INTERNATIONAL MONETARY FUND

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The International Monetary Fund has agreed to the use of resources totaling the equivalent of SDR 547 million by the Government of the Hungarian People's Republic. Of the total, the equivalent of SDR 475 million is to be made available over the next 13 months under a stand-by arrangement to support the Government's economic program, and the equivalent of SDR 72 million is available immediately under the compensatory financing facility. Purchases under the stand-by arrangement, which is equivalent to 126.7 per cent of Hungary's quota of SDR 375 million, will be financed in part from the Fund's ordinary resources (SDR 245.739 million), and in part from borrowed resources (SDR 229.261 million). This is the first use of Fund credit by Hungary, which became a member on May 6, 1982.

Since 1978 the Hungarian authorities have endeavored to correct the external disequilibrium which developed in the changed world economic environment after 1973/74. These adjustment efforts met with some success in 1979 and 1980, and it appeared that the economy was moving towards equilibrium. Exports in convertible currencies increased by an average of 24 per cent a year in this period, the growth rate of imports in convertible currencies slowed, and the deficit on the current account balance of payments narrowed considerably.

However, Hungary experienced a recurrence of balance of payments difficulties when, in 1981 and early 1982, a large outflow of short-term capital caused reserves to decline. The unfavorable trends which developed in the international capital markets at this time found Hungary the more vulnerable due to its heavy foreign debt burden. In response to these developments, the authorities have strengthened their adjustment efforts during the course of 1982 to curb the growth of enterprises' investable resources and their access to bank credit. Interest rates on loans to enterprises were raised, and additional taxes levied on most new investment projects, other than those related to convertible currency exports and savings of energy and raw materials. These actions were supplemented by cuts in budget allocations for state-controlled investment and measures to slow-down stock building. Efforts have also been undertaken to restrain consumption by tightening wage policy, raising taxes, and reducing subsidies on consumer goods.

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The Government's economic policies for the period of the program are geared to the improvement of the external liquidity position, with the goal of achieving a sizeable current account surplus in convertible currencies in 1983. This strengthening of the external position, which should permit some re-building of reserves and a reduction in foreign debt, will be brought about through a reduction in domestic demand, achieved by tight controls on real incomes, enterprise investment, and the State budget, and through the stimulation of exports. A more active exchange rate policy is designed to make a contribution by raising the profitability of foreign sales. The economic reform process is being strengthened by measures to improve the structure and efficiency of industry and to sharpen export incentives.

The purchase under the compensatory financing facility is related to an export shortfall experienced by Hungary in the 12-month period ended June 1982. Exports during this period were affected by the deepening global recession and difficulties over market access to some industrial countries. The recession was mainly responsible for shortfalls in metallurgical products, chemicals, light manufactured goods, machinery, and engineering goods. Trade restrictions contributed to shortfalls in exports of some agricultural products, including cattle, beef, and processed meat, and some metallurgical products, such as rolled steel.