



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 05.11.2003
SEC(2003) 1205

COMPREHENSIVE MONITORING REPORT
ON
HUNGARY'S
PREPARATIONS FOR MEMBERSHIP

{COM(2003) 675 final}

A.	Introduction.....	4
B.	Economic issues	6
1.	Economic developments.....	6
2.	Implementation of recommendations for improvements	8
C.	Commitments and requirements arising from the accession negotiations.....	11
1.	Administrative and judicial capacity.....	13
	Public administration	13
	Judicial capacity	14
	Anti-corruption measures	15
	Translation of the acquis into Hungarian.....	18
2.	The chapters of the acquis	19
	<i>Chapter 1: Free movement of goods.....</i>	<i>19</i>
	<i>Chapter 2: Free movement of persons.....</i>	<i>21</i>
	<i>Chapter 3: Freedom to provide services</i>	<i>22</i>
	<i>Chapter 4: Free movement of capital.....</i>	<i>24</i>
	<i>Chapter 5: Company law.....</i>	<i>24</i>
	<i>Chapter 6: Competition Policy.....</i>	<i>26</i>
	<i>Chapter 7: Agriculture</i>	<i>27</i>
	<i>Chapter 8: Fisheries.....</i>	<i>31</i>
	<i>Chapter 9: Transport policy.....</i>	<i>32</i>
	<i>Chapter 10: Taxation</i>	<i>33</i>
	<i>Chapter 11: Economic and monetary union</i>	<i>35</i>
	<i>Chapter 12: Statistics</i>	<i>35</i>
	<i>Chapter 13: Social policy and employment.....</i>	<i>35</i>
	<i>Chapter 14: Energy.....</i>	<i>38</i>
	<i>Chapter 15: Industrial policy.....</i>	<i>39</i>
	<i>Chapter 16: Small and medium-sized enterprises.....</i>	<i>40</i>
	<i>Chapter 17: Science and research</i>	<i>40</i>
	<i>Chapter 18: Education and training.....</i>	<i>40</i>
	<i>Chapter 19: Telecommunications and information technologies</i>	<i>41</i>
	<i>Chapter 20: Culture and audio-visual policy</i>	<i>42</i>
	<i>Chapter 21: Regional policy and co-ordination of structural instruments</i>	<i>42</i>
	<i>Chapter 22: Environment</i>	<i>44</i>
	<i>Chapter 23: Consumer and health protection.....</i>	<i>46</i>
	<i>Chapter 24: Justice and home affairs</i>	<i>47</i>
	<i>Chapter 25: Customs union</i>	<i>50</i>
	<i>Chapter 26: External relations</i>	<i>51</i>

<i>Chapter 27 – Common foreign and security policy</i>	53
<i>Chapter 28: Financial control</i>	53
<i>Chapter 29: Financial and budgetary provisions</i>	55
D. Conclusion	56
Statistical Annex	58

A. Introduction

The accession negotiations with Hungary were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In a referendum held on 12 April, a majority of Hungarians expressed their support for membership of the European Union. Following ratification of the Treaty of Accession, Hungary will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”

The Copenhagen European Council in December 2002 concluded that:

“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”

and the Thessaloniki European Council in June 2003 stated that:

“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for Hungary. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in Hungary and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for Hungary as being in need of further improvements.

The second part gives an overview of where Hungary stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement. In view of their importance for the

implementation and enforcement of the *acquis*, the overall state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

For each chapter of the *acquis*, this report identifies the areas in which Hungary is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that Hungary must be fully prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on Hungary's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. Hungary was invited to provide information on its state of preparedness. The Report also draws on information provided by Hungary within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.¹ Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions, and by non-governmental organisations.

¹ For the European Parliament the rapporteur is Mr Luis Queiro.

B. Economic issues

In its 2002 Regular Report, the Commission concluded that

“Hungary is a functioning market economy and that the continuation of its current reform path should enable Hungary to cope with competitive pressure and market forces in the Union.

Improvements can be made to macroeconomic management by reducing the general government deficit, thus preventing fiscal policy to become pro-cyclical and supporting a further reduction of the inflation rate. A more fundamental reform of the health care sector now needs to be embarked on. Wage developments will have to be brought in line again with productivity growth in order not to compromise the country’s competitiveness.”

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in Hungary including the continuation of the reform path since last year’s Report.

1. Economic developments

The overall macro-economic equilibrium of the Hungarian economy has deteriorated, in particular as regards the composition of GDP, external accounts and exchange and interest rate stability. A significant budget deficit in 2002 has been addressed by a tighter albeit very ambitious fiscal policy stance in 2003, and a tight 2004 budget, while inconsistent monetary and exchange rate policies added to the strain in the policy mix. In a difficult external environment, but supported by a strong demand-side stimulus, GDP grew by 3.3% in 2002. During the first half of 2003, the growth rate decreased to 2.6% year-on-year. Private consumption in 2002 expanded more rapidly than GDP growth, at 9%, while growth in corporate investment declined to just 5.8%. A fiscal deficit of 9.2% of GDP in 2002 not only reflected the electoral cycle, but also a number of statistical reclassifications and one-off items. As a consequence of the rising deficit, public debt rose to 56.3% of GDP in 2002, from 53.4% in 2001. For 2003, the government is aiming at an ambitious deficit target below 5% of GDP, which looks difficult to achieve. The exporting industry, including foreign tourism, suffered from declining external demand which until January 2003 was combined with a strong currency appreciation. As a consequence, the external balance started to deteriorate in 2002, with a current account deficit of 4% of GDP. Foreign Direct Investment (FDI) decreased markedly in 2002, to 1.8% of GDP, with a further deterioration of this trend in the first half of 2003. As a result, there was a net outflow of non-debt-generating capital over the first half of 2003, and the current account deficit is financed exclusively through the increase in net external debt. Although the unemployment rate temporarily increased to over 6% in the first half of 2003, the labour market in the skilled segment and in the industrialised regions of the country remains tight, while participation ratios continue to be very low. Inflation, which came down to an annual rate of 5.2% in 2002, reached its lowest level since transition at a rate of just 3.6% year-on-year in May 2003, before starting to climb again, to a rate of

4.7% year-on-year in August 2003. Although the National Bank of Hungary (NBH) reached its second annual inflation target in 2002, primarily through the nominal exchange rate channel, monetary policy kept a tight stance until late 2002. At the beginning of 2003, the combination of a strong currency and high interest spreads in a low risk environment triggered a speculative attack at the upper end of the forint's trading band. The situation was temporarily brought under control through significant interest rate cuts and administrative measures. In the aftermath of this turbulence, new inflation targets were agreed between the central bank and the government for 2003 and 2004 (3.5% +/-1% for both years). In June 2003, the forint's central parity against its euro peg was devalued by 2.26%. This was a joint decision by the government and the central bank. The central bank shortly thereafter raised interest rates again by a total of 3 percentage points in an attempt to re-strengthen the currency's exchange rate which had started to depreciate sharply as a reaction to a deteriorating overall market sentiment, reflecting a considerable degree of uncertainty about monetary and exchange rate policy strategies, as well as the overall economic policy-mix, in Hungary. The effect was that reference interest rates stood at the same nominal level as before the speculative attack in early 2003, whereas real interest rates were even higher, given the fall in inflation that had meanwhile occurred. As a consequence, the forint suffers greater volatility, and risk premiums have risen sharply in 2003.

Main Economic Trends							
Hungary		1998	1999	2000	2001	2002	2003 latest
Real GDP growth rate	per cent	4.9	4.2	5.2	3.9	3.3	2.7 Q1
Inflation rate	per cent	14.2	10.0	10.0	9.1	5.2	4.5
- annual average							August ^a
- December-on-December	per cent	10.1	11.4	10.0	6.8	4.9	4.7
Unemployment rate		8.4	6.9	6.3	5.6	5.6	August
- LFS definition	per cent						5.8 Q2
General government budget balance	per cent of GDP	-8.0	-5.6	-3.0	-4.7	-9.2 p	
Current account balance	per cent of GDP	-4.9	-4.4	-3.2	-2.1	-4.0 p	
	million ECU/Euro						-2722
Gross foreign debt of the whole economy	Per cent of exports of goods and services	-2059	-1974	-1627	-1239	-2771 ^b	Jan.-July ^b
- debt export ratio	million ECU/Euro	76.0	76.1	59.5	51.5	:	
	million ECU/Euro	19 943	22 360	22 564	22 151	:	
Foreign direct investment in flow	Per cent of GDP	:	:	3.5	4.7	1.8 p	
- balance of payments data	million ECU/Euro	:	:	1785	2730	1281 ^b	679 Jan.-July ^b

Sources: Eurostat. National sources. OECD external Debt Statistics

^a Moving 12 months average rate of change.

^b Source: Website of the National Bank.

P= provisional figures

The economic reform path is being pursued in a credible manner, through the privatisation of some remaining state-owned companies, a stepwise liberalisation of administered prices and the broad completion of the progressive pension reform.

Privatisation, which had been completed at large as early as 1997 in Hungary, received a new impetus as proceedings for the sale of 19 remaining larger corporations have started in 2003. In September 2003, the large retail bank Postabank was successfully sold to a foreign banking group. The telecom market was liberalised in 2002. Gradual liberalisation of the electricity market started in 2003, while finally also the legal basis was set for the liberalisation of the gas market starting in 2004. As of 1 January 2003, further steps to complete the quite advanced pension reform were taken. New labour market entrants automatically join the system's (private) second pillar, and the transfer rate from the social security budget to the second pillar was increased from 6 to 7% of the wage bill, improving the system's long-term sustainability. The administrative fees retained in the private investment funds of the mandatory second pension pillar remain high, compared both to the voluntary third pension pillar funds, and similar systems in other countries. The reason lies primarily with the sales structure through large insurance groups. However, the Hungarian Financial Supervisory Authority is scrutinising developments in that sector of the financial market. The capital market is developing rapidly. Financial intermediation has further deepened over the past year, with credit volume growing twice as fast as GDP in 2002. Bank profitability remains high, and no significant deterioration of the overall credit portfolio quality took place. With regard to foreign holdings in government paper, in the aftermath of the currency turbulence of the past 10 months, some important investors like large foreign pension funds have started to leave the market, while short-term speculative capital ('hot money') is being attracted by large spreads as compared to the eurozone's.

Main Indicators of Economic Structure in 2002		
Population (average)	Thousand	10,164
GDP per head ^a	PPS	
	Per cent of EU average	57
Share of agriculture ^b in:		
- gross value added	Per Cent	4.3 ^c
- employment	Per Cent	6.0
Gross fixed capital formation/GDP	Per Cent	22.3
Gross foreign debt of the whole economy/GDP ^c	Per Cent	44.6 ^d
Exports of goods & services/GDP	Per Cent	64.5
Stock of foreign direct investment ^d	Million Euro	:
	Euro per head	:
Long term unemployment rate	Per Cent of labour force	2.4
<i>Source: Eurostat</i>		

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

b Agriculture, hunting, forestry and fishing.

c Data refer to 2001.

d Data refer to 2000.

2. Implementation of recommendations for improvements

The general government deficit is on a downward trend, following a redirection of fiscal policy since 2003, but more progress is needed, also as regards the structure of fiscal reform. This problem has been addressed in a tight 2004 budget, as adopted in late September. After a 9.2% of GDP general government deficit in 2002 - this figure, however, included a considerable amount of statistical reclassifications and one-off items - a 'front-loaded' fiscal turnaround is being implemented in 2003, which is aiming at bringing the deficit down to below 5% of GDP in 2003, and to 3.8% in 2004. The 2003

budget is marked by limited further wage increases in the public sector, a freeze of operational spending across-the-board and delays to public investment, in particular with regard to motorway construction. The composition of adjustment measures in 2003 consisted basically in an increase in revenues combined with across-the-board cuts in public spending. Following a slippage of expenditure over the first five months of this year and increasing tension with the central bank, an additional fiscal correction package to the tune of 0.5% of GDP was adopted in June 2003. However, the planned savings were partly consumed by unbudgeted one-off expenditure on farm support following the 2003 summer drought, and by the need to implement a Supreme Court ruling of June 2003 which obliges the government to make considerable retroactive child allowance payments. The government therefore had to increase its deficit target for 2003 from 4.5% to around 5% of GDP. This deficit target looks ambitious in the light of budget execution figures over the first 8 months of 2003. In late September 2003, another tight budget for 2004 which puts more emphasis on improvements to the structure of fiscal reform, was adopted by the government. The 'austerity package' contained in the 2004 budget has had a positive impact on the government's credibility with markets on its commitment to fiscal discipline. The risk of the former demand-side fiscal stimulus turning pro-cyclical has disappeared, given that fiscal policy in Hungary has actually turned contractionary in 2003. Despite last year's fiscal expansion, inflation continued to decline after the last Regular Report, to a CPI rate of just 3.6% year-on-year in May 2003, but started to rise again to 4.7% in August 2003, following the exchange rate turbulence and the subsequent currency depreciation in mid 2003.

Health care sector reform is being addressed in the framework of a ten years' programme, which received a boost through the admission of private general practitioners' practices in 2002, and a new law adopted in 2003 opening the way for large-scale privatisation of healthcare assets, including hospitals. Despite considerable opposition to the new law, the government appears determined to go ahead with health care reform, given the low average life expectancy in Hungary. Strong emphasis is being put on the development of home care and outpatient care facilities, along with the promotion of private health care insurance and nursing schemes, as an alternative to the present inefficient and over-hospitalised health care system. As a first step towards implementation of the new law, 30 hospitals have been flagged by the government for debt relief programmes as a pre-condition for subsequent privatisation. A pilot project aiming at a step-wise modernisation of services, replacement of outdated technology, and an improvement of incentives and management systems has been launched. A large number of health care workers, who had left the underpaid sector over the past few years, have been re-attracted by above average wage increases. The financial means for these measures are partly covered in the budget, but the bulk of the financing in the medium to longer term will have to be provided by an expanding private healthcare sector. To that end, an investment co-ordination office has been set up to channel private investment in the form of public-private partnerships into Hungary's health service. While any health care sector reform can only be implemented with a view to a long-term perspective, the steps taken since last year's Regular Report are encouraging.

Wage developments in 2003 have started to moderate, coming down from their high growth rates of 2001 and 2002, especially in the corporate sector, with the economy slowly adapting to the new low-inflation environment. Nevertheless, even in 2003 real wage growth continues to exceed productivity growth by a considerable margin. Hungary's wage competitiveness deteriorated considerably in 2001 and 2002. This led to a number of large lay-offs in low-wage industries that were priced out by the rapid

minimum wage increases that had been implemented over the past two years (see also the Joint Assessment of Employment Policy Priorities and subsequent progress reports). Public sector nominal wages, which had been kept at a very low level during the high-inflation economic transition period, were increased by an average 50%. This step was taken also with a view to EU accession, which will put high demands on the Hungarian administration, and in particular the medium to high skill segment of the civil service that has to compete in a tight labour market. In autumn 2002, a tripartite social partnership framework agreement set a 4.5% real wage growth target for 2003, in order to allow for more modest gross wage settlements. The rationale behind this exceptional solution is that reductions to wage taxes and social security contributions would lead to a situation where real wages in 2003 are growing more strongly than nominal wages, thereby curbing overall wage dynamics. However, over the first seven months of 2003, the spill-over effect from the 2002 measures proved stronger than the general growth-slowing environment, and real wages rose by another 13.1% year-on-year. Thus, although in the corporate sector gross wage increases have clearly come down to levels around 7-8%, real wage growth in the economy as a whole continues to exceed productivity growth by a considerable margin.

C. Commitments and requirements arising from the accession negotiations

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that Hungary is fully prepared in all areas of the *acquis* from the start of its membership. In other words, Hungary must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on Hungary the Commission found that:

“Hungary is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to the transposition of parts of the veterinary acquis, legislation on the size control of imported fish, the adoption of the gas law and several pieces of environmental legislation (national climate change strategy, National Waste Management Plan, regional and local waste management plans, packaging and packaging waste and waste oils). These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Hungary has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Hungary will be able to assume the obligations of membership in accordance with the envisaged time frame. In the period leading up to accession, Hungary needs to continue its preparations in line with the commitments it has made in the accession negotiations.”

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

“Hungary has continued to make progress in building up its administrative capacity to apply the acquis in most areas. However, further efforts will have to be made in particular in areas such as agriculture, transport, regional policy, environment and financial control. Further action is also still required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.”

As part of its continuous monitoring, the Commission services addressed letters to Hungary in February and June 2003 expressing concern over its preparedness in the fields of financial control and agriculture and calling for urgent action to remedy these shortcomings.

In order to give further guidance to Hungary in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where Hungary currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body of the *acquis*, on a chapter-by-chapter basis, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by Hungary in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been met, and where delays have occurred, but the principal focus of the assessment remains the requirement that Hungary must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on Hungary's obligations is duly reflected in the assessment. On the other hand, it should be underlined that, in order for Hungary to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions².

For each chapter, a conclusion is provided, which is structured in the following way.

Firstly, it identifies those areas where Hungary is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

Thirdly, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities. In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures, together with the question of the translation of the *acquis* into Hungarian, are evaluated in a separate Section 1.

² See also the Commission Communication "on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on Chapter 21 - Regional policy and coordination of structural instruments" of 16 July 2003 (COM(2003) 433 final).

1. Administrative and judicial capacity

1.1. Public administration

The reform of the Hungarian public administration has continued under the new government, aiming at the functional, organisational and legal modernisation of the system. The overall responsibility for the reform currently lies with the Prime Minister's Office and the Ministry of the Interior.

As regards the functional modernisation of the public administration, recent efforts have focused on devolving official powers to lower levels of government and to non-governmental agencies, as well as on deregulation. As to the general organisation, the restructuring of the central administration was largely completed in 2000. Following a government reshuffle in May 2003, two completely new ministerial portfolios were created at the Prime Minister's Office: a Minister without portfolio in charge of the co-ordination of European Integration Affairs and a Minister without portfolio in charge of Equal Opportunities. The new Minister for EU Affairs has the task of supervising, inter alia, the National Development Plan and the preparations for Structural and Cohesion Funds, and the co-ordination of EU affairs across the Hungarian administration.

In September 2002, a Government Commissioner was appointed to design uniform regulations for the public service, except for judges and prosecutors. The approximately 815 000 people working in the public sector are currently governed by four laws, multiple wage systems and an even wider variety of benefit packages. The number of civil servants increased by about 2% in 2002.

A plan on further steps in the public administration reform was submitted to the government in August 2003. The reform in its current phase focuses on three areas: regional development, local self-government and state administration. In accordance with the reform plan, local governments would be reorganised into economic and geographic regions, and counties would be grouped into larger regions. To that end, elected regional governments and regional public administration offices are to be set up. The present statistical-planning regions – set up mainly in view of the EU Structural Funds – would serve as the basis for regional public administration. The approval of several elements of the reform would require a two-thirds majority in Parliament, and new regional elections would have to take place. The reform should be finalised in 2006, in time for the next elections.

Although the process of aligning local-government legislation with EU requirements has started, it is still in its initial phase. The Ministry of the Interior has recently opened a centre with a staff of seven persons to assist local governments in the implementation of EC legislation.

More than half of all public servants received a 50% gross salary increase as from September 2002. The main objective of the increase is to reduce the considerable gap between salaries earned in public service and the private sector and thus to retain staff.

The recruitment and promotion system in the Hungarian civil service is still not fully in line with essential civil service principles such as equal access and competition based on merit, given that there is no mandatory recruitment based on open competition. The current system thus needs to be improved.

Training for civil servants is based on the medium-term action plan covering the period 2003-2006. Preparation for accession and the operation as a Member State are the main features of the training programmes. While general EU training for civil servants appears to be well on track, more sector-specific training is needed. In September 2002, a public administration database was set up, which contains data on civil servants, such as their educational level. Such data assist the Government in designing training schemes for civil servants.

1.2. Judicial capacity

Hungary's court system is based on four levels: local courts, county courts, the Supreme Court and the Constitutional Court. In order to reduce the workload of the Supreme Court, three regional Courts of Appeal in Budapest, Pécs and Szeged started work in July 2003. Two further regional courts in Debrecen and Győr will start work in January 2005.

The President of the Republic appoints judges, on a proposal by the National Council of Judiciary, for three years, after which they may be re-appointed for an indefinite period subject to an evaluation of their performance. Besides being prevented from joining political parties or engaging in any political activity, judges do not have the right to be involved in business activities or to be members of an arbitration court. Furthermore, members of the Constitutional and Supreme Courts are not allowed to be members of Parliament or to be employed in local government. Since December 2001, judges have been required to make asset declarations. However, the procedures for selecting and promoting judges would benefit from clearer and more standardised criteria. The present lack of transparency and the broad discretion left to officials involved in the process encourage arbitrariness and even abuse, and may discourage the development of a professional corps of judges.

The prosecution system takes the form of a centralised body within the judicial system and is independent from the government. The Prosecutor-General is elected by Parliament, on a proposal by the President of the Republic, for a six-year term. The Prosecutor-General is answerable only to Parliament, to which he reports on his activities. One of his tasks is to appoint prosecutors, who are not allowed to be members of political parties or to pursue any political activity.

The current Prosecutor-General, who was elected by the previous Parliament for six years, has had to face in the past months repeated rejections of his answers to Parliamentary interpellations. Parliamentarians of the governing parties have criticised his alleged lack of action in investigating potential corruption cases under the previous government.

Judges currently spend up to 70 % of their time dealing with administrative issues not directly connected with hearing the case. To remedy this, Hungary adopted an Act on Legal Assistants in 2001, and the first legal assistants should start working this year. In order to encourage the use of out-of-court dispute settlement, an Act on Mediation was adopted in December 2002.

The financial independence of the judiciary was strengthened in October 2002 through an Act on the Budget of Courts and Judges, according to which the National Council of Judiciary (OIT) is now entitled to submit its budget proposal directly to the Parliament.

However, the financial situation of the judiciary remains complicated. During 2002, 12 county courts and the Supreme Court accumulated high deficits, which would have made them practically insolvent if the OIT had not settled their unpaid invoices.

The Justitia.Net project, aimed at the establishment of a fast and reliable data-flow and communication between the Supreme Court, country courts, local courts and the Office of the National Council of Judges, is planned to be operational as from January 2004. For the offices of the public prosecutors, a similar information system is being established.

The new government increased judges' salaries by 14% last year, and will increase them by a further 50% in 2003. Furthermore, the courts will receive extra budgetary support of HUF 15.2 billion (around € 62.3 million) in 2003, which will be added to this year's budget of HUF 37.6 billion (around € 154.1 million). The extra support will facilitate the continuation of the judiciary reform, including the setting up of three courts of appeal, information technology development and the judges' training in EU law. The prosecution also received additional budget support of HUF 2.3 billion (around € 9.3 million), increasing the total sum allocated to it in 2003 to HUF 17.6 billion (around € 71.2 million).

The overall situation as regards the length of judicial proceedings has improved, and the backlog of cases has been reduced. 86 % of all proceedings at first instance are now terminated in less than one year (1997: 83.7%). The number of cases lasting longer than a year has been reduced to 36 000. In 2002, a record number of 1 166 000 cases – 6% more than in 2001 – was terminated. 60% of the 13 500 pending procedures at the Supreme Court are to be transferred to the new Regional Courts of Appeal. The backlog of court cases was reduced to 168 309 in 2002 (3.7% less than in 2001).

Although Hungary has a fairly efficient training system, its capacity and level of financial support are not sufficient to develop necessary training programmes in management skills. The long-planned setting up of a Training Institute for Judges, which would improve the situation, has still not taken place, due to lack of financial means. By the end of January 2003, 2 643 judges had received basic training on EC legislation, and a further 1 388 judges took part in training in their specialisation in the period up to May 2003.

Legal aid is currently rather restricted. In criminal cases, the state is obliged to provide defence counsel only in limited cases (e.g. if the offence is punishable with more than 5 years' imprisonment), and a defence counsel may be provided as a matter of discretion in other cases. In general, if the defendant is convicted, he must pay all costs. In civil cases, legal aid tends to be restricted to the very poor and to pensioners. Although there is a network of offices offering free legal information, these offices do not represent citizens in trials. The government has undertaken to submit a bill to Parliament to significantly improve the legal aid system before the end of 2003.

1.3. Anti-corruption measures

Although according to independent assessments Hungary ranks among the less corrupt of the post-communist countries, surveys indicate that corruption continues to represent a serious problem in this country. Corruption is perceived by the Hungarian population as a relatively widespread phenomenon, with low-paid government officials, particularly from among the police, tax and customs authorities, being considered as particularly

vulnerable to bribes. Another main area associated with corruption is the health care system, where the practice of “gratuities” is so common that many Hungarian citizens consider it as a cultural phenomenon rather than hard corruption. Recent surveys on corruption indicate that suspected cases of extra payments and of requesting gratuities have actually increased over the last three years in the health care sector, the private business sector, the customs area and among Members of Parliament and ministry officials.

The number of persons convicted for corruption charges has been relatively stable during the last few years. According to data of the Supreme Court, in 2002 some 739 cases of corruption were revealed, and accusations were brought forward in 415 cases.

According to a study of the Hungarian State Audit Office (ASZ) on the state of corruption, released in October 2002, the existing anti-corruption programmes have not achieved their objectives. Although crime statistics may show a declining or stagnating number of cases, the risk of corruption continues to be high. The ASZ sees a lack of co-operation among state institutions. According to the study, corruption is strongly present in public procurement, in party financing and in internal financial control.

In February 2003, the OECD Working Group on Bribery in International Business Transactions continued its evaluation of Hungary’s implementation of the Convention on Combating Bribery of Foreign Public Officials. The Group noted that the problems identified during the evaluation – namely an over-extensive defence, no provision for liability of legal persons, limitations on confiscation and an unduly short limitation period – had largely been solved. Despite these improvements, the examiners remained concerned that the provisions on liability of legal persons and the definition of foreign public official remained unsatisfactory.

Hungary continues to participate in the Council of Europe Group of States against Corruption (GRECO). The March 2003 Report on Hungary by GRECO noted, inter alia, that corruption related to the illegal funding of political parties appeared to be a problem, and that the Hungarian authorities should consider revising the applicable legal framework. It also stated that favouritism in the awarding of public procurement contracts was regularly reported in the media.

The 2001 anti-corruption strategy has led to major improvements in legislation and in the institutional framework. The new government has introduced a new legal package on the transparency and control of the spending of public funds and the use of public properties. An important element of the package is the so-called “glass pocket programme”, which was unanimously adopted by Parliament in April 2003. The legislative package contains modifications to 19 legislative acts on public expenditure, the use of public property, transparency and control. Its main objective is to make the use of public funds more transparent. The State Audit Office is now authorised to follow the path of public funds, even in private companies, in cases where they have concluded contracts with state or local governmental bodies. The law states that all government contracts above HUF 5 million (around € 20 000) must be made public by state and local authorities. The circle of those obliged to make assets declarations has been further expanded. It is now important to implement this programme as quickly as possible. Also, the programme should be made known to the wider public, and the media could play a more useful role in the fight against corruption by transmitting more detailed information about the programme.

As regards the institutional framework, there are no independent bodies whose exclusive task is to fight corruption. The general investigation authorities are the police and the Public Prosecution Service, while both the Customs and Finance Guard and the Border Guard are also empowered to investigate certain criminal offences.

The police are empowered to gather intelligence and investigate both public and private corruption. However, since June 2001 the “open”, i.e. public, investigation into corruption has been conducted by the Central Investigation Office of the Public Prosecution Service whenever high officials of the public administration are involved. Police investigators are supervised by public prosecutors. Within the Ministry of the Interior, the prevention and detection of corruption within the law enforcement agencies fall within the competence of the enforcement service of these agencies. This service is independent of the police and its staff consists of assigned police officers. The number of staff has been constantly increasing and is now 285. An anti-corruption unit, staffed by nine persons, has been established at National Police Headquarters to investigate allegations of corruption within the police force. Moreover, a special mobile unit, with twelve staff, has been set up to detect police corruption on the streets. Given the scope of their responsibilities, the number of staff at the Central Investigation Office of the Public Prosecution Service and in the police anti-corruption units may need to be increased.

Hungarian law provides for wide immunity from criminal prosecution for political figures, judges and prosecutors. In several cases of suspected corruption, the lifting of immunity requested by the Central Investigation Office of the Public Prosecution Service has been refused. There is a need to establish clear criteria concerning the lifting of immunity in cases of alleged corruption.

A similarly independent department to investigate corruption cases exists at the National Customs and Finance Guard’s headquarters. Also, the Central Investigation Office of the Public Prosecution Service is entrusted with the duty, inter alia, of taking more effective action against organised crime and corruption. There are 16 prosecutors working for this Office and a further increase of staff is foreseen. Other state authorities dealing with the prevention and detection of corruption are the State Audit Office, the Government Control Office and the recently set-up Co-ordination Centre for Fighting Organised Crime.

A new State Secretariat for the control of public money was set up within the Prime Minister’s Office following the change of government in 2002. This body is also responsible for developing the Government’s anti-corruption plans, such as the above-mentioned “glass pocket programme”. In November 2002, the Government set up an anti-corruption advisory body comprising 18 members from professional organisations. In addition, a new “Ethical Council” of the Republic was created in April 2003 to assist in drawing up a code of conduct for government politicians and civil servants. The Council will work independently, its members will not receive any remuneration and its task will be to make suggestions for fighting corruption, including legislative changes. Simultaneously to the setting up of the Ethical Council, another anti-corruption body to deal with the social background of corruption was formed within the Prime Minister’s Office (PMO), and will be jointly operated with the Ministry of Justice. The tasks of these three bodies still need to be clearly defined if they are to become efficient tools in the fight against corruption.

The Hungarian law enforcement system appears to be adequately structured for the fight against corruption. However, Hungary should further increase its administrative capacities, in particular as regards co-operation among all the different governmental bodies involved in combating corruption and as regards the training of its officials.

Hungary has signed and ratified the most relevant international conventions against corruption. It has ratified various international anti-corruption agreements, including the OECD Convention on combating bribery of foreign public officials in international business transactions, the Criminal Law Convention on Corruption of the Council of Europe, the Agreement on joining the Global Programme against Corruption of the United Nations and the Convention on laundering, search, seizure and confiscation of proceeds from crime of the Council of Europe. The Civil Law Convention on Corruption was signed in January 2003, but still needs to be ratified.

1.4. Translation of the *acquis* into Hungarian

In accordance with Articles 2 and 58 of the Act of Accession, all acts adopted by the Union's institutions and the European Central Bank prior to accession become applicable to the new Member States and are to be published in the Official Journal of the European Union in the new official languages. While the EU institutions take responsibility for the final revision and publication of the translations, it falls on the acceding states to produce the translations and to ensure a thorough legal and linguistic revision.

Since the beginning of the year, Hungary has provided a constant and high number of revised texts. The quality of the Hungarian version of the *acquis* appears to be satisfactory. In some cases, however, the process has been complicated by late interventions of certain ministries requiring changes in the terminology at a stage where the texts are already being sent to the EU Publications Office.

Therefore, if the present flow is maintained, there should be no major problems for the publication of the Special Edition of the Official Journal in Hungarian.

2. The chapters of the *acquis*

As indicated, the following review of Hungary's ability to assume the obligations of membership has been structured in accordance with the list of 29 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

As regards **horizontal and procedural measures**, Hungary has honoured the majority of commitments made in the negotiations. Full membership in CENELEC was achieved in June 2002, and in CEN as from January 2003. The implementation structures for standardisation, metrology, accreditation, conformity assessment and certification are in place, but further strengthening will be required. The infrastructure for market surveillance requires further development, in particular as concerns the non-consumer product area. The 2001 *acquis* on product safety still needs to be transposed. The General Inspectorate for Consumer Protection (GICP) has the central role in this field and carries out the surveillance of consumer products. The Inspectorate created and operates the Central Market Surveillance Information System (CMSIS), a database that contains the notifications of all market surveillance authorities. Training programmes being carried out by the above-mentioned bodies should ensure their operational efficiency by the date of accession. Also, co-ordination between the different bodies involved needs to be improved.

Hungary has transposed almost all of the **sectoral legislation** under the **new approach** and in general the legislative transposition has been found to be in line with the *acquis*. Legislation was adopted which aims at transposing the EC legislation on non-automatic weighing instruments, personal protective equipment, lifts, explosives for civil use, in vitro diagnostic medical devices, electro-medical equipment used in veterinary medicine, toys, cableway installations, recreational craft and construction products.

As regards the **old approach** directives, Hungary has transposed the majority of the *acquis* in these product sectors. The transposition of the *acquis* on cosmetics, motor vehicles, chemicals, pharmaceuticals and aerosol dispensers must be completed. Having recognised that the identification of "new" chemical substances on its market is a matter of priority, Hungary should provide for the appropriate notification of such substances in

accordance with the *acquis*. Legislation was adopted which aims at transposing the *acquis* on legal metrology and pre-packaging, glass, footwear, textiles and wood. As regards pharmaceuticals, particular attention should now be paid to complete the legal approximation with the *acquis* with regard to transparency, pricing rules and data protection. The provisions concerning data exclusivity will only enter into force upon accession. Hungary has taken the steps necessary to ensure the creation, reinforcement, and operational capacity of the institutions required to manage the *acquis* in the majority of the sectors covered by the old approach sector directives.

As to food safety, alignment with the *acquis* has not yet been completed due to the decision of the Hungarian authorities to draft entirely new framework legislation on food safety and hygiene issues. Consequently, new implementing legislation can only enter into force upon accession. Hungary needs to ensure that all food operators and the administration are fully informed of the new rules and principles as soon as possible, even if the amended legislation will only enter into force on the date of accession. As to administrative capacity, there continue to be overlaps in responsibilities and lack of co-ordination between authorities, which need to be addressed. Also, following the recent nomination of a contact point for the Rapid Alert System for Food and Feed, further efforts are now needed in defining the share of responsibilities and the procedures for handling alerts and responsibilities. Further clarifications are also needed as to the effective operation of the Food Safety Agency. The compulsory introduction of the Hazard Analysis Critical Control Points (HACCP) system has started from January 2002 and still needs to be completed for all businesses. Aspects of food safety are also covered under *Chapter 7 – Agriculture*.

In the field of **public procurement**, alignment with the *acquis* is not yet complete due to the decision of the Hungarian authorities to draft entirely new framework legislation. Consequently, new implementing legislation still needs to be adopted too. The 2001 Act on the Amendment to Certain Financial Laws, which entered into force on 1 January 2002, did not address the main shortcomings of the existing legislation such as coverage (e.g. inclusion of public works concessions and exemptions), the treatment of utilities and time limits. The new Act on Public Procurement aiming at full transposition of the *acquis* still needs to be adopted. Hungary's implementing structure appears to work satisfactorily, with the Council for Public Procurement as the national competent budgetary organisation, subordinated exclusively to the Parliament. The Public Procurement Arbitration Committee operates alongside the Council. Its task is to provide legal remedy in cases of violation of the public procurement law, or in disputes arising in procedures.

In the **non-harmonised area**, Hungary adopted in May 2003 a decision on the screening of Hungarian legislation on the basis of the four freedoms of Community legislation. Hungary identified a list of prohibitions and restrictions, which it considers justified under the *acquis* and wishes to maintain after accession. As regards mutual recognition, Hungary has still not taken a decision as to the nature of the mutual recognition clause to insert into its legislation. Hungary should give urgent attention to solving this issue. The implementation of the *acquis* as regards arms control needs to be speeded up, too, while the transposition of the *acquis* on cultural heritage objects has been nearly completed. Hungary envisages applying the rules on product safety checks at external borders from accession on the basis of a co-operation agreement between the General Inspectorate for Consumer Protection (GICP) and the customs authorities.

Conclusion

Hungary is essentially meeting the requirements for membership as regards **horizontal and procedural measures** necessary for the management of Community legislation and the **new approach sectoral legislation**. The country should be in a position to implement this *acquis* from accession, if efforts are sustained. Hungary needs to ensure that proper market surveillance takes place in all sectors, in particular in the non-consumer product area.

Hungary is partially meeting the requirements in respect of the **old approach sectoral legislation, public procurement** and in the **non-harmonised area**. Hungary should give priority to completing transposition and implementation of the *acquis* in the old approach sectors, including in particular the areas of pharmaceuticals and food safety. Additional efforts should be made to provisionally notify "new" chemical substances prior to accession so as to ensure the continued marketing of such substances. Also, the new legislation on public procurement should be adopted without delay. Hungary must also pay particular attention to completing the screening of its national legislation to ensure the respect of the principles of free movement of goods. Hungary must decide without delay on the introduction of the principle of mutual recognition into Hungarian legislation.

Chapter 2: Free movement of persons

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

In the field of **mutual recognition of professional qualifications**, Hungary's legislation is largely in line with the *acquis*. Transposition of legislation on the general system of recognition was carried out, but remains to be completed. Hungary has essentially aligned its legislation concerning the sectoral legislation on the recognition of qualifications of lawyers, doctors, dentists, general care nurses, midwives, veterinary surgeons, pharmacists and architects. However, some shortcomings still need to be addressed. Moreover, the legislation on co-ordination of training for veterinary surgeons and pharmacists needs to be further aligned with the *acquis*. The necessary implementing administrative structures are in place, but need to be strengthened.

In the area of **citizens' rights** legislative alignment has been largely completed, except on the legislation on the right to participate in the municipal and European Parliament elections. The main administrative structures for implementation are in place.

As for **free movement of workers**, a transitional arrangement has been agreed. For the first two years following accession, current Member States will apply national measures,

or bilateral agreements, to regulate the access of workers from Hungary to their labour markets. These arrangements may continue up to a maximum of seven years. Hungary has adopted legislation aiming at full transposition of the *acquis* in this area.

With regard to **co-ordination of social security systems**, no transposition into national legislation is needed to achieve alignment with the *acquis*, but appropriate administrative capacity needs to be ensured. Training and recruitment of staff should be continued. A number of bilateral agreements with Member States, which rely on the same principles as the EU rules in this area, reflect that Hungary's administration is acquainted with the administrative procedures.

Conclusion

Hungary is essentially meeting the commitments and requirements in the area of **free movement of persons** and should be in a position to apply the *acquis* from accession. Some adjustments need to be made as soon as possible to the legislation on foreigners to allow EU citizens to participate in the European elections of June 2004. Hungary should also complete and correct transposition of legislation, in the healthcare and architect sectors. Hungary also has to reinforce its administrative capacity to implement the *acquis* on mutual recognition of qualifications.

Chapter 3: Freedom to provide services

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information-society services must also be respected.

In the field of **the right of establishment and the freedom to provide non-financial services**, Hungary's legislation is nearly aligned with the *acquis*. However, Hungary still has to complete the screening in order to identify and eliminate legal provisions and administrative practices, which are in conflict with the principles of the free provision of services. In particular, in order to ensure the free provision of cross-border services, a clear distinction should be made in the Hungarian legislation regulating economic activities between those economic operators providing services in Hungary on a temporary basis only and those who are permanently established. Any restrictions need to be removed before accession.

In the field of financial services, Hungary is completing the legislative alignment with the *acquis* in the **banking sector**. An amendment to the Banking Act entered into force on 1 January 2003, raising the minimum capital requirement for co-operative credit institutions. Furthermore, new rules on consolidated supervision were recently adopted. Provisions on the publication of annual accounting documents regarding the directive on the obligations of branches established in a Member State of credit institutions and financial institutions having their head offices outside that Member State remain to be transposed. Also, the e-money directive has not yet been transposed. Capital adequacy rules and the banking act require further modifications. Hungary has committed itself to

ensuring full application of the *acquis* in respect of co-operative credit institutions by 31 December 2007, in accordance with the transitional period it has been granted.

As regards the **insurance sector**, legislative alignment has been largely completed with the adoption in June 2003 of a new Act on Insurance and Insurers. The new law, which will come into force from 1 May 2004, incorporates all relevant EC legal provisions, including the most recent EC legislation. However, some further fine-tuning is needed with regard to implementing legislation, which is currently under preparation. Also, the 4th motor insurance directive still remains to be fully transposed before accession. In addition, some further changes are still needed to the legislation on insurance accounting.

In the field of **investment services and securities markets**, the legislation is broadly in line with the *acquis*, although some further legislative amendments and clarifications are still needed, in particular regarding the transposition of recent *acquis*. The *acquis* on financial collateral remains to be transposed.

The Hungarian Financial Supervisory Authority essentially has the required infrastructure and human resources to deal with the *acquis*-related tasks as a supervisory authority in the field of financial institutions. It has reinforced its administrative capacity and appears to be effective. However, it should be given the power to issue its own regulations. The institutional framework required by the 4th motor insurance directive still needs to be set up.

Concerning the **protection of personal data and the free movement of such data**, in June 2003 a modification to the Act on Data Protection was adopted, achieving a considerable degree of alignment with the *acquis*. However, some fine-tuning may still be necessary to fully align with the *acquis* on personal data protection. The Parliamentary Commissioner for Data Protection, who appears to be independent as required by EC legislation and who efficiently performs his tasks, has received enhanced powers. The office of the Commissioner needs to be strengthened in terms of staffing.

As regards **information-society services**, Hungarian legislation is not yet in line with the *acquis*. Full alignment with the e-commerce directive remains to be achieved, and the transparency directive still needs to be transposed. The *acquis* on conditional access has been largely transposed. EC legislation on broadcasting via satellite and retransmission via cable has been implemented in Hungarian legislation. However, in order to reach full compliance with the *acquis*, the concept of communication to the public by satellite should be inserted into the Copyright Act.

Conclusion

Hungary is essentially meeting the requirements for membership and is expected to be in a position to implement the *acquis* in the areas of **banking and insurance services, investment services and security markets, protection of personal data** as well as regarding the **right of establishment and the freedom to provide non-financial services by accession**. It can be expected that the preparations in these sectors will be completed in time and that the remaining legislative and administrative restrictions will be lifted before accession. The alignment with the *acquis* on motor insurance still needs to be finalised.

Hungary is meeting the majority of the requirements for accession in the area of **information-society services**. In order to complete preparations for membership, a

number of major directives remain to be fully transposed in this area. This work must now be accelerated.

Chapter 4: Free movement of capital

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payments systems and the fight against money laundering, requiring adequate enforcement capacity.

In the area of **capital movements and payments**, Hungary has nearly completed its legislative alignment with the *acquis*, but a few further measures remain to be taken. Hungary still needs to modify its Act on Privatisation and to conduct a case-by-case examination of existing special rights. This was expected to be done by January 2002, but has been delayed. Hungary must still remove restrictions on investment in foreign assets by institutional investors and liberalise all real estate transactions not covered by a transitional arrangement.

In accordance with the transitional arrangement it has been granted, Hungary will remove restrictions on the acquisition of secondary residences by EU nationals, non-resident in Hungary, and by EU companies by May 2009 at the latest. Similarly, in accordance with another transitional arrangement, Hungary will remove restrictions on the acquisition of agricultural land and forests by EU nationals and by EU companies by May 2011 at the latest.

In the field of **payment systems**, Hungary is close to completing its legislative alignment with the *acquis*, while the implementing structures are in place and function adequately.

In the area of **money laundering**, Hungary has made considerable progress in strengthening its anti-money-laundering regime and has now completed its legislative alignment. Moreover, Hungary has ensured compliance with the Financial Action Task Force (FATF) recommendations. In line with FATF recommendations, Hungary has established a satisfactory timetable to phase out anonymous savings books. In terms of implementing structures, the financial intelligence unit's staff has been increased, but its equipment needs to be further strengthened (*see also chapter 24 – Justice and home affairs*).

Conclusion

Hungary is essentially meeting the requirements for membership and should be in a position to implement the *acquis* in the area of **free movement of capital** from accession. As mentioned above, a limited number of specific issues still need to be addressed before accession.

Chapter 5: Company law

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights,

industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

In the field of **company law** as such, Hungary has achieved a considerable degree of alignment with the *acquis*. In June 2003, legislation was adopted amending the Companies Act, the Act on Firm Registration and the Act on Branches of Foreign Registered Companies. The new legislation aims at full alignment with the *acquis* by fine-tuning Hungarian legislation to remove the minor discrepancies between it and EC company law directives. Furthermore, it introduces implementing provisions to apply the *acquis* on European economic interest groupings. Administrative capacity has been further improved, but should continue to be strengthened.

With regard to **accounting**, Hungary's legislation is nearly fully aligned with the *acquis*, except for the 2001 *acquis* on valuation rules for the annual and consolidated accounts of certain types of companies, banks and other financial institutions, which still needs to be transposed. Also, the introduction of national accounting standards still needs to be completed. The administrative structures are adequate in this area.

In the field of **protection of intellectual and industrial property rights (IPR)**, Hungary is meeting the majority of the commitments made in the accession negotiations. Its legislation in this area, such as the Copyright Act, is to a large extent in line with the *acquis*. However, further alignment is needed with regard to the protection of copyright in the information society and broadcasting via satellite in the field of intellectual property rights. Hungary joined the European Patent Organisation as of 1 January 2003. The country also acceded to all relevant international instruments in the field of copyright and related rights, including the two 1996 WIPO Internet Treaties. Administrative capacities appear to be sufficient in this area. Further legislation remains to be adopted before accession, notably in the field of industrial property rights, on the introduction of supplementary protection certificates for pharmaceuticals and plant protection products.

As agreed in the accession negotiations, specific transitional rules will apply in relation to pharmaceutical product patents, involving the non-application of Community exhaustion to certain exports from Hungary, as regards the granting of supplementary protection certificates for medicinal and plant protection products, and in relation to the extension of registered or pending Community trademarks to the territory of Hungary.

As regards enforcement of IPR, administrative structures are in place but need to be strengthened. In particular, the co-ordination and training of the enforcement bodies (customs, police and judiciary) remain to be improved. Hungary should also continue its efforts to further reduce the length of court proceedings. In addition, the fight against counterfeiting and piracy needs to be continued as a priority. Further efforts are needed to increase the value of seizures, and to ensure rapid and deterrent legal action against offences and efficient border control measures.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession, and accession to the **Rome Convention** will only be possible upon accession. Hungary should designate the relevant courts or other authorities to ensure swift implementation of these provisions (*see also Chapter 24 - Justice and Home Affairs*).

Conclusion

Hungary is essentially meeting the requirements for membership, and is expected to be by accession in a position to implement the *acquis*, in the areas of **company law** and **accounting**, as well as on the **Regulation replacing the Brussels Convention** and the **Rome Convention**. The transposition of the accounting law *acquis* will need to be completed.

The majority of commitments and requirements arising from the accession negotiations in the field of the **protection of intellectual and industrial property rights** have been met. Further legislative adjustments are required in respect of the protection of copyright in the information society, and broadcasting via satellite. Although the legislation is mostly in line, enhanced efforts are in particular needed to strengthen the enforcement of intellectual and industrial property rights. Better co-ordination and training of enforcement bodies is required (mainly customs, police and the judiciary), and the efficient functioning of a well-trained judiciary should be given particular attention. Efforts must continue to ensure efficient border control measures.

Chapter 6: Competition Policy

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, Hungary has adopted legislation containing the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. However, Hungary still needs to ensure that its legislation is not in contradiction with the more recent Community block exemptions. Preparations should continue for the application of the EU's new procedural regulation.

Hungary has the necessary implementing structure in place, and the Office for Economic Competition is functioning well. Further efforts are needed to raise awareness of anti-trust rules of all market participants and to build up a credible and transparent competition culture. Special training for judges should be further developed.

The enforcement record is generally satisfactory. However, in order to ensure further strengthening, priority needs to be given to cases, which most seriously distort competition. Furthermore, more deterrent sanctions should be imposed.

In the field of **state aid**, Hungary has adopted state aid rules covering the main principles of the *acquis*.

The necessary implementing structures are in place, and the State Aid Monitoring Office is functioning well. Further efforts are needed to raise awareness of state aid rules among all market participants and aid grantors. Hungary must also pay further attention to training the judiciary.

The enforcement record is generally satisfactory. Hungary should continue to ensure that all aid measures are monitored and controlled.

Hungary benefits from a transitional arrangement to phase out certain individual fiscal aid measures relating to off-shore companies (by 31 December 2005), SME's (by 31 December 2011), and local business tax reductions (by 31 December 2007). The transitional arrangement also includes the conversion of individual fiscal benefits to large companies, where Hungary still needs to further amend its fiscal legislation in order to introduce all the agreed modifications of the fiscal benefits by accession.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the **competition** chapter and is expected to be in a position to implement this *acquis* from accession. In completing preparations for membership, Hungary must continue to develop a track record of proper application and enforcement of both anti-trust and state aid legislation. It should also complete the legislative fine-tuning that will enable such strengthening of the enforcement record. Particular attention is needed in respect of amending its fiscal legislation in order to introduce the agreed modifications of the fiscal benefits by accession.

Chapter 7: Agriculture

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues" below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.

Horizontal issues

The new Agricultural and Rural Development Agency (ARDA) was formally established on 1 July 2003 through a merger of the existing Agriculture Intervention Centre and the SAPARD Agency. The preparations for the new **Paying Agency** will need to be urgently accelerated, in particular as regards the development of the IT system, the establishment of administrative procedures and the recruitment and training of staff.

The establishment of a fully functional **Integrated Administration and Control System** (IACS) is still seriously delayed from both a technical and an organisational point of view, even though important progress has been made in the setting-up of the Land Parcel Identification System (LPIS) in the last six months. Given the work still to be done, and the time remaining, there must now be serious doubts as to whether Hungary can have a functioning system in place by the date of accession. The main concern is that the IT systems still have to be developed.

ARDA and the Licensing and Administrative Office will be responsible for the administration of **trade mechanisms**. The relevant control tasks will be the responsibility of the Customs service and the Veterinary service. Accelerated efforts will however be needed in setting up the administrative procedures in this area and in ensuring the co-ordination of the various bodies involved.

Concerning **quality policy** and **organic farming**, Hungary is making good progress.

Hungary has met the commitments and requirements arising from the accession negotiations in the area of the **Farm Accountancy Data Network (FADN)** and is expected to have implemented the FADN by accession.

State aid measures in the field of agriculture remain to be brought in line with the *acquis* at the time of accession.

As concerns direct payments to farmers, the Hungarian government has decided to implement the single area payment scheme (SAPS) in the first years after accession.

Common market organisations

ARDA will be responsible for intervention as well as inspection and authorisation of payments for **arable crops**. Following the adoption of the Act on the Regulation of Agricultural Market, the legislative and administrative requirements to manage this Common Market Organisation (CMO) are mostly in place, although further work is required to ensure that intervention centres are fully functioning by accession. Regarding tobacco and hops, subject to continued good progress Hungary should have adequate administrative capacity by accession. For dried fodder further progress is needed.

ARDA has been designated as the responsible body for the **sugar** CMO. A transitional system of sugar quotas has been in place since 2002, including inter-professional agreements, though full harmonisation with the *acquis* has yet to be achieved. EU trade mechanisms are not yet applied. The communication system needs to be fully harmonised with the EU requirements.

Implementing legislation as regards marketing standards for **fruit and vegetables** and for the establishment of producers' organisations has been adopted. Implementing legislation still remains to be adopted regarding the procedures for operational funds and programmes. Administrative structures are in place, but price reporting remains to be set up. Application and controls on marketing standards and controls on producers' organisations need to be strengthened.

In the area of **wine and alcohol**, the CMO for wine remains to be fully set up. The new Wine Act and several implementing decrees still have to be adopted. The vineyard register remains to be completed to cover the whole territory. Administrative structures for the implementation of the CMO for wine need to be strengthened.

Since 1996 Hungary has applied a **milk** quota system, which remains to be fully aligned with the EU requirements. The relevant administrative structures need to be finalised and strengthened in order to ensure milk quota management and the administration of the CMO on milk and milk products. The other mechanisms in this sector remain to be set up or to be fully harmonised.

Legislative measures have been adopted regarding carcass classification and labelling for **beefmeat, sheepmeat** and **pigmeat**, but remain to be aligned for price reporting. Notwithstanding minor shortcomings, in particular on price reporting, administrative structures are in place.

For **eggs and poultry**, legislative measures have been adopted but administrative structures remain to be put in place as regards marketing standards, price reporting and the reporting of production statistics.

Rural development

The Ministry of Agriculture will be the managing authority for rural development measures. ARDA will be the paying agency for rural development and will be responsible for the implementation of the measures. A department of ARDA already has experience with the implementation of SAPARD, which is however subject to serious delays in the disbursement of funds to beneficiaries, though the level of commitments is rapidly accelerating. The draft Rural Development Programme for EAGGF Guarantee expenditure remains to be formally transmitted. Overall, there are serious concerns about Hungary's preparations for implementing rural development programmes, in particular due to the number of activities that remain to be completed and to the unclear definition of responsibilities and weak co-ordination.

Veterinary and phytosanitary issues

The transposition of legislation on transmissible spongiform encephalopathies (**TSEs**) and **animal by-products** has been completed but needs to be adjusted. Implementation must be accelerated, in particular as regards official checks on the safe removal and disposal of specific risk material (SRM) and on the processing of certain animal waste. TSE surveillance needs to be upgraded, in particular as regards testing of animals at risk, despite the growth in the number of tests carried out. Rendering plants remain to be upgraded. A total feed ban has been implemented.

Legislation on the **veterinary control system in the internal market** has to be significantly adjusted. Hungary has not joined the computerised network linking veterinary authorities ANIMO, although the decision to join has been formally taken. The main parts of the *acquis* for identification and registration of animals have been transposed, but some parts need to be completed, notably in relation to holding registration and identification of bovines. A central computer database for bovine animals is operational and well developed but needs some upgrading. Holding registration and movement control databases need to be fully developed for pigs, sheep and goats. The law on the financing of veterinary inspections and controls has been transposed. Transposition regarding veterinary checks of imports from third countries and rules for imports needs to be completed. Significant work is still needed to bring border inspection posts into compliance with EU requirements.

Regarding **animal disease control** measures, national contingency plans on foot-and-mouth disease, classical swine fever, Newcastle disease and avian influenza have been provided. EU requirements in relation to bovine brucellosis have not yet been transposed into Hungarian legislation. Hungary has joined the Animal Disease Notification System (ADNS) on a voluntary basis.

Steps have been taken to align the Hungarian legislation on **trade in live animals and animal products** with the *acquis*.

Legislation on **public health** protection is in place but needs to be significantly adjusted. Administrative capacity in this area must be urgently strengthened. Transitional arrangements have been granted for certain high capacity red meat establishments until the end of 2006. Products from these establishments will be restricted to the national market. Hungary has given a commitment that all establishments continuing in operation after accession will be in compliance with the *acquis*. There is a high probability that a significant number of agri-food establishments will not be in compliance with the relevant EU requirements at the date of accession.

The *acquis* on **common measures** (including zoonoses) has been transposed, although in relation to residue controls, transposition is not yet completed. The residue-monitoring programme is also in place. However, attention needs to be given to bringing implementation into line with EU requirements.

The *acquis* in the field of **animal welfare** has largely been transposed and remains to be completed. Hungary has been granted a transitional arrangement until the end of 2009 as regards the conditions for laying hens in certain farms. Enhanced efforts are needed to ensure that pig holdings will be in compliance by accession.

In the field of **zootechnics**, steps have been taken to align the Hungarian legislation with the *acquis*.

Legislation for **animal nutrition** is in place. Further efforts will however be needed in this field to improve effectiveness of controls through the co-ordination of the different control services.

In the field of **phytosanitary** legislation, the *acquis* concerning harmful organisms and plant protection products has been largely transposed, although legislation on the registration of Plant Protection products has yet to be adopted. A new Act on Seeds was adopted in June 2003 to ensure transposition in the seed quality sector. Some implementing legislation remains to be adopted, in particular concerning maximum residue levels for pesticides. The administrative capacity (including laboratories) needs to be strengthened to ensure proper implementation.

Hungary has to ensure that international veterinary and phytosanitary agreements are brought into compliance with the *acquis* by accession.

In order to ensure a comprehensive approach to enhance food safety throughout the food chain, the Food Safety Office was formally established in May 2003 and is now operational. Aspects of food safety are also covered under *Chapter 1 – Free movement of goods*.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations, in (as far as the horizontal issues are concerned) **quality policy** and **organic farming**, the **Farm Accountancy Data Network (FADN)** and **state aid**; and, as far as the common market organisations (CMOs) are concerned, in **arable crops**, **fruit and vegetables**, **milk**, **beefmeat**, **sheepmeat and pigmeat**, and **eggs and poultry**.

In the veterinary and phytosanitary field, Hungary is essentially meeting the requirements in the areas of **animal disease control measures, trade in live in animals and animal products, animal welfare, zootechnics and animal nutrition**. Subject to good progress being maintained in these areas, Hungary should be in a position to implement the *acquis* by accession.

Hungary is partially meeting the commitments and requirements for membership in the area of **trade mechanisms, CMOs for wine and sugar**, and in the veterinary field as regards **TSE and animal by-products** (as regards upgrading of rendering plants), **veterinary control systems in the internal market** (as regards animal identification and import controls), **common measures** (as regards residue controls), and **phytosanitary measures** (only as regards pesticide maximum residue levels). Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place on accession.

There are serious concerns about Hungary's preparations for setting up its **Paying Agency**, for implementing the **Integrated Administration and Control System (IACS)**, and in the areas of **rural development and public health** (as regards progress in upgrading agri-food establishments). Unless immediate remedial action is taken, Hungary will not be in a position to implement the *acquis* in these areas by the date of accession.

Chapter 8: Fisheries

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management, and inspection and control**, Hungary completed its preparations in March 2003 by adopting rules for the establishment of a system of size control on fisheries imports through an amendment to the Codex Alimentarius Hungaricus.

In the area of **structural actions**, a section on fisheries has been included in the draft of the Hungarian Operational Programme for Agriculture and Rural Development, which has been submitted to the European Commission. Specific staff should be allocated to the relevant Service of the Ministry of Agriculture for the administration of the Financial Instrument for Fisheries Guidance (FIFG).

Regarding **market policy**, Hungary's legislation is in line with the *acquis*, though voluntary producers' organisations have not been established yet.

As regards **state aid** to the fisheries sector, Hungary allocates aid to this sector only for natural waters, bio-diversity and nature conservation purposes. The aid measures must be brought into conformity with the *acquis* by accession.

Hungary is not party to any **international fishing agreements**.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position from accession to implement the *acquis* in the area of **fisheries**. However, Hungary needs to finalise a coherent fishery support policy within the Operational Programme for Agriculture and Rural Development and raise the number of staff in bodies administering the Financial Instrument for Fisheries Guidance (FIFG). Furthermore, Hungary is encouraged to set up producers' organisations.

Chapter 9: Transport policy

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

The extension of the **trans-European transport networks** has been defined. While the necessary implementing structures in this area are in place, the administrative capacity of all institutions involved to prepare, manage and monitor transport projects requires further strengthening, both in qualitative and quantitative terms, in particular in the road and rail sectors.

In the land transport sector, Hungary has nearly completed the implementation of its commitments with regard to legislative alignment with the **road transport acquis**. Framework legislation is in place and in line with the *acquis*. Alignment with the fiscal and technical *acquis* has been completed. Hungary has been granted a transitional period until 31 December 2008 for the full implementation of the *acquis* on maximum authorised weights and dimensions of vehicles in international traffic. As to the social *acquis*, legal alignment has been completed, except for the legislation on standard checking procedures and implementing legislation as regards tachographs. Hungary has been increasing the volume of checks of driving time and rest periods up to the levels required by the *acquis*. The necessary administrative structures in this area are in place, with the General Inspectorate of Transport performing key supervisory and control functions. Some improvement is still required as regards technical roadside inspections and checks of passenger transport operations. Hungary has been granted a transitional arrangement concerning gradual reciprocal access to the cabotage market in the road haulage sector on road freight cabotage (for a maximum of 5 years after accession).

Transposition of the **rail transport acquis** is taking place according to schedule. The process remains to be completed with regard to the revised railway *acquis* of February 2001 and the interoperability directives. Furthermore, independence and administrative capacity for the allocation of capacity and infrastructure charging remains to be ensured. In the framework of the ongoing reorganisation process, the capacity of the railway administration needs to be further strengthened. The railways regulatory authority, which is already in place, must develop competencies for its future role as appeal body for capacity allocation and charging. The restructuring process of the state railway company

MÁV should continue to be pursued in accordance with the established strategy. Hungary received a transitional period until 31 December 2006 as regards the full implementation of the Trans-European Rail Freight Network access.

In the area of **air transport**, framework legislation is in place and essentially in line with the *acquis*. Implementing legislation still needs to be adopted with regard to the complete and official publication of Joint Aviation Requirements (JARs). Administrative capacity has been strengthened and is sufficient. However, specialised training of staff should continue, and additional staff should be recruited for the Civil Aviation Authority in view of that body's increasing tasks. As regards noisy aircraft, Hungary received a transitional period until 31 December 2004 for the full implementation of the relevant *acquis*.

On **inland waterways** transport, legislative alignment has been completed; the Inland Waterway Fund has been set up. Administrative structures in this area are in place and are being strengthened, in particular through specialised training of staff.

In the field of **maritime transport**, framework legislation is in place and in line with the *acquis*. However, the adoption of implementing legislation remains to be completed, in particular in relation to the *acquis* adopted under the “Erika” packages relevant to Hungary. The relevant administrative structures in this area are in place and are being strengthened, in particular through specialised training of staff.

Conclusion

Hungary is essentially meeting the requirements for membership in the areas of **trans-European transport networks, road transport, air transport, inland waterways and maritime transport** and is expected to be in a position to implement the *acquis* in these areas by the time of accession. Hungary needs to reinforce administrative capacities for project management regarding trans-European transport networks and to complete alignment in the other above-mentioned areas.

Hungary is meeting the majority of the requirements for membership as regards **rail transport**. In order to complete preparations for membership, Hungary needs to complete the legislative alignment and adopt the missing implementing legislation. Hungary also needs to reinforce its administrative capacity - in particular as regards capacity allocation and charging - in this sector.

Chapter 10: Taxation

The *acquis* on taxation largely covers the area of indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

In the area of indirect taxation, transposition of the *acquis* on **VAT** is taking place according to schedule. Alignment needs to be completed in particular as concerns the

scope of reduced VAT rates and exemptions, except in the areas where it has obtained transitional periods (see below), and taxable persons (public authorities). Hungary also needs to introduce the intra-Community regime and the special schemes for investment gold and to adjust its special scheme for second-hand goods. Furthermore, the special schemes for hotels and the flat-rate scheme for small and medium sized enterprises, which are both not in conformity with the *acquis*, need to be addressed. Hungary should also eliminate some remaining discrepancies with the *acquis* concerning the place of taxation in respect of certain supplies, the VAT refunds and the right of credit for goods used for both taxable and non-taxable purposes.

Hungary has obtained transitional periods to continue the application of the reduced VAT rate on coal, coal-brick and coke, firewood and charcoal, and on district heating services (until 31 December 2007), on restaurant services and foodstuffs sold in similar premises (until 31 December 2007) and on natural gas and electricity (until one year after accession). Derogations were also granted as concerns the application of a VAT exemption on international passenger transport, and the application of a VAT exemption and registration threshold of € 35.000 for small and medium sized enterprises. The necessary administrative structures are in place.

As concerns **excise duties**, in order to complete alignment with the *acquis*, Hungary needs to further align its legislation as concerns the level of duty on some categories of products, and some exemptions. Hungary also needs to extend the domestic suspension scheme to intra-community movements and to eliminate some remaining discrepancies with the *acquis* concerning the definition of beer, the exemption for wine produced by tax warehouses for own consumption and the exemption for alcohol used in the preparation of foodstuff. The gradual increase of excise duties on cigarettes is proceeding according to schedule to reach the minimum rate level on 31 December 2008, in conformity with the transitional period agreed in the accession negotiations. Hungary was also granted a derogation to continue applying its excise duty scheme for small fruit grower's distillation, provided that the quantity does not exceed 50 litres of fruit spirit per year per household and provided that the reduced excise rate is not less than 50% of the standard national duty rate for alcohol. Hungary still needs to fully adjust its legislation to the terms of this transitional period. The necessary administrative structures in this area are in place.

In the area of **direct taxation**, Hungary needs to complete transposition as concerns the taxation of the raising of capital. It should also transpose the EC legislation on interests and royalties and on the taxation of savings income. The necessary administrative structures in this area are in place.

On **administrative co-operation and mutual assistance**, Hungary is taking the necessary steps to transpose the *acquis* and to implement it by accession, both from the legislative point of view and as concerns organisational structures including information technology systems. The central liaison office (CLO) is operational, while the excise liaison office (ELO) remains to be established. Preparations for the VAT Information Exchange System (VIES) and for the System for Exchange of Excise Data (SEED) databases are ongoing and proceeding according to plans.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations on this chapter and is expected to be by accession in a position to implement the *acquis* in the area of **taxation**. Hungary still needs to adopt some legislation to complete the alignment process in all areas. The level of administrative capacity is adequate. Hungary should continue at the current pace its ongoing efforts to set up the IT systems allowing for the exchange of computerised data with the Community and its Member States.

Chapter 11: Economic and monetary union

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that Hungary will not yet adopt the euro as a currency from accession. EMU policy also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

Hungary has met the commitments and requirements arising from the accession negotiations in the area of **economic and monetary union** and is in a position to implement the *acquis* as from accession.

Chapter 12: Statistics

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. Hungary needs to improve the exhaustiveness and the timeliness of data in certain domains such as national accounts, government finance statistics and business statistics.

Chapter 13: Social policy and employment

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main

financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment policy, social inclusion and social protection.

As regards **labour law**, most of the EC legislation has been transposed into Hungarian law, especially after the adoption, in March 2003, of new amendments to the Labour Code. Some outstanding elements remain to be adjusted in order to achieve full alignment in the areas of transfer of undertakings and working time. Transposition of legislation of the new *acquis* related to information and consultation of workers and involvement of workers in the European Company is foreseen after accession. The independent guarantee fund for employees is in place and functioning well.

Hungary has adopted all the necessary legislation in the field of **equal treatment of women and men**, and, in general, the legislative transposition is in line with the *acquis*. However, the pensionable age for male and female civil servants will have to be equalised upon accession, when the pension scheme constitutes pay within the meaning of the Treaty and EC case law. Moreover, legislation concerning the protection of women in employment, yet leading to their discrimination, should be removed. Implementing structures need to be further strengthened. In this respect, the creation, in May 2003, of a new government position of a Minister without portfolio in charge of equal opportunities is a welcome development.

In the area of **health and safety at work**, most of the legislation has been adopted and will be in force as from accession. However, several issues need to be adjusted by amendments of national legislation in order to achieve full compliance with the *acquis*. This concerns, *inter alia*, the duty of the employer to actively consult, inform and ensure participation of workers and/or their representatives, as well as the need to stress the preventive character of health surveillance provisions. The authorities responsible for the enforcement of health and safety legislation are in place, but further strengthening, in terms of both staffing and technical facilities, is needed. There is also a need to improve the co-ordination of health and safety issues through close co-operation between these authorities, to establish a better reporting system for workplace accidents and to put in place an efficient public information system.

As regards **social dialogue**, the tripartite national bodies are in place, and tripartite social dialogue has substantially improved in Hungary. However, autonomous bipartite social dialogue needs to be improved at all levels and the number of collective agreements signed at sectoral and enterprise level increased. The social partners' administrative capacity, primarily for entering into social dialogue at European level, is to be reinforced, too.

In the field of **public health**, Hungary has recently adopted legislation aiming at transposing the tobacco *acquis*. As regards surveillance and control of communicable diseases, the Hungarian legislation is in line with the *acquis*. However, current efforts to upgrade the surveillance and control structures should be continued, in particular with regard to education and training and reinforcement of county public health institutes. Efforts should continue in order to develop a health monitoring system with a view to obtaining health data and indicators comparable with the Community health monitoring system. Attention should be paid to the improvement of the health status of the

population and to health expenditure. In this respect, the “Decade of Health” programme launched by the Government is a welcome development.

Concerning **employment policy**, efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP). In particular, it is important to increase the employment rate, especially amongst older workers and women, the unskilled and the disadvantaged, and to reduce regional imbalances. Also, incentives for people to work and on mobility should be improved. Further efforts are needed to reduce the level of undeclared and informal work. Efforts are needed to establish appropriate administrative capacity for policy planning and delivery, in particular in the public employment services.

As regards the **European Social Fund (ESF)**, the main elements of the administrative structures are in place. However, there is a need for a stronger decision-making capacity as well as greater inter-ministerial co-ordination. A more strategic approach should be ensured with respect to all measures proposed for ESF assistance. The management, administrative, monitoring and control capacities of the relevant Ministries, intermediate bodies and financial beneficiaries should be further reinforced. Although Hungary has a first experience of participation in EQUAL, preparations need to be intensified.

The Commission and Hungary are finalising the Joint Memorandum on Social Inclusion (JIM), which identifies key challenges and possible policy orientations for promoting **social inclusion**. On this basis, a national integrated strategy and a National Action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be developed in line with the EU commonly agreed indicators on social inclusion.

In the field of **social protection**, sustained efforts are required to implement the reforms that have been introduced, including the health care reform and the pension reform, which will help to further improve the level and efficiency of social protection.

Concerning **anti-discrimination**, draft legislation intended to transpose the *acquis* is before Parliament. The Equality Body required by the *acquis* needs to be established. As regards the Roma minority, the Government introduced a number of structural changes in 2003. The overall responsibility for Roma affairs was transferred to the Prime Minister’s Office. However, despite these developments, the situation of the Roma remains very difficult. The majority of persons belonging to the Roma community are still exposed to social inequalities, social exclusion and widespread discrimination in education, employment and access to public services. Segregation in schools has remained a serious problem. The long-term Roma strategy announced under the previous Government has still not been adopted either. Social exclusion of the Roma community should be better analysed and monitored, and ESF assistance could be a useful tool to help Hungary to better address the situation of its Roma population.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **labour law, equal treatment of women and men, health and safety at work, social dialogue, public health, employment policy, social inclusion and social protection** and is expected to be in a position to implement this *acquis* as from accession. Some legal adjustments are needed in the fields of labour law,

equal treatment of women and men and health and safety at work. Implementing structures need to be further strengthened in the areas of equal treatment of women and men, health and safety at work and public health. Autonomous bipartite social dialogue should be improved. As regards employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

Hungary is meeting the majority of the requirements for membership in the areas of **European Social Fund** and **anti-discrimination**. With regard to European Social Fund, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at national and regional level. Attention is to be given to alignment with the anti-discrimination *acquis*, and considerable efforts should aim at improving the situation of the Roma minority.

Chapter 14: Energy

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects of the safety of nuclear installations.

With respect to **security of supply**, and in particular oil stocks, both framework and implementing legislation in Hungary are in place and in line with the *acquis*. The administrative capacity required - the Association of crude oil and oil products stockpiling and a division in the Ministry of Economic Affairs and Transport - is functioning well. Hungary already complies with the *acquis* requirement to hold 90 days of oil stocks, except for oil products of category III.

In the field of **competitiveness and the internal energy market** (electricity and gas sectors), the transposition of the *acquis* is now taking place according to schedule. Framework legislation, i.e. the Acts on Electricity and on Gas, is in place and in line with the *acquis*. Implementing legislation is also largely in place and in line with the *acquis*, but remains to be completed in particular with regard to gas with a view to the price setting mechanism. Market opening in the gas and electricity sectors takes place in line with the commitments made in the negotiations. Presently 33 to 35% of the electricity market are open for competition. Following the adoption of the Gas Act in June 2003, it is envisaged that 44% of the gas market will be opened for competition as from January 2004. While electricity price distortions have been removed since February 2003 in line with the commitments made, the removal of the price distortions in the gas sector still needs to continue. Through the Gas Act, the status of the head of the regulatory body, the Hungarian Energy Office (HEO), has been changed. The required independence of the HEO must not be endangered by the legislative amendments to the status of the President of the Office. Both the Ministry and the regulator need to be further strengthened in terms of staffing. Hungary should transpose the recently adopted electricity and gas directives in line with the timetable laid down by the *acquis*.

In the area of **energy efficiency and renewable energy**, legislative alignment has been largely completed, except for implementing legislation as regards the new *acquis* adopted as from 2000. The latest legislation should be transposed according to the timetables laid down in the directives. Administrative structures in this area, with the Energy Centre as the main institution, are in place and function adequately, but need to be strengthened. An Energy Efficiency Programme launched in 1999 is being implemented and is partially also addressing renewable energy issues.

In the field of **nuclear energy and nuclear safety**, Hungary meets the commitments and requirements arising from the accession negotiations and will be in a position to implement the Euratom *acquis* as from the date of accession. Based on the results of the accession negotiations, Hungary is expected to provide additional information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. Hungary provided such information in January and March 2002. In July 2003, Hungary submitted additional information covering recent progress made in various fields of nuclear safety, including *inter alia* legislative aspects, the independence of the regulatory authorities, the bubbler condenser system, and the INES 3 incident at the Paks nuclear power plant in April 2003. Regarding the latter, Hungary also gave a detailed presentation to the Council in September 2003.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the **energy** chapter and is expected to be in a position to implement the *acquis* from accession. Hungary needs to continue the opening up of the electricity and gas markets as planned and to fully complete legal alignment in these areas. In addition, Hungary must complete alignment by adopting implementing legislation as regards the latest *acquis* on energy efficiency and renewable energy. Hungary should continue to further strengthen its administrative capacity in the sector, including the Ministry of Economic Affairs and Transport. With a view to the recent changes in the Gas Act as to the status of the Head of the Hungarian Energy Office, the regulator's independence must be fully ensured.

Chapter 15: Industrial policy

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

Hungary's **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e., it is market-based, stable and predictable. The Government should continue elaborating the new, broader industrial policy strategy. A strategy for Innovation and Technology Development has been finalised, but was incorporated into a wider scope Government proposal on competitiveness, which remains to be approved this autumn.

As concerns **privatisation and restructuring**, the privatisation process has not yet been fully completed, in particular in the steel sector. There are altogether 19 state-owned

companies on the list for privatisation in 2003. Hungary should ensure that the restructuring policy is implemented in conformity with the EC state aid and competition rules in order to create efficient and competitive companies. The main administrative structures for implementation in this sector are in place.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the **industrial policy** chapter and is expected to be able to implement the *acquis* as of accession. Hungary should continue the privatisation and restructuring process.

Chapter 16: Small and medium-sized enterprises

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations relating to **small and medium-sized enterprises**. Alignment with the new Commission recommendation on the SME definition should be carried out. Further attention is needed in order to ensure the effective implementation of the new Széchenyi Enterprise Development Programme. The implementation of the European Charter for Small Enterprises should be maintained.

Chapter 17: Science and research

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

Hungary has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

Chapter 18: Education and training

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

Hungary has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this *acquis* from accession. The implementing capacity for Community programmes will need to be enhanced in order to be able to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, an action plan has been set up. Also, the Public Education Act has recently been amended. However, due implementation of this *acquis* still needs to be ensured.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue.

Chapter 19: Telecommunications and information technologies

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. A new regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, Hungary's primary legislation is in line with the 1998–2000 *acquis*, except for the area of carrier selection for local calls. Implementing legislation should be improved in order to provide a firm legal basis for universal service and for the cost orientation of interconnection prices. In order to develop further competition in the market, measures to reduce both interconnection and wholesale Internet access prices need to be taken. A new Act on Telecommunication aiming at full transposition of the 2002 *acquis* was adopted by the Government in September 2003. While the necessary administrative structures in this area are in place, the role and the regulatory capacity of the Communications Authority need to be strengthened, as does its capacity for economic analysis.

In the area of **postal services**, Hungary's legislative alignment remains to be completed. As to the first postal directive, the Hungarian legislation needs to be further aligned as regards the authorisation and licensing regime, the compensation fund mechanism, the universal services' obligation, where some exemptions granted to the incumbent are still in place, and the quality of service provision. Furthermore, as regards accounting, the costs and the separation by services have not yet been ensured by the framework legislation. Also, the transposition and implementation of the second postal directive is still missing. The administrative capacity in this sector needs to be further strengthened, including through further staffing and training.

Conclusion

Hungary is meeting the majority of the commitments and requirements in the **telecommunications** area and is partially meeting the commitments and requirements arising from the accession negotiations in the **postal services** sector. Implementation of the telecommunications *acquis* must be speeded up, *inter alia* by setting reasonable terms for interconnection. The effectiveness and independence of the regulator in the telecommunications sector needs to be ensured. Complete legislative alignment with the

acquis must be ensured. Enhanced efforts must be made with regard to the transposition of the *acquis* in the postal sector. Hungary must ensure the correct application of the universal service *acquis*.

Chapter 20: Culture and audio-visual policy

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

In order to complete transposition of the **audio-visual policy** *acquis*, Hungary needs to align its legislation concerning the question of linguistic policy measures. Administrative capacity for implementation of the audio-visual *acquis* is satisfactory.

Hungary meets the requirements for participation in Community activities in the field of **culture**.

Conclusion

Hungary has met the commitments and requirements arising from accession negotiations in the field of **culture**.

Hungary is partially meeting the requirements for membership in the area of **audio-visual policy**. In order to complete preparations for membership, the remaining legislative amendment must be completed.

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

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost-effective manner from the point of view of both management and financial control.

Hungary has agreed with the Commission on a NUTS classification of its **territorial organisation**.

The essential feature of the **legislative framework**, i.e. the ability to ensure multi-annual budget programming, is in place, and it is expected that the 2004 budget law will include a specific appendix covering multi-annual budgeting for development programmes. As regards budgetary flexibility, the Public Finance Act needs to be amended and the relevant secondary legislation introduced. Hungary is committed to making the necessary legislative changes by the end of 2003.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However, in order for Hungary to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from that date. Urgent efforts are needed in particular in the area of public procurement.

The main **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds have been put in place. Staffing levels in the Managing Authorities have been increased. However, the design of the implementation structure, including the final designation of the intermediate bodies, needs to be completed, in particular as regards the system for verifying, authorising and effecting payments to final beneficiaries. Specific administrative arrangements for inter-ministerial co-ordination have been made, covering both the ongoing programming exercise and future implementation. Hungary needs to ensure that these arrangements are effectively implemented.

Internal audit units have been established in the managing and paying authorities. However, the administrative framework for internal audits in general, and in the ministries hosting the managing authority in particular, needs to be further strengthened. The functional independence of the internal audit units in those ministries, which, together with the Government Control Office, are in charge of the 5% and 15% on-the-spot checks, needs to be ensured.

The **programming** documents — specifically the Development Plan (DP) and the Operational Programmes — have been submitted, although the *ex-ante* evaluation has not yet been completed. It is expected that Hungary will submit the programme complements by October 2003.

An extensive process of consultation of a wide range of partner organisations on the DP and the draft operational programmes has taken place at national and regional level.

The setting up of a functioning monitoring system has been delayed. A contract for the development of an on-line information technology system aiming at covering the monitoring needs of the Structural and Cohesion Funds was concluded in July 2003. A central evaluation unit has been established in the National Development Office.

Considerable and sustained efforts are needed to establish a pipeline of projects that are ready to be implemented in technical and financial terms so as to enable Hungary to benefit fully from Community funds as soon as the programme starts.

The **financial management and control** system has still to be reviewed following the finalisation of the implementation structure. Adequate operating procedures still need to be developed and the procedures for co-ordination amongst the bodies involved in financial control defined. Hungary is in the process of developing procedure manuals in relation to financial control, auditing, the certification of expenditure, and the correction of irregularities of future Structural and Cohesion Funds expenditure, including the detailed responsibilities of the Paying Authority, the Managing Authorities and the Intermediate Bodies in the field of financial management and control. Adequate levels of trained staff need to be made available to the internal audit and control units in all Ministries and bodies concerned.

The complex budgetary structure and the centralised system of payments through the Treasury need to be considerably streamlined with a view to the practical requirements of the financial management of the assistance and to ensuring full and timely payments to a large number of final beneficiaries.

Additionality will be verified before approval of the Community Support Framework.

Conclusion

Hungary is essentially meeting the requirements for membership in relation to **territorial organisation** and **programming**. Provided the further work programme is carried out as envisaged, Hungary should be in a position to meet all requirements in these areas by the start of the programme. As regards programming, Hungary needs to focus on establishing an adequate pipeline of well-prepared projects and on setting up a functioning computerised monitoring system.

Hungary is partially meeting its commitments and the requirements arising from the accession negotiations in the areas of **legislative framework, institutional structures** and **financial management and control**. Concerning the legislative framework Hungary must urgently adopt new legislation on public procurement in line with the *acquis* and to make sure that final beneficiaries will be in a position to effectively apply the rules and procedures resulting from the new law in order to benefit from Community funding from 1 January 2004. As regards institutional structures, Hungary needs to strengthen interministerial co-ordination and finalise the design of the implementation structure, including in the area of financial control, providing for a clear definition, a clear allocation of tasks and an adequate separation of functions. In the area of financial management and control, Hungary needs to complete the development of procedures, to reorganise its budgetary structure and to streamline the very centralised system of payments.

Chapter 22: Environment

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

Horizontal legislation is in place and is in line with the *acquis*, except for the recent *acquis* on strategic environmental impact assessment, which needs to be transposed and implemented by July 2004 in line with the Directive. The existing National Climate Change Strategy is currently being reviewed. While the relevant administrative capacities are in place and function adequately, the competent authority for strategic environmental impact assessment still needs to be designated.

In the **air quality** sector, legislation is in place and is in line with the *acquis*. Administrative capacities are in place and function. Air quality plans and programmes need to be completed and monitoring enhanced by accession.

In the field of **waste management**, legislation is in place and is in line with the *acquis*, except for the recent *acquis* on end-of-life vehicles, which needs to be completed by accession. Administrative capacities are in place and function. More staff are needed to deal with waste management within the Regional Environmental Inspectorates and in the municipalities. The setting up of local waste management plans needs to be completed. The setting-up of a supervision system for waste shipments and the establishment of a permit and deregistration system for end-of-life vehicles need to be completed by accession. The establishment of collection systems and recovery and disposal facilities needs to continue. As regards packaging waste, a transitional arrangement until 31 December 2005, with intermediate targets, has been agreed.

In the area of **water quality**, legislation is in place and is in line with the *acquis*, except for the recent framework *acquis* on water, which needs to be completed by accession. Programmes for discharges of dangerous substances and action plans with regard to surface water need to be finalised by accession. Further institutional arrangements need to be developed for the monitoring of drinking water. Administrative capacities are in place and function adequately. However, co-ordination between the ministries and the regional authorities should be maintained. As regards urban wastewater, a transitional arrangement until 31 December 2015, with intermediate targets, has been agreed.

In the field of **nature protection**, legislation is in place and is in line with the *acquis*, except for implementing legislation on habitats and birds, including the authorisation for site designation. Efforts have to be stepped up in this respect. In this context, particular attention needs to be paid to clarify the issue of consultation of stakeholders. Enhanced efforts are required to prepare a list of proposed sites of Community interest and to designate special protection areas by accession, and to ensure that relevant protection measures are applied. Administrative capacities have to be strengthened, in particular with regard to the consultation process.

The legislation on **industrial pollution** is in place and is in line with the *acquis*, except for the recent *acquis* on national emission ceilings, which needs to be transposed by accession. While administrative capacities are essentially in place and function, greater efforts (both in terms of staffing and training) are required to ensure that permits are issued and complied with as regards all new installations subject to the rules on integrated pollution prevention and control (IPPC) by accession, and that permits for existing installations continue to be issued and complied with until October 2007. As regards **industrial risk management**, legislation is in place and in line with the *acquis*. Although progress has been made with regard to major accident hazards, the setting up of a notification system, the establishment of a system for identifying establishments, which pose a risk, and the assessment of safety reports have to be completed. Also, external emergency plans need to be drawn up. As regards waste incineration, transitional arrangements until 30 June 2005 for certain installations and until 31 December 2004 for certain large combustion plants have been agreed.

The legislation concerning **chemicals and genetically modified organisms** (GMOs) has been transposed and is in line with the *acquis*, except for asbestos and the recent *acquis* on the deliberate release into the environment of GMOs. With regard to GMOs, the

institutional and procedural framework has still to be finalised. Administrative capacities are in place and function, but more staff is needed. Co-ordination between the organisations involved needs to be further enhanced.

Transposition of the *acquis* on **noise** is proceeding according to schedule. Legislation is in line with the *acquis*, except for the recent *acquis* on ambient noise, which needs to be transposed by July 2004 in line with the Directive. Administrative capacities are in place and function adequately.

On **nuclear safety and radiation protection**, legislative alignment has largely been completed and the legislation is in line with the *acquis*, except for information on emergencies, which needs to be transposed by accession. Administrative capacities in this area are in place and function adequately.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the areas of **horizontal legislation, air quality, waste management, water quality, industrial risk management, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection** by accession. Hungary needs to finalise the legal alignment as regards the following areas: horizontal legislation, waste management, water quality, industrial pollution, genetically modified organisms, noise, and nuclear safety and radiation protection. It needs to complete air quality plans and programmes and continue to enhance air quality and water quality monitoring. Moreover, Hungary must pay close attention to implementation in the water sector, especially as regards drinking water quality, and to complete programmes for discharges of dangerous substances to water by accession. Also, local waste management plans need to be completed. The establishment of waste collection systems and recovery and disposal facilities needs to continue, and a supervision system for waste shipments should be set up. With regard to industrial risk management and major accident hazards, the setting up of a notification system, the establishment of a system for identifying establishments, which pose a risk, the assessment of safety reports have to be completed and external emergency plans drawn up. Furthermore, the institutional and procedural framework for GMOs still needs to be established.

Hungary is partially meeting the commitments and requirements in the areas of **nature protection and industrial pollution**. In order to complete preparations for membership, enhanced efforts are required to align with the *acquis* in the area of nature protection, to prepare the lists of proposed nature protection sites and special bird protection areas, to complete consultations and to strengthen the administrative capacity. As regards industrial pollution, enhanced efforts are required to ensure that permits are issued and complied with as regards all new IPPC installations by accession and that permits for existing installations continue to be issued and complied with until October 2007.

Chapter 23: Consumer and health protection

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisements, price indication, consumer credit, unfair contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods

and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

With regard to **safety-related measures** Hungary has completed alignment in the area of liability for defective products. However, in the area of general product safety, legislation still needs to be adopted to transpose the revised directive. The administrative structures are in place, but need to be strengthened in terms of both financial and human resources. **Market surveillance** relating to general product safety is partly developed. Hungary has created the relevant policy, management structures and information system. However, the capacity of the main bodies in charge of market surveillance activities needs to be further developed. These structures need also to be strengthened in terms of both financial and human resources.

As regards **non-safety related measures**, EU legislation on injunctions for the protection of consumer interests, on distance contracts and on certain aspects of sale of consumer goods and associated guarantees remain to be fully transposed. Enforcement activities relating to the protection of the economic interests of consumers are partly developed. More efforts are needed in effectively implementing the *acquis*, in particular as regards indication of prices and package tours. The administrative structures in terms of both financial and human resources need to be further developed and strengthened, also with regard to arbitration bodies, which play an important role in solving consumer cases.

With regard to **consumer organisations**, the role of non-governmental organisations needs to be further promoted in order to develop and implement consumer policy and encourage more active involvement in developing consumer product safety standards. Consumer information and education need to be further promoted. It is necessary for Hungary to improve and increase the level of awareness of the rights and responsibilities of consumers and businesses.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related measures** and **consumer organisations** and is expected to be in a position to implement this *acquis* from accession.

Hungary is meeting the majority of the requirements for membership in the area of **market surveillance** and **non-safety related measures**. Hungary needs to complete alignment in the non-safety related area and implement the necessary legislation. Hungary also needs to improve market surveillance to ensure the proper enforcement of legislation on safety and non-safety related measures including by strengthening its administrative capacity and structures.

Chapter 24: Justice and home affairs

The most developed part of this chapter is the Schengen *acquis*, which entails the lifting of internal border controls. However, much of this *acquis* will not apply to the acceding

countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the *acquis* on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

So far, Hungary's preparations with regard to the Schengen provisions (**Schengen Action Plan**) relevant for accession are satisfactory, but further efforts will be needed after accession to prepare for the lifting of internal borders and the full implementation of the Schengen *acquis* on the basis of a further decision to be taken by the Council. The preparation for integration into the Schengen Information System (SIS) II is progressing well, in terms of the development of national applications. However, Hungary needs to monitor the situation closely.

In the field of **data protection**, Hungary has completed its legislative alignment, with the adoption in June 2003 of a new Act including provisions on the protection of personal data and disclosure of data of public interest. The Data Protection Supervisory Body of the International Law Enforcement Co-operation Centre (NEBEK) started operations in November 2001 with five staff. The last Parliamentary Commissioner for Data Protection was appointed in December 2001, for a six-year mandate.

Hungary has made progress in the area of **visa policy** but has not yet achieved full alignment with the *acquis*, in particular as concerns the "positive" visa list. As regards implementation and administrative capacity, considerable progress has been made in relation to infrastructure, recruitment of staff, training and installation of information technology for the development of the consular network. All consular missions are connected to the Consular Information System. The centralised visa register has been established. Hungary is in the process of providing all diplomatic and consular missions with equipment to detect forged and falsified documents.

As regards the management of the future **external borders**, Hungary has in general aligned its legislation on border control and border surveillance. Negotiations on co-operation agreements on border control and crime prevention with neighbouring countries are under way. Implementation of its Schengen Action Plan is ongoing. However, particular attention is needed concerning the recruitment of staff, the allocation of sufficient financial resources to fully implement the Schengen Action Plan, and inter-agency co-operation. Hungary is in the process of upgrading its equipment for border surveillance, including the construction and renovation of border posts at Hungary's eastern border. The most important border crossing points are now equipped with the necessary materials according to Schengen standards. In addition, simplified border crossing agreements were concluded with Slovakia in 2002, and with Slovenia, Croatia, Serbia and Montenegro, Romania and Ukraine in 2003.

In the area of **migration**, legislative alignment has been essentially completed. Hungary is taking impressive action to conclude readmission agreements. Administrative structures are in place. The staff of the department responsible for expulsion within the Office of Immigration and Naturalisation (OIN), the body responsible for migration matters, has been increased to fifteen.

In the field of **asylum**, Hungary is continuing to align its legislation with the *acquis*. As regards implementation capacity, the capacity of the OIN has been substantially strengthened, and substantial progress has been made in renovating OIN reception centres for asylum applicants. Despite these improvements, some asylum applicants continue to be detained for up to one year in border guard detention centres. Measures for the integration of refugees require substantial improvement. Although “persons authorised to stay” can now obtain work permits, such persons should also have access to more extensive social integration measures. Moreover, Hungary should continue its analytical and organisational measures for active participation in EURODAC and Dublinet.

In the area of **police co-operation and combating organised crime**, efforts are still required to ensure that Hungary has an accountable, reliable and fully co-ordinated police organisation by accession. Continuous attention is needed concerning co-operation and co-ordination between the police and the prosecuting and judicial bodies. Information-sharing in the field of combating economic and organised crime needs to be considerably improved and sufficient financial means allocated to implement all the envisaged measures. In particular, specialised prosecutors should be assigned to NEBEK and to the Police Operational Support Directorate, and new methods of technical crime investigation should be developed. International co-operation is well established and is supported by sufficient co-operation agreements, in particular by the conclusion of an agreement with Europol. Attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU. Furthermore, administrative structures have been set up but need to be further strengthened. In particular, the capacity of the Police Operational Support Directorate in international co-operation should be further developed. Hungary has signed but not yet ratified the UN Convention against Transnational Organised Crime and the first two Protocols. The Protocol against illicit manufacturing of and trafficking in firearms, their parts, components and ammunition has not yet been signed.

In the **fight against terrorism**, Hungary has ratified the most important Conventions in this area, in particular the 1999 UN Convention for the Suppression of the Financing of Terrorism. Preparatory measures have been taken in order to accede to the Convention on Mutual Assistance in Criminal Matters between the EU Member States upon accession.

As regards the **fight against fraud and corruption**, Hungary’s legislation is essentially aligned with the *acquis*. The 1999 Council of Europe Civil Law Convention on Corruption was signed in January 2003, but has not yet been ratified. Negotiations to conclude bilateral agreements on terrorism, organised crime and corruption with seventeen countries are ongoing. Amendments to the Penal Code and to the Criminal Proceedings Code largely aligned Hungary’s legislation with the *acquis*, including with EU legislation on the protection of the euro against counterfeiting and on combating fraud and counterfeiting of non-cash means of payment. Hungary has yet to designate a National Central Office dealing with banknote and coin analysis. Overall, co-operation and co-ordination between law enforcement agencies need to be strengthened. As regards corruption, see also *the Section C.1. – Administrative and judicial capacity*.

On the **fight against drugs**, Hungary has largely completed its legislative measures. The national strategy to combat drugs problems was adopted by the Parliament in 2000, and an action plan to implement the strategy was adopted by the Government in November 2002. Implementation, however, needs further improvement, including the necessary administrative capacity. In particular, the establishment of the National Focal Point for co-operation with the European Monitoring Centre for Drugs and Drugs Addiction has proceeded extremely slowly. However, the necessary legislation was adopted in September 2003.

Hungary has completed its legislative alignment with the *acquis* on **money laundering**, which entered into force in 2003. A Financial Intelligence Unit is in place, but its information technology system needs to be strengthened (*see also Chapter 4 – Free movement of capital*).

In the area of **customs co-operation**, Hungary is in the process of aligning its legislation. Inter-agency co-operation is provided for as well as co-operation with business organisations on the basis of memoranda of understanding.

In the area of **judicial co-operation in civil and criminal matters**, legislative alignment, where still necessary, is ongoing. Hungary should be ready upon accession to apply the relevant conventions. Particular attention is needed for alignment with the 2002 EU legislation on the European arrest warrant and the surrender procedure between Member States. Administrative structures for direct contacts between competent judicial authorities are in place, but need to be further strengthened.

As regards the *reform of the judiciary* in general, a detailed analysis is provided in *Section C.1. – Administrative and judicial capacity*.

All the **human rights legal instruments** under the justice and home affairs *acquis* have been ratified by Hungary, except for Protocol No 12 on human rights.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement by accession the *acquis* in the areas of the **Schengen Action Plan, data protection, visa policy, migration, police co-operation and combating organised crime, the fight against terrorism, the fight against fraud and corruption, the fight against drugs, money laundering, customs co-operation and judicial co-operation in civil and criminal matters and human rights legal instruments**.

Hungary is partially meeting the commitments and requirements for membership in relation to **external borders** and **asylum** where implementation needs to be further strengthened. Overall, inter-agency co-operation needs to be improved and co-ordination structures strengthened.

Chapter 25: Customs union

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It includes the Community's Customs Code and its implementing provisions; the

Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

Hungary's **customs legislation** is in line with the *acquis* as it stood in 2002, except for some provisions, including those on free zones and duty reliefs. Hungary is committed to ensuring compliance with EC provisions in this respect (as well as for all other non-aligned provision, e.g. on the use of Binding Origin Information) upon accession, which will also involve the reduction in the number of locations designated as "free zones". National provisions superseded by the *acquis* are to be repealed at the time of accession, and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

Hungary has been granted a transitional period until 30 April 2006 for compliance with the Common External Tariff as regards the opening of a yearly tariff quota for aluminium, not alloyed.

A customs administration with an adequate level of **administrative and operational capacity** is in place. Hungary should continue to implement its plans for reorganisation in terms of reduction of customs clearance locations and redeployment of staff as a result of accession, when the volume of customs work decreases owing to the conversion of external to internal trade. Preparation for the application of measures and provisions that will be introduced only at the time of accession, including for complying with the *acquis* on free zones and duty reliefs, should also be continued. Strengthening inter-agency co-operation on combating customs fraud and irregularities, in particular with regard to counterfeit and pirated goods, must also remain a priority.

Despite some delays, e.g. in transit, Hungary is progressing reasonably well with the interconnectivity projects and operational capacity plans, and is on course to complete customs computerisation projects by the date of accession. A significant amount of work is still outstanding, however, and attention must be paid to maintaining the schedule for finalising development work, testing and operational release.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the **customs union** *acquis* with the necessary administrative and operational capacity by accession. Some adjustments are needed to ensure compliance with EC provisions on customs duty reliefs and free zones. Hungary also needs to ensure that the work on computerised systems and interoperability is completed according to schedule.

Chapter 26: External relations

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation, which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual-use

goods and, where applicable, export credits. Accessing countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure the capacity to participate in the EC's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are in place and sufficient.

Hungary has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. It should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and most-favoured nation exemptions into the EU ones, which need to be finalised upon accession. Exchanges of information have taken place with Hungary on the use of its third stage of integration to align its list of integrated products under the Agreement on Textiles and Clothing (ATC) with the Community.

On trade in dual-use goods, Hungary has reached a high degree of alignment with the *acquis*. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Full alignment as regards the Community general export authorisation can only take place upon accession.

Legislative alignment in the area of export credits has been completed. Administrative structures are in place and satisfactory.

With regard to its **bilateral agreements with third countries**, Hungary needs to take further steps to terminate or renegotiate those international agreements that it has requested to maintain and that have been found to be incompatible with the *acquis* in their current form. Besides other agreements that need to be terminated or adjusted, the Foreign Investment Protection Agreement with Canada, as well as the Friendship, Commerce and Navigation Treaty with Japan have to be brought into conformity with the *acquis*. The Authorised Destination Status agreement in the tourism sector between Hungary and China will be superseded by the EU Authorised Destination Status agreement with China when the latter one enters into force.

In the area of **humanitarian aid and development policy**, Hungary still needs to shape a development policy that is fully in line with EC principles, in particular with the guidelines laid down by the OECD Development Assistance Committee as well as the commitments and objectives that Hungary has approved in the context of the UN and other international organisations. An organisational unit in the Ministry of Foreign Affairs was set up in January 2003. However, further efforts are needed to ensure that the administrative capacity needed for Hungary's participation in EU decision-making for development co-operation are in place upon accession.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement the *acquis* on the **common commercial policy** and **humanitarian aid and development policy** from accession.

Hungary is meeting the majority of the commitments and requirements for membership in relation to **bilateral agreements with third countries**. In order to complete preparations in this area, Hungary must take decisive steps towards renegotiating or terminating its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

Chapter 27 – Common foreign and security policy

The *acquis* related to common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

The administrative structures in this area in Hungary are in place and satisfactory. With regard to participation in **political dialogue**, Hungary has continued its successful co-operation. Concerning the Law on Hungarians living in Neighbouring Countries, the modifications to the law adopted by Parliament in June 2003 appear to have brought the framework legislation in line with the *acquis*. However, given that the law still contains extraterritorial elements, prior agreement has to be sought with the neighbouring countries concerned on the application of these elements in these countries. Also, attention must be paid to ensuring that the implementing legislation will be in full conformity with the *acquis*.

With regard to alignment with **EU sanctions and restrictive measures, statements, declarations and démarches**, Hungary still needs to adjust its legislation in relation to the introduction and withdrawal of economic sanctions.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy** and is expected to be able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession. Hungary has to adopt legislation on economic sanctions. Furthermore, attention must be paid to ensuring that the implementing legislation of the Law on Hungarians living in Neighbouring Countries will be fully in line with the *acquis*. Also, any extraterritorial benefits provided for by the law have to be agreed in advance with the neighbouring countries concerned.

Chapter 28: Financial control

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate *ex ante* financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, framework legislation has been partially aligned with the *acquis* (including the basic principle of functional independence of internal auditors), while implementing legislation still needs to be revised. In July 2003 Hungary adopted a policy paper setting out a strategy on the development of the public internal financial control system. Legislative alignment (in particular the amended Public Finance Act and the Internal Audit Decree) and implementing procedures need to be completed in line with the schedule foreseen in the policy paper. The administrative framework for internal audits at the level of internal audit services in budget spending centres has to be further strengthened, and their functional independence still needs to be ensured. Additional human resources have been allocated to the department for the development of public internal financial control within the Ministry of Finance (Central Harmonisation Unit). Training activities for financial control and audit have started.

In the field of **external audit**, legislative alignment has been completed. The State Audit Office is functionally and operationally independent, its staff is adequate and well trained and its audit services satisfactorily cover all public and EU funds.

As regards **control over structural action expenditure**, framework legislation in Hungary is in place and in line with the *acquis*. Implementing legislation has only been partially adopted, and clear internal financial control procedures are still to be established. Appropriate administrative structures are being set up. Hungary should continue to enhance its administrative capacity to manage future structural funds in order to meet fully the requirements for financial control and internal audit. In relation to EU pre-accession assistance, the necessary legislation is in place. Hungary has made good progress in preparing for the extended decentralised implementation system (EDIS). This needs to be sustained in order to implement the EDIS system for Ispa and Phare.

In the area of the **protection of EC financial interests**, Hungary needs to refine the framework legislation to allow competent authorities to effectively exchange information regarding irregularities and investigations among themselves and with OLAF. An anti-fraud co-ordinating service (AFCOS) in the Ministry of Finance has been designated and a standing inter-ministerial committee established. Operational co-operation with OLAF has started. The administrative capacity of the AFCOS to co-operate with other relevant institutions and bodies, including OLAF, at an operational level must be considerably reinforced.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **external audit** and is expected to be in a position to implement the *acquis* from accession.

Hungary is meeting the majority of the commitments and requirements arising from accession negotiations in the areas of **public internal financial control**, **control over structural action expenditure** and the **protection of EC financial interests**. In order to complete preparations for membership, particular efforts must be made to complete legislative alignment and to further strengthen administrative capacity in public internal financial control. Particular attention should be paid to implementing the necessary structural changes and to providing adequate training to the internal auditors. Good progress towards the extended decentralised implementation system needs to be

sustained. In the area of the protection of EC financial interests, operational capacities need to be considerably reinforced.

Chapter 29: Financial and budgetary provisions

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, a national reporting system on cases of fraud and irregularity exists in Hungary but the procedures for reporting to the Commission in line with the OWNRES system still need to be introduced. Procedural and administrative preparations for the collecting and accounting of sugar levies are largely complete. Reporting and accounting requirements as regards the A and B accounts should be developed further, with particular attention paid to the IT module for B accounts and accounting for provisional anti-dumping duties.

Hungary is largely in a position to correctly calculate the **VAT-based resource**. However, further efforts are required in particular for the correct calculation of the weighted average rate in accordance with ESA95.

For calculation of the **GNI-based resource**, although conceptual and practical compliance is being continuously improved, further efforts are needed to fully implement ESA95 and improve the quality and reliability of the national accounts and GNI calculations, including their exhaustiveness.

All institutions necessary for application of the own resources system in Hungary exist. An EU Affairs Unit within the Fiscal and Financial Policy Division of the Ministry of Finance is responsible for own resources co-ordination and is operating effectively.

Conclusion

Hungary is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions** and is expected to be in a position to implement the relevant acquis by accession. Hungary should now focus attention on completing preparations under this chapter by fine-tuning the calculation of the VAT-based resource, further developing and implementing the IT module for B accounts and accounting for provisional anti-dumping duties, and finalising procedures for forwarding sugar levies to the Commission's account and for sending reports on cases of fraud and irregularity to the Commission (OWNRES).

D. Conclusion

The overall macro-economic equilibrium of the Hungarian economy has deteriorated, in particular as regards the composition of GDP, external accounts and exchange and interest rate stability. A significant budget deficit in 2002 has been addressed by a tighter albeit very ambitious fiscal policy stance in 2003, while inconsistent monetary and exchange rate policies added to the strain in the policy mix. The economic reform path is being pursued in a credible manner, through the privatisation of some remaining state-owned companies, a stepwise liberalisation of administered prices and the broad completion of the progressive pension reform.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The general government deficit is on a downward trend, following a redirection of fiscal policy since 2003, but more progress is needed, also as regards the structure of fiscal reform. Health care sector reform is being addressed in the framework of a ten years' programme, which received a boost through the admission of private general practitioners' practices in 2002, and a new law adopted in 2003 opening the way for large-scale privatisation of healthcare assets, including hospitals. Wage developments in 2003 have started to moderate, coming down from the high growth rates of 2001 and 2002, especially in the corporate sector, with the economy slowly adapting to the new low-inflation environment. Nevertheless, even in 2003 real wage growth continues to exceed productivity growth by a considerable margin.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Hungarian public administration and judiciary, but there is room for further improvements. In the field of public administration, the general reform should be continued in the fields of regional development, local self-government and state administration, and transparency in personnel matters should be improved. A number of further steps remain to be taken as regards the judicial system, such as to ensure an adequate financing of the judiciary to establish further regional courts and to improve the legal aid system. The fight against corruption should continue to receive high priority, in particular through the rapid implementation of the "glass-pocket" programme that was adopted in April 2003.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Hungary has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures and new approach legislation in the *free movement of goods* chapter; the *free movement of persons* chapter; the banking and insurance services sectors, investment services and securities markets, the protection of personal data, the right of establishment and the freedom to provide non-financial services in the area of *freedom to provide services*; the *free movement of capital* chapter, including money laundering; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Hungary is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations and, in the veterinary field, as regards the requirements in the areas of animal disease control, trade

in live animals and animal products, animal welfare, zootechnics and animal nutrition; and in *fisheries* in general.

Hungary is also expected to be in a position to implement the *acquis* by accession in: the *transport* sector except for rail transport; all areas in the field of *taxation; economic and monetary union* and *statistics*; most areas of *social policy and employment*; the *energy* sector; *industrial policy; small and medium-sized enterprises; science and research; education and training*; culture in the *culture and audio-visual policy* chapter; in relation to programming within the *regional policy and co-ordination of structural instruments* chapter; horizontal legislation, air and water quality, waste management, industrial risk management, chemicals and genetically modified organisms, noise, and nuclear safety and radiation protection in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; most aspects of *justice and home affairs; customs union*; the common commercial policy, humanitarian aid and development policy in the *external relations acquis; common foreign and security policy; financial and budgetary provisions*; and external audit in the area of *financial control*.

Secondly, in certain areas Hungary partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as public procurement and the non-harmonised area; in the area of *free movement of services*, the field of information society services; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area it concerns trade mechanisms, the common market organisations for sugar and wine and, in the veterinary field, transmissible spongiform encephalopathies (TSEs) and animal by-products, the veterinary control system, common measures, and certain phytosanitary issues.

This also includes the fields of: rail *transport*; the European Social Fund and anti-discrimination in the area of *social policy and employment; telecommunications and information technologies*, including postal services; the audio-visual area in the chapter on *culture and audio-visual policy*; the legislative framework, institutional structures and financial management and control in the chapter on *regional policy and co-ordination of structural instruments*; legislative alignment and implementation in the nature protection and industrial pollution areas of *environment* policy; market surveillance and non-safety related measures in the area of *consumer and health protection*; external borders and asylum in the area of *justice and home affairs; external relations*, as regards bilateral agreements with third countries; and public internal financial control, control over structural action expenditure and the protection of EC financial interests in the area of *financial control*.

Thirdly, Hungary must take immediate and decisive action to address four issues of **serious concern** in one chapter of the *acquis* if it is to be ready by the date of accession.

This concerns the *agriculture* chapter, relating to Hungary's preparations to set up its Paying Agency, to implement the Integrated Administration and Control System, to prepare for the implementation of rural development measures and to ensure public health standards in agri-food establishments.

Statistical Annex

	1998	1999	2000	2001	2002
Basic data	in 1000				
Population (average)	10,267	10,238	10,211	10,188	10,159
	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	10,087	11,393	13,172	14,850	16,980
	1000 Mio ECU/euro				
Gross domestic product at current prices	41.9	45.1	50.7	57.9	69.9
	in ECU/Euro				
Gross domestic product per capita a) at current prices	4,100	4,400	5,000	5,700	6,900
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	4.9	4.2	5.2	3.9	3.3
Employment growth	1.8	3.2	1.0	0.4	0.7
Labour productivity growth	3.0	1.0	4.2	3.4	2.6
Unit labour cost growth	-1.8	-4.1	1.2	3.1	:
	in Purchasing Power Standards				
Gross domestic product per capita a) at current prices	9,800	10,400	11,200	12,300	13,600
	in % of EU-15 average				
GDP per capita a) at current prices in PPS	48	49	50	53	57
Labour productivity (GDP per person employed in PPS)	58	57	59	62	66
Structure of production	% of Gross Value Added b)				
- Agriculture	5.5	4.9	4.3	4.3	:
- Industry (excluding construction)	28.2	27.7	27.8	26.2	:
- Construction	4.6	4.7	5.2	5.1	:
- Services	61.7	62.9	62.7	64.4	:
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	72.6	74.0	73.0	74.4	78.2
- household and NPISH	50.8	52.5	52.2	53.0	53.5
- general government	21.7	21.6	20.8	21.4	24.7
- Gross fixed capital formation	23.6	23.9	24.1	23.6	22.3
- Stock variation c)	5.3	4.8	6.7	3.5	1.7
- Exports of goods and services	62.6	65.2	74.9	74.4	64.5
- Imports of goods and services	64.1	67.8	78.7	75.9	66.7

Inflation rate	% change over the previous year				
Consumer price index	14.2	10.0	10.0	9.1	5.2

	1998	1999	2000	2001	2002
Balance of payments in Mio ECU/euro					
-Current account	-2,059	-1,974	-1,627	-1,239	-2,771 e)
-Trade balance	-2,110	-2,057	-2,303	-2,250	:
<i>Exports of goods</i>	18,505	20,535	27,590	31,331	:
<i>Imports of goods</i>	20,615	22,592	29,892	33,581	:
-Net services	1,592	1,318	1,942	2,413	:
-Net income	-1,675	-1,556	-1,708	-1,675	:
-Net current transfers	133	321	441	273	:
<i>- of which: government transfers</i>	-41	-8	-14	-16	:
- FDI (net) inflows	:	:	1,785	2,730	1.281 e)
Public finance in % of Gross Domestic Product					
General government deficit/surplus	-8.0	-5.6	-3.0	-4.7	-9.2p
General government debt	61.9	61.2	55.5	53.4	56.3p
Financial indicators in % of Gross Domestic Product					
Gross foreign debt of the whole economy	47.6	49.6	44.5	38.3	:
as % of exports					
Gross foreign debt of the whole economy	76.0	76.1	59.5	51.5	:
Monetary aggregates 1000 Mio ECU/euro					
- M1	7.9	9.3	10.0	12.7	15.4
- M2	17.3	19.9	21.4	27.0	31.9
- M3	18.2	20.4	23.1	29.3	33.2
Total credit	20.1	20.3	22.5	25.5	30.6
Average short-term interest rates % per annum					
- Day-to-day money rate	18.0	14.8	11.1	10.9	8.9
- Lending rate	20.1	17.1	13.1	12.5	10.5
- Deposit rate	15.1	12.2	8.8	8.4	7.1
ECU/EUR exchange rates (1ECU/euro=..Forint)					
- Average of period	240.57	252.77	260.04	256.59	242.96
- End of period	252.39	254.70	265.00	245.18	236.29
1995=100					
- Effective exchange rate index	71.0	66.9	63.3	64.4	69.2
Reserve assets Mio ECU/euro					
-Reserve assets (including gold)	8,107	10,883	12,065	12,252	:
-Reserve assets (excluding gold)	8,081	10,855	12,036	12,221	:
External trade Mio ECU/euro					
Trade balance	-2,407	-2,799	-4,308	-3,552	-3,424
Exports	20,505	23,487	30,525	33,983	36,503
Imports	22,912	26,286	34,833	37,535	39,927
previous year=100					
Terms of trade	101.3	98.4	97.3	99.7	100.4
as % of total					
Exports with EU-15	72.9	76.2	75.1	74.3	75.1
Imports with EU-15	64.1	64.4	58.4	57.8	56.3

	1998	1999	2000	2001	2002
Demography	per 1000 of population				
Natural growth rate	-4,2	-4,7	-3,7	-3,4	-3.5p
Net migration rate (including corrections) d)	1,7	1,6	1,6	1,0	0.3
	per 1000 live-births				
Infant mortality rate	9.7	8.4	9.2	8.1	7.2p
Life expectancy :	at birth				
Males:	66.1	66.3	67.1	68.15	68.26
Females:	75.2	75.1	75.6	76.46	76.56

Labour market (Labour Force Survey)	% of population				
Economic activity rate (15-64)	58.4	59.6	59.9	59.7	59.9
Employment rate (15-64), total	53.7	55.5	56.3	56.5	56.6
Employment rate (15-64), males	60.5	62.4	63.1	63.4	63.5
Employment rate (15-64), females	47.2	49.0	49.7	49.8	50.0

	as % of the total population of the same age group				
Employment rate of older workers (55-64)	17.3	19.5	22.2	24.1	26.6
Average employment by NACE branches	in % of total				
- Agriculture and forestry	7.3	7.0	6.5	6.1	6.0
- Industry (excluding construction)	28.6	27.6	26.8	27.3	27.2
- Construction	6.2	6.7	7.0	7.2	7.0
- Services	57.9	58.7	59.8	59.4	59.8
	% of labour force				
Unemployment rate, total	8.4	6.9	6.3	5.6	5.6
Unemployment rate, males	9.0	7.4	6.8	6.1	6.0
Unemployment rate, females	7.8	6.3	5.6	4.9	5.1
Unemployment rate of persons < 25 years	15.2	12.3	12.3	10.5	11.2
Long-term unemployment rate	4.3	3.4	3.1	2.6	2.4

Social cohesion	ratio of top quintile to lowest quintile				
Inequality of income distribution	:	:	:	:	:
	% of population aged 18-24				
Early school-leavers	15.9	13.0	13.8	13.2	12.3
	% of population aged 0-65				
Population in jobless households (persons aged 0-65)	18.0	16.8	15.8	15.6	15.6

Standard of living	per 1000 inhabitants				
Number of cars	220	225	235	244	258
Main telephone lines	334.7	359.3	378.0	368.0	362.0
Number of subscriptions to cellular mobile services	102.2	161.3	306.9	488.0	678.0

Infrastructure	in km per 1000 km²				
Railway network	85	85	85	85	:
	Km				
Length of motorways	448	448	448	448	533

	1998	1999	2000	2001	2002
Industry and agriculture	previous year=100				
Industrial production volume indices	112.5	110.4	118.1	103.6	102.6
Gross agricultural production volume indices	100.9	99.5	94.3	110.8	95.6

Innovation and research	as % of GDP				
Spending on Human Resources (public expenditure on education)	4.56	4.66	4.54	4.52E	:
	as % of GDP				
Gross domestic expenditure on Research & Development	0.68	0.69	0.80	:	:
	per 1000 inhabitants				
Level of Internet access - households	:	:	2.6	:	:

Environment	tonnes CO2 equivalent per capita				
Total greenhouse gases emissions	81.4	84.4	82.4	:	:
	kg of oil equivalent per 1000 euro of GDP				
Energy intensity of the economy	661.6	647.0	598.9	:	:
	as % of total electricity consumption				
Share of renewable energy	0.4	0.5	0.5	:	:
	as % of total freight transport				
Modal split of freight transport	65.8	68.2	68.0	67.8	:

p=provisional figures

E=estimated data

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

b) Including FISIM.

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

d) The population data have changed, because on the basis of the 2001 Population Census Hungary has subsequently and with a retroactive effect amended the data of the previous years, as a result of which the rates of the natural increase and the balance of migration have also changed.

e) Source: Website of the National Bank

Methodological notes

Inflation rate

For details please refer to the following link to the Eurostat website:
http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm

Finance

Public finance: The general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.

External trade

Imports and exports (current prices). The data is based upon the special trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

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

Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2nd quarter of the respective year. The

results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

Social cohesion

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

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. Gross agricultural output volume indices. Intra – unit consumption (excluding own-produced products used for the same activity), processing by producers, own final consumption, sales, own – account produced fixed capital goods, change in stocks. The data of Production Account of Economic Accounts of Agriculture, calculated on producer prices, by the methodology of Eurostat.

Innovation and research

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

Environment

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

Sources:

Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture: National sources. Other indicators: Eurostat.