

# Student Loans: A Hungarian Proposal

## Part 2: Implementation

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## Contents

1 Designing the Student Support Agency

2 Debt sales

3 Other questions

Appendix 2: The student support system

Appendix 3: Ownership of the Student Loans Agency



## Designing the Student Loans Agency

example the allocation of scarce residential accommodation – decisions and administration should take place at local level. This argument, however, does not apply to the basic student grant of 70,000 Ft. per year, which is given to students in 10 monthly payments on the basis of rules which are nationwide and which allow

## 2 Debt sales

15. *What are the Agency's tasks in relation to debt sales?* Consideration should be given to whether or not the Student Loans Agency should be directly responsible for selling the debt to the private sector. If that task is carried out by the Agency, senior management with appropriate financial market experience will be needed.

16. *Timing of debt sales.* The Minister and officials emphasised the importance of keeping budgetary pressure to a minimum. For this reason it would be desirable to structure the timing of loan floatation to bring in funds at a rate which matches the flow of payments to students.

17. *What guarantee regime?* As discussed in section 3.1 of the companion paper, there is a tradeoff between a minimal guarantee to private lenders (which is helpful in ensuring compliance with IMF rules) and a generous guarantee, which enables government to charge a higher price for student debt.

18. *To whom should debt be sold?* Should student loan stock be sold on the international market or restricted to Hungarian financial institutions? International competition, at least in the early years of the scheme, might allow the Student Loans Agency to borrow on the best possible terms. Hungarian government bonds are currently attractive to investors, partly because they carry a high yield (though in part this is a risk premium) and partly through anticipation that Hungarian accession to the EU will lead to high growth rates. Certainly, the Hungarian bond market is stable.

19. In principle, the attractiveness of government bonds should carry through to student debt *provided* that the repayment mechanism is sound. Since the flow of income-contingent repayments is highly sensitive to the growth of real income, higher-than-normal growth rates in the early years of EU membership (a likely outcome) would generate a particularly strong flow of repayments from early student borrowers. However, international investors are not usually interested in small bond issues – in major

Other questions

jump). Second, there is administrative complication if the repayment base (180) is different from the tax base (80). Using marginal income as the repayment base (as in New Zealand and the UK) avoids these disadvantages, but at the cost of a significantly smaller repayment flow.

25. Though loan repayments will not be collected until year 3 or 4 of the scheme, giving time to put administrative mechanisms into place, the loan *contract* needs to be specified in advance. Thus it is necessary to think now about the full range of repayment mechanisms. For example, the UK loan agreement is for income-contingent repayments so long as the borrower remains within the ambit of the UK income tax system. Under the agreement, however, the loan reverts to mortgage repayments if the student works outside the UK income tax system.

### 3.2 Design of the tax system

26. The UK income tax system collects a person's tax payments weekly or monthly. However, it is only at the end of the tax year that the tax authorities work out how much tax each individual has paid. It follows that, though the tax authorities can pass loan repayments on to the Student Loans Company on a monthly basis, they can tell the Student Loans Company which borrower has paid how much only after the end of the tax year. This lag in identifying individual repayers creates a major job for the Student Loans Company of identifying individual student accounts

76. The UK is unusual in (identifying individuals only at the end of the



## Appendix 2: The student support system

[\* Can Erika supply text]



There might be advantages in terms of public