



Hungary SBA: Taking Stock and Moving Forward

Iryna Ivaschenko
IMF Resident Representative in Hungary

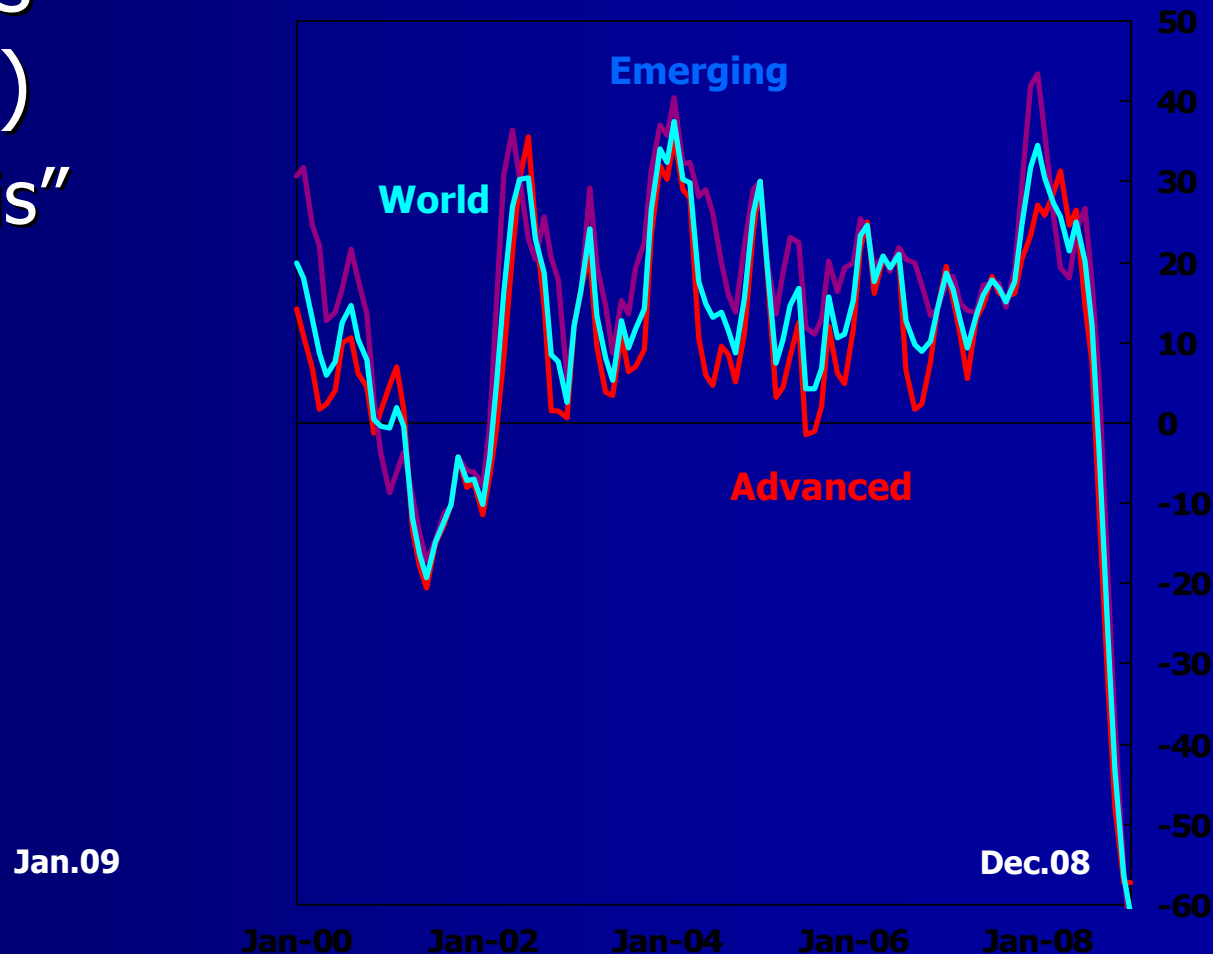
Presentation for the JVI Seminar, Vienna

January 15, 2010

Crisis Backgrounder

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

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

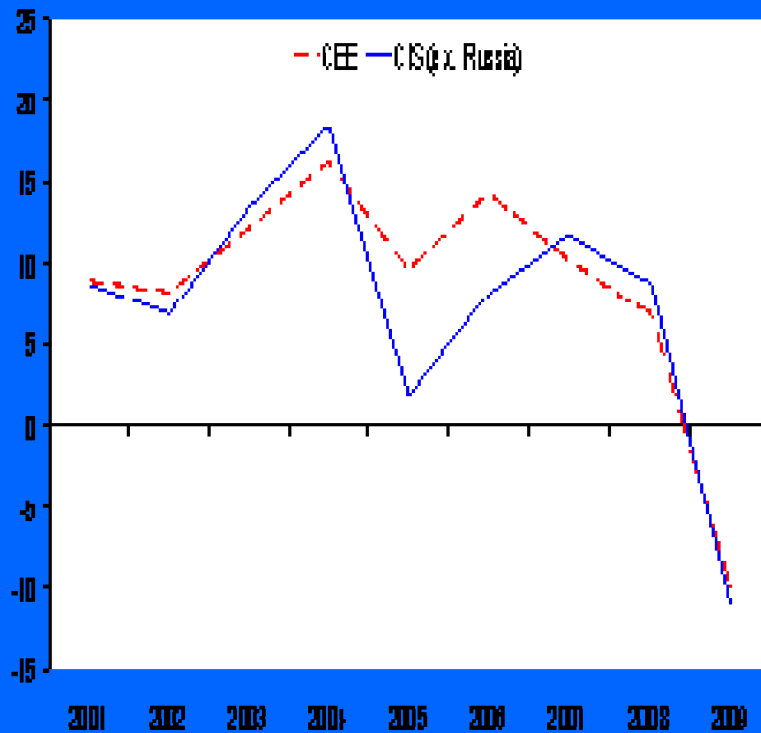


Crisis Backgrounder: Emerging Europe Hit Hard

- 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

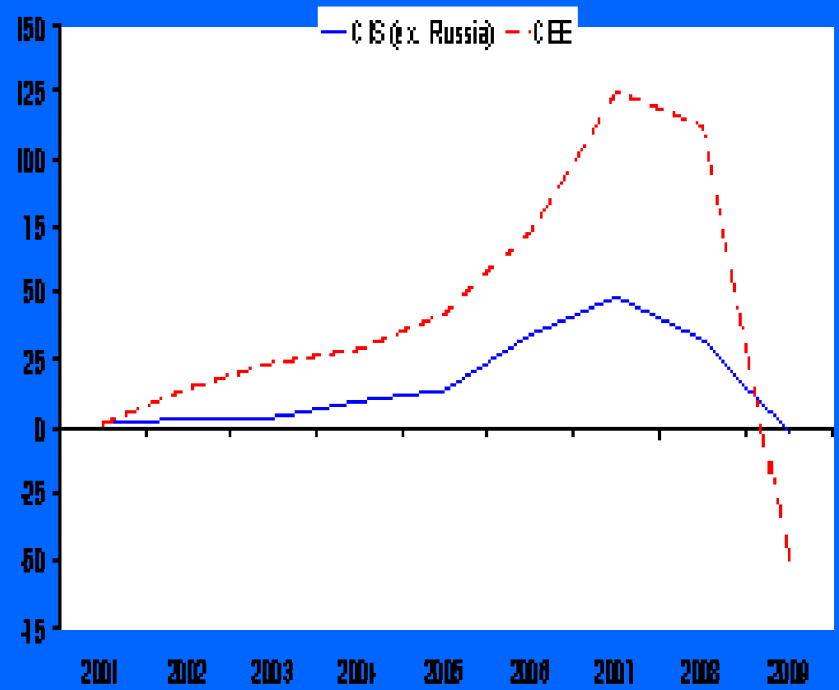
Emerging Europe Hit Hard by Collapse in Global Demand and Financial Inflows

Volume of exports (annual percentage change)



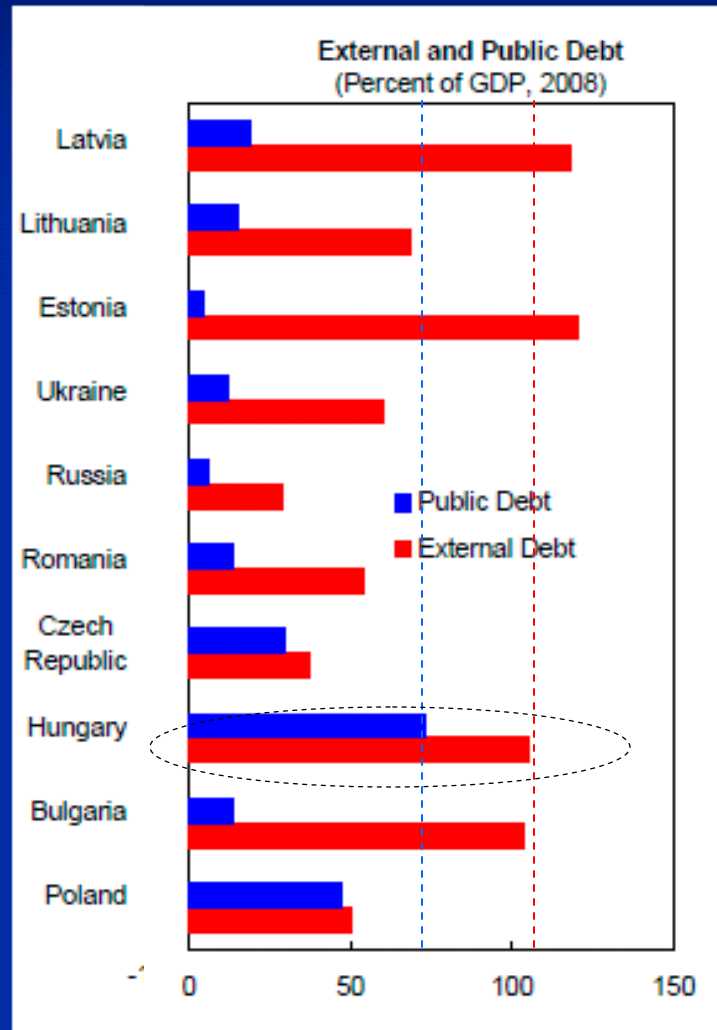
Source: WEO.

Other investments, liabilities (bn USD)

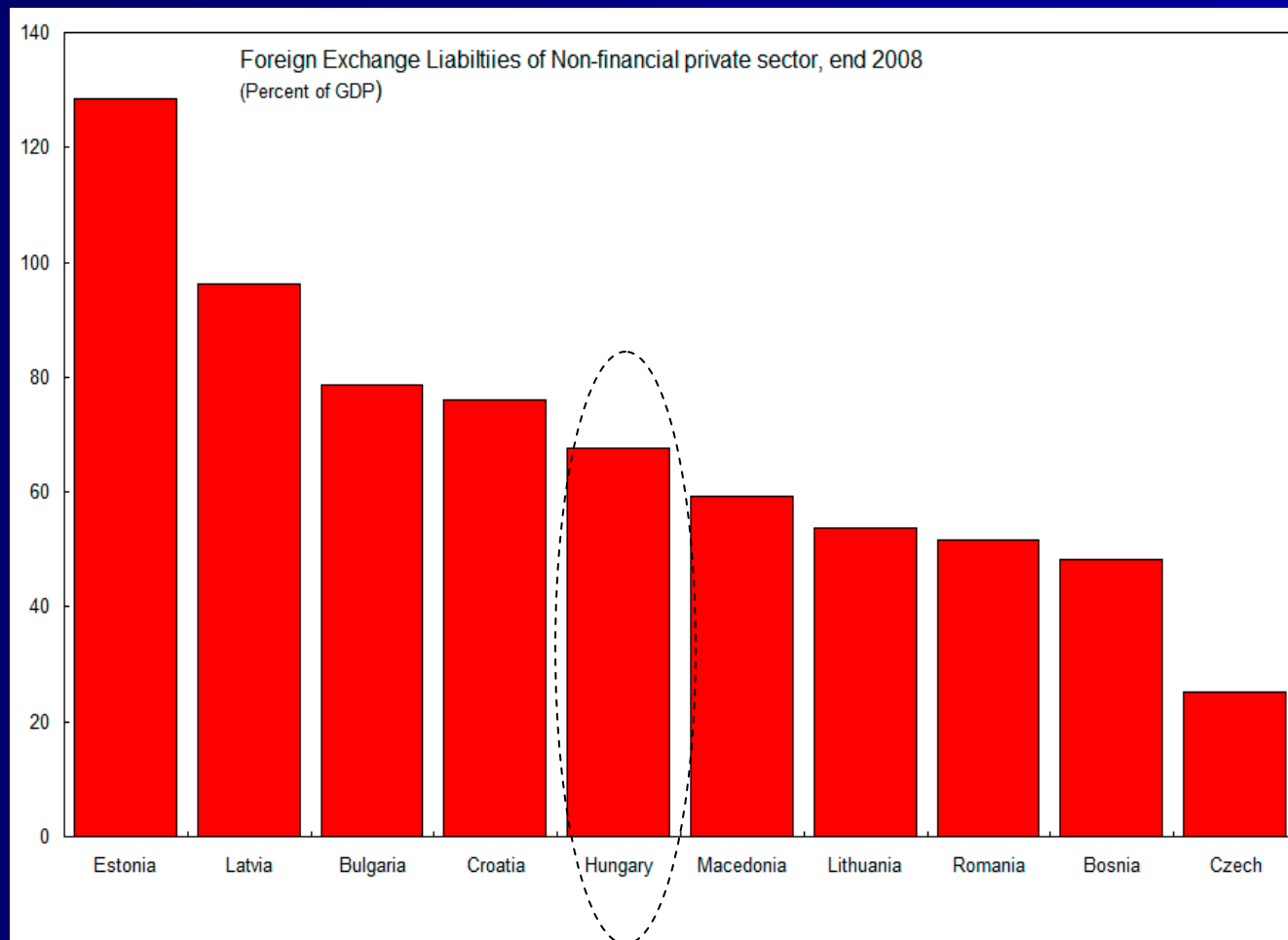


Source: WEO.

Crisis Severity: Function of Vulnerabilities



Crisis Severity: Function of Vulnerabilities



Crisis-Response: IMF Part

- About USD 75bn of total new programs in EME, 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

Crisis-Response: IMF Part

IMF financial support

(as of June 1, 2009; millions of U.S. dollars)

Member	Date	Total Amount Agreed	Agreed/Type	Drawn	Other Collaborators
Moldova	May 2006	164	(PRGF)	151	
Ukraine	Nov 2008	16,285	(SBA)	4,485	
Hungary	Nov 2008	15,601	(SBA)	9,360	EU, WB
Latvia	Dec 2008	2,253	(SBA)	793	EU, Nordic and other bilateral donors, WB, EBRD
Belarus	Jan 2009	2,396	(SBA)	767	
Serbia	Jan 2009	519	(SBA)	-	
Romania	May 2009	17,500	(SBA)	6,800	EU, WB, EBRD, EIB
Poland	May 2009	20,580	(FCL)	-	
Total		75,298		22,356	

*PRGF stands for Poverty Reduction and Growth Facility; SBA stands for Stand-By Arrangement; FCL stands for Flexible Credit Line.



Put a floor on investor confidence, avoid more severe crisis, give room for policy:

- 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 to accommodate the unprecedented downturn :
 - 2009 deficit target changed twice: -2.6 -2.9 – 3.9

Hungary SBA: Crisis-Response

Not easy measures, but better than counterfactual!

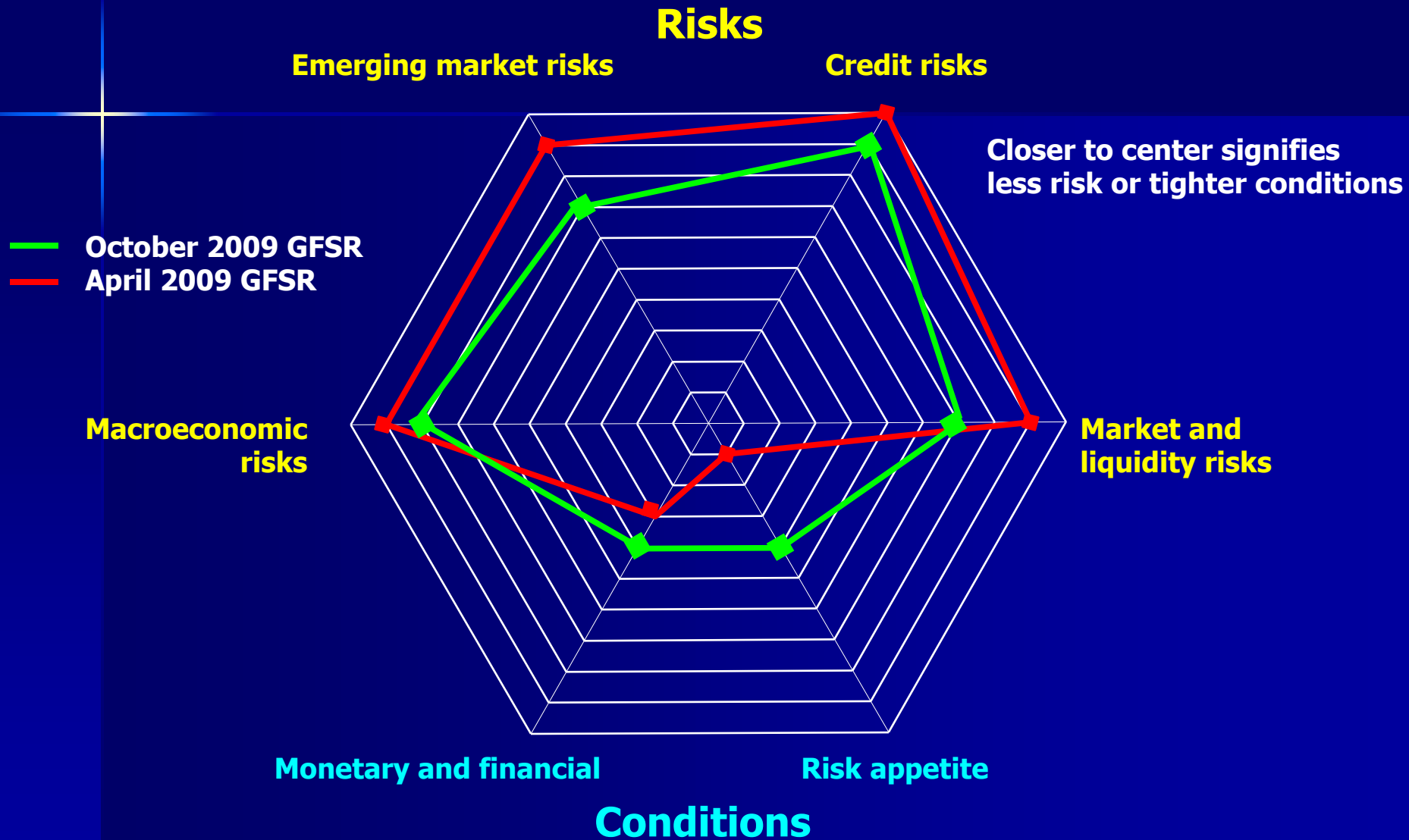
- Smaller currency depreciation
- No large-scale defaults
- No banking crisis
- Possibly better growth outcome, less adjustment

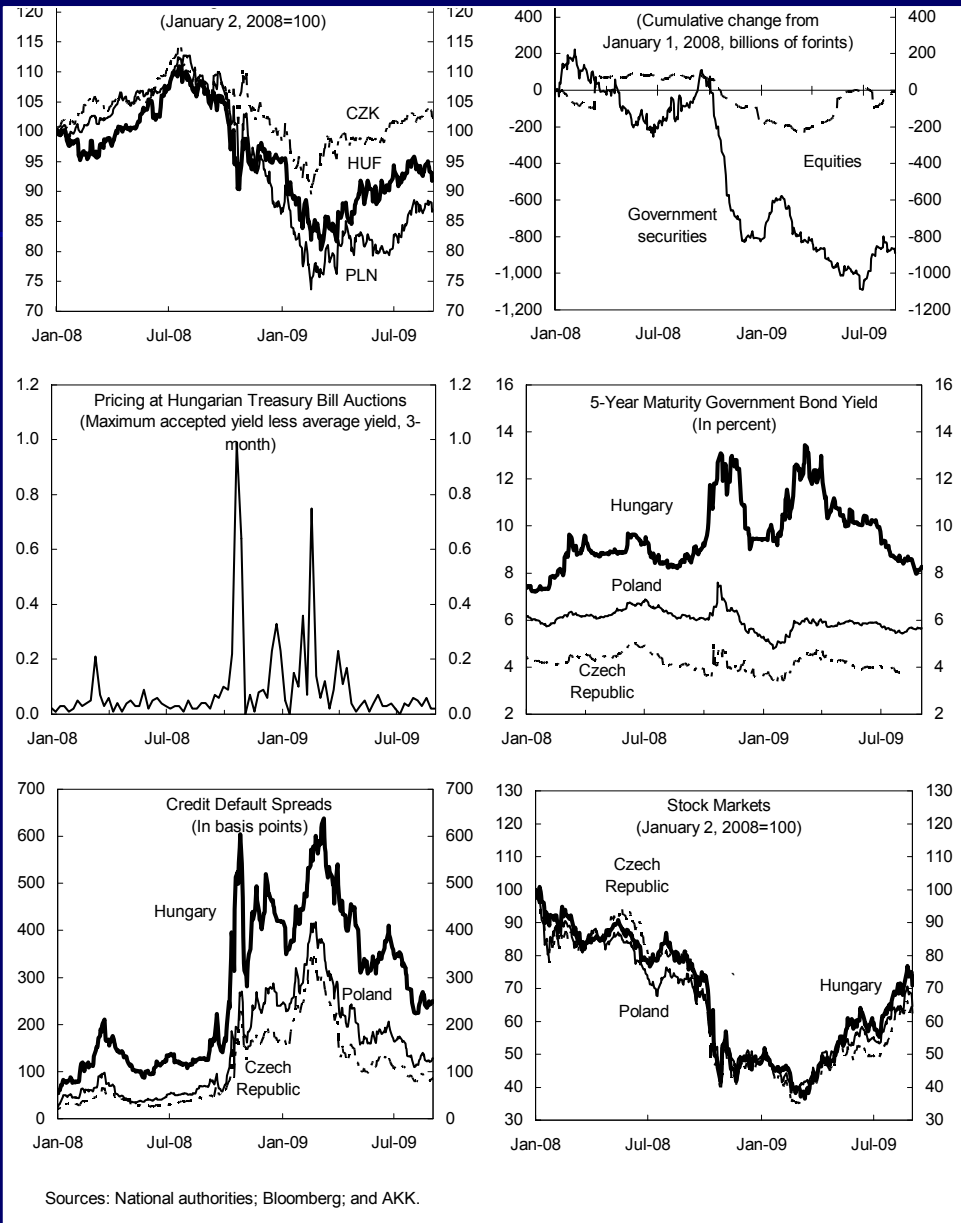
Cross-country IMF study confirms these results

Hungary SBA: So Far, So Good

- **Program is on track⇒ confidence:**
- Fourth Review: completed December 18
 - The government did not intend to draw SDR 725.1 mn:
 - better financing environment and consistent national policies
 - IMF funds remain available: will help insure against possible deterioration in global financial environment, for the duration of the SBA
- Backgrounder: Third Review—the SBA extended to October, 2010; re-phased.

Financial Stability Risks have Abated, Due to Policy Actions and Improved Growth Prospects





Hungary SBA: Fiscal

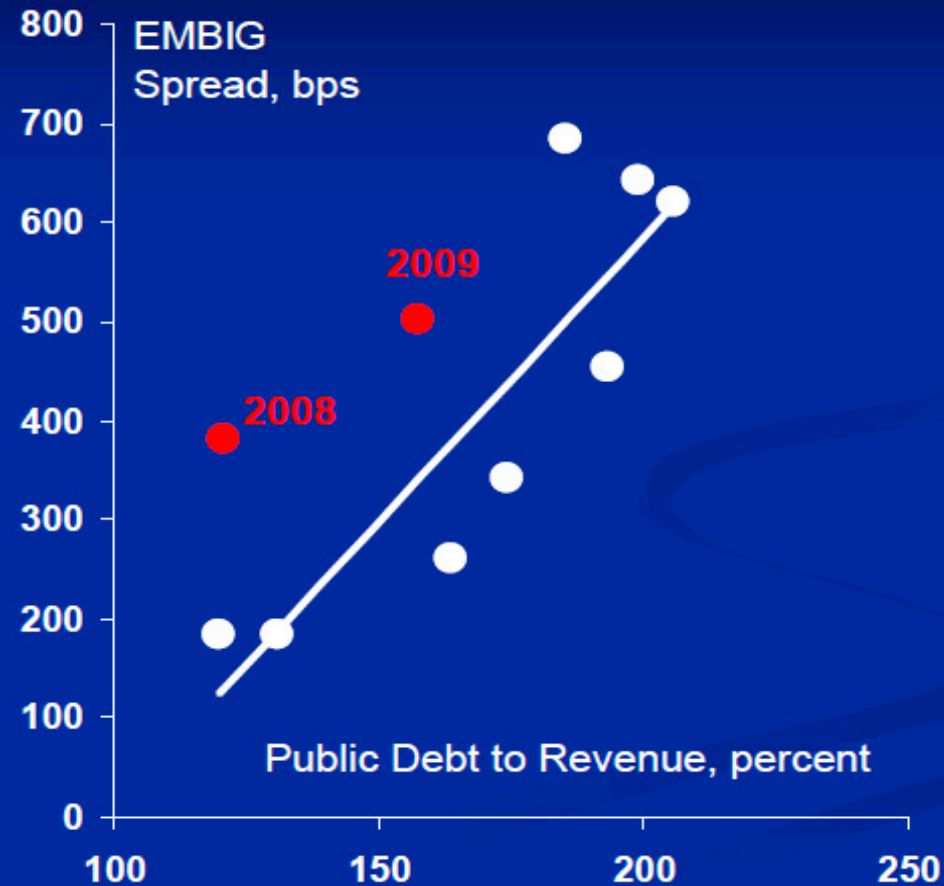
- Significant structural adjustment in 2009-2010: about 4% of GDP
 - Some quality measures: longer-lasting, good for growth and equity
 - Welfare, subsidies—more affordable, less burden on future, protecting most vulnerable
 - Pension, smaller labor tax, rebalancing to consumption—boost employment
- Baseline on track, but risks remain:
 - 2010 budget credibly targets -3.8%
 - Risks: implementation, extent of realized savings, busy election year, uncertain revenue forecasts after downturn

Immediate Policy Issues: Fiscal

Fiscal: stay the consolidation course

- 2010: has reserves, faithful implementation, strict spending discipline is key
- 2011: small structural effort to bring deficit below 3% of GDP, EU commitments
- Beyond: stay the course:
 - Debt/GDP ratio could fall by 10% of GDP in 2010-2014
 - If 2010 deficit is 7% for one year, debt will explode

Fiscal: Stay Consolidation Course



Hungary SBA: Financial

- Banking system:
 - no banking crisis! These can be costly
 - Stable, profitable; capital well above regulatory minimum; liquidity and funding much improved
 - Parent banks behaved responsibly
 - Safety net almost unused
- Significant progress in strengthening financial supervision:
 - Institutional: HFSA independence, mechanisms to marry micro- and macro-prudential considerations
 - HFSA's supervisory capacity continues to strengthen
 - Progress in remedial action and bank resolution regime

Immediate Policy Issues: Financial

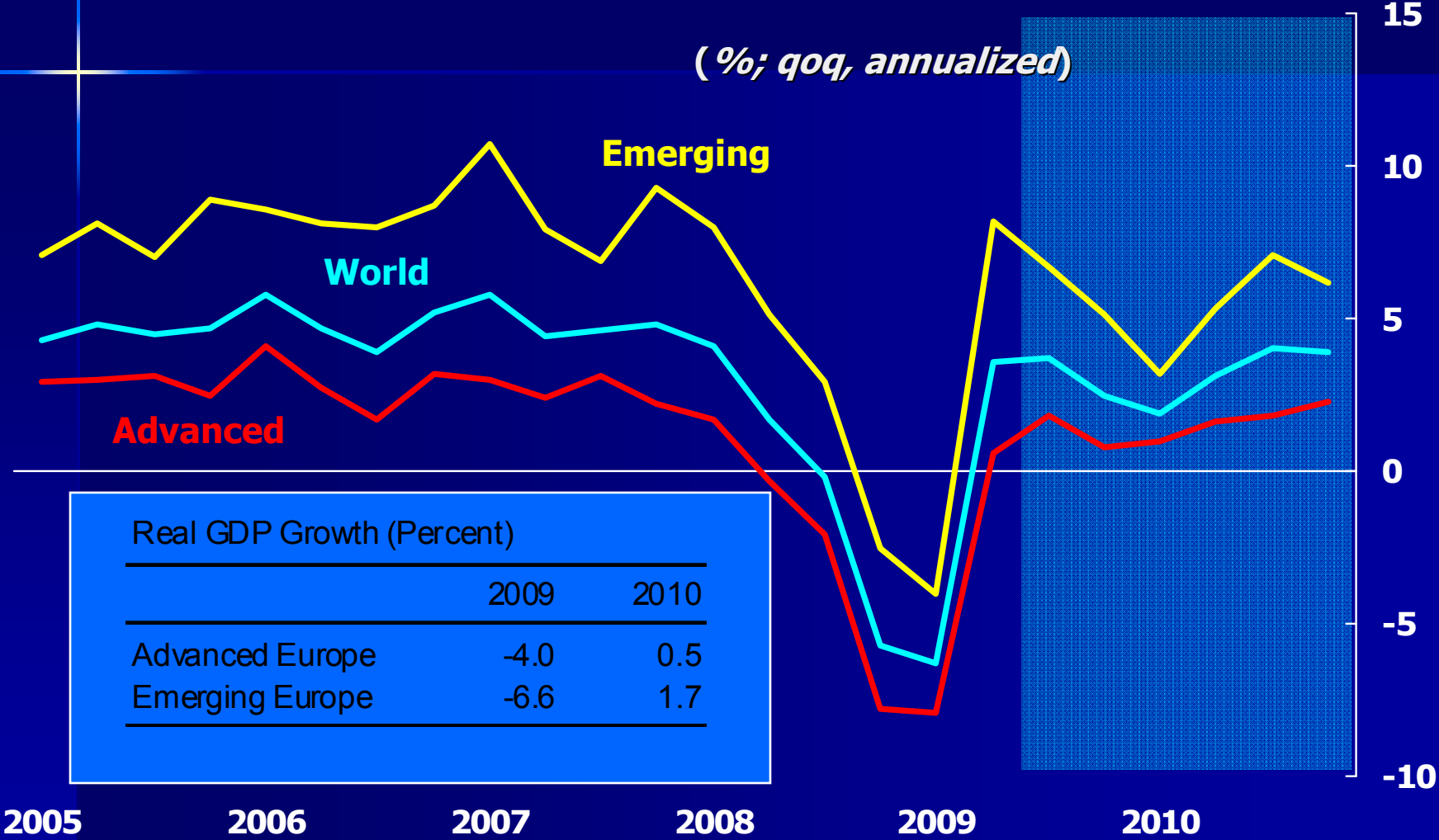
Financial: Keep good work towards stronger supervision and regulation

- Strengthening regulatory setup makes it more efficient, forward-looking, crisis-resilient:
 - Consistent with European and global process
 - Confidence-boosting
 - We support it fully, policy continuity is crucial
- Support HFSA's capacity-boosting efforts
- Bank safety net extended into 2010, as insurance
- Continue work on:
 - enhancing bank resolution regime
 - HFSA regulatory power

Hungary: Outlook

- Short-term: downturn, but signs of stabilization:
 - GDP: same 2009: -6.7%, slightly better 2010, -0.6%
 - Domestic demand: weak; unemployment above 10% and rising
 - CA: sharp adjustment in 2009, to -0.5
 - Inflation benign: below 3% by end-2010
- Banks: weak economy will take toll, but manageable
- Medium-term: policies to promote growth and fiscal prudence

Global Economy: Growing Again, but Recovery Projected to be Sluggish



Real GDP Growth (Percent)		
	2009	2010
Advanced Europe	-4.0	0.5
Emerging Europe	-6.6	1.7

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

- Continued fiscal discipline is needed to:
 - Create room for growth-boosting bold reforms
- Study on crisis aftermath:
 - Crises are opportunities to jump-start reforms
 - Structural reforms key for potential growth: relatively low in Hungary
- No lack of good ideas in Hungary
 - The reforms are societal and political choice

Ideas for Reforms: Tough, but Benefiting All

- Public Administration: more efficient state means better budget and quality of public services, lower administrative burden, improved business climate
 - Local Governments: control over general budget, better quality of services (education, health, utilities)
- Public Transport System (MAV, BKV): better for the budget (i.e. room for tax cuts and costlier reforms), better quality of services
- Health Care, Education: good for long-term growth