



Hungary SBA: Taking Stock and Going Forward

September 2009

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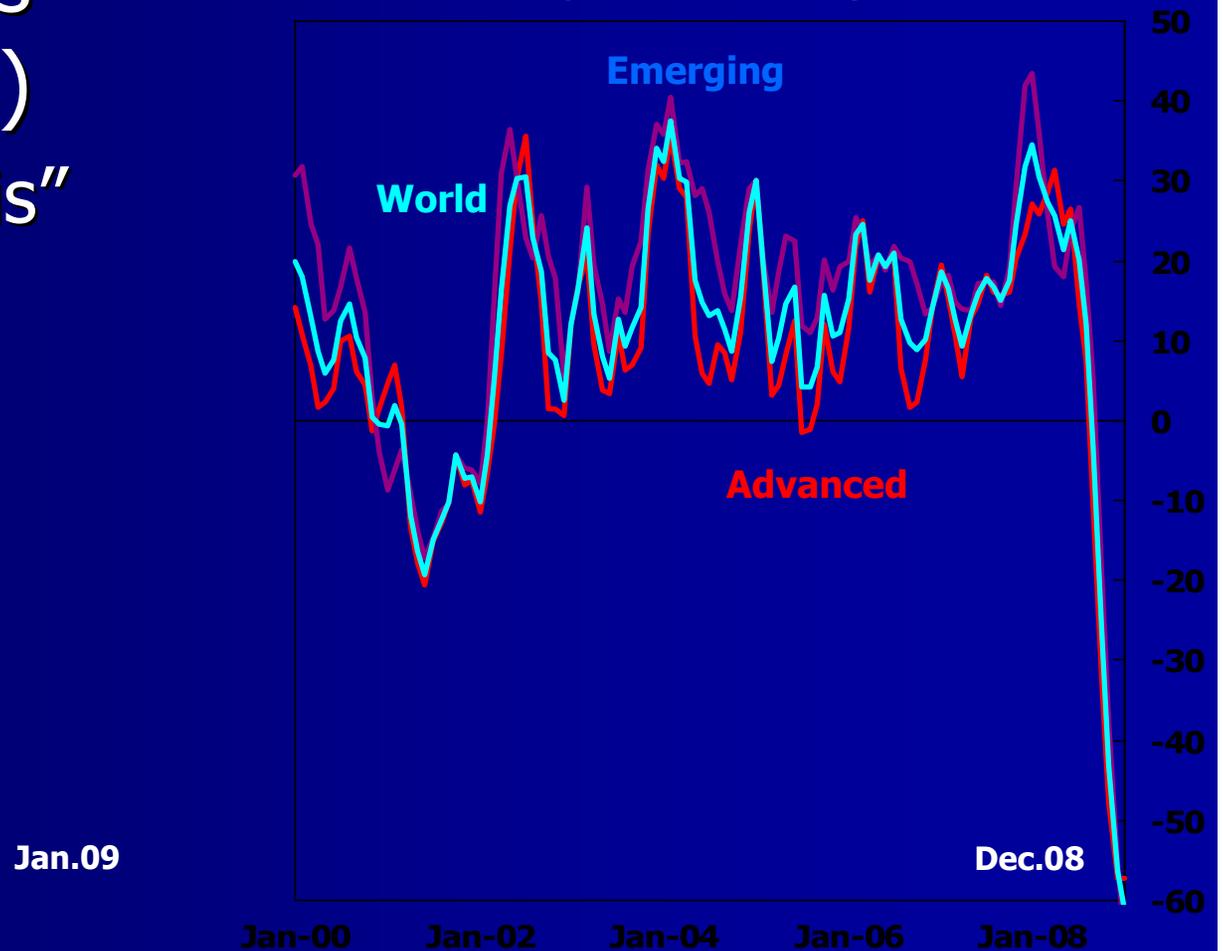
IMF Resident Representative in Hungary

Presentation for the American Chamber of
Commerce, Hungary Business Forum

Crisis Backgrounder

- Financial crisis (August 2007)
 - ↳ "Growth crisis" (Fall 2008)

Merchandise Exports
(Annualized percent change of 3mma over previous 3mma)

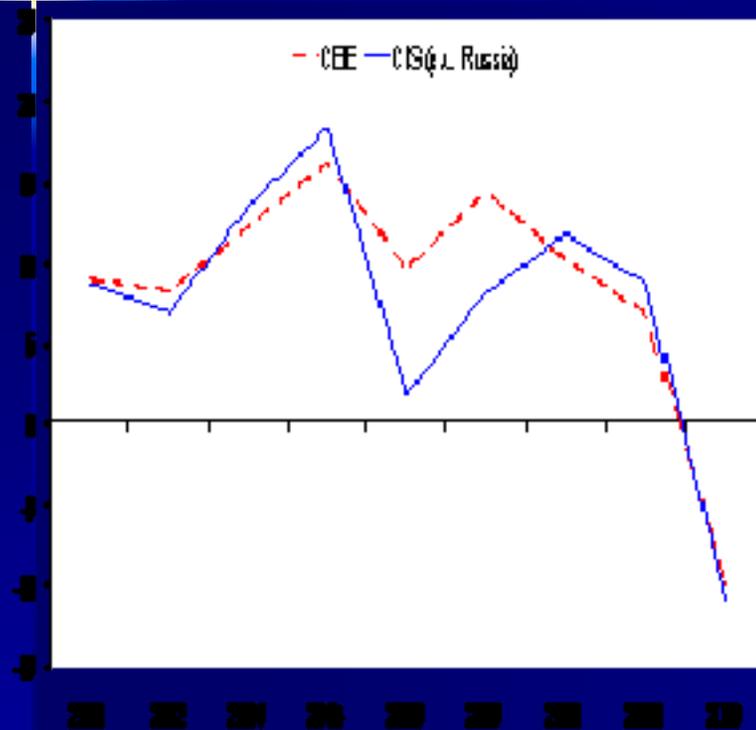


Crisis Backgrounder: Emerging Europe Hard Hit

- Emerging Europe hit particularly hard
 - Tight cross-European linkages
 - Financial linkages
 - Rapid demand-led growth in most countries, significant CA deficits
 - Financed by capital inflows, which stopped
- Limited room for counter-crisis policies: no fiscal room, global risk aversion, complicated financial sector policies

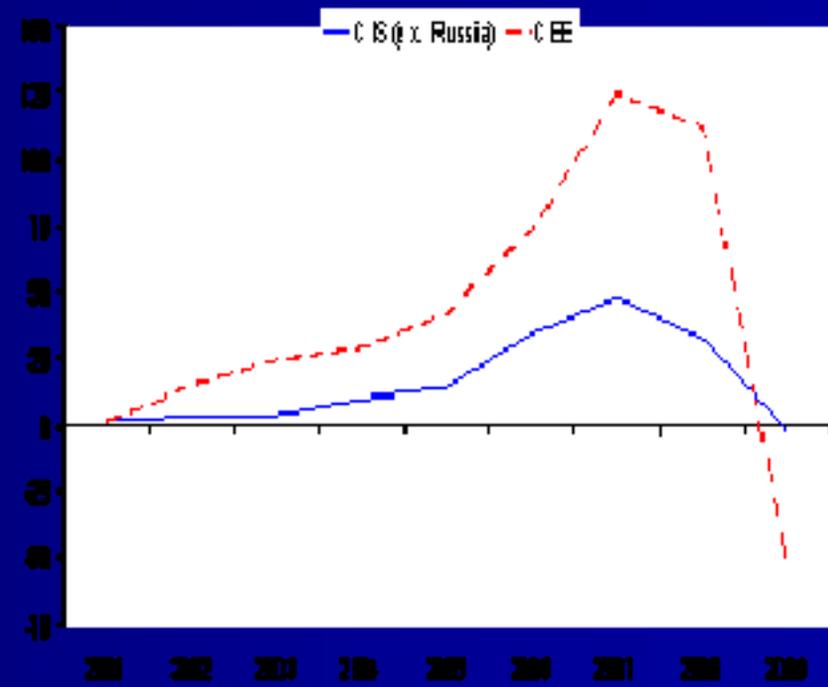
Crisis Backgrounder: Emerging Europe Hard Hit

Volume of exports (annual percentage change)



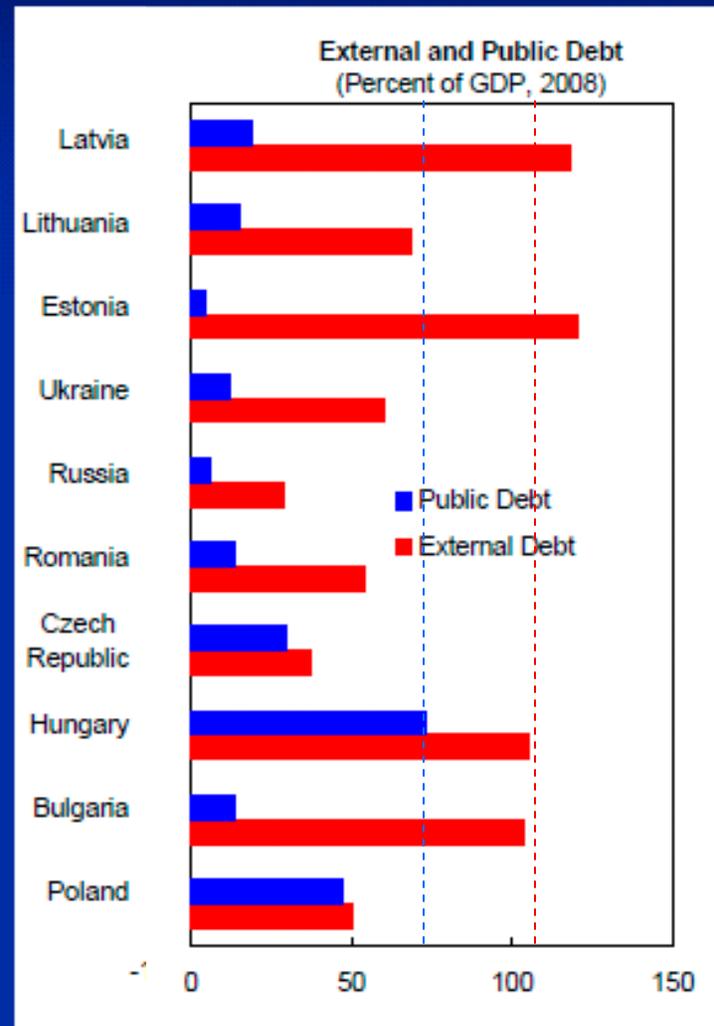
Source: WFP.

Other investments, liabilities (bn USD)

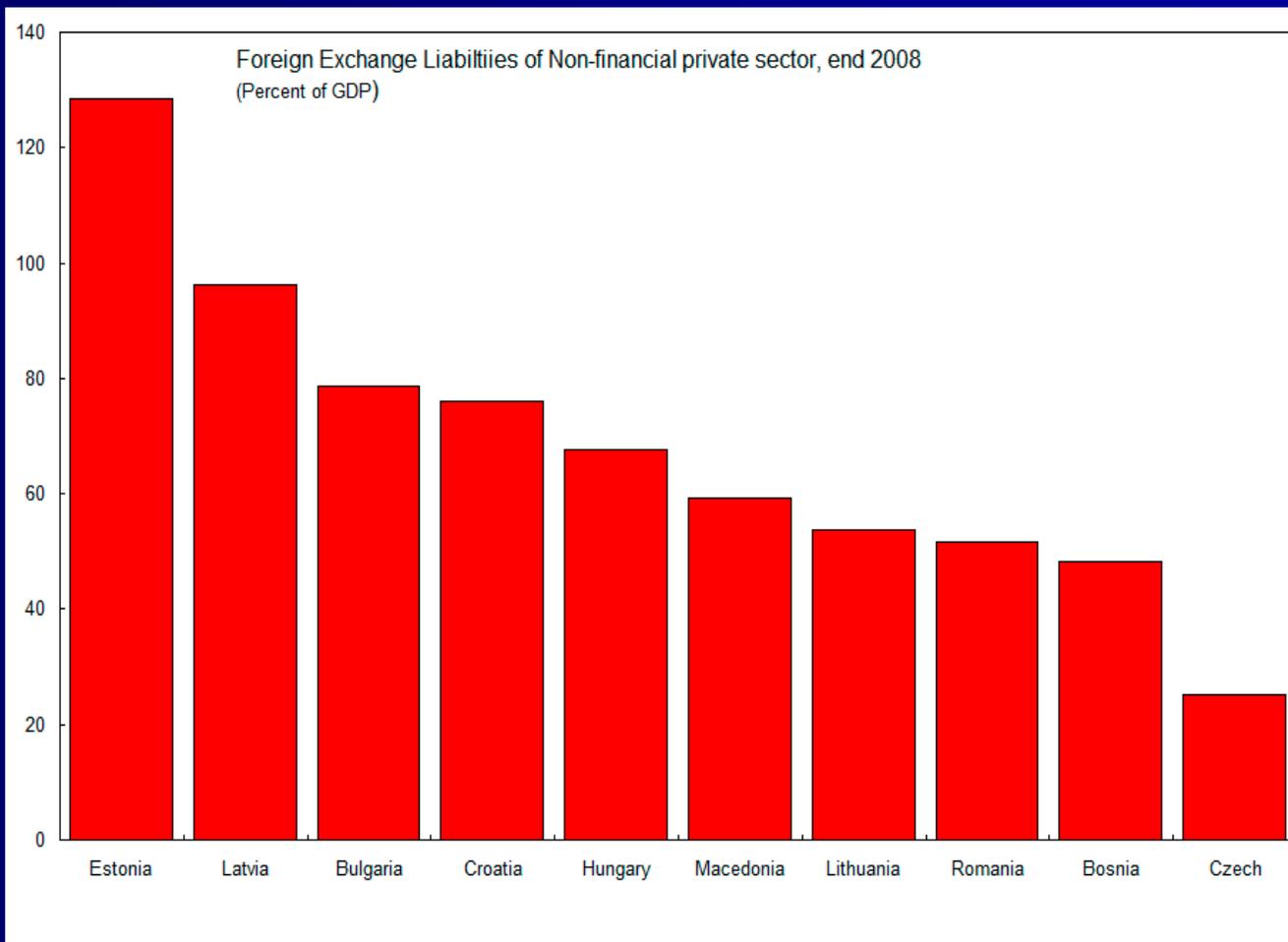


Source: WFP.

Crisis Severity: Function of Vulnerabilities



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IFI Financing as Crisis-Response

- Put a floor on investor confidence and avoid banking crises
 - very large-very front-loaded
 - boosting central bank reserves
 - providing financing for bank recapitalizations and liquidity support
- Bank coordination initiatives
- Provide room for policies through budgetary support
- Very targeted programs, flexible to accommodate the unprecedented downturn

Crisis-Response: IMF Part

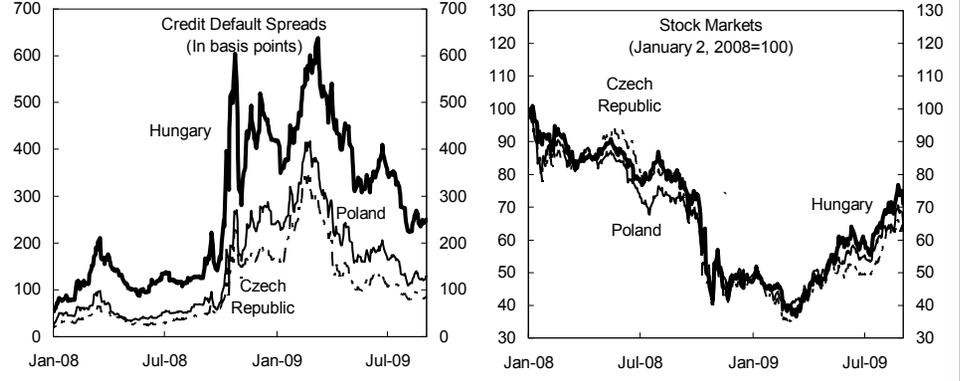
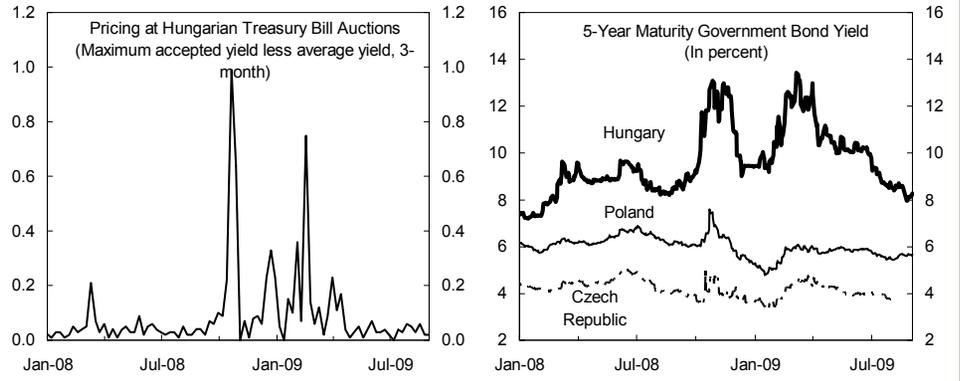
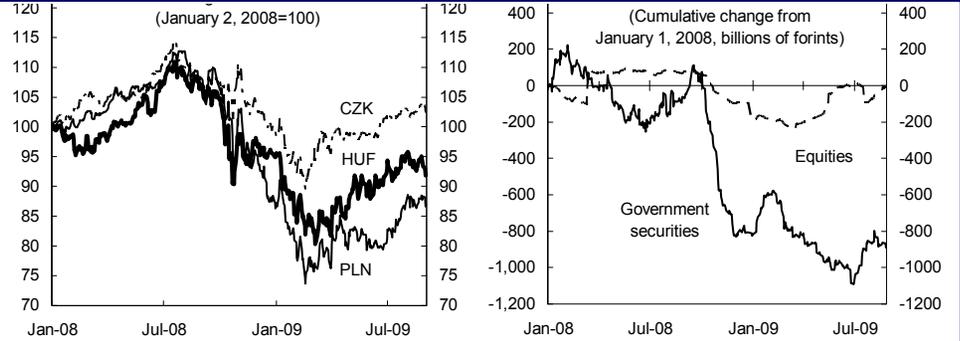
- About USD 75bn of total new programs in Emerging Europe, since fall 2008
- 250 bn SDR allocation to boost global liquidity:
 - SDR 100 bn to emerging markets
 - SDR 991 bn to Hungary in August-September

Hungary SBA: Crisis-Response

- Large: EUR 12 bn
- Front-loaded: first tranche EUR 4.9 bn
 - 70% drawn as of now
- Targeted: two goals
 - Achieving fiscal sustainability: deficit targets, quality measures
 - Maintaining financial stability: reserves, bank safety net, coordination initiative
- Flexible:
 - 2009 deficit target changed twice:
 - -2.6 -2.9 – 3.9
- Not easy measures, but better than counterfactual

Hungary SBA: So Far, So Good

- Program on track, Third Review to be finalized tomorrow
- Sizeable fiscal effort in 2009-2010:
 - If ALL measures implemented at face value, structural turnaround of 4% of GDP
 - Some quality fiscal measures:
 - Long-lasting reforms: pension, welfare, subsidies
 - Good for growth: smaller labor wedge, rebalancing to consumption
- Investors appreciate efforts (domestic bond market, Eurobond)



Sources: National authorities; Bloomberg; and AKK.

Hungary SBA: So Far, So Good

- Financial system has been stable
 - no banking crisis! These can be costly
 - Liquidity and funding much improved
 - Banks profitable and with good capital buffers
 - Parent banks behaved responsibly-bank coordination initiative
 - Bank safety net almost unused
- Improvements in financial supervision made: broad on-sites, capacity enhancements
 - Also confidence-enhancing

Hungary: Outlook

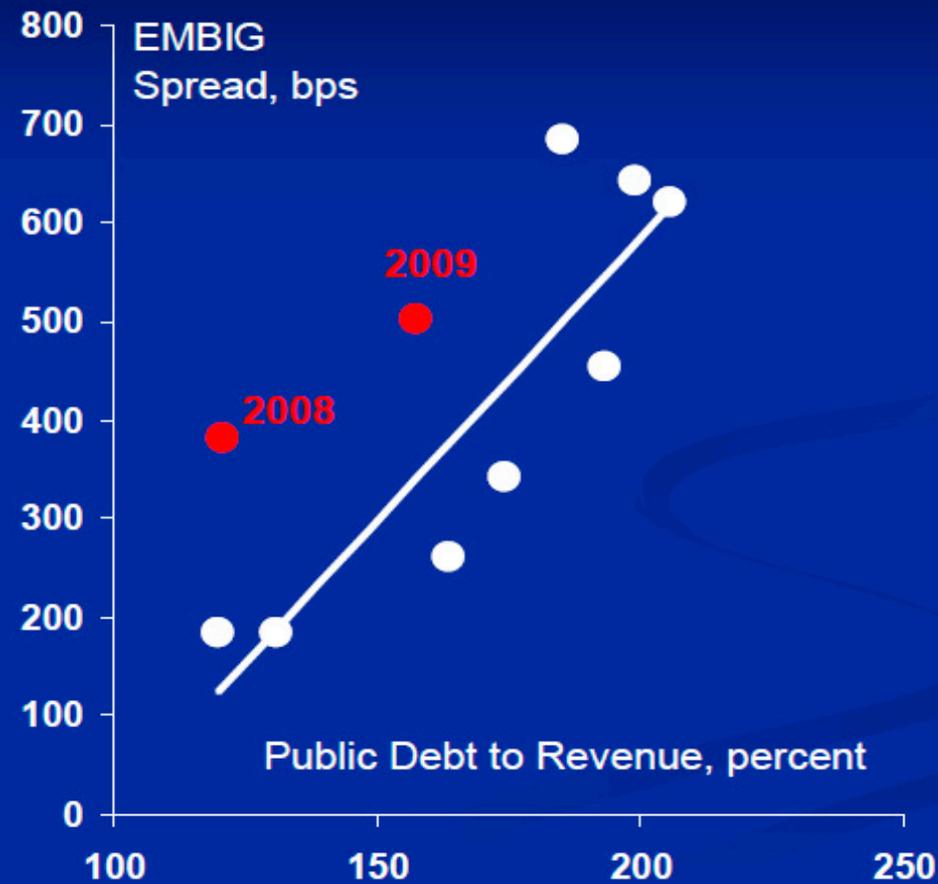
- Budget: baseline is on track, but there are risks
 - 2009: on track for -3.9%
 - 2010: government draft budget includes policies to achieve -3.8%
- Economy: downturn, but stabilizing:
 - -6.7% in 2009; -0.9% in 2010
 - Risks—Eurozone recovery is sluggish
- Banks: weak economy will take toll, but manageable
 - NPLs could double in H1 2010
 - Capital adequate under baseline

Immediate Policy Issues: Fiscal

Fiscal: stay the consolidation course

- 2009: be prepared to act, if needed
- 2010 budget: crucial step for confidence, subject to implementation risks
- If ALL already legislated and proposed measures are faithfully implemented:
 - Debt/GDP ratio could fall by 10% of GDP between 2010-2014
 - External debt could fall by 15% of GDP

Fiscal: Stay Consolidation Course



Immediate Policy Issues: Financial

Financial: Keep good work towards stronger supervision and regulation

- Strengthening regulatory setup, to make it more efficient, forward-looking, crisis-resilient
- Support government decision to:
 - Make HFSA independent
 - Strengthen MNB powers in macro-prudential regulation
- Further progress with HFSA's capacity-boosting efforts
- Extend the bank safety net into 2010, as insurance

Immediate Policy Issues: Managing Uncertainty

- Market sentiment is a fickle substance
- Uncertainty into 2010:
 - SBA extended by 6 months
 - Remaining amount re-phased equally
- Also covers elections and transition period

Longer-Term: Once the Fire is Out, Its Time to Renovate

IMF study on crisis aftermath:

- Crises are opportunities to jump-start reforms
- Important to implement structural reforms to boost growth
- In line with European Lisbon agenda
- No lack of good ideas in Hungary