

December 8, 1982 - 82/223

Statement by the Staff on the Hungarian People's Republic  
Executive Board Meeting 82/156  
December 8, 1982

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Last September, when the negotiations on the stand-by arrangement which is before Executive Directors were taking place, the Hungarian authorities requested that some of their commitments and policy intentions be excluded from the letter of intent and conveyed separately and confidentially to the Managing Director. They were in the initial stages of formulating the plan and state budget for 1983 and needed time to get some of the key points of the program incorporated formally. The letter of intent does not, therefore, mention the program targets for cash incomes of the population and for investment, which the staff views as essential for the successful implementation of the program, nor their commitments on exchange rate policy and energy prices.

On the occasion of a recent visit to Hungary, the staff was pleased to find that rapid progress had been made in putting the program into place and in translating the commitments made in September into official targets for the 1983 plan and budget, although these have not yet been officially approved and released. In particular, the plan will fully reflect the commitments of a 3-4 per cent reduction in real domestic expenditure, of a 4-5 per cent decline in real wages, which is consistent with a decrease in cash incomes of the population in real terms of 3-3.5 per cent, and of a reduction of 2-3.5 per cent in gross fixed investment in the socialist sector in current prices (about 6.5-8 per cent in real terms). The budget is also expected to reflect the commitment of a reduction in the deficit to Ft 8 billion in 1983. Finally, recent decisions on the exchange rate and energy prices, mentioned in the supplement to EBS/82/206, go beyond the commitments made in September. These are encouraging signs that the authorities are serious about their stabilization efforts and are determined to take additional measures if necessary to achieve the objectives of the program.

The main purpose of the recent staff visit, however, was to ascertain that payments arrears which had emerged in mid-1982, would be fully eliminated by early December, that net domestic assets of the National Bank of Hungary were below the (continuous) ceiling for the fourth quarter of 1982, and to review progress in implementing the program. The staff mission found that arrears, which had reached a peak of about \$200 million at mid-year, were down to less than \$100 million at the end of October, less than \$50 million at mid-November, and were in the process of being fully eliminated by end-November. Complete elimination of all arrears has been confirmed since. Net domestic assets at the end of October were below the ceiling. The latest information collected by the mission is included in the supplement to EBS/82/206.