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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/149

2:30 p.m., October 27, 1993

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	S. E. Al-Huseini, Temporary
	D. Desruelle, Temporary
J. Bergo	A. Törnqvist, Temporary
	J. Jonas, Temporary
	F. Moss, Temporary
	T. Kanada, Temporary
	N. Prasad, Temporary
J. E. Ismael	K.-T. Hetrakul
	K. Link
	J. C. Estrella, Temporary
	B. M. Lvin, Temporary
	J. Papadakis
	J. M. Burdiel, Temporary
	O. Kabbaj
	M. A. Hammoudi, Temporary
	B. S. Dlamini
	J. Dorrington
G. A. Posthumus	
	D. Saha, Temporary
S. Schoenberg	G. M. Blome, Temporary
A. S. Shaalan	Y. Y. Mohammed
	K. J. Langdon, Temporary
	N. Laframboise, Temporary
	S. McDougall, Temporary
	Wang X., Temporary
	Wu H., Temporary
	A. F. Jiménez de Lucio
	J. B. Wire, Temporary

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

Also Present

IBRD: J. M. Biderman, Europe and Central Asia Regional Office. European II Department: J. Odling-Smee, Director; A. Kammer, A. Knobl, T. Shikado, T. A. Wolf, B. B. Zavoico. Fiscal Affairs Department: J. Escolano. Legal Department: R. B. Leckow, F. M. Zeidan. Middle Eastern Department: P. Chabrier, Director; S. H. Hitti, Deputy Director; J.-P. Chauffour, M. Fouad, Z. Iqbal, M. D. Knight, E. B. Maciejewski, A. H. Mansur. Policy Development and Review Department: T. Leddy, Deputy Director; M. Allen, S. A. Coorey. Treasurer's Department: H. Flinch. Advisors to Executive Directors: S. K. Fayyad, Y.-H. Lee, R. Meron, A. Raza. Assistants to Executive Directors: B. Abdullah, R. N. A. Ally, D. A. Barr, T. Berrihun, G. El-Masry, S. S. Farid, R. Ferrillo, A. Galicia, N. P. Hahnemann, C. Imashev, T.-M. Kudiwu, T. Oya, C. F. Pillath, M. Ryan, F. A. Sorokos, A. Viirg, R. Von Kleist, S. Vori.

1. REPUBLIC OF ESTONIA - STAND-BY ARRANGEMENT; AND PURCHASE TRANSACTION - SYSTEMIC TRANSFORMATION FACILITY

The Executive Directors resumed from their preceding meeting consideration of a staff paper on the Republic of Estonia's request for a 17-month stand-by arrangement in an amount equivalent to SDR 11.625 million and on Estonia's request for an initial purchase under the systemic transformation facility (STF) in an amount equivalent to SDR 11.625 million (EBS/93/166, 10/8/93; Cor. 1, 10/13/93; and Sup. 1, 10/21/93).

Mr. Wu made the following statement:

The Estonian authorities are to be commended for their successful implementation of the adjustment program supported by the Fund stand-by arrangement. These achievements are attributable mainly to their prudent macroeconomic policy and continued structural reform efforts, as well as to the liberalization of the trade and exchange regimes. Having equipped themselves with some of the necessary institutional framework for macroeconomic management, the authorities will be in a better position to help the economy move toward a sustainable growth path in the medium term, if the policies and reform measures in the program to be supported by the STF and the second stand-by arrangement can be fully implemented. As I agree with the general thrust of the staff appraisal and the envisaged policy intention in the program, I would like to address only two issues on national savings and banking reform.

In order to strengthen what has been achieved on the macroeconomic front, I agree with both the staff and the authorities that the financial policies should continue to be prudent. It is very much welcome that a fiscal surplus of 1 1/2 percent of GDP was realized during the first half of 1993. It is a good indication of the authorities' commitment to continued fiscal prudence. We encourage them to adhere to their objectives during the program period, in particular when facing unanticipated adverse situations.

Notwithstanding the temporary improvements in the Government's financial position, it is worrisome to see that a significant part of total investment has to be financed by foreign capital, because household savings continue to be low and enterprise profits need time to recover. Savings and investment are vital for longer-term economic growth. Although the recent increase in foreign direct investment is helpful for the economy, the sustainability of investment and economic growth in the longer run will depend crucially on domestic savings. In this regard, I note that similar concerns were also raised by the French chair. It is apparent that the authorities have recognized the uncertainties regarding sustainable investment growth during the program period and beyond. In this context, I encourage them to make efforts to improve both public and private savings performance to sustain the gains already made in the medium term.

Like some other republics of the former Soviet Union, Estonia's backward banking system hampers the efficient allocation of both domestic and foreign financial resources. In this situation, Government involvement could be helpful in channeling foreign capital into the economy, but it is not the best way of resource allocation. Therefore, the urgent need for the Estonian authorities now is to expedite banking reform. This urgency is also highlighted in Mr. Jonas's statement, in view of the fact that some commercial bank liquidity is deposited abroad, which is obviously not in the authorities' best interests at a time when the mobilization of domestic savings is most needed. It is welcome to see from Mr. Bergo's statement that the authorities have reasserted their commitment to further improve the performance and stability of the banking system. In this regard, it is encouraging that the recent passage of the Central Bank Law provides the Bank of Estonia with a substantial degree of independence. However, immediate efforts should also be made to establish and strengthen the supervisory mechanism, with the aim of avoiding a recurrence of the banking crisis.

I support the proposed decisions.

Ms. Langdon made the following statement:

The Estonian economy continues to perform extremely well, and remains a model for other countries in the region. Given this remarkable performance and the strength of the new stabilization program, we support the authorities' request for financial assistance from the Fund.

While we share some of the concerns expressed by previous speakers, notably with regard to reducing inflation, we join with others in emphasizing that the authorities must remain vigilant against any policy slippages that could undermine the credibility of the currency board, which has served them so well. We also strongly encourage the authorities to speed up the implementation of further structural reforms, particularly in the financial sector, as the infancy of this sector is one of the major impediments to Estonia's achievement of long-run sustainable growth.

The authorities' track record to date has demonstrated the strength of their commitment to the pursuit of sound economic and financial policies, and we have confidence that they will be able to achieve their ambitious, yet realistic, objectives.

Mr. Link made the following statement:

Like other Directors, I commend the Estonian authorities for the promising implementation of their reform program. The recent signs of a slight recovery in industrial production are particularly encouraging. The progress made in preparing for accession to the GATT is an important step toward Estonia's integration into the international economic system.

The budget is expected to remain broadly in balance for 1993. However, this balance will not be easy to achieve, given the need to increase investment in infrastructure. Considering the substantial reduction of real income in the recent past, further reductions of public expenditures ought to be handled cautiously, so as to prevent social tensions. In this context, particular attention should be given to possible social strains resulting from the restructuring and privatization of large enterprises.

The proposed tax system does not contain any redistributional elements, as the proposed law on the value-added tax virtually eliminates all exemptions and retains a unified rate, and the proposed income tax envisages a uniform rate on all income above the exemption level. We wonder whether it is really necessary to go this far in order to create the right incentives.

Estonia has made remarkable progress in controlling inflation. The main structural factors contributing to inflation now seem to be wage increases and increased profit margins of the enterprises. While substantial progress has been made in improving wage flexibility, a greater degree of liberalization and demonopolization of the Estonian economy should be the next steps to reduce the inflation rate further.

The free trade agreements signed with countries of the European Free Trade Association and those recently signed with Lithuania and Latvia are important instruments to foster foreign trade. I wonder whether Estonia expects the Baltic free trade area to develop into a customs union. The staff's comment on that will be appreciated.

The staff paper mentions the possibility that Estonia could hold funds of the Group of Twenty-Four industrial countries (G-24) abroad temporarily until these funds can be used domestically. We would expect that this would be done only after consultations between Estonia and the donor countries.

I can support the proposed decision on a new stand-by arrangement and the initial purchase under the STF.

Ms. McDougall made the following statement:

Other speakers have described the significant progress Estonia has made toward restructuring and stabilizing its economy over the course of its first stand-by arrangement. Likewise, we are happy to agree to the proposed requests for a second stand-by arrangement and a purchase under the STF.

We welcome the Government's commitment to promoting an increased role for the private sector in growth. With Estonia identified as a success story among transforming economies, it is important to look at what lessons its experience provides. As other speakers have highlighted, the authorities' resolve to implement structural and stabilization policies recommended by the Fund deserves credit. However, delays in privatization, the banking crisis, and the recent cautious lending policies by banks underscore the importance to policymakers of the early establishment of an appropriate legislative framework. With many of the institutions that will allow smooth functioning of a market economy still at a fledgling stage, continued technical support to Estonia is warranted.

The authorities aim to maintain a balanced budget, with development of infrastructure being accorded greater priority. The staff estimates that recent tax changes may reduce tax revenue to some degree, requiring offsetting expenditure savings. Still, the objective of those reforms--to simplify tax rates and eliminate numerous exemptions--is commendable, and should ease administrative requirements for both taxpayers and tax collectors alike. Given the proposal to move toward a flat income tax structure, increased emphasis on effective targeting of social security measures is appropriate. However, I am left wondering whether potential is provided for tax avoidance by the continuing differential between company and personal tax rates, especially as the role of the private sector in the economy grows.

Overall, the Estonian authorities are to be commended for the liberal approach they have taken toward trade arrangements. The one sticking point remains tariffs on imported Russian grain. We welcome news from Mr. Bergo that the authorities will review this measure regularly, and we join him in emphasizing the importance of free access to other markets for countries such as Estonia.

Mr. Hammoudi made the following statement:

The authorities are to be commended for their adjustment efforts, which have allowed them to implement successfully strong macroeconomic policies and structural reforms.

Strict fiscal and monetary policies and an appropriate incomes policy have stabilized production and reduced the inflation rate substantially. Furthermore, a liberal trade and exchange system, the privatization program, and the adoption of the bankruptcy law have encouraged local business and attracted foreign investors. We are in broad agreement with the authorities' policies and the staff's conclusion.

To consolidate the important gains made in stabilizing the economy and implementing sound reforms, the authorities are well advised to continue their adjustment efforts. The pursuit of tight fiscal, monetary, and incomes policies will certainly lead to the further lowering of inflation to single-digit levels, as stated by the staff paper. More privatization, the restitution process, and the strengthening of the banking system would encourage further confidence on the part of the business community.

We support the proposed decisions.

The staff representative from the European II Department stated that the free trade agreement between the three Baltic countries would prove helpful in the distant future. At present and into the near future, however, trade between the three countries was very limited. Nevertheless, he was confident that it would have a positive impact over time.

Mr. Bergo stated that he wished to thank Directors for their interesting and comprehensive comments. The Estonian authorities had found the views and advice of Directors extremely useful in the past, and they would no doubt find the insights emanating from the current discussion as useful. He had been gratified to take note of Directors' unanimous support for the proposed program and their generous praise for the authorities' efforts so far. At the same time, the warnings that had been given about future dangers and the pitfalls to be avoided would also be taken to heart.

A number of speakers had pointed to the importance of continued fiscal prudence to achieve the inflation goal, Mr. Bergo continued. The Estonian authorities fully shared that view; indeed, the proposed budget for 1994, the explicit intention to refrain from extending subsidies, and the commitment to undertake the restructuring of the social safety net only within the budget balance constraint were ample proofs of that view.

The authorities believed that the currency board had served Estonia well and was an appropriate framework for the foreseeable future, Mr. Bergo emphasized. It was of the utmost importance that the credibility of the currency board be maintained, and in that regard, the avoidance of slippages and the strengthening of the financial position of the banking sector would be crucial. Strict adherence to the principle of containing the Bank of Estonia's lender-of-last-resort operations only to emergency situations would be equally essential. At the same time, the authorities were embarking on an ambitious program--to which the highest priority had been given--to ensure that such emergency situations would not occur.

The authorities were aware that the high real interest rates on commercial bank lending and the large spreads were indications of a still imperfectly functioning financial market, Mr. Bergo commented. They would keep developments under close review. However, they believed that the remedy could not be found in direct controls--on capital transactions, for example. To the contrary, the authorities aimed at moving rapidly to eliminating all restrictions on both current and capital transactions and to removing tariffs and restrictions on trade. The authorities hoped and expected that the open policies of Estonia would be met with equally open policies on the part of the international community, and in that regard, he was grateful for the support expressed by a number of speakers.

There had been some differences of view among Directors concerning incomes policy, Mr. Bergo noted. The authorities believed that an increased reliance on the budget constraints and the announced semiannual inflation targets was appropriate, especially taking into account that they would be supplemented by active labor market policies and other measures in that field.

The goals of the authorities and the program upon which they were embarking were both ambitious, but not overly so, when the past achievements were taken into consideration, Mr. Bergo concluded. There were dangers in being ambitious, but without ambition, it was not possible to succeed. The authorities were aware that there was no quick route to success, and that the full transition of the economy would not be accomplished within the period of the proposed program. Estonia would need the continued support of the Fund over the years ahead in formulating and implementing economic and structural policies. With respect to Estonia's future relationship with the Fund, and in response to Messrs. Dorrington and Schoenberg, at the present stage, the authorities viewed a long-term stand-by arrangement, perhaps even a precautionary one, as better suited to their needs than a program under the extended Fund facility. Substantial support would also be needed in the area of technical assistance. The authorities were grateful for all the assistance they had received so far from the Fund, the World Bank, and other international institutions and countries, and they looked forward to further assistance. He wished to convey the sincere appreciation of the Estonian authorities for the excellent cooperation of the Fund staff and the resident representative in Tallinn.

The Executive Directors adopted the following decisions:

Stand-By Arrangement

1. The Government of Estonia has requested a stand-by arrangement for a 17-month period in an amount equivalent to SDR 11.625 million.

2. The Fund approves the stand-by arrangement set forth in EBS/93/166, Supplement 2.

Decision No. 10501-(93/149)
October 27, 1993

Purchase Transaction - Systemic Transformation Facility

1. The Fund has received a request by the Government of Estonia for a purchase equivalent to SDR 11.625 million under the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993).

2. The Fund approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 10502-(93/149)
October 27, 1993

2. JORDAN - STAND-BY ARRANGEMENT - MODIFICATION

The Executive Directors considered a staff paper on Jordan's request for a modification of its 18-month stand-by arrangement approved on February 26, 1992, which was extended by six months on July 9, 1993 (EBS/93/165, 10/7/93).

The staff representative from the Middle Eastern Department stated that the staff had received preliminary monetary statistics through the end of September 1993. Those indicated that the net domestic assets of the banking system and the net claims on the public sector at the end of September were well below their respective indicative targets for end-September 1993. That outcome clearly reflected the restrictive stance of monetary policy that the authorities had adopted in late July, and the continued strong fiscal performance. The available data through end-September also indicated that all the key macroeconomic intermediary and final objectives of the program for 1993 as a whole continued to be on target. Those objectives included targets for growth, inflation, external current account deficit reduction, the size of official foreign exchange reserves of the Central Bank, and overall fiscal deficit reduction.

Mr. Shaalan made the following statement:

The Government of Jordan adopted a medium-term economic adjustment program beginning in 1992 that was supported by an 18-month stand-by arrangement approved by the Executive Board on

February 26, 1992. Subsequently, on July 9, 1993, the Board approved an extension of the arrangement by six months. On that occasion, many Directors noted that macroeconomic performance had been substantially better than originally programmed, and praised the Jordanian authorities for the commitment demonstrated in support of their adjustment efforts. Thus far in 1993, real economic growth, price, fiscal, and balance of payments developments are broadly in line with the revised and more ambitious program targets. However, owing to the special factors discussed below, monetary expansion in the second quarter of 1993 was higher than expected, raising some doubts that the quarterly ceilings for end-September and end-December 1993 for net domestic assets of the banking system would be observed.

Earlier this year, the Central Bank of Jordan initiated a review of monetary statistics, with a view to improving proper sectorization/classification and residency criteria. This action was prompted by problems encountered by the Central Bank in reconciling data on government deposits. The revised monetary data series, completed in late July, resulted in substantial upward revision in the monetary statistics for 1992 and the first half of 1993. Nevertheless, it was determined that all the quarterly credit performance criteria for 1992, and both end-March and end-June 1993 ceilings for net claims on the public sector, were observed, reflecting fiscal outturns broadly in line with the program targets. However, the end-March and end-June 1993 credit ceilings for the net domestic assets of the banking system were not met due to a number of special factors--largely of an accounting type--to which was attributable much of the excess over the credit ceilings. These factors, and the remaining excess over the ceiling after adjustment, are listed in Table 2 of the staff paper. As shown in that Table, adjustment for these factors--for example, the incorporation of two new banks, the Islamic Bank's investments and deposits abroad, and the liquidation of Petra Bank's foreign assets--which were not anticipated at the time the credit ceilings were formulated, would result in an observance of the end-March 1993 ceiling for net domestic assets of the banking system and an excess over the end-June ceiling of less than 0.3 percent of the beginning period stock of broad money, after taking into account the revisions for the base.

As a result of these developments, the pace of monetary expansion accelerated in the second quarter of 1993. The authorities introduced monetary measures in July aimed at restraining further credit expansion in the coming months. In addition, they extended the current restrictive stance of monetary policy to end-December through strict limits on credit expansion; domestic credit expansion to the private sector is programmed to grow modestly--to allow for sustained growth in productive activities--to about JD 9 million per month during August-December

1993, compared with an average of JD 51 million per month in the first seven months of the year. The authorities have also expressed their readiness to take additional measures, if necessary, to prevent potential inflationary pressures. As a result, the programmed inflation target for 1993 as a whole is still achievable. On a more lasting basis, steps have been taken to implement timely reporting, compilation, and monitoring arrangements for monetary statistics. Moreover, weekly auctioning of Central Bank certificates of deposit commenced in September, with a view to using them as the primary instrument for indirect monetary control. These steps, and others envisaged in the near future, based on the recommendations of the recent technical assistance missions, should enable the initiation of corrective action without delay in the future, if needed.

The Jordanian authorities request a modification of the stand-by arrangement; in particular, they request a modification for end-December 1993 for net domestic assets of the domestic banking system, and a rephasing of remaining purchases under the stand-by arrangement into one final purchase. In light of the remedial measures taken and the circumstances behind the monetary slippages--coupled with the need to sustain private sector growth--it is my sincere hope that the Board would approve the authorities' request.

The Jordanian authorities wish to express their appreciation for the constructive discussions they had with the staff mission and the technical assistance received from the Monetary and Exchange Affairs and Statistics Departments.

Mr. Ismael made the following statement:

I can support the Jordanian authorities' request for modification of the present stand-by arrangement, in particular, the modification of the net domestic assets of the banking system for end-December 1993, and the rephasing of remaining purchases under the arrangement into one final purchase. The modification is justified simply because the slippage was not due wholly to negligence in the authorities' monetary management. It is due partly to the unfortunate effect of their willingness to improve their monetary statistics, which resulted in the upward adjustment of their monetary series data. For another, the slippage was caused by factors that were mostly unanticipated at the time of the setting of the ceiling on net domestic assets--namely, the incorporation of two new banks and the accounting practices of the Islamic Bank's investments. In addition, the authorities' somewhat loose credit policy stance vis-à-vis the private sector can probably be understood, since it boosted productive activities with little effect on prices.

The authorities took decisive action by setting a strict limit on credit expansion, while at the same time trying to make increasing use of indirect instruments. A word of caution is that a severe reduction of credit expansion--from JD 51 million, to only JD 9 million--should be conducted in a careful manner and monitored continuously, so that it will not affect private sector activities adversely.

What is more important, the authorities' request deserves to be supported because, since the beginning of the program in 1992, the overall performance has been satisfactory, with encouraging signs of economic improvement, as clearly demonstrated by the authorities' success in restoring and sustaining economic growth in a noninflationary environment.

Mr. Wire made the following statement:

As other aspects of the program generally have been implemented in a satisfactory fashion, it is unfortunate that Jordan's track record to date under this stand-by arrangement has been marred by a series of slippages in the implementation of monetary policy, and by substantial revisions to the monetary data. In this latest instance, slippages and revisions have torpedoed any chance of attaining the original 1993 performance criteria for credit growth. While accepting the explanations provided by the authorities, the fact that these problems came to light so soon after the program had been extended led us to wonder whether the authorities had been acting in good faith.

Nevertheless, we are encouraged by the fact that the damage seems to be fairly limited--the expansion of credit to the private sector did not extend to the public sector, and inflation remains low. Furthermore, the monetary authorities have taken measures to help avoid repetition of these problems. What is most important, monetary policy has been tightened, and the authorities have made a commitment to keep it tight through the end of the year. However, much more needs to be done on the policy side. The current system of direct measures is crude and ineffective, and there is an obvious need to move to more indirect monetary controls. In this regard, the authorities are to be commended for the recent introduction of the auction system for certificates of deposit; as the system seems to be working relatively smoothly, we would urge the authorities to give early consideration to other measures that they could take in accordance with the Fund's advice.

The persistence of data problems highlights the need for continued efforts to resolve data discrepancies and improve the data reporting system. We are encouraged by the initial steps that have been made over the last several months in this area, in line with the Fund's recommendations.

With these comments, and in view of Jordan's otherwise good performance under the program, we can support the proposed modification of the monetary targets under the program.

With respect to the future, attention must be focused on the importance of maintaining a continued relationship with the Fund, despite the progress Jordan has made toward medium-term external viability under this stand-by arrangement. To quickly recapitulate this progress, the economy continues to register strong growth. Continued improvement in the Government's fiscal position has reduced recourse to bank financing and helped keep inflation in check. On the external side, reserves exceed projections, while a decline in traditional exports has been accommodated by strong workers' remittances. However, there seems to be some question about the sustainability of current trends in the balance of payments.

The current program expires in less than four months, and the rationale for a follow-on program is compelling. A number of fundamental weaknesses remain in the economy that need to be addressed through continued economic reform. Also, on the basis of the medium-term projections contained in the July staff report, Jordan will face balance of payments difficulties for some time to come. Taken together, the situation argues for continued efforts on the part of the authorities, for continued support from the Fund, and for continued exceptional financing from the international donor community. My authorities have stressed their support for a Consultative Group meeting in early 1994 and the continuation of the favorable treatment that Jordan has received from the Paris Club. They have also urged other donors to be as generous as possible with their own bilateral support.

Of course, all of this necessitates a Fund-supported program that incorporates strong actions by the authorities. In that regard, there are a number of issues on which we would hope to see considerable progress made in the next few months. We would agree in particular with the staff on the importance of progress on the long-delayed goods and services tax and the completion of the commercial bank debt deal, preferably before the end of the year.

Looking further into the future, we see a number of areas that deserve attention in the context of a program. I have already noted the importance of action to improve operational aspects of monetary policy, which will need to be accomplished in the context of further efforts to restrict credit growth. In the fiscal area, we are pleased to see that the budget appears to be shaping up as expected, and that some of the groundwork is being laid for introduction of the general sales tax. However, we would like to see measures to deal with structural problems in the budget; apart from implementation of the general sales tax, we would urge the authorities to address the tax structure, especially regarding corporate and personal taxes. Further efforts to restrain expenditures--particularly on public sector wages and military spending--will be important, as will better targeting of benefits under Government social programs. On the external side, we would like to see rationalization of the tariff system and liberalization of remaining quantitative restrictions.

I have some comments on the balance of payments, despite the fact that there seems to have been no change in the overall projections for the current year. We note that, as traditional exports fall, Jordan is becoming increasingly dependent on the surprisingly strong flow of workers' remittances, even as the number of overseas workers has declined. The authorities ought to be concerned about the sustainability of these flows. We would urge the authorities and the staff to undertake an in-depth analysis of that issue, as one component of the effort to put a successor program together.

We would appreciate staff confirmation that the July balance of payments projections for 1994-98 continue to represent its working assumptions. We would ask that interested Executive Directors be provided with updated balance of payments projections once they are available. We would appreciate any informal comments, even if speculative in nature, that the staff would care to offer on short-term economic and financial developments that may challenge the Jordanian authorities as the Middle East peace process moves forward in the months ahead.

Mr. Kanada made the following statement:

There was a substantial discussion on the occasion of the 1993 Article IV consultation with Jordan in July 1993, so I will not comment in detail on recent economic developments. It is welcome that economic performance has been more or less in line with the program, apart from some slippage on the monetary front, as mentioned by previous speakers.

According to the authorities, the nonobservance of the end-March and end-June 1993 performance criteria is attributable mainly to special factors, such as accounting procedures, and the performance criteria could have been observed if an adjustment had been made for this factor. While the special factors mentioned by the authorities should certainly be taken into consideration with respect to the nonobservance of performance criteria, we cannot overlook the fact that the slippage was due partly to the authorities' policy stance and lack of administrative capacity.

The program was not monitored closely enough, and timely and appropriate measures were not taken when slippages occurred. It is all the more important, therefore, to stick to the policies and to enhance program monitoring capacity in order to avoid further slippages. In particular, a comprehensive system should be established on the monetary side, including the strengthening of statistics.

In this connection, reporting procedures in line with the recommendations of the Statistics Department aimed at strengthening the monitoring of programs are welcome. It is also welcome that the authorities are ready to take additional measures to maintain the tight monetary policy.

I commend the authorities for the economic progress made so far through their strong efforts to maintain macroeconomic stability. I also expect the authorities to attain sustained economic development through the continued implementation of the program under the stand-by arrangement, maintaining the momentum of economic adjustment. The implementation of this program will result in increased credibility with external creditors, thereby contributing to resolving the debt problem.

I support the proposed decision.

Mr. Desruelle made the following statement:

The staff paper shows that the performance criteria on net domestic assets of the banking system for end-March and end-June 1993 have not been met, and offers explanations as to why this occurred. We also have a request from the authorities for a modification of the stand-by arrangement that was approved in February 1992, and which was already modified not very many months ago.

The authorities attribute some of the excessive increase in net domestic assets of the banking system to accounting and special factors, and some to a surge in net credit; a possible breakdown of the overall excess between these two main categories is presented in Table 2. However, many of the factors behind the changes in the net domestic assets that are included in that table have been at play for some time. For example, the incorporation of two new banks in the monetary survey was effective in March 1993, and the review of monetary stabilization was also initiated in March 1993. It is therefore surprising that the staff was not informed earlier of these developments, especially since a staff mission was in Amman in both April and early June 1993. Also, while it may appear logical in economic terms to adjust the ceiling on net domestic assets to the enlarged base, while keeping constant the target rate of increase in the money supply, it may also be quite logical not to make this adjustment, on the grounds that under the stand-by arrangement the authorities are committed to monitoring and observing a target on an end-period basis, and not on rate of increase basis.

What is more important and beyond these special factors, the impact of the surge in private sector credit on the evolution of net domestic assets should not be underestimated. In fact, judging from Table 4 of the paper--and apart from any special factors--the banking system's claims on the private sector grew at a rate of JD 49 million per month in the first six months of 1993--75 percent faster than the average monthly increase projected in the program for 1993. The contribution of the increase in broad money to the rapid appreciation of asset prices, and the expected effect of liquidity expansion on inflation in the second half of 1993, confirm that more than accounting and special factors were at play in the increase in net domestic assets of the banking system during the first semester of 1993.

The authorities are asking for a modification of the stand-by arrangement, which includes primarily an increase in the ceiling of the increase in net domestic assets of the banking system at end-December 1993. This increase would allow for an increase in claims on the private sector of JD 403.0 million, or 20 percent more than the initial program projection. It can then be fairly said that we are asked to approve a somewhat looser monetary policy than initially envisaged.

While this may be regrettable, it must be noted that, thanks to favorable developments during the first half of 1993, the initial inflation target remains attainable. It must be noted as well that developments in other areas of the program have been satisfactory. The stance of fiscal policy is in line with the program. The external current account deficit is expected to decline, as initially envisaged. Output growth continues to be strong. Furthermore, progress has been made in external debt operations, with the willingness of Paris Club creditors to extend the consolidation period through February 1994, and the agreement reached with the steering committee of the commercial banks.

Given these positive developments, and in light of the authorities' efforts to regain control over private credit expansion--which are essential, and which must be pursued vigorously--I can support the proposed decision.

Mr. Dorrington made the following statement:

I enter this discussion with mixed feelings. On the one hand, I deeply regret the fact that both Jordan and the Fund have been basing their policy analysis and the monitoring of performance under the stand-by arrangement on statistics that were seriously flawed. On the other hand, I welcome both the commitment to improve statistical procedures and the prompt action being taken to compensate for the excessive monetary expansion that has occurred.

Timely and accurate monetary statistics are essential when designing and pursuing appropriate monetary policy. Achievement of that relies on clear guidelines from the Central Bank on the way in which statistical reporting is to be done, and also on effective cooperation from the reporting banks. The process is arduous and detailed and fraught with scope for errors at every stage. Its difficulty is surpassed, however, by its importance. I fully support the Fund's call on the Jordanian authorities to implement the statistical arrangements recommended by the Fund's own technical assistance mission.

The newly uncovered credit growth in 1993, which has overshot the program targets, is particularly worrying, since it has served to boost credit to the construction industry and fuel asset price inflation. The consequent buildup in inflationary potential is clear.

I accept that there are compensating factors that make appropriate an adjustment in the extent of the overshooting, as illustrated in Table 2 of the staff paper. All these adjustments are in the same direction; I am surprised that not a single adjustment pointing in the opposite direction has been discovered. Is there a risk that more problems, pointing in either direction, have yet to emerge? Perhaps the staff could comment on that.

To their credit, the authorities have responded swiftly and decisively to the monetary overshooting. The imposition of tight ceilings on credit growth on individual banks appears already to have had some impact, and that is certainly reinforced by the news we were given at the beginning of the meeting. I hope that the revised end-December benchmarks will be achieved.

Given the unusual circumstances of this request, it is right that the final drawings should be condensed into one single final payment. On the one hand, it would be unreasonable under the circumstances to ask Jordan to stick to the original end-December credit ceilings. On the other hand, it would be inappropriate to allow further drawings under the stand-by arrangement until there is clear evidence that the authorities have unambiguously regained control. I can therefore support both the proposed increase in the ceiling in the stand-by arrangement and the rephasing.

Mr. Blome made the following statement:

Like previous speakers, I can support Jordan's request for a modification of its stand-by arrangement. I take into account in this context the fact that the excessive credit expansion was attributable partly to special factors--described in detail in the staff paper--that the authorities have now implemented corrective measures to limit future growth of domestic liquidity, and that Jordan's overall macroeconomic performance has been broadly in line with the program targets. I also note that the programmed inflation target for 1993 as a whole can still be met.

However, there have already been a number of modifications and waivers in the framework of the current stand-by arrangement. These repeated deviations from the original arrangement are problematic, and should therefore be avoided in a possible successor program. Furthermore, I wonder whether the implemented additional adjustment measures are sufficient in themselves to eliminate the current liquidity overhang in the economy. In this context, I note that the net domestic assets of the banking system will remain considerably above the original program targets until end-December 1993 and in the months thereafter. The authorities should thus closely monitor the developments in the coming months and should stand ready to take additional actions, if needed, to avoid the re-emergence of inflationary pressures. In this context, I would also encourage the authorities to move faster toward indirect monetary control through increasing use of the Central Bank's certificates of deposit. These certificates could also be offered to private investors outside the banking system in order to increase competition in the area of short-term deposits, thereby contributing to reducing the still large gap between the lending and deposit rates of commercial banks.

Mr. Posthumus made the following statement:

As was noted by this chair on the occasion of the Board's approval of the extension of Jordan's stand-by arrangement, performance in most areas under the program has been much better than was envisaged. It is regrettable that the authorities could not prevent the surge in net domestic assets of the banking system, but their prompt implementation of corrective measures should be commended. There is no escaping the fact that the end-June performance criterion on net domestic assets was exceeded, reflecting a rapid expansion in credit to the private sector. The authorities have reacted promptly, and I am encouraged to see in Mr. Shaalan's statement that they have also expressed their readiness to take additional measures, if necessary, to prevent potential inflationary pressures.

The rapid expansion in credit to the private sector has produced a bubble in asset markets, as reflected in the prices of both real estate and financial assets. The situation is not unlike the surge that occurred in many industrial economies in the 1980s--the dour consequences of which can be felt until this day. As part of a better monitoring of monetary developments, perhaps the Central Bank of Jordan should consider monitoring asset prices, or should even include these prices as an informal indicator in the present program. Without diminishing the risk to stability from soaring asset prices, the fact that excess liquidity was channeled to the Amman stock exchange and to the real estate market itself reflects optimistic expectations and confidence on the part of the private sector. It would be unfortunate if such confidence and expectations for growth were eroded precisely because of acute fluctuations in asset prices.

Apart from the need to improve the monitoring of monetary developments, the authorities should move to relying on indirect control instruments. The introduction of auctions for certificates of deposit is an important step in this direction, and should be followed by developing other remuneration-based monetary instruments.

I certainly support the proposed decision.

The staff representative from the Middle Eastern Department stated that the staff had undertaken a review of both the macroeconomic framework and the balance of payments in light of monetary developments and the slippages that had occurred in the first half of 1993. The staff had also assessed the impact of the measures taken by the authorities in July and early September, in particular the introduction of auctions for central bank certificates of deposit, to ascertain whether those measures could set the monetary program back on track. It appeared from the latest information that the measures had worked and that there was a good chance that, provided that the 1993 targets for fiscal adjustment, external current account adjustment, and the balance of payments were also maintained, the program could be kept on track.

The characteristics of the external current account of the balance of payments for 1993 as a whole might be somewhat different, however, because traditional exports were expected to be lower than programmed, and workers' remittances were expected to remain strong, the staff representative pointed out. The shortfall in traditional exports was also likely to be more than offset by the higher receipts of remittances and a strong performance of nontraditional exports and tourism. Capital account disbursements were more or less on target, and the reserves position was stronger than programmed. Prospects were therefore good that the balance of payments projections and macroeconomic framework for 1993 would be attained. Assuming that macroeconomic consolidation--embodying credit restraint and a strong fiscal performance--continued in subsequent years, and that structural reforms in the fiscal area were fully implemented--encompassing both direct and indirect taxation on the revenue side, and a number of measures on the expenditure side--the target for the medium-term balance of payments and the macroeconomic framework should be attainable by end-1997. That would also require that Jordan continue to benefit from external financing from the international community.

More work needed to be done on the impact of the peace talks on the Jordanian economy, the staff representative continued. At present, there appeared to be two extreme views about the likely effect of the peace talks, and one moderate view. One of the extreme views was that a large amount of skilled labor would leave Jordan and move to the West Bank and the Gaza Strip, creating problems for the Jordanian economy. The other extreme view was the reverse--that a large number of Palestinians would leave the West Bank and the Gaza Strip and move to Jordan, compounding the problems that Jordan had faced on several occasions since the end of World War II. The moderate view held that, if the peace talks reached a positive conclusion, Jordan would benefit from the resultant easing of tensions in the West Bank and the Gaza Strip, through a reduction in military expenditures, the opening up of new business and investment opportunities in the region, and cooperation in the development of regional infrastructures. At the same time, if the existing banking, currency circulation, and exchange arrangements were continued in the West Bank and Gaza Strip--with both the Jordanian dinar and the Israeli sheqel being legal tender--or if the Jordanian dinar were to be the sole legal tender, there would be a number of implications that would have to be taken into account in designing and implementing monetary policy in Jordan.

The authorities had undertaken a review of the monetary statistics, and had sought technical assistance from the Statistics Department in the area of reporting procedures between the commercial banks and the Central Bank, the staff representative concluded. Problems with respect to sectorization and classification had been discovered at the level of commercial banks--but not at the Central Bank level. If the steps recommended in the report of the Fund technical assistance mission were implemented by the end of the year, the risk that the same or similar problems would recur would be greatly reduced. However, continued close monitoring of the situation by both the monetary authorities and the staff would be needed.

Mr. Dorrington commented that he wondered how serious was the risk that further significant statistical problems would be found. He wondered whether virtually all the scope for errors in current and past statistics had been discovered, or whether there were still significant risks of finding further problems--in either direction.

The staff representative from the Middle Eastern Department replied that, with the help of the staff, the authorities had put in place--and would continue to put in place--a number of steps in the period up to the end of 1993 aimed at reducing that risk. All of the recommendations should be in place by the end of the year, in time for any successor arrangement with the Fund. A new monetary survey base, calculated in line with the recommendations of the Statistics Department, should then be in place. The methodology and the instructions underlying the revised monetary survey would be transparent, solid, and well understood by all concerned parties, including the commercial banks, which would have to report fully on the basis of the guidelines provided to them by the Central Bank.

In response to a question from Mr. Törnqvist, the staff representative said that the latest numbers for the period up to the end of September 1993 for net domestic assets of the banking system and net claims on the public sector were well below the indicative targets; they referred to the revised targets shown in the latest paper, not to the original ones.

Mr. Wang made the following statement:

> Since the last discussion on Jordan in July, evidence has continued to show that the macroeconomic performance under the stand-by arrangement has been broadly on track. In particular, I am pleased that the performance of the fiscal and external sectors--about which I was concerned last time--has been moving satisfactorily toward the program targets. Meanwhile, as both the authorities and the staff recognize, a slippage in the form of excessive credit expansion has occurred, causing us concern, as this could impede the healthy macroeconomic adjustment process and balanced growth that are under way. Mr. Shaalan has given an objective explanation of this development. While welcoming the authorities' corrective actions to reverse this weakness, and in view of the steady advances and the staff's sensible predictions, I am convinced that the program should not be derailed by such a one-time slippage. Therefore, I have no difficulty in supporting the proposed decision, and I agree with the revised criteria on net domestic assets that are set for end-1993.
>
> To cool the overheated financial market and mitigate potential inflationary pressures, a tighter monetary and credit policy stance is unavoidable until the situation improves. At the present stage, both direct and indirect mechanisms should be employed to secure the timely observance of the target for net domestic assets. Stricter discipline within the banking sector is also necessary. We therefore welcome the Central Bank's introduction of administrative measures in July, aimed at limiting excessive credit expansion to the revised targeted level.
>
> However, given the limited effectiveness of direct control, and what is more important, in order to initiate financial system reform through greater reliance on indirect monetary control, I join the previous speakers in encouraging the authorities to explore boldly the use of indirect instruments to rationalize the asset markets. In this connection, it is heartening that the Central Bank started weekly auctions of certificates of deposit on

September 1, which is the first step in the Central Bank's open market operations. In addition, implementing an improved financial statistical and reporting system is vitally important for better monitoring of the program and for ultimately achieving the proper functioning of the indirect monetary control system.

It is crucial that the overall restrictive credit stance not be implemented in a way that undermines the continuous growth momentum, to which the private sector and the export sector have contributed greatly. While efforts are to be made to curtail the injection of liquidity into the asset markets, and with a better than expected inflation performance and favorable fiscal and external developments, the proposed tightening of credit policy should avoid any adverse impact on incentives to private investment and investments in the construction, manufacturing, and tradables sectors.

With careful and skillful management in the period immediately ahead, the current stand-by arrangement can be concluded with great success, thus laying the foundation for a possible successor arrangement with the Fund.

Mr. Dlamini made the following statement:

Jordan has made progress in stabilizing the economy and in reducing the internal and external imbalances since the start of the current stand-by arrangement in February 1992. Apart from the unexpected growth of net domestic assets, macroeconomic performance so far in 1993 has been broadly in line with the program targets. These encouraging results reflect the firm commitment of the authorities to keep the program on track.

Following the slippage in meeting the net domestic asset target, the authorities took commendable measures in July 1993 aimed at strictly limiting credit expansion. However, these measures are unlikely to ensure the observance of the end-December 1993 ceiling, because they were taken at a time when the level of net domestic assets was already close to the program ceiling. In this respect, I believe that the authorities' request for a modification of the end-December 1993 ceiling is justified not only by the measures taken to limit further credit expansion, but also by the fact that the slippage was mainly technical in nature, rather than a result of policy relaxation.

On their part, the authorities should endeavor to tighten the stance of monetary policy in order to attain the modified target. In this regard, I welcome their intention to continue with the new restrictive monetary policy measures through end-December 1993 and to take additional measures, if necessary.

Despite Jordan's satisfactory economic performance so far, the medium-term outlook appears quite uncertain, particularly because of structural rigidities and the debt overhang. The authorities should therefore continue to pursue strong and vigorous stabilization and reform policies even after the completion of the current stand-by arrangement. The continued implementation of strong adjustment programs will enable them to safeguard the gains already made and to lay a solid base for sustainable growth. Moreover, it will help Jordan to garner international support in the form of exceptional financing, including debt relief on generous terms.

I support the proposed decision.

Ms. Laframboise made the following statement:

We are pleased with the improvements in Jordan's macroeconomic performance since the beginning of the stand-by arrangement. The authorities' commitment to consolidate progress has been demonstrated by their willingness to apply strict measures to prevent imbalances.

As our concerns regarding the monetary slippage have been covered adequately, I would only reiterate the words of others in urging the authorities to heed the recommendations on reporting and monitoring arrangements proposed by the Statistics Department as soon as possible. An appropriate monitoring system will help to prevent the derailment of monetary targets caused by unanticipated special factors. In addition, we strongly concur with the decision to review the implementation of these arrangements at the time of the third review under the stand-by arrangement. Indeed, we look forward to seeing a copy of the mission report from the staff in the near future.

We support the authorities' request for a modification of the credit criteria for end-December 1993.

Mr. Kabbaj made the following statement:

Last July, the Executive Board had the opportunity to review extensively economic and financial developments in Jordan on the occasion of the 1993 Article IV consultation and consideration of the request from the Jordanian authorities for an extension and modification of the stand-by arrangement that was approved by the Board in February 1992.

On that occasion, this chair, along with most other chairs, noted with satisfaction that the overall macroeconomic performance of Jordan continued to be impressive, and that prospects for medium-term viability and sustained economic growth were better than projected before. It was also found that progress on structural reforms was slower than envisaged--which is understandable for this type of reform--and that the debt overhang continued to weigh heavily on Jordan's prospects for a lasting recovery.

It is heartening to note that since then, the authorities continued to strive decisively to address the difficult problems facing their economy in an external environment that is far from favorable. Table 3 of the staff paper shows that the program, except for the evolution of net domestic assets, remains on track, and that the path and pace of adjustment are clearly headed in the right direction.

Indeed, real GDP growth, which was negative in 1990, is now in the range of 6-7 percent for 1993, and inflation as measured by the GDP deflator has abated from a level of about 20 percent at the beginning of the decade to a respectable 5 percent in 1993. As noted at our last discussion on Jordan, the fiscal adjustment was most impressive, of the order of 15 percentage points over the past four years. The external current account deficit, while remaining at its high projected level, was almost halved over the same period.

Against this encouraging background, we must address the question of the monetary slippages that occurred in concert with a review of monetary statistics by the Jordanian authorities. As indicated in Mr. Shaalan's statement, this review, which aimed at improving the monetary statistics, resulted in substantial upward revision in monetary statistics for 1992 and the first half of 1993.

In view of the full explanation given by the staff, the corrective measures introduced by the authorities, and their expressed readiness to take further measures, if necessary, we can go along with the staff's proposal to support the authorities' request for a modification of the criterion on net domestic assets for end-December 1993, and with the proposed decision.

Mr. Törnqvist made the following statement:

Jordan is continuing its macroeconomic adjustment process, which it initiated in 1992. Real GDP is expanding briskly, while inflation is stabilizing at a relatively low level. The current account deficit is still significant, but is being gradually reduced--fueled in particular by a large reduction in the government budget deficit. On all counts, Jordan's macroeconomic performance is better than envisaged under the stand-by arrangement. Jordan's external debt and debt-service ratio, however, is quite high, and the external financing requirements continue to be large, calling for further progress in fiscal consolidation and monetary policy adjustment.

In particular, public spending relative to GDP--at 38 percent--remains large, even if it is down from 46 percent in 1991, and it should be reduced further.

All but one of the quantitative performance criteria have been observed, and the slippage in the form of an overly large expansion of credit in the second quarter of this year is mainly attributable to various special and unforeseen circumstances. However, it is very important that the slippage be corrected in order not to inject further excessive liquidity into the financial system, thus creating asset market inflation pressures, which have already manifested themselves to a certain extent.

It seems that corrective actions are already being taken. However, these were mainly direct monetary control measures, and we concur with the staff that the development of indirect monetary control measures would be essential to the establishment and maintenance of monetary stability.

As a result of the monetary slippage, broad money growth in the first half of 1993 used up the major part of its targeted increase for the whole year. However, notwithstanding some inflationary pressures in asset markets, the inflation target of 5 percent for 1993 under the program still seems attainable, and most other economic and financial indicators seem not to have been affected either.

It is interesting that a monetary slippage of such a magnitude can occur apparently without affecting, at least so far, key macroeconomic variables in a Fund-supported program, nor the projections for these variables. This may warrant some reflection on the stability of the relationship between the underlying monetary economy and the real economy, as well as on the limitations of fine-tuning in monetary management, in particular for countries such as Jordan, where the development of domestic financial and capital markets is relatively little advanced.

Owing to the corrective monetary policy measures, money supply is programmed to increase by only about 2 percentage points more than in the original program. This cannot be regarded as a significant deviation. I can thus support the proposed decision.

I join other speakers in voicing concern about the lack of reliable data, in particular on the monetary variables, and I urge the authorities to address these problems promptly.

Mr. Moss made the following statement:

> This chair, too, can support Jordan's request for a modification of its stand-by arrangement, by an upward adjustment in the net domestic assets of the banking system credit ceilings for the second half of this year. As is illustrated in the table in Appendix II of the staff paper, the adjusted excess over the ceiling for the midyear was not very important, and all the macroeconomic performance targets for 1993 are still within reach--a point amply stressed by all previous speakers.
>
> However, like the staff, I urge the authorities to exercise strict monitoring of monetary and other financial developments for the remainder of the year. In particular, the asset price inflation threat will have to be assessed carefully. One way to address this issue would be through an increase in interest rates, which can now be engineered more easily through the weekly auctions of certificates of deposit by the Central Bank, as already observed by Messrs. Blome and Posthumus. In any event, this mechanism be useful in mopping up the excess liquidity in the domestic economy.
>
> I have a question for the staff relating to the possibility of having to extend more than the projected amount of domestic bank credit to the public sector in case the disbursement of external financing lags. Has this possibility--mentioned only indirectly in the staff paper--become more of an eventuality in the meantime? If so, would the staff condone some additional monetary slippage so as not to restrain the buoyant rate of private sector growth? Or does the staff believe that, under those circumstances, it would be most appropriate to take prompt fiscal action, by delaying some public spending initiatives until the general sales tax is put in place, for example? This question might be hypothetical, which the observance of the end-September target for net claims on the public sector by the banking system seems to indicate.
>
> I support the proposed decision.

The staff representative from the Middle Eastern Department stated that energy sector price adjustments in the context of the World Bank's Energy Sector Adjustment Loan (ESAL) were a crucial element in ensuring that the overall reduction in the fiscal deficit for 1993 would be reached. The external financing target for 1993 would be attainable with the timely disbursement from the World Bank's energy sector adjustment loan, which the Bank had approved on October 7, 1993. Jordan expected to receive a disbursement of the order of $40 million, with cofinancing of about the same amount from Japan. The disbursement was likely to take place in November. The staff had been concerned that the disbursement might not take place on time; that concern had now been removed.

Mr. Shaalan stated that he wished to thank his colleagues for their valuable comments, which he would communicate to the Jordanian authorities.

There had never been any question in the staff's mind that Jordan had not been acting in anything but good faith, Mr. Shaalan stressed. The breach in the credit ceiling had been on account of the commercial banks, not the Central Bank. He had therefore been surprised to hear the clear implication that Jordan had not been acting in good faith. In the absence of clear evidence to support such a serious charge, he strongly rejected it. Moreover, it needed to be borne in mind that it was the Jordanian authorities who had taken the initiative to inform the staff about the problem with the data, and they who had requested technical assistance to correct it. That correction had now been made; of greater importance was the fact that Jordan was committed to providing the Fund with appropriate data and to taking additional action should the program targets fail to be achieved.

Mr. Wire commented that he had been grateful for the clarification of the origin of the statistical problem that had been provided by the staff paper, and his authorities had accepted the explanations of the Jordanian authorities.

The Executive Directors adopted the following decision:

1. Jordan has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Jordan (EBS/91/202, Sup. 2), and paragraph 3 of the letter dated November 18, 1991 from the Minister of Finance and Customs and the Governor of the Central Bank of Jordan, in order to modify the performance criterion and the phasing under the stand-by arrangement.

2. The letter from the Minister of Finance and Customs and the Governor of the Central Bank of Jordan, dated September 20, 1993, shall be attached to the stand-by arrangement for Jordan, and the letters of November 18, 1991, June 9, 1992, December 21, 1992, and June 14, 1993 with their annexes shall be read as supplemented and modified by the letter of September 20, 1993 and its attachments.

3. Accordingly, the limit referred to in paragraph 4(a)(i) of the stand-by arrangement on net domestic assets of the banking system shall be as specified and described in Attachment II and paragraph 6 of the letter dated September 20, 1993 set forth in EBS/93/165.

4. Paragraph 2 of the stand-by arrangement shall be amended to read as follows:

> "2. Purchases under this stand-by arrangement shall not without the consent of the Fund, exceed the equivalent of SDR 33.3 million until February 15, 1994.

Decision No. 10503-(93/149)
October 27, 1993

APPROVED: February 11, 1994

LEO VAN HOUTVEN
Secretary