Resulting IMF involvement in the region: as of June 1, 8 programs (1 PRGF, 6 SBAs and 1 FCL), total of over USD 75 bn.

IMF support depends on country circumstances:

Program countries: will adjust and augment existing programs if necessary, new programs for countries with deepening problems.

Bystanders : Provide insurance through the FCL (Poland)

Others: Enhanced surveillance and technical advice for those not in need of financial help.

Programs: crisis-management, hence targeted to vulnerabilities, more flexible, large and front-loaded.

Targeted to vulnerabilities, hence few conditionalities:

Hungary (USD 15.6 bn): fiscal sustainability and maintaining financial sector stability

Romania (USD 17.5 bn): fiscal improvement for confidence purposes, financial sector stability (address FX loans vulnerability), tight fist on inflation

Poland (USD 20.5 bn) FCL, no conditionality, no reviews, insurance facility for good policy performers

Flexible: revised as circumstances change. Accepted an unusual trade-off between financing and adjustment, heavily biased towards the financing by our usual standard. Justified by the fact that the problems mainly have reflected external rather than domestic shocks. In effect, we are providing the financing to cushion the impact of the reversal of capital inflows on credit growth.

- **Hungary**—although fiscal has been a vulnerability, revised deficit target twice, to avoid exacerbating downturn. In exchange for structural policies that will keep debt-to-GDP ration on downward path and boost growth.

<u>Progress up to date: so far so good</u>

- Program on track, Third Review to be finalized tomorrow
- Sizeable fiscal effort in 2009-2010:
  - If ALL measures implemented at face value, structural adjustment 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)

- 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

Policies in the immediate future:

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 will fall by 10% of GDP between 2010-2014.
    - Eventually creates room for bold reforms (cost money) and works towards euro-adoption
    - External debt will fall by 15% of GDP

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
    - Strerngthen MNB powers in macro-prudential regulation
    - **In line with EU-wide process of strengthening the regulation**
- Further progress with HFSA's capacity-boosting efforts
- Extend the bank safety net into 2010, as insurance

After the crisis is over: Time for Bold Reforms

First, continued fiscal discipline is needed to:

1. **Create room for bold reforms that will boost competitiveness and growth:**
2. **Create room for monetary policy (lower risk-premia) and for eventual Eurozone entry**

The reforms are societal and political choice:

- e.g. smaller government versus larger but more efficient state presence
- universal health-care and co-pay system
- prevalence of local authorities, but with more consolidated budgeting system, which makes for a possibility to negotiate an internal stability pact and have tighter control over general budget
- deliveray of services locally, but at a more consolidated and perhaps more efficient way (and often better quality)

But they are needed: 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 for growth-boosting reforms:**
    1. some are low-cost and can be done immediately (i.s. reducing regulation and administrative burden. Hungary is below 57th place in most rankings)
    2. some are costly, at least in the beginning (health care reform, educational reform, tax cuts) and require savings elsewhere
    3. some a savings-producing, while also increasing overall productivity of the economy (reform of Public Administration, in connection with reforms of Local Governments)