According to the IMF, the direction is right
Magyar Nemzet, January 24, 2011

- *The representative of an investment company said at the Euromoney conference that it would be better for Hungary to default. Isn't this comment weird when almost each macro figure has improved recently?*

- I would not comment on the statement of a private investor. Regarding Hungary's situation, it got back money market's trust already in September 2009 and has been able to finance itself from the market since then. This shows well that in the current sensitive investor sentiment, it is worth conducting an economic policy which reduces vulnerability.

- *It seems that last year's deficit target was achieved, and this trend will continue in 2011. Why is this not enough for the improvement in the confidence in Hungary?*

- The 2010 budget outcome in ESA terms is expected to be available only in mid-2011.The available preliminary data for Central Government cash deficit or 3.2 percent of GDP suggests that the ESA deficit shall be achievable. The achievement of the deficit target would be welcome considering the agreement with the EU under the EDP. Beyond the headline deficit numbers, the quality of the adjustment is also important, that is whether it is structural, durable, and sustainable. Sustainable fiscal adjustment will help reduce one of the main vulnerabilities of Hungary –high level of public debt. Despite the expected decrease this year, this question remains crucial for Budapest

- *The measures to be announced in February aim at addressing these issues, don't they?*

- We have to wait for the details, as only some general elements have been announced. The general direction is welcome, and several elements have long been recommended by the IMF experts as well. For example, welfare reform. Hungary spends more on welfare than peer countries, so better targeting of welfare benefits could make the system more affordable for the country, and hence more sustainable. In addition, if the welfare reform creates incentives for people to go back to the labor market, this would boost employment, which will improve budget balance and support growth as well. There is also a need to reform SOEs to reduce their drag on the budget and improve operational efficiency.

- *Do you think it is favorable that the government plans to include a debt rule into the new Constitution?*

- We have always recommended strengthening of fiscal framework in Hungary, and creating explicit fiscal rules would be a step in a right direction. Whether to include in into a Constitution or not, it is for the legislators to decide. Experience of many countries shows that such fiscal rules, if designed well and strictly enforced, help to maintain fiscal discipline. But again, the devil is in the details, so let's wait for the elaboration of the concept.

- *The PM told a few days ago that the country would repay the part of the IMF-loan which it did not used. What do you think of this?*

- As any other IMF-member country, Hungary can decide to repay early all or part of their borrowings early without any penalty. Hungary's drew about EUR 9 billion from the IMF, to be repaid during 2012-14. In making such a decision, we expect that the authorities would weigh the implications for foreign exchange reserve coverage, the cost of debt servicing and their long-term financing plan

- *The IMF did not have a good opinion about the pension reform. However, the reform reduces public debt from 80% to 75% of GDP, doesn't it?*

- We were concerned with the implications for fiscal sustainability. The government's long-term liabilities on paying pension benefits have increased, which could reduce the long-term sustainability. The one-off revenues from the dissolution of the second pillar allow the government to improve headline deficit number even without necessary structural adjustment. As you know, the portion of pension savings are already budgeted to be used to finance current spending, which is similar to borrowing from future generations. Thus, while the one-time debt reduction is better than spending the money, one should take care of this debt reduction being continuous and sustainable by introducing additional structural adjustment. Experience shows that it is not a overly difficult task to reverse the 5pp reduction to an increase of the same amount in a few years. For example, when the effect of the effect of the temporary taxes will expire from 2013, the debt can start raising again then if no measures are taken.

- *Reforms are of course necessary. But perhaps not those reforms which Hungary was forced to deliver. Why did developed countries not introduce a three-pillar system. They only have a state pillar and a voluntary private pension system but no mandatory private system.*

- D you think that Western European countries facing serious pension system problems should be taken as a good example? These countries will also have to deliver some kind of reform in this area, as budget pressures from population ageing will be increasing. The key task is to improve the sustainability of the pension system and reduce strain on public finances in the long-term. So, it is inevitable to introduce measures in the pension system which reduce the future responsibility (liability) of the government and make system sustainable, either through adjustments to the already existing system or the introduction of a new one, or a mix of the above. And the earlier it is done the better, as these can be difficult reforms, facing social resistance, and people need time to adjust their pension saving behavior. So, with the earlier reform, Hungary was among the top countries in this sense.

- *Do you think the vehemence of dealing with Hungarian measures in the foreign press, by foreign governments and in the EU is "normal"? The accusations are sometimes completely not in line with the facts.*

- It is not my job to assess the international media. I do not read each and every newspaper, but the well-respected ones have tried to be factual. In my personal opinion, the reaction does not relate to Hungary per se, but to some policy steps. From the economic growth point of view, the steps that weaken economic governance (like elimination the independent institutions like the Fiscal Council or the restriction of the role of the Constitutional Court) could have negative implications on long-term stability and growth. Hence they could weaken investor sentiment.

- *The Fiscal Council did not recognize the problems with the 2010 budget, while it paid special attention to the budgetary risks after 2012-13 stemming from the measures of the new government. How do you explain this?*

- The Council was just set up before the 2010 budget was passed. So, while they produced partial analysis of the 2010 Budget, they had larger capacity to analyze the 2011 Budget in detail. And, as far as we can judge, the analysis was factual. Similar institutions operate quite efficiently throughout the world.

- *Why do you think the assessment of the IMF is so bad in given places? Many people think the IMF played a role in the excessively increasing indebtedness of many countries?*

- We also receive quite good feedbacks. The fact is that the IMF is present in a country if the country is in difficulty and needs its financial help and/or advice. Where everything is fine, the IMF has nothing to do. Therefore, many people tend to connect the problems to the IMF. We are fully committed to help the countries to alleviate their difficulties and eventually get back on a sustainable growth path.