FOR AGENDA

EBS/84/144

CONFIDENTIAL

July 3, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Hungary - Staff Report for the Mid-Term Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the mid-term review under the stand-by arrangement with Hungary. A draft decision appears on pages 33 and 34.

It is proposed to bring this subject to the agenda for discussion on Wednesday, August 1, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Somogyi (ext. (5)7188).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

HUNGARY

Staff Report for the Mid-Term Review Under Stand-By Arrangement

Prepared by the European Department and
Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by Brian Rose and Subimal Mookerjee

July 3, 1984

I. Introduction

A 12-month stand-by arrangement for SDR 425.0 million (80 percent of quota) was approved by the Executive Board on January 13, 1984. This arrangement succeeds an earlier 13-month arrangement for SDR 475.0 million (126.7 percent of the old quota), which was approved, together with a purchase under the compensatory financing facility of SDR 72.0 million (19.2 percent of the old quota), by the Executive Board on December 8, 1982. Hungary made all scheduled purchases under the former stand-by arrangement and has so far made two purchases, totaling SDR 226.7 million, under the current arrangement. The last purchase, of SDR 99.2 million, was made on May 31, 1984, the Executive Board having waived, on May 14, 1984, the nonobservance of the end-March 1984 performance criterion relating to the level of short-term debt in convertible currencies. 1/ As of May 31, 1984, the Fund's holdings of forint, subject to repurchase, amounted to 145.8 percent of quota, or 132.2 percent of quota if the purchase under the CFF is excluded (Table 1).

Discussions with Hungarian officials for the mid-term review of the 1984 stand-by arrangement were held in Budapest, April 17-May 6, 1984 by a staff team consisting of H.B. Junz (Head, EUR), G. Belanger (ETR), J.K. Salop, J. Somogyi and P. Stanyer (all EUR), and, as secretary, B. Barrington (ADM). The Hungarian representatives included senior officials of the National Bank of Hungary, the Ministry of Finance, the Ministry of Foreign Trade, the Central Planning Office, the State Development Bank, the National Savings Bank, and the Central Statistical Office. The head of the mission met the Chairman of the Economic Policy Commission of the Central Committee of the Hungarian Socialist Workers Party, Mr. Havasi. The head of the mission and various mission members also met with the Deputy Chairman of the Council of Ministers, Mr. Marjai; the Minister of Finance, Mr. Hetenyi; the President and the First Deputy President of the National Bank, Messrs. Timar and Fekete; the Head of the Secretariat for International Economic Relations of the Council of

1/ See EBS/84/109, (5/9/84).

Table 1. Hungary: Use of Fund Credit, December 1983 to December 1984

	Actual			Projected	
	12/31/83	1/31/84	5/31/84	8/15/84	11/15/84
	(In millions of SDRs)				
Purchases under stand-by arrangement	83.2	127.5	99.2	99.2	99.1
Ordinary resources	37.8	63.8	49.6	49.6	49.6
Borrowed resources	45.4	63.8	49.6	49.6	49.6
Total Fund credit outstanding (end of period) 1/	547.0	674.5	773.7	872.9	972.0
Under tranche policies 2/	475.0	602.5	701.7	800.9	900.0
Under special facilities 3/	72.0	72.0	72.0	72.0	72.0
	(In percent of quota)				
Purchases under stand-by arrangement	15.7	24.0	18.7	18.7	18.7
Total Fund credit outstanding	103.1	127.1	145.8	164.5	183.2
Under tranche policies	89.5	113.5	132.2	150.9	169.6
Under special facilities	13.6	13.6	13.6	13.6	13.6

Sources: IMF, Treasurer's Department; and staff projections.

1/ No repurchases are due in 1984.
2/ Ordinary and enlarged access resources.
3/ Compensatory financing facility.

Ministers, Mr. Bartha; the Chairman of the National Materials and Price Board, Mr. Csikós-Nagy; the Deputy Chairman of the Central Planning Office, Mr. Pulai; the President of the State Development Bank, Mr. Havas; and the President of the National Savings Bank, Mr. Szirmai. Mr. de Groote, Executive Director for Hungary, was present for part of the discussions.

In the attached communication to the Managing Director, the Hungarian authorities review developments thus far under the stabilization program for 1984 and set out their principal policy intentions for the remaining period of the stand-by arrangement. The next purchase under the stand-by arrangement, which is subject to the completion of the review and establishment of quantitative performance criteria for the remaining period of the arrangement becomes available from August 15. The phasing of the remaining purchases and the corresponding prospective evolution of Fund holdings of forint subject to repurchase are set out in Table 1.

In the IBRD, Hungary has been judged to qualify for medium-term project loans and to date loans totaling US$439.4 million have been approved. 1/ In 1983, additional foreign exchange amounting to US$270 million equivalent was obtained through two cofinancing loans involving direct IBRD participation of US$39.4 million: a Japanese yen loan equivalent to about US$70 million and a Eurodollar loan of US$200 million. In 1984, the equivalent of US$487 million of additional foreign exchange is to be made available through two new cofinancing loans with an IBRD participation of US$48.3 million: a Japanese yen loan equivalent to US$102 million and a Eurodollar loan of US$385 million.

II. Performance Under the Stand-By Arrangements

1. Background

The primary policy objective of the Hungarian authorities over the past several years has been to generate an external position in convertible currencies that permits first, the smooth servicing of the outstanding external debt, and second, some reduction of the level of such debt as well as an improvement in its maturity structure. Considerable progress has been made toward achieving the first requirement for making this objective, i.e., a substantial and sustainable surplus in the current account in convertible currencies. Indeed, this current account has swung from a deficit of US$727 million (3.2 percent of GDP) in 1981 to a

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1/ US$109.0 million for an Industrial Energy Diversification and Conservation Project and US$130.4 million for a Grain Storage and Agricultural Mechanization Development Project, approved on June 16, 1983. On March 27, 1984, the Bank's Executive Board approved two further loan applications, of US$110 million for retooling and increasing industrial export capacity of qualifying enterprises, and of US$90 million for a petroleum project.

surplus of US$297 million (1.5 percent of GDP) in 1983. However, substantial as this improvement was, it fell short of the authorities' target and relied to a significant extent on the imposition of import restrictions and the curtailment of investment activity. These measures, in turn, contributed to a build-up of pent-up demand embodied in an overhang of liquidity in the hands of enterprises.

The Hungarian authorities recognize that their external balance cannot be secure unless it is based on internal balance. Accordingly, as the external climate has improved and, in particular, as spontaneous capital inflows have resumed, their policy priorities have broadened from "external balance at all costs" to the improvement of resource allocation and efficiency. Thus, the external target for 1984, while calling for a further increase in the surplus of the current account in convertible currencies to US$400 million (1.9 percent of GDP), is coupled with a commitment to remove the import restrictions that were imposed in 1982. Moreover, the program's objectives are linked to changes in the price and wage system and in financial flows designed to improve the responsiveness of the economy to market forces.

A preliminary account of performance under the 1983 program was presented in the December staff report. 1/ Briefly, the outturn for 1983 projected at that time differed in significant respects from the targets established at the mid-1983 review and these preliminary views were broadly confirmed by the data that have become available since then (Table 2). Of paramount importance, the current account surplus in convertible currencies reached only US$297 million, compared with the program target of US$500 million, with the program ceiling on the National Bank's net domestic assets at end-year being exceeded by 4.3 percent. The smaller surplus is explained largely by last summer's drought, which limited the volume of agricultural exports paid for in convertible currencies, and by considerably weaker export prices than had been projected. Although final domestic demand in real terms fell by only 1 percent instead of the targeted 3.1 percent, this overrun played a relatively modest role in the shortfall from the current account objective. As shown in Table 3, most of the excess domestic absorption was met from domestic sources. Domestic supplies exceeded projections by 1.2 percent of GDP with output generated both in the private sector and by the newly established small enterprises in the socialist sector running well ahead of expectations. In addition, there was an unanticipated rundown of inventories. With supplies more ample, and only about one quarter of excess final demand spilled into the external balance, much of which was met by higher imports under bilateral agreements. The real foreign balance contributed 2.4 percent to the growth of GDP in 1983 instead of the targeted 3.0 percent.

1/ Hungarian People's Republic--Staff Report for the 1983 Article IV Consultation and Request for Stand-by Arrangement, EBS/83/268 (12/16/83).

Table 2. Hungary: Macroeconomic Variables 1983-84 1/

(Percentage changes, millions of U.S. dollars, and billions of forint)

	1983 (1) Program 2/	1983 (2) Staff estimate of November 1983 3/	1983 (3) Preliminary outturn 3/	1983 (4) (3) - (1) Difference between program and outturn	1984 (5) Program 2/	1984 (6) Revised program 3/
	(Percentage changes in volume)					
Consumer expenditure	-2.0	0.2	0.3	2.3	-0.5	-0.7
Government current expenditure 4/	-0.7	-1.1	1.0	1.7	-1.6	-3.0
Gross fixed investment 4/	-6.7	-2.0	-5.0	1.7	-8.4	-7.7
Final domestic demand	-3.1	-0.5	-1.0	2.1	-2.7	-2.7
Stockbuilding						
Percentage contribution to GDP growth	-0.4	-0.9	-0.7	-0.3	0.5	0.4
Domestic demand	-3.5	-1.4	-1.7	1.8	-2.1	-2.3
Exports of goods and services	6.0	5.3	6.9	0.9	6.2	6.0
Imports of goods and services	-1.5	-0.2	0.9	2.4	1.4	0.4
Foreign balance						
Percentage contribution to GDP growth	3.0	2.2	2.4	-0.6	2.1	2.4
GDP	-0.4	0.9	0.8	1.2	0	0.3
	(In millions of U.S. dollars)					
Balance of current account in convertible currencies	500.0	305.0	297.0	-203.0	400.0	400.0
	(In billions of forint)					
Budget balance	-6.0	-2.6	-1.7	4.3	12.0	17.9
Domestic credit, end of period	734.5	740.2	734.0	-0.5	776.4	766.4
Of which: Net credit to the state budget	34.5	31.1	28.7	-5.8	19.1	11.0
	(Percentage changes in value)					
Memorandum items:						
Disposable income of households	5.7	7.1	7.9	2.2	7.7	7.7
Of which:						
Wages from socialist sector	3.7	4.9	4.5	0.8	5.8	4.7
Incomes from private activities	8.5	17.6	26.8	18.3	9.5	18.3
Savings of households in percent of disposable income	5.2	5.3	5.9	0.7	5.1	5.7
Consumer price index	8.0 - 9.0	7.7	7.3	-0.7 - -1.7	9.0	9.4
Socialist sector fixed investment 5/	-4.4	1.3	-1.2	3.2	-5.4	-6.4

Sources: Data provided by Hungarian authorities; and staff estimates.

1/ Differences between the program and the outturn for 1983 and between the original and revised program for 1984 reflect, inter alia, revisions to base year data.
2/ Percentage changes from preliminary estimates for the preceding year.
3/ Percentage changes from the latest revised data for the preceding year.
4/ Data for 1983 and original program for 1984 are prior to change in methodology shifting expenditures on the reconstruction of bridges and roads from government current expenditure to fixed investment.
5/ After leads and lags and other adjustments.

In setting their 1984 target for the current surplus in convertible currencies at US$400 million, the Hungarian authorities recognized that, after making due allowance for the greater elasticity of supply that was registered in 1983, such additional sources of supply as had limited

Table 3. Hungary: Overrun of Final Domestic Demand and Resource Availability, 1983

(Percent of 1982 GDP, real terms)

	Percent
Resource availability over program:	
Higher domestic supply	1.2
Larger drawdown of inventories	0.3
Higher imports	0.9
Total	2.4
Less: Higher exports	0.4
Equals: Higher final domestic absorption	2.0

Source: Staff estimates.

the effect of demand overruns on the current account in convertible currencies in 1983, would not be available in 1984. First, inventories have been brought more closely in line with production needs, partly as a result of the import restrictions maintained through 1983, partly because of financial policies that penalized the holding of excess inventories and that more generally discouraged inventory accumulation by raising the cost of funds. Second, the available room under the swing credits established in bilateral agreements is dwindling fast and the deficits on trade settled in rubles are being narrowed. The achievement of the US$400 million current account target, therefore, depended on a stronger and more assured reduction of final domestic demand than in 1983. To this end, all categories of final demand were slated to fall, with both government and household consumption expenditures declining for the first time since 1979, when the current period of adjustment began. The lion's share of the adjustment burden was, however, again to be borne by the enterprise sector in terms of lower investment (see Table 2).

With labor incomes in the private sector continuing to rise strongly, the decline in the volume of private consumption was to result from a significant fall of real wages in the socialist sector, the withdrawal of purchasing power through large cutbacks of consumer price subsidies, and incentives to sustain the increased rate of savings in financial assets that had emerged in 1983. The projected fall in investment activity was to depend on the restrictive effects of credit and budgetary policies.

Exchange rate policy vis-à-vis the convertible currency area was to help ensure that imports would be used efficiently--which was particularly important as import restrictions are being lifted--and to preserve the profitability of exports.

Performance criteria accordingly were set on net domestic assets of the National Bank of Hungary, net credit to the State budget from the banking system, credit extended by the State Development Bank, net foreign liabilities in convertible currencies by the specialized financial institutions, the contracting of new medium- and long-term debt in convertible currencies by the Government and by nonfinancial entities; and the level of total short-term debt in convertible currencies. All criteria were met as of March 30, 1984, the last quarter for which data are available, with the exception of the limit on short-term external debt. A waiver was granted for the breach of this limit. 1/

2. Developments in late 1983 and early 1984

a. Domestic economy

As noted above, the outturn for 1983 confirmed the slippages from the program targets for final demand. Real household consumption grew by 0.3 percent--compared with the programmed decline of 2 percent--mainly because incomes in the private sector grew much more vigorously and consumer price increases rose less than expected (Annex Table 3). However, households' propensity to save in financial assets also surpassed expectations, and the available evidence indicates that this increase was voluntary, probably motivated by higher interest rates and rising prices of consumer durables.

The buoyancy of personal incomes and consumption continued into 1984, with cash incomes of the population in the first quarter 11.4 percent above their year earlier level. A significant portion of household purchasing power was siphoned off in early 1984 by deep cuts in consumer price subsidies. These cuts, together with some increases in turnover taxes, are estimated to have raised consumer prices at an annual rate of about 4 percent, to a level 9.3 percent above April 1983. Nonetheless, the trend of spendable incomes once again pointed to possible overruns of consumption demand.

1/ EBS/84/109, (5/9/84).

Fixed investment was also above program levels in 1983, declining by about 5 percent in volume rather than the targeted 6 3/4 percent, with all segments of investment expenditures contributing to the overshoot. However, in contrast to the continued buoyancy of household incomes and expenditures, the overshooting of fixed investment targets began to be reversed toward the end of 1983 as restrictive budget and credit policies curtailed excess liquidity in the enterprise sector. By the first quarter of 1984, investment spending by enterprises was below its year-ago level and broadly in line with the projections for the year as a whole. However, outlays on State investment in the first quarter of the year were running some 15 percent above their year-ago-level, largely reflecting the stop and start nature of projects that depend on CMEA deliveries.

b. Money and credit

In the past, enterprises have been able to finance overruns of investment by drawing on the overhang of liquidity that had cumulated mainly in the development and reserve funds they maintained with the banking system. Accordingly, financial policies under the program aimed largely at reducing the financial resources available to the enterprise sector (Table 4). To this end, about 9 percent of gross inflows into developments funds were taxed away in 1983 and in 1984 a full 22 percent is similarly being withdrawn. In addition, the compulsory reserve funds have been dissolved, with about three quarters of the accumulated resources either confiscated outright or exchanged for bonds tradable only within the enterprise sector, but for which no proper secondary market exists. It is estimated that these measures, coupled with tight credit policy, will effectively eliminate the overhang of enterprise deposits and conditional liquidity.

The effects of these policies began to become apparent toward the end of 1983, when enterprises came under further liquidity pressure as revenues from exports were disappointing and the National Bank tightened working capital credits. As a result, investment projects were cut back, investment credit fell, and enterprise deposits were drawn down to meet current expenditures. The effect on broad money of the latter was largely offset by increases in household deposits, so that by end-1983 broad money was only slightly below target. The greater accumulation of financial assets by households was financed in part by borrowing. With enterprise credit and recourse by the Government to bank credit below target, the moderate excess of credit to households and larger overruns of State loans could be accommodated within the gross domestic credit limits (Table 5).

Table 4. Hungary: Enterprise Financial Assets 1/

(In billions of forint)

	1982	1983 Official program	1983 November forecast	1983 Actual	1984 Q1 Original program	1984 Q1 Actual	1984 Q4 Program	1984 Q4 Revised program
Currency	4.9	4.4	5.7	6.6	5.5	5.4	5.8	6.7
Demand deposits	76.6	73.9	76.3	70.2	61.5	53.8	76.6	71.1
Time deposits	45.2	45.0	38.8	38.9	37.3	39.9	32.1	28.0
Total	126.7	123.3	120.1	115.7	104.3	99.1	114.5	105.8
Reserve funds	55.2	42.0	37.9	33.3	...	...	...	...
Reserve fund bonds	...	...	...	...	13.1	11.5	13.1	11.9
Total assets	181.9	165.3	158.0	149.0	117.4	110.6	127.6	117.7
Memorandum items: 2/								
Confiscations of reserve funds	...	19.1	19.1	19.1	45.2	42.0	45.1	41.9
Confiscations of development funds	...	9.0	8.5	8.5	17.0	15.0	29.6	28.5
Confiscations of working capital	...	1.2	1.4	1.3	1.4	1.3	1.4	2.3
Total	...	29.3	29.0	28.9	63.6	58.3	76.1	72.7

Sources: National Bank of Hungary; and staff estimates.

1/ Excluding claims on nonresidents.
2/ Cumulative totals.

Table 5. Hungary: Financial Variables

	Program Q4 1983	Actual Q4 1983	Program Q1 1984	Actual Q1 1984	Program Q4 1984	Revised Q4 1984
	(Percentage changes from previous 12 months)					
Gross domestic credit	5.7	5.3	4.5	4.5	4.9	4.4
Net domestic credit 1/	0.1	2.4	2.3	2.8	1.2	1.0
Net foreign liabilities 1/	-6.5	-0.5	-0.1	1.9	-3.6	-3.5
Broad money	4.8	4.5	3.8	3.5	4.4	3.8
	(Ratios)					
Velocity of broad money	2.20	2.22	--	--	2.25	2.26

Sources: National Bank of Hungary; and staff estimates.

1/ Calculated at end-September 1983 exchange rates.

By contrast, net domestic credit 1/--the pivotal indicative target in the 1984 program--expanded considerably more than programmed, as enterprises increasingly drew on resources earmarked for their reserve funds to meet commitments, including those arising from shortfalls on foreign currency receipts (Annex Table 6). These shortfalls, in turn, caused net domestic assets of the National Bank to exceed its end-year program target by 4.3 percent (Annex Table 4).

In the first quarter of 1984, gross lending by the banking system was in line with the authorities' forecast--with the growth of state loans brought under strict limits under the new stand-by arrangement. Investment credits to enterprises were less than forecast, as the tightened liquidity position of enterprises continued to constrain investment activity, although delays in IBRD-supported projects also played a role, while working capital credits and credit to households were higher than forecast.

1/ Equal to the sum of broad money and net foreign liabilities and defined as gross domestic credit minus reserve funds (until end-1983, and reserve fund bonds and confiscated reserve funds thereafter); State lending and Intervention funds; and "other items net."

However, net domestic credit in the first quarter once again overshot its target. This overshooting resulted mainly from a further increase in the pressure on enterprise liquidity as increased import deliveries, both under bilateral agreements and from the ruble area, absorbed deposits and caused arrears in enterprise contributions to the State lending and Intervention funds. Net domestic assets of the National Bank of Hungary in the first quarter of 1984 were fractionally below their program ceiling despite a lesser strengthening of the external current account in convertible currencies than had been projected. The smaller current account surplus was more than offset by a greater accumulation of foreign liabilities by the nonbanking sector than had been anticipated.

c. Public finance

The fiscal measures that squeezed enterprise liquidity in 1983, improved the budget balance and financed an accumulation of Ft 9.7 billion in the extrabudgetary State lending and Intervention funds. In 1983, the State budget itself recorded a deficit of Ft 1.7 billion (0.2 percent of GDP), significantly lower than the program forecast of Ft 6.0 billion (Annex Table 7). The improvement in public finances derived entirely from a buoyancy of revenues, as outlays, particularly on subsidies, exceeded program projections by a significant margin.

In the first quarter of 1984, the flow of revenues was strengthened further with a small increase in indirect taxation and the implementation of a 10 percentage point increase in the social security tax on wages, estimated to raise budgetary revenues by almost Ft 30 billion. The increase in social security contributions is motivated by the need both to narrow the gap between social security receipts and expenditures and to raise the cost of labor, so as to reduce the degree of labor hoarding in the economy. The underlying budget surplus was further increased by large reductions in consumer and producer price subsidies. These cuts were effected in two steps, the bulk bieng introduced in January when consumer price subsidies for meat, other basic foods, public catering, household energy, and construction materials were reduced. In toto, such measures taken to end-May are estimated to reduce budget outlays in 1984 to Ft 16.0 billion below actual outlays in 1983 (Table 6). Indirect revenue effect in 1984 of Ft 2.6 billion; in an effort to streamline the tax system the number of indirect tax rates was reduced as was that applying to the so-called production taxes. The latter are designed to skim profits from high-yielding lines of business and have tended to discourage enterprises from entering new activities. Finally, the schedule of depreciation allowances was simplified through a marked reduction in the multiplicity of depreciation rates and the authorities are contemplating a reduction of the 40 percent tax on depreciation flows.

The revenue raising aspects of the 1984 State budget included fiscal adjustments that effectively nullified the effects on enterprise profitability of the 3 percent devaluation of the forint in February. Coincidentally with the devaluation, rebates of indirect taxation on exports

Table 6. Hungary: Consumer and Producer Subsidies in 1984

(In billions of forint)

	Consumer subsidies	Producer subsidies	Total
1983 outturn	66.6	29.0	95.6
Effect of January measures	(-13.0)	(-2.0)	(-15.0)
Effect of March measures	(-1.0)	(--)	(-1.0)
End-May position	52.6	27.0	79.6
Further measures	(-1.5)	(-2.5)	(-4.0)
1984 revised projection	51.1	24.5	75.6
Change from 1983	(-15.5)	(-4.5)	(-20.0)

Source: Ministry of Finance.

were cut by 3 percentage points, with some of this budget saving offset by a reduction in fees paid by importers and the removal of the 20 percent surcharge on component parts imported from the convertible currency area.

As was anticipated in December's staff report, the accumulation of resources in the extrabudgetary State lending and Intervention funds has been less rapid than originally projected by the authorities. Indeed, by end-March, they totaled only Ft 15.8 billion instead of the programmed Ft 20.8 billion. As in 1983, 9 percent of enterprise contributions to their development funds are to be paid through the budget into the State lending fund, but liquidity pressures have caused enterprises to fall behind on these contributions. In 1984, a further 13 percent is to be paid into the newly-formed Intervention fund and again contributions are lagging. Whereas the resources of the State lending fund are intended to be frozen at the National Bank, disbursements from the Intervention fund are made to enterprises with financial problems. Rather more worrying than the net amount accumulated in these funds--since the credit program has been designed to provide automatic offsets to such developments--is that gross disbursements from the Intervention fund, at Ft 7.3 billion in 1984, are to be above the Ft 4.0 billion expected in December, and that they, at any level, reduce the credit availability for financially sound enterprises. To some extent, these disbursements substitute for the liberal use of reserve funds that the Ministry of Finance formerly allowed financially strapped enterprises, a power that has vanished with the elimination of the compulsory reserve funds earlier this year.

d. External developments and policies

As noted above, in 1983 weaker terms of trade and the effects of the drought on exportable supplies of agricultural products were the main factors limiting the current account surplus in convertible currencies to US$297 million as compared with a targeted surplus of US$500 million. The current account improved by about US$400 million in 1983 with the trade surplus reaching US$880 million 1/ and the deficit on current services and transfers declining strongly to about US$580 million. The latter reflected a sharp reduction in the deficit on investment income as the level of foreign debt was reduced, interest rates receded during the year, and access to more favorable sources of financing became available.

1/ To some extent, recorded trade flows in the balance of payments in convertible currencies overstate the actual improvement in the trade balance since larger deficits were incurred under bilateral agreements in currencies other than the ruble. However, since the settlement in convertible currencies of deficit balances under bilateral agreements in excess of specified swing limits is recorded as a payment under other current services, the overstatement of the improvement in the trade balance affects the current balance only in part.

The trends apparent in 1983 carried over into the first quarter of 1984. The current account in convertible currencies showed further improvement, albeit somewhat less than programmed, partly because of a further worsening of the terms of trade. The volume of exports continued to rise and the deficit in respect of investment income continued to narrow. The strong export performance in volume terms was, however, only partly translated into higher revenues as prices in foreign markets continued to decline.

Excluding imports of energy products for re-export, 1/ the volume of nonruble imports increased by 10 percent compared to the same period of the previous year, significantly more than had been expected earlier. This strong increase probably reflected a speeding up of imports following the easing of restrictions in January 1984 and is expected to slow despite the further liberalization of import restrictions.

With the substantial improvement (by more than 5 percent of GDP) in the external current balance since 1981, access to foreign capital markets has improved significantly. Large capital inflows in late 1983 resulted in a sharp reversal of the balance on capital account in convertible currencies, from a net outflow of US$1.1 billion in 1982 to a net inflow of US$150 million in 1983 (Table 7). Despite the repayment of US$400 million to the BIS, large borrowing to bolster the end-year reserve position brought total net short-term capital inflows in 1983 to US$390 million in 1983, compared to an outflow of US$880 million in 1982.

To a large extent, the inflow of short-term capital was reversed in the first quarter of 1984. However, in response to some unexpected delays in finalizing certain medium-term credits, in particular a US$210 million syndicated loan finally signed in April, and in order to avoid a large temporary decline in reserves, the repayment of some short-term foreign borrowing was postponed. In addition, short-term borrowing by enterprises rose counterseasonally. Total short-term foreign liabilities in convertible currencies at the end of March 1984 were thus significantly higher than had been expected earlier. 2/

The improved availability of foreign capital also made it possible to contract some medium- and long-term loans earlier than had been expected, so that the total net outflow of medium- and long-term capital in the last quarter of 1983 and the first quarter of 1984 was about US$150 million less than projected. Gross official reserves in convertible currencies increased sharply from US$1.1 billion at end of 1982 to US$1.6 billion at the end of 1983.

1/ Staff estimates.
2/ A waiver was granted for the nonobservance of the related performance criterion following the subsequent completion of the medium-term loan transactions and the repayment of short-term debts (EBS/84/109, (5/9/84)).

Table 7. Hungary: Balance of Payments in Convertible Currencies, 1981-1984

(In millions of U.S. dollars)

	1981	1982	1983 Program	1983 Actual	1984 Program	1984 Revised Program
Exports	4,877	4,876	4,920	4,848	4,729	4,994
Imports	-4,432	-4,110	-3,858	-3,970	-3,773	-3,916
Trade balance	445	766	1,062	877	956	1,078
Freight and insurance (net)	-216	-220	-205	-175	-193	-193
Travel (net)	133	176	206	165	163	180
Investment income (net)	-1,100	-976	-669	-662	-636	-671
Government expenditure (net)	-47	-45	-47	-39	-50	-47
Other current receipts (net)	11	146	105	77	100	-12 1/
Unrequited transfers (net)	47	61	48	54	60	65
Current balance	-727	-92	500	297	400	400
Medium- and long-term capital						
Assets 2/	-104	-192	-97	-65	-100	-100
Liabilities	617	174	-392	60	-419	-309
Inflows	(1,443)	(1,068)	(613)	(1,276)	(1,100)	(1,226)
Outflows	(-826)	(-894)	(-1,005)	(-1,216)	(-1,519)	(-1,535)
Short-term capital						
Assets 2/	31	-161	-185	-239	-100	-80
Liabilities 3/	-348	-883	-347	393	25	-487
Overall balance	-531	-1,154	-521	446	-194	-576
Monetary movements						
Monetary gold (increase -)	177	383	-164	-368	...	49
Foreign exchange (increase -)	354	536	319	-430	-256	77
Use of Fund resources 4/	--	235	366	352	450	450
Memorandum items:						
Nonruble trade volume 5/ (percentage change)						
Exports	1.7	7.2	7.8	4.9	5.7	7.1
Imports	3.6	-5.5	-1.9	2.3	3.3	-2.1

Sources: National Bank of Hungary; and staff estimates.

1/ Includes debit of nearly US$100 million for settlement of deficit balances under nonruble bilateral agreements from first quarter transactions.
2/ Nonreserve assets; mostly export financing.
3/ Includes errors and omissions.
4/ Includes drawing of SDR 72 million under CFF in December 1982.
5/ Adjusted for increased re-exports since September 1982 (staff estimates).

While the balance of payments in convertible currencies improved, the deficit on current account in nonconvertible currencies widened in 1983 and early 1984 (Table 8). In 1983, the growing trade deficit under bilateral agreements coupled with larger-than-planned imports of capital equipment from the CMEA area in conjunction with the PAKS nuclear power project, led to a sharp increase in the trade deficit to US$450 million, from US$260 million in 1982. 1/ But for a strong increase of 7.7 percent in the volume of ruble exports, the trade and current account deficits would have been even larger. The larger current account deficit was financed by the accumulation of short-term liabilities. These trends carried over into early 1984.

6. Exchange and trade system

Effective September 1, 1982, several measures were introduced to restrict imports. Imports of specified primary products were made subject to quantitative restrictions, while imports of component parts became subject to a 20 percent surcharge (Annex Table 9). Imports subject to these restrictions had amounted to US$1.5 billion in 1981, equivalent to 30 percent of total imports settled in currencies other than rubles. In addition, all import licenses were made subject to discretionary individual approval.

Consistent with the intentions of the authorities to reinstate gradually the import regime in effect before September 1982, these restrictions were eased in 1983 and early 1984. The proportion of imports subject to quotas was reduced by about 20 percent each in 1983 and 1984 while importers handling large and frequent transactions were exempted, effective January 1, 1983, from the discretionary individual licensing requirement, subject to prespecified quarterly limits in relation to 1981 imports. 2/ The import licensing system was eased further in 1984 by setting the company-specific reference limits for the first six months of the year rather than quarterly and by raising the limits by 14.4 percent, on average, relative to the first half of 1983. In addition, effective April 1, 1984, the import surcharge was eliminated.

The tightening in 1982 of the import licensing system and the imposition of import quotas for certain raw materials constituted the introduction of exchange restrictions subject to Fund approval under Article VIII. Maintenance of these restrictions was approved until June 30, 1984 or the completion of the review under the present stand-by arrangement, whichever was earlier. 3/

1/ Since a counterpart credit entry is recorded in the current account under other current services when deficit balances under bilateral agreements are settled in convertible currencies, the larger trade deficit under bilateral agreements is reflected only in part in the current balance in nonconvertible currencies.

2/ Except for imports of capital goods, for which licenses remained subject to individual approval.

3/ Extension of the remaining restrictions requiring Board approval has been requested until August 31 or until the mid-year review is completed.

Table 8. Hungary: Balance of Payments in Nonconvertible Currencies, 1981-1984

(In millions of U.S. dollars)

	1981	1982	1983	Revised program 1984
Exports	4,017	4,207	4,031	4,216
Imports	-4,423	-4,465	-4,482	-4,342
Trade balance	-406	-258	-451	-126
Freight and insurance (net)	-110	-91	-71	-101
Travel (net)	117	81	95	104
Investment income (net)	-20	14	-4	-20
Government expenditure (net)	3	3	7	2
Other current receipts (net)	245	28	161	88
Unrequited transfers (net)	2	2	3	2
Current balance	-169	-221	-262	-51
Medium- and long-term capital				
Assets 1/	-26	12	-15	-9
Liabilities	502	87	94	25
Inflows	(582)	(133)	(133)	(...)
Outflows	(-80)	(-46)	(-39)	(...)
Short-term capital				
Assets 1/	-118	128	-27)	
Liabilities 2/	-274	32	190)	35
Overall balance	-85	38	-19	--
Memorandum items:				
Ruble trade volume				
(Percentage change)				
Exports	3.9	3.3	7.7	6.5
Imports	-3.4	2.8	1.5	-1.1

Source: National Bank of Hungary.

1/ Nonreserve assets; mostly export financing.
2/ Includes errors and omissions.

III. Principal Objectives for the Period Ahead

1. Introduction

It was clear by the spring of 1984 that, without changes in policies, the emerging economic trends would pose a serious threat to the achievement of the US$400 million target for the surplus on current account in convertible currencies. The greater worsening of the terms of trade, together with higher international interest rates implied a reduction in the expected current account surplus in 1984 by about US$150 million. Moreover, deviations from program targets for incomes generated through private economic activities and delays in implementing some of the policy measures spelled out in the original letter of intent meant that overruns on domestic absorption were likely to outstrip those on supply, further jeopardizing the external target.

It was estimated that, in order to achieve the original program targets--in particular the US$400 million current account surplus and the commitment to lift the import restrictions that were imposed in 1982--resources equaling about 1 3/4 percent of GNP would need to be shifted into the external sector. To facilitate such a shift and to offset the decline in profitability of export sales to the convertible currency area that resulted from the fall of prices on foreign markets, the forint was devalued on June 26, 1984 by 5 percent against the basket of currencies to which it is pegged. In addition, the relative profitability of exports compared to domestic sales was enhanced by no longer allowing the equivalent of the 2 percent export tax rebate to be passed into the domestic price of exportables. Since import restrictions are to be lifted rather faster than foreseen--largely through a more rapid liberalization of the reference limit system through which some 75 percent of imports is controlled--active use of exchange rate policy remains essential.

In order to bring domestic demand back in line with the external target, a package of measures neutralizing just over 1 1/2 percent equivalent of GDP was assembled. The remaining adjustment need, equaling about 1/4 percent of GDP, is being met by the greater output associated with higher private sector incomes. The following measures are being taken:

(a) the remaining cuts in consumer and producer price subsidies, i.e., cuts sufficient to bring total outlays a further Ft 4 billion (equaling about 1/2 percent of GDP in 1984) below their 1983 levels, will be fully in place by autumn with half the reduction to be effected before end-June;

(b) penalties on excess inventory accumulation and measures to ensure that the current bulge in state investment expenditures is indeed only temporary will bring total investment back in line with program targets;

(c) the overruns on personal income are to be kept from spilling into consumption by:

(i) an increase in turnover tax rates;

(ii) a cut in the availability of credit for residential housing;

(iii) an increase in savings incentives, including a 1 percentage point rise in interest rates on household deposits of over two years' maturity;

(iv) an increase in taxation of income originating in certain private activities and a reduction in such incomes to the extent that costs of the associated production processes were being undercharged;

(d) a reduction by 1.3 percent of the National Bank's internal target for gross domestic credit at end-1984 consistent with the program target for net domestic credit, which itself was reduced somewhat 1/; and

(e) a reduction of net credit extended to the State to Ft 8 billion below the original program target (equaling 3/4 percent of GDP), coupled with tight cash limits on budget expenditures that require, inter alia, departmental absorption of the price effects of the devaluation and of the cuts in producer and consumer price subsidies.

As a result of the direct and indirect effects of these measures, real domestic absorption is now projected to decline by 2.3 percent in 1984, or by about as much as in the original program (Table 9). This decline coupled with an expansion of supply--resulting in a real GDP growth of 0.3 percent--is expected to create sufficient room for the real foreign balance to contribute 2.4 percent of 1983 GDP to the growth of output, 1/4 percentage point more than foreseen in the initial program. This should allow exports to expand sufficiently to offset both the lower prices in foreign markets and the higher debt service stemming from the increase in interest rates. Imports are estimated to be below original program levels as the effects of the devaluation and tight inventory management more than offset those stemming from the somewhat faster import liberalization.

2. Incomes and price policies

The new measures aim to curtail nominal disposable incomes by an estimated Ft 1.5 billion. The authorities are seeking to concentrate their efforts on those areas where the excess purchasing power originates, that is on private sector incomes. Accordingly, staff economic partnerships in state and cooperative enterprises, a fast growing part of the private sector, which contributed about one third of the growth of total

1/ Based on program exchange rates.

Table 9. Hungary: Projections of Domestic Demand for 1984

(In billions of forint and percent)

	Prior to new measures	Revised program	Effects of measures 1/
	(Volumes at 1981 prices)		
Consumer expenditure	491.0	484.0	-7.0
Percentage change	0.7	-0.7	-0.9
Government current expenditure	77.8	77.7	-0.1
Percentage change	-2.9	-3.0	--
Gross fixed investment	181.6	179.4	-2.2
Percentage change	-6.5	-7.7	-0.3
Final domestic demand	750.4	741.1	-9.3
Percentage change	-1.5	-2.7	-1.2
Stockbuilding	12.0	8.0	-4.0
Percentage contribution to GDP growth	0.9	0.4	-0.5
Domestic demand	762.4	749.1	-13.2
Percentage change	-0.6	-2.3	-1.7
	(At current prices)		
Memorandum items:			
Disposable income	634.2	632.7	-1.5
Of which:			
Wages from socialist sector	328.1	327.6	-0.5
Labor income from private activities	64.4	63.9	-0.5
Taxes and social security contributions	27.1	27.6	-0.5
Savings of population	35.5	36.0	-0.5
Socialist sector fixed investment outlays	182.0	180.0	-2.0
Effects of subsidy, turnover tax, and exchange rate measures on prices	...	...	-9.6
Total cuts in domestic absorption	...	...	-13.6

Sources: Data provided by Hungarian authorities and staff estimates.

1/ Percentages represent percentage point contributions to GDP growth. Reductions in absorption (-).

output in 1983, are now to be charged realistic costs for the use of enterprise resources in carrying out their activities. In addition, tax exemptions applying to other private sector activities are to be cut back radically. In the socialist sector, enterprises operating under liberalized wage schemes must limit wage increases to improvements in productivity in order not to forego eligibility for participation in these schemes.

These measures to contain purchasing power will be buttressed by an acceleration of consumer price increases associated with the new fiscal measures, market price increases associated with a broader application of free price formation by enterprises, and with the effect of the devaluation of the forint, which together are estimated to absorb about Ft 7 billion of purchasing power. As a result, the consumer price index, which in the first quarter of 1984 was rising at a year-over-year rate of only 7.5 percent, is now projected to rise by about 9.5 percent for the year as a whole, or by somewhat more than in the original program.

With the new measures, real disposable incomes are slated to decline by 0.9 percent. Despite this fall, the measures to sustain the savings rate are expected to keep the savings rate somewhat above earlier projections, neutralizing an additional Ft 0.5 billion in purchasing power.

3. Public finances

The budget's position is to strengthen during the year reaching a surplus of Ft 17.9 billion (1.9 percent of GDP) compared with the Ft 12.0 billion surplus discussed in December (Annex Table 7). The revisions incorporate the full implementation of the commitment to reduce producer and consumer price subsidies as well as the effects of the supplementary fiscal measures to absorb excess purchasing power. As noted above, the grounds for tax exemption which at present apply to small businesses are to be curtailed, adding some Ft 0.5 billion to budgetary revenues in 1984. Second, the steps toward rationalizing the structure of indirect taxation will involve an increase in the retail prices of various consumer durables and textiles, and together with some broadening of the tax base, are estimated to yield an extra Ft 0.4 billion in revenue in 1984.

4. Money and credit

The Hungarian authorities are keenly aware that any overshooting on the financial side in 1984 is much more likely to result in a deviation from the external target than in 1983. The authorities have designed their credit program to assure, inter alia, that the evolution of enterprise liquidity will support the achievement of the external targets. Accordingly, the official target for gross domestic credit has been reduced by Ft 10 billion and that for net domestic credit by about Ft 4 billion below earlier projections. The latter goes hand-in-hand with a somewhat greater reduction for the target for broad money. While the overall income velocity of broad money is projected to increase only slightly above its 1983 level--an increase, however, that follows declines or stability in previous years--but the velocity of enterprise deposits jumps dramatically in response to the tight liquidity position and the draining of the liquidity overhang (Table 10).

The reduction of the gross credit targets reflects the larger budget surplus and the build-up of arrears of enterprise contributions to the extrabudgetary funds; the counterpart to the reduction of net domestic credit involves an apparent flow of enterprise funds, either directly or indirectly through the budget, into the accounts of the State Development Bank, the latter being included in the monetary survey in the "other items net" category. The end-year forecast for this category has accordingly been increased essentially in line with its first quarter 1984 actual outturn.

The end-year target for net domestic assets of the National Bank of Hungary has been revised upward by Ft 3.6 billion reflecting a large accumulation of foreign assets in the nonbanking sector, entirely in the form of export credits, and a shift of net liabilities in convertible currencies from the specialized banks to the National Bank. The end-year target for NDA of the National Bank entails a decline of almost Ft 2 billion from the end-1983 outturn. The earlier projection had foreseen virtual stability in NDA in the 12 months ending December 1984, whereas, the now projected decline intends to ensure nonaccommodation of the overshooting of the NDA target at end-1983 (Annex Table 4).

5. External outlook and policy

With the strengthening of the adjustment program, the external policy objective is expected to be achieved. However, the underlying trade and service flows differ somewhat from those earlier projected. With foreign markets growing by 5 percent rather than the 4 percent earlier postulated, and improved resource availability at home, the volume of nonruble exports now is projected to increase by 7.1 percent, compared with 5.7 percent estimated earlier. The volume of nonruble imports is expected to be 1 percent below earlier projections despite the easing of import restrictions. The relatively heavy flow of imports in late 1983 and early 1984, is likely to have reduced pent-up import demand so that only a limited spillover is expected from the easing of restrictions. Further, the depreciation of the exchange rate coupled with the maintenance of measures to discourage excessive inventory accumulation is expected to keep the volume of nonruble imports about 2 percent below their 1983 levels. The stronger trade performance and larger travel receipts are expected to offset the impact of both weaker terms of trade--now expected to decline by 3.8 percent in 1984 rather than by 1.4 percent as estimated originally--and of higher interest rates on the current account balance. 1/

1/ Projected net investment income flows are based on an estimated six-month LIBOR averaging about 11.25 percent during the last nine months of 1984. A change in interest rates on international capital markets by 1 percentage point changes net investment income by about US$60 million on an annual basis.

Table 10. Hungary: Income Velocity of Monetary Aggregates 1/

	Currency	Money	Broad money 2/	Enterprise deposits 3/
1977	11.45	4.96	2.22	5.50
1978	10.99	5.02	2.20	5.93
1979	10.72	4.99	2.20	6.03
1980	9.90	4.64	2.11	5.62
1981	9.59	4.67	2.14	5.99
1982	9.71 4/	4.63	2.19	6.39
1983 Program	9.47	4.72	2.20	6.88
November forecast	9.21	4.58	2.20	7.08
Actual	9.17	4.72	2.22	7.49
1984 Program	9.02	4.62	2.25	7.93
Revised program	8.93	4.69	2.26	8.56

Sources: National Bank of Hungary; and staff estimates.

1/ Defined as the ratio of nominal GDP to respective aggregates, using end-year stocks.
2/ Excludes savings bonds.
3/ Includes enterprise demand deposits and fixed deposits and unfinished settlements.
4/ The increase reflects smaller-than-usual end-year prepayment of wages and larger-than-usual end-year consumer spending associated with more-than-seasonal increases in imports of consumer goods.

The achievement of the current account target is expected to consolidate the improved attitude of financial markets toward Hungary that has prevailed since late 1983. Revisions from earlier projections in the balance of capital transactions appear, on the face of things, unfavorable with current expectations looking to a net credit outflow of US$975 million in 1984 against US$600 million projected earlier. This reflects, however, the partial reversal during the first half of 1984 of the large short-term borrowing in late 1983. The picture presented by the 15-month period September 1983-December 1984, indicates quite clearly the considerable improvements in the outlook for the capital balance, with net capital outflows projected at US$205 million, about US$1/4 billion below the original estimate and with much of this improvement stemming from larger inflows of medium- and long-term loans. The improved attitude of financial markets and the use of new financing instruments have also made it possible for Hungary to borrow on terms that, on average, are more favorable than those originally projected. In particular, two IBRD cofinancing syndications totaling US$487 million, to be signed shortly, carry maturities of 8-12 years with grace periods of 4-5 years. On the assumption that the current account target is met, and with the expected strengthening of the capital account, gross official reserves are projected to recover strongly during the second half of the year to reach US$1.8 billion by year end, some US$1/4 billion above earlier projections and equivalent to 5.4 months of imports.

A key objective of exchange rate policy in recent years has been the maintenance of adequate profitability of exports. However, at the turn of the year, the strength of the U.S. dollar in international markets and the relatively large weight of the dollar in the basket to which the forint is pegged resulted in a real effective appreciation of the forint of nearly 4 percent (Chart 1). The continued weakness of prices in foreign markets put further pressure on the profitability of exports. The depreciation of the forint noted above aims to reverse these developments. The authorities have indicated that the aim of exchange rate policy will continue to be to provide incentives for the production of exports and of import substitutes at a level adequate to ensure that the external current account target is achieved.

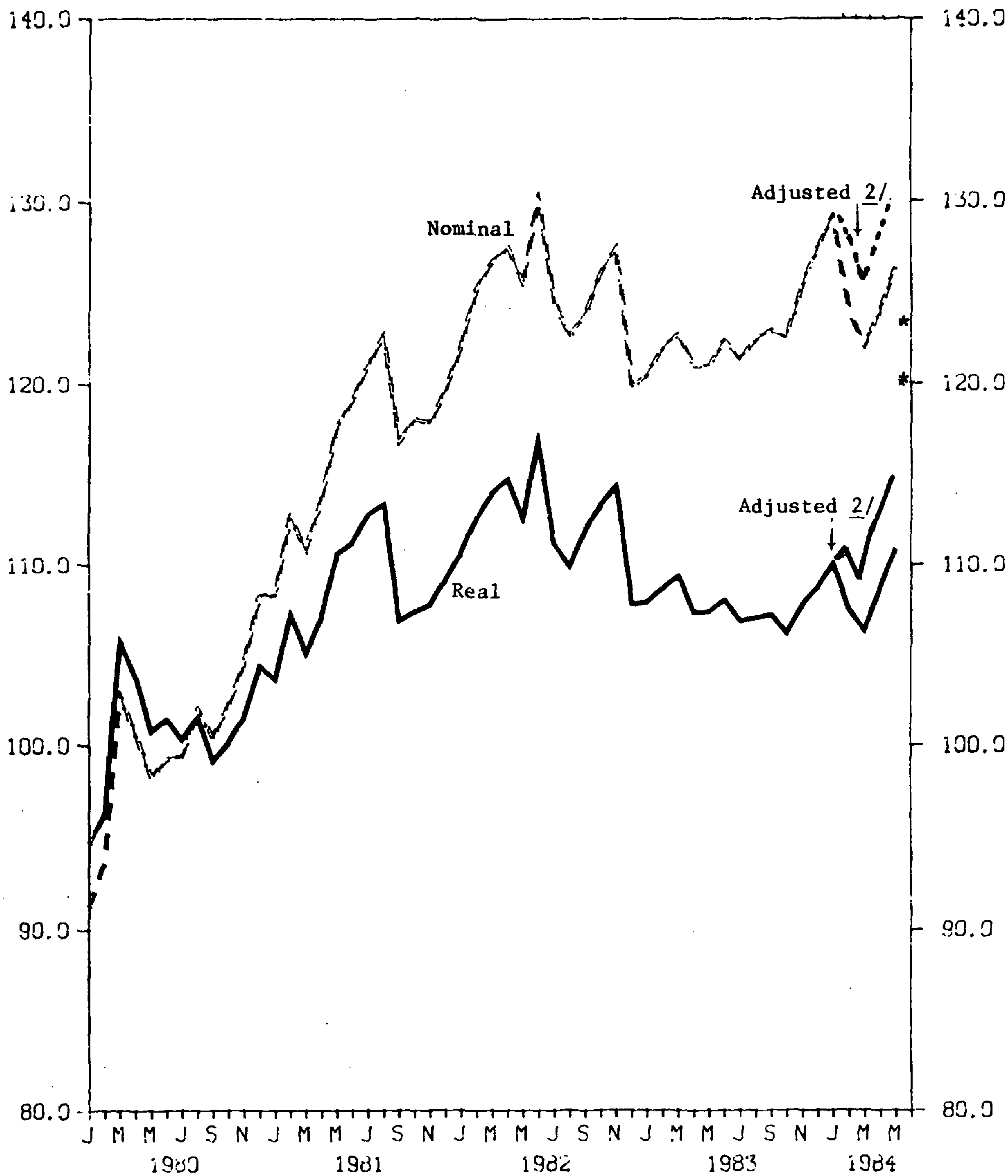
Consistent with the intention of the authorities to remove gradually the restrictions imposed in September 1982, the system of reference limits is being abolished effective July 1, 1984. This re-establishes for importers previously subject to that system, the quasi-automatic licensing system in effect before September 1982. The remaining restrictions, namely, the quotas on imports of six categories of raw materials and the more restrictive licensing applied to smaller less frequent importers, are to be removed by the end of the year.

CHART 1

HUNGARY

REAL AND NOMINAL EFFECTIVE EXCHANGE RATES 1/

(1980 = 100)



Source: Staff estimates.

1/ Relative to competitors in direct trade and in the case of exports, also competitors in third markets. For Hungary, and for most competitors, the price index used is the CPI seasonally adjusted. * denotes approximate end-June nominal effective exchange rate.

2/ Adjusted series incorporate effects of offsetting fiscal measures which accompanied the February 1984 devaluation of the forint.

IV. Medium-Term Balance of Payments Outlook

Over the medium term, the authorities believe that the current account surplus in convertible currencies can be increased gradually to US$0.7 billion in 1988-89 (Table 11). Taking into account the bunching of maturities on medium- and long-term debt in the next several years and assuming that medium- and long-term gross borrowing is maintained at its present level, such a performance would make it possible to avoid too sharp a reduction of reserves, while achieving an orderly reduction of external debt (Table 12). Gross external debt in convertible currencies (including liabilities to the Fund) would be reduced on a cumulative basis by US$1.5 billion from end-1983 until end-1989, making it possible to reduce the debt service ratio gradually from nearly 40 percent in 1984 to 25 percent by 1989.

Key assumptions underlying these projections are: (1) increases of import and export prices for nonruble trade of 4 percent per year; (2) an average annual rate of increase of non-oil imports by trade partners of 5 percent; (3) an average rate of interest on external debt in convertible currencies of 10 percent, implying an average six-month LIBOR of 10.5 percent; and (4) the maintenance of incentives adequate to sustain and to ensure further small increases in the share of exportables in domestic production. Import projections are estimated to be consistent with rates of growth of GDP of 2-3 percent per year.

Several areas of uncertainty should be noted. First, a key constraint underlying the above projections is the need to achieve a concurrent strengthening of the external current account in nonconvertible currencies, as repayments on loans contracted to ease the transition to higher oil prices fall due. Indeed, this deficit is projected to be reduced from US$260 million in 1983 to US$50 million in 1984, reflecting a further strong increase in the volume of ruble exports. The speed with which the deficit is eliminated may affect the projected strengthening of the trade balance in convertible currencies. Second, the projections of the external current balance in convertible currencies are very sensitive to the assumptions for the terms of trade and for interest rates on international capital markets.

Third, the likely pattern of the improvement in the external current balance depends to a large extent on the nature and speed with which measures are introduced to improve the allocation of resources and domestic supply. Present projections assume that the investment share in GDP is maintained, with the improvement in the current balance resulting from stronger domestic savings. An accelerated economic reform program with higher investment and imports, could produce a smaller current account surplus in convertible currencies in 1985-86, while increasing the probability that higher current account surpluses can materialize in subsequent years. Under any circumstances, a growing nominal external surplus must remain a central policy objective if external debt is to decline to more acceptable levels. In the absence of such a decline, the associated rapid increase in gross borrowing requirements

Table 11. Hungary: Balance of Payments in Convertible Currencies, 1983-1989

	1983	1984	1985	1986	1987	1988	1989
Exports	4,848	4,994	5,180	5,600	5,990	6,409	6,857
Imports	-3,970	-3,916	-4,190	-4,510	-4,865	-5,257	-5,683
Trade balance	877	1,078	990	1,090	1,125	1,152	1,174
Services and transfers (net)	-580	-678	-540	-540	-505	-492	-474
Of which:							
Investment income (net)	(-662)	(-671)	(-640)	(-620)	(-580)	(-555)	(-525)
Current balance	297	400	450	550	620	660	700
Medium- and long-term capital							
Assets	-65	-100	-100	-110	-120	-130	-140
Liabilities	60	-309	-307	-236	-260	12	81
Inflows	(1,276)	(1,226)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)
Outflows	(-1,216)	(-1,535)	(-1,507)	(-1,436)	(-1,460)	(-1,188)	(-1,119)
Short-term capital							
Assets	-239	-80	-100	-105	-110	-115	-120
Liabilities	393	-487	100	100	100	100	100
Overall balance	446	-576	43	199	230	527	621
Monetary movements							
Monetary gold (increase -)	-368	49	...	...	...	...	...
Foreign exchange (increase -)	-430	77	-43	-56	58	-246	-435
Use of Fund resources	352	450	—	-143	-288	-281	-186
Memorandum items:							
Real growth rate (percent)							
GDP	0.8	0.2	1.5	2.5	2.6	2.6	2.6
Domestic expenditure	-1.7	-2.3	1.8	1.8	2.2	2.4	2.6
Ratios to GDP							
Investment	26.7	25.1	25.3	25.3	25.3	25.5	25.7
Domestic savings	28.7	29.4	29.3	29.9	30.3	30.6	30.8

Sources: Data provided by the Hungarian authorities; and staff estimates.

Table 12. Hungary: Medium-Term Debt Analysis in Convertible Currencies, 1983-1989

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989
Debt service payments							
Payments on existing debt 1/							
Interest 2/	753	733	581	450	344	276	241
Amortization	1,216	1,535	1,442	1,372	955	605	286
Of which: IMF	(--)	(--)	(--)	(143)	(262)	(161)	(86)
Payments on new borrowings							
Interest	--	51	197	304	374	411	437
Amortization 3/	--	—	65	207	793	864	1,019
Of which: IMF	(--)	(--)	(--)	(--)	(26)	(120)	(100)
Total	1,969	2,319	2,285	2,333	2,466	2,156	1,983
Total debt service payments/ exports of goods and services	34.2	39.2	37.2	35.4	35.1	28.9	24.9
Balance of payments							
Exports of goods and services	5,749	5,914	6,145	6,593	7,018	7,466	7,971
Imports of goods and services	5,452	5,514	5,695	6,043	6,398	6,806	7,271
Of which:							
Interest payments	(753)	(784)	(778)	(754)	(718)	(687)	(678)
Current account	297	400	450	550	620	660	700
Capital account	149	-976	-407	-351	-380	-133	-79
Of which: Gross borrowing	(1,276)	(1,226)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)
IMF (net)	352	450	--	-143	-288	-281	-186
Gross reserves:							
(Months of imports)	5.6	5.4	5.2	4.9	4.5	4.7	5.3
(Percent of short-term debt)	88	110	106	103	95	103	119
Memorandum items:							
Debt outstanding (end-period)	8,256	7,880	7,673	7,394	6,946	6,777	6,772
Of which: IMF	(573)	(1,023)	(1,023)	(880)	(592)	(311)	(125)
Debt/GDP (in percent)	39.2	38.8	36.4	32.6	28.4	25.7	23.8

Sources: National Bank of Hungary; and staff estimates.

1/ Debt outstanding at end-February 1984

2/ Includes interest on short-term debt. Assumed interest rate: 10.5 percent in 1984 and 10 percent afterward, based on average rates actually paid.

3/ Average maturity, six years including one-year grace period.

could also raise the risks and costs of a reversal of the recently improved attitudes of foreign lenders toward Hungary (Chart 2). For example, keeping the current account surplus at the US$300 million achieved in 1983 through the period 1984-89, would keep the debt service ratio above 30 percent throughout the period and would raise gross annual medium- and long-term gross borrowing requirements to US$2 billion by 1989.

V. Performance Criteria for the Second Half of the Proposed Stand-By Arrangement

The following performance criteria, the quantified components of which for June 30, September 30, and December 31, 1984 are set out in Table 13, are applicable for the remainder of the stand-by arrangement:

(1) limits on the net domestic assets of the National Bank of Hungary;

(2) limits on net credit from the banking system and the State Insurance Company to the State budget;

(3) limits on credit extended by the State Development Bank;

(4) limits on net foreign liabilities in convertible currencies of the specialized financial institutions;

(5) limits on the contracting of new foreign debt in convertible currencies by the nonbanking sector;

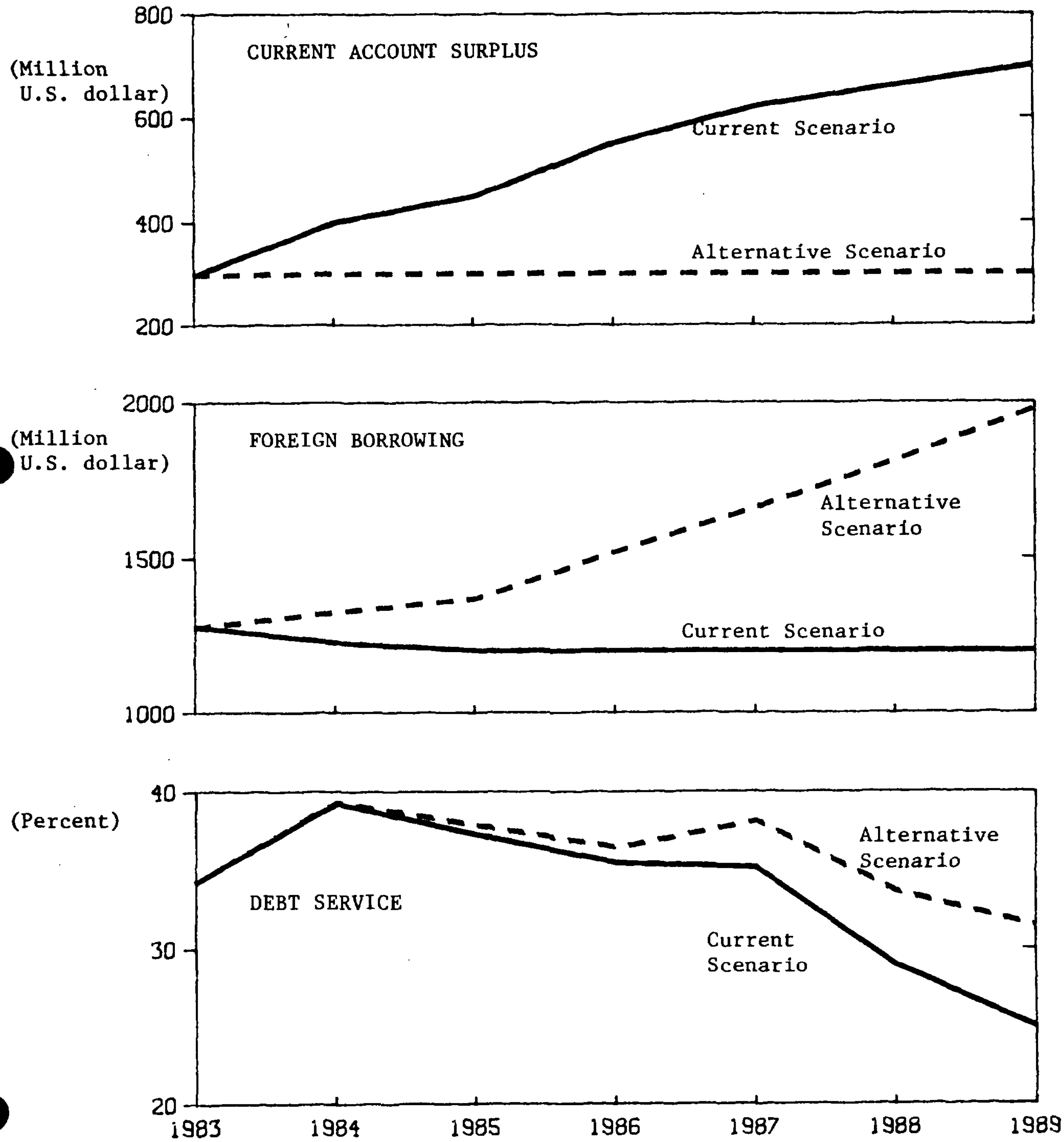
(6) limits on total short-term debt in convertible currencies; and

(7) the customary provisions regarding the exchange and trade system.

In setting a ceiling on borrowing by the State, lending by the State Insurance Company has been included, since the latter was an unexpected source of funding in 1983. For 1984, the authorities have undertaken not to utilize credits from this source. With respect to the limits on short-term debt in convertible currencies, the staff believes that such liabilities should be kept to a level equivalent to about five months imports, that being a ratio close to the limit at which the banking community tends to begin to raise questions regarding the maturity structure of external liabilities. Accordingly, the performance criterion placing a ceiling on these liabilities is put at about that level, which is the same as the indicative one agreed in the original program, and which is is expressed in gross terms, as it aims at debt management policy rather than at the support of a balance of payments target.

CHART 2

HUNGARY
MEDIUM-TERM BOP SCENARIOS, 1983-1989 1/



Sources: Data provided by the Hungarian authorities; and staff estimates.

1/ Illustrative alternative scenario assuming that a current account surplus of US$300 million is maintained through 1989. Additional borrowing is assumed to be contracted on terms similar to those presently applying to bank-to-bank loans and commercial credits.

Table 13. Hungary: Quantitative Performance Criteria

	Dec. 31, 1983	March 31, 1984		June 30, 1984	Sept. 30, 1984	December 31, 1984	
	Actual	Actual	Limits	Limits	Limits	Limits	Indicative limits of original program
				(In billions of forint)			
Net domestic assets of National Bank of Hungary	261.7	261.4	262.0	262.5	264.0	260.0	256.2
Net bank credit to the State, under the understanding that no borrowing from the State Insurance Company will occur in 1984	28.9	22.5	22.5	19.8	16.4	11.0	19.1
Credit granted by State Development Bank	148.0	149.9	150.0	154.5	157.2	164.0	163.7
				(In billions of U.S. dollars)			
Net foreign liabilities in convertible currencies of specialized financial institutions	1,088	1,122.1	1,130	1,085	1,055	1,055	1,085
New long-term foreign debt in convertible currencies by nonbank borrowers	1.4	...	26.3	—	--	25.0	--
Total short-term debt in convertible currencies	2,123	1,680	1,350	1,500	1,550	1,600	1,600

Sources: EBS/83/268 (12/16/83): Letter of Intent of May 18, 1984, and data provided by Hungarian authorities.

V. Staff Appraisal

The mid-year review showed that the original program had been well suited to achieving the central objective of a US$400 million surplus on the external current account in convertible currencies in 1984. The measures set forth in the attached letter of intent, therefore, aim to correct for deviations from the program rather than attempt to chart new directions. These deviations stem from changes in the international environment and from a tendency for private sector incomes to be more buoyant than expected. Essentially the same problems had been apparent under Hungary's first stand-by arrangement and there has been a reluctance to take timely countermeasures, in part because the limited number of instruments available to the authorities at this time concentrates adjustment on investment, wages in the industrial sector, and prices of basic consumer goods. This continued concentration of the adjustment burden, as noted in previous reports, itself is creating some imbalances in the economy, while correcting others. In particular, the tendency for incomes to overrun the targets needs to be addressed directly and, during the remainder of the program, it will be necessary to ensure that overruns either not be repeated or be neutralized in a timely fashion. The authorities have argued that the generation of incomes in the private sector, of its nature, is paralleled by higher production. But experience shows that this does not occur forint-for-forint and that, in any event, there tends to be a mismatch between the structure of supply so generated and that of demand. Accordingly, the combination of measures agreed with the authorities aims to deal somewhat more directly with the sources of the deviation from target than hitherto and should reduce domestic absorption sufficiently to permit achievement of the external target.

To induce the desired response from households and enterprises, the present measures rely more on market processes than heretofore. In this respect, three elements are worth noting:

First, the early moves toward elimination of the import restrictions go some way toward re-establishing an import system that allocates resources more on the basis of price than on the basis of administrative guidance.

Second, the large overhang of both freely usable and conditional liquidity of enterprises appears to have been drained by the measures taken in late 1983 and early 1984. In the past this overhang had blunted the National Bank's efforts to tighten liquidity. Currently, the tight credit policy, together with the reduced ability to finance fixed investment and stock accumulation from own resources, has cut enterprise investment below expected levels, suggesting that such expenditures may finally have come under control. Accordingly, the removal of import restrictions can proceed without undue danger to the external target, so long as the monetary authorities remain vigilant in adhereing to their targets and the budgetary authorities curtail the financing of State investment as projected.

Third, the cuts in producer and consumer price subsidies are substantial and constitute significant progress toward rationalizing the relative price structure. Similarly, the simplification of the turnover tax system, together with some broadening of the tax base and some increases in the level of rates, constitutes a step--albeit a small one--in the direction of the general expenditure tax foreseen in the reform program. The earlier steps toward a unified income tax, and the agreed modest increase in taxation of incomes generated by private activities also constitute moves toward improved macroeconomic control.

The staff believes that the fall in domestic absorption, estimated to result from the curtailment of State investments and the increases in taxation and in consumer prices, together with the depreciation of the forint, on balance, should suffice to bring the external current account in convertible currencies back on target. Since the bulk of earnings on trade and service accounts is realized in the second half of the year, implementation of the corrective measures at this time will help to bring about the desired effects.

While the revised program suffices for the present, it provides little margin for error and the authorities need to be ready to act if their program moves off course. In that respect, formulation of contingency plans--particularly if they look to advance implementation of measures that fit into the structural policy plan--would be useful.

Looking beyond the immediate period, more needs to be done. On the budgetary side, the creation of extrabudgetary accounts is somewhat worrying. The original program's agreed ceiling on net borrowing by the State from the banking system aimed not least, at controlling the growth of these extrabudgetary accounts, while the indicative ceiling on overall net domestic credit was to help control disbursements from them. Since higher disbursements would reduce the permissible gross credit extension, the aggregate financial picture would thus remain undisturbed by such increases. However, the distributional effect would be undesirable in as much as allocations from the Intervention fund go to financially troubled enterprises. The determination of the authorities to keep expenditures from the Intervention fund under control, and to move forcefully to shorten the lifelines extended to loss-making enterprises, is encouraging in this respect.

Considerable improvements, which need to be built on and refined, are underway in the tax system. For example, the 10 percentage point increase in the social security tax on wages helps both to reduce the deficit on social security transactions and to increase the relative cost of labor. However, the tax increase while large, still falls far short of the medium-term needs. Indeed, if it is intended to transfer the underlying budget surplus to cover the deficits of the social security system, there again may be a distributional problem and a problem of transparency as well. To prevent such problems from arising it might be preferable to tax potential social security recipients directly rather than indirectly and to separate the social security funds from general budget flows.

The policies implemented toward increasing labor productivity, though still in their early stages, are beginning to bear fruit. In the majority of enterprises that have adopted the liberalized wage scheme, through which further wage differentiation has become possible, productivity has been rising at well-above-average rates. There also appears to have been a tendency for the number of staff associations performing contract work for enterprises after-hours to decline in those enterprises that have scope for increased wage differentiation. This suggests that in some instances, such staff associations have been motivated by the rather artificial wage structure that fails to allocate labor efficiently, indicating that correction of this deficiency is likely to yield significant economic improvements.

Although the economic program for 1984 addresses a number of these structural policy problems, the larger part of the adjustment burden continues to be borne by profitable enterprises, through constraints on investment, and by the industrial worker, through wage restraint. This points to the urgent need for the Hungarian authorities to continue the acceleration of their structural reform program. In their previous communication to the Managing Director, the Hungarian authorities advised that they were contemplating requesting Fund support for a supply-oriented program through cancellation of the present stand-by at this time and its replacement by a longer, structurally-based arrangement. While the Central Political Committee of the Hungarian Socialist Workers Party has given its unanimous support to the reform effort, the specific measures to be implemented and their timetable is still being worked out at the technical level. The staff fully supports the authorities' efforts to strengthen the responsiveness of the economy to market forces and urges that timely steps be taken to simplify and deregulate enterprise operations, particularly with respect to price and wage formation, such steps being buttressed by measures to increase competition among enterprises and financial responsibility and autonomy within enterprises. The latter would require a fundamental improvement in the system of financial intermediation, which also seems necessary to sustain the propensity to save in financial assets of households.

Moves in these directions, are essential if the adjustment achieved so far is to be consolidated and extended and if the economy is to be put in a position to absorb external shocks flexibly. This is particularly important since the recent improvement in Hungary's credit rating needs to be consolidated in view of the large repayments falling due next year and in subsequent years, and of the improvement of the maturity structure of the outstanding debt that is still needed.

The staff believes that the measures implemented to address the immediate difficulties, on balance, are adequate to achieve the target of the program and, therefore, justify continued support from the Fund. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. Hungary has consulted in accordance with paragraph 4(b) of the stand-by arrangement for Hungary (EBS/83/268, Sup. 2, 1/16/84) and paragraph III.1.h. of the letter dated December 2, 1983 annexed thereto in order to review policies and to establish performance criteria subject to which purchases may be made by Hungary during the period after June 29, 1984 through January 12, 1985.

2. The letter dated May 18, 1984 from the Deputy Chairman of the Council of Ministers and the First Deputy President of the National Bank of Hungary setting forth the policies and measures which the Government of Hungary will pursue for the period through January 12, 1985 shall be annexed to the stand-by arrangement for Hungary, and the letter of December 2, 1983 shall be read as supplemented by the letter of May 18, 1984.

3. Hungary will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Hungary's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota during any period in which the data at the end of the preceding period indicate that:

(i) the limit on net domestic assets of the National Bank of Hungary specified in paragraph 18.a. of the annexed letter of May 18, 1984; or

(ii) the limit on net credit from the banking system and the State Insurance Company to the state budget specified in paragraph 18.b. of the annexed letter; or

(iii) the limit on the credit granted by the State Development Bank specified in paragraph 18.c. of the annexed letter; or

(iv) the limit on net foreign liabilities in convertible currencies of the specialized financial institutions specified in paragraph 18.d. of the annexed letter; or

(v) the limit on the contracting of new foreign debt in convertible currencies specified in paragraph 18.e. of the annexed letter; or

(vi) the limit on outstanding short-term foreign debt in convertible currencies specified in paragraph 18.f. of the annexed letter of May 18, 1984

has not been observed.

4. The Fund welcomes the elimination of the system of reference limits for import licenses and urges the elimination at an early date of remaining restrictions on import licensing and import quotas introduced in September 1982. In the meantime, in the circumstances of Hungary, the Fund grants approval of these restrictions until December 31, 1984.

Budapest, May 18, 1984

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D. C. 20431

Dear Mr. de Larosière:

1. On behalf of the Government of the Hungarian People's Republic, in accordance with our letter of December 2, 1983, we are writing to you to review economic policies and developments since the initiation of the current stand-by arrangement and to set out economic policy targets and instruments for the remaining period of the program.

2. During 1983, we consolidated and extended our adjustment efforts of 1982, which were supported by a 13-month stand-by arrangement with the Fund. Thus, the current account in convertible currencies registered a surplus of US$300 million in that year resulting in a cumulative improvement since 1981 in excess of US$1 billion, i.e., the equivalent of some 5 percent of GDP. This further progress was achieved despite a severe drought and a deterioration in external prices, both of which frustrated our aim of bringing our external surplus to a more comfortable level. Nevertheless, we laid the foundations for further progress through a combination of demand management measures, exchange rate policy, and measures to improve the responsiveness of our economy to market stimuli and to the associated requirements of demand management policy.

3. The achievements of 1983, however, were not fully satisfactory since they entailed some slippage from the targets we had set for ourselves based on our expectations regarding external and internal developments. We had targeted a surplus of US$500 million on current account in convertible currencies, whereas the realized surplus turned out to be only US$300 million. In part, this shortfall can be attributed to events outside our control. Still, it should be acknowledged that domestic final demand also was higher than we had expected. To a large extent we were able to accommodate the excess demand by resources generated by the larger-than-expected material and energy savings, by decreasing the rate of stockpiling, by using up planned reserves and with additional output generated mainly by private economic activities, and by somewhat higher imports from the CMEA area. Accordingly, resources were drawn away from the external balance in convertible currencies to a very limited extent. However, we are aware that the last-mentioned sources of additional supply can provide only one-time relief and that they cannot be drawn upon indefinitely.

4. These developments, coupled with our determination to continue forcefully with our structural economic program, and in the context of the prevailing situation in international financial markets, motivated our economic policy orientation for 1984. A surplus of US$400 million on current account in convertible currencies was thought to be both appropriate and realistic, given the magnitude of the external debt falling due

in 1984, the need for an adequate increase of our holdings of international reserves, and the importance of maintaining the momentum of our external adjustment. As we entered 1984 with a somewhat depleted level of stocks--despite the acceleration of import growth starting in the fourth quarter of 1983--and in view of our firm commitment to eliminate during 1984 the import restrictions imposed in 1982, policy this year particularly needs to safeguard against possible overruns of domestic demand since these, unless met by corresponding overages on supply, would inevitably interfere with the achievement of our external targets. Thus, investment expenditures, which in 1983 were higher than intended, were to be monitored carefully in 1984, with strict attention paid to credit extensions of the State Development Bank, a principal financing source of overruns in state investment in 1983. At the same time, steps were taken to draw from enterprises the cumulated overhang of financial assets and conditional liquidity that had blunted the effects of the National Bank's tight credit policy on investment expenditures in 1983. Further, in view of our medium-term objective of achieving a relative price structure that reflects cost relationships in the market place, we determined to make significant progress toward that goal in 1984. This would allow us both to absorb the excess purchasing power in the household sector that had accumulated in 1983 (in part because of higher income growth and in part because the inflation rate turned out to be somewhat lower than expected) and to deal with apparent continuing trends in that direction in 1984.

5. The steps implemented in early 1984, in support of our economic program, go a substantial way toward accomplishing the objectives set out in our letter of intent of December 2, 1983. We estimate that the liquidity overhang in the enterprise sector has been eliminated to all intents and purposes; in fact, the liquidity situation in that sector has become very tight. As a result, enterprise investments have fallen below planned targets during early 1984. Our policies directed toward more efficient use of inventories also have borne fruit. Further, we are beginning to see the success of the steps we took toward greater wage differentiation. In most of the enterprises working under the liberalized wage scheme, productivity has been rising well above average, though in the case of some of these enterprises the growth of wages was higher than could be justified on the basis of improved performance. Overall, the growth of industrial production has been well above the rate planned for the year as a whole and it is expected that this trend, though to a smaller degree, will continue for the rest of the year.

6. Significant progress was made in improving economic management and the underlying balance in the economy. Nevertheless, personal consumption was ahead of the target, though the propensity to save has well surpassed earlier projections. Spending may have been stimulated in anticipation of the price increases associated with the large cuts in consumer and producer price subsidies implemented in January and March. Altogether, these will improve the budget situation by some Ft 16 billion in 1984 over 1983. Also, the structure of consumption--as a result of these cuts--has shifted in a favorable way (i.e., away from exportables). However, import prices being lower than expected, the consumer price index in the first

quarter rose by somewhat less than the domestic price rises might have indicated--by 7.3 percent year to year--so that purchasing power in the household sector has remained rather higher than anticipated. Finally, although investment in the enterprise sector is on trend, because state investment is still above target, total investment is above program levels. This is to be corrected in subsequent months.

7. Although the excess growth of incomes and domestic demand so far has been moderate, the above-target increases are coming at a time when external developments outside our control are putting significant downward pressure on our external target. Our terms of trade, under current estimates, will be worse than appeared at the end of last year. In addition, rising interest rates in international capital markets will cause interest payments on our outstanding external debt to be higher than planned. In the absence of corrective measures, our current account surplus in convertible currencies on present world prices and interest rate trends, could be US$100-150 million lower than targeted. With appropriate measures, this shortfall can be largely offset by higher export volumes, for which the productive capacities exist.

8. To safeguard our external surplus target and our commitment to lift the import restrictions imposed in 1982 during the course of this year, we will take steps to realize fully the commitments undertaken in our letter of intent of December 2, 1983 and, in addition, steps appropriate to offset the effects of the external developments on our current account balance. We estimate that for the full realization of our undertakings and in order to offset the losses associated with the worsening of the terms of trade and the interest rate climate, Ft 13 billion to Ft 14 billion (about 1.5 percent of GDP) of purchasing power is needed to be absorbed in order to keep it in line with our policy objectives regarding internal and external balance. In meeting these policy requirements, we are fashioning our economic measures to conform with and support our program of structural economic change.

9. In order to protect our external balance target in the face of the losses resulting from the changes in the terms of trade and in interest rates, we have decided to devalue the exchange rate of the forint against the basket of the currencies to which it is pegged by 5 percent by the end of June 1984. The market situation in parts of the area of competitive price formation is such as to militate against producers raising domestic prices to the extent of the devaluation. Thus, with demand sufficiently restrained, the effect of the devaluation on the general price level is expected to be limited. Furthermore, price policy will strive to ensure that the improvement in the relative profitability of export sales will not be diluted by unwarranted increases in domestic sales prices.

10. Consumer prices will rise faster than indicated by the first quarter year-over-year rate of increase, partly under the impetus of the devaluation. Further price rises will stem from (a) market forces as the scope of free price formation continues to be widened; (b) from the effect of further unification of turnover tax rates at a higher average level and

level and a broader tax base; and (c) from additional cuts in producer and consumer price subsidies sufficient to bring budget expenditures for such subsidies Ft 20 billion below their 1983 level (Ft 16 billion of these cuts having been achieved so far). Half the remaining cuts will be effected before the end of June 1984. In total, these measures are estimated to neutralize about Ft 7 billion in purchasing power.

11. In addition, interest rates on household time deposits with a maturity of over two years will be raised by 1 percentage point starting July 1, 1984. Further efforts will be made to support the issuance of communal and enterprise bonds, particularly to the household sector, and to establish the institutional framework for a secondary market. These moves are intended to ensure that the tendency toward a higher propensity to save that became apparent in the second half of 1983 will be maintained with greatest incentives to be given to longer-term savings. An increasing savings rate can play a major part in neutralizing excessive purchasing power, and the higher-than-expected rate of savings now projected for 1984 will work in that direction. The growth of credit to individuals in 1984 will be restrained by Ft 1.5 billion: (a) by lowering the ceilings on housing loans; (b) by an increase of about 10 percent in the share of flats sold by the National Savings Bank on a full cash basis; and (c) by speeding up repayments of housing loans to individuals through interest rebates on early repayments.

12. Measures to contain the remaining amount of purchasing power will be concentrated on those areas where the excesses are originating, viz., the private sector. To this end (a) we will ensure that economic partnerships, which are an important element in the fast growth of private economic activities, will be charged realistic costs for the use of enterprise machinery, equipment, and other inputs; (b) we will radically reduce the number of tax exemptions in other private sector activities; and finally (c) we will ensure that, in those enterprises under the liberalized wage scheme where wage increases have so far outpaced productivity improvement, wage increases over the year will be made to match improved performance. These measures, inter alia, will help limit the increase in the nominal cash incomes of the population to 8.6 percent in 1984, despite the increased costs to economic partnerships.

13. Budgetary and credit policies will need to support the generally restrictive stance of economic policy. In the case of the budget, it is our intention to ensure that unspent funds of the State Intervention Fund, placed with the National Bank of Hungary, will be kept at the level of Ft 4 billion to ensure that no additional part of this fund is circulated back to inefficient enterprises. All efforts will be made to keep expenditures from the fund below the budgeted level. We have accelerated the steps to be taken in the context of our medium-term objectives to increase the efficient use of resources, by determining that no finance from central sources will be made available to loss-making enterprises. Such enterprises will, in the first instance, have to mobilize their own assets and, if this proves insufficient, begin reorganization procedures. In part so as to avoid excessive stockpiling that could arise from continuing import liberalization, we will continue to apply the penalties on excess holdings of inventories introduced in 1983.

14. The National Bank of Hungary will continue to pursue a tight credit policy with regard to working capital and investment credits. In addition, as mentioned above, the growth of credit to individuals will be held Ft 1.5 billion below the currently projected Ft 23 billion. We will continue to set our domestic credit target on a net basis; accordingly, net domestic credit will not exceed Ft 680.1 billion by end-June 1984, Ft 683.5 billion by end-September 1984, and Ft 687.1 billion by end-December 1984, on the basis of exchange rates prevailing at the end of March 1984.

15. The implementation of additional measures to restrain enterprise investment is not thought to be necessary at this time. However, we will ensure that the Ft 2 billion reserves in the investment policy chapter of the Annual Plan for 1984, which have not yet been allocated, will not be spent. It is our firm determination not to allow state investments to exceed planned levels even to the extent of delaying progress on projects in process of completion. Budgetary sources and bank finance for investments by local councils also will be kept within the planned targets. Investments by local councils can exceed their targets only to the extent of greater-than-planned financing through bond issues to the household sector. Nominal outlays for fixed investment in the socialist sector, accordingly, will fall by about 4 percent below their 1983 levels.

16. Consistent with our intention to eliminate in 1984 the remaining restrictions introduced in September 1982, we removed, effective January 1, 1984, 6 out of 12 quotas applying to imports of raw materials. This represented more than one quarter of the value of imports under quotas. Also, the reference limits relative to 1981 imports that apply to large and frequent importers were set for the first six months of 1984, rather than quarterly, as in 1983. The limits themselves were raised, on average, by 14.4 percent compared to the limits for the first two quarters of 1983. In addition, the 20 percent surcharge on imports of component parts was removed on April 1, 1984, rather than later in the year as originally intended. A further step toward restoring the import system in effect before September 1, 1982, will be introduced effective July 1, 1984, when the system of reference limits will be abolished, thus re-establishing for the importers now subject to the reference limit system the quasi-automatic import licensing system in effect before September 1982. By January 1, 1985, the remaining quotas on the import of raw mataerials will be removed and quasi-automatic import licensing will be reinstated for all importers.

17. As we indicated in our letter of December 2, 1983, a comprehensive program of structural reform is under preparation. Efforts to this end have been accelerated following the recent affirmation of high-level political support for the reform process. Further specific details of the required measures are being elaborated by government bodies. In view of the balance of payments risks associated with an accelerated structural adjustment reform program we reconfirm our intention expressed in our earlier letter to replace the present arrangement with a new enlarged one. We judge that the steps already taken and the further measures decided,

relative both to 1984 demand management and to an early implementation of the reform, as well as those now being finalized have created the preconditions to realize this aim in apropriate time in the course of this year.

18. Consistent with the achievement of the above policies and targets for the remainder of 1984, the following performance criteria are proposed:

a. Net domestic assets of the National Bank of Hungary will not exceed Ft 262.5 billion on June 30, 1984; Ft 264.0 billion on September 30, 1984; and Ft 260.0 billion on December 31, 1984.

b. Net credit to the state budget, defined to include credit extended by the banking sector, will not exceed Ft 19.8 billion on June 30, 1984; Ft 16.4 billion on September 30, 1984; and Ft 11.0 billion on December 31, 1984. (It is understood that no borrowing from the State Insurance Company will occur in 1984.)

c. Credit extended by the State Development Bank will not exceed Ft 154.5 billion on June 30, 1984; Ft 157.2 billion on September 30, 1984; and Ft 164.0 billion on December 31, 1984.

d. Net foreign liabilities in convertible currencies of the specialized financial institutions will not exceed US$1,085 million on June 30, 1984; US$1,055 million on September 30, 1984; and US$1,055 million on December 31, 1984.

e. In the nine months ending December 31, 1984, the contracting of new foreign debt in convertible currencies with an original maturity of more than 1 year and up to and including 12 years by borrowers other than those listed under (a) and (d) above will be limited to be equivalent of US$25 million.

f. Total outstanding debt in convertible currencies of an original maturity of up to and including one year will not exceed the equivalent of US$1,500 million on June 30, 1984; US$1,550 million on September 30, 1984; and US$1,600 million on December 31, 1984.

19. The Government of the Hungarian People's Republic believes that the policies set forth above are adequate to meet the objectives of its program, but will take any further measures that may become appropriate for this purpose. Hungary will consult with the Fund on the adoption of any such measures in accordance with the policies of the Fund.

Yours sincerely,

József Marjai
Deputy Chairman of the Council of Ministers,
Chairman of the Economic Committee of the Government

János Fekete
Governor of the Fund on behalf of the Hungarian People's Republic

Hungary: Summary of Program for 1984 Under Review of Stand-By Arrangement

1. Assumptions

a. Real GDP growth: 0.3 percent. Consumer prices: up 9.4 percent.

b. Growth of markets in the convertible currency area: 5 percent. Terms of trade deterioration: 3.8 percent (trade in convertible currencies expressed in terms of the U.S. dollar) and 2.3 percent (trade in nonconvertible currencies). Interest rate on foreign debt 10.5 percent; current account deficit in nonconvertible currencies: US$51 million.

c. Ratio of GDP to money plus quasi-money: 2.26 (2.22 in 1983).

2. Targets

Current account surplus in convertible currencies of US$400 million or 1.9 percent of GDP. Overall balance of payments deficit (in convertible currencies): US$576 million.

3. Principal elements

a. Demand management: domestic demand down 2.3 percent. Households' real disposable income: down about 1 percent. Households' nominal gross cash receipts: up 8.6 percent. Public consumption to decline 3.0 percent. Schemes to stimulate long-term savings. Nominal outlays for fixed investment in the socialist sector: to fall by 4.6 percent. Uncommitted investment reserves of plan to be frozen. Excessive stockbuilding to be penalized.

b. Budget: a budget surplus, on the Fund staff's definition, of Ft 17.9 billion (1.9 percent of GNP). Producer and consumer subsidies to be reduced by Ft 20 billion. Indirect taxation to be rationalized.

c. Money and credit: broad money to grow by 3.8 percent, gross domestic credit by 4.4 percent and net domestic credit by 1.0 percent from end-1983 to end-1984. Limits on net domestic assets of the National Bank of Hungary, on bank credit to the State, and on new credit granted by the State Development Bank.

d. Exchange and trade system: forint devalued by 5 percent in June 1984. Import reference limit system to be abolished from July 1, 1984. Other import restrictions imposed in September 1982 to be removed by January 1, 1985.

Fund Relations with Hungary

Date of membership:	May 6, 1982
Quota:	SDR 530.7 million.
Fund holdings of forint: (as of June 30, 1984)	SDR 1,265.5 million (238.5 per cent of quota), which includes SDR 72.0 million (13.6 per cent of quota) under compensatory financing and SDR 342.6 million (64.6 per cent of quota) under enlarged access.
SDR holdings:	SDR 23.8 million (as of June 30, 1984)
Exchange system:	The exchange rate of Hungary's currency, the forint, vis-à-vis the currencies of countries other than members of the Council of Mutual Economic Assistance, the People's Socialist Republic of Albania, and the Democratic People's Republic of Korea is linked to a weighted basket of nine currencies. As of June 31, 1984, the representative rate was Ft 49.0497 per U.S. dollar.
Article IV consultation:	Discussions were held in Budapest during October 11-November 1 and November 27-December 3, 1983. The Staff Report (EBS/83/268) was discussed by the Executive Board on February 13, 1984.

Table 1. Hungary: Selected Economic and Financial Indicators, 1982-84

	1982	1983	Revised program 1984
	(Annual percentage changes, unless otherwise specified)		
National income and prices			
GDP at constant prices	2.8	0.8	0.3
GDP deflator	5.7	5.1	5.6
Consumer prices	6.9	7.3	9.4
External sector (on the basis of U.S. dollars) 1/			
Exports, f.o.b.	-0.7	-5.0	3.9
Imports, c.i.f.	-11.8	-5.1	-1.3
Export volume	7.2	4.9	7.1
Import volume	-5.5	2.3	-2.1
Terms of trade (deterioration -)	-1.1	-2.4	-3.8
Nominal effective exchange rate (depreciation -)	7.4	-2.0	-2.4
Real effective exchange rate (depreciation -)	3.6	-4.2	-2.7
Government budget			
Revenue, excluding grants	2.8	12.1	3.9
Total expenditures	3.3	9.7	0.3
Money and credit			
Net domestic credit 2/	1.8	2.3	1.0
Domestic credit	6.1	5.3	4.4
Government	52.6	-1.4	-61.9
Enterprise and households, etc. 3/	4.8	5.6	7.1
Money and quasi-money	6.4	4.5	3.8
Velocity (GDP relative to M1) 4/	4.6	4.7	4.7
Interest rate (annual rate, over two-year term deposit)	5.0	5.0	8.0
Domestic credit as a share of M2 5/	11.0	9.6	8.0
	(In percent of GDP)		
Overall public sector balance 6/	-1.6	-0.3	2.0
Central Government budget balance	-1.4	-0.2	1.9
Domestic bank financing	1.2	—	-1.9
Gross domestic investment 7/	28.5	26.7	24.7
Gross domestic savings	29.3	28.7	27.7
External current account balance, including grants 1/	-0.3	1.5	1.9
External debt 1/	34.9	38.7	34.1
Inclusive of use of Fund credit	36.0	41.5	39.2
Debt service ratio (in percent of exports of goods, services and private transfers) 1/	32.7	34.2	39.2
Interest payments (in percent of exports of goods, services and private transfers) 1/	17.4	13.1	13.3
	(In millions of SDRs, unless otherwise specified)		
Overall balance of payments 8/	-961	477	-567
Gross official reserves (months of imports) 9/	3.6	5.6	5.4
External payments arrears	—	—	—

Sources: Central Statistical Office, Statistical Yearbook; data provided by the Hungarian authorities; and staff estimates.

1/ Nonruble transactions for trade and convertible currencies for current account debt, debt service payments, and reserves. Trade figures adjusted for increased re-exports since September 1982 (staff estimates).

2/ Excluding valuation effects.

3/ Including real estate investments.

4/ End-year stock figures.

5/ Percentage contribution to M2 growth.

6/ Includes State budget and local authorities' net borrowing from National Savings Bank.

7/ Including stockbuilding.

8/ In convertible currency.

9/ Gold is valued at the price of US$226 per ounce.

Table 2. Hungary: Gross Domestic Product, 1982-83

(In billions of forint, deflators 1981 = 100)

	At 1981 prices	At current prices	Deflators	At 1981 prices	At current prices	Deflators	At 1981 prices	At current prices	Deflators
	Final 1982			Preliminary outturn 1983			Revised program 1984		
Consumer expenditure	485.8	515.1	106.0	487.5	552.8	113.4	484.0	596.7	123.3
Percentage change	1.3	7.8	6.5	0.3	7.3	6.9	-0.7	7.9	8.7
Government current expenditure 1/	78.6	82.4	104.8	80.1	87.9	109.7	77.7	90.3	116.3
Percentage change	1.0	6.5	5.5	1.9	6.7	4.6	-3.0	2.7	6.1
Gross fixed investment 1/	205.2	215.7	105.1	194.3	217.7	112.0	179.4	213.5	119.0
Percentage change	-1.6	3.5	5.2	-5.3	0.9	6.6	-7.7	-1.9	6.2
Final domestic demand	769.6	813.2	105.7	761.9	858.4	112.7	741.1	900.5	121.5
Percentage change	0.5	6.5	6.0	-1.0	5.6	6.6	-2.7	4.9	7.8
Stockbuilding	10.3	27.9	...	4.7	22.1	...	8.0	21.0	...
Percentage contribution to GDP growth	-0.6	0.4	...	-0.7	-0.7	...	0.4	-0.1	...
Domestic demand	779.9	841.1	107.8	766.6	880.5	114.9	749.1	921.5	123.0
Percentage change	-0.1	6.7	6.8	-1.7	4.7	6.5	-2.3	-4.7	7.1
Exports of goods and services	319.1	321.8	100.9	341.1	361.0	105.8	361.7	398.2	110.1
Percentage change	3.5	4.6	0.9	6.9	12.2	4.9	6.0	10.3	4.0
Imports of goods and services	304.5	315.0	103.5	307.1	343.4	111.8	308.2	369.3	119.8
Percentage change	-3.8	-0.4	3.5	0.9	9.0	8.1	0.4	7.5	7.2
Foreign balance	14.6	6.8	...	34.0	17.6	...	53.5	28.9	...
Percentage contribution to GDP growth	3.0	1.8	...	2.4	1.3	...	2.4	1.3	...
GDP	794.5	847.9	106.7	800.6	989.1	112.2	802.7	950.4	118.4
Percentage change	2.8	8.7	5.7	0.8	5.9	5.1	0.3	5.8	5.6

Sources: Data provided by Hungarian authorities; and staff estimates.

1/ After reclassification of expenditures for the reconstruction of roads and bridges from government current expenditure to fixed investment.

Table 3. Hungary: Disposable Income, Consumption and Saving, 1982-84

(In billions of forint and percentage changes)

	Final 1982	Program 1/ 1983	Preliminary Outturn 2/ 1983	Revised program 1984
Wages from socialist sector 3/	299.4	306.0	312.9	327.6
Percentage change	6.0	3.6	4.5	4.7
Labor income from private economic activities	42.6	48.6	54.0	63.9
Percentage change	15.8	9.0	26.8	18.3
Of which: incomes of enterprise economic partnerships	1.0	...	4.6	7.4
Minus: Taxes, etc.	21.0	23.8	24.2	27.6
Percentage change	14.1	15.0	15.2	14.0
Total labor income in money, net	321.0	330.8	342.7	363.9
Percentage change	6.8	3.6	6.8	6.2
Social benefits in cash	102.4	111.6	111.3	124.3
Percentage change	9.1	8.8	8.7	11.7
Other money income, net	9.1	9.4	12.9	14.1
Total money income, net	432.5	451.8	466.9	502.3
Percentage change	7.6	5.1	8.0	7.6
Labor income in kind	36.1	40.3	37.8	40.9
Percentage change	3.7	7.0	4.7	8.2
Social benefits in kind	75.8	80.5	82.8	89.5
Percentage change	11.3	8.2	9.2	8.1
Disposable income	544.4	572.6	587.5	632.7
Percentage change	7.8	5.7	7.9	7.7
Less: Consumer expenditure	515.1	542.8	552.8	596.7
Savings	29.3	29.8	34.7	36.0
Memorandum items:				
		(Percentage changes)		
Cash receipts of population 4/	8.1	5.0	8.0	8.6
CPI	6.9	8.0-9.0	7.3	9.4
Real consumer expenditure	1.3	-2.0	0.3	-0.7
Of which: Marketed goods	0.4	...	-0.1	-1.3
Consumption in kind	3.2	...	1.8	1.2
		(Percent of disposable income)		
Savings of households	5.4	5.2	5.9	5.7
Housing, net	4.5	4.6	4.8	5.0
Financial savings, net	0.9	0.6	1.1	0.7

Sources: Data provided by Hungarian authorities; and staff estimates.

1/ Percentage changes from preliminary outturn for 1982.

2/ Percentage changes from final outturn for 1982. Upward revisions of the 1982 data account for a significant part of the difference between program and outturn for 1983.

3/ Excluding payments to enterprise economic partnerships.

4/ Includes production costs of private economic activities.

Table 4. Hungary: Net Domestic Assets of the National Bank

(In billions of forint; end of period)

	Q4	Q2	Q3	Program	Nov. forecast	Actual	Program	Actual	Program	Revised program	Program	Revised program	Program	Revised program
				Q4			QI		Q2		QIII		Q4	
	1982	1983					1984							
Net foreign liabilities in convertible currencies 1/	164.0	160.9	158.3	156.4	158.7	163.8	160.7	159.9	157.2	160.0	157.0	160.5	150.2	153.6
Currency in circulation	87.3	95.6	94.2	94.6	97.3	97.9	101.3	101.5	102.7	102.5	101.2	103.5	106.0	106.4
Net domestic assets (I + II)	251.3	256.5	252.5	251.0	256.0	261.7	262.0	261.4	259.9	262.5	258.2	264.0	256.2	260.0
Assets	509.1	517.0	517.5	527.2	530.7	515.9	535.8	521.1	540.8	524.0	541.7	522.8	543.7	520.2
Net credit to the state budget	22.1	21.1	23.4	22.1	21.7	21.7	13.1	15.3	15.0	12.6	14.5	9.2	8.7	2.3
Investment credits	120.6	113.5	114.2	122.0	121.0	118.3	114.6	110.5	117.3	114.5	119.0	116.2	123.0	119.6
Working capital credits	179.4	198.4	194.7	188.0	190.0	188.7	209.5	211.8	207.7	211.1	205.3	210.2	203.0	205.0
Refinancing credits, etc.	187.0	184.0	185.2	195.1	198.0	187.2	198.6	183.5	200.8	185.8	202.9	187.2	209.0	193.2
Liabilities	257.8	260.5	265.0	276.2	274.7	254.2	273.8	259.7	280.9	261.5	283.5	258.8	287.5	260.2
Enterprise reserve funds 2/3/	48.0	28.3	26.6	29.6	28.5	26.1	29.7	27.1	29.7	27.3	29.7	27.6	28.7	26.8
State lending and intervention funds	—	3.1	4.6	9.0	10.8	9.6	20.8	15.8	22.8	21.9	25.8	22.0	33.6	26.7
Other funds of enterprises	121.8	104.5	104.3	118.9	115.1	109.4	98.8	93.9	103.4	96.3	103.0	97.2	109.0	99.1
Deposits by other financial institutions 4/	73.0	72.8	72.5	73.7	68.5	70.4	72.9	68.7	72.0	66.9	67.0	61.9	67.0	61.4
Net foreign liabilities in nonconvertible currencies	2.9	15.7	16.1	5.9	9.5	10.0	9.5	19.2	12.0	17.0	17.6	15.0	9.5	12.0
Unclassified liabilities (net) 1/3/	12.1	36.1	40.9	39.1	42.3	28.7	42.1	35.0	41.0	32.1	40.4	35.1	39.7	34.2
Memorandum items:														
Net foreign liabilities of specialized banks in convertible currency 1/	43.9	49.2	41.0	41.9	40.8	38.9	40.3	40.0	40.3	38.7	39.1	37.6	38.6	37.5
CECB claims on state budget	7.2	7.2	7.2	12.4	9.4	7.2	9.4	7.2	9.4	7.2	9.4	7.2	10.4	8.7
National Savings Bank														
Credit to households	133.6	140.5	150.3	152.0	153.6	154.3	156.6	158.7	161.6	163.7	172.8	172.3	176.6	175.9
Deposits of households	175.8	186.1	188.6	191.6	193.8	197.2	200.2	203.0	202.7	205.2	204.1	206.2	211.0	215.5

Sources: National Bank of Hungary; and staff estimates.

1/ Figures are based on the exchange rates prevailing at the end of June 1982.
2/ Beginning June 1982, data relate to the funds redeposited by the CECB and exclude the amount of enterprise reserve funds on-lent to the state budget by the CECB (see memorandum item).
3/ Figures for 1984 comprise reserve fund bonds and confiscated and frozen reserve funds.
4/ Excluding enterprise reserve funds redeposited by the CECB.

Table 5. Hungary: Consolidated Monetary Survey

(In billions of forint, end of period)

	1980	1981	1982	1983 I	1983 II	1983 III	1983 IV Program	1983 IV Nov. Forecast	1983 IV Actual	1984 I Program	1984 I Actual	1984 II Revised program	1984 III Revised program	1984 IV Program	1984 IV Revised program
Domestic credit	603.5	657.0	697.0	708.4	715.8	729.7	736.5	740.2	734.2	748.3	748.4	756.5	764.0	776.4	766.4
Claims on state budget (net) 1/	10.3	19.2	29.3	23.9	28.3	30.6	34.5	31.1	28.9	22.5	22.5	19.8	16.4	19.1	11.0
Claims on enterprises, etc. 2/	486.0	517.9	534.1	548.3	547.0	548.8	550.0	555.5	551.0	569.2	567.2	573.0	575.3	580.7	579.4
Claims on households	107.2	119.9	133.6	136.2	140.5	150.3	152.0	153.6	154.3	156.6	158.7	163.7	172.3	176.6	175.9
Money	155.3	167.0	183.0	166.9	170.1	175.6	190.0	195.6	190.2	184.5	178.8	181.7	188.9	206.9	202.8
Currency in circulation	72.8	81.3	87.3	87.6	95.6	94.2	94.6	97.3	97.9	101.3	101.5	102.5	103.5	106.0	106.4
Demand deposits of households	4.5	5.8	8.2	8.4	9.3	10.1	10.1	10.6	11.3	10.8	11.6	12.0	11.6	12.4	13.4
Demand deposits of enterprises	67.4	69.4	76.6	60.2	56.9	60.3	73.9	76.3	70.2	61.5	53.8	58.6	62.3	76.9	71.1
Unfinished settlements	10.6	10.5	10.9	10.7	8.3	11.0	11.4	11.4	10.8	10.9	11.9	8.6	11.5	11.6	11.9
Quasi-money	186.8	198.1	204.6	212.1	215.1	212.9	216.2	211.7	214.7	215.5	220.1	219.4	217.5	218.4	217.4
Households	136.6	147.9	159.4	165.8	167.5	168.9	171.2	172.9	175.8	178.2	180.2	181.7	182.6	186.3	189.4
Enterprises	50.2	50.2	45.2	46.3	47.6	44.0	45.0	38.8	38.9	37.3	39.9	37.7	34.9	32.1	28.0
Savings bonds	4.2	6.4	8.2	9.0	9.3	9.6	10.3	10.3	10.1	11.2	11.2	11.5	12.0	12.3	12.7
Enterprise reserve funds 3/	38.3	40.0	55.2	35.1	35.5	33.8	42.0	37.9	33.3	39.1	34.3	34.5	34.8	39.1	35.5
State lending and intervention funds	--	--	--	3.1	3.1	4.6	9.0	10.8	9.6	20.8	15.8	21.9	22.0	33.6	26.7
Net foreign liabilities 4/	209.9	224.1	240.9	258.9	266.3	277.2	256.9	272.8	272.4	277.0	281.9	279.0	277.1	265.7	266.9
Other items (net) (by difference) 3/4/	9.0	21.4	5.1	23.3	16.4	16.0	12.1	1.1	3.9	0.2	6.3	8.5	11.7	0.4	4.4

Sources: National Bank of Hungary; and staff estimates.

1/ Claims of the National Bank of Hungary and the Central Exchange and Credit Bank.
2/ Includes real estate investment and a small and relatively stable amount of credit extended by the Foreign Trade Bank, in addition to the claims of the National Bank of Hungary (direct claims plus refinancing credits extended to the State Development Bank).
3/ Figures for 1983 reflect transfers of Ft 19.1 billion of enterprise reserve funds to the National Bank in connection with the settlement of currency valuation changes. Figures for 1984 comprise reserve fund bonds and confiscated and frozen reserve funds.
4/ Forecasts and actual or revised forecasts for a given period reflect the valuation of net foreign liabilities at current end-period exchange rates. For Q4 1983, Ft 45.193 = US$1; for 1984, Ft 45.707 = US$1.

Table 6. Hungary: Monetary Survey

(In billions of forint) 1/

	Domestic credit	Reserve funds	State Lending and Intervention Funds	Other items net	Net domestic credit	NFL Convertible	NFL Nonconvertible	Broad money
1982 Q4								
Actual outturn	697.0	55.2	--	-17.2	659.0	264.9	6.5	387.6
1983 Q4								
Program	736.5	42.0	9.0	25.8	659.7	244.5	9.0	406.2
November forecast	740.2	37.9	10.8	14.8	676.7	254.9	14.5	407.3
Actual outturn	734.2	33.3	9.6	17.3	674.0	255.7	13.4	404.9
1984 Q1								
November forecast	748.3	39.1	20.8	17.8	670.6	256.1	14.5	400.0
Actual outturn	748.4	34.3	15.8	23.7	674.6	254.3	21.4	398.9
1984 Q4								
November forecast	776.4	39.1	33.6	18.7	685.0	243.6	16.1	425.3
Revised program	766.4	35.5	26.7	23.3	680.9	244.6	16.1	420.2

Sources: National Bank of Hungary; and staff estimates.

1/ Calculated at end-September 1983 exchange rates.

Table 7. Hungary: The State Budget

(In billions of forint)

	1981	1982	1983 Program	1983 November estimate	1983 Actual	1984 Program 1/	1984 Revised program
Expenditures							
Investment	59.7	53.3	55.0	57.2	57.3	56.1	56.1
Subsidies	144.5	146.5	155.6	159.6	162.5	141.9	138.2
Social security	90.4	98.5	106.9	107.0	107.2	119.6	119.6
Health, defense, other	187.5	199.7	211.1	207.2	209.5	218.8	220.7
State lending fund	...	...	...	10.8	9.7	14.8	13.1
Total expenditure	482.1	498.0	528.6	541.8	546.2	551.2	547.7
Revenues							
Wage tax and social security contributions	63.7	74.5	84.4	85.6	85.9	115.6	115.6
Profit taxes	121.1	112.5	129.9	129.5	131.3	135.7	135.7
Production and capital taxes	21.7	25.8	29.7	30.4	29.8	28.2	28.0
Indirect taxes	176.4	191.5	208.4	203.0	204.1	194.8	196.1
Confiscated enterprise funds	...	...	...	9.9	9.7	9.0	8.7
IBRD credits	...	...	0.9	0.9	...	1.7	1.7
Other revenues	89.7	81.5	69.3	79.9	83.7	78.2	79.8
Total revenues	472.6	485.8	522.6	539.2	544.5	563.2	565.6
Budget balance	-9.5	-12.2	-6.0	-2.6	-1.7	12.0	17.9

Sources: Ministry of Finance; and staff estimates.

1/ Small differences from November estimates reflect offsetting reclassifications.

Table 8. Hungary: Balance of Payments in Convertible Currencies, 1983-84

(In millions of U.S. dollars)

	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Total	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Total
			1983					1984		
Exports	1,161	1,209	1,101	1,376	4,848	1,314	1,091	1,140	1,449	4,994
Imports	-1,012	-954	-889	-1,115	-3,970	-1,101	-893	-909	-1,013	-3,916
Trade balance	149	255	212	261	877	213	198	231	436	1,078
Freight and insurance	-45	-54	-37	-39	-175	-43	-44	-52	-54	-193
Travel	21	32	53	59	165	23	35	65	57	180
Investment income	-174	-165	-145	-178	-662	-152	-172	-174	-173	-671
Government expenditure	-11	-11	-8	-9	-39	-10	-13	-12	-12	-47
Other current receipts	25	46	-12	18	77	-49	—	12	25	-12
Unrequited transfers	11	15	11	17	54	18	15	16	16	65
Current balance	-24	118	74	129	297	—	19	86	295	400
Medium- and long-term capital										
Assets 1/	-7	-192	13	121	-65	-14	-21	-32	-33	-100
Liabilities	-65	304	-113	-66	60	-241	-21	243	-290	-309
Inflows	(136)	(529)	(157)	(454)	(1,276)	(301)	(283)	(528)	(114)	(1,226)
Outflows	(-201)	(-225)	(-270)	(-520)	(-1,216)	(-542)	(-304)	(-285)	(-404)	(-1,535)
Short-term capital										
Assets 1/	-17	21	-53	-190	-239	13	42	-31	-104	-80
Liabilities 2/	-300	-280	67	906	393	-405	-182	50	50	-487
Overall balance	-413	-29	-12	900	446	-647	-163	316	-82	-576
Monetary movements										
Monetary gold (increase -)	-164	125	-154	-175	-368	49	...	...	...	49
Foreign exchange (increase -)	488	-185	79	-812	-430	466	57	-422	-24	77
Use of Fund resources	89	89	87	87	352	132	106	106	106	450

Sources: National Bank of Hungary; and staff estimates.
1/ Nonreserve assets; mostly export financing.
2/ Includes errors and omissions.

Table 9. Hungary: Quota Restrictions 1/

	Imports			Quotas	
	1981	1982	1983	1983	1984
Office equipment requisites 2/	200.0	150.0	83.0	120.0	3/
Aniline colors, auxiliary chemical materials for the textile, leather, and fur industries 2/	1,719.0	1,603.8	1,773.0	2,000.0	3/
Motor vehicle tires 4/	263.0	174.0	69.9	75.0	3/
Of which:					
Passenger cars	(...)	(...)	(...)	(30.0)	
Truck and buses	(...)	(...)	(...)	(45.0)	
PVC powder and hard granules	9.4	8.0	5.0	8.0	3/
Polystyrene and styrene capoliners	16.5	18.0	13.0	16.0	3/
Fertilizers - Nitrogen	--	9.0)		12.0	12.0
Phosphate	88.3	138.0)	185.0	140.0	175.0
Calcium	6.8	6.0)		8.0	8.0
Plant protection chemicals 2/	2,100.0	2,213.0	2,588.0	2,500.0	2,750.0
Paper and cardboard	88.9	74.1	82.0	98.0	3/
Protein fodder of animal and vegetable origin	644.5	239.0	719.0	670.0	686.0
Fodder concentrate	6.2	7.0	10.0	5.0	5.0
Animal feed phosphate	72.4	73.0	70.0	75.0	75.0
Chemicals for feed 2/	1,300.0	1,392.8	1,450.0	1,500.0	1,500.0

Source: Data provided by the Hungarian authorities.

1/ In tons, unless otherwise specified.
2/ Million forint.
3/ Removed from January 1, 1984.
4/ Thousand units.

Table 10. Hungary: Foreign Debt, 1981-84

(In millions of U.S. dollars; end of period)

	1981	1982	March 1983	June 1983	Sept. 1983	Dec. 1983	March 1984
Total foreign debt	10,026	8,989	8,864	9,002	8,944	9,624	9,229
In convertible currencies	8,699	7,715	7,329	7,397	7,367	8,257	7,722
By original maturity:							
Short-term	2,849	1,764	1,410	1,221	1,282	2,123	1,682
Long-term	5,850	5,951	5,919	6,176	6,085	6,134	6,040
By type:							
Financial loans 1/	8,050	6,653	6,146	6,150	5,964	6,719	6,046
Trade-related credits 2/	402	661	797	888	1,032	1,124	1,241
Intergovernmental credit	6	5	4	4	4	4	4
Other 3/	241	396	382	355	367	410	431
In nonconvertible currencies	1,327	1,274	1,535	1,605	1,577	1,367	1,507
By original maturity:							
Short-term	243	249	525	608	624	380	518
Long-term	1,084	1,025	1,010	997	953	987	989
By type:							
Financial loans	260	225	503	585	599	331	503
Trade-related credits	15	39	38	35	33	30	28
Intergovernmental credit	1,038	974	959	951	910	948	941
Other	14	36	35	34	35	58	35

Source: National Bank of Hungary.

1/ Syndicated loans, bonds and notes, bank to bank credit and deposits and balances of nonresident banks. Includes Fund credit.
2/ Including bankers' acceptances.
3/ Mainly downpayment for Hungarian exports; and import documents in the process of settlement.

Table 11. Hungary: International Reserves and Other Foreign Assets, 1981-84

(In millions of U.S. dollars)

	1981	1982	March 1983	June 1983	Sept. 1983	Dec. 1983	March 1984
International reserves							
Convertible currencies							
Gold 1/	69	25	38	26	40	56	52
Foreign exchange	1,624	1,087	600	784	705	1,517	1,051
Official reserves	(1,482)	(771)	(331)	(555)	(542)	(1,324)	(838)
Other readily marketable assets 2/	(142)	(316)	(269)	(229)	(163)	(193)	(213)
Total	1,693	1,112	638	810	745	1,573	1,103
Nonconvertible currencies	28	66	84	117	105	45	36
Total	1,721	1,178	722	927	850	1,618	1,139
Other foreign assets							
Convertible currencies	1,219	1,539	1,561	1,635	1,687	1,792	1,793
Short-term 3/	(595)	(773)	(788)	(725)	(786)	(1,000)	(971)
Long-term	(624)	(766)	(773)	(910)	(901)	(792)	(803)
Nonconvertible currencies	510	318	327	311	305	317	301
Short-term	(238)	(89)	(101)	(94)	(93)	(103)	(88)
Long-term	(272)	(229)	(226)	(217)	(212)	(214)	(213)
Total	1,729	1,857	1,888	1,946	1,992	2,109	2,074
Total international reserves and other foreign assets	3,450	3,035	2,610	2,873	2,842	3,727	3,213

Source: National Bank of Hungary.

1/ Valued at SDR 35 per ounce. Gold is valued at $42.22 per ounce prior to 1978, $126 per ounce in 1978 and $226 per ounce thereafter in official reserve statistics.

2/ Excluded from the official Hungarian definition of reserves.

3/ This item includes working balances of the specialized banks and claims of enterprises in the form of export bills and suppliers' credits. Prime export bills are discountable at the National Bank, with recourse. The National Bank regards this facility as a means of providing domestic liquidity to the enterprises and normally holds the bills to maturity rather than rediscounting them on foreign markets.