acquis* on exposure to biological agents, display screen equipment and personal protective equipment. Legislation also was further aligned with the *acquis* on chemical, physical and biological agents and indicative limit values (with the adoption of the chemical safety law in April 2000), work equipment, signs, workplaces and mineral extracting sites. The remarks under the labour law section on the National labour inspectorate also apply here. The Mining Office has also participated in training organised by the labour inspectorate and is being technically upgraded.

The reform of the **public health** care system was pursued during 1999-2000. The Health Development Research Institute was established and the law on the privatisation of general practitioners' practice, adopted at the beginning of 2000, provides the basis for the privatisation of primary health care. A package of strategic papers in key areas on the reform of the health sector was presented to government. Hungarian health indicators continued to be below those in the EU and efforts are required to improve this situation. The National public health and medical officers service, was, in common with the National labour inspectorate, upgraded technically in 1999. Training, particularly with regard to language skills also took place.

Restructuring of **Social dialogue** started in 1998 and continued in 1999, with the aim of distinguishing between labour issues and issues of national economic and social policy and to widen consultation on economic issues. In addition, whereas collective agreements covered 1.2 million people in 1999, most of these agreements are concluded at enterprise level, pointing to a weakness at the intermediary sectoral level. There are also indications that collective agreements are increasingly not being signed and unions not recognised at enterprise level. The government, in accordance with the accession partnership, launched a project aimed at preparing the social partners for participation in social dialogue at European level. At the same time however, this also requires the active promotion of sound developments in social dialogue within the country. Lack of effective consultations at national level could have negative effects on social dialogue, not only at European level, but also at the decentralised level (sectors, regions and enterprises). No concrete steps have been undertaken to strengthen autonomous social dialogue at these levels. There are however some concerns about the results of the dialogue and the Government should make additional efforts to ensure that real dialogue is taking place and is followed up in the appropriate manner. In particular, the Economic Council is merely used by government to transmit information to a wide range of representatives of society, including the social partners, with no opportunity for dialogue.

Since 1997 employment growth has been around 1-2% a year and in 1999 the employment rate was 55.7%. The employment rate for women (49%) is still considerably lower than that for men (62.2%). The relatively low employment rate for young people under 25 and older workers remains. The government has set the objective of increasing the level of employment, decreasing the level of unemployment and establishing a more flexible labour market. Active measures have been implemented in order to combat the large informal sector. Passive labour market measures are being substituted by a more active and preventive approach in line with the European Employment guidelines. In accordance with the Accession Partnership the Joint Employment Policy Review was launched last year and the Joint Assessment of

Employment Policy Priorities has advanced. Further legislative progress was made with a view to preparations for administering support received through the **European Social Fund (ESF)** and training and organisational efforts have been increased. With the intention of giving employment policy a strong macroeconomic dimension, general responsibility for employment matters has been given to the Ministry of Economic Affairs. This Ministry has therefore become the lead Ministry for ESF activities.

Hungary seeks to maintain a balance between **social protection** and economic possibilities. Reforms in hand include invalidity and disability benefits, family support, social assistance, care services and the review of pension reforms already implemented. Improvements in the field of care for the elderly and support for child care have been made through modifications to the law on social administration and social assistance and the law relating to child support. A National programme for the disabled was adopted in December 1999 with an implementing action plan adopted at the beginning of 2000 focusing on working conditions and access to public buildings. In the framework of the programme rehabilitative working groups were created within the labour centres; a pilot-program was launched and adequate dwellings were established. Another element of the programme is to ensure that companies employing over 20 persons reserve 5% of posts for disabled people. The programme also aims at improving the accessibility of public buildings to physically handicapped people. Implementation of the programme is co-ordinated by the Council on Disability Matters. Its further role is to advise on the legal framework, to co-ordinate activities related to the target group and to inform the government on a regular basis regarding the living conditions of the disabled.

Overall assessment

Progress was made in terms of legal transposition in all areas. However, implementation of legislation is frequently scheduled to take place later on and in some cases not until the time of accession. This will make it difficult to monitor implementation and enforcement. Health indicators are poor compared to the EU. Attention will need to be paid to the enforcement and implementation of, in particular, health and safety and labour law directives. Indeed, while work on transposition has advanced well in 2000, considerable work remains to be done with respect to the implementation of the *acquis* on health and safety. Most directives are to be implemented gradually, but before accession. For example, the directive on personal protective equipment was transposed in December 1999 but will be implemented gradually before accession. The directives on carcinogens were transposed in September 2000 and are also to be implemented between this date and accession. The real extent of this gradual implementation needs to be closely monitored for these and for most of the remaining directives in the health and safety field.

Further work is required to align Hungarian legislation with the directive on equality of treatment.

Social dialogue is not accorded the requisite importance and this situation needs to be addressed. The new structures need to be used in a way that permits effective social dialogue. There is a need to actively promote sound developments in social dialogue within the country. The lack of effective consultations at national level is harmful to social dialogue, not only at European level, but also at the decentralised level (sectors, regions and enterprises). Hungary needs to take steps to strengthen autonomous social dialogue at these levels.

Hungary has made progress in transforming the labour market and is adapting its employment system so as to be able to implement the European Employment Strategy. Nevertheless, Hungary still faces major challenges, in particular the need to review the tax and benefit systems in order to increase incentives for people to participate in the labour market, the need to enhance the low employment rate, in particular for women and older workers and the need to reduce the size of the informal sector. Preparations for future participation in ESF should continue.

Hungary recognises the need for sustainable, universal social protection and subscribes to principles agreed by the Member States. The stated overall aim is to improve the level and efficiency of social protection. Health care reforms, long discussed, have yet to show progress.

Legislation transposing the EC Directive based on Art. 13 of the Treaty relative to discrimination on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Following the adoption of the Hungarian Energy Policy Principles and the Business Model of the Energy Sector in August 1999 further progress was made concerning preparations for the **internal energy market**.

The Government had submitted, in early 2000, a draft law on electricity which had to provide, as from January 2001, for a limited test market opening, within Hungary, of about 15% of the total annual consumption. Parliament has not yet adopted the law and the opening of the market will therefore be delayed.

As regards the **security of supply**, oil stocks had already well exceeded the level of at least 90 days average daily internal consumption, but some technical adaptations are necessary for full alignment with the *acquis*.

No significant progress was made in the gas sector.

Electricity prices were increased in January 2000 by 6% and gas prices in July 2000 by 12% . These increases contributed to progressively eliminating price distortions, which is crucial in the internal energy market.

As regards solid fuels, the closing down of mines continued in 2000 in line with the medium term strategy for coal-mining of 1999. While the role of solid fuels was declining, the lignite industry needs to be further rehabilitated in order to conform with environmental protection requirements.

In order to enhance energy efficiency which is still relatively low, the Government adopted a new € 6.2 million energy efficiency programme in September 1999. The programme is implemented by the Energy Centre which was merged with the Energy Information Agency in September 2000. In the Energy Centre 20 staff are responsible for energy efficiency, environmental issues, statistics and project management. This new Centre - co-owned by the Ministries of Economy and Environment as well as the Hungarian Energy Office - strengthens institutional capacity in this area. In parallel the energy efficiency labelling *acquis* for household appliances was further aligned. Hungary also participated in the Save II Programme from 1999.

As regards **nuclear energy**, further nuclear safety upgrading continued to be carried out at Paks nuclear power plant, in particular with the installation of a new automated information system and a complete overhaul of the reactor protection system and the replacement of the batteries. The utility is closely watching the results of the in-core behaviour tests of Western made VVER fuel, performed at the Finnish VVER 440 plant IVO Loviisa. If the tests are successful this might offer, not earlier than 2002, a possibility for VVER fuel supply diversification, which would fit into the EC's diversification policy.

Low and interim level radioactive waste is deposited at the Radioactive Waste Treatment and Disposal Facility at Puspokszilagy which has currently only limited capacity. A strategic and technical plan is being elaborated to undertake the necessary upgrading activities. In parallel, alternative sites are being examined for a low and interim level waste repository. The Ministry of Health co-ordinates radiation protection activities within the framework of the National Radiation Protection System. There is also a joint database on radiation protection. The Ministry is also in charge of issuing licenses for the operation of radioactive waste storage facilities and regularly checking their activities.

Spent fuel is stored at an Interim Storage Facility on site for which, as a first step, capacity was increased by a further four modules by the end of 1999. Hungary is also preparing for the final disposal of high-level, long-lasting radioactive waste in a deep geological disposal facility, but further examinations will be necessary, in order to decide on the suitability.

Overall assessment

Hungary had already adopted the main principles of the internal energy market and set the framework for further alignment with the *acquis* with the long term energy strategy of July 1999. It is however necessary to fully implement these principles as well as to take account of *acquis* developments. Remaining issues concern the further liberalisation as a preparation to the internal energy market (electricity and notably the gas directives). Energy efficiency, still relatively low, and promotion of renewable energy sources need continued attention. The law on the Security Stockpiling of Imported Crude Oil and Petroleum Products will have to be further aligned with the *acquis*, although the 90 days of stocks are already available.

On the institutional side the Ministry of Economic Affairs is responsible for energy policy. The Ministry sets prices for electricity and natural gas with annual tariff schemes adjusted in January and July respectively. The main regulatory agency is the Hungarian Energy Office, (staff 83). It is responsible for, among other things, licensing, **price** matters and consumer protection. The independence of the 'Hungarian Energy Office needs to be strengthened in view of its future tasks as a regulator as required in the internal energy market.

As regards nuclear energy, Hungary has four VVER 440/213 nuclear reactors in operation at Paks, which are considered to be up-gradable to international safety levels. Nuclear power currently provides about 38% of the country's electricity production. The EU has repeatedly emphasised, most recently at the European Council in Helsinki, the importance of a high level of nuclear safety in candidate countries in the context of the Union's enlargement. In this context, Hungary has been pursuing, since 1996, an extensive upgrading programme and periodic safety reviews are conducted similar to

Western practices to determine the upgrading measures to implement. The systematic safety re-assessment is performed in ten-year intervals and includes the assessment of the actual physical condition of the plant, equipment qualification, safety analysis, ageing and residual lifetime assessment, safety performance and reliability indicators, use of experiences from other nuclear power plant and research findings, human factors, plant procedures, organisation and administration. Additional work is still needed to ensure containment integrity following a severe accident. The safety of Paks Nuclear Power Plant was also reviewed several times by international organisations.

Hungary is a party to all major international legal instruments and member of the International Atomic Energy Agency (since 1957) and the OECD Nuclear Energy Agency (1996)

Longer term solutions for spent fuel and nuclear waste need to be developed.

The National Atomic Energy Committee is the government's main body in ensuring the peaceful use of nuclear energy. Although it operates under the supervision of the government, the Committee is an independent authority with a separate budget. The Committee has a unified and efficient system for averting nuclear accidents. It supervises the work of the Hungarian Atomic Energy Authority which became already in 1997 an independent regulator. The Authority (staff 82) is responsible for licensing tasks and all nuclear safety matters, civil structures in nuclear facilities, technical radiation protection and emergency response plans of nuclear facilities. It thus has a profile comparable to that of western European regulatory bodies. However, its assessment capabilities with regard to regulatory issues need to be increased as well as its competence in the fields of radiation safety and fire protection. Its operations are financed from the central budget and from fees to be paid by the licensees for the regulatory and administrative activities. There is however a need to ensure sufficiently attractive salaries in order to retain skilled staff in the Atomic Energy Authority. Since the entering into force of the Law on Emergencies in 2000, the Authority has gained a more prominent role in emergencies.

Within the Hungarian Atomic Energy Authority, the Nuclear Safety Directorate acts as the authority of first instance in all nuclear safety regulatory issues of nuclear facilities. It issues facility, system and equipment safety licenses and carries out independently an extensive inspection programme.

The Central Nuclear Financial Fund set up in January 1998 and financed by parties using nuclear energy meets, among others, the costs of decommissioning and of waste disposal. Final disposal of the radioactive waste and temporary storage of the spent fuel, together with the activities related to the tasks of decommissioning the nuclear facilities are carried out by the Public Company for Radioactive Waste Management.

Hungary continued to prepare the implementation of Euratom safeguards. In this respect the entering into force in April 2000 of the Additional Protocol to its IAEA Safeguards Agreement is to be noted.

Chapter 15: Industrial policy¹⁵

Over the reference period Hungary further developed its industrial and enterprise policy.

The **industrial strategy** of Hungary continued to be based on the improvement of the competitive economic environment and the maintenance of balanced growth. In line with the Széchenyi Plan for National Development more emphasis was put on investment (motorway construction programme), innovation, the development of small and medium-sized enterprises, tourism development, environment protection, regional economic development and IT development, as well as further development of the sub-contracting programme that aims to remove the current dual structure of the Hungarian economy and strengthen the supply linkages between domestic SMEs and multinational companies. **Privatisation** was practically completed (see *chapter 2 economic criteria*).

The process of **industrial restructuring** continued. Several industrial sectors (manufacturing of wood, paper and printing, manufacturing of furniture) increased employment by 8% in 1999. Employment increased by 3-8% in engineering, chemical industry, while it decreased by 3-8% in the textile industry, mining and quarrying, and electricity production. Overall employment rose by 0.8% in industry and by 1.7% in manufacturing.

The inflow of **foreign direct investment** (FDI) continued to be strong and was 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 (see chapter 2 on *economic criteria*). Also the intensity of intra-industry trade with the EC continued to increase.

No further substantial progress was made during the year in **restructuring the steel industry** and Hungary did consequently not address the relevant short-term Accession Partnership priority. A restructuring plan was submitted to the Commission in February 2000 in justification of a request for an extension of the 'grace period' for another 5 years starting in 1997. However, the Commission could not accept this plan. (see also Chapter 6 – *Competition*).

Overall assessment

Significant convergence could be noted between Hungarian industrial policy and the principles and objectives of EC industrial policy. In the light of the elaboration of the Széchenyi plan, in parallel to the Preliminary National Development Plan, a strong and well-functioning co-ordination between the Ministries in charge of each plan will be essential to foster a coherent approach, an efficient use of resources and avoid overlaps between the strategies. In line with its obligations under the Europe Agreement Hungary will need to proceed with the restructuring of the steel industry.

The central body responsible for the formulation and co-ordination of the country's industrial policy is the Ministry of Economic Affairs (MEA). To implement the goals of industrial policy, the government has a special financial institution, the Hungarian

¹⁵ Developments in industrial policy should be seen in relation to developments in the context of SME policy (see Chapter 16 – *Small and medium sized enterprises*).

Development Bank. It is supported by the Hungarian investment and trade promotion agency.

Chapter 16: Small and medium-sized enterprises¹⁶

Policy was further developed in the reporting period with the preparation of the Széchenyi Plan, a National Development Plan by the Ministry of Economic Affairs. The Plan targets SME development as one of its strategic development objectives.

The specific SME programme outlined in the plan aims at developing the business culture and skills and improved access to finance. The Plan further proposes certain measures to improve and simplify administrative procedures. Of particular relevance to SME development are also the separate programmes in the area of sub-contracting and tourism development in the plan.

In November 1999 further progress was made concerning the **definition of micro, small and medium sized enterprises** with the adoption of the Law on small and medium-sized enterprises. The definition largely conforms with the EC definition regarding the number of employees and the independence criteria but financial thresholds are calculated differently. The SME Law further establishes the framework defining the eligible areas of state support to SME programmes through a specific budget line. It further established the responsibility for the co-ordination of SME policy and programmes (Ministry of Economic Affairs) and the specific co-ordination tasks and procedures.

The Law also created the Enterprise Development Council, a body with representatives from the ministries concerned, chambers as well as national organisations in charge of promoting the interests of small enterprises. The Council participates in the elaboration of policy and programmes for SME development, evaluates the efficiency of implemented programmes, and gives its opinion on draft legislation affecting small enterprises.

The Széchenyi Plan recognises that major deficiencies persist in **the business environment** (legal and administrative) and proposes certain measures aimed at reducing in particular administrative burdens. One of the main problems in the business environment of 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%. On the other hand the reduction of the social security contribution from 42% to 39% had an especially positive effect on SMEs.

Overall assessment

The SME policy of Hungary is overall in line with the principles and objectives of the EC Enterprise policy. Market access of SMEs could still be improved and in this context the efficiency of support through the various SME support schemes remains to be assessed. A well-functioning co-ordination between measures under the Széchenyi Plan, previously existing schemes and local economic development schemes launched in the framework of

¹⁶ Developments in policy towards small and medium sized enterprises should be seen in relation to developments in the context of industrial policy (see Chapter 15 – Industrial policy).

preparing for structural funds (in line with the parallel Preliminary National Development Plan) will be essential to the efficient use of resources in the SME development field.

Legal and administrative burdens to entrepreneurial activity and access to finance require continued attention and efforts in the context of improving the competitiveness and growth of Hungarian SMEs. The aims outlined in this area in the Széchenyi Plan are therefore positive, provided that they are followed up with concrete implementing measures. Positive note is also taken of the creation of the Enterprise Development Council and the further involvement of the business community in the policy dialogue it lays the ground for.

Economic growth is still hindered by the shortage of capital and micro credits available to SMEs and the high capital intensity of research and development, especially within manufacturing, is an effective barrier to the market access of SMEs. The SME Target Fund tries to address this issue together with other funds in support of SMEs such as the Economic Development Target Fund, the Tourist Target Fund and the Active Employment Target Fund.

Chapter 17: Science and research

Hungary has made further progress in this area since the last Regular Report.

As from January 2000 the responsibility for the coordination of the **5th Framework Programme** in the field of research and technological development (RTD), including the operation of the system of National Contact Points, was transferred to the Ministry of Education, following the integration of the former National Committee for Technological Development into this ministry.

Financial support to the sector reached 0.68% of GDP in 1999 and will be increased gradually to 1.5% of GDP in the medium-term.

Overall assessment

Since August 1999 Hungary has been associated with the 5th Framework Programme in the field of research, technological Development and Demonstration (1999-2002) and with the EURATOM Framework Programme. So far, Hungary's involvement in these programmes has been relatively successful.

Hungary is also a member of EUREKA and COST. The programmes provided further opportunities for Hungarian scientists to play an active role in European research and technological development. The institutional structure of science and research is well established and operates with qualified staff.

Chapter 18: Education and training

During the reference period Hungary continued to progress in this area.

Hungary continued to participate in the **Community Programmes** (*see part A – Introduction*). In addition, an Association Council decision was adopted to allow participation in the second phase of the Socrates and Leonardo da Vinci programmes

(2000-2006). Preparations have also been made for participation, as of 2000, in the new Youth programme, which includes European Voluntary Service activities.

During 1999, there has been progress in the field of upgrading **education**. The management of education was unified and the conditions for the co-operation between the educational sector and the labour market improved. Furthermore, the budget for education was increased by nearly 30 % in 1999. Progress was also made with the adoption of a new law on adult education, providing the framework for life-long learning based on EU experience. Under the law, continuous training and education and the use of modern teaching methods will be enhanced.

Vocational training was gradually aligned with EU practices and objectives. During 1999, it was put under the supervision of the Ministry of Education. A network of Public Education Evaluation and Examination Centres was established which took part in implementing a single quality assurance system, contributing to quality vocational education, training and equal opportunities.

The National Institute for Vocational Education has started a rolling programme to update and modernise the National Vocational Qualification Register in line with the changing needs of the economy. In addition in January 2000, 460 National Vocational Qualifications transferred from the Ministry of Economic Affairs to the Ministry of Education with the effect that the Ministry of Education is now responsible for 50% of all National Vocational Qualifications.

Overall assessment

In general, Hungary is in line with the respective *acquis*, notably the **directive on education of children of migrant workers**. A wide net of education facilities exists to facilitate education. Training of teachers in schools with a high number of immigrant pupils continues to be provided. In principle, there is no discrimination against EU citizens in the field of education.

Participation in relevant Community programmes is successful and the implementing institutions function smoothly.

Chapter 19: Telecommunications and information technologies

Hungary continued to progress in this area.

In this sector, as a further step in tariff re-balancing, call rates were reduced in February 2000 between 12% and 38% whereas rental charges were increased by 50%.

Adequate standards were adopted in the framework of Common Technical Regulations.

In the area of conformity assessment further alignment with the *acquis* was achieved in August 2000 with the adoption of legislation on type approval of terminal equipment and mutual recognition of the conformity. Radio equipment and telecommunications terminal equipment have now to respect the technical specification of the *acquis* and the provisions on the mutual recognition of their conformity.

In the field of mobile telephony, further competition was introduced by licensing a third network in September 1999.

As to institutional aspects of policy making and **regulation**, the responsibility for the communication sector was transferred in June 2000 from the former Ministry of Transport, Communications and Water Management to a Government Commissioner within the Prime Minister's Office. The Commissioner is in charge of telecommunications regulation, governmental informatics, the information society and postal services and the Hungarian Communications Authority (HIF) reports to him.

No significant progress can be reported as regards the liberalisation of **postal market**. Hungarian Post is 100% state owned. Tariffs are set by the Government. In autumn 1999 postal services were further modernised with the establishment of telepost offices at local level offering the possibility to use IT services in addition to the usual postal services.

The Government Commissioner in the Prime Minister's Office is also responsible for the regulation of post. He is assisted in his duties by the Postal Services Directorate (staff: 10 people). Its duties include monitoring/supervision of the postal sector, preparation for the liberalisation of the market and postal regulation activities.

Overall assessment

In the **Telecommunications market** there is already a high level of alignment and the markets are in principle open to competition except for exclusive rights for fixed network long distance and international voice telephony and for certain local calls. The fixed network operation MATAV is fully privatised (except for a golden share of the state). Outstanding issues relate in particular to the alignment with the terms and conditions of universal service.

The responsibilities of the **Postal Service Directorate** have to be further brought into line with the *acquis*, notably by introducing the system of "universal service provider" together with the definition of postal services including postal packages. The postal service has still to improve its processing capacity and delivery system and supervision and control of accounting needs to be further strengthened.

Chapter 20: Culture and audio-visual policy

Since the last Regular Report, limited progress in alignment with the **audio-visual acquis** was achieved. In November 1999 a Government Decree was adopted for granting certain telecommunications licences. This allows for the implementation of the Convention of the Council of Europe on Transfrontier Television with regard to certain satellite broadcasting services.

In October, Hungary ratified the Protocol to the Council of Europe Convention on Transfrontier Television, to which it is already a party.

Overall Assessment

On the whole, Hungary has made limited progress in alignment with the Community *acquis*. Therefore additional efforts are still needed to align in this area. The adoption by Parliament of the Media Law, which has been pending for over one year now, should be

an important step in this direction, although further steps will probably be necessary. Hungary has thus not met the 1999 Accession Partnership short-term priority, requiring the completion of alignment to the audio-visual *acquis*.

The National Radio and Television Board is the regulatory and monitoring body and is entrusted with the necessary powers for the implementation of the broadcasting legislation. The Board is independent from the executive, and its members are elected by Parliament for four years on the joint proposal of the Prime Minister and the President of the Republic. The operations of the Board are funded by the Central Budget. It is adequately staffed and equipped.

Hungary has demonstrated effective administrative capacity for implementing the *acquis* in the area of **culture**, in particular through its participation in the Community programmes.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the 1999 regular report, some progress has been made in this area.

While no development can be reported concerning the **territorial organisation**, Hungary has adapted its **legal framework** for the implementation of future Structural Funds. In October 1999, the Law on Regional Development and Physical Planning was amended to confirm the establishment of the seven Regional Development Councils at NUTS 2 level and to define their role in programming and implementing regional development programmes. The Regional Development Agencies, the implementing bodies of the Councils, were further strengthened by additional staff and training.

Hungary has started various initiatives on **programming**. At the national level the so-called Széchenyi Plan for economic development was prepared by the Minister of Economy. The **Preliminary National Development Plan** (PNDP) was approved by the Government in April 2000. The Plan was a first attempt towards the development of a comprehensive and detailed National Development Plan in line with Structural Funds principles. In a further step, linkages between assessments and proposals will need to be strengthened. This exercise will also need to be better co-ordinated with the Széchenyi Plan. The PNDP identified three target regions (similar to NUTS II level) which received a contribution from the Phare programme as well as national and local funding to develop the capacity to implement integrated regional development programmes and to prepare Hungary's participation in the Structural Funds. The three target regions are Northern Hungary; the Northern Great Plain; and Southern Great Plain. In addition, other programming documents were prepared by the Government for the ISPA infrastructure developments in transport and environment and the SAPARD Plan on rural development (*see section A.b on Relations between the European Union and Hungary*).

The Minister of Economic Affairs was entrusted with the task of overall **co-ordination** of regional policy. A new Regional Development department within the Ministry was set up at the beginning of 2000, to take charge of ensuring the link between internal economic cohesion and regional development policy. The sectoral responsibilities for the Structural/Cohesion Fund(s) are distributed between the various Ministries concerned. The Ministry of Agriculture and Regional Development plays in this context an important role as it prepares for the implementation of the ERDF.

Inter-ministerial co-ordination was reinforced with the establishment of an Inter-ministerial Committee for Development Policy Coordination. The committee supervises and co-ordinates the work in the context of elaboration of the Preliminary National Development Plan.

At local government level, the modernisation of public administration continued with training for civil servants in EU matters. Government also allocated around € 2 million for integrating small municipalities into so-called micro-regions. This should increase efficiency, and contribute to a clear identification of needs and measures in the context of the regional development planning process. The local and regional level, as well as the economic and social partners, is involved in planning and implementation of programmes through the National Regional Development Council and the seven Regional Development Councils.

Concerning **funding aspects** of regional development, the State Budget Law of 2000 introduced two new financial instruments for regional (€ 44 million) and rural development (€ 14 million). Financial support for the most disadvantaged areas (Borsod, Nópád, Szabolcs, Békés Somogy) comes from the Hungarian Central Budget. In 2000, 20 % of the sectoral targeted budget was allocated for this purpose. Government also decided that those regions which had not been selected as target regions within the Preliminary National Development Plan would receive adequate support from the Central Budget as of 2001. This will be spent in line with the PNDP approach (*see also chapters 28: Financial Control and 29: Financial and Budgetary Provisions*).

Overall Assessment

Overall, Hungary has made significant progress in developing the necessary structures for the implementation of structural funds after accession. However, some issues remain to be tackled. The implementing capacity of the Ministry of Agriculture and Regional Development needs to be further developed, and procedures for inter-ministerial coordination must be further reinforced. Also, the role of the regions, which correspond to the NUTS level II, needs to be clarified. On the whole, the amended Law on Regional Development and Physical Planning of Hungary has both positive and negative elements in the context of the future implementation of Structural Funds. The changes have increased the importance of the regions, which correspond to the NUTS level II, and further clarified the role of the different institutions. However, the decision making framework on the regional level raises important concerns in respect of its ability for efficient decision making and respect for programming principles.

The Preliminary National Development Plan has to be further developed and brought in line with the requirements of structural policy and initiatives taken by Hungary on national/sectoral level. In this context, a strategic medium and long term view is required on the future role of sectoral policies and regional operational programmes.

Working capacity both at national and regional level enabling the implementation of Structural Funds and the Cohesion Fund needs further significant strengthening in the framework of the strategic view mentioned above.

Also the financial control structures at regional level would have to be strengthened.

As to regional statistics, data for the determination of eligibility are available for Objective 1 and INTERREG criteria. More importantly, the provision of data necessary to meet the ex-ante evaluation requirements has yet to be assured. For instance, at NUTS 2 level, very limited data exists concerning social indicators and structural business statistics.

Chapter 22: Environment

Compared with the ambitious National Environment Protection Programme for 1998-2002 and the 1999 NPAA, little progress in terms of legal alignment was made over the last year.

In the framework of the revised NPAA, Hungary has however reassessed the remaining tasks and has for all sectors and for almost all directives established a harmonisation process accompanied in most of the cases with plans for financing investments indicating the various funding sources on a yearly basis as foreseen by the relevant short-term Accession Partnership priority, taking into consideration the costs of administrative capacity building.

Due to its geographical location, Hungary is heavily dependent on efficient regional co-operation on environmental matters. Despite a number of initiatives, concrete steps of co-operation with neighbouring countries could not be formalised yet. Following a series of industrial accidents in Romania, the Environmental Ministers of Hungary, Ukraine, Romania and Slovakia signed in April 2000 a joint declaration on the need to co-operate in averting ecological disasters in the region based on the “polluter pays” principle as well as the identification of environmental “hot spots” (regional inventory). At the same period the Environment Ministers of the four Visegrad countries signed a declaration on continuous exchange of information about the economic effect of the approximation of EC law in the area of environment as well as the most cost effective implementation of the related regulations.

In the area of **horizontal legislation**, the Espoo Convention entered into force in October 1999. Trans-boundary environmental impact assessment procedures have now to be applied in respect of the activities falling under the scope of the Convention. Legislation has been further aligned with the Environmental Impact Directive concerning the scope of activities, but further efforts will be necessary to fully transpose and properly enforce the Directive as stipulated by the relevant short-term Accession Partnership priority.

Little progress was made in the field of **air quality** with the adoption of the legislation aligning with community measures on quality of petrol and diesel fuels, whilst the marketing of leaded petrol has been prohibited since April 1999.

An air quality database was established at the Institute for Environmental Management to ensure the uniform data supply in the context of the different reporting requirements, but is still lacking skilled staff (training is ongoing) and adequate equipment.

The adoption of an Act on **waste management** in June 2000 was an important step in aligning with the relevant *acquis*. This is a framework law, which will allow the adoption of secondary legislation on specific types of waste that are currently all missing. The law, which represents one of the short-term Accession Partnership priorities for environment, will enter into force only in January 2001. A computerised register of authorisations

concerning waste management was set up under the municipal solid waste programme and four modern regional landfills serving 51 municipalities were established. Out of the 2,700 waste storage facilities, only some 30% comply with domestic standards and the number of illegal facilities is high constituting potential source of environmental damage.

In relation to the **water sector**, in spring 2000 the provisions of the Directive on the protection of groundwater against pollution caused by dangerous substances have been further aligned. Some progress was also achieved concerning the harmonisation of the urban wastewater treatment Directive, whereas important implementation steps have been taken in relation to the same Directive with the construction and upgrading of wastewater collection and treatment plants at several major municipalities. In March 2000 three new automatic water quality-monitoring stations were installed along rivers, in the framework of the implementation of the Directive on the quality of surface water used for the abstraction of drinking water.

As to **nature protection** further progress was achieved in September 1999 concerning the transposition of the Habitats and Birds Directive and a list of Specially Protected Areas as required under the wild birds Directive is currently being compiled. Legislation concerning the use of animals in laboratories for experimental purposes was aligned with the *acquis* and the use of leghold traps was definitively banned as from April 2000, although implementing measures should be taken in order to fully comply with the relevant Community Regulation.

In the field of **chemicals, risk management and biotechnology**, a Law on chemical safety was adopted in April 2000, providing the framework for harmonisation with the main Community legislation on chemicals. The implementing legislation, which will ensure compliance with the corresponding environmental *acquis* needs still to be drafted. The Law on the Control and Organisation of Catastrophe Prevention and on the Prevention on Major Accidents Involving Dangerous Substances was adopted in June 1999 and partially transposes the Seveso Directive, but implementing legislation for its full transposition should be further established. In January 2000, the National General Directorate for the Prevention of Disasters started operation under the Ministry of the Interior and is responsible for authorisation of establishments in which dangerous substances are produced, used, handled or stored. The new body integrates also the National Command for Civic Defense and the National Command of the Fire Brigade. Implementing measures have been taken in relation to Genetically Modified Organisms with the adoption of a Law and the establishment of a Committee for Advising on Gene Technology Procedures.

In the sector of **noise** some implementation measures started, namely the designation of certifying bodies for the quality assurance as regards noise emissions, as well as the establishment of an additional noise laboratory at the Institute for Environmental Management.

As to **nuclear safety and radiation protection**, some progress was made with measures taken in relation to the Directive on informing the public in case of a radiological emergency and the adoption of a decree that harmonises the Directive on Basic Safety Standards (*see also chapter 14: Energy*).

On the institutional side, the Ministry of Environmental Protection assumes the overall responsibility in the field of environment. It is primarily in charge of policy-making and

legislation. Its functions are carried out in collaboration with six other line ministries which have partial responsibilities in the following areas: flood protection and water quality, household waste management of municipalities, air and water quality, radiation protection, soil, forestry and bio-diversity issues. Main responsibilities in the field of nuclear safety belong to the National Atomic Energy Agency under the Ministry of Economic Affairs. In addition, the Prime Minister's Office assumes a certain role in co-ordinating overall government interests. The work of the Environmental Minister is supported inter alia by an independent advisory body called the National Environmental Council.

Implementation and enforcement of environmental legislation is primarily carried out by the 12 Regional Environmental Protection Inspectorates and the Nature Conservation Authority and its 9 National Park Directorates under the supervision of the Ministry. Currently, some 1,337 persons are employed at the inspectorates which number will be complemented by an additional 59 in 2000. The number of staff employed at the Authority and Directorates was be complemented by additional 39 in 2000.

The environmental inspectorates are responsible for: (i) imposing fines, granting licences, (ii) on-the-spot checks and monitoring of implementation/enforcement; (iii) maintaining laboratories and (iv) reporting. The result of their monitoring activity are fed into regional registers which provide the basis for the National Environmental Protection Information System. The Inspectorates also compile summary reports on the potential sources of pollution, the major polluters and the number/quality of licenses issued. So far, only the computerised data register on waste water is compatible with EC standards. Otherwise, there exists in other areas no unified data register and an adequate system of data supply is not operational yet, which makes the exchange of information on the international level difficult.

Overall assessment

So far, only limited progress was achieved in this area.

Hungary did not address the short-term Accession Partnership priorities related to the alignment with the Integrated Pollution Prevention Control Directive, the safety standards for radiation protection and the enforcement of the Environmental Impact Assessment Directive. However, a wide range of environmental laws are scheduled for the end of 2000.

Further efforts in aligning with the *acquis* are needed in particular in the following areas: horizontal legislation in order to ensure access to environmental information, implementing legislation for waste management, water quality standards for drinking and bathing water as well as for the aquatic environment and for the treatment of waste water, industrial pollution and prevention control, noise limitations for construction equipment and household appliances. As regards noise, only the sources of noise are registered/measured and methods/technology on measuring noise impact still need to be introduced.

The administrative capacity also needs to be further strengthened. The position of the Ministry of Environmental Protection continued to remain weak due to the wide distribution of responsibilities related to environmental issues. The legal department of the Ministry is particularly weak. Given the fact that Hungary should accelerate the pace

of transposition the legal unit of the Ministry should be adequately strengthened by additional qualified staff. At central level, coordination between ministries dealing with environmental issues needs to be improved. The structure and responsibilities of Regional Inspectorates should be reviewed and its staff trained in order to be able to enforce the obligations imposed by the *acquis*.

Hungary should also further develop its monitoring and data register system, notably in the fields of air, soil and noise.

Hungary has been an active member of AC-IMPEL (Associated Countries for Implementation of Environmental Legislation) since it was established in 1998. AC-IMPEL is an informal network dealing with issues of implementation and enforcement of Community environmental legislation in the candidate countries. This network closely cooperates with EU-IMPEL. The next plenary meeting of AC-IMPEL will be held in Hungary and will, inter alia, assess the countries' implementation and enforcement capacities in relation to the environmental *acquis*, making recommendations in relation to an eventual restructuring of the administration in this field.

Chapter 23: Consumers and health protection

During the reference period no further progress was made in terms of legal alignment.

The Government's programme for 2000 includes a separate chapter on consumer protection policy to be implemented from 2000-2002. The programme also provides for resources set aside in the budget for these matters, and foresees the establishment of an efficient institutional structure, the modernisation of market surveillance, and a higher degree of safety of goods and services for the protection of consumers.

The various structures created for implementing consumer protection policy are functioning smoothly, and newly created bodies have started their operations, but their staff need to be trained adequately. Overall, the institution in charge of consumer protection is the Ministry of Economic Affairs assisted by other Ministries for the areas of their competence (justice, health, agriculture and rural development, environment, transport). The Office of Economic Co-operation is in charge of procedures against unfair manipulation of consumer choice. The General Inspectorate for Consumer Protection is responsible for enforcement of the consumer and health protection; its activity is financed from the central budget. The Inspectorate also started to set up a transitional RAPEX (Rapid Exchange Mechanism) system for co-operation with Central and Eastern European countries.

In the area of **market surveillance**, a Central Information System was set up in 1999 providing information on inadequate and dangerous products.

In autumn 1999, Arbitration Boards were established in all counties, with the aim of reaching a quick and efficient out-of-court settlement of any individual disputes arising between consumers and supplies or service providers concerning the quality and safety of goods and services, the application of product liability rules, and the conclusion or fulfilment of consumer contracts. In 1999 the Boards handled 336 cases related to package travel and holiday tours and to repair and maintenance services, of which 235 cases were concluded and 101 remained under consideration. The government supported the establishment of the Boards with HUF 20 million.

Overall Assessment

With the entry into force of the law on consumer protection in March 1998, Hungary has a general consumer protection system which includes provisions on several important pieces of the *acquis*, such as product **safety** and consumer credit.

Further efforts for alignment are needed in the following areas: misleading advertising, product liability, consumer credit (with particular emphasis on repossession of goods), indication of prices of foodstuff, and non-authorized medical products, which are not yet fully in line with the product liability directive. Minor differences within distance selling also still need to be addressed. Further alignment is also needed in the areas of injunctions for the protection of consumer's interests, liability for defective products, distance contracts, package travel, holidays and tours, certain aspects of the sale of consumer goods and associated guarantees, and general product safety.

Consumer and Producer awareness still needs to be enhanced as to respective rights and responsibilities. Consumer Health Institutions need to be upgraded in terms of training and equipment, and legal professions need to familiarise further with product liability related cases. The role of consumer organisations should be further promoted by the Government.

Chapter 24: Co-operation in the field of justice and home affairs

Since the 1999 Regular Report, progress was registered in Hungary in the fields of visas, border management, migration and asylum. However, little progress is to be reported in the field of judicial co-operation.

In view of guaranteeing effective personal **data protection** Hungary adopted in 1999 detailed rules for the implementation of the general law on personal data protection. These rules concern the criminal procedure and the co-operation and information exchange with the Law Enforcement Network of the European Union and INTERPOL.

In the area of **visas**, the Hungarian legislation was further aligned with the *acquis* by introducing a free travel regime for citizens of New Zealand and Venezuela. A new agreement with Brazil was signed. In August 1999, the obligation to have airport transit visas was introduced for citizens of a number of countries.

In June 2000, an Interim Compulsory Visa Agreement between Hungary and Russia entered into force for all kinds of income-generating activities, for the purpose of pursuing studies and for a stay exceeding 30 days. For all other activities, Russian citizens can enter Hungary without visa, provided that they have an invitation letter or sufficient financial coverage. Hungary also concluded Compulsory Visa Agreements with Azerbaijan, Tadjikistan, Armenia and Turkmenistan.

A new visa issuing system was created by the Ministry of Foreign Affairs with an on-line information system supporting consular work. Simultaneously, training of professional staff using the new system has started, and equipment for the recognition of counterfeit or falsified documents was purchased.

In the area of **border management**, a border register system was introduced in September 1999 at all of Hungary's 56 border crossing points in order to improve the

fight against organised crime and illegal immigration. Each person entering or leaving the country is registered regardless of his/her nationality. In January 2000, a new type of identification cards was introduced in order to impede forging.

On the institutional side the computerisation and the up-grading of the border guard infrastructure continued. In 1999, the installation of document readers started facilitating the operation of the border register system. At 'green borders' the equipment was further upgraded in line with Schengen standards. Heat-seeking cameras were put into operation along the entire stretch of the 174 km long border with Yugoslavia; 70 units of night vision equipment, passport scanners and portable computers were installed and the car park was modernised with the purchase of some 474 four-wheel vehicles. As a result of strengthened border control some 814 suspects were arrested in 1999 representing an impressive increase of 500% compared to 1998.

The Border Guards subordinated to the Ministry of Interior are responsible for border control. Their investigation powers are quite large and include the fight against organised crime, but they have no power to intervene in criminal matters and co-operation with the police does not always function satisfactorily. They are also responsible for handling alien's affairs at first instance. Under the Constitution, the Border Guards are defined as a military force during war. The Border Guard employs 10,364 officials. A parliamentary decision to increase staff to 13,205 was not implemented due to re-allocation of financial resources in favour of environmental damages. During 2000, some 2000 police and border guard officials were trained including language training, but the training programme appeared to be too academic and provided rather limited practical knowledge.

As far as **migration** is concerned, in the first half of 2000, approximately 76,000 foreigners were living legally in Hungary, out of which 60,000 had a permanent residence permit issued by special police. In 1999, 6,734 clandestine immigrants were detected (15% decrease compared to 1998). In 1999, 18,898 foreigners were deported from Hungary (16% decrease compared to 1998). Arrested illegal migrants have to stay at Community shelter houses, where living conditions are often quite difficult. (*see also section B-1.2- Human rights and the protection of minorities*). Since January 2000, migrants may stay and obtain a labour permission under certain conditions.

In September 1999, amendments were introduced to the Alien's Law. These amendments refer to the compulsory detention for alien policing purposes of those foreigners, who are connected to organised crime, the restriction of the possibility to leave the Community shelters, the termination of the compulsory residence at Community shelters after 18 months and the measures following termination, the fine of air transport companies for carrying illegal immigrants and the obligation for foreigners to report any changes regarding the purpose of residence. However, further harmonisation is needed to ensure that foreigners leave the territory and apply from abroad for a new visa if they want to change their purpose of residence.

Hungary promulgated in 1999 and 2000 readmission agreements with Germany, Italy, Slovenia and Moldova. The readmission agreement with Bulgaria came into force in June 2000.

Hungary continued to be a target country for **asylum** seekers. In 1999, a total of 11,412 persons applied for asylum that represented a 55% increase over 1998. As in previous years, most of them arrived from FRY. In the given period 313 persons were granted refugee

status by the Office of Refugee and Migration Affairs and 1,776 persons received the status of “authorised to stay” under the Asylum Law. Approximately half of the asylum-seekers disappeared during the procedure.

In January 2000, the new Office for Immigration and Citizen’s Affairs (total staff 180-200 persons) came in charge of first instance refugee affairs, management of refugee facilities, citizen’s affairs and second instance alien’s affairs. The Office has an autonomous budget amounting to €5 million in 2000. The setting up of this Office improved coordination between the authorities concerned. The Office for Refugees and Migration Affairs, as part of the Office for Immigration and Citizen’s Affairs, continued to suffer from severe understaffing and budgetary problems. This led to lengthy and sometimes inadequate legal procedures as well as to a huge backlog in the treatment of asylum applications in 1999 which started to decline in 2000 (from 4,000 in July 1999 to 2,000 in May 2000) following the recruitment of additional support staff. At Budapest Metropolitan Court, responsible for the review of asylum cases, the backlog of cases pending remained huge despite the increase of number of judges. Hungary made efforts to improve the standards of reception facilities for asylum seekers at Budapest airport, Kiskunhalas and Szombathely.

Preparation for joining the Dublin Convention by accession have already started and a relevant IT system has been developed.

Hungary continued to develop **police co-operation** with its neighbouring countries as well as with EU Member states, leading to an increased exchange of liaison officers and police attachés. Several Member states (Germany, Austria, Belgium, France, Italy, Ireland, Netherlands, UK and Sweden) signed agreements with Hungary about mutual co-operation providing in particular for new equipment and specialised training for fight against organised crime.

In order to facilitate and co-ordinate international co-operation with Europol, an International Law Enforcement Co-operation Centre was set up at the National Police Headquarters in February 2000. Internal liaison officers are delegated to this Centre by the Customs and Finance Guard, the Border Guard, the Tax and Finance Control Bureau as well as by the Organised Crime Directorate of the National Police Headquarters. The Centre aims at improving **fight against organised crime** through the exchange of data and information with the law enforcement network of the EU and the strengthening of co-operation with INTERPOL. Between 50-60 law-enforcement officials were trained to co-ordinate co-operation in organised crime affairs with the EU. However, co-operation with police forces in the EU Member states is still often carried out by local county police and remains often unnoticed for central police organs in Budapest.

Co-operation between Hungarian law-enforcement agencies was improved through the setting up of an elite 40-member group at the Budapest Police Headquarters to investigate organised crime involvement in car thefts. The group is co-operating with the secret service, customs guards, local governments and other authorities. As a first result of the work of this unit, the number of car thefts has been significantly reduced.

Hungary made further efforts to strengthen its administrative capacity to combat organised crime. In January 2000, the communications directorate of the National Police Headquarters started to monitor information on the internet to screen out illegal web pages or those abetting acts of crime. A Personal Protection Department within the

National Police Headquarters provides protection for participants of penal procedures and members of the proceeding authority. An integrated and comprehensive database covering all criminal investigations initiated in Hungary since 1994 was installed at the Chief Prosecutor's Office in March 2000. The database contains records on 1.5 million cases and 2.1 million people. Local prosecution offices now have off-line access to it.

In June 2000 a forensic laboratory was opened that can conduct DNA tests to high standards at the National Police Criminal Research and Analysis Institute in Budapest.

In the area of **fight against fraud, corruption and money laundering** Hungary promulgated in July 2000 the 1990 Council of Europe Convention on laundering, search, seizure and confiscation of the proceeds from crime. In view of the smooth application of this Convention, the Criminal Code was amended with the penalising of laundering of all financial gains realised by committing any kind of criminal act. At the Hungarian Customs and Finance Guard a Central Investigation Office with a staff of 130 was set up empowered to carry out nation-wide investigations. In February 2000, the Ministry of Justice signed up to a project of the UN Inter-regional Criminal and Judicial Research Institute, providing access to a scholarly research into corruption.

In 1999, the number of registered **drug** abuses grew by 800 to 2,860 making Hungary a new target country for drugs. The number of drug addicts receiving medical treatment rose continuously to 12,454 in 1999.

In July 2000, the government approved the National Strategy to Combat the Drug Problem putting special emphasis on preventive measures. The main objective of the strategy is to introduce combined demand and supply reduction programmes.

In the field of **customs co-operation** Hungary started preparations to transpose the provisions of the Customs Information System Convention (*see chapter 25-Customs Union*). In the framework of the re-organisation of the Customs and Finance Guard a decentralised risk analysis system was introduced.

Hungary also transposed the basic instruments of international **judicial co-operation**. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was promulgated in May 2000. For procedures related to extradition, the co-operation functioned satisfactorily, but there is still room for improvements, particularly as regards direct contacts between the competent judicial authorities. The Ministry of Justice is the central authority to receive requests for extradition, but the metropolitan court has the exclusive competence on the substance.

Overall assessment

The basic provisions of the *acquis* in the field of Justice and Home Affairs are already implemented.

Hungary is party to the Council of Europe Convention for the protection of individuals with regard to automatic processing of personal data (Strasbourg 1981).

In the area of personal **data protection** some legal fine-tuning is necessary in view of full alignment with the relevant *acquis*.

Additional efforts are needed to align with the *visa acquis*, in particular as concerns the visa exemption for citizens of Belarus, Cuba, FRY, Moldova, Russia and Ukraine. The agreements on simplified formalities for border crossing signed with Ukraine and FRY will also need to be amended as they exempt citizens living permanently near the border from the obligation to carry passports. The regulation on a uniform visa format and the rules of the Common Consular Instructions also need to be further aligned. There is a need to strengthen the Consular System and Hungary's capacity to detect falsified documents.

Despite further progress, continued efforts are needed to up-grade the Hungarian **border control infrastructure**, especially concerning additional night vision devices, enforcement of the mobility of mobile border guard patrols, expanding the IT system including document-reading and plate-recognising equipment for the automatic border registry. Also staff at the borders of Hungary should be increased, in particular at green and river borders. The border management service needs to become more efficient and organised and co-operation between the competent authorities needs to be strengthened and appropriate training needs to be provided.

In the field of **migration** policy further alignment is needed, particularly concerning the provisions on the admission of third country nationals for study, employment and self-employed activities and for family reunification purposes. In parallel, the definition of the term 'family' needs to be harmonised with the *acquis*. Also, procedures for the renewal and withdrawal of provisional residence permits have to be further brought into line with the *acquis*. Finally, the possibility of issuing temporary travel documents would facilitate the readmission process considerably.

From a legal point of view the Hungarian **asylum** legislation is already largely in line with the *acquis*. Outstanding issues relate particularly to the extensive definition of unfounded requests. Additional efforts are required to ensure proper implementation of existing legislation.

Further efforts are, however, needed to adopt the legal instruments in the **fight against fraud** and creating an efficient anti-fraud service.

The same applies to the **drugs acquis** and to participation in the European information network on drugs and drug addiction (Reitox). Furthermore, even if not explicitly mentioned in the *acquis*, a national focal point should be established. The respective co-operation between the concerned Ministries should also be strengthened.

Hungary has already made major efforts to improve **customs co-operation**, in particular through the strengthening of co-operation between the different services involved, staff training and staff ethics.

In the area of **judicial co-operation** the procedures for mutual assistance need to be clarified. Further training and additional human resources seem to be necessary, in particular in the field of fight against **organised crime**.

Hungary needs to align the definition of a criminal organisation with the Joint Action of 21 December 1998 on making it a criminal offence to participate in a criminal organisation. Hungary should introduce the liability of legal persons, in accordance with this Joint Action and within the Joint Action of 24 February 1997 concerning action to combat trafficking in human beings and sexual exploitation of children.

The judicial system will need to be connected with the European Judicial Network.

Chapter 25: Customs union

During the reporting period, Hungary made considerable progress in this area.

It notably fulfilled the short-term Accession Partnership priority with the adoption of an amended Customs Law in May 2000, including its implementing legislation.

This law provided for further alignment of the provisions on customs procedures with economic impact and the extension of the application of simplified procedures, reflecting the **Community Customs Code** to a large extent. Furthermore, it created the legal framework for the application of the binding tariff information (BTI) and binding origin information (BOI) as of January 2001. As concerns customs procedures with economic impact, the new law introduced the element of processing under customs control. Finally, the Hungarian nomenclature was up-dated in accordance with the modifications to the EC nomenclature. The Hungarian Customs Tariff was also further adjusted to that of the Community.

Regarding the pan-European system of origin, Hungary has agreed to the amendments to the system which will come into force in January 2001.

As to **administrative and operational capacity**, the necessary infrastructure in the areas of computerisation, software and analytical instruments and devices were further developed. The IT system (VÀMKER customs IT-system) was modernised in December 1999 and a pilot phase of an electronic data exchange initiative was launched. This system currently works in an experimental phase as a part of a test customs office system concerning tax return on excise duty and on aggregated declaration on goods in stock. A risk analysis system was introduced in a pilot phase, aiming at improving the border control efficiency and risk analysis expert units were set up in 2000 within the different divisions of the Hungarian Customs and Financial Guard. In January 2000, the Hungarian Customs and Finance Guard was restructured regionally. As a result, the number of leading officials and administrative personnel was decreased while the number of operational staff was increased. In total, 7,729 persons are employed by the Hungarian Customs and Finance Guard. In parallel, in each regional headquarters an information technology department was set up. Two new bodies, the Central Headquarters of Investigators and the Central Headquarters of Controllers were set up with the objective to extend investigative activity of the Customs Authority and strengthen the ex-post control system of the Customs administration.

Furthermore a specific training programme on the Community Customs code was launched and complemented by foreign language courses. Further efforts are needed as to the enforcement and supervision of copyright legislation.

As concerns border posts, two additional highway border crossing posts were opened at Letenye (Croatia) and Rösztke (Federal Republic of Yugoslavia). In addition, more than € 4 million were made available for the modernisation of 7 other smaller border posts.

Overall Assessment

Hungary made already good progress in aligning its legislation with the EC legislation. However, further efforts are needed in particular concerning alignment in the area of the free zone regime, temporary importation, customs warehouses, customs debts as well as customs guarantees and the continuous up-grading of in particular smaller border posts.

Regarding the customs *acquis* outside the Customs Code, Hungary already applied a quota management based on the first come, first served principle applied by the Community. Moreover, Hungary applied the EC combined nomenclature since 1996.

As regards the administrative and operational capacity to implement the *acquis*, Hungary should continue efforts related to equipment and staff training, notably as regards the implementation of the obligations deriving from the BOI/BTI system. In this respect, current staffing of the Customs Laboratory seems to be insufficient to ensure a full implementation. Further progress is also needed in the area of computerisation, notably as concerns computer-based risk analysis.

Chapter 26: External relations

In the area of **Common commercial policy**, Hungarian tariffs were further aligned with those of the EC. Hungary applied in 1999 tariffs which average 12.4% on all products, 33.5% on agricultural, 15.0% on fishery and 7.4% on industrial products. By comparison, the EC tariffs currently stand at 5.3% on all products, 9.4% on agricultural, 12.4% on fishery and 4.2% on industrial products.

In February 2000, the competence for the external economic policy, including customs policy, was transferred from the Ministry of Economics to the Ministry of Foreign Affairs.

The two **Free Trade Agreements** with Latvia and Lithuania entered into force in January and March 2000, respectively. Within CEFTA, the member states, including Hungary, signed the Additional Protocol 8 on the up-dated version of the pan-European cumulation of origin of goods (*see Chapter 25 – Customs Union*).

In the area of **development**, Hungary did not have a specific policy or budget, but 96% of all imports coming from developing countries received trade preferences. GSP schemes exist for all products. The Ministry of Foreign Affairs had limited funds of € 70,000 which were mainly used for **humanitarian** purposes, basically for third countries with a Hungarian minority. The Foreign Minister shares with the Economic Ministry the promotion of trade development and investments.

Overall Assessment

Hungary's trade policy and its participation in international economic organisations were already to a large extent in line with those of the Union.

The EU and Hungary have established a framework for co-operation regarding WTO issues both at ministerial and at services level. Hungary has been supportive of EU policies and positions within the WTO framework. As regards the new round, Hungary concurs with the EU on the need to launch a comprehensive trade round as soon as

possible and shares the view that the results of work under the build-in-agenda would be less substantial in its absence.

In order to reach full alignment with GATT and WTO obligations, Hungary has still to accede to the Agreements on Trade in Civil Aircraft and on Government Procurement where Hungary has an observer status and to the Agreement on Trade in Information Technology Products.

As regards the WTO Agreement on Trade in Textiles and Clothing (ATC), Hungary needs to use the third stage of integration under the ATC to align its integration programme on those of the EC, while notably avoiding integrating products not yet integrated by the EC.

Further co-ordination and co-operation is necessary in order to consolidate the Hungarian list of GATS commitments with the EC commitments and the Most Favoured Nations (MFN) exemptions.

Hungary made good progress in aligning with the EC's international trade obligations. It is a member of CEFTA and has concluded Free Trade Agreements with Turkey, Israel, Estonia, Latvia, Lithuania, Norway, Iceland and Switzerland. Hungary should continue to keep the EU fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

Hungary's dual use goods legislation is in line with the *acquis*.

Hungary's system for export credits is in line with the OECD consensus; however, further alignment to the *acquis* is necessary concerning granting medium and long-term export credits.

Chapter 27: Common foreign and security policy

The regular **political dialogue** established by the Europe Agreement proceeded smoothly and Hungary continued to align its foreign policy strategy with the new Common Strategies of the European Union adopted in the framework of the Common Foreign and Security Policy (CFSP). It also participated actively in the framework of the CFSP, including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Hungary has shown a keen interest in the development of the European Security and Defence Policy (ESDP) as a part of CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU) and in EU + 6 format (i.e. non-EU European Members of NATO):

As regards alignment with **EU statements and declarations**, Hungary has regularly aligned its position with those of the Union and when invited to do so has associated itself with the Union's **joint actions and common positions**.

In June 1999, Government reviewed its contractual relationship with certain countries of Asia, Africa and Latin-America and integrated provisions on the termination of obsolete treaties or on the replacement of new agreements.

Hungary continued to develop good neighbourly relations with surrounding countries and to promote regional co-operation. Bilateral relations with Romania, Slovakia, Ukraine and Croatia were significantly strengthened.

In June 2000, Hungary assumed the rotating presidency of the Central European Initiative. Hungary also continued to participate in the South East European Co-operative Initiative (SECI) and the Visegrad dialogue. Hungary played a particularly active role in the South-East European Stability Pact and launched in October 1999 the “Szegeed Process” which became a useful forum for discussion between member countries of the Stability Pact and the Serbian opposition. As from January 2000 Hungary co-chaired Working Table No.1. of the Stability Pact on democratisation and human rights. A priority task of the working table was to provide effective support to the Serbian opposition, particularly in the fields of municipal government and the independent media. The working table also devoted special attention to the ethnic Hungarians in Vojvodina.

Within the Ministry of Foreign Affairs, the State Secretariat for European Integration (SSI) assumes the responsibility for second pillar issues. In March 2000 an European correspondence unit was established and inter-ministerial co-ordination in CFSP matters was strengthened.

Overall Assessment

Hungary is making steady progress to align its foreign policy with the Union's Common Foreign and Security Policy.

Hungary participates actively as an observer in the Western European Union.

Hungary's efforts regarding western Balkans concentrated on the implementation of sanctions against Belgrade, a financial contribution to the clearance of the Danube and its participation in international peace-keeping missions as SFOR and KFOR.

The Ministry of Foreign Affairs is fully involved in CFSP-related activities, but its structure should be further strengthened.

Chapter 28: Financial control

During the reference period limited progress was made in this area.

The 1999 Accession Partnership includes strengthening of internal and external financial control as a short-term priority.

As regards **internal financial control**, the Government Control Office made steps to develop and introduce a new IT monitoring system for the implementation of Community assistance. In 2000, the Office reviewed the control capacities of the internal control bodies in Ministries and Central Government organisations. In 2000, the role of the Ministry of Finance as a coordinating authority in the field of financial control and as a single contact point to the relevant EC bodies has been further strengthened. The **ex-ante**

control functions are, however, not very well developed and no progress was made in this respect by the Government Control Office, the central control body. In January 2000, the Hungarian State Treasury was reorganised and its scope was extended to all public expenditures and income.

In the area of external financial control, the State Audit Office, the supreme audit and control institution, continued preparatory work for the modernisation of its IT system. Its mandate is wide and covers both the state budget and local government. The Health Insurance Fund and larger local authorities also appoint commercial auditors to audit their financial statements. The Office has good access to all the records, persons and data that it requires for the performance of its functions. It is, however, not clear whether this institution can follow the use of all EC funds, assets and resources directly to all end users without restriction. The State Audit Office adopted the basic general international standards of the Lima Declaration and the INTOSAI Auditing Standards.

Overall assessment

Hungary has already set up the necessary internal and external control bodies. As far as ex-ante financial control is concerned, this function will have to be strengthened by the Treasury with the help of the Government Control Office. Appropriate procedures need to be established for the further decentralisation of financial management and control of EC-funds from the Commission to Hungary and towards regional implementation levels. As to external control, priority should be given to further developing attestation and performance audits of the State Audit Office. The Office should also be entrusted with auditing EC funds and state-owned entities (including the National Bank).. The ex-ante control function will have to be improved by the Treasury in the Ministry of Finance. The Government Control Office will have to make recommendations on the further development of ex-ante control. Adequate co-ordination between the ex-ante financial control carried out by the relevant budgetary institutions and that operated by the Hungarian Treasury needs to be ensured, in order to avoid possible duplications and to achieve a rapid and efficient financial control. The basic control measures are in place in regard to EC **own resources**. In view of the effective calculation and collection of Community own resources the Ministry of Finance and the tax and financial Control Office should be further reinforced. The control modules of the Joint Audit Initiative for improving national administration systems still need to be taken into consideration. There is also a need to develop effective instruments for the fight against fraud, notably in the area of VAT and customs duties.

Also in the area of control and recovery of EC funds the basic system exists in Hungary, ensuring the **protection of EC financial interests**, but more expedient procedures are needed. In case of unlawfully or misused subsidies the head of the controlling body has to care for repayment of the support and interests. In case of misuse of public funds or serious irregularities in the financial management of an institution the Government Control Office intervenes. Irregularities might lead to criminal procedures. These are regulated by the Hungarian Criminal Code.

Hungary should also ensure that the necessary human resources are available.

Chapter 29: Financial and budgetary provisions

No major developments occurred in this area during the last year.

With regard to the **national budget** the rules for budget preparation were harmonised and control of budgetary procedures were strengthened in 2000. No particular developments are to be reported with regard to **EC-cofinancing measures**.

As regards **own resources and administrative structures**, the only new development to be reported is the upgrading of the Budget Policy Department to a Budget and Financial Policy Directorate.

Overall assessment

Hungary has an elaborate **budgetary system** which is largely in line with those in operation in the Community. The main legal provisions are laid out in the Law on Public Finances of 1992, as amended. Some further improvements are needed, in particular concerning the national accounts statistics for the general government sector in compliance with the ESA 95 norm and the medium-term budgetary planning procedures in order to secure a fully consistent and sustainable budgetary policy.

Budgetary techniques to deal with **co-financing** measures focus mainly on the functioning of extra-budgetary funds and on transfers to local governments. **Multi-annual programming** was already introduced in 1997. Since then, the current budget project has to contain plans for the following two budgets, using multi-year expenditure estimates from the various ministries. Projections covering the major macro-economic indicators are presented and an explicit annual target is set for the budget deficit.

The National Fund is administered by the Treasury for the management of the EC pre-accession funds and is complemented by the Central Financing and Contracting Unit. The National Fund arrangements are well designed, but have still to be fully implemented.

Further efforts are needed to enable Hungary to meet Community requirements with regard to co-financing and multiannual programming as well as to ensure that the own resources are established, monitored and made available in line with Community requirements.

The management of **own resources** is primarily under the control of the Ministry of Finances and the Hungarian Central Statistical Office. The Office also performs GNP measurements and estimates. Modelling and projections of GNP are carried out under the Economic Analysis Department of the Ministry of Finance.

In view of the Commission's operations and instructions concerning payments to the EC Budget (Own Resources), the necessary human and administrative resources will need to be made available and already existing institutions such as the Hungarian State Treasury will need to be supplemented by new institutions in order to implement the *acquis*.

3.2. Translation of the *acquis* into the national language

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents at present a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With

the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of central Europe.

In Hungary, the Ministry of Justice ensures general supervision and co-ordination of the translation activity. The Translation Co-ordination Unit has been established within this Ministry and operates under the technical supervision of the European Community Law Department. The Unit is centrally co-ordinating the translation of EC legislation within the Hungarian public administration. A linguist-lawyer team is responsible for the legal review. At present the team consists of six part-time and one full-time linguist-lawyers.

So far, 35,000 pages of the Official Journal were translated, of which more than 20,000 were fully revised.

Further efforts are required in this area.

3.3. General evaluation

Hungary continued to make progress in aligning and implementing the *acquis* in most sectors thereby reaching a good level of preparation for membership. This process was in general accompanied by satisfactory institution building measures.

Over the reference period good progress could be noted concerning *internal market legislation*, in particular as regards harmonised and “new approach” product legislation, insurance and accounting law and the transparency and alignment of certain State aid schemes. Continued efforts are still needed especially for developing adequate market surveillance and for aligning state aid granted in the form of tax benefits. While the basic structures of the *acquis* related to VAT and excise duty are already in place, further efforts are required in the area of *taxation* with regard to reduced rates, exemptions and direct taxation. The Central Liaison Office, and co-operation and mutual assistance with tax administrations in Member states, will also need to be strengthened. Considerable progress was made in the area of *customs*, and the new law on customs reflects the Community Customs Code to a large extent. In the field of *telecommunications*, where the market is in principle open to competition, Hungary needs to align further with the terms and conditions of universal service.

In the area of *agriculture* the basic structures of the *acquis* are in place, but the administrative structures required for the implementation of the CAP still need to be put into place. Alignment will need to be speeded up especially in the veterinary and phytosanitary sub-sectors.

In the area of *environment* only little progress in terms of alignment was made over the last year, and the administrative capacity of the Ministry of Environment needs improvement due to the lack of qualified staff and the wide distribution of responsibilities related to environmental issues.

Alignment needs to be speeded up in the area of *transport*, in particular in the road and air sub-sectors, and new institutions will have to be set up in order to enforce the *acquis* adequately. In the *energy* sector, the main principles of the internal energy market were adopted, but will need to be implemented, and the Hungarian Energy Office will need to be further strengthened in order to be able to discharge its tasks in the future internal energy market.

Hungary made significant progress in developing the necessary structures for the implementation of *regional policy* after accession, although the structures in the regions still appear rather weak to guarantee efficient programming and decision making. In the area of *financial control*, the internal and external control bodies, which were already set up some time ago, will need to be strengthened in order to provide the basis for sound financial management and control of EC funds towards regional implementation levels. As to *financial and budgetary provisions*, further efforts are needed in order to meet Community requirements with regard to co-financing and multi-annual programming.

On the other hand, good progress was made in the area of *social policy and employment* in terms of legal transposition, although considerable work remains to be done with respect to the implementation of the *acquis* on health and safety where implementation is to occur gradually. There is also a need to exploit better the new structures for social dialogue. In the area of *economic and monetary union* the main outstanding issue relates to the further consolidation of the independence of the National Bank. As to *industrial policy*, the situation in respect of the restructuring of the Hungarian steel industry is still unsatisfactory and the steel restructuring plan adopted by Hungary will need to be further revised. In the area of *Justice and Home Affairs*, progress was registered mainly in the fields of visa policy, border management, migration and asylum.

Hungary continued to make steady progress in building up its administrative capacity to apply the *acquis* in most areas. Further progress was made towards public administration reform, and continued emphasis was placed on training in EU matters throughout the administration and the judiciary. Most of the key institutions needed for participation in the internal market are in place. Nonetheless, administrative and judicial capacity still needs to be strengthened in specific areas such as state aid control, market surveillance, transport, the environment, veterinary and plant health.

Hungary has satisfactorily addressed most of its short-term Accession Partnership priorities with the exception of agriculture, environment, certain elements related to the internal market, industry policy and economic and monetary union. Hungary has already started to implement a number of medium-term priorities.

C. Conclusion

Hungary continues to fulfil the Copenhagen political criteria.

Further progress in the modernisation of the public administration is apparent from the continued implementation of the 1999 development programme.

Although the judiciary functions satisfactorily and the training of judges in the EC *acquis* has progressed, the large backlog of cases before the Supreme Court hampers the unification of Court practice and the development of a consistent jurisprudence. Efforts should be made to remedy this. Sustained training programmes for civil servants and judges should continue, in line with the medium-term priority of the Accession Partnership.

Despite a number of important measures taken to fight corruption, this remains a problem and renewed efforts should be made to address this issue.

Hungary continues to respect human rights and freedoms. However, overcrowding of prisons is a growing problem, which needs to be remedied.

In line with the short-term Accession Partnership priority, Hungary started to implement the medium-term Roma action programme, supported by financial means at national and local levels. This programme facilitates the integration of the Roma and their fight against discrimination in the fields of education, culture, employment, housing, health and social services. However, sustained implementation of this programme is needed in order to obtain concrete results in the medium-term.

Hungary is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it stays with its present reform path.

Considerable progress has been made towards consolidating macroeconomic stability, enhancing current account sustainability and strengthening the institutional basis of the market economy. Hungary has further developed its infrastructure, and proceeded with enterprise restructuring. The creation of new enterprises, particularly those fostered by foreign direct investment, is strong.

However, the slow progress towards price stability is a cause for concern and maintaining external competitiveness will require an appropriate policy mix, including continued fiscal consolidation, in particular in the areas of healthcare, transportation and local government. Although unemployment has fallen, there are significant regional differences and shortages of skilled labour in high growth sectors. The intermediation role of the financial sector needs to improve the delivery of services to domestic small and medium enterprises.

The Hungarian authorities will need to maintain a well-balanced policy mix and pursue a prudent and flexible monetary policy. Financial sector supervision needs to be further improved, in particular for the pension funds. Measures need to be taken to reduce regional disparities and to increase the flexibility and mobility of labour. The implementation of the above-mentioned structural reforms must proceed in order to address fiscal consolidation.

Hungary continued to make progress in aligning and implementing the *acquis* in most sectors thereby reaching a good level of preparation for membership. This process was in general accompanied by satisfactory institution building measures.

Over the reference period good progress could be noted concerning *internal market legislation*, in particular as regards harmonised and “new approach” product legislation, insurance and accounting law and the transparency and alignment of certain State aid schemes. Continued efforts are still needed especially for developing adequate market surveillance and for aligning state aid granted in the form of tax benefits. While the basic structures of the *acquis* related to VAT and excise duty are already in place, further efforts are required in the area of *taxation* with regard to reduced rates, exemptions and direct taxation. The Central Liaison Office, and co-operation and mutual assistance with tax administrations in Member states, will also need to be strengthened. Considerable progress was made in the area of *customs*, and the new law on customs reflects the Community Customs Code to a large extent. In the field of *telecommunications*, where the market is in principle open to competition, Hungary needs to align further with the terms and conditions of universal service.

In the area of *agriculture* the basic structures of the *acquis* are in place, but the administrative structures required for the implementation of the CAP still need to be put into place. Alignment will need to be speeded up especially in the veterinary and phytosanitary sub-sectors.

In the area of *environment* only little progress in terms of alignment was made over the last year, and the administrative capacity of the Ministry of Environment needs improvement due to the lack of qualified staff and the wide distribution of responsibilities related to environmental issues.

Alignment needs to be speeded up in the area of *transport*, in particular in the road and air sub-sectors, and new institutions will have to be set up in order to enforce the *acquis* adequately. In the *energy* sector, the main principles of the internal energy market were adopted, but will need to be implemented, and the Hungarian Energy Office will need to be further strengthened in order to be able to discharge its tasks in the future internal energy market.

Hungary made significant progress in developing the necessary structures for the implementation of *regional policy* after accession, although the structures in the regions still appear rather weak to guarantee efficient programming and decision making. In the area of *financial control*, the internal and external control bodies, which were already set up some time ago, will need to be strengthened in order to provide the basis for sound financial management and control of EC funds towards regional implementation levels. As to *financial and budgetary provisions*, further efforts are needed in order to meet Community requirements with regard to co-financing and multi-annual programming.

On the other hand, good progress was made in the area of *social policy and employment* in terms of legal transposition, although considerable work remains to be done with respect to the implementation of the *acquis* on health and safety where implementation is to occur gradually. There is also a need to exploit better the new structures for social dialogue. In the area of *economic and monetary union* the main outstanding issue relates to the further consolidation of the independence of the National Bank. As to *industrial policy*, the situation in respect of the restructuring of the Hungarian steel industry is still

unsatisfactory and the steel restructuring plan adopted by Hungary will need to be further revised. In the area of *Justice and Home Affairs*, progress was registered mainly in the fields of visa policy, border management, migration and asylum.

Hungary continued to make steady progress in building up its administrative capacity to apply the *acquis* in most areas. Further progress was made towards public administration reform, and continued emphasis was placed on training in EU matters throughout the administration and the judiciary. Most of the key institutions needed for participation in the internal market are in place. Nonetheless, administrative and judicial capacity still needs to be strengthened in specific areas such as state aid control, market surveillance, transport, the environment, veterinary and plant health.

Hungary has satisfactorily addressed most of its short-term Accession Partnership priorities with the exception of agriculture, environment, certain elements related to the internal market, industry policy and economic and monetary union. Hungary has already started to implement a number of medium-term priorities.

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

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 regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.¹⁷

Short-term priorities

Political Criteria: In line with the *medium-term Roma action programme* adopted in April 1999, the Government had provided specific support for addressing the difficult situation of the Roma minority. In particular, actions were launched in the areas of education (scholarships and support to educational institutions), culture (opening of Roma Community houses which play a very important role in strengthening the local Communities and preserving Roma culture), employment (public work programmes and public utility work programmes), housing, health and anti-discrimination actions. Under the "Roma Policemen Programme" the number of *Roma police officers* was increased and co-operation with Roma organisations was reinforced. In 2000 specific budgetary resources totalling € 19 million were made available, representing an important step forward in the implementation of the medium-term action programme. **Therefore, this priority has been met.**

Economic Criteria: The macro-economic situation improved thanks to a decrease in the current account and fiscal deficits, growth acceleration, reduction of the unemployment rate and the launching of important structural reforms (healthcare, rail transportation, fiscal sector supervision). However, the reform of the *health care system* is still at an early stage, while the weak financial structure continues to place heavy burden on public finances. The Government has already initiated some reforms such as the reduction of the number of hospital beds and the privatisation of outpatient services, but a coherent and systematic programme of reforms has not yet been developed. Consequently, in

¹⁷ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership, please refer to Council Decision 1999/850/EC, OJ L335 of 28/12/1999, p7.

order to meet this Accession Partnership priority fully, both the quality of the healthcare services and the budgetary situation need to be improved. A plan for the *restructuring of the Hungarian steel sector* was submitted to the Commission in February 2000. However, in order to meet EC requirements fully, over the reference period the plan needs to be further elaborated. No progress was made towards *establishing a functioning land market or finalising the land and property register*. **Therefore this priority was only partially met.**

Internal Market:

- Over the reference period Hungary accelerated the *adoption of European standards* as Hungarian national standards. By May 2000, 6,884 out of the 11,456 European standards had been introduced, reaching a harmonisation level of 60% overall and more than 80% for standards relevant to the New Approach Directives. In the area of CEN and CENELEC standards, the rate was 61% and 65% respectively in March 2000. In December 1999, the modules for the various phases of the *conformity assessment* procedures and the rules on the use of the CE conformity mark were transposed. No significant progress was made to *reinforce existing market surveillance and conformity assessment structures*.
- No action was undertaken to prohibit the opening of *anonymous accounts* or to eliminate existing ones. Hungary made efforts to increase transparency of *state aids* by enlarging the scope of aids subject to prior notification to the *state aid monitoring authority*. However, this scope still needs to be widened further, and the coverage of the *state aid inventory* has not been completed. The monitoring authority is increasingly involved in state aid decision-making, but has no power to block illegal aids.
- In the area of *telecommunications*, no progress was made to further strengthen the *Regulatory Authority's independence* and powers (notably dispute settlement), but the new Law on Communication prepared by the government is supposed to address this issue. This Law is, however, not yet adopted by Parliament. Despite the efforts of the government to progress in the area of the *audio-visual acquis*, the proposed law on Radio and Television Broadcasting (the so-called Media Act) was not adopted by Parliament as it needed a two-thirds majority. The proposal notably provided for rules governing *monitoring activities* and effective control over media operators as well as for the definition and promotion of European works, rules on advertising, sponsoring and teleshopping, exclusive *broadcasting rights* and certain rules relating to copyright.
- In the area of *Value Added Tax* further progress was made by abolishing *reduced rates* for a number of goods and services, but *reduced VAT rates* of 12% are maintained for social reasons in the areas of heating materials and district heating services, food services and transportation and storage of goods. The zero-rate system will also have to be abandoned. The amendment of the law on Excise Duty eliminated in August 2000 the last major structural difference between the Hungarian legislation on excise duty and the *acquis* in the area of wine. Hungary, however, continued to levy *different excise duty rates* for fruit brandies and other spirits, in contradiction with Community rules, which stipulate a single excise duty for interchangeable products. In the area of direct taxation Hungary accepted the principles of the *Code of Conduct for Business Taxation* which will provide the framework for further alignment with the *acquis*. New measures to be introduced will have to respect the above principles and there is a

need to finalise the review of the legislation in line with the *Code of Conduct for Business Taxation*. The adoption of an amended Customs Law in May 2000 provided the basis for further alignment of the provisions on customs procedures with economic impact and the extension of the application of simplified procedures, reflecting the *Community Customs Code*. Furthermore, it creates the legal framework for the application of the *binding tariff information (BTI)* and *binding origin information (BOI)*. As concerns customs procedures with economic impact the new law has introduced the element of processing under customs control. The customs tariff was further aligned as well. Finally, the Hungarian nomenclature was up-dated in accordance with the modifications to the EC nomenclature.

Overall, **Hungary partially fulfilled this priority.**

Economic and Monetary Union: No action was taken to consolidate the *independence of the National Bank in particular with regard to government borrowing*. **Therefore, this priority was not met.**

Agriculture: No further legislative alignment has taken place in the *veterinary* sector. In the area of *phytosanitary* matters, progress was made by adopting the plant protection law. The adoption of the necessary implementing legislation is still pending. No major developments can be reported as regards upgrading the inspection arrangements at the future *external borders*. Furthermore, no progress was made as regards the modernisation of *meat and dairy products plants to meet EC hygiene and public health standards* or the establishment of a *vineyard register*. **Hungary did thus not address this priority.**

Employment and Social Affairs: Hungary has successfully finalised the *Joint employment review* and has prepared employment guidelines mirroring the *European Employment Strategy*. This will facilitate its participation, following accession, in the latter. Hungary also launched a three-year programme to improve the *capacity of the social partners* to develop and implement the *acquis*. **Therefore, this priority has been met.**

Environment: No progress was made by Hungary to align with the *Integrated Prevention Control Directive*. The adoption of the law on *waste management* in June 2000 was an important step in aligning with the relevant *acquis*. The law will allow the adoption of secondary legislation on specific types of waste that is currently entirely lacking. The law will enter into force only in January 2001. As to nuclear safety and *radiation protection*, some progress was made in July 2000 with the introduction of the obligation to inform the general public about health protection measures in the event of a radiological emergency, bringing the situation into line with the *acquis*. In the framework of the revised NPAA, Hungary had prepared a *plan for financing investments* indicating the various funding sources on a yearly basis. Legislation has been further aligned with the *Environmental Impact Assessment Directive* concerning the scope of activities, but further efforts will be necessary to enforce the Directive as stipulated by the short-term Accession Partnership priority. **Therefore, this priority has not been met.**

Justice and Home Affairs: In relation to *border management*, considerable efforts were made to up-grade border posts and “*green border control*”, including registering everyone entering or leaving Hungary, introduction of new forgery-proof identity cards in January 2000, and better technology (computerisation, night vision devices). However, diversion of allocated resources due to natural disasters resulted in no new staff being

employed, and less upgrading of equipment than needed. More generally, there is further need to develop a modern, efficient and professional service, especially against a background of low salaries. In relation to processing of *asylum requests*, the creation of a new Office for Immigration and Citizens' Affairs (OICA) in January 2000 has improved coordination and provided an autonomous budget. Despite significant understaffing, lack of finance, and lengthy legal procedures, the backlog of applications (in part due to a 55% rise in asylum-seekers from 1998 to 1999) has been halved to 2,000 since July 1999. In March 2000, Hungary did indeed ratify the 1990 *Council of Europe Convention in respect of proceeds of crime*. The OECD Convention on combating bribery of foreign public officials in international business transactions was promulgated in May. More generally in the *fight against organised crime*, the National Police Headquarters began using the internet to track illegal web pages and criminals, and an on-line database in the Chief Prosecutor's Office was established to provide access to all criminal investigations since 1994. Other developments include: the opening of an improved *forensic laboratory* (including DNA testing); the establishment of the International Law Enforcement Co-operation Centre at police headquarters (to liaise with Interpol); improved police co-operation with neighbouring countries and EU member states in general; and the setting-up of an elite group to combat organised crime car thefts. **Therefore this priority has been met.**

Reinforcement of administrative and judicial capacity, including management and control of EC Funds: The Assistance Coordination Secretariat in the Office of the Prime Minister became responsible for the overall coordination of pre-accession aid, i.e. *Phare, ISPA and SAPARD*. The capacity of the administration to programme, implement and monitor assistance has thus been improved. However, the preliminary *National Development Plan* for 2000 was mixed in quality, and lacking coherence with other similar plans used by Hungary, e.g. the Széchenyi Plan for national economic development. Improvement is needed if these documents are to evolve into the planning necessary for effective use of the Structural Funds. Hungary has already set up the necessary *external and internal financial control bodies*. There is a need for further strengthening the various bodies, in particular the State Audit Office for the adequate follow-up of its audit findings. Hungary is party to the Espoo Convention on Environmental Impact Assessment in a Transboundary Context and since 1993 has applied a comprehensive system of environmental impact assessment. Provision was also made to allow tendering under the EC's new structural pre-accession instruments ISPA and SAPARD to respect EC requirements, in particular by excluding national preference. In relation to the *implementation of Phare* in Hungary, the situation has improved considerably in the recent past. The backlogs and problems in relation to past programmes were largely eliminated. The implementation of the 1999 programme is proceeding on schedule. The 2000 programme was the first approved for any candidate country, and planning for 2001 is already advancing positively. It is accurate to speak of a new and much improved phase of Phare implementation being instituted. The Hungarian Finance Intelligence Unit, called Anti *Money Laundering* Division (AMLD), was upgraded in 1999 and now consists of seven investigators and two administrators. During 1999 and 2000 training courses were organised for staff of the financial institutions and the AMLD. Finally, an Anti Money Laundering Co-ordination Body was set up with the participation of governmental organisations and NGOs. **Consequently, this priority has been met.**

Medium-term priorities

Only those medium-term priorities of the 1999 Accession Partnership where there was some degree of progress are mentioned below.

Economic Criteria: The Hungarian *SME policy* was further developed with the preparation of the Széchenyi Plan, a National Development Plan. The Plan targets SME development as one of its strategic development objectives. The specific SME programme outlined in the plan aims at developing business culture and skills (training, improved access to information), the development of SMEs' business relations (e.g. development of entrepreneurial networks, clusters, co-operation in procurement and international co-operation) and improved access to finance (e.g. schemes that address the different needs of enterprises according to their life cycle phase, continuation of the micro-credit programme, guarantee schemes). The Plan further proposes certain measures to improve and simplify administrative procedures. Of particular relevance to SME development are also the Plan's separate programmes in the area of sub-contracting (a continuation and further development of the existing programme) and tourism development.

Energy: In order to enhance *energy efficiency*, which is still relatively low, the government adopted a new € 6.2 million energy efficiency programme in September 1999. The programme is implemented by the Energy Information Agency and the Energy Center which merged in September 2000. In parallel the *acquis* on efficiency requirements and on the labelling for household appliances was further aligned. Hungary also participated in the Save II Programme. In 1999, further *nuclear safety* reviews were carried out at Hungary's Paks Nuclear Power Plant. In particular, in November 1999 a new and more efficient safety system was introduced with an IT digital system able to automatically operate the measurement equipment without any human interference. Simultaneously, the plant underwent the most important upgrade with the complete overhaul of the reactor protection system and the replacement of fuel cells and capacitors. The safety upgrading programme was financed from the depreciation of the equipment.

Justice and Home Affairs: Further efforts to *up-grade the law enforcement bodies* were made, in particular in the area of border management and asylum. As regards the *fight against organised crime*, Hungary made further efforts to strengthen its administrative capacity, notably at the National Police Headquarters, the Chief Prosecutor's Office and the Hungarian Customs and Finance Guard. In the area of drugs, the government approved in July 2000 the National Strategy to Combat the *Drug Problem* putting special emphasis on preventive measures. The main objective of the strategy is to introduce combined demand and supply reduction programmes. Co-operation between Hungarian law-enforcement agencies was improved through the setting up of an elite 40-member group at the Budapest Police Headquarters to investigate organised crime involvement in car thefts. The group is co-operating with the secret service, customs guards, local governments and other authorities. As a first result of the work of this unit, the number of car thefts has been significantly reduced. Progressive *alignment of the Hungarian visa legislation* was continued by introducing the free travel regime of the EU for citizens of New Zealand and Venezuela and the signature of an agreement with Brazil to the same ends. In August 1999, the obligation to have airport transit visas was introduced for citizens of a number of countries. Compulsory Visa Agreements were concluded with Azerbaijan, Tajikistan, Armenia and Turkmenistan and on an interim basis with Russia.

Hungary also made efforts to improve the standards of reception *facilities for asylum seekers* at Budapest airport, Kiskunhalas and Szombathely.

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 6 June 2000. It covers only additional needs motivated by changes of the *acquis*, the change of the Hungarian accession date and the accession negotiations. Planning covers the years 2000-2002.

The NPAA follows a structure similar to the Regular Report, but does not explicitly refer to last year's analysis. At the beginning of each chapter, an overview of the current situation is given together with an outline of progress achieved in 1999. The remaining tasks for 2000-2002 are then laid down in line with the Law Approximation Programme that was up-dated and approved by the government simultaneously. Information is also given on the necessary institution building measures together with a timetable. In the case of resource requirements the programme contains financial plans for each chapter.

The Strategy for Catching up with Europe adopted by the Government in June 1999 constitutes the economic policy base of the NPAA. The Joint Assessment Document of economic policy, which was updated and adopted by the European Commission and Hungary in April 2000, is only partly relevant as the part on structural reforms in the NPAA is rather general and often does not refer directly to the commitments made in the framework of the Joint Assessment. Furthermore, the link between the NPAA and other national programmes such as the Széchenyi Plan is not always clear. Finally, the NPAA does not always play a co-ordinating role in planning the use of pre-accession assistance. This is particularly relevant as regards the SAPARD programme where none of the measures to be implemented by the SAPARD programme were taken into account. Even some inconsistencies with the Hungarian negotiating position could be noted in the field of agriculture, as some request for transitional arrangements were not reflected in the NPAA.

The revised NPAA is in general coherent with the priorities of the Accession Partnership, even if the relevant Accession Partnership priority is mostly not explicitly mentioned. However, in the chapters on industry, agriculture and competition the relevant Accession Partnership priority is not or only partly reflected. In some chapters, the prioritisation between short- and medium-term priorities is not sufficiently clear.

The NPAA covers all chapters of the *acquis*, but the level of detail varies. Thus, in the chapters on free movement of persons, research and the non-harmonised sectors, important parts of the *acquis* are not covered. In the chapters on free movement of capital, veterinary issues, agricultural policy and energy certain elements are also missing. In general, the goals to be achieved and tasks to be undertaken are well identified. However, sometimes the implementation measures are not concrete, too general or requirements are spelt out inaccurately. This concerns particularly the sections on state aids, industry, anti-fraud, phytosanitary issues, services and employment.

As regards the implementation timetables, they are quite often relatively vague. Further fine-tuning and clearer commitments as to when the measures mentioned are scheduled to be implemented would be desirable. In particular, the indication 'by the date of accession' should be replaced by a more concrete commitment, as the date of accession

has not been decided yet. Also time indications regarding the relevant and necessary procedural steps are not very specific in most of the chapters. Finally, in some chapters such as agriculture and regional policy where important investments are needed projections going beyond the year 2002 would be useful.

In general, institution building aspects are adequately handled. There are indications of the needs for the establishment of new bodies where appropriate. An overview is also given on the restructuring of the organisations or the activities of the existing bodies in order to improve their ability to perform control, supervisory and monitoring functions, increases in staff, training provisions and technical modernisation needs. However, there is often a lack of information about concrete actions to implement the described measures. This is particularly the case for the chapters on transport, agriculture, SMEs and regional policy.

As to the budget, estimates are broken down to indicate contributions from the central budget, EC assistance and other sources. Tables outline cost implications, funding requirements (with reference to Phare and other pre-accession related funds) and planned disbursement of funds and staffing requirements. Budgetary implications of the different actions are mostly given, except for healthcare reform. They could be more precise for the chapters on industry and SMEs. In the case of agriculture, investment estimates have been decreased compared to the 1999 NPAA. This leaves doubts as to whether enough resources have been allocated for this sector.

The NPAA covers the key issues of the process of accession preparations. It mostly provides for the necessary budget, institution building measures and level of detail. However, more emphasis should be put on co-ordinating the different policy instruments to ensure full coherence.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
September 2000***

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on 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	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	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	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	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	X	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	X	O	O	X	O	O	X	O	X	X	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; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; TK = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	10.229	10.193	10.155	10.114	10.068
	in km²				
Total area	93.030	93.030	93.030	93.030	93.030

National accounts	1000 Mio Forint				
Gross domestic product at current prices	5.614	6.894	8.541	10.087	11.486
	1000 Mio ECU/euro				
Gross domestic product at current prices	34,1	35,6	40,4	41,9	45,4
	ECU/euro				
Gross domestic product per capita ¹⁸ at current prices	3.300	3.500	4.000	4.100	4.500
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	1,5	1,3	4,6	4,9	4,5
	in Purchasing Power Standard				
Gross domestic product per capita ¹⁹ at current prices	8.119	8.590	9.350	9.899	10.705
	% of Gross Value Added²⁰				
Structure of production					
- Agriculture	6,8	6,6	5,9	5,5	:
- Industry (excluding construction)	26,3	26,3	28,1	28,2	:
- Construction	4,6	4,3	4,6	4,6	:
- Services ²¹	62,3	62,8	61,4	61,7	:
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	77,3	73,9	72,2	72,5	73,7
- household and NPISH	53,7	51,9	50,3	50,8	51,8
- general government	23,6	22,0	21,9	21,7	21,9
- Gross fixed capital formation	20,0	21,4	22,2	23,6	23,9
- Stock variation ²²	4,0	5,7	5,6	6,0	4,8
- Exports of goods and services	36,9	38,9	45,5	50,6	52,6
- Imports of goods and services	38,2	39,9	45,5	52,7	55,0

Inflation rate	% change over the previous year				
Consumer price index ²³	28,3	23,5	18,5	14,2	10,0

¹⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁰ Including FISIM.

²¹ The item "Services" includes statistical discrepancies.

²² These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

²³ Changes in Methodology: PROXY HICP since 1996 (see methodological notes)

Balance of payments	In Mio ECU/euro				
-Current account	-1.814	-1.319	-840	-2.059	-1.969
-Trade balance	-1.828	-2.088	-1.726	-2.110	-2.059
<i>Exports of goods</i>	9.911	11.215	17.386	18.505	20.533
<i>Imports of goods</i>	11.739	13.302	19.112	20.615	22.592
-Net services	1.257	1.951	2.025	1.592	1.317
-Net income	-1.396	-1.139	-1.264	-1.675	-1.556
-Net current transfers	152	-44	124	133	329
<i>-of which: government transfers</i>	4	-12	-4	-41	-8
- FDI (net) inflows	3.675	1.803	1.928	1.815	1.849

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-6,6	-3,2	-5,4	-7,2	-3,7

Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy	65,3	60,6	52,9	53,9	55.9 E
	as % of exports				
Gross foreign debt of the whole economy	176,7	155,9	116,3	106,5	106.3 E
Monetary aggregates	in 1000 Mio ECU				
- M1	5,7	6,0	6,8	7,0	8,3
- M2	12,8	13,8	15,7	:	:
Total credit	25,2	24,0	24,8	25,1	23,5
Average short-term interest rates	% per annum				
- Lending rate	32,4	28,2	23,0	20,1	17,2
- Deposit rate	24,8	20,6	17,6	15,4	12,6
ECU exchange rates	(1ECU/euro=..Forint)				
- Average of period	164,5	193,7	211,7	240,6	252,8
- End of period	183,3	206,9	224,7	252,4	254,7
	1995=100				
- Effective exchange rate index	100,0	85,7	79,6	71,0	66,9
Reserve assets ²⁴	Mio ECU/euro				
-Reserve assets (including gold)	9.139	7.773	7.634	8.106	10.883
-Reserve assets (excluding gold)	9.106	7.743	7.607	8.081	10.855

External trade	Mio ECU/euro				
Trade balance	-1.987	-1.922	-1.882	-2.409	-2.811
Exports	9.837	12.368	16.842	20.520	23.468
Imports	11.824	14.289	18.724	22.929	26.279
	previous year=100				
Terms of trade	101,3	97,7	101,2	101,3	98,4
	as % of total				
Exports with EC-15	62,8	69,7	71,2	72,9	76,2
Imports with EC-15	61,5	62,3	62,8	64,1	64,4

²⁴ 1999 data refer to November 1999.

Demography	per 1000 of population				
Natural growth rate	-3,3	-3,7	-3,8	-4,3	-4,8
Net migration rate (including corrections)	0	0	0	0	0
	per 1000 live-births				
Infant mortality rate	10,7	10,9	9,9	9,7	8,9
Life expectancy :	at birth				
Males:	65,3	66,1	66,4	66,1	66,3
Females:	74,5	74,7	75,1	75,2	75,1

Labour market (ILO methodology)	% of labour force				
Economic activity rate ²⁵	52,4	48,2	48,1	48,4	49,6
Unemployment rate, total	10,2	9,9	8,7	7,8	7,0
Unemployment rate of persons < 25 years	18,7	18	15,9	13,5	12,4
Unemployment rate of persons >= 25 years	8,7	8,5	7,5	6,7	5,9
Average employment by NACE branches	in % of total				
- Agriculture and forestry	8	8,3	7,9	7,5	7,1
- Industry (excluding construction)	26,7	26,7	27,1	28	27,4
- Construction	5,9	6,0	6	6,2	6,6
- Services	59,4	59	59	58,3	58,9

Infrastructure	in km per 1000 km²				
Railway network	83	83	83	83	83
	km				
Length of motorways	335	365	381	448	448

Industry and agriculture	previous year=100				
Industrial production volume indices	104,6	103,4	111,1	112,5	110,7
Gross agricultural production volume indices	102,6	106,3	96,2	97,9	100,1

Standard of living	per 1000 inhabitants				
Number of cars	220	222	226	220	224
Telephone subscribers	208	261	303	335	358
Number of Internet connections ²⁶	8,2	13,6

E= estimates

²⁵ Change in methodology (labour force 15-74 years, see methodological notes).

²⁶ Source for 1998 figure: United Nations.

Methodological Notes

Inflation

Consumer price inflation: The EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, as 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 (CC). 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. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs which are based on national CPIs but adapted to the HICP coverage. Since 1996 the data in the table are these proxy HICPs. Reliable and comparable HICPs are expected to be available in CCs from January 2001 onwards.

Finance

Note on sources:

General government deficit / surplus: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

Gross foreign debt: the OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates: where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

Exchange rates: against the ECU (euro). European Commission data is used for ECU rates, European Central Bank data for euro rates.

Note on methodology:

General government deficit / surplus: 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.

Gross foreign debt: of the whole economy; includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

Monetary aggregates: end-year stock data. M1 refers to notes and coins in circulation plus bank sight deposits. M2 refers to M1 plus savings deposits plus other short-term claims on banks. Total credit refers to 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.

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

Exchange rates: ECU exchange rates are those that were officially notified to the European Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average).

Reserve assets: 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.

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 the end of 1996, the trade in goods was recorded by using 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 (CN). The earlier data are updated on the basis of the later processing.

The term FOB means that all costs incurred in transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays the additional costs. Imports are recorded on CIF basis on the date of custom clearance. Exports are recorded on FOB basis 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 EC-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 a 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 Survey (LFS); it represents the labour force as a percentage of population at working age (15 years and more), where:

- Labour force: employed and unemployed persons (according to 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:

have no work,

are actively seeking a job and,

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 LFS (Labour Force Survey) observing the ILO definitions and recommendations mentioned below.

Average employment by NACE branches (LFS). This indicator is derived from LFS (Labour Force 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: calculated using the fixed price basis applied for national accounts. Until 1996 the prices of 1991, and 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.

Telephone lines: connected main line actually operating or temporarily suspended, main lines that connect terminal equipment to a switching exchange. These include private and institutional main lines, lines of public payphones and telecommunications service lines. Mobile phone lines are excluded. Connected main lines can be classified as dwelling, business and public main lines.

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

Number of Internet connections: data collection of Internet connections started 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.