NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/101

10:00 a.m., August 5, 1992

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
	L. E. N. Fernando
Che P.	Wei B.
C. S. Clark	
T. C. Dawson	Q. M. Krosby
J. de Groote	J. Prader
E. A. Evans	R. L. Knight
R. Filosa	J. Papadakis
M. Finaish	A. F. Mohammed
I. Fridriksson	
H. Fukui	
B. Goos	
	T. Sirivedhin
	J. C. Jaramillo
J.-P. Landau	
A. Mirakhor	
L. B. Monyake	
D. Peretz	P. Wright
G. A. Posthumus	
C. V. Santos	
A. Torres	R. Marino
A. Végh	A. G. Zoccali

L. Van Houtven, Secretary and Counsellor
S. L. Yeager, Assistant

Also Present

Delegation from the Russian Federation: Konstantin Kagalovskiy, Plenipotentiary Representative of the Russian Government for Interaction with International Financial Institutions; Andrei Vavilov, First Deputy Finance Minister; Alexander Potemkin, Director, International Operations Department, Central Bank of Russia; Aleksei Mozhin, Director, Russian Government Department for Interaction with International Financial Institutions; Georgiy Markosov, Counsellor, Russian Embassy. IBRD: P. Vieira Da Cunha, Y. Huang, Europe and Central Asia Regional Office. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director. European Department I: M. Russo, Director; J. Artus, Deputy Director; G. Bélanger. European Department II: J. Odling Smee, Director; E. Hernández-Catá, Deputy Director; J. Berengaut, A. Cheasty, V. R. Koen, P. M. Nagy, S. T. Phillips, P. S. Ross, T. A. Wolf. External Relations Department: S. J. Anjaria, Director; M. A. Seeger. Fiscal Affairs Department: V. Tanzi, E. Sunley. IMF Institute: C. J. R. Morris. Legal Department: P. Francotte. Monetary and Exchange Affairs Department: M. Guitan, Director; G. Ilden. Policy Development and Review Department: J. T. Boorman, Director; C. Adams, D. Burton, B. Christensen, R. Rennhack. Research Department: M. Mussa, Economic Counsellor and Director; B. Calvo, M. Knight. Southeast Asia and Pacific Department: M. Fetherston. Bureau of Statistics: J. McLenaghan, Director. Treasurer's Department: D. Williams, Treasurer; K. Boese. Office of the Managing Director: P. R. Narvekar, Special Assistant; B. P. A. Andrews, Personal Assistant. Advisors to Executive Directors: J. M. Abbott, J. O. Aderibigbe, M. A. Ahmed, P. Bonzom, L. E. Breuer, M. B. Chatah, C. D. Cuong, L. Dicks-Mireaux, B. R. Fuleihan, M. Galán, A. R. Ismael, J. Jamnik, J. M. Jones, Y.-H. Lee, E. Martínez-Alas, R. Meron, M. J. Mojarrad, M. Nakagawa, J.-C. Obame, Y. Patel, F. A. Quirós, A. Raza, B. A. Sarr, B. Szombati, N. Toé, A. Törnqvist, S. von Stenglin. Assistants to Executive Directors: B. Abdullah, S. Al-Huseini, T. Alami, M. C. Arraes, D. A. Barr, T. Berrihun, G. Bindley-Taylor, B. Bossone, J. H. Brits, Chen M., J. A. Costa, S. B. Creane, M. Da Costa, Deng H., H. Dognin, Duan J., N. A. Espenilla, Jr., S. K. Fayyad, A. Giustiniani, H. Golriz, M. A. Hammoudi, M. E. Hansen, V. Harris, K. M. Heinonen, O. A. Himani, J. Jonas, P. K. Kafle, T. Kanada, T.-M. Kudiwu, V. Kural, K. Langdon, W. Laux, G. Lindsay-Nanton, J. Mafararikwa, G. J. Matthews, L. J. Morelli, F. Moss, J. A. K. Munthali, L. F. Ochoa, J. K. Orleans-Lindsay, E. H. Pedersen, R. K. W. Powell, E. Quattrociocche, L. Rodríguez, S. Rouai, P. L. Rubianes, D. Saha, N. Shimizu, F. A. Sorokos, D. Sparkes, N. Sulaiman, L. Tase, Tin Win, T. P. Thomas, R. Thorne, J. W. van der Kaaij.

1. RUSSIAN FEDERATION - REQUEST FOR STAND-BY ARRANGEMENT

The Executive Directors considered the staff report on the Russian Federation's request for a five-month first credit tranche stand-by arrangement in an amount equivalent to SDR 719 million (EBS/92/119, 7/10/92; Sup. 1, 7/13/92; Sup. 2, 7/16/92; Sup. 3, 7/24/92; Sup. 4, 7/31/92; Sup. 5, 8/4/92; and Sup. 3, Cor. 1, 7/27/92).

Mr. Konstantin Kagalovskiy, Plenipotentiary Representative of the Russian Government for Interaction with International Financial Institutions; Mr. Vavilov, First Deputy Finance Minister of Russia; Mr. Potemkin, Director of the International Operations Department of the Central Bank of Russia; Mr. Mozhin, Director of the Department for Interaction with International Financial Institutions; and Mr. Markosov, Counsellor at the Russian Embassy, were also present.

Mr. Kagalovskiy made the following statement:

I would like to express my deep appreciation for this opportunity to participate in this meeting of the Executive Directors of the International Monetary Fund.

From the very beginning of our reform we have been working in close cooperation with the Fund. The importance of this cooperation cannot be overestimated. On this occasion, I would like to thank on behalf of the Russian Government the highly professional staff of the Fund for its outstanding contribution in helping our Government to elaborate the policies of transition toward a market economy.

In the first seven months of economic reform, many important results have been achieved. Price liberalization marked the end of seven decades of the command economy and laid the basis for the transition to a market system. Foreign trade liberalization, based on the elimination of the majority of export quotas, has set in motion the process of opening up the Russian economy. The elimination of multiple exchange rate practices on July 1 allowed the introduction of current account convertibility of the ruble, based on a freely floating exchange rate. Liberalization measures were coupled with a set of new policies aimed at financial stabilization. Comprehensive tax reform, based on the introduction of the value-added tax, greatly strengthened the revenue base of the budget. Budgetary expenditures were cut drastically, especially subsidies, centralized investments, and military spending. Simultaneously, the Central Bank of Russia tightened monetary policy, and interest rates increased dramatically.

Serious efforts have been made in the area of systemic changes. Small-scale privatization is making rapid progress in most regions of the country. On July 1 the process of

corporatization of large state-owned enterprises was started. At the same time the preparation of a massive privatization of large state enterprises, based on the voucher scheme, is under way. Work in this area has been proceeding in close cooperation with the World Bank.

The Government has set itself ambitious targets for the end of the year. Our intentions are to reduce the monthly rate of inflation to single digits by December and to limit the domestic budget deficit to 5 percent of GNP in the second half of 1992. For that purpose, in August we will introduce fiscal measures that will yield an additional rub 380 billion in budgetary revenues. Recently, a decision has been taken to go even further in the budgetary area than had been planned in July. The sequestering of unprotected budgetary expenditure items will increase from 20 percent to 25 percent. At the same time, a reduced rate of indexation of budgetary expenditures will save another rub 400 billion. Financial stabilization remains our top priority, and the Government will implement compensatory fiscal measures in the event of shortfalls in revenues or overruns in expenditures. On the monetary side, we are ready to further increase interest rates if and when it appears to be necessary. It is also our intention to restrict credit within the indicative targets laid out in the Memorandum of Economic Policies.

On behalf of the Russian Government, I would like to confirm our intention to continue close cooperation with the Fund. In coming months proper monetary arrangements for the ruble area will allow us to resume negotiations on a full-scale stand-by program. We also plan to introduce a pegged exchange rate system on the basis of a successful stabilization policy. For that purpose the activation of the Ruble Stabilization Fund will be necessary, and we highly appreciate the Fund's efforts in that area.

Russia is looking forward to playing an active role in the work of the Fund as a whole, especially after your new Russian colleague joins the Board.

Mr. Peretz made the following statement:

I am delighted to be speaking first. This is an important occasion.

I strongly welcome the Russian Government's commitment to economic reform and its determination to ensure that Russia joins, or rather rejoins, the world economy. I have personally been delighted, and I should say honored, to be able to play a part in helping Russia first become a member of the Fund and then to reach

this agreement with the staff on a first credit tranche arrangement.

I see this arrangement, which I certainly hope we will agree today, as a measure of the far-reaching changes that have already taken place in Russia; as a welcome commitment to further steps that it will be absolutely essential to take over the next few months if the economic reform process is to be successful; and as an important step toward agreement--which I would hope to see this autumn--on a full stand-by arrangement with the Fund.

The Russian Government has already achieved a great deal since it launched its reform program earlier this year. Most prices have been freed, trade has been largely liberalized, and the exchange market now has been unified. Decrees have been issued on bankruptcy and the conversion of state enterprises into joint-stock companies. Privatization has begun of small businesses and plans for larger-scale businesses are under way. These developments would have been unthinkable only a year or two ago.

I said that the further actions set out in the letter of intent are essential. Let me explain what I mean. It would certainly be a serious mistake to think that the path to reform or the pain of adjustment would be easier if less were done. If fiscal or monetary policy were any less tight, there would, I believe, be a real risk of hyperinflation. Nothing would be more catastrophic for the reform process. Without money that people can trust, creating a market economy would be impossible. Nor would the difficulties for the Russian people be any less. They would first lose from the inflation process and from the chaos it would bring, and then, in the end, the Russian authorities would be forced to adopt even more drastic measures than anything now in prospect.

It is therefore critical for Russia that the authorities implement the measures set out in their Memorandum of Economic Policies and take steps rapidly to redress any slippage in implementation that has already taken place. Here, I welcome particularly the commitment in the most recent letter to larger-than-planned expenditure reductions over the rest of 1992. I would stress that carrying these measures through is essential also for internal and external credibility, which are also key elements of success.

I am, if anything, more concerned about the need to carry through the commitments on monetary policy than the more specific commitments on fiscal policy. If I had a criticism of the program put forward by the Russian authorities, it is that too much may be expected of fiscal policy. I regard the commitments to implement

credit ceilings and to be ready to raise interest rates, if needed--and to achieve positive real interest rates by the end of the year--as extremely important. Now that the exchange market has been unified and intervention is to be limited, the exchange rate will provide a useful indicator of the adequacy of monetary policy. If the exchange rate weakens, interest rates must be raised. This is by far the most effective way--probably the only effective way--of encouraging enterprises to convert their foreign exchange into rubles.

Macroeconomic stabilization is essential, but on its own is certainly not enough. Experience in previously planned economies that are moving to market economies shows that macroeconomic stabilization will fail unless accompanied by structural reform. Of course, the reverse is also true. Here, I welcome the steps already taken and the plans for the future as set out in the staff report. I also warmly welcome the speed with which the World Bank has moved and the good cooperation that is evolving between the Fund and the Bank in advising and providing assistance to the Russian authorities. The rehabilitation loan, I hope, will be approved tomorrow in the World Bank Board. That, I hope, will be followed by three major sectoral adjustment operations before the end of the year. The Bank's involvement is, I believe, as important as the Fund's: it may, in the end, be more important, for it is structural change that will bring economic growth and with that a substantial flow of inward investment.

It may be helpful both for the staff and for the Russian authorities for each of us to say something about the progress we would hope and expect to see before we move to the next stage-- a full upper credit tranche stand-by arrangement. Before doing so, let me make one last detailed point on the conditions underlying the arrangement we are discussing today. An appendix to the Memorandum of Economic Policies states that Russia's international reserves must not--ever--fall below a particular level. This is a very strict condition--I think unusually so. I am not myself sure it is entirely sensible. Certainly if it became publicly known that there was such a restriction on Russia's ability to use its reserves, that could send the wrong signal to financial markets. I hope that, in practice, this condition will be interpreted with a degree of latitude alongside what I see as a more important element of the agreement--that the Russian authorities do not in any case intend to engage in large-scale intervention in the exchange market in the months ahead.

Looking to the future, what further developments would justify moving to a full stand-by arrangement? I would list three, in ascending order of importance.

First, the Russian Government will clearly need to set itself fiscal targets extending into the next year. The present arrangement only covers 1992.

Second, there will have to be satisfactory arrangements for monetary control within the ruble area, including arrangements for orderly withdrawal by those states that wish to leave the ruble area. These are, I think, being discussed, and I am hopeful that they will be in place by the autumn.

Third, and most important, monetary policy will need to be strengthened, including a move, as envisaged in the program, to much more flexible interest rates and to positive real interest rates in due course.

In sum, the agreement that I hope we will reach today on the first credit tranche arrangement and the policies set out in the Government's Memorandum of Economic Policies are important but not sufficient. They have now to be implemented. We must, of course, recognize the political and practical difficulties facing the Russian Government and have realistic expectations of what can be achieved. That is why I think the stage-by-stage approach we are following is the right one--namely, agreement on a first credit tranche arrangement, followed by a full stand-by arrangement, followed in due course by the establishment of a stabilization fund. The initial targets have to be sufficient to avoid hyperinflation but they also have to be achievable--as I believe they are. But I hope that this first arrangement will lead to a growing and developing relationship between Russia and the Bretton Woods institutions. I should add that this arrangement will also clear the way for a good deal of external assistance, including a Paris Club rescheduling, on which the U.K. authorities are ready to take a constructive position.

I hope that this stage-by-stage process will lead to agreement on a full stand-by arrangement that might come to the Board later this year. I would, however, suggest that if for any reason that were not achieved, we should, in any event, try to find an opportunity for the board to review progress in Russia some time before the end of 1992. This is a program being implemented by a new member and, more important, by one of the largest, most important countries in the world. I think it is right that the Board should continue to take a close interest in its progress. I can, of course, support the draft decision.

Mr. Mirakhor said that he would be interested to know how to reconcile Mr. Peretz's point that the condition imposed on Russian reserves was too restrictive with his fear that monetary policy was not called upon to do as much as fiscal policy.

Mr. Peretz remarked that the condition on reserves was not a sensible one if it became known in the foreign exchange markets that the intention was not to use them. While he agreed that it should be the intention not to use them, that should not be for the record.

The Chairman observed that exchange markets also liked to know that a minimum level of exchange reserves would be maintained. But that was a minor point.

Mr. Dawson said that he agreed with the Chairman. Such a condition was not unusual in the initial stages of a Fund-supported program. Of greater concern was the authorities' apparent intention to follow a fairly flexible exchange rate policy.

Mr. Peretz remarked that it was a small point, and he agreed with Mr. Dawson. The Russian authorities were right to wish to add to their reserves, right not to wish for intervention in the exchange market on a significant scale. It was only a question of what could sensibly be stated on paper and might become public.

The Chairman observed that everyone present was committed to respecting the confidentiality of papers and discussion of the Board.

Mr. Dawson made the following statement:

> With all the public attention, and interest, focused on the latest reports on the status of Russian economic reform and adjustment efforts, we should not overlook the essential historic purpose of our meeting today: to consider the first use of Fund or multilateral financial assistance by Russia. In and of itself, this is an impressive achievement for Russia as well as for the Fund staff, who have been closely cooperating with the authorities in working out the Russian economic blueprint. The intensity of developments belies the shortness of time--only nine months--since the Russian authorities launched their reform plan last December. In the intervening period, Russia has become a member of the Fund and has decisively signaled its desire to move rapidly toward a market economy. The most noteworthy signals have been the early liberalization of prices and trade policies, followed by the March announcement of an ambitious Memorandum of Economic Policies that foresaw dramatic stabilization and structural reform efforts for the remainder of 1992.
>
> Perhaps not surprisingly, at that point, intentions began to outrun actions. In late March, this Board enthusiastically supported the Memorandum of Economic Policies, particularly as it was the first stage of an even more intensive effort that would underlie a request for access to Fund resources. Subsequently, the outlook for the overall stabilization and reform effort began to cloud with public reports about differences between, and among,

the authorities and the Fund staff which appeared to some to pose a threat to the cooperative negotiating process critical for any Fund-supported program, but essential in the case of Russia. Since then, there has been a progressive lowering of expectations for rapid progress in developing a strong economic program.

Today, we are presented with a program that is more than adequate to merit our support for a first credit tranche drawing, but is short of what we might have hoped would be in place at this time, either as necessary for an upper credit tranche program, or more important, for the needed stabilization of the Russian macroeconomic situation. While we definitely and enthusiastically support the request today, like Mr. Peretz, we would like to clarify our views about necessary steps leading to further financial assistance from the Fund as well as eventual activation of a stabilization fund.

First, we would expect to see a good performance record under the current program. A critical part of building international confidence in a program is satisfactorily meeting established targets and commitments. For that reason, while accepting, and even understanding, the delays proposed in the recent letter from the authorities to the Fund, we are disappointed that commitments made only a few weeks ago in the Memorandum of Economic Policies are already being delayed. Further compounding our concern, we note from the most recent supplementary paper that some of the key enabling decrees have not yet been signed.

Second, we would expect to see a stabilization and reform program for 1993 decidedly tighter than that contained in the current Memorandum of Economic Policies, and I will identify some areas in particular where we would hope to see additional progress.

Finally, it would seem that public statements or discussion of the Fund's work in Russia might best be geared to demonstrating to the Russian public the need for, and benefit of, sustained adjustment efforts; similar efforts have helped ensure the success of Fund-supported programs elsewhere in the world.

In every economy of the world, my own included, the fiscal policy stance is the centerpiece, or in some cases, the Achilles' heel, of an economic program. In an economy where the only existing method of financing the budget deficit, aside from foreign assistance, is through inflationary monetization, the degree of fiscal policy laxity or tightness takes on even greater importance. It is for this reason that I concentrate our attention today on the fiscal measures presented and planned in the Russian economic program.

As much as we were pleased with the original target in the March memorandum of a 1 percent fiscal deficit overall for 1992, built on the assumption of surpluses in the second half of the year, we were subsequently concerned with the prospective ballooning of the deficit to a projected 20 percent in the second half of the year under the budget approved by the Supreme Soviet in May. Subsequent measures would have inflated the deficit even further, and if one considers that the 20 percent estimate is based on an inflation rate one third the current projections for the second half of the year, the underlying deficit would have been even larger. In this light, that the authorities have managed to pull together a package of measures to bring the fiscal deficit down to 8.5 percent of GDP in the second half of the year is commendable.

It is also critical for stabilization of the economy and avoidance of hyperinflation. For this reason, we strongly urge the authorities not to permit further lapses in the new fiscal package, including, at a minimum, implementation without delay of remaining revenue-raising measures and the adoption of additional measures if it appears that the deficit target is slipping away. At the same time, we look forward to the development of a fiscal program in the near future that structurally transforms the budget process, reducing the reliance on unsustainable sequestering, undesirable taxes and other ad hoc budgetary fixes. Among the proposed measures suggested in the Memorandum of Economic Policies for future implementation, particular attention should be given to removing all exceptions to existing taxes, including the value-added tax, profit and export taxes. Far too many ad hoc exceptions under these taxes have had the effect of smothering revenues and clouding efforts to improve transparency of the market. We are in agreement with the authorities' understanding of the need and ability to tap production and export of natural resources as revenue sources, at least in the short term. Therefore, although not only for that reason, we support the authorities' desire to raise energy prices--which are still only 13 percent of world levels--to world market prices within two years. Tax administration reform efforts and the removal of the implicit exchange rate subsidy are also to be commended. Acceleration of the current plans to adopt any of these measures now targeted for completion by the end of the year would be both beneficial for Russia's economic health as well as an important sign of the authorities' commitment to overall adjustment.

The ceiling on capital expenditures for public enterprises is important not only for fiscal adjustment but also for speeding resolution of the large level of interenterprise arrears. The authorities are urged to keep in check possible pressures for rising expenditures in other areas as well, such as in non-essential expenditures, including the military. At the same time,

given the halving of real wages sustained in the first half of the year and the subsequent further decline projected under the new package of measures, there will be strong pressure to boost wages before year-end. These pressures will be hard to resist, but the consequences of a wage-price spiral would be devastating.

The problem of interenterprise arrears looms as one of the most difficult in the near future. The ceiling on budget-financed capital infusions and the removal of generous exchange rate subsidies should bring public enterprises closer to the rude shock of a tough budget constraint, as should moving interest rate subsidies for producers onto the budget and tougher penalties on new arrears. Most of these steps appear geared to preventing a further accumulation of arrears rather than eliminating existing arrears. We wonder how long these measures will have to be in place before enterprises are convinced that a bailout is no longer a prospect and begin to borrow directly and more productively from the banking system. Until earmarking of central bank lending is eliminated and the bankruptcy law proves workable in practice, public enterprises would be unlikely to respond fully and appropriately to market signals.

Regarding financing of the fiscal deficit, we would note that any slippages resulting in a larger deficit in 1992 would likely result in a corresponding larger domestic financing requirement. The Memorandum of Economic Policies refers, perhaps somewhat optimistically, to the possibility of covering some of the domestic financing this year through issuance of domestic securities at market rates. The authorities are fully encouraged to proceed as quickly as possibly with this goal; however, in view of the technical time needed to introduce government securities as well as the market conditions presumably necessary, it does not seem likely that the marketing of government paper will be a measurable contributor to covering the fiscal deficit before the end of the year.

The recent restatement of the Central Bank's commitment to the policies of the Memorandum of Economic Policies is welcome. Tight control of monetary policy is a critical supplement to the fiscal policy intentions in the effort to stabilize the economy. It is absolutely essential that the credit targets contained in the Memorandum of Economic Policies are not breached and that banks not use part of credit provided from the Central Bank to support the Government. Given the current projections for the inflation rates to decelerate to just under 10 percent on a monthly basis by December, the central bank finance rate will have to be raised to achieve the real interest rates committed for year-end. The increase in interest rates on deposits at the savings bank is certainly welcome, although all interest rates are still strongly negative in real terms. We would hope that

administered changes in the savings rate would be made in a relatively frequent and flexible fashion until such time as the financial system can be liberalized more profoundly. Overall, the financial system continues to be appear excessively disjointed and opaque and in need of a strong dose of reform to restructure it into a more market-oriented sector.

We also look forward with considerable interest, in view of the fast-approaching deadline, to resolution of some of the basic issues concerning monetary and exchange rate policy in the ruble area. This should improve the functioning of monetary policy within Russia. All of the former republics, including Russia, will be most helped by a cooperative and coordinated monetary policy worked out responsibly with all the economies remaining in the ruble area. In view of Russia's dominance in the ruble area, we would look to it to take a lead responsibility in the process.

Regarding exchange and trade policy, we congratulate the authorities on taking the final steps leading to a unified exchange rate and the intention to use it together with a flexible interest rate policy in pursuing tight financial policies. However, it is therefore curious to note in the most recent supplementary paper that, in July, the ruble depreciated by an amount approaching 20 percent, and yet also note in the press yesterday that a central bank official is studying a steep decrease in the central bank finance rate. Hopefully, we will hear from Mr. Kagalovskiy that this report of interest rate policy change inconsistent with the aims of the Memorandum of Economic Policies is unfounded.

As to systemic changes, given the relatively gradual plans for privatization, we are somewhat bemused by press reports of criticism of the allegedly excessively rapid pace of privatization. We would strongly urge the authorities to move as quickly as possible on privatization in order to reach most rapidly their goal of moving to a market system. Privatization of the state distribution system should be a priority, and even if it is not required for external assistance, we would advise the authorities to move quickly on this subsector for their own benefit. As the Memorandum of Economic Policies observes, rapid growth of the private sector will help to absorb expected increases in unemployment as the public enterprise sector is restructured. Some concrete progress on privatization would be an important signal of commitment to an overall economic adjustment program.

Other steps are strongly encouraged to speed sectoral reforms, particularly in agriculture, energy, and the financial sector and to complete the development of the institutional framework necessary to develop a market economy, including still incomplete legislation on private ownership. All of these steps,

and many others that would reduce red tape, will increase the attractiveness of Russia as a location for foreign investment, although macroeconomic stability is still an essential ingredient in individual companies' investment decision making.

In conclusion, we are fully supportive of the Russian authorities' efforts to move forward on economic reform and stabilization. The first steps to stabilize the economy, avoid hyperinflation, and prepare the groundwork for structural reform, seem to be at hand. We are also fully cognizant of the rising opposition of entrenched interests to the full implementation of the adjustment plan, and, based on experience around the world, a point Mr. Peretz made earlier, we believe that these are only likely to get stronger with time. It is in part for this reason that we urge rapid movement now on the economic program so that Russia will not fall far behind the progress of its former trading partners in Eastern Europe or the rest of the world. We look forward over the next month to learning of the implementation of the final measures promised in exchange for today's approval of the first credit tranche drawing. We look forward over coming months to the articulation of a more fully defined economic stabilization program, including significant prior actions in key areas, that could be supported by an upper credit tranche arrangement.

Mr. Landau made the following statement:

We are considering this request for a first credit tranche in very special and important circumstances. First, it is the first time that the representative of Russia participates in our meeting as a full member, and I would like to extend to him my warmest personal welcome as well as that of my authorities. Second, Russia's reform program is indeed at a critical stage: while impressive measures have already been taken, which fully justify the Fund's support in the framework of a first credit tranche, the danger of further slippages is indeed real; furthermore, the stabilization process needs to be strengthened and consolidated both for ensuring the success of the reform program and warranting further support from our institution.

Impressive measures have already been taken by the authorities. First and foremost, I would mention the comprehensive and unprecedented price liberalization that was undertaken in January and the sixfold increase in domestic petroleum prices of last May. They should, and will, contribute to a powerful stimulation of supply. The authorities have also implemented the unification of the exchange rates and are moving fast toward full internal convertibility of the ruble for current account transactions. The staff is fully justified in underlining the extent of this

achievement, for an economy which nine months ago was still under central planning control.

Those welcome and radical changes in the Russian economic agents' environment have coincided, in the early part of this year, with a significant tightening of financial policies. I would only mention a few of the main measures that contributed to this tightening: the introduction of the value-added tax, the 42 percent reduction in expenditures--especially subsidies and defense outlays--during the first quarter, and the gradual increase--by tenfold over five months--in nominal interest rates. Further and important measures of fiscal consolidation are incorporated in the present program. The objective of limiting the general government deficit to 5 percent of GDP by the end of the year is indeed an ambitious one, although warranted by the present situation.

The danger of slippages cannot, however, be underestimated. They could appear both on the fiscal and monetary sides of the program. On the fiscal side, we are fully aware of the pressures on the Government, coming from the Parliament and from different parts of the Russian political system, to reduce tax rates. They have been rightly resisted up to now, except for the delay in implementing the increase in custom duties. It is all the more important that the new deadline of September 1 be fully met. The authorities have also reacted by announcing deeper expenditure cuts and budgetary freezes, and we strongly hope that they can be effectively translated into action, as mentioned in the staff report, before the end of the month.

Fiscal consolidation would of course be meaningless if, in parallel, credit to the public sector is allowed to increase without limits, leading to loss of control of monetary aggregates. This is certainly one of the main weaknesses of the present program. On the one hand, it might be that real interest rates will stay negative for most of the remaining part of the year, thus fueling the inflationary process. On the other hand, the authorities have accepted several times to increase, through special allocations, the volume of credit available to the economy, indeed for significant amounts. Overall, the tendency for money aggregate to decrease in real terms in the first months of 1992 might be in danger of being reversed.

In the present situation, many elements are in place which could lead to inflation accelerating quickly up to an unsustainable level. One should not minimize the risks attached to this evolution. First, in a context of free convertibility, it would lead to continued and accelerated depreciation of the ruble and a loss of confidence in the reform program. Second, it would certainly increase and solidify resistance to structural reforms.

Hyperinflation would undermine the cohesion of the social fabric and make the Russian people doubt the utility and benefits of the efforts they have, up to now, courageously accepted. The public pressures for re-establishment of controls on prices or even the main elements of central planning, could become irresistible. The transition to a market economy, which the Government has so courageously embarked upon, might be seriously endangered.

For those reasons, it is clear to this chair that monetary policy should be the cornerstone of a future program in the framework of a stand-by arrangement. Four objectives and criteria appear, in this regard, essential. First, interest rate policy should be geared toward the aim of reducing inflation. Real positive interest rates are certainly a prerequisite. Interest rate policy should also be implemented with determination and flexibility, and we fully agree with the staff, that, in the present situation, exchange rate evolutions can be the most useful indicator as to the appropriate stance of the overall policy and the level of interest rates.

Second, credit aggregates should be tightly monitored and controlled. Specific allocations would have to be prohibited, and sectoral distribution progressively eliminated.

Third, effective mechanisms of coordination inside the ruble area will have to be agreed upon. This is, of course, a very sensitive matter. The Russian authorities might rightly feel that it is their main responsibility to ensure the orderly functioning of relations between central banks and harmonization of monetary policy measures inside the area. But it is also in the interest of all republics participating in the ruble area that arrangements concluded would combine the efficiency of monetary control with the necessity of preserving the functioning of the payment system and the normal financing of trade flows in a situation of huge initial imbalances.

The problem of interenterprises arrears will have to be tackled forcefully. Those have literally exploded over the last six months, rendering somehow meaningless the efforts made to tighten monetary supply. At the very least, their level should be stabilized in nominal terms for the period to come. This might be more important than devising complicated schemes to eliminate the existing stock. But I would certainly appreciate some comments by the staff in this regard.

On other matters, we concur with the staff on the usefulness, under the present circumstances, of an incomes policy. In the absence of market regulations, the alternatives would be either to let inflation go or to accept a bigger increase in unemployment. We also agree that, as long as budget constraints are not fully

imposed on enterprises, any system that would affect only money-making enterprises would be inefficient or even counter-productive. Determined action will be needed to ensure that the next steps in price liberalization and privatization take place in a context that favors competition and reduces the influence of monopolies. Finally, a credible exchange rate policy aiming at the stability of the ruble will play at a later stage an important part in influencing for the better the economic agents' expectations. My authorities have agreed to participate, when conditions are met, in the financing of a stabilization fund.

While meeting the challenge of weaning the economy from the habits acquired over years of repressed or open inflation, the authorities will also have to meet a second challenge--namely, the establishment of market-oriented economic mechanisms. One cannot, in this regard, overemphasize the case for setting a proper legal framework for economic activity. Progress must thus continue on the questions of the transfer of land, of the enforceability of contracts, and of the participation of foreign direct investment. Beyond that, the main area for structural reform will lie in the restructuration and privatization of public firms. Those are mutually reinforcing policies. Indeed, it could be inconsistent to ask privatized firms to compete with or, more simply, to deal with unrestructured public firms where habits would not have changed. We thus welcome the authorities' intention to pursue their three-stage privatization strategy and to reinforce modern management in public enterprises. These actions will have to be conducted in close cooperation with the World Bank and the EBRD as is also the case for the necessary sectoral approaches in the agriculture and energy sectors.

As is clearly noted in the staff report, Russia's efforts have been supported by substantial foreign financing. My authorities agree that further assistance will be needed. They will support, in particular, the granting of a Paris Club consolidation once the Fund arrangement in the first credit tranche has been approved. Such a stance is justified in light of the dire projections for the balance of payments but it is needless to stress that the amount and the nature of future help will be heavily influenced, first, by the implementation of the program agreed with the Fund, including a possible future program on upper credit tranche purchases; second, by the necessary reinforcement of the monitoring of the use of foreign finance and counterpart funds by the Russian authorities; and finally, by the establishment of a satisfactory track record on nondeferred or nonconsolidated maturities.

In conclusion, we can support the proposed purchase. It will help Russia lay the proper basis for the restoration of macroeconomic balances, for the continuation of the transition toward a

market system and, eventually, for Russia's successful participation in the global economy.

Mr. Fukui made the following statement:

Let me start by welcoming this opportunity to discuss the first credit tranche arrangement with Russia. I would like to commend the staff and management for their painstaking efforts which enabled this program to come to the Board in spite of tremendous difficulties and obstacles. I agree that the phased approach, which brought about today's discussion, is an imaginative, practical approach in view of the present situation in Russia.

The smooth transformation of the Russian economy from a centrally planned to a market-based one is without doubt the most challenging task not only for the Russian authorities but for the international financial community. The Fund has been playing a central role in assisting this process. This program, if fully implemented, will be an important milestone in the transformation process and marks a first step toward Russia's becoming a credible member of the international financial community. I strongly urge the Russian authorities to take full advantage of this opportunity and make the utmost effort to fully implement what has been agreed. I hope that the authorities understand clearly the importance of this initiation and that they will live up to the strong international expectations.

Looking back at the process beginning early this year, we are concerned that the authorities failed to observe their commitments under the Memorandum of Economic Policies agreed in March and that they could not complete some of the prior actions stated in the letter of intent dated July 10, 1992. Although we understand the present difficulties, these slippages or delays cause us great concern. Already more than half a year has passed since the first initiative of economic liberalization and, given the rapidly deteriorating situation of the economy and, in particular, the imminent risk of hyperinflation, there is no more room for slippage. I would therefore strongly urge the authorities to persevere with the program and alleviate the concern that has built up among creditors.

At the Board discussion on the pre-membership economic review for Russia, this chair emphasized the need to take structural measures to enhance the supply-side response. In light of the sharp decline in production, the Fund's traditional demand-control measures cannot continue long without the support of an adequate supply-side response. The authorities are urged to take a practical and quick approach, even if at times it may be incremental.

The Russian people need to realize the benefits of reform through the resumption of economic growth and an increase in real income. There is little time left for this.

As to the main elements of the program, in view of the burgeoning budget deficit, which is structurally incorporated in the economy and is fueling the high rate of inflation, measures to reduce the deficit should be the centerpiece of the program. While it is regrettable that the fiscal target under the Memorandum of Economic Policies, which aimed at generating a fiscal surplus, was not met, I agree that the new set of targets is ambitious enough to assure us of the authorities' full commitment to the program.

On the revenue side, while I appreciate the effort to take compensating measures amounting to rub 450 billion, I wonder how the proposed rub 380 billion will be generated. I would welcome further elaboration by the staff on this point. Looking ahead, a great effort is required to establish a sound fiscal base, including the improvement of tax administration and the expansion of the tax base, although this may take some time.

On the expenditure side, the picture is worrisome. In view of past experience, and the actions taken by the Parliament, it seems likely that upward pressure on expenditures, including wages, social security outlays, and interest payments, will mount. It is therefore imperative to establish an effective mechanism to control expenditure. A reduction of subsidies, especially to public enterprises, is the most important factor for fiscal consolidation. Where subsidies are deemed inevitable, the strategic importance of the enterprise concerned should be carefully examined in order to reduce subsidies to the minimum. It is regrettable that defense outlays, which had declined in the first quarter, increased rapidly in the second quarter. In view of the significant amounts of defense expenditure, the authorities should maintain an even tighter grip on them.

There is considerable downside risk in the fiscal target. For example, a further decline in output would lead to a shortfall in revenue and an increase in subsidies and social expenditures. In this sense, the program projections seem to be optimistic. It is likely that the authorities will have to take additional measures to protect the fiscal target. In this context, I would be interested to hear from the staff what kind of additional measures are available to the authorities in these extremely difficult circumstances.

In the area of monetary policy, it is imperative, among other things, to achieve positive real interest rates as soon as possible so that interest rates can play their role in allocating

resources and encouraging increased savings. I appreciate the effort and clear direction taken by the Central Bank of Russia and its intention to raise its financing rate to a positive level. Having said that, I would appreciate staff comment on the appropriateness of more direct credit control by the Central Bank. In view of the insufficiency and nascent state of the financial institution, the effectiveness of more direct credit controls should not be neglected.

On the external front, I welcome the progress in the unification of foreign exchange rates and the authorities' stance on floating the ruble a period of time before pegging it. It is worrisome, however, that central bank intervention or transactions constituted a major part of the foreign exchange market. Further efforts should be made to improve the efficiency of the market by wider and active participation by institutions other than the Central Bank so that the exchange rate reflects real market forces.

The staff reports that the authorities intend to phase out the surrender requirement, but we have strong doubts about such action at the moment. The authorities are facing an imminent need to effectively control foreign exchange in order to meet external obligations and to increase foreign reserves to an adequate level. In view of the early stage of the foreign exchange market, there is no choice but to retain and strengthen the foreign exchange surrender system for the moment. I wonder whether the staff shares this view.

There is no need to emphasize the important role of foreign direct investment and the World Bank in that context. They are the most effective way to bring capital, technology, and management skills together. To attract foreign capital it is necessary to provide an adequate environment. I therefore welcome the new foreign direct investment law as a step in the right direction and hope the authorities will carefully avoid any xenophobic tendency. The authorities are also advised to learn from the experiences of other countries--for example, with the establishment of free trade zones--in attracting foreign capital. In this connection, in light of the particular importance of energy-related investment, if there are good and viable projects, special consideration should be given to them in the context of the overall resource allocation scheme: this may be an area for Bank-Fund collaboration. I appreciate the initiative taken by the Bank for a Rehabilitation Loan.

On external debt, it is imperative to service external obligations faithfully, based on the agreement made thus far and to establish a good payments record in order for Russia to establish its credibility. In this connection, the staff report

refers to the authorities' intention to request the deferral or rescheduling of official debt. We would like to point out that official debt rescheduling should be discussed in the Paris Club.

Finally, let me comment on structural policies with a view to enhancing the supply response of the economy.

In view of the urgent importance of privatization, I would like to ask the staff to report on the progress achieved so far in this field. On the supply side, everyone can agree about the strategic importance of early reconstruction of certain sectors such as energy and agriculture. I would like the staff to elaborate on whether the authorities are considering the so-called slanted priority allocation of resources to these strategically important sectors. In any event, inefficient enterprises should be closed down in accordance with the bankruptcy procedures.

In light of the importance of small and medium-sized enterprises, which actually embody the major part of entrepreneurship, the authorities are encouraged to establish a strong support system. In this connection, I am concerned that the present banking system may not be able to meet the real financing needs of small and medium-sized enterprises. The authorities are advised to give consideration to this issue. One option would be to establish a bank specializing in the financing of small and mid-sized enterprises. In this context, reference to studies of the Japanese experience after World War II would be of some help.

In conclusion, today's discussion is a first but important step toward an upper credit tranche arrangement. Before such an arrangement is agreed, the Russian economy may experience further difficult times. We hope there will be continued dialogue between the Russian Federation and the Fund, which will lead to a strong program warranting our full support. We also hope the points made today will be taken into account during the course of the negotiations ahead. With these comments, I support the proposed decision.

Mr. Clark made the following statement:

Let me begin by commending the authorities for having introduced substantial measures designed to move Russia toward a market economy. By formulating an explicit and comprehensive program for economic stabilization and reform, they have conveyed the seriousness of their intentions with respect to the transition process. Despite a confusing internal situation, which greatly complicates the task of assessing the extent to which announced measures have been implemented, we concur with the view that

actions taken to date deserve the Fund's support in the form of a first credit tranche stand-by arrangement.

Nevertheless, given the magnitude of problems currently facing Russia, we would emphasize that in our view the measures outlined in the letter of intent can only be regarded as a "damage control" operation, which are unlikely to effect a marked improvement in the economic situation, but hopefully will arrest the slide to hyperinflation. It is important for the authorities to recognize that a program of economic stabilization and reform, deserving of Fund support under a future stand-by arrangement, will require a greater effort than that outlined in the program before us today. In particular, macroeconomic and reform objectives under a stand-by arrangement will need to be defined more sharply, as would the specific actions to achieve them, and the corrective measures that would be needed in the event of slippages.

With the recent communications indicating that some of the agreed measures that were to be taken before Board consideration of the first credit tranche have been delayed, albeit for only four weeks, we feel it bears repeating that the prior actions laid out in the letter of intent must be in place before moving into an upper tranche arrangement with the Fund. While some in Russia may look back with nostalgia at the apparent stability of the 1980s, the old command economy self-destructed and cannot be revived.

With these general comments, I would like to address a few specific aspects of the Russian program.

The fiscal objectives, though ambitious in terms of current Russian realities, are insufficient to promote a sustained disinflationary process in view of the uncertainty surrounding their full implementation and the slow progress in effecting needed structural reforms. Moreover, we have serious concerns regarding prospects for meeting the 1992 objectives. On the revenue side, significant shortfalls appear likely as assumptions on economic growth and unemployment may prove optimistic. A projected strong pickup in value-added tax and foreign tax collections in the second half of the year is also far from certain, in part reflecting persistent problems of tax administration and compliance. On the expenditure side, risks of overruns are associated with potential increased outlays for social benefits, wage adjustments, and interest rate subsidies. It was therefore somewhat comforting to see that in their recent letter, the authorities have committed to implementing additional measures if necessary. The authorities' proposal to limit financing of the fiscal deficit from the domestic banking system to 5 percent of GDP is also commendable; but, we are skeptical that the remaining 5 percent to be financed will be met through foreign sources and

the issuance of domestic securities at market rates. It is not clear to us that individuals and enterprises will be prepared to hold government bonds, in view of the risk of hyperinflation.

While we agree with other speakers that monetary policy must be the cornerstone of the program, we have concerns regarding the monetary policy targets outlined in the letter of intent. The stated objectives for inflation are to be pursued through the application of credit ceilings and positive real interest rates. However, the net growth of net domestic assets of the Central Bank implied by the ceilings on advances to commercial banks and the Government suggests that there may be a contradiction between the stated objectives of the program and the ceilings. Net domestic assets are programmed to increase by 55 percent in the final quarter of the year, while targeted inflation over the same period is roughly 35 percent, implying that net domestic credit will grow by close to 20 percent in real terms in the last quarter of 1992. Similar calculations can be made for real money growth, resulting in the same conclusions. It is not clear to us how inflation is going to be brought down without a contraction in real credit or real money growth. While changes in velocity are possible, we would argue that it requires credible institutional changes, which are not included in the letter of intent before us, to effect such a change in behavior. Perhaps the staff could comment on this point.

The credibility of the inflation targets is further weakened by a discrepancy between the commitment to positive real interest rates and the proposal to raise interest rates on long-term savings deposits to 60 percent. Even if end-of-year inflation targets are met, this would imply negative real interest rates of roughly 120 percent, which is hardly consistent with the goal of macroeconomic stability.

Our concerns regarding the role of monetary policy are not limited to the authorities' commitments to contain credit and raise interest rates. The massive overhang of interenterprise arrears accumulated since the new year threatens to undermine the whole reform effort. We would dispute the contention that real interest rates "will go a long way toward the creation of appropriate incentives to avoid accumulating arrears." Even positive real interest rates will do little to deter a continued accumulation of arrears, if the Government continues to extend credit. We would urge the authorities to adopt adequate bankruptcy provisions and to enforce with resolve the June decree, which stated that firms over 60 days in arrears would be subject to sale.

While we are encouraged that the Central Bank will look at movements in the exchange rate, prices, and the balance of payments to gauge the appropriateness of monetary policy, we have

some reservations in view of the poor quality of the data and their value as useful indicators. In the case of the exchange rate in particular, one must wonder about the information content of exchange rate movements in a market where the largest participant by far is the Central Bank.

Our final concern regarding the conduct of monetary policy stems from the continuation of the Central Bank in passively rediscounting the ruble-denominated claims of the central banks of other former republics. It is paramount that, to reduce the risk of hyperinflation, the Central Bank of Russia begin to perform the role of a true central bank and provide a steadfast nominal anchor for the economy. To this end, the stabilization of the ruble requires that the Central Bank begin charging positive real interest rates on these advances and that other central banks hold hard currency reserves with the Central Bank to ensure that they have an incentive to honor their obligations.

Let me now make some brief comments on income policy and policies for structural reform. An incomes policy could provide an additional anchor for policy; however, we would note that the proposed system of excess-wage taxes would not necessarily ensure better wage discipline in the absence of hard budget constraints on enterprises, as aptly demonstrated by the recent Polish experience.

Again with the Polish experience as testament, it is worth emphasizing the importance of proceeding with systemic reforms to underpin the macroeconomic stabilization efforts, as the authorities attempt to dismantle a command economy and build a market economy. The letter of intent outlines ambitious targets for privatization and demonopolization, as well as efforts to dismantle large vertically integrated enterprises. With the additional support to be considered by World Bank Directors tomorrow, we would urge the authorities to follow through expeditiously with their stated intentions, as the role of good corporate governance cannot be understated in providing a sound incentive structure, which is critical in the transition to a market economy.

In sum, we do not underestimate the difficulties of the situation facing the Russian authorities. The adjustments necessary to avoid hyperinflation and the additional measures that will have to be taken to place Russia in a position to use further Fund resources will be difficult, in economic, political, and social terms. At this stage, however, there can be no turning back. There are no easier alternatives to establishing the foundations for an efficient market economy; delaying adjustments today only means more difficult and more painful adjustments in the future. With these remarks, we would like to wish the

authorities well in their transition of Russia to a market economy.

Mr. Végh made the following statement:

Let me begin by saying that I fully endorse the staff appraisal and support the proposed decision.

I wish to address the following issues: the matter of press criticism of Fund policy, the necessity for a prompt strengthening of the program, the budgetary position, monetary policy, agricultural policy, the balance of payments, energy pricing, and gold holdings.

My first point is to commend management and staff for their patience and tenacity in the difficult task that they have undertaken. In his statement to the Executive Board on July 8, 1992, the Managing Director said, in elegant understatement, "there has been no shortage of advice to the authorities that Russia should receive special treatment from the Fund." Let me go further than our Chairman: like other Directors, I have been unpleasantly surprised by the amount of abuse and the unfair and untruthful statements made in some important newspapers of the Western world about the work of the Fund in the context of the Russian economic program. In the old days, it was the press and the politicians of the developing world that made these kind of remarks about the Fund and the quality of its advice. Now that events all over the world have proved the Fund management and staff basically right in their approach, we do not see this kind of thing happening in Latin America, for instance. It is most distressing to find that this phenomenon reappears in the more advanced nations, and I do hope that it is just a temporary aberration. However, I urge the Managing Director and his senior staff to be vigilant in the defense of their attitudes and to explain the rationale behind our policy recommendations, so that when, in the future, the facts and figures demonstrate once again that we were on the right track, this demonstration is clear to everybody.

I agree with the Managing Director that the steps already taken by the Russian Government, especially the price liberalization on January 2, other measures in the first quarter of 1992, and the exchange rate unification and liberalization of July-August, as well as the general trend of the policy memoranda, justify in themselves an initial support by the Fund in the form of a first credit tranche arrangement. It should also be clear, however, that as the staff report makes quite evident, strong action is required to avoid hyperinflation, and a strengthening of economic policy and implementation is urgently required, in view

of the generalized weakening that took place in the second quarter of 1992. Avoiding hyperinflation should be an urgent priority, both because of its high social cost as soon as it takes place, and because the political impact of this social cost could affect the momentum of the whole process toward a market-oriented and open economy and the public support for its implementation. In this context, I agree with the Managing Director's statement on July 8 that "this program can only be considered a damage control operation, and much more will be done to get to the stage at which we can consider a full-fledged stand-by arrangement."

On the budget, it is difficult to understand the figures provided by the staff, especially considering that we are dealing in a currency that is depreciating at the rate of almost 1 percent daily, and, if everything goes well, will still be depreciating at the rate of 9 percent by the end of 1992. During the months of June-July, very different estimates of the deficit were provided on an informal basis to the Executive Board or mentioned by the specialized press, ranging from 5 percent to 25 percent of GDP. My perception, which is more a matter of intuition than a conclusion after careful analysis, is that, although it may not be the most important problem in the program or the critical issue facing the authorities, a great deal of uncertainty is attached to the revenue and expenditure estimates. This can be stated even regarding only the accounts of the Central Government. As I have argued in the case of most of the Eastern European countries, and most recently in the case of Poland, the underlying fiscal deficit is much larger given the financial situation of the state enterprises and the state banks.

As to monetary policy, unfortunately, I can only repeat today what I said on the occasion of the pre-membership economic review for the Russian Federation: there is really no consistent monetary policy. If one looks at Table 3 of the staff report, and translates the figures in billions of rubles to equivalent billions of dollars for June 1992, at the exchange rate of rub 150 per US$1, and relates these figures to a GDP value estimated at about $300 billion, the ratios are very small, ranging from 1 percent to 3 percent, typical of what we find in economic systems that are approaching hyperinflation, and where velocity is accelerating at a fast rate. Another symptom of this lack of monetary policy is seen in Table 12 on interest rates, where the order of magnitude of the annual rate of interest is about the same as the present monthly rate of inflation. It is difficult to see under these circumstances, how any other state of the former Soviet Union would have an incentive to remain in the ruble area. The continuation of present policies, or nonpolicies, will provide, on the contrary, a strong incentive for a massive exit from the ruble area and the creation of new national currencies.

With respect to agriculture, it is worrisome to find almost no references in the government documents or in the staff report to this crucial sector of activity. It is not only important in itself but it should be a high priority in any process of transition from a command to a market economy, because it is in agriculture that production is more diversified in terms of commodities, the ability to shift from one category of production to another, and the large number of suppliers to the market which makes collusion unlikely or impossible. Apart from these theoretical considerations, a clear example is provided by the experience of China in 1978-92, where the rate of GDP growth averaged 9 percent a year and agriculture was the leading activity in the market-oriented reforms.

Table 5 on the balance of payments provides some figures that give rise to concern, especially if we consider them in association with Table 15 on the energy balance for the Russian Federation and the former U.S.S.R. in the period 1990-92. In Table 5, we can see that exports are projected to decline from $51.6 billion in 1991 to $34.5 in 1992, with reductions in oil and natural gas exports and an even larger proportional reduction in the category entitled as "other" from $29.5 billion to $17.1 billion. On the import side, after a large contraction in 1991, a further decline is anticipated for 1992 from $45 billion to $37 billion. If we look at the figures in Table 15, oil production is declining at an accelerated rate which, if projected into the future according to what has happened in 1990-92, would mean that there would be no surplus of oil for export in 1994, and that Russian production would be barely sufficient to satisfy a level of domestic consumption, which is estimated at slightly less than 4 mbd. Some projections that I have seen in specialized publications of the petroleum industry are even more pessimistic, and presume that the equilibrium between production and consumption could be reached already in 1993.

This brings me to energy pricing. It is unfortunate, especially for the Russian people, that the Government has not been more inclined to follow Fund advice on a quick harmonization of internal and international prices. With the timetable that has been established by the authorities, the reduction of output will be accelerated by the lack of investment, little exploration, and the natural decline of old reservoirs. At the same time, artificially low prices encourage a high level of demand by households, the transportation sector, and the manufacturing enterprises. Thus, both the supply response and the demand behavior contribute to the reduction, and perhaps even reversal, in the near future of the flow of oil that has been in the last decades the main source of foreign exchange for Russia and the other states. A modification of energy policy is, in my opinion, one of the most

important and urgent requirements for an economic program that could merit Fund support in the upper credit tranches.

On the matter of gold holdings, I was pleased to see some information on the estimated figures for Russia in the staff report. Although this data is not enough to consider that Russia is in full compliance with the obligations of Article VIII, Section 5 of the Articles of Agreement, it is a significant step in the right direction, and I sincerely hope that full compliance will be reached by the time of any future arrangement with the Fund. Meanwhile, I am happy to provide the Executive Board with some figures on gold production in Russia and its share in total world output. I have summarized this information from the most recent reports of the Bank for International Settlements, the Gold Institute, and other international organizations.

The composition of gold output has changed significantly in the last 20 years. Thus, in 1970, South Africa accounted for almost 80 percent of total world production of 1,270 million tons, excluding the Soviet Union and China. In 1991, total world production can be estimated at 2,150 million tons, of which less than one third--600 million tons--corresponds to South Africa. The United States has been rapidly increasing its output and is now the second world producer at a level of 300 million tons, followed by Australia with 230 million tons and Russia with about 200 million tons. Next in the list would be Canada with 180 million tons, China with 110 million tons, and Brazil with 80 million tons. Somewhere below in the list we could also find Uzbekistan and Kazakhstan.

In sum, the critical issues in the strengthening of Russia's economic program are fiscal consolidation, monetary policy, energy pricing, and the application of the market mechanism to agricultural development. Of these, the most important, in my opinion, is the agricultural issue, and the most urgent the construction of an adequate monetary policy. An economic system may be able to function without a good currency but the loss in output and welfare is very large.

Finally, let me ask Mr. Kagalovskiy to convey to his authorities our best wishes for their success in the economic rehabilitation of his great nation, which has been received as a new member in this institution, with profound interest and in a spirit of deep solidarity from the international financial community. The full-house attendance at this Board meeting is an eloquent testimony to these sentiments.

Mr. Posthumus made the following statement:

Reading the staff report on the first credit tranche stand-by arrangement requested by Russia, I realized how much has been done in Russia in less than a year. Mr. Kagalovskiy mentions price liberalization, foreign trade liberalization, current account convertibility, tax reform, fiscal policy, monetary policy, a number of structural measures. In an economy in which central planning has ceased to guide economic decisions, a market-oriented economy is starting to develop. This is the process that causes adjustment pains, not the policies of the authorities. I acknowledge the tremendous task confronting the Russian authorities, and I commend them on the courageous measures taken so far.

Yet, significant uncertainties remain, both regarding the design of the arrangement that we are supposed to approve today and the implementation of the program. It is unknown whether orderly repayment will be possible: the Fund is taking a risk, which at this time is acceptable, in my view.

With respect to the design of the program, it is important to point out that institutional and structural reforms are absolutely necessary to sustain the anti-inflationary policies and in their own right. Realizing that this is a short-term first credit tranche arrangement, I still wonder whether more attention should have been paid to structural measures. I note that the Bank Board will discuss a structural adjustment loan this week. Perhaps the Bank loan should have been approved as a prerequisite for the Fund arrangement, if only to underline the close relationship between stabilization and structural reform measures. I question the remark in the staff appraisal that establishing hard budget constraints on enterprises would, if successful, lead to some bankruptcies and closures. It is much more likely that a large part of existing enterprises will have to be closed. In that case, the budget will be affected, through higher expenditure and lower tax receipts, and it is not clear whether sufficient allowance has been made for this in the budget.

As regards the design of fiscal policy, a major question is whether the budget for the second half of the year is sustainable. Sequestration, in addition, is a typical short-term measure, which will complicate the budget of next year even further. Just indexing budgetary expenditures, including wages, at a lower level than planned may not be sustainable. The near-elimination of import subsidies may also lead to bankruptcies and unemployment, and it is again not clear whether the budgetary effects have been taken into account.

Proper monetary policies in Russia are complicated by inter-republican credit lines and the introduction of parallel

currencies/coupons in other states. This requires an agreement among the participating republics on the main lines of monetary policy. It should also encourage Fund staff to engage in program discussions with the other republics as soon as possible. It can by no means be a reason for the Russian authorities to be less strict on the monetary side. Restraining Central Bank of Russia lending is essential, as is clearly pointed out by the staff. Delaying the raising of interest rates to positive real levels to the second stage, to which the staff does not object, cannot be considered appropriate in view of the skyrocketing inflation. Although I appreciate the difficulties in measuring inflation and therefore measuring real variables, I am not convinced that the attainment of positive real rates would not be possible before the end of the year.

I agree with the staff that the large stock of inter-enterprise arrears constitutes a serious problem. It may keep alive unproductive industries, while increasing the financial vulnerability of all companies, including the viable ones, thus hampering the establishment of market-oriented production. It precludes effective monetary policies and diminishes government revenues from value-added tax, which is only due when actual payments are made. The combination of negative real interest rates and the limited availability of credit for those companies that are not earmarked as part of a priority sector contributes to this phenomenon. Credit is available only to the sectors that are considered important, irrespective of whether they consist of companies expected to have a chance of survival in the longer term without state subsidies. Therefore, I support--in addition to the intended government measures--the staff recommendation for a progressive phasing out of this earmarking in order to help establish a hard budget constraint for enterprises. Also from this point of view, early achievement of positive real interest rates is called for.

I have not found an explanation for the large increase in interenterprise arrears, and I wonder whether the staff or Mr. Kagalovskiy can say something about this. In particular, I wonder whether the interenterprise arrears reflect large, unsold stocks of intermediate and finished goods, caused by production and supply processes that are remnants of the planning system.

Finally, a remark on implementation. In the Managing Director's statement of July 8, 1992, 11 prior actions were mentioned. Most of them have been implemented, or will be implemented in August. Additional fiscal measures will be necessary if the measures taken do not lead to the desired results. It is improbable that fiscal policy can be further tightened; it is more likely that it will not fully succeed and that the deficit target will not be met. Monetary policy would then have to be tightened,

but the uncertain situation in the ruble area may make this difficult. Even higher inflation than the single-digit inflation aimed at would result, endangering the whole reform process. The Fund should not support a full stand-by program in such a situation, because it would not help Russia. I therefore hope that political pressures to put a program in place because it fits the agenda of some major countries would not again dictate the agenda and the timing of programs of the Fund. This undermines the efforts of the Fund, but, even more important, this undermines the efforts of the authorities, who should use and trust the Fund's programs to support their reform programs.

Mr. Evans made the following statement:

I join previous speakers in welcoming Mr. Kagalovskiy again to the Board and would like particularly to thank him for his useful statement. In view of the magnitude of the problems that that statement addresses, it is remarkable for its conciseness and brevity and bodes well for the twenty-third seat on the Board.

The statement is also remarkable for its understanding of the issues and its focus on matters that are most important to this Board. This stands in stark contrast to the reports that we constantly hear of the lack of understanding within the Russian Federation of the economic problems and how they must be addressed. I would like to concentrate my remarks on that basic theme.

The Russian program represents a case, par excellence, of the common conflict between what needs to be done and what is said to be politically feasible. The resolution of that conflict lies always in the promotion among the populace at large, and hence within the governing institutions, of an adequate understanding of the issues and what is needed to address them. In a democracy, the responsibility for forging that understanding lies squarely with the government of the day, and any failure of policies cannot be sheeted home to parliaments, congresses, trade unions, or any other groups or individuals. That is one issue that needs to be understood.

But the need for understanding occurs at all levels. In the Russian case, albeit not uniquely so, it begins with the huge gaps in the basic data base necessary to understand the economic situation, and a top priority must be to give effect to the recommendations of the many reports generated by technical assistance from the Fund and elsewhere which can help improve the statistical base.

As was indicated recently by the belated recognition of the deterioration in the fiscal situation, there is similarly a need to improve monitoring systems and hence the understanding of policy issues. In that regard, it is comforting to hear from Mr. Kagalovskiy that "financial stabilization remains a top priority." Regrettably, that understanding is not shared by the Supreme Soviet, and there is a major task there for the Government to ensure a greater understanding within the population so that efforts to correct the fiscal situation are not frustrated. We shall be watching progress in this endeavor, as an indicator of the likely success of a further program.

It must be said, of course, that the fiscal objectives are admirable--indeed highly ambitious. The same cannot be said of the monetary program, and it is here that added concentration will be needed in the next phase. Looking to the possible contents of an upper credit tranche program, it would be essential for performance criteria to place requirements on the authorities that are substantially more stringent than those implied by the current indicative ceilings. Such efforts will not be successful, however, without further progress in coordination within the ruble area, in which I believe it is essential that the Central Bank of Russia play a dominant role, and progress in tackling the problem of interenterprise arrears.

The extreme rate of buildup of interenterprise arrears will make the operation of monetary policy difficult, particularly to the extent that tight credit policies are overcome by further increases in these arrears. The measures taken by the authorities may serve to reduce the extent of this buildup. However, as a recent staff paper on policy analysis and assessment has indicated, a sustained reduction in interenterprise arrears may require a mechanism to ensure that the payment of arrears by the authorities does not give rise to the expectation of future bailouts. I would be interested to hear from staff about what measures could be taken to guard against this moral hazard problem.

The arena where understanding is typically most difficult to forge is that of income distribution and, hence, incomes policy, and it is on this issue that I have some differences with the staff. The staff recognizes the importance of strengthening incomes policy but suggests that this be done by a tightening of the excess-wage tax arrangements. When we considered the case of Poland last week I commented, with some agreement from the staff, that excess-wage tax arrangements are unlikely to be workable with the type of institutional arrangements that exist in Poland and, perhaps more so, in the Russian Federation. In particular, the ownership pattern does not permit the taxation arrangements to have the necessary incentive effects on wage negotiations.

Concentration on this taxation device is obscuring the very real need for the Government to be active in promoting a greater understanding among workers, and workers' representatives in particular, of the critical need for real wage restraint during the transition period. Without that restraint, there will either be hyperinflation or, more likely, simply unnecessary failure of enterprises and increases in unemployment with vicious circle effects on the fiscal situation.

I have concentrated on macroeconomic issues because the problems there are unavoidable--and that must be understood. I do, of course, recognize the importance of continuing progress with structural issues and support the staff's recommendations in those areas. In doing so, I express my strong support for the program and wish both the Russian authorities and the staff success in its implementation.

Mr. Fridriksson made the following statement:

I welcome this opportunity to consider the first request of the Russian Federation for a financial arrangement with the Fund. Like others, we have anxiously watched from the sidelines the struggle of the Russian authorities to come to grips with the voluminous task of transforming the economy into a market-based one. Like others, we hoped earlier in the year that Russia would be able to move more aggressively toward a stand-by arrangement with the Fund, as it is essential both for its own sake and for the sake of those countries that wish to remain in the ruble area that the Russian economy is quickly stabilized. These hopes have been dashed in recent weeks, and undoubtedly an increasingly pertinent question in the countries of the ruble area is whether it is in their interests to stay there or whether they would be better advised to leave.

Some countries have already left and are adopting strong programs supported by stand-by arrangements with the Fund. Those countries are showing--with the same dedicated support of the Fund staff that we have witnessed in the case of Russia--that, despite a starting point that can perhaps best be described as chaotic, a comprehensive and coherent program that fully meets the requirements for an upper credit tranche arrangement with the Fund can be put together in a short period. Such programs, combining effective structural reform with a bold stabilization policy, are extremely important for the purpose of mobilizing sufficient external support, and are also the ones most likely to bring about the desired results within a relatively short period.

My authorities would have preferred to consider today a request from the Russian authorities for a full-fledged stand-by

arrangement. However, in the current circumstances, they accept that the phased strategy that has been chosen offers the potential to maintain momentum in the reform process now under way.

Bold actions have been taken in a number of areas, most notably, the comprehensive liberalization of prices and the initiation of the process of bringing energy prices to world market levels, although I find the time schedule lacking in ambition. Other countries have either chosen to or have had little choice but to move quickly toward world market prices for energy. The recent unification of exchange rates and the implementation of a market-oriented exchange system are also significant measures. The positive effects of these steps could, however, be undermined if internal imbalances are allowed to intensify.

I agree with previous speakers that a tight monetary policy is a prerequisite if stability is to be achieved. In this connection, I would like to express serious concern about the explosion of interenterprise arrears this year, and I look forward to hearing the staff's response to questions that have been raised in that regard.

Following considerable tightening in the early part of the year, the fiscal and monetary stance weakened during the second quarter with a further deterioration foreseen for the remainder of the year. The most recent information on delays in the implementation of some of the budget measures planned to take effect on August 1 is highly regrettable, and we view very seriously the staff's concern that the budgetary impact of these delays, together with the Supreme Soviet's actions in July, may cause the budget deficit for the second half of the year to overshoot the targeted level. The authorities must be prepared to take corrective action in that event. I would appreciate some elaboration by the staff on the effects of the delays on the overall targets of the program. A larger than targeted budget deficit would not be compatible with the aim of bringing inflation below 10 percent by the end of the year, and could indeed trigger a rapid development toward exceedingly high inflation. Tight fiscal policy is thus absolutely essential, and is a prerequisite for the success of the reform strategy. On the expenditure side, there is scope for substantial reductions in subsidies. On the revenue side, an improvement of the value-added tax system must be given high priority.

Along with the fiscal adjustment, an early imposition of a hard budget constraint on all economic entities is absolutely essential. The limits on central bank credit to the banking system should be strictly adhered to, and it should be made abundantly clear to state enterprises--in words as well as in

action--that there will be no bailout; uncollectible debt will not be assumed by the authorities. In this regard, I would appreciate some clarification regarding yesterday's press reports on the general cancellation of state enterprises' debt.

Clarification of the question of monetary cooperation between those republics intending to remain within the ruble area is also imperative, and will indeed be a precondition for a possible later endorsement of a stand-by arrangement with the Fund. I fully agree that, given its size and central position, Russia has a special responsibility in establishing a model for monetary cooperation acceptable to all parties. At the same time, countries wanting to leave the ruble area should be able to do so in an orderly fashion. I am pleased to acknowledge that the agreement reached with Estonia in June is viewed as a model in this respect, and that Latvia and Russia reached an amicable agreement last month on Latvia's separation from the ruble area. What must be avoided are uncoordinated and inconsistent monetary targets across countries in the ruble area, which would almost inevitably lead to an excessive monetary expansion and correspondingly high inflation.

Establishment of an orderly and efficient payments system to support interrepublican trade flows must be given priority. The continued contraction in interrepublican trade serves to exacerbate the output contraction. This is not only important for Russia, but also for all the other republics whose prospects for recovery are strongly affected by their ability to maintain traditional trade relations. In this connection, I would warn against an excessive use of export taxes, which can be harmful to trading partners. Russia, like all Fund members, must be mindful of the effects of its policies on other members.

Although plans for structural and institutional changes have been presented, actual implementation has hardly begun. Acceleration of the pace of structural reform is needed if the contraction in the economy is to be stopped, and rapid privatization is essential. Moreover, a favorable legal environment must be created for direct foreign investment. The energy and agriculture sectors warrant special attention as the prospect for quick supply responses would seem to be the strongest in these areas. A revival of these sectors would also have an immediate, positive effect on the external balance.

The absence of the basic institutional and legal structures to support a market economic system based on free competition--including effective bankruptcy legislation--has, in many cases, apparently resulted in the replacement of what were once state monopolies by new local ones, the establishment of cartel-like arrangements, and so on. The economic inefficiencies resulting

from such a development serve to undermine public support for the reform process. Similarly, the huge gap between deposit and lending rates is probably largely explained by the lack of competition in the banking system. Financial sector reform is urgent, and prudent supervision should be introduced at an early stage.

The present compilation of statistics does not permit one to form a satisfactory picture of the economic situation in Russia. This is a problem not only in formulating economic policy, but is also a cause for concern for potential external donors and creditors. An improvement in the statistical base is essential for adequate monitoring of the effects of the program as it is implemented, and to follow the counterpart funds of external assistance.

As to Russia's external debt, my authorities consider that it should be dealt with in a transparent fashion, and in accordance with established practice.

In conclusion, the measures already taken by the Russian authorities, together with those envisaged, justify a first credit tranche drawing. The apparent lack of a general consensus in Russia on the necessity for structural and institutional reform together with appropriate adjustment policy means, however, that we are unsure about the authorities' ability to deliver on what they have undertaken. Recent press reports have only served to strengthen these concerns, and I would very much appreciate it if Mr. Kagalovskiy could allay them.

There is no basis for illusions about the difficulty of the task ahead--rough times await the Russian economy and the Russian people, and the risks in the present situation are alarming. In the circumstances, there is no alternative to radical adjustment, and the longer the implementation of the reforms is delayed, the more painful the process is going to be and the higher the economic and social costs. This arrangement is but a first step, and I urge the Russian authorities to implement it fully and to press ahead with their reform efforts, thus garnering the support of the international community.

I support the proposed decision, and I welcome the prospect of World Bank approval of a rehabilitation loan tomorrow.

Mr. Goos made the following statement:

I will focus my observations on more general considerations that--to my mind--are critical to the eventual success of the authorities' adjustment and reform efforts. Clearly, that success hinges above all on rapid financial stabilization. But at the same time--and this has been a recurring theme in the recent discussions of formerly centrally planned economies--macroeconomic stabilization can only succeed if vigorously supported by comprehensive reform measures in the structural area.

Regrettably, on both counts developments in Russia are giving rise to considerable concern: the budget deficit contemplated for this year of more than 11 percent of GDP is clearly unsustainable, and notwithstanding the high share of external budgetary financing, will continue to exert substantial price and cost pressures. Under these circumstances, monetary policy carries a particularly high burden in preventing prices from escalating into hyperinflation. It may be true that monetary policy has been seriously hampered by the still unsettled situation in the ruble area, but there are a number of domestic problems undermining the effectiveness of monetary policy that need to be urgently addressed.

First and foremost, the practice of widespread earmarking of central bank credit, interest subsidization, and credit bailouts of nonviable activities needs to be stopped, while at the same time a solution must be found without delay to the problem of inter-enterprise arrears.

Second, and no less important, the monetary authorities should raise interest rates to positive levels in real terms as quickly as possible; any further delay in implementing that step will deprive the Russian economy of a badly needed strengthening in national savings and improvement in resource allocation. At the same time, the importance of remunerative domestic interest rates for attracting external capital flows, including flight capital, and for the stability of the exchange markets can hardly be overstressed. Considering the exceptional uncertainties prevailing in the domestic and external economy, successful stabilization will require an equally exceptional degree of both restraint and flexibility in monetary management, notably in the setting of interest rates.

To conclude on this subject, I should warn emphatically against the illusion that monetary policy could be used to compensate for shortcomings in other policy areas, including structural reform. All available experience demonstrates that this would exacerbate the eventual costs of adjustment--and place even heavier strains on the political and social fabric of the country later on. Monetary policy will be most effective in

facilitating growth and reforms if it is unequivocally geared toward financial stability and thereby provides market participants with a reliable standard on which to base their decisions related to savings, investment, and consumption.

Having said that, while welcoming the bold measures of structural reform already taken in many areas, I am concerned about the still largely unfinished reform agenda as described by the staff, notably when it comes to the introduction of the basic institutional setting required for a functioning market economy--a legal framework, including property rights; competition; a hard budget constraint; a functioning financial system; the establishment of the ruble area. In this context, I would assume that as in other formerly planned economies, the lack of an efficient administrative capacity, or more generally, a lack of human capital, is a constraining factor also in Russia. That constraint can hardly be overcome through shock therapy, and therefore will need to be addressed by exceptional efforts on the part of all parties involved, including the provision of technical assistance.

As to the request before us, I should assure Mr. Kagalovskiy that the concerns I have just expressed are not meant to question the authorities' commitment to their adjustment and reform program nor to deny recognition of the strenuous efforts they have made under very difficult circumstances in implementing that program. Those efforts deserve, indeed, the support of the international financial community including the Fund.

At the same time, it ought to be recognized that the approval of the requested arrangement would imply an exceptional advance of confidence to the Russian authorities. The staff have rightly stressed a number of significant risks that the program could stray off course. That concern is heightened by almost daily press reports referring to fundamental disagreement among the administration, Parliament, sometimes also the Central Bank, and other influential quarters within Russia about the appropriateness of the Government's reform strategy. Those reports shed a worrisome light on the authorities' ability to live up to their program commitments.

These doubts have been reinforced by the recent delay in the implementation of critical prior actions agreed under the proposed Fund arrangement. I am sure Mr. Kagalovskiy is aware of the normal Fund response to such delays, namely, the postponement of Board consideration or approval of the arrangement "in principle only," implying that disbursement would be delayed until the agreed measures have actually been put in place. These procedures are not mere technicalities; rather, they lie at the heart of Fund conditionality and aim to protect the financial integrity of this institution. At the same time, they are also meant to strengthen

the hand of reform-minded governments against the interests of reactionary forces.

Against this background, I would be most grateful for any assurances Mr. Kagalovskiy could give the Board on the ability of the Russian authorities to faithfully implement the adjustment measures under the proposed arrangement.

Looking further ahead, from what I said so far it follows that the authorities could, and indeed should, not expect further exceptional treatment under a possible successor arrangement. In assessing a possible request for such an arrangement, the Fund, in accordance with established policies, will need to look closely into the adjustment record that has been established, and as the staff rightly stresses, successful performance will facilitate moving to the second stage of a more comprehensive and ambitious Fund arrangement. We would hope, of course, that that arrangement will provide a solid framework for securing financial discipline--including, notably, a substantial decline in inflation--as well as decisive progress in structural reforms along the lines advocated in the staff report. At the same time, it would be highly desirable if the authorities, prior to entering into the second phase, could also demonstrate a satisfactory record in honoring Russia's external debt obligations. This would be absolutely crucial for strengthening credibility with both external creditors and private direct investors. Moreover, I would hope that a future request for Fund resources will be supplemented by a detailed and credible analysis of Russia's balance of payments prospects showing convincing progress toward external viability over the medium term.

I was pleased to note Mr. Kagalovskiy's commendations for the "outstanding contributions of the staff in helping the Russian authorities elaborate their reform program." This is a welcome contrast to previously often-reported complaints about the allegedly narrow-minded insistence of Fund bureaucrats on technical and irrelevant issues. I take this as an encouraging indication of the authorities' commitment to continued close cooperation with this institution.

With these observations, I support the staff's policy recommendations and the proposed decision.

The Executive Directors agreed to continue their discussion in the afternoon.

2. REPUBLIC OF THE MARSHALL ISLANDS - DESIGNATION OF DEPOSITORY

The Fund accepts the Bank of Hawaii, Majuro Branch, as the depository, under Article XIII, Section 2(a), for all the Fund's holdings of the currency of the Republic of the Marshall Islands. (EBD/92/169, 7/30/92)

Decision No. 10107-(92/101), adopted
August 4, 1992

3. 1992 ANNUAL MEETING - FORMAL NOTICE AND BRIEF AGENDA

The Executive Board instructs the Secretary to communicate the formal notice and brief agenda for the 1992 Annual Meeting by cable and by airmail letter to all Governors and Alternate Governors. (EBD/92/168, 7/29/92)

Adopted August 4, 1992

4. EXECUTIVE DIRECTOR - EXTENSION OF PERIOD FOR REPATRIATION

The Executive Board approves the recommendation concerning the extension of the period for repatriation of a relative of an Executive Director as set forth in EBAM/92/55 (7/31/92).

Adopted August 4, 1992

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/92/54 (7/31/92) is approved.

APPROVED: March 23, 1993

LEO VAN HOUTVEN
Secretary