

Hungary's talks with the International Monetary Fund are deadlocked

The International Monetary Fund and the European Union on 17 July suspended talks on the implementation of the savings programme with the Hungarian government. The financial institutions are demanding Hungary impose greater budget discipline and perform a more intensive cost cutting process. Hungary will be unable to use the last tranche of the loan and will seek the opening of a flexible credit line for 2011-2012 until an agreement is reached. Although withholding financial assistance does not pose a risk to the stability of Hungary's budget, the dispute with the IMF is still having a detrimental effect on the opinion of the Hungarian economy among investors and markets and is causing depreciation of the forint. The negotiations between the IMF and the Hungarian government, which have been underway for almost two weeks, have failed to bring a compromise as to particularising the reforms which Hungary had committed to conduct in 2008 in exchange for financial aid (a total of approximately 20 billion euros) granted by the IMF, the EU and the European Central Bank. The IMF's delegation and the Hungarian government disagree about the manner of achieving the set budget goals, i.e. deficit at a level not higher than 3.8% of GDP in 2010 and below 3% of GDP in 2011. The IMF is trying to convince Budapest to further reduce costs and to restructure unprofitable state-controlled companies. In turn, the government coalition is trying to cover the budget gap with higher incomes by such means as imposing an additional tax on the financial sector. The IMF opposes the latter solution, arguing that the burdens imposed on banks will cause a slowdown in new loans and, consequently, a decrease in economic growth (the expected economic growth in 2010 is 0.6% of GDP). Delaying the deal with the IMF may be linked to the upcoming local elections, due to take place this autumn in Hungary. The governing Fidesz party probably intends to block the budget cuts which the IMF is insisting on until that time and thus help maintain public support for the governing right-wing party. The IMF and EU delegations will return to Budapest in September. <boc>