

International Bank for Reconstruction and Development
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Board Meeting of Tuesday, January 27, 1998
Statement by Godfrey Gaoseb

Hungary: Country Assistance Strategy

1. We commend the Hungarian authorities for the strenuous efforts they have undertaken since 1995 to turn the economy around. The results achieved in the stabilization and reform fronts have been quite impressive, with internal and external balances brought under strict control, privatization programs successfully implemented and a remarkable upturn in output growth from negative rates during 1989-1993 to an expected rate of 4 percent in 1997. The positive outlook by the international credit rating agencies and EU's invitation to Hungary to initiate membership negotiations are clear testimony of the confidence of the outside world on the country's performance. The Hungarian authorities deserve to be congratulated for their strong commitment and perseverance in their endeavors to achieve the economic, social and political objectives they have set for themselves.
2. We find the proposed CAS in consonance with the government's strategy which rests on focusing attention on a few selected areas, namely, the pension system, health, local government finance, environment and accession to the EU. We are pleased to note that lessons learned from the previous CAS will be applied in the implementation of the proposed CAS. We particularly note the attention given to the proper sequencing of policy reforms by breaking them into manageable steps. We are in full agreement with the views expressed in paragraph 35 about the importance of focusing efforts on a few critical projects that are backed by wide popular support and political consensus. In this connection, we would like to commend staff for their broad-based consultations with the different groups of stakeholders in Hungary.
3. On the pension reform, we applaud the efforts being made to reform the PAYG system by tightening the link between contributions and benefits. We believe that the accompanying operation to this CAS, i.e. the "Public Adjustment Loan", fits well in the envisaged plan for pension reform and, therefore, we lend our support to the proposed project. Besides reducing pressure on the budget, such a scheme will help in mobilizing savings needed for meeting long-term developmental objectives as well as strengthening domestic capital markets.
4. With regard to the World Bank's comparative advantage, we believe that Bank operations should be in line with the government's priorities cited in paragraph 39. The Bank should

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exit from sectors in which other players can do a better job. The Bank's assistance should primarily focus on areas that are related to Hungary's accession to the EU. It is also important that, given Hungary's sophisticated public debt management system, the Bank should confine its operations in areas where it can be competitive. In this connection, while we agree that shifting to single currency loans may solve part of the problem of the perceived high costs of Bank's lending, we believe that more effort is needed to tackle the issue of high indirect costs of Bank loans.

5. To meet the high environmental standards of EU, Hungary has to pay special attention to the issues related to environment. Working closely with local governments is, in our view, the most viable way of tackling these problems, and we would, therefore, encourage the Bank to be involved in operations undertaken by sub-sovereign bodies. However, since this area is of particular concern to the EU, we would have expected the latter to play the leadership role in this area, with the Bank playing the supporting role. It is not clear to us whether the proposed role for the Bank in paragraph 54 is consistent with the principles set by the government in paragraph 38. We would appreciate hearing more from staff in this regard.
6. With respect to the lending scenarios, we have no difficulties with the proposed range of US\$700-800 during FY98-00. We also endorse initiating discussions on cost sharing of non-lending programs when the level of lending falls substantially below this level and also shifting some resources towards improving implementation of reform programs.
7. Given the substantial improvement in Hungary's macro-economic environment, we expect the IFC and MIGA to be more proactive and raise the level of their involvement above the modest levels of Annex B3.
8. Finally, we wish the Hungarian authorities success in their drive for accession to the EU. We also would like to commend staff for a well-prepared CAS.