

**FOR
AGENDA**

EBS/08/119
Supplement 2

November 4, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Hungary—Request for Stand-By Arrangement—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on Hungary's request for a Stand-By Arrangement (EBS/08/119, 11/4/08), which is tentatively scheduled for discussion on **Thursday, November 6, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Hungary indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Ms. Gulde (ext. 38995), Mr. Morsink (ext. 37875), and Mr. Joshi (ext. 34467) in EUR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

HUNGARY

Request for Stand-By Arrangement—Informational Annex

Prepared by the European Department

November 4, 2008

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APPENDIX I. HUNGARY: FUND RELATIONS
(As of September 30, 2008)

I. **Membership Status:** Joined on May 6, 1982; Article VIII.

II. General Resources Account:	SDR Million	Percent of Quota
Quota	1,038.40	100.00
Fund holdings of currency	964.57	92.89
Reserve position in Fund	73.83	7.11

III. SDR Department	SDR Million	Allocation
Holdings	60.28	N/A

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	3/15/96	2/14/98	264.18	0.00
Stand-by	9/15/93	12/14/94	340.00	56.70
EFF	2/20/91	9/15/93	1,114.00	557.24

VI. **Projected Obligations to Fund:** None

VII. **Exchange Rate Arrangement:**

The Hungarian forint is freely floating, effective February 26, 2008.

VIII. **Article IV Consultations:**

Hungary is on a 12-month consultation cycle. The last Article IV Board discussion took place on September 17, 2008. The associated Executive Board assessment is available at <http://www.imf.org/external/np/sec/pn/2008/pn08124.htm> and the staff report and other mission documents at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22374.0> and <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22375.0>. Hungary has accepted the obligations of Article VIII and maintains an exchange rate system free of restrictions on the making of payments and transfers on current international transactions except for those maintained solely for the preservation of national or international security and that have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

IX. Technical Assistance:

Year	Department.	Purpose	Date
1995	FAD	Tax administration	February
1995	FAD	Treasury	February
1995	FAD	Treasury	May
1995	FAD	Treasury	November
1995	FAD	Debt management	November
1995	MAE	Central bank internal auditing	November
1995	MAE	Monetary analysis and research	December
1996	FAD	Tax policy	May
1996	MAE	Central bank accounts	September
1996	FAD	Subsidies	November
1997	FAD	Subsidies follow-up	May
2000	MAE	FSAP	February
2000	FAD	Tax legislation	June
2000	STA	Money and banking statistics	October
2000	FAD	Tax legislation follow-up	November
2002	FAD	Expenditure rationalization	November
2004	STA	ROSC update of the fiscal sector	January
2005	MFD	FSAP update	February
2005	FAD	Tax policy and administration	October
2006	FAD	Fiscal ROSC	May
2006	FAD	Public-private partnership	September
2007	FAD	Tax policy	April
2007	FAD	Public financial management	June
2007	FAD	Tax administration	October
2008	FAD	Pension reform	May

X. Regional Resident Representative for Central And Eastern Europe:

Mr. Christoph Rosenberg, Senior Regional Resident Representative for central and eastern Europe, took up his duties in Warsaw in February 2005.

APPENDIX II. HUNGARY—STATISTICAL ISSUES

1. Data provision is adequate for surveillance. Significant progress has been made in improving the coverage, periodicity, and other aspects of quality of the economic and financial statistics. Most data quality issues noted in the data module of the 2001 Report on the Observance of Standards and Codes (ROSC) have been satisfactorily addressed, but some are pending.¹
2. Hungary subscribes to the Special Data Dissemination Standard (SDDS), and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (<http://dsbb.imf.org>). Hungary meets the SDDS specifications for the coverage, periodicity, and timeliness of the data, and for the dissemination of advance release calendars.

A. Real Sector Statistics

3. To implement Eurostat regulations, the Hungarian Central Statistical Office (HCSO) started to use chain-linked volume measures of GDP from the third quarter of 2006 and made corresponding backward calculations to the year 2001. Quarterly GDP is estimated using the production and expenditure approach. A first preliminary estimate of GDP volume indices is released 45 days after the reference period. Detailed estimates are released 70 days after the end of the reference period. Prior to the introduction of chain-linked estimates, GDP volume indices based on the production approach were compiled at constant prices of 2000. Since the third quarter of 2006, the HCSO has also been compiling current price estimations. In addition, as of September 2006, the HCSO introduced direct output volume measurement for some government services (education and healthcare). Furthermore, the HCSO refined its method to indirectly measure financial intermediation services by introducing two separate reference rates for transactions in local and in foreign currencies. Also, the HCSO started to include illegal activities into the national accounts.
4. The consumer price index (CPI) is compiled as an annual chained Laspeyres index using for weights the expenditure patterns of two years prior to the current period. The computation of imputed rent for owner-occupied housing is based on the average price changes of different repair items and does not cover all elements of costs to the user.

B. External Sector Statistics

5. In 2005, the Magyar Nemzeti Bank (MNB) launched a project to set up a new data collection system for balance of payments (BOP) and international investment position (IIP) statistics, with a view to replace the international transaction reporting system (ITRS) with

¹ The original 2001 ROSC Data Module and updates are available on the IMF internet web site. The latest update is *Hungary: Report on the Observance of Standards and Codes—Data Module, 2004 Update* (July 2004).

direct reporting (DR) of respondents. This change in data collection system became effective in January 2008. The move from ITRS to DR is in line with the recent trends concerning BOP data collection systems in other EU Member States. Under the new system, resident economic entities report directly their transactions and positions vis-à-vis nonresident entities.

6. The extent of cooperation between the HCSO and the MNB in the production of external statistics—the “Rest of the World” in the National Accounts framework on the one hand, and the BOP and IIP on the other hand—has also been significantly enhanced. In addition to data sharing already existing—data on trade in goods (since 2003), on FDI (since 2004), on travel and business services (since 2005), and on other services such as transportation, insurance, financial and government services (since 2006)—cooperation has been extended to new areas of non-financial accounts (such as compensation of employees and EU transfers). Nevertheless, the full responsibility for the compilation and publication of BOP and IIP statistics still rests with the MNB.

7. Furthermore, the MNB changed the reporting of stock and flow data of special-purpose entities (SPEs) as of January 1, 2006. According to the international statistical standards, an offshore firm is resident of the country in which it is registered. The off-shore status of SPEs ceased to exist on December 31, 2005, and from January 2006, the MNB has been compiling the BOP including data on SPEs. Nevertheless, the MNB continues to treat the statistics that exclude the flow and stock data of SPEs as readily interpretable in economic terms. In defining the range of SPEs, the MNB cooperates with the HCSO.

8. The HCSO, the MNB and the Ministry of Finance are presently looking into addressing the high level of errors and omissions in the BOP. Within the General Framework of Cooperation between the HCSO and the MNB, effective since 2002, a joint task force was established in the 2007 annual work program to investigate possible flaws in the Foreign Trade Statistics (FTS) data. Issues under investigation include:

- the possibly wrong attribution in FTS of Hungarian residence to foreign, nonresident companies importing and exporting goods to/from Hungary with a Hungarian VAT number; and
- possible VAT fraud (so-called “carousel fraud”), which has also led to underestimation of goods imports in other EU countries (e.g., the UK).

9. With regard to the “VAT resident issue,” the task force has explored its possible impact on trade in goods data according to the National Accounts and BOP concept versus the FTS concept. The final conclusion and decision of the interested parties in February 2008 was to address this issue by revising the trade data back to 2004 in both NA and BOP statistics in a concerted way in September 2008. In implementing this, the Eurostat's relevant future recommendations, if any, will be respected.

10. As for the second (VAT fraud) issue, HCSO and MNB first have to agree on a proposal to redesign the information system of tax and customs authorities to facilitate better

provision of necessary details on explored frauds that can be used to compile the NA and BOP statistics. This task has been put on the agenda in the HCSO-MNB 2008 work program.

C. Monetary and Financial Statistics

11. Starting with the release of data for January 2003, the MNB has been compiling and publishing data based on a new methodology consistent with the European Central Bank's framework for monetary statistics using the national residency approach. In addition to the central bank and credit institutions, monetary statistics now also cover money market funds.

12. The Hungarian authorities have reported that they have addressed all recommendations in the area of monetary and financial statistics made in the context of the 2001 data ROSC report. Following Statistics Department (STA) recommendation that securities on the balance sheets of depository corporations be valued at market prices, the authorities have pursued improvement. From 2004, depository corporations were encouraged to use market valuation for securities in their trading portfolio. From 2005, this requirement was made compulsory for those depository corporations that are listed on the stock exchange.

D. Government Finance Statistics (GFS)

13. In January 2004, STA conducted a substantive update of the GFS dataset using the July 2003 Data Quality Assessment Framework. The mission reported that, overall, significant progress has been made in addressing the shortcomings of budget execution data and GFS identified in the 2001 ROSC Data Module. These improvements relate mainly to institutional coverage of general government, consolidation of data and reconciliation of deficit and financing. However, plans to report monthly expenditures classified on an economic basis have yet to come to fruition.

14. The latest data reported for publication in the 2007 GFS Yearbook are for 2006. These data now cover the operations of the consolidated central government and consolidated general government sectors, as well as their corresponding subsectors. The data for 2000 onwards have been compiled on an accrual basis and reported in the Government Finance Statistics Manual 2001 format.

Hungary: Table of Common Indicators Required for Surveillance
AS OF OCTOBER 28, 2008

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality Accuracy and reliability ⁹
Exchange Rates	10/28/2008	10/28/2008	D and M	D and M	D and M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sep 2008	10/20/2008	M	M	M		
Reserve/Base Money	Sep 2008	10/13/2008	M	M	M	O,O,LO,LO	O,O,O,O,LO
Broad Money	Sep 2008	10/13/2008	M	M	M		
Central Bank Balance Sheet	Sep 2008	10/13/2008	M	M	M		
Consolidated Balance Sheet of the Banking System	Aug 2008	9/30/2008	M	M	M		
Interest Rates ²	Sep 2008	10/3/2008	M	M	M		
Consumer Price Index	Sep 2008	10/14/2008	M	M	M	O,O,O,O	O,O,O,O,NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2007	4/1/2008	A	A	A	O,LNO,LO,O	LO,O,O,O,NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Aug 2008	10/21/2008	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q4 2007	4/1/2008	Q	Q	Q		
External Current Account Balance	Q2 2008	9/30/2008	Q	Q	Q	O,LO,LO,LO	O,O,O,O,NA
Exports and Imports of Goods and Services	Q2 2008	9/30/2008	Q	Q	Q		
GDP/GNP	Q2 2008	9/5/2008	Q	Q	Q	O,O,O,LO	O,LO,O,O,NA
Gross External Debt	Q2 2008	9/30/2008	Q	Q	Q		
International investment Position ⁶	Q2 2008	9/30/2008					

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

⁸Reflects the assessment provided in the data ROSC and Substantive Update published in May 2001 and July 2004, respectively, and based on the findings of the respective missions that took place during January 2001 and January 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹Same as footnote 8, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.