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IMF Completes First Review Under Stand-By Arrangement with Hungary and Approves €2.35 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Hungary's economic performance under a program supported by a 17-month Stand-By Arrangement (SBA). The completion of the review enables the immediate disbursement of an amount equivalent to SDR 2.11 billion (about €2.35 billion or US$3.19 billion), bringing total disbursements under the program to an amount equivalent to SDR 6.32 billion (about €7.05 billion or US$9.56 billion).

The SBA was approved on November 6, 2008 (see Press Release No. 08/275) for an amount equivalent to SDR 10.5 billion (about €11.76 billion or US$15.94 billion). The arrangement entails exceptional access to IMF resources, amounting to 1,015 percent of Hungary's quota.

Following the Executive Board's discussion on Hungary, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, stated:

"Against the backdrop of a worsening economic outlook and the persistence of financial market stress, policy implementation has been steadfast and responsive. All quantitative performance criteria and indicative target and the structural performance criterion and benchmarks for the fourth quarter of 2008 were met. However, economic growth in partner countries and global financial market conditions are turning out to be worse than anticipated when the program was agreed in November 2008. To address these challenges, the policy settings under the program have been adapted to strike the right balance between preserving creditor confidence in the soundness of Hungary's fiscal and balance of payments positions and avoiding measures that would further deepen the recession.

"The additional fiscal measures aim to strengthen fiscal sustainability while avoiding an excessively large negative impulse to demand, by combining permanent reductions in spending with a small rise in the 2009 budget deficit relative to the original program. The revised program puts additional emphasis on measures to safeguard essential social spending and help preserve financial stability, including ensuring the continuity of the safety net for banks, strengthening the remedial action and resolution regimes, and improving the capabilities of the Hungarian Financial Supervision Agency. Monetary policy will continue to target inflation over the medium term, while being prepared to act quickly as needed to mitigate risks to financial stability.

"In the context of the ongoing turmoil in global financial markets, strong implementation of the program will bolster Hungary's economic prospects, supported by large external financial support that provides reassurance that Hungary's external obligations can be met. The joint financial assistance being provided by the IMF, the European Union, the World Bank, and other multilateral partners sends a strong signal of the international community's confidence that, with the consistent implementation of the program, Hungary will weather the current difficulties," Mr. Lipsky stated.