Board Meeting of January 27, 1998
Statement by Jan Piercy

Country Assistance Strategy for the Republic of Hungary

1. This is an informative and candid document and we commend staff for the frank discussion of the many considerations which went into the formulation of the current country assistance strategy. As the CAS notes, Hungary has made enormous economic progress and is now one of the Bank's most sophisticated clients. Hungary is a leader among transition economies in structural reform and its ability to attract foreign capital. It is also preparing its economy for accession to the European Union, and the path of eventual graduation. At the same time, Hungary's reform agenda is incomplete; there are a number of key and very complex areas where further progress is needed to rationalize the role of the state and complete the transition to a market economy. There is still a long and difficult road ahead.

2. We believe the CAS does a very good job in defining a role for the Bank which is responsive to Hungary's unique situation. The highly selective Bank approach of the CAS is both well-targeted and realistic. We very much appreciate the Bank's self-assessment of its comparative advantage, and the discussion of key factors -- e.g., Hungary's development needs, the Bank's relations with the Government, the increasingly important European context, and the program risks -- which underlie the Bank's strategy.

3. We believe the proposed Bank focus on pension reform, health and local government finance is on the mark as long as there continues to be full Government ownership and commitment to the program to strengthen and deepen reform. Moreover, the difficult nature of the reforms which the Government expects to undertake with Bank support in these areas, and the lessons of the Bank's portfolio experience, suggest that Bank operations may well experience delays and require a pragmatic approach, combined with response flexibility. In the area of pension reform, for example, implementation will have to address both information technology problems and a lack of fully qualified technical staff.

4. The ambitious nature of Bank supported Government reform efforts is well illustrated with regard to municipal development. In addition to the uncertainties and risks usually associated with lending to sub-national borrowers, the complexities entailed in the task of formulating and operationalizing a strategy to address selectively the priorities of 3,000 municipalities appears particularly daunting. Major attention will have to be given to reinforcing sub-national level capacity in project development and implementation, and there
will have to be very careful analysis to determine how best to mobilize the multi-municipality cooperation necessary to achieve viable economies of scale and improve financial absorptive capacity.

5. I would also like to comment on a few other areas of the CAS:

(a) I appreciate the Poverty Assessment discussion and expect the Bank to continue to work closely with the Government to support better targeting of the very poor. In this context, we very much support the emphasis which the Bank's municipal development agenda places on improving the access of the poor to critical services and on addressing other regional economic disparities.

(b) The emphasis on close consultations and cooperation among donors is critically important in the pre-accession period given the growing importance of other donors. We welcome the role which the Bank's Country Economic Memorandum is expected to play in fostering donor collaboration. To maximize development impact, we also strongly support efforts by the Bank and the IFC to explore possibilities for increased co-financing opportunities with other partners.

(c) We welcome Bank support for the environment and the Government's efforts to meet the environment directives of the European Union. Staff are to be commended for the pro-active Bank stance on environment.

6. There are two key areas -- banking supervision and good governance. These were not emphasized in the CAS but we believe they are areas where the Bank Group's considerable experience would be helpful to the Government. We would encourage a pro-active Bank dialogue with the Government on both of these issues. We would also have liked to see greater elaboration of the IFC's projected role and its potential for catalyzing the development of new private sector opportunities.

7. In sum, we believe the proposed Bank strategy in Hungary makes sense and conforms to the emphasis which the Strategic Compact places on having the Bank play a selective, client-focused role based on the Bank's established comparative advantage and the opportunities for partnerships.