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Statement by an IMF Staff Mission to Hungary

An International Monetary Fund (IMF) staff team today concluded a visit to Hungary to review recent financial, economic, and policy developments. The review was part of the IMF's Emergency Financing Mechanism procedures, which were used to expedite the approval of the Stand-By Arrangement with Hungary on November 6, 2008 (see Press Release No. 08/275).

Recent financial and economic developments have been broadly as envisaged under the IMF-supported economic program. Specifically:

- Financial market conditions have generally improved since October, but remain under stress. The exchange rate has been broadly stable, government bond yields have declined, and parent banks have continued to support their subsidiaries in Hungary. However, external financing conditions remain difficult and, with global deleveraging expected to continue in 2009, could deteriorate further.

- Economic indicators confirm that a downturn is underway. GDP data indicate a small decline in the third quarter of 2008 relative to the second quarter, and monthly data on industrial production and exports point to a larger decline in the fourth quarter. Looking forward, the economic downturn in the euro area and other trading partners, and the tightening of lending conditions are expected to lead to a fall in GDP in 2009.

Recent policy developments have also been broadly in line with the program. Specifically:

- Fiscal policy developments appear to be on track. The general government fiscal deficit in 2008 is projected to meet the target of 3.4 percent of GDP. The budget for 2009 is expected to deliver the size of fiscal adjustment envisaged under the program. The new Fiscal Responsibility Law is welcome as it introduces policy rules and independent scrutiny of budget proposals.

- The bank support law is being considered by parliament today. While the banks are currently in strong positions, the ongoing global deleveraging and the economic downturn make it important that Hungarian banks have access to capital enhancement and borrowing guarantee facilities that are similar to those available to banks in other EU countries.

- The policy interest rate has been reduced, reflecting the fall in projected inflation and the stability of the exchange rate. Inflation has fallen a little more quickly than expected, mostly due to declines in food and energy prices. Looking forward, the outlook for inflation is an important consideration, but unsettled financial market conditions point to the need to exercise caution in cutting the policy rate further.

Continued implementation of economic policies consistent with the program is essential to maintain investor confidence and minimize the depth of the economic downturn.