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Economic Review

RUSSIAN FEDERATION

International Monetary Fund
Washington, D.C.

Economic Review

RUSSIAN FEDERATION

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Preface

Between September 1991 and March 1992 all the states of the former U.S.S.R. applied for membership in the International Monetary Fund. During this period, staff members of the IMF visited each of the republics to hold discussions with the various national authorities, review the domestic procedural and legal steps required for membership, collect economic data to process these applications, and provide policy advice. Following these visits, pre-membership reports were prepared on the economies of each of the republics. Two companion reports were also prepared, the first reviewing the economy of the former U.S.S.R. in 1991 and the second providing an overview of common policy issues and major interrepublican economic relationships. The reports were prepared in the European II Department of the IMF, under the direction of John Odling-Smee. They also draw on the expertise of other IMF departments, as well as the staff of the World Bank.

Because of the importance of and widespread interest in the subject matter, these economic reviews are being published at this time, even though they are of an interim nature and it is still too early to present a comprehensive assessment of most of the economies. The reports are based on information available in early 1992. Although the studies were prepared for the Executive Board of the IMF, the descriptions of developments and policies they contain are those of the IMF staff and should not be attributed to Executive Directors or to the authorities of any of the individual republics.

I. General Background

Contacts with authorities of the Russian Federation developed rapidly following the establishment of Special Association between the U.S.S.R. and the IMF, in October 1991, which authorized the IMF to give favorable consideration to requests from union republics for extending to them the undertakings that the IMF had made toward the union. These undertakings included, among other things, the conduct of "reviews of the economy and economic policies. . ., similar to the consultations conducted by the Fund with its members under Article IV of its Articles of Agreement;. . ." and the readiness of IMF staff "to monitor the implementation of the authorities' economic reform program and to prepare related reports." After the dissolution of the U.S.S.R., the IMF's Executive Board decided, on January 17, 1992, that cooperation with the republics of the former U.S.S.R. should continue for the period until the 1992 Annual Meetings of the IMF and World Bank Group (September 22–24, 1992), including arrangements for the assessment of policies with respect to each republic.

On January 3, 1992, the President of the Russian Federation formally applied for membership in the IMF and the World Bank Group. Since November 1991, IMF staff have visited Moscow, over about 12 weeks, to discuss policies with the Russian authorities, to develop a statistical basis for economic analysis, and to review the domestic procedural and legal steps required for the Russian Federation to become a member of the IMF. An IMF resident representative office was established in Moscow on November 5, 1991, to facilitate these discussions and the provision of IMF technical assistance.

Political Developments

Following the October Revolution of 1917, the Council of People's Commissars, headed by V.I. Lenin, proclaimed the creation of a "Republic of Workers, Soldiers, and Peasants' Soviets." Subsequently renamed the Russian Soviet Federated Socialist Republic, the RSFSR joined Ukraine, Belarus, and the Caucasian Federation in a Treaty of December 30, 1922, which created the U.S.S.R.

On June 20, 1990, the RSFSR was proclaimed a sovereign country by the Supreme Soviet of the RSFSR. On December 8, 1991, in Minsk, the RSFSR, Ukraine, and Belarus entered into an agreement that called for the creation of a Commonwealth of Independent States (CIS) and declared that the U.S.S.R. had ceased to exist; also in December 1991, a decree by the Russian President changed the country's official name from the RSFSR to the Russian Federation. Following the resignation from office of the President of the U.S.S.R. (December 25, 1991), the Russian Federation has claimed successor status to the U.S.S.R. as a subject of international law, including membership in international organizations. Thus, the Russian Federation assumed the seat formerly occupied by the U.S.S.R. in the United Nations Organization, including permanent representation in the Security Council. As regards the IMF, however, Russia did not rely on the application for membership that had been filed previously by the U.S.S.R. but submitted, as noted earlier, a new application.

Area, Population, and Natural Resources

With an area of 17,075.4 thousands of square kilometers, the Russian Federation accounts for over 76 percent of the territory of the former U.S.S.R. Spanning 11 time zones (from Kaliningrad on the Baltic Sea to the Bering Straits) and covering one eighth of the world's land surface, the Russian Federation is the largest country in the world. With the exception of the Central Asian deserts, the Russian Federation retains all the major geographical features of the U.S.S.R. The northernmost part of the country is arctic desert and tundra (two fifths of the territory of the Russian Federation is permafrost); south of the tundra stretch forests (the *taiga*), and further south are the steppes.

Administratively, the Russian Federation is divided into provinces (*oblast* and *kraï*), metropolitan cities (Moscow and St. Petersburg), autonomous republics, autonomous regions, and national regions. There are 16 autonomous republics (Bashkir, Buryat, Checheno-Ingush, Chuvash, Dagestan, Kabardino-Balkar, Kalmyk, Karelian, Komi, Mari, Mordovian, North Ossetian, Tatar, Tuva, Udmunt, and Yakut). These republics have their own governments with a wide degree of autonomy. Some of them (e.g., Checheno-Ingush, Tatar, Yakut) have declared their own independence. These declarations, however, have not been recognized by the Supreme Soviet of the Russian Federation or by any other country. In addition, there are 5 autonomous regions (Adygei, Gorno Altai, Jewish, Karachayevo Cherkass, and Khakass) and 10 national regions (Aginsky-Buryat, Chukot, Evenki, Khanti-Mansi, Komi-Permyak, Koryak, Nenetz, Taimyr, Ust-Ordynsky-Buryat, and Yamalo-Nenets), which have somewhat more restricted autonomy.

With a population of 148.5 million (as of January 1, 1991), the Russian Federation accounts for 51 percent of the total population of the former U.S.S.R. The annual growth rate of the population, which averaged 0.6–0.7 percent in the 1970s and 1980s, had slowed to less than 0.4 percent in the early 1990s. The Russian Federation embraces dozens of ethnic groups. About 82 percent of the population is ethnically Russian. Among the other nationalities are Tatars (3.8 percent); Ukraininans (3 percent); Belorussians (0.8 percent); Germans (0.6 percent); and Jews, Armenians, and Kazakhs (each 0.4 percent). The European part of the Russian Federation is relatively densely populated and includes the cities of Moscow (9 million inhabitants) and St. Petersburg (5 million). The Asian part is more sparsely populated, with major urban centers situated in the Urals and along the Trans-Siberian Railroad.

The Russian Federation has vast natural resources. Its agricultural sector produced over 50 percent of the total grain output of the former U.S.S.R., 50 percent of potatoes, 25 percent of sugar beets, and about 50 percent of livestock. The Russian Federation relies heavily, however, on imports of inputs for the textile and other industries. Its deposits of mineral resources are very large; they include coal, oil, natural gas, phosphorites, potassium salts, iron ores, gold, diamonds, rare metals, copper, lead, tin, bauxite, manganese, silver, molybdenum, graphite, nickel, and uranium. Some of the most important mineral deposits are located in autonomous republics and regions. For instance, a large part of the western Siberian oil fields is found on the territory of the Khanti-Mansi national region, and the major diamond deposits are located in the Yakut autonomous republic.

II. Structure of the Economy

Institutional Structure and Economic Policymaking Framework

This section describes the institutional structure and economic policymaking framework of the Russian Federation. It briefly outlines the developments in the U.S.S.R. before 1991; describes the takeover, in the second half of 1991, of the U.S.S.R. institutions by the Russian Federation; and concludes with a description of the current institutional arrangements in Russia.

Before 1991

In the period through 1990, union-level institutions (ministries and state committees) were largely responsible for the formulation of economic policy. A detailed, centrally determined plan specifying inputs and outputs in all sectors of the economy was widely used to specify economic objectives, although reforms implemented in the late 1980s reduced somewhat the importance of this plan. The plan was executed by state enterprises—90 percent of production was under direct state control—supervised by sectoral branch ministries. With regard to the implementation of economic policy, the republics, including the Russian Federation, had a limited role in economic policymaking, which was largely confined to responsibility for certain parts of the union budget: the collection of turnover taxes, income taxes of individuals, and profits of regionally subordinated enterprises; the management of enterprises not subordinated to union authorities; and social expenditure.[1]

In response to increased assertiveness by republican governments since the late 1980s, including in Russia, the economic policymaking framework began to evolve toward a federal structure. A law enacted in April 1990 set out the basic principles governing relations between the republics and the union, increased the fiscal responsibilities of the republics, and confirmed the union's jurisdiction in certain areas.[2] In October 1990, the so-called Presidential Guidelines on economic reform envisaged considerable freedom for the union republics in the following areas: the modalities and timing of economic reform, responsibility for the provision of a substantial share of public goods and services, and administration of a considerable portion of the tax system.

Changes in 1991

The process of decentralization and transfer of economic and political power from the union to the republics accelerated significantly in the second half of 1991, spurred by two factors: President Yeltsin's election in June 1991 and the August 1991 coup attempt.[3] In this period the Russian authorities moved swiftly to establish an independent institutional structure for the formulation and implementation of economic policy.

Shortly after the coup was defeated, the Russian President issued decrees to, inter alia, transfer control of state enterprises and property from the union to Russia, take over all government communications and communications enterprises, and ban the activities of the union planning and distribution agencies (Gosplan and Gossnab) in the territory of the Russian Federation. These presidential decrees wrested a significant amount of power over economic policy formulation and implementation from the union.

In mid-September 1991, a decree stated that Russia's Fuel and Energy Ministry would take over the operations of the union's Ministries of Oil, Nuclear Power, Gas, and Coal Industries on Russian territory. On November 1, 1991, the Russian Parliament accorded the President powers to implement economic reforms by decree, and the Russian Federation completely stopped remitting funds to the union budget.

In the second half of November 1991, the Russian Federation took over the remaining structures of the U.S.S.R. Ministry of Finance. Further, the Russian Federation announced that it would not be responsible for any new debts contracted by the U.S.S.R. The Russian Government also assumed control over the production, distribution, and export of oil, diamonds, gold, and other precious metals in the territory of the Russian Federation and took control of all assets of the U.S.S.R. Ministry of Foreign Affairs held within the U.S.S.R. and abroad. In the same period, the Russian Parliament approved a resolution allowing the Central Bank of Russia (CBR) to take control of Gosbank and Vneshekonombank. Finally, the Russian Federation (and seven other republics of the former U.S.S.R.) agreed to assume joint and several responsibility for Soviet external debt.[4] In December 1991, decrees were issued to place all remaining ministries of the U.S.S.R. under the control of Russia, except for the Ministries of Defense and Atomic Energy. This completed the process of the Russian Federation's establishing a freestanding and independent institutional structure for formulation and implementation of economic policy.

In Early 1992

The current institutional framework for the formulation and implementation of economic policy has two parts: the Russian Government, and institutions under the oversight of the Russian Parliament. As regards the government, the First Deputy Prime Minister for economic affairs was given responsibility for policy formulation and implementation and oversight for, among others, the Ministries of Economy, Finance, Industry, Transport, Trade, and Material Resources; the Committee for Management of State Property; and the Committee on Anti-Trust Policies and Support for New Economic Structures. Another Deputy Prime Minister was given responsibility for social policy and foreign economic relations and supervises, among others, the Ministries of Labor and Social Affairs, Education, Social Protection, and Foreign Economic Relations.[5] The statistical agency (Goskomstat of the Russian Federation) and the CBR are independent of the government and operate under the oversight of the Russian Parliament.[6]

The roles and responsibilities of these institutions in economic policy are briefly described below. In the area of fiscal policy, the Ministry of Finance[7] is responsible for the preparation and execution of the budget. The budget is submitted to the Parliament for approval, and the Parliament may amend specific provisions of the budget. The collection of revenues is handled by the State Tax Service, whereas the Ministry of Finance is responsible for expenditure authorizations.The CBR is responsible for monetary policy, credit policy and cash emission, and banking supervision.

In the external sector, several institutions have overlapping and complementary functions. The government is responsible for the broader issues affecting the exchange system, whereas the CBR, in consultation with the Ministry of Finance and the Ministry of Foreign Economic Relations, is responsible for determining the exchange rate and foreign exchange regulations. The foreign trade system—including tariffs, taxes, licenses and quotas affecting international trade—is under the supervision of the State Customs Committee, the Ministry of Finance, and the Ministry of Foreign Economic Relations. Export quotas are distributed by the Ministries of Fuel and Energy, Agriculture, and Industry (which in turn distribute them to enterprises) and by the Ministry of Foreign Economic Relations (which auctions quotas to enterprises). Licenses for exports are distributed by the Ministry of Foreign Economic Relations. (Specific procedures for the distribution of export quotas and licenses had not yet been determined as of February 1992.)

The Currency Committee, which is chaired by the First Deputy Prime Minister for economic and financial policy and which includes representatives of the CBR and various ministries, is responsible for foreign exchange management, including external borrowing and external debt matters. Policy in these areas is implemented by Vneshekonombank and the Vneshtorgbank,[8] the CBR, and the Ministry of Foreign Economic Relations. The Vneshekonombank is the agent for servicing the debt of the former U.S.S.R. (See Annex 2 for a more detailed description of responsibilities in the financial sector.) With regard to economic relations with other republics of the former U.S.S.R., the Committee on Economic Relations with Member States of the Commonwealth coordinates the activities of the Russian Government. In this connection, the Ministry of Trade and Material Resources oversees the wholesale distribution system and trade with the republics of the former U.S.S.R.

The Ministry of Economy is responsible for macroeconomic programming, public sector investment, price liberalization, and conversion of military industries to civilian uses. In the area of production, several ministries have responsibilities. As of early 1992, the system of (nonobligatory) state orders[9] continues to play a role in resource allocation by enterprises. The Ministry of Agriculture supervises activities in the agricultural sector; the Ministry of Industry oversees the production of energy products.

The status, supervision, and management of state enterprises is in transition, although it appears that these enterprises will be under the oversight, for the time being, of the following institutions and committees: Ministry of Economy, Ministry of Industry, Committee on the Management of State Property (privatization) and, if applicable, the Committee on Conversion of military industries. Specifically, the Ministry of Industry oversees industrial enterprises (32,000–33,000 in early 1992). This ministry provides enterprises with limited financial resources for pilot projects and disseminates information to them. Enterprises have managerial autonomy and are to be able to decide on the size of their workforce, wage levels, purchase and sale of inputs, and output. The Ministry of Industry's supervision of enterprises has also included work (with other relevant agencies) on privatization strategy. In this connection, the implementation of economic reforms, particularly those affecting privatization and conversion of military industries, will affect both the structure of production and the number of enterprises remaining under the supervision of the government.

In the area of monitoring economic developments and statistics, the Commission for Operational Analysis of the Current Economic Situation was created by government decision of January 13, 1992, to provide timely information to the government on the current economic developments. In the area of prices, Goskomstat of the Russian Federation is responsible for compiling the consumer and wholesale price indices and produces flash reports on prices of specific groups of goods. The State Committee for Anti-Monopoly Policy and Promotion of New Economic Structures, responsible to the Parliament, is charged with enforcing anti-monopoly laws. Goskomtsen (the Committee on Prices, which has been incorporated into the Ministry of Economy) oversees prices and pricing policy. Specifically, it advises the government on goods with administered prices and on the effects of changes in taxation; regulates the pricing of output of monopolies; monitors enterprises' compliance with administered prices; and prepares recommendations on prices for trade with republics of the former U.S.S.R. Goskomstat of the Russian Federation and the Ministry of Labor and Social Affairs monitor the employment situation and wages paid in the economy, and the Committee on Employment administers the Unemployment Fund. The Ministry of Labor and Social Affairs, in conjunction with the Ministry of Finance, oversees social protection, including social safety nets for vulnerable groups.

Structure of Output, Expenditures, Incomes, and Prices

Until the late 1980s, trends in output, expenditure, incomes, and prices were broadly similar in the Russian Federation and in the former U.S.S.R. as a whole, as indicated by the fairly stable share of Russia in most main economic indicators (Table 1).[10] The sectoral structure of the Russian economy resembles that of the former U.S.S.R. Agriculture, however, represents a smaller share of net material product (NMP) and employment in Russia than in the former U.S.S.R. (Tables 1–3). By contrast, the relative weight in NMP and employment of industry, construction, and transport and communications is larger. In Russia, as in the former U.S.S.R., the second half of the 1980s saw a decline in the share of industry in NMP and employment. The shares in nominal NMP of agriculture, construction, transport and communications, and other sectors each rose significantly. The share in employment of agriculture decreased slightly, as did the share of transport and communications, while the shares of construction and other sectors rose.

The growth rate of real output as measured by NMP was sluggish in the second half of the 1980s, with the exception of a short-lived rebound in 1988 (Table 4). It averaged 1.1 percent a year in 1986–90, down from 4.4 percent in 1976–80 and 3 percent in 1981–85. The rate of growth of gross industrial output declined steadily throughout the second half of the 1980s (Table 5). In the energy sector, volumes peaked in 1987–88 for oil and coal and then started dropping rapidly; the production of natural gas continued to rise, albeit at a slowing rate (Table 6). A sharp contrast appears, however, between consumption goods, for which the rate of increase in production accelerated, and producer goods, which exhibited an opposite pattern, possibly as a response to demand made possible by greater enterprise autonomy (Table 5). By 1991, the bulk of industrial production (87 percent) was still accounted for by state enterprises.

The slowdown of growth in industrial production to a large extent reflected the sharp decline of fixed investment and the resulting obsolescence of the capital stock (Table 4). In the late 1980s, a policy decision was made that internally generated funds of the enterprises should replace budgetary financing of investment. The share of the budgetary sources indeed declined substantially, but overall investment dropped as enterprises shifted spending toward wages.

The growth rate of agricultural production was more volatile (Table 7). In 1990, the production of the collective and state farms stood 2.8 percent below its 1986 level. Although private production increased by 10.3 percent from 1986 to 1990, in 1991 three fourths of total agricultural output still originated from collective and state farms; this proportion, however, was much lower for such items as potatoes or fruits. Another noteworthy trend is the progressive decline, since the mid-1980s, of the share of state procurement for a number of products (including grain, potatoes, and vegetables).

Household money incomes rose rapidly during the second half of the 1980s and increasingly outpaced inflation as measured by the overall retail price index (Table 8). The average wage, in particular, rose consistently faster than prices (Table 9). The share of wages in money incomes remained fairly stable, hovering around three fourths throughout the period (Table 10).[11]

Because of strict price controls, prices over the second half of the 1980s remained stable in the state and cooperative trade sectors (Table 11). In this connection, the doubling of the saving rate during the second half of the 1980s is likely to be indicative of repressed inflation and the buildup of a sizable household monetary overhang (see Chapter III, under "Money and Credit. Other Monetary Issues," and Chart 1).

Structure of the Balance of Payments and Trade

External transactions of the Russian Federation consist of trade and payments with countries outside the former U.S.S.R. as well as trade with the former U.S.S. R. republics.[12] Although Russia is a fairly closed economy in terms of trade beyond the territory of the former U.S.S.R., it actually is relatively open once trade with former U.S.S.R. republics is taken into account. In 1990, total outward shipments (measured in domestic prices) amounted to 17 percent of Russian GDP, with 70 percent of these shipments going to other former republics and 30 percent to the rest of the world

(Table 12). Inward shipments were equivalent to about one quarter of GDP but were split roughly evenly between interrepublican and foreign imports.

The balance of payments of the Russian Federation with countries outside the former U.S.S.R. consists of transactions settled in convertible currencies and in bilateral clearing arrangements as well as transactions with countries that had formed part of the Council for Mutual Economic Assistance (CMEA). Other components of the current account are relatively minor, with the notable exception of interest payments on external debt, which amounted to about 5 percent of merchandise exports in 1991, and receipts from gold sales, which are assumed to have accounted for 62 percent of the sales by the former U.S.S.R. in 1991. Capital inflows consist mainly of net disbursements of medium- and long-term loans; identified inflows of short-term capital and foreign direct investment have been very small.

The merchandise trade balance (measured in foreign currency prices) of the Russian Federation with countries outside the former U.S.S.R. is estimated to have been in surplus in the past two years. The principal export products are oil and natural gas, which account for about 40 percent of merchandise exports, and machinery, which amounts to about one third of merchandise exports (Table 13). Russia exports about 20 percent of its total oil production and about 15 percent of its natural gas production to countries outside the former U.S.S.R. About three fifths of the exports of oil and natural gas are to countries in the convertible currency area (i.e., countries other than former members of the CMEA—except the former German Democratic Republic—and those with which trade is carried out on the basis of bilateral clearing agreements). Merchandise imports from countries outside the former U.S.S.R. consist mainly of machinery (about one half), products of light industry (9 percent), and chemicals (8 percent). Russia imported about US$11 billion a year in 1990–91 of grain, sugar, meat, and a wide range of other food and agricultural products.

Trade with former U.S.S.R. republics is estimated to have grown through 1990, but then to have declined in 1991 (only partial information is available for 1990 and 1991). In 1989, the pattern of trade with former U.S.S.R. republics differed significantly from the pattern of trade with third countries. The major exports to former U.S.S.R. republics were machinery (35 percent), chemicals (12 percent), and oil and natural gas (12 percent) (Table 14).[13] Imports from other republics of the former U.S.S.R. were concentrated in machinery (30 percent), food and agricultural products (23 percent), and light industrial products (18 percent).

III. Recent Economic Developments

The deterioration in the economy of the Russian Federation that took place in the late 1980s and in 1990 become more pronounced in 1991. The decline in output accelerated while inflationary pressures mounted as the budget deficit increased and bank credit to enterprises more than doubled.

Output, Expenditure, Incomes, and Prices

Output, Expenditure, and Incomes

The sharp output decline in 1991—NMP is estimated to have fallen by at least 11 percent, and GDP by 9 percent[14]—is attributable to several factors, including further disintegration of the system of central planning and traditional enterprise links; growing shortages of imported inputs and spare parts because of the compression of convertible currency imports resulting from balance of payments pressures and the collapse of CMEA trade; an accelerated decline in investment; and deteriorating interrepublican economic relations.[15] Industrial output fell by 8 percent for the year as a whole, but the decline tended to accelerate during the year. Steel output dropped by 14 percent, and production of cement by 7 percent, while the output of the main products in the chemical and forestry complex fell by 5 to 13 percent. In the energy sector, crude oil production dropped by 11 percent, as did production of coal. The production of gas and electricity remained roughly the same as in 1990. Some branch-specific reasons for the decline included shortages of imported inputs for the light industry, a drop in demand for the metallurgy sector, and a lack of equipment for the oil and coal sectors. The latter was also severely hit by the strikes of March-April 1991 and resulting labor settlements that included a substantial reduction in effective working hours.

Gross agricultural output fell by 5 percent, and net output by 8 percent, partly as a consequence of the lack of inputs (spare parts, fertilizers, fuel). Gross output in the collective and state sector fell by 8 percent, but it rose by 5 percent in the private sector. (The number of peasant's farms increased from about 4,400 to 50,000 in 1991.) The grain harvest dropped by more than 25 percent compared with 1990, or by 17 percent over the average 1986–90 level, as a result of adverse weather conditions, but also because of the late completion of the 1990 harvest (which delayed the spring sowing in 1991) and the aftereffects of the record 1990 crop. For most agricultural products, state procurement turned out well below 1990 levels. The overall domestic food supply decreased by 10 percent, with particularly serious effects on large industrial centers, including Moscow and St. Petersburg.

Activity in the construction sector also fell sharply (by 22 percent for housing). In the transportation sector, freight shipments dropped by 8 percent, delays lengthened considerably for passenger as well as for cargo traffic, and reported instances of theft of transported goods surged by 40 percent. Finally, the volume of retail trade of goods and services ebbed by 8 percent.

Although in principle still regulated by state orders, inter-enterprise deliveries were increasingly accompanied by side-payments (not infrequently in hard currency) or were conducted on a pure barter basis. Overall, about 20 percent of enterprises did not fulfill their contractual delivery obligations in 1991, and this proportion was much larger in the coal, chemical, and metallurgical industries. The proliferation of so-called commodity exchanges provided an alternative distribution channel. More than 110 of such exchanges were operating by end-1991, and the emergence of some 70 trading companies also compensated to some extent for the disruption of traditional supply links.[16]

Total fixed investment continued to fall in 1991, by 11 percent. The drop was even sharper for the number of new investment projects undertaken or completed. The value of completed projects in 1991 was equal to only two thirds of the value of gross capital investment.

Household money incomes surged from 377 billion rubles (rub) in 1990 to rub 828 billion in 1991, including rub 72 billion of frozen deposit compensation for the April 1991 price increases (Table 10; see "Fiscal Developments" and "Money and Credit," below). Most of this increase, including the rapid growth of wages (discussed below), took place in the third and fourth quarters of 1991 (Chart 2). The structure of household expenditures changed in the course of 1991, with the share of food increasing to 40 percent, from 34 percent in 1990, in response to an increase in the relative price of food (see below). At the same time, the volume of purchases of food and other items dropped, and the accumulation of financial assets accelerated sharply, suggesting that the household monetary overhang may have swollen during the latter months of 1991.

Industrial output declined by 13.5 percent in the first two months of 1992 from the corresponding period of 1991. Particularly large declines took place in ferrous metallurgy, oil (down 12 percent), and certain segments of the food industry.

Prices

Inflation accelerated markedly in 1991. On average, industrial wholesale prices rose by 138 percent compared with 1990, and retail prices for goods and services by 90 percent (Table 11).[17] At the wholesale level, prices in the food and light industry sectors grew most rapidly. At the retail level, food prices increased much faster than overall prices. On the collective farm markets—where no price controls apply—prices rose by 132 percent on average. Prices for paid services (such as rents and transportation) rose only by 71 percent. The monthly profile of inflation was very uneven and differed among price indices (Chart 3). Partial liberalization measures combined with administered price increases caused a discrete jump in wholesale price in January, and a sharp rise in consumer prices in April. Toward the end of the year, the announcement of further liberalization measures coupled with the gradual loss of effective control over state-regulated prices led to a sharp acceleration of inflation, which according to the official overall retail price index exceeded an annualized rate of 300 percent in December.[18]

On January 2, 1992, the authorities implemented a comprehensive price liberalization after which about 80 percent of wholesale and 90 percent of retail prices were freed (in value terms, at 1991 relative prices). The products that remained subject to price controls comprised a number of basic consumer goods and services (certain types of bread, milk and some milk products, baby foods, salt, sugar, vegetable oil, vodka and other spirits, electricity and fuels, matches, medicines, supplies for the disabled, apartment rents, public utilities, and public transportation and communication services) and a restricted list of producer goods and services (electricity and fuels, precious metals and stones, and freight). Also, the state distribution sector remained subject to a ceiling on its markup ratio (which was, however, doubled to 25 percent). Administered prices for most of the above-mentioned goods were raised by 3 to 5 times. Some prices controlled by the state, such as air fares, were increased much more.

The primary reason for the continuing reliance on some form of administrative rules was that, after 60 years of rigidly controlled prices often at completely arbitrary levels, the authorities were not in a position to estimate accurately the impact of the liberalization. Thus, in order to protect the most vulnerable groups through the first stage of price liberalization, some form of price regulation was considered indispensable. The intention was to keep the regulated prices under close scrutiny and adjust them in the light of budgetary requirements and the general economic situation.

The size of the overall price jump in January 1992 was estimated to be 3.5 times in the retail sector (4 times for food and 2.5 times for nonfood products) and almost 5 times at the producer level. The larger jump in the latter was due in part to the fact that shops were obliged to sell existing inventories at no more than 2 times (for food products) or 3 times (for nonfood products) the December 1991 price. Many prices increased much more in the early days of January, up to 10 or 20 times, but in a number of instances the price adjustment overshot as demand virtually vanished, forcing sellers to bring down their prices (in particular for perishable goods). The rise in prices on collective farm markets in January was much smaller than that in state stores. In some cases, and for the first time, prices in state stores exceeded those registered on farmers' markets. During the first weeks following price liberalization, relative price movements were, of course, very large.

Immediately following the liberalization it became clear that, given the large price jumps in almost all markets, the maintenance of regulated prices would require substantial budgetary resources. Because these were not forthcoming for all the products subject to regulation, some of these products tended to disappear from the market, often in favor of related unregulated products. Thus, for instance, milk, which was subject to regulation, was difficult to obtain, but yogurt, the price of which had been freed, was not. In these circumstances, in the course of January-February 1992, the central government allowed the local authorities to adjust the regulated prices or to free them. Also, in order to raise incentives for the production of oil, the authorities authorized an increasing proportion of domestic production to be sold at free prices.

There is increasing evidence of a supply response to the price liberalization. Improvements have been observed at the retail level in part in the form of "street" trading outside the official distribution channels (see Chapter IV, under "Systemic Changes"). Producing enterprises have also attempted to bypass the wholesale-retail distribution network and to sell directly to the consumers. The extent to which these sales reflected the release of goods withheld in late 1991 by sellers waiting for the preannounced price liberalization is unknown. Some food producers reportedly shifted their production toward more profitable products and away from items still subject to price controls. The volume of retail sales in the first two months of 1992 fell to 48 percent of its January-February 1991 level as consumers, faced with the much higher prices, drew on their hoards that had been built up in anticipation of price liberalization. The geographical price dispersion across regions (up to a factor of 10), however, and even within cities, was striking. The rate of price increase slowed significantly in February. According to the new consumer price index of the Goskomstat of the Russian Federation, prices rose by 38 percent in February. An alternative index, based on developments in Moscow alone, suggests that consumer prices rose by 24 percent. (A significant degree of price dispersion may persist on some products because of differences in transport costs and in local subsidization.)

Employment and Wages

Although output dropped sharply in 1991, employment fell only by 1.1 percent, implying a sharp deterioration in average labor productivity (Chart 2, bottom panel). At the same time, the structure of employment changed significantly. Employment declined by 4.5 million in the state sector (government, state enterprises, and state organizations) but only marginally on the collective farms. It increased by 0.6 million in joint-stock companies, while it rose by 2.3 million in leased enterprises and by 0.5 million in private enterprises (Table 15). (Leased enterprises, joint-stock companies, and "associations" are often described as part of the private sector, although many are publicly owned.)

Reliable unemployment statistics are not yet available. Unemployment was estimated by the Goskomstat of the Russian Federation at 1 to 2 million individuals on average in 1991 (1.3 to 2.6 percent of the labor force; the smaller estimate encompasses only those who are "actively looking for work"). Registered unemployment at the end of January 1992 only amounted to 70,000 persons, however, of which 14,000 received unemployment benefits (Table 16; unemployment registration started only in July 1991). At end-January 1992, some 30,000 layoffs were announced for the near future by employers. Declared vacancies stood at 0.8 million at the end of 1991 but had fallen by one quarter in January 1992 compared with January 1991.

Nominal wages increased substantially in 1991. The average monthly industrial wage rose from rub 311 in 1990 to rub 580 in 1991; the average monthly overall wage rose from rub 297 to rub 530. Wage hikes lagged price rises in the first semester of 1991, but a catchup occurred in the third quarter, and by the fourth quarter wages were leading prices (Chart 2; in part, this reversal is due to the fact that the price liberalization measures that had been announced for mid-December were postponed). As a result, the real industrial wage in the last quarter of 1991 stood one third above its average 1990 level. Concomitantly, profits deflated by the wholesale price index fell markedly in 1991 (Table 17). The average wage in industry rose by 45 percent in January, to rub 1,750.

The frequency of strikes lasting one day or more rose substantially in 1991 compared with 1989 and 1990, affecting some 1,755 enterprises or organizations and causing an estimated output loss equal to 0.4 percent of GDP. The strikes occurred mostly in March-April (particularly in the coal mining sector, where a major strike was settled following significant concessions on wages and the length of the working week) and at the end of 1991.

In 1991 the gap between productivity and measured real wage growth that had started to emerge around 1987 widened considerably (Chart 2, bottom panel). If the relationship between productivity and real wages prevailing in 1987 were to be restored, real wages would have to fall by between a third and a half from their level in the last quarter of 1991. (These indicators of real wages are subject to the statistical limitations concerning prices that were noted above.) If the latter is chosen as a base period, the nominal wage rose by about 65 percent in January 1992, whereas the measured real wage fell by over 50 percent. However, large wage increases were granted on a selective basis in the public sector: to miners (a tripling of their wages) and then to health care employees (a 45 percent increase), both effective on February 1.

Fiscal Developments

Fiscal Developments in 1991

Fiscal developments in Russia in 1991 were dominated by the following three main structural changes.

Takeover of Union Responsibilities

The most important development in 1991 was the gradual diminution of the power and activities of the central government of the U.S.S.R., a process that culminated in the dissolving of virtually all central governmental bodies in November 1991 (see the accompanying Economic Review, *The Economy of the Former U.S.S.R. in 1991*). This process was fully mirrored in the budget of the central government, whose revenue sources were gradually curtailed and dried up completely after the August coup attempt, while expenditure continued. To the extent that revenue was withheld from the union government by the republics, the republican budgets recorded a corresponding improvement. Information on the exact degree of revenue withholding from the central government by the Russian Federation was not available, but it is estimated to have been substantial.

Before the dissolution of the union (central government) in November 1991, the Russian Government and the outgoing union government came to an agreement about the budgetary responsibilities that the Russian Federation would take over from the union. This was done in the context of the Extraordinary Fourth Quarter 1991 Budget for the central government, which was already in a large deficit. Under this agreement, Russia took over most of the expenditure responsibilities from the U.S.S.R. Ministry of Finance, which increased the expenditures of the Russian budget by rub 43.5 billion in November-December 1991.

Changes in Enterprise Jurisdiction

During 1991, the Russian Government pursued policies to encourage the enterprises on its territory to move from union to Russian Federation jurisdiction. To this end, various instruments were used. For example, the rate of the profit tax was set at a considerably lower level for enterprises subject to Russian rather than union jurisdiction; higher cash benefits were provided to entities financed by the Russian budget; enterprises under Russian jurisdiction could grant higher wages and finance them through government subsidies; and the rediscount rate of the CBR was lower than that of the Gosbank. The Ministry of Finance of the Russian Federation estimates that this process was broadly budget-neutral for the Russian Federation; that is, that higher taxes on account of the increase in the number of enterprises were offset by increased expenditures, chiefly subsidies.

Impact of the April 1991 Price Increases

According to the Ministry of Finance, the impact of the April 1991 price increases on the budget was negative, since increased tax collection was more than offset by payments for price compensation and by forgone profit taxes (see below). The net impact was estimated at around 1½–2 percentage points of GDP.

Mainly as a result of these factors, the stance of fiscal policy was very expansionary. Information on the outcome of the general government budget for 1991 was not available before the issuance of this report because of delayed reporting by local and territorial governments. The accounts of the central Russian Government indicate a deficit of rub 158 billion (14 percent of GDP; this includes an officially recorded deficit of rub 102 billion, plus the impact of the debt write-off for agricultural complexes—rub 50 billion—and of other bank financing). Central government revenue reached rub 175 billion (15 percent of GDP), and expenditures reached rub 333 billion (29 percent of GDP). Relative to the authorities' adjusted budgetary targets (elaborated after the April 1991 price increases), a revenue shortfall of 0.8 percentage of GDP occurred, and expenditures exceeded the adjusted targets by 8.1 percentage points of GDP. On the revenue side, tax collection fell short of target for most items, with profit taxes showing the weakest performance. The latter reflected the impact of the lowering of the profit tax rate from 38 percent to 32 percent in April 1991,[19] as well as higher-than-foreseen wages, which squeezed profits. Overruns on the expenditure side reflected the impact of the takeover of expenditures from the union budget, and outlays for agricultural price subsidies. (These figures are not consolidated with the accounts of the local governments.)

As regards local governments, the only information available so far is that their deposits placed with the banking system increased by about rub 30 billion (2.7 percent of GDP). This figure should be a relatively good proxy for the overall balance position of local governments. Based on this information, the overall fiscal deficit of the general government is estimated at rub 128 billion, or 11.3 percent of GDP.

In order to derive a budget for the Russian Federation that would be structurally comparable with the 1992 budget, a *notional budget* was estimated for 1991. This budget combined the actual outcome of the fiscal operations of the Russian general government, including the takeover of union responsibilities, with the imputed revenue and expenditures that would have been effected by the

Russian Government had the takeover of union functions agreed to for November-December 1991 actually covered all of 1991.

The notional budget deficit derived on this basis was estimated to have been rub 350 billion, or 31 percent of GDP in 1991, of which rub 221 billion was on account of the imputation of union functions (Table 18). (The total union government deficit amounted to around rub 320 billion in the first ten months of 1991; see the companion Economic Review, *The Economy of the Former U.S.S.R. in 1991*). Even if the impact of debt write-offs and the frozen part of the April deposit compensation were to be excluded (arguably, they did not have a liquidity impact on the economy in 1991), the deficit would be reduced only to rub 224.5 billion, or 20 percent of GDP. Total revenue was estimated at around 28 percent of GDP, while expenditures, excluding debt write-offs and the frozen part of deposit compensations, were in the neighborhood of 48 percent of GDP.[20]

The First-Quarter 1992 Budget

It was against this background that the first-quarter budget was presented to the Supreme Soviet of the Russian Federation in mid-January 1992.[21] Its execution was approved on January 24, 1992.[22] This budget combined reform and stabilization efforts. Reforms concentrated on the revenue side by providing for a shift from sales and the traditional turnover taxes to a value-added tax (VAT) with a unified rate of 28 percent and by reforming the taxation of exports (see Annex 1). Stabilization efforts concentrated on the expenditure side, where severe across-the-board cuts were made and a system of sequestering was put in place to ensure the attainment of fiscal objectives. The draft budget that was presented to the Supreme Soviet envisaged a small fiscal deficit for the first quarter of only rub 10 billion, or 0.7 percent of projected quarterly GDP.

Revenues were budgeted to increase from about 28 percent of GDP in 1991 to some 35 percent of GDP in the first quarter of 1992, with VAT and export taxes accounting for 10 and 14 percent of GDP, respectively. Expenditures were projected to decline in relation to GDP, from their notional level of 48 percent in 1991 to about 36 percent. To this effect, all state-financed investment projects, except certain energy and agro-industrial investment projects deemed to be vital for maintaining domestic supply, were suspended or dropped altogether; all operation and maintenance expenditure was virtually frozen in nominal terms; producer and consumer subsidies were cut deeply in conjunction with the far-reaching price liberalization measures introduced in January 1992; and defense spending was halved from its (notional) level of about 9 percent of GDP in 1991.

Average budgetary wage increases of 90 percent had already been provided in the course of December 1991—at the local government levels—and in January 1992 at the central government level. The intention was to reduce partially the widened wage differentiation between the material and the nonmaterial spheres that had taken place in the course of 1991. The increase was higher in the area of education, where an average rise of 120 percent was granted, following a presidential decree that effectively linked the average level of wages in the education sphere to that in the material sphere.[23]

The Presidium of the Supreme Soviet modified the draft budget in three respects. First, it reduced the VAT rate for certain food items (flour, pasta, cereals, dairy products, and sunflower oil) and eliminated the VAT for children's and school cafeterias. In addition to the loss of budgetary revenue, estimated at about rub 7.5 billion per month (more than 1 percentage point of GDP on an annual basis), this measure went against one of the main principles of the new VAT system: that its rate was to be uniform.[24] Second, it increased expenditures by about a full percentage point of GDP, adding small amounts to various items. Third, to offset the impact of higher expenditure and to eliminate the small deficit incorporated in the draft budget, the Presidium increased the estimate of the VAT collections without indicating how the increase would come about.

Expected Budgetary Outcome in the First Quarter of 1992

Both the methodology used by the Ministry of Finance to compile the budget and the feasibility of the projections were reviewed in evaluating the budget for the first quarter of 1992. It was concluded on both accounts that the deficit would be larger than assumed by the Russian authorities. As regards the methodology, two main issues were identified: the authorities classified foreign borrowings and privatization receipts as fiscal revenue, and certain expenditure items were recorded on a cash rather than on a commitment basis. In particular, because of insufficient resources and because there was no final agreement on the sharing of the domestic debt of the former U.S.S.R., the authorities had decided to omit domestic interest payments from the first-quarter budget altogether. These methodological adjustments increased the deficit by 3.7 percentage points of GDP.

As regards the feasibility of the budget forecast as approved by the Supreme Soviet, analysis suggests that revenues may have been overestimated by some 12 percentage points of GDP, whereas expenditure appears to have been overestimated by some 2 percentage points of GDP. The two adjustments would increase the deficit by some 10 percent of GDP. Taken together with the methodological adjustments, this assessment suggests a deficit of about 14 percent of GDP in the first quarter, compared with a deficit of less than 1 percent of GDP in the draft budget.

On the revenue side, the most recent data suggest a weak, although improving, trend in VAT collection. It appears that difficulties associated with the introduction of this tax, not least due to the belated approval of the new law and issuance of supplementary instructions, are being gradually overcome. By mid-February, more than half of the enterprises still had not paid any of the VAT in 1992, but by the first half of March collections were running at a monthly rate 3.5 times that of January. Direct taxes have performed much better: both profit and household income tax collections have been well above their targets. As explained in Annex 1, profit taxes were based on predetermined advanced payments in the first quarter; moreover, the high rate of collection was partly explained by the fact that, with lower investment, enterprises could not take advantage of profit tax exemptions (the effective tax rate rose by about 2 percentage points). The performance of household income taxes may have reflected wage increases that were stronger than anticipated. For the quarter as a whole, the higher-than-projected performance of direct taxes is expected to be sustained.

Revenue developments in the first quarter are likely to be greatly affected by serious shortfalls in export taxation. By mid-March, less than rub 1 billion had been collected in export taxes, whereas the draft budget had targeted revenue from this source, for the first quarter, of rub 197 billion, or 14 percent of GDP. The main reason for the shortfall appeared to be that because the export tax was made payable in advance, at the time of the shipment of goods, the system required a credit mechanism to serve as a bridge until export receipts were received. Because such a mechanism was still not in place in late February 1992, little revenue could be expected from this source in the first quarter as a whole. Accordingly, a revenue shortfall of some 15 percent of GDP is expected, with total revenues reaching barely 20 percent of GDP.

Some part of the revenue shortfall is expected to be offset by lower-than-budgeted expenditures. Indeed, in January a strict sequestering was put in place that did not allow for spending in excess of revenue collection. This control was facilitated by the fact that, as the budget was approved only at the end of the month, the Ministry of Finance was able to refuse all claims on project and maintenance financing and virtually paid out only wages and consumer subsidies. Although clearly not sustainable over a longer period of time, this tight expenditure policy was crucial in not allowing for money creation for budgetary purposes at the time of the price jump in January. As regards the rest of the quarter, however, a continuation of such policies could well result in a buildup of arrears. (With the budget recorded on a commitment basis, a buildup of arrears signifies a larger deficit than when recorded on a cash basis.) Moreover, additional pressures were likely on account of expenditures that have been approved. In particular, (1) subsidies to the coal industry will be higher by rub 16 billion, or more than a full percentage point of GDP in this quarter alone, because of the granting of a threefold pay raise to coal miners in January (see "Employment and Wages," above); (2) a 45 percent pay increase, as noted, was given to health-care workers as of February 1, 1992; and (3) consumer subsidies are expected to be higher than budgeted by at least rub 1.5 billion. At the same time, however, foreign expenditure (centralized imports and external debt service) by the budget may be considerably lower than budgeted. On the whole, however, lower-than- budgeted expenditures will not make up for the shortfall in revenues, and a fiscal deficit of some rub 200 billion, or 14 percent of GDP, is projected.

Money and Credit

Institutional Changes

The Russian banking system consists of the CBR and around 1,580 commercial banks with 2,000 branches (see Annex 2). New commercial banks proliferated rapidly after the provision for their establishment in August 1988. A large share of banking system assets, however, remains in the "ex-specialized banks." These institutions, which include the Savings Bank and the Foreign Trade Bank, are commercial banks that emerged from the recent reorganization of the five special-purpose banks that managed the non-central-banking functions in the monobank system.

The Russian banking system began to act independently of the U.S.S.R. banking structure only in 1991; it was only then that the monetary authorities were in a position to begin to develop the full scope of central banking operations. Russia also reorganized its financial relations with other republics of the former U.S.S.R. and with the rest of the world in 1991. The monetary authorities have, until now, been preoccupied with monetary policy within the Russian Federation itself, with a view that other former U.S.S.R. republics within the ruble zone would probably adopt their own policies accordingly. The discussion here proceeds from this premise and confines itself almost exclusively with credit and monetary developments within the Russian Federation. (For discussion of coordination of monetary relations with other former U.S.S.R. republics, see Chapter IV.)

Emergence of an Independent Russian Banking System

In December 1990 the legal basis for a two-tier banking system was formally established in the U.S.S.R. with the passage of the Central Banking Law and the Law on Banks and Banking Activity. (In 1989 Russia, though not the union, had already required that all specialized banks in its territory reorganize as commercial banks.) Russia enacted versions of these laws, together with a provision specifying that Russian law took precedence over U.S.S.R. laws on Russian territory. At the level of the Russian legal system, these laws delineated the independence of the Russian banking system from the union and the scope of its operations. In particular, the Central Banking Law gave added powers to the CBR—which had previously served merely as a branch of Gosbank—and formally defined it as a central bank. During 1991, all banks operating on Russian territory that had been licensed by the State Bank of the U.S.S.R. (Gosbank) were relicensed by the CBR.

Gosbank did not prepare a credit plan in 1991, thereby leaving republic-level central banks more autonomy in the area of monetary policy; after mid-1991, the instructions it issued were no longer legally binding on republican banking systems but merely indicative. Thus, from early 1991 the CBR was free to conduct its own monetary policy. Although Gosbank continued to control currency issue, all of Russia's requests for currency appear to have been met.

On November 22, 1991, the Supreme Soviet of Russia passed a resolution calling for the takeover of Gosbank by the CBR, including all ruble printing presses. Gosbank was formally liquidated on December 25, 1991. Pending inter-republican discussions on the formation of a banking union and the division of Gosbank (and other union) assets and liabilities, the CBR at present remains in sole control of ruble emission in the former U.S.S.R.

Integration of External Transactions in the Domestic Banking System

Convertible Foreign Assets. The second important institutional change in the Russian financial system in 1991 was the integration of foreign currency transactions into the domestic banking system. Until mid-1990, these transactions had been carried out solely by Vneshekonombank. From mid-1990, Russian banks were granted foreign exchange licenses, which allowed the banks (depending on the type of license) to open foreign exchange deposits, to hold deposits with foreign banks, and to deal in foreign exchange.

Interrepublican Payments Mechanism. As of January 2, 1992, the CBR formalized Russia's payments relations with other republics of the former U.S.S.R. by arranging for all of Russia's inter-republican transactions (including the provision of rubles) to be carried out through correspondent accounts held by the republican central banks with the CBR. The CBR has announced its intention to charge interest on overdraft or debit balances in these accounts, but it has not yet specified credit limits for the accounts. The introduction of these accounts has resulted in the creation of a new clearing system and payments mechanism for Russia's relations with other republics of the former U.S.S.R. The specification of credit limits would give an indication of the extent to which the CBR is willing to finance overall balance of payments deficits of the other republics.

Recent Developments

Credit

Total domestic credit of the Russian banking system grew by 93 percent in 1991, reaching rub 1,126 billion at end-December, compared with rub 583 billion at end-1990 (see Tables 19 and 20). The interpretation of the figures is complicated by the statistical adjustments that were made to reflect the gradual assumption by Russia of union-level responsibilities.[25] Without these adjustments (which raise the base on which the changes in credit are calculated), credit in Russia grew by 140 percent during the first eleven months of 1991, compared with credit growth in the U.S.S.R. as a whole of 97 percent in 1991 and 21 percent in 1990.[26]

In a departure from the traditional Soviet anti-inflationary policy of at least partially offsetting growing government credit by reducing credit to the economy, credit to government in Russia grew more slowly than total credit during 1991, increasing by 71 percent. At the end of December 1991, it accounted for 53 percent of total credit (rub 595 billion), down from 60 percent at end-1990.

The broadly defined fiscal deficit for 1991 (including all operations on Russian territory) used bank financing of rub 192 billion (of which rub 53 billion was on account of the financing for union institutions on the territory of the Russian Federation that was channeled through the CBR), partly in the form of government securities and partly by recourse to overdraft facilities. Of this amount, rub 164 billion was extended by the CBR. In 1991, for the first time, the Russian Government was empowered to contract state debt with the CBR, rather than financing deficits through Gosbank. Russian Government securities held by the CBR amounted to rub 89 billion at end-December 1991 (not including potential union-related obligations), of which rub 50 billion represented the cost to government of a takeover of agricultural debt, and rub 30 billion the cost of price support. (Price support financed by government overdrafts amounted to a further rub 51 billion, implying total bank financing of price subsidies of rub 81 billion.) The newly established pension fund returned to broad balance at end-December because budget resources were transferred to cover the rub 7 billion it had borrowed from the banking system. The rise in credit to government was tempered by a quadrupling of net deposits of local governments with banks, despite attempts by the central government to shift a greater share of expenditures to them. The buildup in deposits resulted from the greater autonomy granted to all levels of government during 1990, which abolished the planning mechanism of automatically passing on the debits and credits of all budgets to the union level. In January 1992 net credit to government fell by 3 percent, mainly because local government deposits rose by a further 42 percent.

Credit to the economy grew by an unprecedented 127 percent in 1991, after declining by an estimated 16 percent in 1990. The increase in 1991 was concentrated in short-term credit to enterprises, which rose by 175 percent; long-term credit (other than special assistance at preferential terms to ailing enterprises) fell by 9 percent. The structure of loans thus changed abruptly, with long-term assets declining from 23 to 9 percent of outstanding ruble credits (Table 21). Some of the increase in short-term credit may be attributed to a structural change in enterprise finances because of the decline of the state order system; this created greater uncertainties in supply and meant that state enterprises needed to increase their working capital. The bulk of the credit is said to have gone to such state enterprises rather than to new joint-stock companies—which might also have been expected to require a significant injection of new funds. The increasing fungibility of enterprise resources could also have made it possible for enterprises to use the increase in credit to pay higher wages.

Table 21 shows that, in line with the Russian Government's stated emphasis on encouraging production and distribution of consumer goods in 1991, credit growth was highest in the services and retail trade sectors, albeit from a low base. Credit for construction, which accounted for only 2 percent of total credit to the economy, also grew rapidly. Industry continued to take the largest share of credit, however, accounting for at least 36 percent of total nongovernment borrowing in 1991.

Provisional data indicate that credit to the economy increased by 15 percent in January 1992 and by 29 percent in February, for a cumulative increase since end-1991 of 49 percent. While this represented an acceleration compared with the monthly pace observed during the last quarter of 1991, it involved a significant tightening in light of the retail price increases of 250 percent in January following the liberalization and a further increase in prices of 25–40 percent in February. Short-term enterprise credit rose by 56 percent during the first two months of 1992.

Money

Broad money grew by 77 percent in 1991, indicating a decline in real balances of around 27 percent; currency grew at 106 percent, while deposits rose by 72 percent.[27] Deposits were artificially buoyed by the addition of the frozen part of the compensation for the April 1991 price increases. This element of deposits, amounting to rub 72 billion at end-1991 and originally to be frozen until 1994, was unfrozen, effective March 30, 1992, by a presidential decree of February 27, 1992.[28] Long-term deposits without compensation rose by only 16 percent, while sight deposits rose by 120 percent. Foreign currency deposits in commercial banks and Vneshekonombank amounted to US$1.4 billion and US$5.4 billion, respectively, at end-1991.[29] In the first two months of 1992, broad money increased by 24 percent while consumer prices rose by some 4.5 times.

Development of Monetary Instruments

The monetary instruments at the disposal of the CBR are the interest rate on central bank lending to commercial banks; restrictions on the interest rates paid by the savings bank and commercial banks (Table 22); and reserve requirements. The Russian Federation, more assertively than other republics of the former U.S.S.R., began to set the levels of its monetary instruments independently of Gosbank during 1991.

Central Bank Lending Rate

During 1991, commercial banks were allowed to borrow from the CBR at rates varying from 6 to 9 percent if the resources were to be used for industrial credit, and 1 to 5 percent for bank lending to sectors eligible for preferential credit (mainly agriculture and housing). These rates compared with the Gosbank rate of 12 percent for most of 1991. From the beginning of 1992, the CBR rate was raised to a uniform 20 percent.

Savings Bank Interest Rates

Before 1991, the deposits of the Savings Bank had been mainly channeled to the union budget, through Gosbank. The interest rate paid by the union government on outstanding debt to the Savings Bank was 5 percent in 1991. This return set a limit on the Savings Bank's deposit rates, which averaged 5.8 percent in 1991. (The implicit return is somewhat higher because Savings Bank deposits bear a government guarantee; deposits of other banks are not guaranteed.) Because of three main factors—a low-cost source of funds supplied by small savers, the lower interest rate received on lending to the CBR (8 percent in 1991) rather than to commercial banks (12 percent), and its lack of loan assessment facilities and infrastructure for lending directly to enterprises—the Savings Bank had the incentive to develop its lending to commercial banks. The Savings Bank therefore came to be seen by the commercial banks as an important alternative to the central bank window. However, at the end of 1991, the Savings Bank interbank lending rate was raised to 20 percent and was to be set at 22 percent in 1992. The Savings Bank has also served as a source of directed lending to the farming and housing sectors. Rates on these loans were in the range of 3–5 percent in 1991; in 1992 they are to be raised to cover the costs of funds.

Commercial Bank Interest Rates

In 1991 there was a ceiling of 25 percent on commercial bank lending rates, although this ceiling was said to have been widely disregarded (with annualized rates of up to 1,000 percent being reported). Deposit rates varied from 10 to 15 percent. Gosbank's indicative ceiling of 3 percent on lending margins was not generally observed. Gosbank's ceilings on loan rates were abolished in mid-1991. As of January 1, 1992, all limits on interest rates have been removed, although the CBR has declared its intention to monitor "excessive margins" above the CBR lending rate.

Reserve Requirements

Gosbank's reserve requirements in 1991 (indicative after June) ranged from 12 to 15 percent of deposits, varying according to term. However, the CBR set its basic requirement at 2 percent, although some banks were subject to a higher rate. The aim of the looser policy was to develop the deposit base of commercial banks, which were considered to be very undercapitalized. More generally, the CBR used reserve requirements as elements of selective credit allocation and banking supervision. In mid-1991, reserve requirements were tightened, in some cases up to a maximum of 20 percent. At end-1991, however, actual required reserves remained at only 2.3 percent of domestic currency deposits (this excludes Savings Bank deposits, which were not subject to reserve requirements). Despite the small size of required reserves, banks held large deposits at the CBR, which were said to represent, in part, excess reserves. This suggests that the holdings on account of reserve requirements were low, not because banks could not cover the requirements but because the higher requirements were applied to very few banks. (Moreover, because of shortcomings in the accounting system, excess reserves cannot be distinguished from funds tied up in the settlements system.) In early 1992, the CBR announced a new regime of uniform reserve requirements for all commercial banks (but not the Savings Bank). From February 1, 1992, reserve requirements were raised to 15 percent for deposits with a term of less than one year and to 10 percent for longer-term deposits. On April 1, requirements are to be raised to 20 and 15 percent for short- and long-term deposits, respectively.

Government Securities

Before 1991, the Russian Government did not issue its own debt. At the end of 1991, the Ministry of Economics and Finance issued a rub 9 billion loan, with the dual aim of financing the budget deficit and creating a market for government paper, which could be used for monetary management in the medium term. The loan has a three-year term and one annual interest payment; the interest rate was set at 8.5 percent for 1992. However, the first auction generated only rub 55 million in placements. In early 1992, partly in order to stimulate further demand for the securities, the CBR announced that "ordinary" access to the CBR lending window would be available only to banks offering appropriate collateral.

Other Monetary Issues

The CBR's control over monetary policy and inflation has been constrained by several problems common to economies in transition and by the existence of a ruble zone that extends beyond the boundaries of the Russian Federation. The main impediments (past and future) to monetary control are described in this section.[30]

The Monetary Overhang

At end-1990 households' undesired money balances in the U.S.S.R. were estimated at around one third of households' financial wealth, implying incipient inflation of 45–50 percent from the release of the overhang, even under the tightest of credit policies. In Russia, since real balances fell by 27 percent and since the real wage at end-1991 is estimated to have risen by 25 percent compared with end-1990, it is unlikely that the monetary overhang—or its inflationary threat—had disappeared by December 1991. The January price liberalization—during which consumer prices rose by an average of 250 percent, while total credit grew by 5 percent—may be considered to have eliminated the overhang.

Banks' Deposits at the CBR

Commercial banks held rub 144 billion in the CBR beyond their required reserves at end-1991. It has not been possible to identify the shares of excess reserves and illiquid settlement balances in this total. A further rub 320 billion was also tied up in the settlements system.[31] These amounts compare with a total deposit base of rub 746 billion. The rundown of excess reserves or an improvement in the efficiency of the payments mechanism would permit banks to increase credit in the absence of an increase in base money.

Coupons and New Currencies

Inflation and the limited range of payments instruments in an underdeveloped financial system led to the emergence of a cash shortage that affected not only the Russian Federation but also other republics of the former U.S.S.R. Coupons issued mainly for rationing purposes in some republics in 1991 began to be used at the beginning of 1992 to supplement currency in circulation. As of the beginning of March 1992, the republics of the former U.S.S.R. had not agreed on an inflation target, a consistent credit policy, or an orderly procedure for retiring rubles as new currencies (or coupons) were introduced. Hence, the Russian Federation perceives itself to be at risk from spillover inflation from certain other republics as coupons proliferate. The introduction of correspondent accounts for interrepublican payments was the CBR's initial response to the problem of the spillover of ruble balances. The CBR announced its intention to treat the existing ruble stock in other republics of the former U.S.S.R., and new ruble issue, as a liability of each republic's account. Thus, to increase its currency in circulation, a republic that maintains the ruble as its currency must either run a balance of payments surplus with Russia or must pay interest (currently set at 20 percent) for any overdraft required to obtain additional rubles. (Under debate at the moment is whether Russia will levy interest only on the new ruble issue to other former republics, or on the total stock of currency in circulation outside Russia. As of end-February 1992, Russia had not levied any interest on the debt balance in the correspondent accounts.) A 1 percent charge will be levied by the CBR for the printing cost associated with any rubles given to the other central banks in the ruble area.

External Policies and the Balance of Payments

The balance of payments estimates presented in this section represent the first such attempt by the Russian authorities, in collaboration with the IMF staff. The balance of payments for Russia for 1990–91 is derived from estimates for the former U.S.S.R. The trade data are based on the statistics of the Goskomstat of the Russian Federation, adjusted for military exports (excluded from the republican trade statistics but included in the union statistics). No comprehensive information by republic is available on services. As a proxy, the share of Russian trade in total trade has been used to derive the freight data. For interest obligations, the debt-service quota for Russia of 61 percent—agreed with some of the republics of the former U.S.S.R. on December 4, 1991—has been used, and for other services, the share of Russia in GDP. The allocation of credits and reserves by republic is not economically meaningful; in this presentation, the above-mentioned quota of 61 percent has been used. Any balance taking into account the overall balance and reserves movement is allocated to an interrepublican residual.

Developments in 1991

In 1991, the external policies pursued in Russia were predominantly those laid down by the union government and the Gosbank (see the companion Economic Review, *The Economy of the Former U.S.S.R. in 1991*). Exports were regulated through export licensing and quotas, which were set so as to protect the supply of goods for the domestic market. Since output was declining, this might have contributed to the decline in exports that took place during the year. In addition, exports were impeded by an overvalued exchange rate, as well as by the abolition of the central planning system and the changes in the CMEA trading and settlement system, which created significant uncertainties for state enterprises. Imports were mainly constrained by the availability of foreign exchange.

Although the trade balance of Russia is estimated to have improved from a small deficit in 1990 to a surplus of US$12 billion in 1991 for the convertible and nonconvertible currency areas combined, this masked an underlying deterioration in the external position (Tables 23 and 24; the trade surplus with the convertible currency area increased from US$3–4 billion in 1990 to US$7 billion in 1991). Exports declined by 30 percent, and imports by 46 percent, in U.S. dollar terms. The export volume of crude oil and oil products declined by as much as 42 percent (excluding interrepublican trade) as a result of a fall in domestic production of 11 percent (Chart 4); domestic energy consumption was maintained despite the fall in domestic output, partly because relative energy prices declined in 1991 (Table 25). Major export declines also took place for other commodities. The export of timber and wood products fell by over one third, and that of pig iron and ferrous metals was nearly halved.

No volume and price information for aggregate imports from third countries in 1991 is available at this level. However, imports of grain remained at the same level as in 1990, while imports of poultry meat, butter, and several other food items were nearly halved. Machinery and equipment imports dropped by 42 percent in value terms, although part of this drop probably reflected large falls in the prices of goods imported from former CMEA partners.[32] Shortages of critical inputs—especially in the oil, light, food, and textiles industries—were reported to have contributed to the decline in output in 1991.

There are some indications that an increasing share of exports and imports went through unofficial channels, so that the decline in trade was probably overstated in the official statistics.[33] Although some funds might have been held abroad, much of unrecorded export receipts are believed by the authorities to have been used to purchase unrecorded imports. The net effect of such underrecording in the trade balance is uncertain.

There is no official estimate of the total value of interstate trade in 1991. However, the overall volume of trade is estimated by the authorities to have declined by some 15 percent, broadly in line with the decline in real GDP. Deliveries of oil and natural gas from Russia declined by only 3 percent and 4 percent, respectively.

The services balance recorded a notional deficit of US$5 billion, half of which reflects the notional interest share of Russia in union debt. With a notional surplus in the capital account of US$3 billion, Russia recorded an overall surplus of US$14 billion. Net foreign assets notionally attributed to Russia rose by US$2 billion, and notional arrears declined by less than US$1 billion, implying transfers from Russia to the other republics of the former U.S.S.R. of US$12 billion relating to transactions with third countries.

At the end of 1991, the CBR had virtually no foreign exchange reserves on its own books.Foreign exchange deposits (primarily of enterprises) held with the Vneshekonombank had been frozen since December 1991 because of a lack of foreign exchange reserves.

Developments in January-February 1992

In January 1992 the exchange and trade system was liberalized (see Annex 3). The distortions in the exchange rates were reduced through a substantial depreciation of the rates for commercial operations. However, several exchange rates remained in place (Chart 5). For the 40 percent surrender requirement that was introduced for raw materials (about 70 percent of exports in 1991), rub 55 per U.S. dollar was applied. For the 10 percent for surrender applying to all exports, the so-called quasi-market rate established by the CBR was used. This rate was initially set at rub 110 per U.S. dollar after taking into account the exchange rate in the interbank market, the tourist exchange rate, and the exchange rate negotiated between enterprises for transactions that took place through the banks, but in the second half of February it was reduced in steps to rub 100 and then rub 90 per U.S. dollar because of the appreciation of the exchange rate in the interbank market and tourist market for foreign exchange. On March 25 it was increased again to rub 100 per U.S. dollar. For tourist transactions, commercial banks were free to determine the exchange rate. The rate ranged between about rub 80 and rub 125 per U.S. dollar in January and February and showed an appreciating trend (Table 26). The weekly interbank market continued under the organization of the Moscow Interbank Currency Exchange.[34] After peaking at rub 230 per U.S. dollar in January 1992, the rate appreciated to rub 140 per U.S. dollar in the second half of February, but it depreciated again to around rub 160 per U.S. dollar in the second half of March. Intervention sales by the CBR amounted to about US$2–3 million per week beginning at the end of January; in the second half of March they averaged US$15 million per week, on total volume of some US$25 million.

For government transactions, several exchange rates were used. For debt-service payments, a rate of rub 55 per U.S. dollar was used. Initially, it was intended to use the market exchange rate for other transactions except very few imports of socially important goods (e.g., food and medicine). On January 19, however, an instruction was issued that a special rate of rub 5.4 per U.S. dollar was to apply to so-called centralized import operations and to expenditures related to services payments (e.g., contributions to international organizations and business trips abroad for officials) that were financed from the Hard Currency Reserve Fund. In addition, a special accounting rate of rub 10 per U.S. dollar was introduced for tax settlement with citizens who had income in foreign exchange. The official exchange rate remained in effect for the valuation of external claims on other countries.

Exports of raw materials and military goods (70 percent of exports) could not immediately benefit from increased competitiveness because they were subject to export quotas and licensing requirements. In addition, considerable uncertainty surrounded the export regime, including the new export tariff rates that were announced only during the month of January. This tariff applied for trade to all countries except the members of the CIS. Since the export tariff was introduced on short notice, subsequent corrections to the tariff became necessary in late January and again in late February. In addition, as mentioned earlier, at the beginning of the year a new system of prepayment of the export tariff at the time the export goods were shipped was introduced. This might have significantly impeded exports because there was no credit mechanism in place to finance exports.

Imports were almost completely liberalized at the beginning of 1992. Moreover, with effect from January 16, 1992, the customs tariff applying to imports was abolished, and for the first half of 1992 no customs tariff will be in effect. There were no import taxes. At the end of January 1992, the CBR reintroduced—on a temporary basis—the foreign exchange regulations introduced by Gosbank for the former U.S.S.R. in 1991. Thus, the payments system remained restrictive for services payments, in particular.

Because of the uncertainties and the continued sluggishness in domestic production, exports in the first two months of 1992 were 29 percent lower in ruble terms than in the corresponding period of 1991. Crude oil exports were 33 percent lower in volume terms than a year earlier. Some receipts might also have been retained abroad, since the new mechanism for surrendering foreign exchange was in place only in late January and there was limited official monitoring of foreign exchange transactions.[35]

Total imports (excluding interstate trade) were 6 percent above the level of the previous year, and trade was in deficit by the equivalent of US$2 billion. Since disbursements of external assistance remained small and liquid reserves were nearly depleted, the bulk of interest payments was not made despite Russia's commitment to external creditors to honor the debt- service obligations of the former U.S.S.R. on a joint and several basis. Other republics of the former U.S.S.R. also failed to make their contributions to the debt-service payments. (In January, 1992, there was not yet a mechanism for transferring foreign exchange from the Vneshtorgbank to the Vneshekonombank, which was to service the debt; such a mechanism was established in February 1992, but the transfer fell short of the scheduled debt-service obligations.) As a consequence, some difficulties arose in securing disbursements of external assistance. There was no progress during early 1992 in agreeing on the division of external assets (or even their definition) among the republics of the former U.S.S.R.

At the end of January 1992, foreign exchange reserves of the central bank amounted to only US$12 million. Those holdings derived mainly from the 10 percent surrender requirement. In addition, the Vneshtorgbank held foreign exchange surrendered from the 40 percent surrender requirement, but these holdings were small. The CBR had no comprehensive information on foreign exchange assets and liabilities of the banking system, although it was in the process of enforcing the reporting requirement.

The Russian authorities have indicated that there are likely to be different trading arrangements with different groupings of the republics of the former U.S.S.R. (e.g., on the basis of whether they are members of the CIS and whether they remain within the ruble zone). These arrangements are in most instances likely to be the subject of continued negotiation.

Trade relations with the other republics of the former union were guided by bilateral agreements that Russia had concluded with all republics except Georgia. The trade agreements constituted a general framework agreement in all cases and, mostly, an indicative list of goods to be exchanged. In the cases of Lithuania and Turkmenistan, as of February 1992 there were not yet agreed indicative lists; for Estonia and Latvia, the lists only covered the first quarter of 1992 and a narrow range of goods. Negotiations were also under way on a trade agreement with Georgia. For trade with Belarus and Kazakhstan, separate agreements were reached in February on a more liberal trade regime than that applying to the other states.

The general principles for trade remained the same for all the states. The volume of trade in the agreements had first been determined by calculating the projected value of total trade on the basis of world market prices. The objective was to achieve rough balance in trade with most of the states except a few, such as Ukraine, with which a surplus with Russia was planned. Only trade volumes were actually specified in the agreements, which were to create a framework for enterprise-to-enterprise deals. The agreements were followed up by state orders and the issuance of quotas and licenses. The state orders were nonobligatory, so the individual states could not guarantee deliveries. The actual trade balance would be monitored by instituting a centralized payments system through the CBR (see "Money and Credit," above).

If an unforeseen imbalance occurred during the year, the state with the creditor balance might reduce trade quotas for the remainder of the year unless agreement could be reached on additional deliveries from the state with a debtor balance. The levels of trade in the agreements were such that Russia was expected to receive roughly unchanged import volumes from the other republics but would reduce its deliveries by about 20 percent in volume terms. (The planned volume reduction in Russia's net deliveries of crude oil and oil products to the former republics was 26 percent, while that for natural gas was 29 percent.) When the trade agreements were concluded, it was estimated that Russia's implicit trade surplus would decline from US$22 billion 1991 to US$5 billion in 1992. (Based on the latest world market prices for oil and gas products, the surplus in 1992 would be US$3–4 billion, assuming the same trade volumes as in the agreements.) Although no official data were yet available, the authorities estimated that Russia's deliveries during January were about 70–75 percent of the level of January 1991. As recorded in the payment statistics of the CBR, Russia had a trade surplus of about rub 1.5 billion with the other republics of the former U.S.S.R. in January 1992.

During a meeting in Minsk on February 14, the CIS states reached agreement about the application of free market prices between enterprises and organizations of the CIS states. A ceiling on prices may be established for the most important products decided by the parties to the agreement. It was also agreed that the states could regulate the prices for the products of monopolistic enterprises on the basis of a special agreement. The agreement also stipulated the intention that deliveries should not fall below 70 percent of the 1991 level both for goods included in the bilateral agreements and for other goods. States were also given the right to impose payment restrictions if imbalances in trade were to occur, so as to reduce these imbalances. Finally, the states agreed to establish a consultative Customs Council to prepare and carry out a common customs policy and collect common customs data.

There were no customs offices along the Russian Federation's border with other republics of the former U.S.S.R.; except with Georgia and the three Baltic states. In general, some difficulties were experienced in monitoring trade flows. For example, in the past the customs checkpoints for a large part of oil exports were located in Ukraine or in Eastern European countries on the other side of the U.S.S.R. border. In the absence of border posts, increasing reliance was now being placed on inland checking of goods transported.

IV. Economic Policies

The fundamental economic objectives of the Russian Government were outlined in a speech by President Yeltsin on October 28, 1991: to achieve a transition to a market economy and macroeconomic stabilization. To this end, the authorities implemented a comprehensive price liberalization at the beginning of January, liberalized the exchange and payments system, and took measures to tighten significantly both fiscal and monetary policy. The authorities recognized, however, that further measures would be necessary if the major steps taken at the beginning of 1992 were to lead to a fundamental transformation of the economy, the achievement of a rapid and durable reduction in the monthly rate of inflation (to low single digits by the fourth quarter of 1992), and mobilization of the external financing necessary to support these objectives and the rapid integration of the Russian Federation into the world economy. With this aim, the Russian Government, together with the CBR, approved in late February 1992 a Memorandum of Economic Policies that set forth its program of stabilization and reform for the rest of 1992.

Price Policy

The authorities noted their intention to eliminate all remaining administered prices at the retail level by the end of March 1992, with the exception of housing rents, various public utilities rates, and public transportation fares.[36] This was expected to leave about 5 percent of consumer money expenditure (in value terms, at average 1991 relative prices) subject to administered prices. Local authorities, however, would have the right to administer prices on milk and bread using local budget funds.

By April 20, 1992, the end of the heating season, domestic prices for all forms of energy except coking coal were to be liberalized, although administered prices would also be maintained temporarily for gas and electric energy.[37] The authorities expressed the intention that these prices would be moved to world market levels, according to a preannounced schedule, no later than the end of 1993. In the meantime, a new system of export taxes would be established for these products (notably oil, oil products, and natural gas) in order to bridge the difference between their world market prices and domestic prices. Domestic prices for energy, although much higher than before, would not be permitted in the short run to rise so high as to disrupt completely the economy and lead to an unacceptably large decline in output.

For crude petroleum, it was envisaged that the domestic price (exclusive of the VAT) would be allowed to rise from rub 350 per ton to rub 2,000–2,500 per ton. Such a price was deemed by the authorities to be adequate to make even the most marginal producers profitable, while allowing a domestic tax to be imposed that, on average, would amount to about 50 percent of the (VAT-exclusive) price increase. This price, when supplemented by the VAT, was also considered sufficient to eliminate excess demand for oil and oil products in the domestic economy. Indeed, it was estimated that—as a result of the sharp increase in the relative price of oil (as well as of other energy products), combined with a decline in output, which could be as high as 20 percent (due to the turmoil associated with major institutional changes, the energy price shock, and tight financial policies)—domestic oil consumption could fall by at least 10 percent. As the domestic price is allowed to rise to world market levels, the variable export tax and domestic tax would be adjusted to maintain budgetary revenues and to keep the return to producers essentially constant in real terms after the April price adjustments. This would avoid cutbacks in current production in anticipation of higher producer prices in the future.

The authorities indicated their intention, when liberalizing energy prices, to take into account the interests of the other republics of the former U.S.S.R., to inform them in advance of their intentions, and to ensure that the same prices for these and other products will prevail throughout the common economic space.

As a result of this second round of price liberalization, it was expected that the overall price level could increase by some 50–75 percent. With the consistent implementation of firm financial and, if necessary, incomes policies, however, the monthly rate of inflation was expected to decline sharply, falling to the 1 to 3 percent range in the fourth quarter of 1992. For the last three quarters of 1992, cumulative inflation would be less than that experienced within 1991 and would be sharply lower than the 250 percent increase in prices registered in January 1992 alone. The further liberalization of prices was to be complemented not only by tight financial policies but also by further measures to develop competitive markets, so as to limit the degree to which prices rise simply because of the exercise of monopolistic power (see below, under "Systemic Changes").

Social Safety Nets

The price liberalization that has already taken place, together with the three- to fivefold increases in administered prices of consumer goods (mainly staple food items) that occurred in January, has hit particularly hard those with low and relatively fixed incomes. Further price liberalization in March and thereafter was also expected to affect these groups severely. Moreover, the combination of tight financial policies, the sharp increase in energy prices, and the uncertainties and dislocations caused by a new relative price structure and foreign competition was expected by the authorities to lead to registered unemployment by the end of 1992 of approximately 8 million persons. (Registered unemployment on February 1, 1992, was 69,000 person. The authorities are committed to protecting the most vulnerable groups of the population during the transition, while at the same time attempting to target assistance as effectively as possible to minimize the drain on the budget. Policies for social protection have accordingly been set out along the following lines.

Remaining consumer subsidies will be means-tested to the extent possible. Given that it will take some time before a fully adequate information system for means testing can be developed, in the near term most consumer subsidies (other than those associated with consumer services still subject to low administered prices) will be effected by means of cash transfers to current recipients of social benefits (e.g., pensions and family allowances). At the same time, the system of family allowances is to be re-evaluated with a view to streamlining the benefits and eliminating possible double compensation; the indexation of revised benefits will also be limited, given budgetary constraints.

Pension and social security benefits will have to be limited to the currently available resources of the Pension Fund and the Social Insurance Fund. The government intends to resist pressures for increases in the social security contribution rate—from its already high level of 37 percent of base wages—or any further reduction in the retirement age at which one can qualify for a pension.

The authorities view the present system of unemployment benefits as more than adequate, given budgetary constraints and the need to structure these benefits so as to provide appropriate incentives for productive work. They have announced their intention, by June 1, 1992, to introduce a new system whereby the structure and duration of benefits provided by the extrabudgetary Employment Fund will be improved.[38] Financing of active labor market policies, including retraining programs for the unemployed and schemes for encouraging entrepreneurship, was also envisaged. As a last resort, the authorities also stood ready to implement labor-intensive public works projects.

Fiscal Policy

The Russian Government also announced its intention to redouble its efforts in coming months to reach its goal of a balanced budget. The goal was to introduce a range of measures that would reduce the likely general government deficit from well over 10 percent of GDP in the first quarter of 1992 to around zero in the fourth quarter. For 1992 as a whole, this would imply a budget deficit of about 1 percent of GDP (Table 27).

Budgetary Revenues

By contrast with the first quarter, the focus of adjustment for the balance of 1992 has to be on the revenue side. Total revenues were to rise to around 35 percent of GDP by the fourth quarter of 1992, compared with a likely outcome of about 20 percent of GDP in the first quarter. A wide range of revenue-enhancing measures was to be introduced.

First, a domestic tax on oil and gas production would be charged that would amount to about one half of the increase in the domestic price of these products (exclusive of VAT) when these prices were liberalized (see "Price Policy," above). The proportionate increase in the domestic price for coal would keep budgetary subsidies to this sector from growing in the wake of the large wage increases recently granted in this sector.

Second, the new export tax on oil and gas exports, effective upon liberalization of energy prices, would be levied in conjunction with other export duties and taxes so as to make up for 100 percent of the difference between world and domestic prices for these products.

Third, a custom tariff, with a uniform ad valorem rate of 15 percent, was to be implemented effective July 1, 1992. By the same date, the VAT and excise taxes were also to be extended to imports, thereby establishing tax neutrality between domestic and imported goods.

Fourth, a reinstatement of the full VAT rate for all products was to be proposed in the budget to be submitted to the Supreme Soviet of the Russian Federation in March 1992, with a view to its taking effect from July 1, 1992.

The revenue impact of these measures, in terms of the improvement in the budget as a percentage of GDP between the first quarter and 1992 as a whole, would amount to some 12 percent of GDP (Table 28). Significantly, about two thirds of this impact would arise from increased taxation of energy, split roughly equal between the domestic tax on oil and gas and the incremental tax yield of the new export tax. (These proportions would change beyond 1992, when energy prices are expected to be moved closer toward, and finally to, world market levels by end-1993.)

Although the main improvement on the revenue side would result from new measures, revenue collection was also expected to improve for some existing taxes, notably the VAT. VAT collection was anticipated to increase from 7 percent of GDP in the first quarter to over 11 percent of GDP for 1992 as a whole, as the difficulties associated with its introduction were overcome and the full rate was reinstated for all products by mid-year. Direct taxes, by contrast, were projected to stagnate or decline in relation to GDP, as profit taxes would be adversely affected by the output contraction and because the shift of production to new activities would be likely to be difficult to tax. The average effective profit tax rate is also likely to decline with the sharp increase in the relative price of energy.[39]

Budgetary Expenditures

While tight expenditure policies, already instituted in the first quarter of 1992, were to continue, increasing priority would have to be given to outlays associated with protection of the most vulnerable groups of society (see "Social Safety Nets," above).

The projected budget for the last three quarters of 1992 assumed that, despite efforts to better target family allowances, the real value of these benefits as a whole would be broadly maintained. The process of economic restructuring was expected to necessitate increased outlays for the homeless and the provision of free meals in the second half of 1992. These expenditures would be financed from the Social Support Fund of the Population, an extrabudgetary fund. This fund could be in deficit by over rub 100 billion in the last six months of 1992. Increased unemployment benefits, retraining programs, and possible public works employment would be covered by the Employment Fund, which was expected to incur a deficit in excess of rub 125 billion in the second half of 1992. These two extrabudgetary funds were expected to incur a combined deficit for the year as a whole of about 2.5 percent of GDP.[40]

The present wage-setting mechanism in the government sector links the increase in budgetary wages to those in the material sphere with a coefficient of 0.9 and a lag of one quarter. This was expected to act as a drag on budgetary wage expenditure in the last three quarters of 1992, although as inflation—and presumably wage growth in the material sphere—declines, the share of the government wage bill in GDP would rise above its level in the first quarter. It would still, however, fall below the share (almost 10 percent) reached in 1991. With the further dismantling of the central planning system, large cuts were considered to be possible in the economic administration. The authorities expressed their intention to reduce the number of employees in the central apparatus by 5 percent by July 1, 1992, and by an additional 10 percent by the end of the year. This measure alone would reduce the budgetary wage bill by about 0.3 percent of GDP below what it would otherwise be.

Despite the continued need for subsidies to the coal industry (see "Budgetary Revenues," above), producer subsidies as a whole were to decline by 1.5 percent of GDP in the last three quarters of 1992. Government-financed investment, already cut sharply in the first quarter, was to remain broadly unchanged as a percent of GDP for the remainder of the year. Defense spending was to rise slightly, by about 0.3 percent of GDP over first-quarter levels, due to the above-mentioned backward-looking indexation of budgetary wages. For the year as a whole, however, the authorities planned for defense spending to decline by roughly one half in real terms, to around 4.5 percent of GDP. The budget contained no explicit provision for the payment of interest subsidies to priority sectors. Thus, if the choice were made to grant such subsidies, offsetting budgetary savings would have to be achieved elsewhere.

Negotiations have been continuing on how to split the total domestic debt of the former U.S.S.R. among the republics. In projecting the servicing of this debt for the balance of 1992, a conservative estimate of Russia's share of the debt was taken (and added to the Russian Federation's own accumulated debt), and it was assumed that the government would agree to pay interest at a rate equal to the finance rate of the CBR. It was assumed that interest on the external debt would be paid in full. With eventual unification of the exchange rate, the budget would have to service this debt at the prevailing market exchange rate, which the authorities expect to appreciate during the remainder of 1992 as tight financial policies strengthen confidence in the ruble.

The Overall Fiscal Balance

The overall fiscal balance, on a commitment basis and excluding grants, was expected to shift from a deficit of about rub 200 billion, or around 14 percent of GDP, in the first quarter of 1992 into small surpluses in the following quarters. For 1992 as a whole, a fiscal deficit of less than rub 100 billion, or about 1 percent of GDP, was expected. Because of the scheduled repayment of external arrears, the fiscal balance on a cash basis would slip into deficit. For the year as a whole, it would amount to around rub 350 billion, or 3.5 percent of GDP (Table 27).[41]

After financing virtually all of the fiscal deficit in the first quarter, net credit to government was projected to decline in the rest of 1992 on account of both improvements in the fiscal balance and increased net foreign financing. The latter would partially reflect the impact of virtual full debt deferral on principal, but also an increase in foreign disbursements. For the year as a whole, net domestic credit to the government was expected to be reduced by some rub 100 billion, or 1 percent of GDP.

Monetary Policy

The CBR indicated that it intends to tighten credit further from the stance adopted in the first quarter of 1992. Although credit was to be tight, it would be allowed to grow enough in the second half of 1992 to provide enterprises and new private entities with adequate resources to respond to the new structure of prices and market incentives, and to avoid the emergence of substantial inter-enterprise arrears. Because of data difficulties and uncertainties at this stage about linkages within the monetary sector in the new environment, the CBR was not in a position to elaborate precise quantitative targets for credit for the rest of the year. It intends to keep the monetary situation under close review, however, and to discuss it on a monthly basis with IMF staff. (These reviews were to involve, inter alia, monitoring the growth of CBR credit to the commercial banks, the growth of credit from the banking system to the economy, and movements in the interbank foreign exchange rate in the light of the extent of CBR intervention in that market.)

The CBR also committed itself to move its finance rate, at which it lends to commercial banks, to a positive real level as soon as possible. Its general policy was to help ensure that the entire range of interest rates, both on deposits and loans, would become positive in real terms. There were to be no interest rate subsidies except those provided through the budget. Commercial banks' interest rates had already been liberalized. Because of the presence of monopolistic conditions, however, the CBR considered that in some cases it might be necessary, for some time, to constrain interest rate spreads earned by these banks on funds obtained from the CBR. The government agreed that from April 1, 1992, it would pay a more realistic interest rate on all its internal debt. This would enable the Savings Bank—which traditionally has been a major lender to the government (initially through Gosbank, and more recently through the CBR)—to offer higher interest rates to small savers.

The Russian banking system is not yet at a stage of development where exclusive reliance for monetary control can be placed on market-based instruments. Indeed, ceilings on CBR credit expansion to the commercial banks will continue to be the main instrument of credit control for the foreseeable future. In pursuing this policy of credit control, it is the declared intention of the CBR to prevent nonprice discrimination in the allocation of credit among enterprises and across sectors.

Monetary policy is complicated in Russia, as noted in Chapter III (under "Money and Credit") by the apparent existence of commercial banks' excess reserves; by a rudimentary and inefficient payments system that, among other things, has generated an enormous settlements account at the CBR; and by incentives (under the existing system) for the commercial banks to bypass the CBR and borrow directly from the Savings Bank. The monetary authorities sought to increase their control over these sources of loanable funds, both by boosting reserve requirements and by a commitment to introduce, by the end of March 1992, an adequate reserve requirement for the Savings Bank on its new deposits.

The CBR also indicated its intention to tighten bank licensing in order to prevent excessive proliferation of banks and, in the course of the next few years, to improve prudential regulations, and to work out an appropriate balance between off-site and on-site inspection of banks.[42] Improvements in the settlement system were viewed as necessary, both to tighten financial control and as a condition for the development of interbank money and foreign exchange markets. The CBR also intended to take whatever measures are necessary to ensure unimpeded interrepublican payments.

There are important structural impediments in Russia's financial system to the successful pursuit of a market-based monetary policy. In particular, most banks are seriously undercapitalized, and many of them, especially the newly created commercial banks, have highly concentrated loan portfolios. Therefore, the banking system is extremely vulnerable to changes in economic conditions. The authorities have requested the World Bank Group to assist them in designing reforms of the financial system.

With respect to interstate monetary relations more generally, the CBR has undertaken to attempt to coordinate its monetary policy with other central banks within the ruble zone, including the establishment of similar targets with respect to credit expansion and similar central bank refinance rates and reserve requirements. It has also announced its readiness to agree, with other members of the ruble zone, on an equitable distribution of banknotes. In the case of those republics of the former U.S.S.R. that choose to introduce coupons or an alternative currency, the CBR has indicated that it intends to reach agreement with them on the orderly withdrawal of rubles so as to achieve the inflation targets mentioned earlier.

Incomes Policy

The government remains committed, as it indicated when it first came to office, to the liberalization of wages. Nevertheless, given the rapid growth of wages in the material sphere in the latter part of 1991 and early 1992, which risks fueling inflation and may cause unnecessary unemployment, the authorities indicated that they were prepared, if necessary, to introduce measures to prevent excessive growth in wages.

The policy instrument in this case would be a progressive tax on excess growth on wages paid by state enterprises, similar to the schemes introduced in several East European countries in the context of recent stabilization programs. There would be no restriction on the level of individual wages. The tax would be levied on the basis of the enterprise consumption fund, but private enterprises would be exempt so as to provide an incentive for their growth and for state enterprises to be privatized. The authorities would apply the system strictly and without exemptions, and the tax rates would be high and progressive enough to prohibit excessive wage growth; as a result, this tax would not be expected to yield revenues to the budget. The ceiling above which wage increases would be deemed to be excessive would apply equally to all affected enterprises. For the second quarter of 1992, the ceiling for each enterprise would equal the amount paid out in February 1992, increased by 0.7 times the forecasted rate of increase in consumer prices between February and April. Similarly, for the third quarter, the ceiling would equal the amount paid out in February, increased by 0.7 times the forecasted rate of increase in consumer prices between February and July. This coefficient would be confirmed in the process of negotiating the general agreement on wages. The tax would be paid monthly. If the price forecast were to be incorrect, or if new data on the consumption funds became available, an adjustment of the tax would be made at the end of the quarter. The tax would be paid out of the enterprise's before-tax profit and would not be counted as a cost.

External Policies and the External Financing Requirement

Exchange System

The government is committed to unify the exchange system and to peg the ruble as soon as the necessary economic conditions are in place. First, macroeconomic stabilization should be achieved on a sustainable basis. Important strides were made during the first quarter of 1992 in reducing the fiscal deficit, but, as noted earlier, further reduction in the deficit was considered necessary, supported by tight monetary policy. Second, reserves need to be built up from the presently depleted level.

As a first step, a dual exchange rate system was to be introduced by the end of April 1992. There would be only one official exchange rate applying to current account transactions, whether or not they are undertaken by or on behalf of the government. It would initially be a floating exchange rate determined in the interbank market. Although the present surrender requirement would be preserved, export proceeds would, from then on, be surrendered at that unified rate. The 40 percent surrender would continue to apply to exports of raw materials, and an additional 10 percent to all export earnings. A separate exchange rate for capital flows would be introduced at a more appreciated level but would be unified with the rate for current account transactions once a pegged rate was adopted.[43]

The volume of operations on the interbank market rose from US$4–5 million per week in January 1992 to some US$25 million in late March, although about US$15 million was accounted for by intervention of the CBR. To broaden the interbank market, the government announced its intention to permit authorized banks to hold foreign exchange auctions, and foreign exchange bureaus engaging in two-way transactions would be allowed to open throughout the country. Furthermore, the interbank market was to be organized twice a week with the objective of moving to daily sessions later. This was important because there was no interbank market for foreign exchange operations outside the weekly session held in the Moscow Interbank Currency Exchange. Interbank market operations—outside that weekly session—were partly discouraged by an antiquated settlements system, which sometimes involved delays of up to several weeks. Moreover, the restriction on the exchange rate allowed on transactions carried out by banks on behalf of enterprises was to be abolished. This restriction, introduced by the CBR in January 1992, did not permit the exchange rate negotiated on such transactions to be more depreciated than the rate set in the latest weekly interbank market auction. As soon as possible, nonresidents were also to be allowed to sell and buy foreign exchange for current transactions in the interbank market. This measure was viewed as an important step toward broadening the interbank market. (If banks cannot sell and buy foreign exchange in the interbank market on behalf of nonresidents, which would include residents of other former republics, then the achievement of current account convertibility for such nonresidents would require that they be able to sell and buy foreign exchange directly to and from banks.)

The authorities also intended that banks—within certain limits— would be allowed to hold open foreign exchange positions so that they need not act only as intermediaries for specific enterprises and transactions. Moreover, the segmentation between the cash market (mainly related to tourism) and noncash transactions (e.g., the interbank market) was to be eliminated by removing the existing barriers between the two markets.

The existing exchange regulations, which were introduced on a temporary basis in January 1992 (see Chapter III, under "External Policies and Balance of Payments") were to be replaced by a new foreign exchange law. A draft law provided for current account convertibility for residents and nonresidents and would have important implications for the whole ruble zone. The Russian Government noted its commitment to integrating the different exchange markets and to agreeing on a common exchange rate policy with the other states of the ruble zone.

All export quotas and export licenses except those applying to energy products and others maintained for health and security reasons were to be removed by July 1992, both vis-à-vis the republics of the former U.S.S.R. and third countries. Moreover, although energy export quotas for the first quarter of 1992 were set so as to keep domestic energy consumption nearly constant, the government was committed to set quotas consistent with the expected reduction in energy consumption following the projected decline in output and energy conservation associated with the rise in relative energy prices. Imports, with the exception of licensing arrangements that apply to several products, were to remain free of quantitative restrictions.

In its trade relations with the other republics of the former U.S.S.R., the Russian Government is committed to removing interstate trade barriers and to trying to fulfill the existing bilateral agreements covering trade in 1992. In addition, in line with the Minsk agreement of February 14, 1992, an interstate arbitration court is to be established by July 1, 1992.

External Financing Requirement

The balance of payments situation was expected to remain difficult in 1992. First, the volume of exports was likely to continue to fall, by about 7 percent to third countries and by about 20 percent to the republics of the former union (according to the bilateral agreements), roughly in line with the projected decline in overall output. Because of a projected decline in oil deliveries to other republics of the former U.S.S.R. by some 26 percent, exports of oil to the rest of the world were expected to remain broadly unchanged despite a continued drop in domestic production. Domestic consumption was expected to decline, although perhaps more slowly than general economic activity. The further fall in output of oil was expected because of a sharp dip in investment in the oil industry in 1990, followed by a fall of about 30 percent in real terms in 1991, and because of the lack of pipes and other essential materials for the oil sector arising from a shortage of foreign exchange and disruption in traditional supplies coming from other republics of the former union.

The authorities believe that imports cannot be allowed to decline further after the substantial drop that took place in 1991. In addition, there is a need to build up inventories of essential inputs and spare parts that were depleted in 1991. This applies particularly to the oil industry and agricultural sector, where higher imports might help to sustain domestic production and exports. Moreover, the poor grain harvest in the fall of 1991 resulted in increased requirements for imports of grains and other food products. Partly related to this, grain prices in the world market have risen substantially, and it was projected that total imports of food might increase by US$1.6 billion to US$12.4 billion in 1992. The import of goods such as medicine is also essential. According to the bilateral trade agreements, imports of Russia from other republics of the former U.S.S.R. were to remain broadly unchanged in volume terms. However, given the economic situation in many of those states, the fulfillment of these import contracts was uncertain. The trade balance with third countries in all currencies, which recorded an estimated surplus of US$11.8 billion in 1991, was projected to shift into a deficit of US$0.6 billion in 1992 (Table 29); the services balance was projected to record a deficit of US$6.0 billion in 1992.

The prospects for external assistance are very uncertain, and this uncertainty is endangering the success of the reform process. The dissolution of the former U.S.S.R. has led several external creditors to cancel or to reconsider the status of commitments made to the former union. In the meantime, there is no scope for commercial borrowing, and reserves are depleted.

With a view to achieving a buildup in the reserves of the central bank equivalent to four weeks of convertible currency imports by the end of 1992, about US$2 billion in reserves would be needed. In addition, some allowance should be made for building up the working balance of the Vneshekonombank to permit it to become and remain current in debt-service payments, and for an increase in foreign currency holdings of the banking system, since commercial banks in Russia only began foreign exchange operations on a significant scale in 1991. It was also assumed that Russia—in addition to eliminating arrears on debt-service obligations accumulated in early 1992—would have to eliminate arrears of about US$2.6 billion. This is Russia's 61 percent share of the total identified arrears (US$4.2 billion) of the former U.S.S.R. outstanding at end-1991 accumulated on obligations which were not guaranteed by the Vneshekonombank. These arrears represent, in part, debt of foreign trade organizations on behalf of imports by government ministries. The external creditors are mainly foreign suppliers. Most of these credits were not guaranteed by foreign governments or official export credit agencies.

The financing requirement also depends, on the share of debt service that will be paid by Russia. If Russia were to make payments on 61 percent of the union debt service, according to its share as set out in the Interstate Treaty (see Annex 2 of the accompanying Economic Review, *The Economy of the Former U.S.S.R. in 1991*), the overall financing requirement has been estimated at US$12.3 billion. If Russia were to assume responsibility for servicing the entire debt, the financing requirement would be US$17 billion (assuming deferral of principal payments for 1992) (Table 29). These projections are subject to major uncertainties in light of the difficulties in elaborating a quantified macroeconomic framework for the economy because of the poor data base and difficulties in predicting the response of the economy to the changes in relative prices and regulatory framework.

In addition, the financing requirement also depends on transactions with the republics of the former U.S.S.R. If Russia were to reduce its deliveries to these states—e.g., of oil and natural gas—it would imply a higher potential for exports to third countries, other things being equal, and would reduce the financing requirement in convertible currencies. Given the uncertainties about the prices that will be negotiated between the enterprises in the republics of the former union, it is difficult to predict whether Russia might record a trade surplus vis-à-vis these states. If Russia were to record a trade surplus and was willing to extend loans to the other republics of the former U.S.S.R., this would also affect the financing requirement of Russia vis-à-vis third countries, since there would be fewer resources available for domestic absorption or exports to third countries.

The balance of payments projections assume that there would be an immediate need for quick-disbursing assistance, since the absorption of imports in the economy is likely to be higher if untied balance of payments support is given. The financing requirement could be higher than has been projected, given the particularly large uncertainties in projecting the level of imports necessary to limit the output decline expected because of domestic factors. If such additional assistance were available, it would permit higher credit expansion to the nongovernment sector to finance such imports without intensifying inflationary pressures and might ease the adjustment process.

In addition, the Russian Government has requested a stabilization fund for the ruble, on the order of US$6 billion, in support of the pegged exchange rate. This fund would be used to bolster public confidence in the exchange rate and would only be used if certain economic conditions necessary for establishing a pegged exchange regime were fulfilled. The government has indicated its intention to explore with external creditors the possibility of establishing such a fund. The size and design of a stabilization fund would need to take into account the modalities for commitments for and use of such a fund, the institutional mechanism for stabilizing the ruble in the ruble zone, and the size of the external transactions and the level of reserves in the zone.

The Russian Government has indicated that it remains committed to the undertakings in respect of debt service made to official creditors and commercial banks in November-December 1991 and January 1992. Total debt- service obligations of the former U.S.S.R. falling due in 1992 amount to US$15.6 billion, compared with US$17.0 billion in 1991 (Table 30; see also the companion Economic Review, *The Economy of the Former U.S.S.R. in 1991*). If Russia were to make payments on 61 percent of the union debt service or alternatively assume responsibility for the full 100 percent of these obligations, these payments would account for 32 percent or 53 percent, respectively, of projected exports of goods and services in convertible currencies. So far, the republics of the former U.S.S.R. have been given deferral of principal payments through the first half of 1992, with a possibility for extending deferral through the end of 1992.[44] The total amount of possible principal deferral amounts to US$7.2 billion in 1992 for the territory of the former U.S.S.R.

Systemic Changes

The government expects to undertake a wide range of structural and systemic reforms as part of its transition to a more open and market- oriented economy. These include price liberalization, enterprise reform and private sector development, pro-competition and anti-monopoly measures, financial sector development, foreign trade and investment, and the social safety net. In addition, major systemic reforms will be undertaken in the energy and agricultural sectors.

Measures to encourage the development of competitive markets, often from scratch, form an integral part of the reform program. These measures are recognized as being necessary to take full advantage of the price liberalization (see "Price Policy," above). Given the underdevelopment of markets after decades of reliance on administrative control, a number of measures are necessary to foster competition. Efforts to eliminate barriers to market entry are to concentrate on the creation of a consistent legislative framework. (Problems have arisen in this area because local administrative units have in some cases introduced rules and regulations that are in conflict with the provisions of laws passed by the central government.) A presidential decree was issued in January 1992 that liberalized domestic trading. Under the previously existing legal framework, specific permission from a local government was required to engage in trading activities. The decree specified that anyone would be free to engage in trading activities, regardless of the product or place, except in those cases where a specific legal prohibition existed (e.g., arms and narcotics). The absence of unrestricted ownership rights for land has also been identified as an obstacle to the development of competitive markets, and legislative changes will be required to remedy this problem. (At present the transfer of land is possible only through leasing or restricted ownership, in which it cannot be resold for ten years.)

An active anti-monopoly policy is also being developed. Thus far, a register of firms with dominant market positions has been established. It includes some 2,000 enterprises, although in many cases it covers only some products produced by these firms. In the initial stage of the 1992 reforms, there was heavy reliance on ex ante regulation, including profitability ceilings. It is now recognized that such rules could in some cases impede entry and adjustment, as well as discourage cost reduction and more efficient use of resources. Accordingly, the authorities have indicated their intention to move to a system of ex post response under which firms on this register would only have to notify the authorities of changes in the prices of their products. These would be examined with a view to determining if they represent an abuse of the dominant market position. The regulatory response would depend on the market circumstances and might include close monitoring and limits on profit margins. Firms in the state distribution sector are currently subject to a markup of 25 percent (45 percent in the Northern Areas). This ceiling does not apply either to the private sector or to "commercialized" state stores and is being maintained for the time being primarily to encourage the further commercialization of state retail outlets.

The system of enterprise management is also in transition. Previously, enterprises produced what Gosplan required them to produce, and in operating matters enterprise managers reported to branch ministries (union and republican) and their local Communist Party committees. Virtually all branch industrial ministries have been amalgamated into the Ministry of Industry, which now serves as a supervisor for some 32,000–33,000 state enterprises. (These enterprises do not include those managed by the remaining branch ministries such as the Ministry of Transport or the Ministry of Fuel and Energy.) The government intends to push privatization, but in the meantime the managers of the state enterprises have been given wide powers. They can decide on what to produce and how, and they can determine the size of their labor force and its remuneration, subject to the conditions that the revenues have to be sufficient to cover their costs and that enterprise assets cannot be sold or otherwise transferred. The Ministry of Industry's position is that managers should act to minimize near-term disruptions to their enterprises' production and employment, with a view to creating favorable conditions for their subsequent privatization.

A mass privatization of the state enterprise sector is the centerpiece of the transition to a market economy. The privatization program is to begin with rapid auctioning of small-scale enterprises and commercial outlets. For the larger enterprises, the privatization process will be more time-consuming and will involve several stages. First, these enterprises are to be commercialized—i.e., turned into joint-stock companies with the shares being held by the state. In the second stage, the shares would be distributed and sold.

The privatization plans provided for in a presidential decree of December 27, 1991, envisage privatization in 1992 of 50 percent of enterprises and establishments in the building materials, wholesale trade, and public catering sectors; 60 percent of establishments in the food, agricultural, and retail sectors; and 70 percent of enterprises in light industry, construction, motor transport and repair sectors. Further privatization is to take place in 1993–95.

The current plans of the Committee for State Property call for the following scheme for the distribution of shares: 25 percent would be turned into nonvoting shares and sold to the employees of the enterprise; 10 percent of the shares would be offered for sale to the employees at a significant discount; and managers would be offered for sale 5 percent of the shares. The remaining 60 percent of the shares would be sold on a market open to residents and nonresidents alike. At the same time, the government would distribute to the population privatization vouchers, amounting broadly to some 20 percent of the estimated value of the privatized enterprises, that could be used to purchase shares. Thus, the remainder of the shares would be purchased either from domestic financial savings or by foreign investors. The privatization program would be managed in such a way as to minimize restrictions on the participation of foreign investors or on the privatization of specific firms or branches of the economy. (Some restrictions, however, would necessarily remain, such as those affecting the defense industry or public utilities.) The authorities consider it to be of particular importance to ensure that the assets to be privatized would include the enterprises' occupied land. Finally, unfinished construction projects would be subject to a special tax so as to create additional incentives to finish or sell them.

As part of efforts to reduce the direct role of government in the economy, obligatory state orders have been eliminated. Although these have in many cases been replaced by nonobligatory state orders, the remaining privileges that have been granted to the firms that serve as suppliers to the state are to be reduced significantly over the course of 1992. The remaining elements of central allocation of material resources are to be eliminated by end-1992.

In the agricultural sector, special efforts will be required to support the creation of competitive markets. The December 1991 decrees on agricultural land reform and on restructuring of the collective and state farms established a basic framework, including procedures for the distribution of land and other assets to those wishing to farm on an individual basis. The government plans to complete privatization of the distribution of inputs for food and agricultural activities by end-1992.

Tables 31 and 32 present summary economic social indicators for the Russian Federation.

V. Priority Technical Assistance

Since the signing of the Special Association agreement with the U.S.S.R. in October 1991, IMF departments have been providing technical assistance to the Russian Federation. This assistance has been both diagnostic and advisory in character and has, in part, been delivered in conjunction with other international institutions, including the Bank for International Settlements, the European Community, the Organization for Economic Cooperation and Development, the World Bank, and experts provided by individual governments.

The nature and content of technical assistance provided by the IMF has differed between late 1991 and 1992. In late 1991, the first technical assistance missions were diagnostic, to identify the needs of the authorities. Diagnostic missions from the Central Banking, Exchange and Trade Relations, Fiscal Affairs, and Statistics Departments and the IMF Institute, as well as representatives of the Legal Department, visited Moscow in October-December 1991. In some cases, these missions included the participation of other international organizations, in an effort to help coordinate their technical assistance. These missions identified an urgent need to build institutions and to train professional staff in a wide range of areas. In addition, the IMF opened an office in Moscow on November 5, 1991, which has functioned until now as a resident representative office for all of the republics of the former U.S.S.R. and for the Russian Federation in particular.

In terms of priorities in 1992 and the near future, IMF technical assistance should be focused to provide assistance to officials in implementing the authorities' economic program. Four main areas have been identified: monetary policy, fiscal policy, statistics, and training.

In the area of monetary policy, it is especially urgent to provide assistance to the CBR to ensure effective implementation and monitoring of credit and monetary policies. To this end, staff of the IMF's Central Banking Department visited Moscow in February 1992 to offer advice in this and some related areas; another mission, planned for April 1992, will provide assistance in central banking functions. The Central Banking Department has discussed with the CBR the placement of resident advisors, and the IMF's Statistics Department has provided methodological assistance in compiling a monetary survey.

As regards public finance, assistance is urgently required to improve tax administration, ensure effective budgetary management, and improve the social safety net. To this end, the IMF's Fiscal Affairs Department has provided assistance in tax policy, public expenditure management, and social safety net policy; a mission to discuss tax administration visited Moscow in February-March 1992, and follow-up missions in other areas are planned.

In the area of statistics, assistance is needed for the compilation (and ensuring the consistency) of monetary, fiscal, balance of payments and external debt statistics, and price statistics, so as to be able to better monitor current economic developments. The IMF's Statistics Department has already provided assistance in the monetary and price statistic areas. Follow-up missions are currently planned for price statistics, and plans for training, continued assistance, and placement of resident experts are being prepared.

With respect to training, Russian officials have already attended courses of the IMF Institute in Moscow and Washington, and it is further envisaged that high- and mid-level officials will continue to participate in Institute courses and seminars to be held in Russia, Vienna, and Washington.

Notes

1. For a complete description of the then prevailing institutional structure, see International Monetary Fund, World Bank, Organization for Economic Cooperation and Development, and European Bank for Reconstruction and Development, *A Study of the Soviet Economy*, 3 Vols. (Washington: IMF, 1991), and *The Economy of the U.S.S.R.* (Washington: World Bank, 1991).

2. For further information, see IMF and others, *A Study of the Soviet Economy*, Vol. 1, pp. 242–44.

3. From early 1991, the Russian Federation and other republics had withheld a significant portion of the revenues that they were supposed to transfer to the union budget. See the companion Economic Review, *The Economy of the Former U.S.S.R. in 1991* (Washington: IMF, April 1992, Chapter III).

4. See the companion Economic Review, *The Economy of the Former U.S.S.R. in 1991* (Annex 2), for details.

5. The Ministry of Foreign Economic Relations was established on February 20, 1992. Before its establishment as a separate ministry, its functions had been carried out by the Committee for Foreign Economic Relations of the Ministry of Foreign Affairs.

6. On February 6, 1992, the heads of the statistical services of the CIS established a Statistical Committee for the CIS to coordinate the statistical activities of CIS member states. This Committee was established on the basis of the former U.S.S.R. Goskomstat.

7. Between November 1991 and February 1992, there was a single Ministry of Economy and Finance that was responsible for the budget. On February 20, 1992, this ministry was divided into two ministries, the Ministry of Finance and the Ministry of Economy.

8. Vneshtorgbank is a commercial bank with 51 percent of its capital owned by the CBR, 10 percent by the Ministry of Finance, and the balance by other public and private sector entities and individuals.

9 Nonobligatory state orders refer to orders placed by the government with state enterprises for the delivery to other enterprises or for export (to other republics of the former U.S.S.R. or abroad) of specified products.

10. The data in this section are mainly from official sources such as Goskomstat of the Russian Federation. The statistical methodology utilized to compile these data is similar to that which had been used by union statistical agencies. As such it is subject to important limitations (see IMF and others, *A Study of the Soviet Economy*, Vol. 1, Appendix II.2). An additional problem at the republican level is that, through 1991, the military industry reported and provided information only to the center.

11. Measured real money income is subject to important limitations as a measure of welfare: it excludes the substantial nonwage benefits, and it relies on a price index that ignores shortages.

12. Although trade and financial transactions with the republics of the former U.S.S.R. take place in rubles, they involve transactions with nonresidents and therefore should be included in the balance of payments.

13. The relatively small shares for energy shipments to other republics of the former U.S.S.R. reflect in part, of course, the relatively low domestic prices for these products at that time.

14. These are the figures published by the Goskomstat of the Russian Federation. For reasons discussed in the accompanying Economic Review on *The Economy of the Former U.S.S.R. in 1991*, they likely understate the magnitude of the output decline.

15. See the accompanying Economic Review on *The Economy of the Former U.S.S.R. in 1991* for a fuller discussion of factors that contributed to the decline in output in the former Soviet Union.

16. Trading on these commodity exchanges covers raw materials, semi-finished products, equipment of all kinds, real estate and even some consumer goods. On these exchanges, oil, for example, sold at prices 13 to 15 times higher than the official wholesale price outside the official distribution channels. Hence, many firms would prefer queuing and disbursing side-payments to buying oil on the exchanges.

17. Note that the methodology underlying the retail and wholesale price indices published by the Goskomstat of the Russian Federation leaves it unclear whether the month-on-month indices are consistent with the year-on-year ones. Also, alternative price indices published in the press suggest that the official indices tended to underestimate inflation; the coverage, however, of these alternative indices is quite narrow.

18. Price liberalization by the end of 1991 was announced in a presidential address on October 28, 1991. The corresponding decree was signed on December 3, 1991, and provided for a two-week postponement (from December 16) on the request of other former U.S.S.R. republics. The preannouncement of liberalization is likely to have encouraged hoarding on the part of the population. While this may have imposed additional costs, it could be argued that the early announcement explains the generally muted behavior of the population in the wake of such a major price shock.

19. Higher after-tax profits were meant to finance the obligatory wage compensations in the enterprises sector, associated with the April 1991 price increases.

20. Using the notional fiscal balance for purposes of comparison should be done with caution. Total revenue and expenditure figures may be simultaneously distorted because of the lack of information on intragovernmental operations, which cancel once a consolidation of the fiscal accounts is done. Nevertheless, the notional budget still provides the best base available for the evaluation of the 1991 budget.

21. Given the large structural changes that had occurred in the government accounts following the takeover of union functions, as well as uncertainty regarding a number of main macroeconomic variables upon which an annual budget should have been based (developments in output, prices and wages, exchange rate), the authorities decided to present only the first- quarter budget in January. (An amended first-quarter budget and an annual budget were presented to the Supreme Soviet on March 10, 1992.) Assessment of the first quarter is based on a comparison with the notional budget in 1991. As explained earlier, this comparison, while correct for the overall deficit, has its limitations when it comes to total revenue and expenditure figures because only estimates could be made of intragovernmental operations (which cancel out through the consolidation process).

22. Two peculiarities of the parliamentary budget approval should be noted. First, even though the presented budget was a consolidation of central government and the local government budgets, the Supreme Soviet decided to discuss and vote on the budget of the central government alone, arguing that decision-making authority for the lower levels should lay with the lower-level organs. Second, the Supreme Soviet did not approve the budget as such but only agreed to its execution.

23. Pressures from other sectors followed the increase for education. As of February 1, 1992, wages in the health sector were increased by an average of 45 percent, with the stated objective of providing a catchup to wages in education. This highlights serious problems in the wage-setting mechanism in the budgetary sector: it does not provide proper work incentives because it does not allow for wage differentiation based on productivity, and it fails to utilize the instrument of setting the wage in the budgetary sector as a signal for the rest of the economy.

24. The government has challenged the decision of the Presidium of the Supreme Soviet before the Constitutional Court, claiming that it is unconstitutional on grounds that a change in a (tax) law has to be made by the Supreme Soviet, rather than by its executive body. The impact of the VAT rate change was not incorporated into the budget.

25. The reflection of the operations of Vneshekonombank and Sberbank U.S.S.R. in the monetary survey increase the December 1990 base relative to Russian-source data, thereby reducing the measured rates of change.

26. Comparable figures for Russia are not available before end-1990. Moreover, the end-December 1990 figures used for estimating changes in 1991 should be treated with caution because the accounting system was undergoing important reforms.

27. The decline in real balances was more pronounced than in the rest of the former U.S.S.R., both because Russian inflation was higher and because deposits in Russia grew more slowly than in most other republics. As regards currency growth, comparisons are complicated by the need to estimate currency in circulation in Russia, which is part of a common currency area.

28. In March 1991, the government compensated small savers for the effect of the April 1991 price rise on their assets by increasing all saving deposits of less than rub 200 by 40 percent. This compensation could be withdrawn from July 1, 1991. Deposits in excess of rub 200 were also increased by 40 percent, but the compensation was suspended until end-1994. The compensation, considered to be a union debt, bore interest of 7 percent in 1991 and is to pay 10 percent in 1992.

29. Vneshekonombank's frozen foreign currency deposits of Soviet residents have been included in the money supply on the assumption that the holders have been able to borrow in rubles to maintain the income stream that would have been generated by their frozen deposits (see Table 20).

30. Issues of broader concern to all former U.S.S.R. republics, notably the "cash shortage," dollarization, as well as the monetary overhang, are discussed in the companion Economic Review, *The Economy of the Former U.S.S.R. in 1991.*

31. During 1991 the settlements system was changed from the communal financing mechanism that dated from the monobank period to a correspondent accounts system. Under the former interbranch turnover (MFO) settlements system, Gosbank underwrote all payments such that, without an operative credit plan, banks could theoretically have extended almost limitless credit. The changeover to a system of full accountability was to have been finalized at the beginning of 1992, but these changes had still not been completed in February 1992.

32. The prices on machinery and equipment imported from the previous CMEA countries were widely believed to be much higher than world market prices before the transition to world market prices in 1991. This

is also confirmed by some of the price information obtained from Eastern European countries for their exports to Russia in 1991.

33. In a February 1992 report on the former U.S.S.R. and the CIS, the Institute of International Finance (IIF) estimated that errors and omissions in the U.S.S.R. balance of payments amounted to US$14 billion in 1991, which might be capital flight; see IIF, "The U.S.S.R./C.I.S," Country Report (Washington, February 7, 1992). This figure is much higher than the IMF because of exchange rate problems in the published trade data, higher gold exports estimated by the IIF, and higher disbursements estimated by the IMF based on creditor information. See *The Economy of the Former U.S.S.R. in 1991* in this series.

34. The Moscow Interbank Currency Exchange continued the weekly interbank market that had been held under the auspices of Gosbank until the end of December 1991. The interbank market was organized as a joint stock company with 34 shareholders. Only members of the Currency Exchange could participate in the market. The interbank market, which was held on each Tuesday, was based on auction principles.

35. The authorities did not have a functioning system in place for comparing customs and banking records. Moreover, commercial banks did not report their foreign exchange position to the central bank on a regular basis. Given the inflationary and exchange rate expectations, the return on ruble-denominated deposits was not sufficient to encourage exporters to repatriate foreign exchange. Finally, the financial crisis of the Vneshekonombank—the bank with the longest tradition of foreign exchange transactions—might have contributed to the weakening of confidence in the domestic banking system.

36. A governmental decree of March 7, 1992, liberalized the prices of bread, milk, kefir, skim yogurt, sugar, salt, vegetable oil, and matches.

37. The government has since announced, however, that the liberalization of energy prices is to be postponed beyond April 1992.

38. Under the proposed system, two types of benefits would be introduced. First, *standard* benefits in the amount of 75 percent of the minimum wage would be given for those who (1) seek jobs but were not employed before (e.g., students finishing their studies, housewives); (2) worked but did not pay social security before (e.g., self-employed); and (3) everyone after six months of joblessness. Second, increased benefits in the amount of up to 90 percent of the past monthly average salary will be provided for a six-month period for those who are laid-off as a result of economic restructuring. A markup of 10 percent of the salary for each dependent would be given; however, the maximum amount of the increased benefit would not be allowed to exceed the 90 percent cap. After six months, the increased benefit will automatically be replaced by the standard benefit.

39. The energy price increase and output contraction are assumed, of course, to be related, but the effective profit tax rate should also decline because it is lower for the energy sector, which will benefit from the increase in energy prices at the expense of energy-using branches. Moreover, profits of the energy sector will rise by less than the profits of other branches fall, since roughly one half of the increase in the domestic price of energy is to be taxed away.

40. There are four other important extrabudgetary funds: the Pension Fund, the Social Insurance Fund, and the Road Fund (all of which are expected to be in balance in 1992 as a whole); and the Conversion Fund for the military sector, about which little is known at this time.

41. Revenues incorporated in a budget submitted to the Supreme Soviet of the Russian Federation must be based on either existing legislation or presidential decree. Because of this and the time constraint, the budget for 1992 submitted to Parliament on March 10 did not incorporate many of the assumptions or the impact of the measures specified in the Memorandum of Economic Policies. The budget does include, however, a brief summary of the fiscal measures contained in the Memorandum and notes that these measures will be necessary to further reduce the deficit so as to achieve virtual balance by the end of 1992.

42. The banking system has two very different types of commercial banks—large, undercapitalized "ex-specialized" banks, which mainly serve state enterprises, and the smaller, new commercial banks, which focus their business on new, risky enterprise. Officials believe that the two types of banks could be affected very differently by, say, the imposition of uniform credit ceilings and discrete changes in reserve requirements. However, they do not yet have the statistical base or the analytical tools to assess the risks and costs to subgroups of banks of system-wide policy measures.

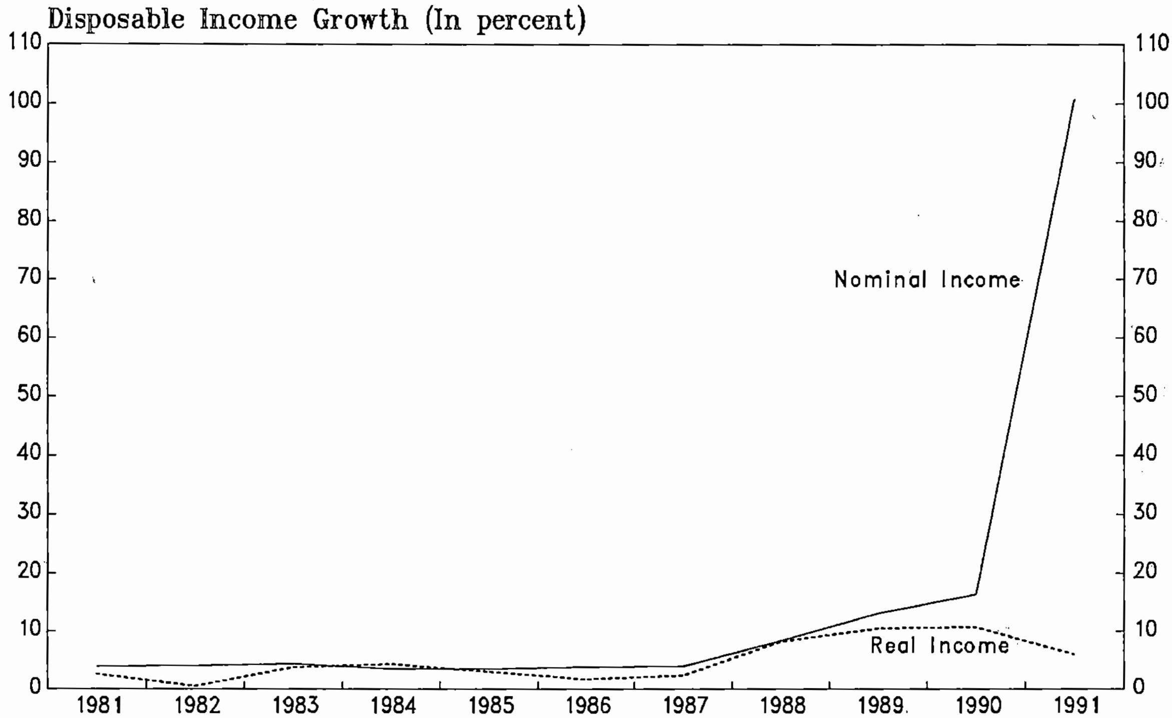
43. In March 1992 it was decided not to introduce, as had been earlier planned, a separate exchange rate for foreign investment.

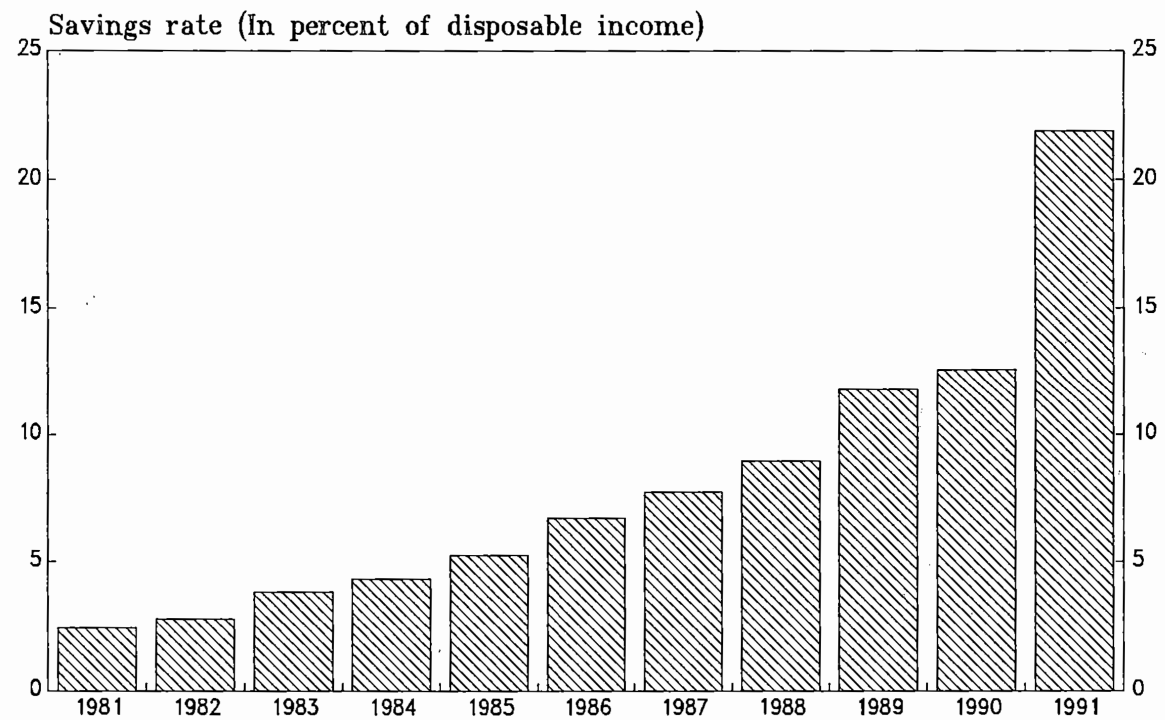
44. On March 26, 1992, the commercial bank creditors extended their deferral from March 31 through the end of the second quarter of 1992; on March 31, 1992, a similar extension was announced by the official creditors.

Charts

CHART 1

Disposable Income and Household Savings, 1981-91 1/





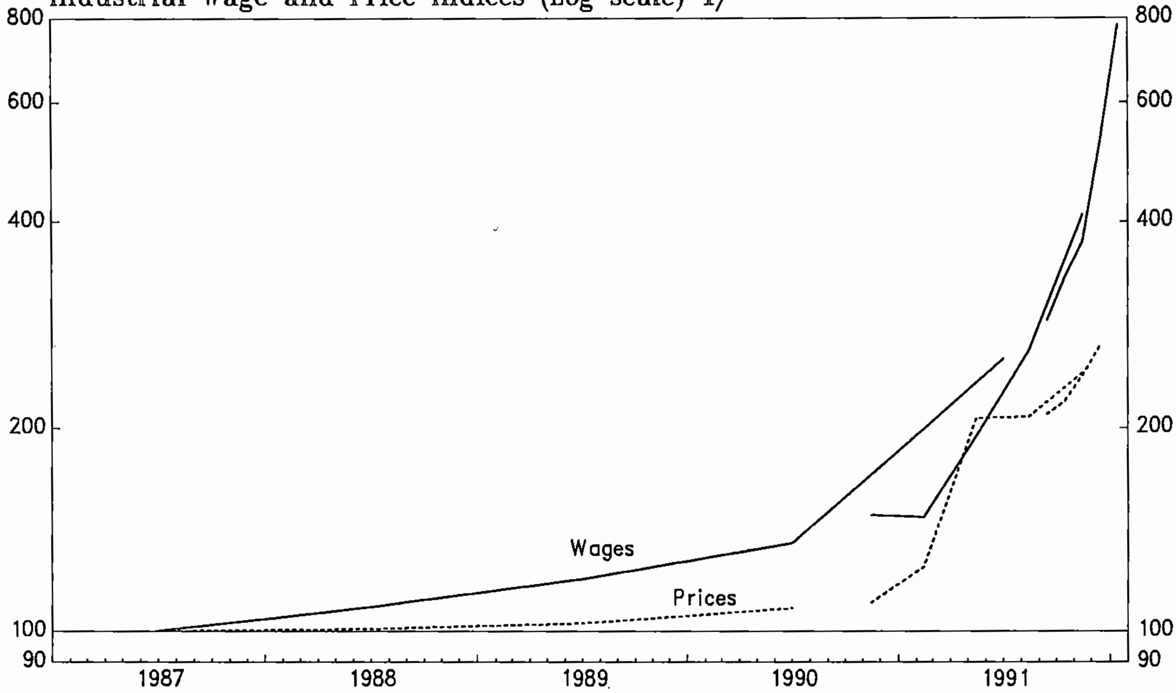
Source: Goskomstat of the Russian Federation; and IMF staff calculations.

1/ 1991 data are preliminary estimates and exclude the frozen part of the deposit compensation for the April price increases.

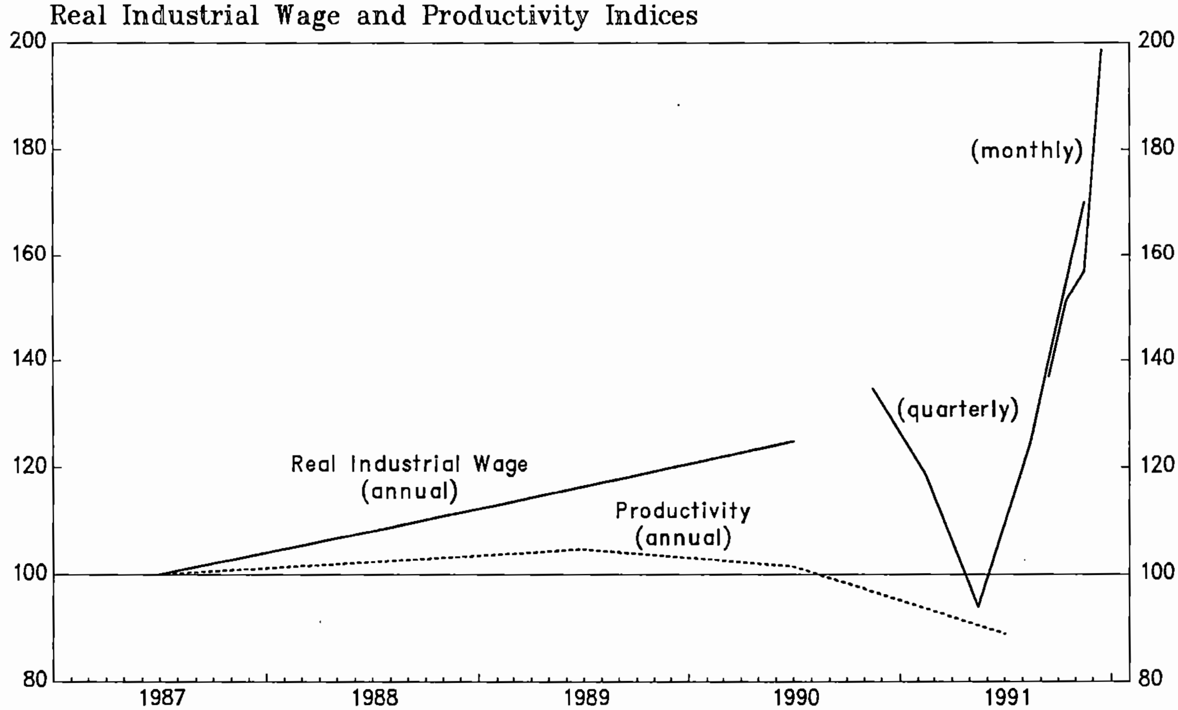
CHART 2

Wage, Price, and Productivity Developments, 1987-91
(1987 = 100)

Industrial Wage and Price Indices (Log scale) 1/



Real Industrial Wage and Productivity Indices

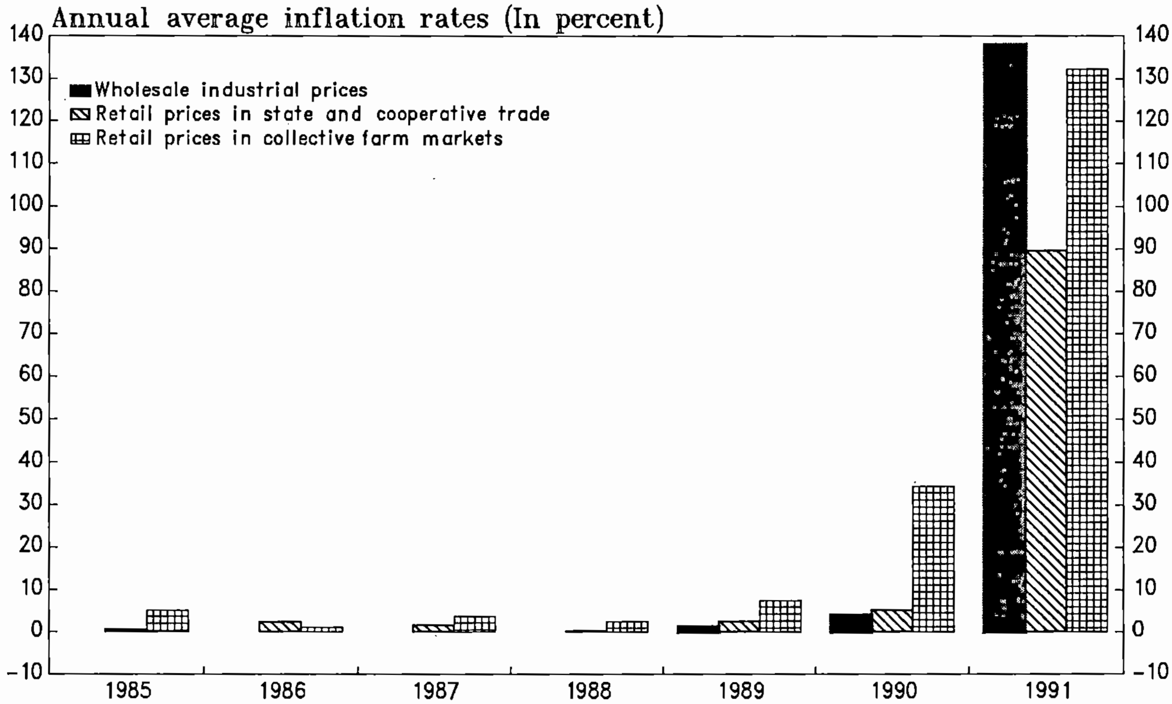


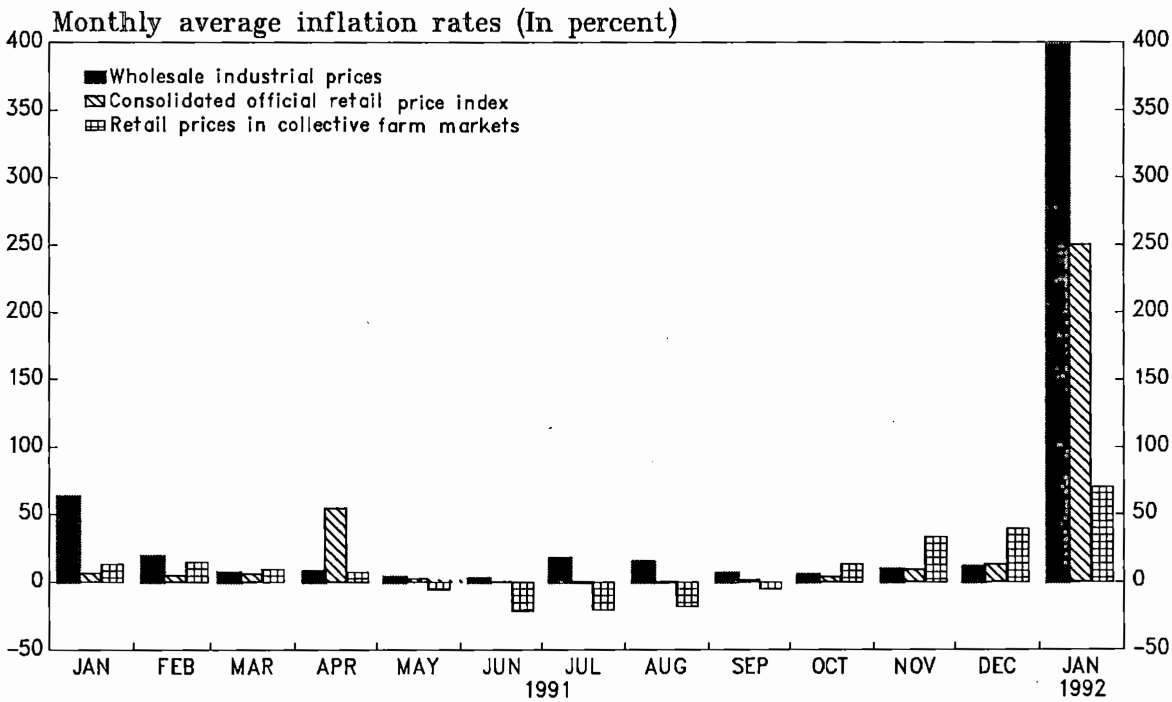
Sources: Goskomstat of the Russian Federation; and IMF staff estimates.

1/ Annual data for 1987-90, quarterly data for 1990:QIV-1991:QIV, monthly data for September-December 1991.

CHART 3

Price Developments

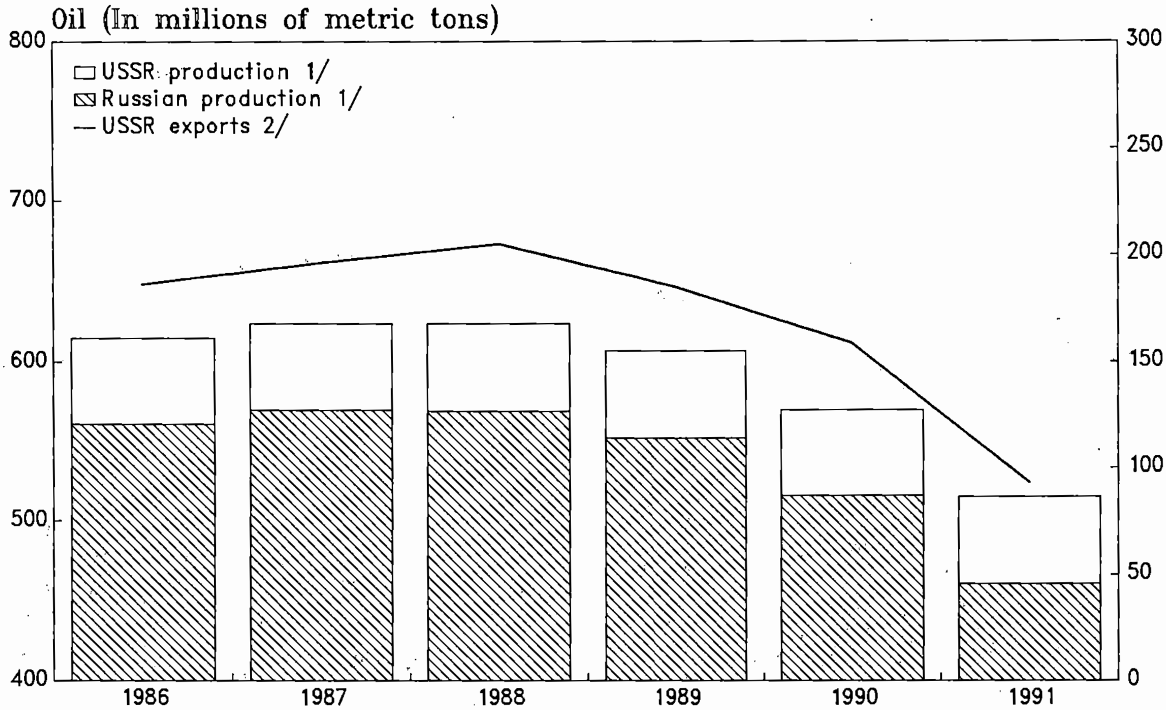


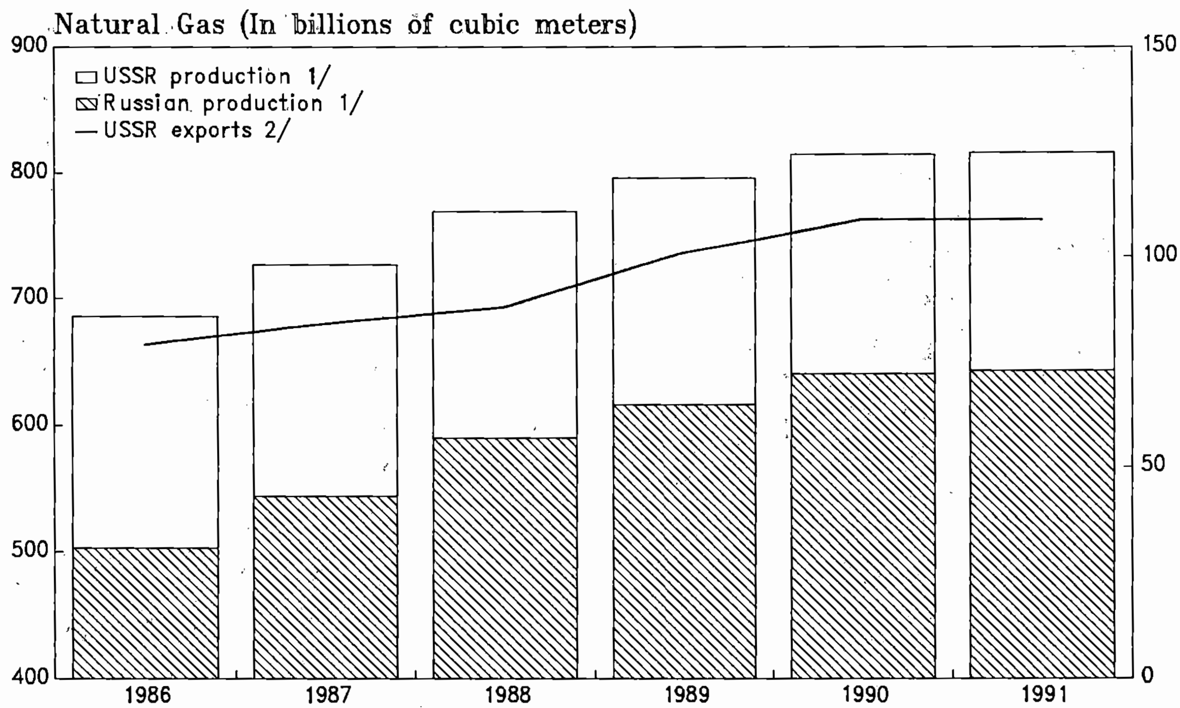


Source: Goskomstat of the Russian Federation.

CHART 4

Energy Production and Exports



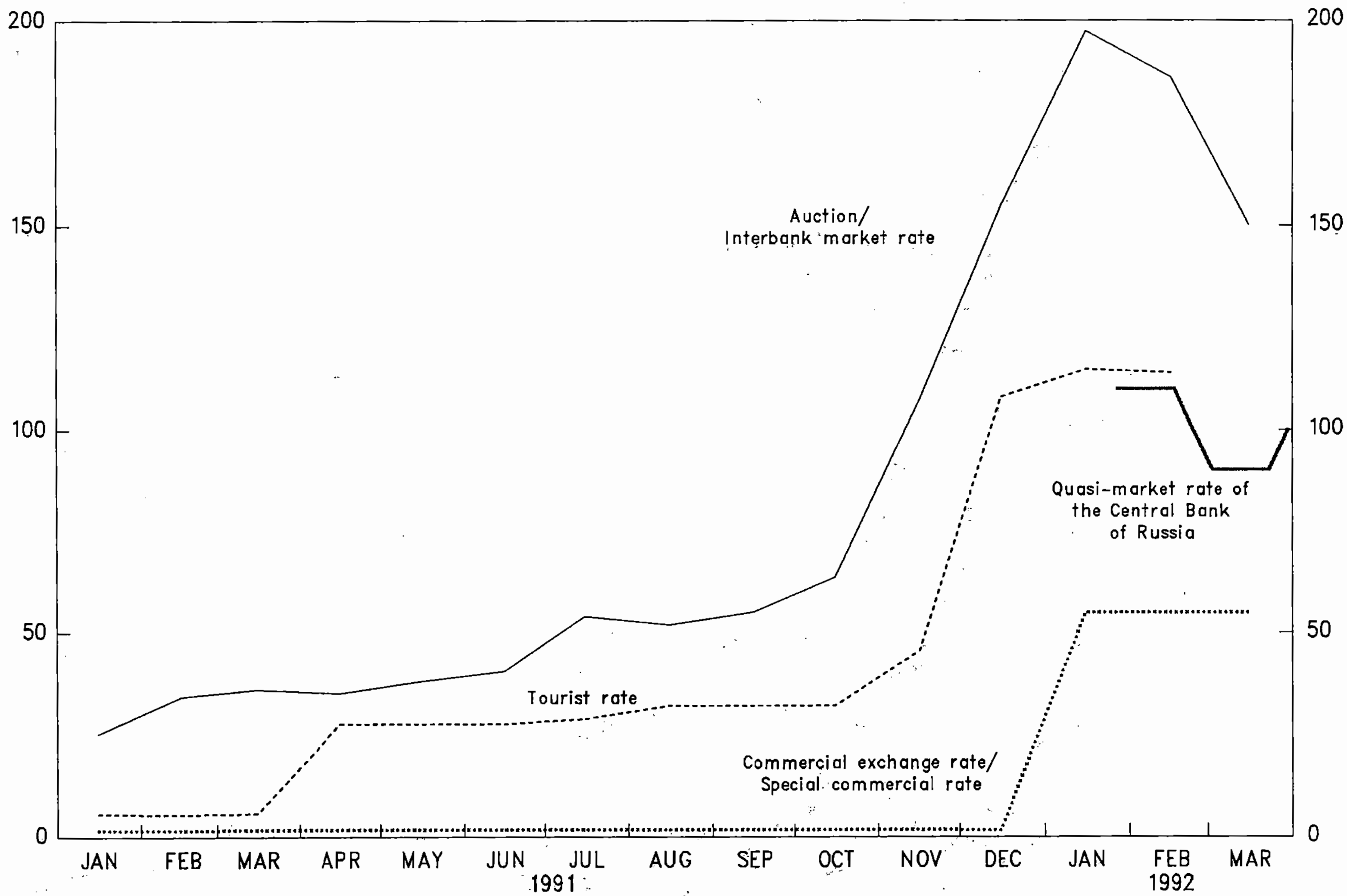


Source: Goskomstat of the Russian Federation; and Goskomstat of the U.S.S.R.

1/ Left scale
2/ Right scale.

CHART 5

Exchange Rate Developments
January 1991 - March 1992



Source: U.S.S.R. Gosbank; and Central Bank of the Russian Federation.

Tables

Table 1. Share of the Russian Federation in the Former U.S.S.R.: Selected Indicators, 1985-90
(In percent)

	1985	1988	1989	1990
Population	51	51	51	51
Employment[1]	57	57	57	57
Employment in industry	60	...	59	59
Employment in agriculture	40	40	39	38
Gross output	60	60	60	59
Net material product (NMP)	61	61	61	61
NMP in industry	65	64	65	62
NMP in agriculture	44	50	49	52
Gross domestic product (GDP)	...	...	61	62
Industrial output:				
Oil (including condensed gas)	91	91	91	90
Natural gas	72	77	77	79
Coal	54	55	55	56
Rolled metal	58	57	57	57
Steel tubes	59	60	61	61
Trucks	84	85	86	86
Passenger cars	87	88	87	88
Agricultural machinery	58	57	57	60
Fertilizers	52	51	51	50
Polyethylene	68	66	63	65
Timber	92	92	92	92
Cement	60	60	60	60
Consumer goods	54	51	53	56
Shoes	46	45	46	46
Knitwear	40	39	39	40
Cotton fabrics	72	71	72	72
Meat	49	50	50	51
Vegetable oil	30	34	35	35
Sugar	31	33	32	30
State procurement for grain	54	48	53	50
Freight	52	53	53	54
Housing investment	55	55	55	53
Retail trade turnover[2]	58	57	57	57
Services	58	58	58	58

Sources: Goskomstat of the Russian Federation and Goskomstat of the U.S.S.R.

[1]Average yearly number of blue- and white-collar workers.
[2]State and cooperative trade, including public catering.

Table 2. Net Material Product (NMP) and National Income Utilized, 1985-91

(At current prices)

	1985	1986	1987	1988	1989	1990	1991[1]
	(In billions of rubles)						
NMP	352.7	359.0	364.7	385.4	412.7	444.6	810.0
	(In percent of NMP)						
Industry	48.6	46.7	47.2	44.5	44.5	42.2	...
Agriculture	14.1	15.5	15.4	18.7	18.8	19.9	...
Construction	10.5	12.0	12.8	13.1	13.0	12.7	...
Transport and communications	6.5	6.7	6.6	6.6	5.8	6.9	...
Domestic trade and public catering	4.7	4.8	4.5	4.7	4.8	5.1	...
Receipts from foreign trade	13.6	12.3	11.4	10.1	10.5	10.0	...
Other[2]	2.1	2.1	2.1	2.3	2.5	3.2	...
	(In billions of rubles)						
National income utilized	337.1	341.1	347.0	374.9	397.8	428.4	...
Losses	3.9	4.1	5.0	4.9	6.0	7.6	...
	(In percent of national income utilized)						
Total consumption	72.2	73.0	74.4	72.7	74.5	77.8	...
Personal consumption	60.2	60.6	61.4	59.7	61.4	64.5	...
Other consumption	12.0	12.3	13.0	13.0	13.1	13.4	...
Total accumulation	27.8	27.0	25.6	27.3	25.5	22.2	...
Net fixed investment	15.0	16.2	16.8	15.5	13.5	11.9	...
Stockbuilding	12.8	10.8	8.8	11.8	12.0	10.3	...
	(In billions of rubles)						
Memorandum item:							
GDP[3]	...	...	...	...	573.2	622.0	1,130.0

Sources: Goskomstat of the Russian Federation and IMF staff estimates.

[1]Preliminary.
[2]Material-technical supply, forestry, data processing, and other branches.
[3]The 1990 and 1991 figures are preliminary.

Table 3. Distribution of Employment by Sector, 1980-90

	1980	1985	1989	1990
		(In millions)		
Industry	23.8	24.3	23.5	23.0
Agriculture	10.7	10.4	9.8	9.7
Construction	7.0	7.1	8.9	8.8
Transport and communications	7.0	7.3	5.9	5.9
Trade, etc.	6.1	6.2	5.9	5.9
Other material sphere[1]	2.9	3.1	3.3	3.3
Nonmaterial sphere	15.7	16.6	17.8	17.8
Total	73.3	75.0	75.2	74.4
		(In percent)		
Industry	32.5	32.4	31.2	30.9
Agriculture	14.6	13.9	13.0	13.1
Construction	9.6	9.4	11.8	11.9
Transport and communications	9.6	9.8	7.9	7.9
Trade, etc.	8.3	8.3	7.9	7.9
Other material sphere[1]	4.0	4.1	4.4	4.4
Nonmaterial sphere	21.4	22.1	23.7	23.9
Total	100.0	100.0	100.0	100.0

Source: Goskomstat of the Russian Federation.

[1]All employment in transport and communications is included in the material sphere.

Table 4. Growth Rates of NMP and National Income Utilized, in Comparable Prices, 1986-91

(In percent)

	1986	1987	1988	1989	1990	1991[1]
NMP	2.4	0.7	4.5	1.9	-3.6	-11.0
Industry	0.1	1.7	6.2	2.0	-2.2	...
Agriculture	10.3	-3.0	4.0	2.8	-6.2	...
Construction	17.1	7.1	7.5	0.8	-4.3	...
Transport and communications	5.7	0.8	4.9	-9.1	-5.4	...
Domestic trade and public catering	0.6	-4.3	7.6	8.2	3.0	...
Receipts from foreign trade	-8.9	-4.7	-6.8	3.9	-0.7	...
Other[2]	2.5	6.2	2.3	10.2	-25.7	...
National income utilized	1.7	0.5	6.8	2.3	-4.2	...
Total consumption	1.0	2.7	4.0	5.4	2.0	...
Private consumption	0.2	1.5	3.4	5.4	1.4	...
Other consumption	4.9	8.5	6.9	5.1	5.0	...
Total accumulation	3.6	-5.4	15.0	-6.1	-22.5	...
Net fixed investment	5.8	3.5	-2.8	-10.3	-17.8	...
Stockbuilding[3]	0.1	-1.9	4.1	-0.1	-3.2	...
Memorandum item:						
GDP	...	...	...	...	...	-9.0

Sources: Goskomstat of the Russian Federation and IMF staff calculations.

[1]Preliminary.
[2]Material-technical supply, forestry, data processing, and other branches.
[3]Contribution to growth rate of NMP.

Table 5. Gross Industrial Output, 1986-91

(Percentage rate of change, in comparable prices)

	1986	1987	1988	1989	1990	1991[1]
Total	4.5	3.5	3.8	1.4	-0.1	-8.0
Energy	3.8	3.2	1.6	-0.5	-1.4	...
Metallurgy	3.7	2.4	3.1	0.6	-2.2	-7.6
Machine building	7.0	5.7	5.2	1.7	1.0	4.0
Chemicals	6.6	3.7	4.7	--	-3.3	-8.6
Wood products	5.3	2.5	5.4	3.1	0.1	8.6
Construction materials	6.2	3.3	4.8	2.4	-0.9	-0.6
Light industries	1.1	1.0	3.5	2.3	-0.1	-0.4
Processed food	5.3	4.5	4.2	4.2	0.4	-9.5
Consumption goods	-1.9	3.7	8.0	12.3	7.3	-0.8
Food	11.2	4.5	4.8	3.9	0.6	-7.6
Alcoholic beverages	-39.1	-4.8	18.1	23.1	10.1	4.8
Nonfood items	3.3	5.1	7.3	8.1	10.0	4.7

Sources: Goskomstat of the Russian Federation and *Business World*.

[1]Provisional.

Table 6. Production in the Energy Sector, 1985-91

(Volumes and percentage change)

	1985	1986	1987	1988	1989	1990	1991
Oil (including gas condensates)[1]	542.3	561.2	569.5	568.8	552.2	516.2	461.1
		(3.5)	(1.5)	(-0.1)	(-2.9)	(-6.5)	(-10.7)
Coal[1]	395.2	407.9	414.7	425.5	409.9	395.4	353.3
		(3.2)	(1.7)	(2.6)	(-3.7)	(-3.5)	(-10.6)
Natural gas[2]	462.0	503.0	544.3	589.8	615.8	640.6	642.9
		(8.9)	(8.2)	(8.4)	(4.4)	(4.0)	(0.4)
Electricity[3]	962.0	1,001.5	1,047.3	1,065.5	1,076.6	1,082.2	1,046.0[4]
		(4.1)	(4.6)	(1.7)	(1.0)	(0.5)	(-3.3)

Sources: Goskomstat of the Russian Federation and Goskomstat of the U.S.S.R.

[1]In millions of tons.
[2]In billions of cubic meters.
[3]In billions of kilowatt-hours.
[4]Goskomstat of the U.S.S.R. The 1991 annual report of Goskomstat of the Russian Federation reports a drop of only 1 percent.

Table 7. Agricultural Output and State Procurement, 1981-91

	Average 1981-1985	1986	1987	1988	1989	1990	1991
			(Percentage change)				
Gross agricultural output[1]	2.1	6.7	-1.2	3.3	1.7	-3.6	-4.7
State and collective sector	...	...	-1.4	3.6	1.1	-5.8	...
Private sector	...	...	--	2.2	3.9	4.2	...
Net agricultural output[1]	...	...	-3.0	4.0	3.7	-5.2	-7.7
			(In physical units)[2]				
Output							
Grain[3]	92.0	107.5	98.6	93.7	104.8	116.7	89.1
Meat	8.1	8.9	9.4	9.8	10.1	10.1	9.3
Milk	48.7	52.2	52.9	54.5	55.7	55.7	52.1
Eggs	43.1	46.2	47.4	49.1	49.0	47.5	46.7
Potatoes	38.4	43.1	38.0	33.7	33.8	30.8	34.0
Vegetables	12.1	11.7	11.2	11.5	11.2	10.3	10.5
Sugar beets	25.1	29.2	34.2	32.8	37.4	32.3	24.4
Wool	221	226	216	227	230	227	...
			(In percentage of output)				
State procurement							
Grain	35.4	39.2	35.6	31.2	29.8	29.1	25.3
Meat	66.7	71.9	75.5	75.5	75.2	74.2	62.9
Milk	67.1	70.9	72.0	72.5	72.7	72.0	65.6
Eggs	68.2	70.3	71.5	71.7	70.2	70.7	65.3
Potatoes	23.4	24.4	24.2	22.0	21.6	18.5	13.8
Vegetables	63.6	70.1	67.9	65.2	64.3	64.1	41.9
Sugar beets	90.0	90.0	87.4	90.2	88.0	77.7	76.2
Wool	47.1	47.8	48.6	49.3	49.6	48.9	...

Source: Goskomstat of the Russian Federation.

[1]In 1983 comparable prices.
[2]In millions of tons, except for wool (thousands of tons) and eggs (billions of units).
[3]Grain output excludes dirt, moisture, and other foreign matter.

Table 8. Household Incomes, Expenditures, and Savings (Growth Rates), 1985-91

(Annual percentage rate of growth, at current prices)

	1985	1986	1987	1988	1989	1990	1991[1]
(+) Income	3.5	4.0	4.0	8.5	13.3	16.6	119.7[2]
Wages and salaries	3.3	3.5	3.9	8.6	14.2	16.2	...
Wages	3.3	3.5	4.0	8.8	14.6	16.4	...
Other remuneration from enterprises	2.7	2.3	0.2	11.8	12.3	16.0	...
Income from collective farms	3.0	4.2	3.8	2.1	8.2	12.5	...
Receipts from sales of agricultural products	-3.3	-3.4	5.8	12.8	30.0	44.0	...
Pensions and allowances	4.6	7.5	3.7	6.4	4.8	13.8	...
Receipts from financial system	7.1	3.8	7.9	7.5	11.5	10.7	...
Other income	13.4	7.8	3.4	17.7	19.5	15.3	...
(-) Taxes and duties	4.4	4.5	4.3	9.9	16.6	18.4	...
(=) Disposable income	3.5	3.9	4.0	8.4	13.0	16.4	...
(-) Total expenditure	2.4	2.4	2.9	7.0	9.4	15.4	...
Expenditure on goods	2.0	1.8	2.5	6.7	10.0	16.6	77.4
Expenditure on services	3.6	5.7	5.9	9.5	6.6	7.3	73.3
Other expenditure	7.6	5.5	2.1	5.0	6.8	11.5	...
(=) Saving	26.4	32.1	19.6	25.4	49.5	24.2	252.8[3]
Cash accumulation[4]	66.1	29.2	80.8	45.2	95.0	84.7	352.8
Accumulation of savings deposits with Sberbank	21.5	24.1	11.1	23.3	30.9	6.5	167.0

Sources: Goskomstat of the Russian Federation and IMF staff estimates.

[1]Provisional.
[2]Including the frozen rub 71.9 billion of deposit compensation.
[3]Excluding the rub 71.9 billion of frozen deposit compensation both from incomes and from savings.
[4]This line is derived as a residual and hence includes statistical discrepancies.

Table 9. Average Monthly Nominal Wage by Sector, 1985-91

(Year average, in rubles)

	1985	1986	1987	1988	1989	1990	1991
All workers and employees	201.4	207.8	216.1	235.2	258.6	296.8	530.0
Industry	217.9	223.5	230.3	250.3	275.2	310.9	580.0
Agriculture	198.4	211.0	219.8	232.7	258.9	307.2	...
Trade	158.7	163.4	167.3	177.1	201.6	258.4	...
Education	154.8	161.5	170.2	177.6	183.6	202.9	...
Science	209.9	215.9	224.9	256.6	314.3	351.9	...
Administration	178.9	187.7	201.1	218.7	252.3	363.6	...
Memorandum item:							
Minimum wage[1]	70.0	...	80.0	80.0	80.0	80.0	130.0

Source: Goskomstat of the Russian Federation.

[1]The minimum wage was raised from rub 70 to rub 80 in 1986. It was raised from rub 80 to rub 140 following the April 1991 price reform, and raised again to rub 180 on October 1, 1991. On January 1, 1992, it was raised to rub 342. In practice, however, increases in the minimum wage were introduced gradually by employers because they depended on their ability to pay.

Table 10. Household Incomes, Expenditures, and Savings (Levels), 1985-91

(In billions of rubles and percent)

	1985	1986	1987	1988	1989	1990	1991[1]
(+) Income	243.2	252.8	263.0	285.4	323.3	376.9	827.9[2]
Wages and salaries	188.9	195.5	203.1	220.5	251.9	292.8	...
Wages	173.8	179.8	187.0	203.6	233.3	271.5	...
Other remuneration from enterprises	5.9	6.0	6.0	6.8	7.6	8.8	...
Income from kolkhozy	9.3	9.6	10.0	10.2	11.1	12.4	...
Receipts from sales of agricultural products	6.6	6.4	6.8	7.7	10.0	14.3	...
Pensions and allowances	35.3	37.9	39.3	41.8	43.9	49.9	...
Receipts from financial system	7.5	7.8	8.4	9.1	10.1	11.2	...
Other income	4.8	5.2	5.3	6.3	7.5	8.7	...
(-) Taxes and duties	18.9	19.7	20.6	22.6	26.4	31.2	...
(=) Disposable income	224.2	233.1	242.4	262.7	297.0	345.7	...
(-) Total expenditure	212.4	217.5	223.7	239.3	261.9	302.1	...
Expenditure on goods	180.5	183.8	188.5	201.2	221.2	258.0	457.6
Expenditure on services	21.6	22.9	24.2	26.5	28.3	30.4	52.6
Other expenditure	10.2	10.8	11.0	11.6	12.3	14.2	...
(=) Saving	11.8	15.6	18.7	23.5	35.1	43.2	...
Cash accumulation[3]	1.6	2.0	3.7	5.3	10.4	19.2	87.1
Accumulation of savings deposits with Sberbank	10.3	12.8	14.2	17.5	23.0	24.5	65.3
Other financial asset accumulation (net)	-0.1	0.8	0.8	0.5	1.7	-0.7	...
Memorandum item:							
Savings as a percentage of disposable income	5.3	6.7	7.7	8.9	11.8	12.5	22.0[4]

Sources: Goskomstat of the Russian Federation and IMF staff calculations.

[1] Provisional.
[2] Including the frozen rub 71.9 billion of deposit compensation.
[3] This line is derived as a residual and hence also includes statistical discrepancies.
[4] Excluding the rub 71.9 billion of frozen deposit compensation from both incomes and savings.

Table 11. Inflation Indicators, 1985-91

	1985	1986	1987	1988	1989	1990	1991	
	(Annual percentage change)						*Average*	*Dec. over Dec. 1990*
Wholesale industrial prices	...	...	...	...	1.2	3.9	138.1	236.3
Consolidated retail prices	...	...	...	...	...	5.6	90.4	152.1
Food (excluding alcohol)	0.1	0.6	2.1	0.4	0.7	4.9	112.7	...
Alcoholic beverages	6.2	24.7	15.4	--	--	1.9	28.6	...
Nonfood products	-0.9	-0.9	-1.1	--	3.1	6.5	100.7	...
Retail prices in:								
State and cooperative trade	0.5	2.2	1.6	0.2	2.4	5.2	89.5	146.1
Cooperative trade	1.2	3.4	2.4	0.6	0.5	14.1	111.7	360.8
Collective farms	5.2	1.1	3.7	2.5	7.4	34.3	132.1	281.2

Sources: Goskomstat of the Russian Federation and Statistical Committee of the CIS.

Table 12. Total Trade, 1987-90[1]

(In billions of rubles; at domestic prices)

	1987	1988	1989	1990
Total exports	102.7	102.5	109.6	106.8
To former U.S.S.R. republics[2]	70.9	69.2	75.1	74.7
To third countries[3]	31.8	33.3	34.5	32.1
Total imports	131.5	135.9	144.3	142.6
From former U.S.S.R. republics	67.2	69.0	70.7	67.3
From third countries	64.3	66.9	73.6	75.3
Trade balance	-28.8	-33.4	-34.7	-35.8
With former U.S.S.R. republics	3.7	0.2	4.4	7.4
With third countries	-32.5	-33.6	-39.1	-43.2

Source: Goskomstat of the Russian Federation.

[1]Reliable data on trade with former republics for 1991 are not available.
[2]Republics of the former U.S.S.R., including the Baltic states.
[3]All countries outside the former U.S.S.R.

Table 13. Trade with Third Countries by Commodity Group, 1988-90[1]

	1988	1989	1990
	(In percent of total exports; at world prices)		
Exports[2]	100.0	100.0	100.0
Industrial	99.0	98.2	98.8
Electric power	0.3	0.3	0.4
Oil and gas industry	45.7	41.4	43.2
Coal industry	1.2	1.2	1.5
Other fuel industry	0.0	0.0	0.0
Ferrous metallurgy	3.3	3.3	3.9
Non-ferrous metallurgy	4.8	5.7	6.5
Chemical and petrochemical industry	4.4	3.4	3.8
Machine building and metalworking[3]	31.5	35.7	31.3
Wood and wood products	4.6	4.6	4.8
Construction materials industry	0.3	0.3	0.3
Light industry	1.1	0.7	0.9
Food industry	1.0	1.1	1.5
Other	0.9	0.5	0.6
Agriculture	0.3	0.1	0.3
Other	0.7	1.7	0.9
	(In percent of total imports; at world prices)		
Imports[2]	100.0	100.0	100.0
Industrial	92.1	94.0	95.5
Electric power	0.0	0.0	0.0
Oil and gas industry	3.9	2.0	1.4
Coal industry	0.9	0.5	0.4
Other fuel industry	0.0	0.0	0.0
Ferrous metallurgy	6.4	5.5	3.5
Non-ferrous metallurgy	2.6	3.3	3.0
Chemical and Petrochemical Industry	8.4	8.9	7.8
Machine building and metalworking[3]	49.6	51.9	56.1
Wood and wood products	1.9	2.1	2.0
Construction materials industry	0.7	0.7	10.7
Light industry	7.7	8.0	9.3
Food industry	8.9	10.1	10.3
Other	1.1	0.9	1.0
Agriculture	5.7	5.4	4.0
Other	2.2	0.6	0.5

Source: Goskomstat of the Russian Federation.

[1]Trade with countries outside the former U.S.S.R. Data by commodity group not yet available for 1991.
[2]Trade of products of material production.
[3]Most of this trade was with the former CMEA.

Table 14. Trade with Republics of the Former U.S.S.R. by Commodity Group, 1989

	1989
	(In percent of total exports; at world prices)
Exports[1]	100.0
Industrial	96.1
Electric power	0.7
Oil and gas industry	12.3
Coal industry	0.6
Other fuel industry	0.0
Ferrous metallurgy	8.0
Non-ferrous metallurgy	4.2
Chemical and petrochemical industry	12.1
Machine building and metalworking	35.1
Wood and wood products	5.1
Construction materials industry	1.7
Light industry	9.7
Food industry	3.7
Other	2.8
Agriculture	0.6
Other	3.3
	(In percent of total imports; at world prices)
Imports[1]	100.0
Industrial	92.0
Electric power	0.8
Oil and gas industry	2.4
Coal industry	0.4
Other fuel industry	0.0
Ferrous metallurgy	8.8
Non-ferrous metallurgy	2.3
Chemical and petrochemical industry	8.4
Machine building and metalworking	29.7
Wood and wood products	0.7
Construction materials industry	1.1
Light industry	17.7
Food industry	18.1
Other	1.6
Agriculture	4.8
Other	3.3

Source: Goskomstat of the Russian Federation.

[1]Exports and imports of goods involved in material production.

Table 15. Distribution of Employment by Type of Organization, 1985-91

	1985	1986	1987	1988	1989	1990	1991[1]
				(In millions)			
State enterprises	68.2	68.6	68.5	67.9	66.7	61.3	56.8
Cooperatives for production and services	--	--	0.1	0.4	1.8	2.6	2.7
Consumer cooperatives	1.5	1.5	1.5	1.6	1.5	1.5	1.5
Leased enterprises[2]	...	...	...	...	...	2.8	5.1
Joint stock companies[2]	...	...	...	...	...	0.2	0.8
Joint ventures	--	--	--	--	--	0.1	0.1
Collective farms	4.5	4.4	4.3	4.1	4.1	4.0	3.9
Private enterprises	0.7	0.7	0.8	1.0	1.1	1.2	1.7
Other[2]	...	...	...	...	...	0.8	1.0
Total	74.9	75.2	75.2	75.0	75.2	74.4	73.6
				(In percent)			
State enterprises	91.1	91.2	91.1	90.5	88.7	82.4	77.2
Cooperatives for production and services	--	--	0.1	0.5	2.4	3.5	3.7
Consumer cooperatives	2.0	2.0	2.0	2.1	2.0	2.0	2.0
Leased enterprises[2]	...	...	...	...	...	3.8	6.9
Joint stock companies[2]	...	...	...	...	...	0.3	1.1
Joint ventures	--	--	--	--	--	0.1	0.1
Collective farms	6.0	5.9	5.7	5.5	5.5	5.4	5.3
Private enterprises	0.9	0.9	1.1	1.3	1.5	1.6	2.3
Other[2]	...	...	...	...	...	1.0	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Goskomstat of the Russian Federation.

[1]Provisional.
[2]Until 1990, the available statistics do not separate this category from the state enterprise category, implying that the size of the latter might be slightly overstated.

Table 16. Registered Unemployed and Recipients of Unemployment Benefits, July 1991-January 1992

	Registered Unemployed (End-of-period)	Recipients of Unemployment Benefits
July 1991	16,104	1,935
August 1991	25,348	4,271
September 1991	46,474	6,195
October 1991	51,386	7,750
November 1991	63,689	9,486
December 1991	59,370	11,654
January 1992	69,600	14,000[1]

Sources: Goskomstat of the Russian Federation; Ministry of Labor and Social Affairs.

[1]Preliminary estimate.

Table 17. Enterprise Sector: Selected Financial Indicators, 1985-91

(In billions of rubles; at current prices)

	1985	1986	1987	1988	1989	1990	1991[1]
Profit	99.3	117.3	121.3	148.2	160.0	154.0	320.0
Overdue payments:[2]							
To financial institutions[3]	7.3	5.6	1.6	1.3	0.9	4.4	...
Inter-enterprise arrears	6.1	6.6	1.7	5.2	8.0	17.8	...

Source: Goskomstat of the Russian Federation.

[1] Provisional.
[2] End-year.
[3] On short-term loans.

Table 18. Calculation of Russia's Share in Union Budget

(In billions of rubles)

	Russia's Imputed Share in Union Budget for January-October 1991 (1)	Enlarged Actual Russian Budget (with Takeover) (2)	Notional Budget of Russia (3)=(1)+(2)	Notional Budget of Russia (In percent of GDP)
I. Revenue	28.8	287.6	316.4	28.0
Individual income taxes	0.0	...	...	...
Enterprise profit taxes	4.4	...	...	...
Turnover tax	0.0	...	...	...
Sales tax	3.9	...	...	...
Foreign activity	6.3	...	...	...
Revenue from revaluation of stock	2.7	...	...	...
Other revenue	11.5	...	...	...
II. Expenditure	125.5	415.8	541.3	47.9
On the economy (excluding stabilization fund)	14.8	...	...	...
Defense	68.3	18.0	88.9	7.9
External	5.9	5.2	13.1	1.2
Science	8.0	...	...	...
Government administration	5.0	...	...	...
Social expenditure	14.4	...	...	...
Interest (internal)	7.7	2.6	13.9	1.2
Specific projects	1.4	...	...	...
III. Union budget balance	-96.8	...	-225.0	...
IV. Adjustments				
Stabilization Fund	-31.8	...	-31.8	...
Revenue	0.0	...	0.0	...
Expenditure	31.8	...	31.8	...
Pension Fund	0.0	...	0.0	...
Employment Fund	0.0	...	0.0	...
Deposit compensation	92.6	...	92.6	...
Union debt write-off	0.0	...	0.0	...
V. Total budget balance	-221.1	-128.2	-349.3	-30.9
(In percent of GDP)	-11.7	-11.3	-30.9	
VI. Total budget balance, excluding the impact of deposit compensation and debt write-off	...	...	-224.5	-19.9
(In percent of GDP)	...	...	-19.9	
Memorandum item:				
Nominal GDP	1,891.1	1,130.0	1,130.0	1,130.0

Sources: Former Ministry of Finance of U.S.S.R.; Ministry of Finance of Russia; and IMF staff calculations.

Table 19. Summary Monetary Survey, 1990-92

(In billions of rubles)

	1990	1991					1992
	Dec.	Sept.	Oct.	Nov.	Dec.[1]	Dec.[1]	Jan.
Net foreign assets[2]	-6	-8	-1	-1	--	--	-17
Net domestic assets	516	749	799	840	904	904	1,583
Domestic credit	583	862	920	988	1,071	1,126	1,186
Claims on government (net)	349	461	462	487	541	595	577
Rest of the economy	234	401	458	501	531	531	609
Interbank balances (net liabilities)	-19	-28	-44	-23	-38	16	94
Other items (net liabilities)	86	141	166	171	206	206	-491
o/w valuation adjustment	--	--	--	--	--	--	-639
Monetary liabilities	510	741	799	839	904	904	1,566
Currency outside banks	76	123	133	144	158	158	177
Deposits	434	618	666	696	746	746	1,389
Ordinary	322	429	470	501	544	544	577
For long-term credit	104	179	186	185	192	192	218
For. curr. deps. in comm. banks	8	10	10	10	10	10	594
	(Percent change with respect to end previous year)						
Net domestic assets	...	45	55	63	75	75	75
Domestic credit	...	48	58	70	84	93	5
Claims on government (net)	...	32	32	40	55	71	-3
Rest of the economy	...	71	96	114	127	127	15
Monetary liabilities	...	45	57	65	77	77	73
Currency outside banks	...	62	74	88	106	106	12
Deposits	...	43	54	60	72	72	86
	(Percentage contribution to growth in broad money)						
Net foreign assets	...	--	1	1	1	1	-2
Net domestic assets	...	46	55	63	76	76	75
Domestic credit	...	55	66	80	96	107	7
Claims on government (net)	...	22	22	27	38	48	-2
Rest of the economy	...	33	44	52	58	58	9
Interbank balances (net)	...	-2	-5	-1	-4	7	9
Other items (net)	...	11	16	17	24	24	-77

Sources: Central Bank of Russia (CBR), Savings Bank of Russia, State Bank of the U.S.S.R., and IMF staff estimates.

[1] December 1991 figures are presented before and after adjustments for the assumption by Russia of union assets and liabilities. This assumption has not yet formally taken place and is subject to continuing negotiation between republics of the former U.S.S.R. However, since the union no longer exists and its assets and liabilities on Russian territory are being handled by Russian monetary authorities, it is likely that the adjusted December 1991 figures represent a truer (more complete) picture of monetary aggregates in Russia. An exception to the above is the inclusion of Vneshekonombank, which has been attributed to Russia purely to facilitate the construction of consistent monetary surveys across republics.

[2] This balance includes the net short-term position of Vneshekonombank. It also includes the net liability position in foreign currencies vis-à-vis residents.

Table 20. Monetary Survey, 1990-92

(In billions of rubles)

	1990	1991					1992
	Dec.	Sept.	Oct.	Nov.	Dec.[1]	Dec.[1]	Jan.
Net foreign assets[2]	-6.4	-7.6	-0.5	-0.7	--	--	-17.1
Foreign assets	6.9	6.9	7.8	6.7	8.1	119.0	622.9
Of which: claims on republics on a/c of rubles outside Russia	--	--	--	--	--	110.8	120.3
Foreign liabilities	-13.3	-14.5	-8.3	-7.4	-8.1	-119.0	-640.0
Of which: foreign liabilities on a/c of rubles outside Russia	--	--	--	--	--	-110.8	-120.3
Domestic credit	582.8	862.0	920.5	988.3	1,071.3	1,126.2	1,186.0
Claims on government (net)	349.1	461.3	462.4	487.2	540.7	595.5	576.9
Government securities	71.7	136.5	143.0	143.4	145.4	204.4	204.7
Of which: counterpart of curr. in Russia outside CBR	--	--	--	--	--	59.0	59.0
Of which: counterpart of deferred Sberbank deposit compensation	--	72.0	72.0	72.0	72.0	72.0	81.2
Of which: Vneshekonombank	47.6	56.8	56.8	56.8	56.8	56.8	56.8
Sberbank financing of union budget	195.0	195.0	195.0	195.0	195.0	195.0	195.0
Currency adjustment (ex-bal)	58.6	22.0	31.4	56.9	59.0	--	--
Ministry of Finance on account of subsidies	32.0	39.1	41.9	47.2	51.2	51.2	53.0
Other on account of price subsidies	--	1.1	1.4	1.2	0.5	55.3	54.8
Of which: Gosbank lending from MFO funds	--	--	--	--	--	54.8	54.8
Union budgetary resources	20.0	87.1	85.7	73.4	72.9	72.9	80.8
RSFSR budgetary resources	--	28.7	24.2	28.5	90.7	90.7	82.9
Pension fund credit	--	9.3	7.8	7.2	-0.8	-0.8	--
Republican funds	-3.8	-20.8	-26.5	-28.4	-30.9	-30.9	-26.4
Local government funds	-10.7	-36.2	-40.6	-36.7	-42.5	-42.5	-60.4
Pension fund deposits	-13.8	-0.5	-0.8	-0.4	0.3	0.3	-7.5
Rest of the economy	233.7	400.7	458.1	501.1	530.7	530.7	609.1
Of which: estimate for Vneshekonombank	22.5	37.5	37.5	37.5	37.5	37.5	37.5
Short-term	160.8	328.7	378.7	415.9	442.7	442.7	526.1
Long-term	50.8	40.0	43.1	44.7	46.4	46.4	45.1
Special assistance	22.1	31.9	36.3	40.4	41.5	41.5	37.9
Other securities	--	0.1	0.1	0.1	0.1	0.1	--
Money	509.9	741.5	798.5	839.4	903.6	903.6	1,565.9
Currency outside banks	76.4	123.5	132.8	143.8	157.6	157.6	177.1
Currency issue	19.9	109.7	108.7	94.2	106.1	165.2	185.2
Of which: currency issue to be added to CBR balance	--	--	--	--	--	59.0	59.0
Banks' cash	-2.1	-8.3	-7.3	-7.2	-7.5	-7.5	-8.1
Currency adjustment (ex-bal)	58.6	22.0	31.4	56.9	59.0	--	--
Deposits	433.5	618.0	665.7	695.6	746.0	746.0	1,388.8
Of which: estimate for Vneshekonombank	11.8	36.5	36.5	36.5	36.5	36.5	36.5
From rest of economy	245.2	425.4	469.7	499.6	540.5	540.5	576.7
For long-term credit	103.7	179.3	185.9	184.8	192.3	192.3	217.6
Float	76.5	3.8	0.5	1.5	3.5	3.5	0.5
Foreign currency deposits in commercial banks	8.1	9.5	9.7	9.7	9.7	9.7	594.0

Table 20 *(concluded)*

	1990 Dec.	1991 Sept.	1991 Oct.	1991 Nov.	1991 Dec.[1]	1991 Dec.[1]	1992 Jan.
Interbank balances (net)	-19.4	-28.3	-44.5	-22.6	-38.4	16.4	93.9
Claims of commercial banks on central bank	4.9	113.4	107.2	125.8	143.6	198.4	235.5
Of which: Gosbank liabilities to MFO	--	--	--	--	--	54.8	54.8
Deposits of savings banks	18.4	27.1	34.1	34.6	29.0	29.0	38.1
Long-term savings	--	10.0	10.0	10.1	10.1	10.1	2.0
Required reserves	1.3	6.2	7.6	7.7	8.1	8.1	12.0
Liabilities to other banks	261.6	452.5	468.1	479.2	493.4	493.4	530.0
Correspondent accounts	-265.4	-279.1	-286.4	-290.9	-320.0	-320.0	-286.8
Claims on other banks	-234.3	-543.8	-568.6	-578.8	-572.2	-572.2	-594.0
Of which: adj. for union budget fin. from Sberbank	195.0	195.0	195.0	195.0	195.0	195.0	195.0
Special aid to banks	-1.0	-9.6	-11.4	-5.2	-25.4	-25.4	-37.9
Other items (net)	85.8	141.2	165.9	170.7	206.2	206.2	-490.9
Capital	11.0	31.9	36.1	39.8	50.9	50.9	59.6
Special fund	12.8	35.2	42.2	43.6	44.8	44.8	47.0
Other liabilities	98.2	126.6	142.3	142.4	166.0	166.0	111.8
Basic funds	-36.2	-52.5	-54.8	-55.0	-55.6	-55.6	-70.1
Valuation adjustment	--	--	--	--	--	--	-639.2

Sources: CBR; Savings Bank of Russia; State Bank of the U.S.S.R.; and IMF staff estimates.

[1] December 1991 figures are presented before and after adjustments for the assumption by Russia of union assets and liabilities. This assumption has not yet formally taken place and is subject to continuing negotiation between republics of the former U.S.S.R. However, since the union no longer exists, and its assets and liabilities on Russian territory are being handled by Russian monetary authorities, it is likely that the adjusted December 1991 figures represent a truer (more complete) picture of monetary aggregates in Russia. An exception to the above is the inclusion of Vneshekonombank, which has been attributed to Russia purely to facilitate the construction of consistent monetary surveys across republics.

[2] Foreign-currency-denominated assets and liabilities are converted into rubles at rub 1.8 = US$1. Includes short-term assets and liabilities in convertible currencies (inclusive of Vneshekonombank). The net liability position of commercial banks vis-à-vis residents has been included owing to data limitations. Other foreign balances, such as nonconvertible or bilateral balances are included in other items, net.

Table 21. Credit by Sector, 1990-91

(In billions of rubles)

	1990	1991	Percent Change 91-90	Share of Total Credit to the Economy 1990	1991
Total credit to the economy	200.1	480.9	140.4	100.0	100.0
Short-term	131.1	397.0	202.8	65.5	82.6
Long-term	46.8	42.4	-9.5	23.4	8.8
Special assistance[1]	22.1	41.5	87.8	11.0	8.6
Industry	90.2	172.9	91.6	45.1	35.9
Short-term	69.5	149.7	115.5	34.7	31.1
Long-term	20.7	23.2	11.7	10.4	4.8
Construction	3.5	11.4	229.8	1.7	2.4
Short-term	3.5	11.4	229.8	1.7	2.4
Long-term	--	--	--	--	--
Agriculture	37.2	38.9	4.6	18.6	8.1
Short-term	15.7	22.9	46.4	7.8	4.8
Long-term	21.5	16.0	-25.9	10.8	3.3
Storage/stocks	9.4	9.4	-0.7	4.7	1.9
Short-term	9.4	9.4	-0.7	4.7	1.9
Long-term	--	--	--	--	--
Transport	3.3	9.9	197.7	1.7	2.1
Short-term	3.3	9.9	197.7	1.7	2.1
Long-term	--	--	--	--	--
Retail trade	14.0	43.2	209.0	7.0	9.0
Short-term	13.5	42.8	217.1	6.7	8.9
Long-term	0.5	0.3	-28.3	0.2	0.1
Wholesale trade	8.6	22.8	164.9	4.3	4.7
Short-term	8.6	22.8	164.9	4.3	4.7
Long-term	--	--	--	--	--
Services	3.2	19.1	489.7	1.6	4.0
Short-term	3.2	19.1	489.7	1.6	4.0
Long-term	--	--	--	--	--
Other	8.6	112.0	1,208.7	4.3	23.3
Short-term	4.5	109.1	2,345.5	2.2	22.7
Long-term	4.1	2.9	-28.4	2.0	0.6

Sources: CBR; and IMF staff estimates.

[1]Special assistance to financially troubled enterprises is not included in the Russian definition of nongovernment credit.

Table 22. Interest Rate Structure, 1991-February 1992[1]

1. Central bank lending to commercial banks

1991:	Normal	6-9 percent
	Preferential	1-5 percent
1992:	Normal	20 percent
	Preferential	20 percent[2]
	Overdraft	35 percent[3]

2. Commercial bank interest rates

1991:	Loans	
	Interbank	Deposit rate + 1 - 1.5 percent
	Ordinary	Up to 25 percent[4]
1992:	Loans	No limit
1991:	Deposits	
	Business-related	10-15 percent (dep. on term)
	Individuals	1-1.5 percent less than for business
1992:	Deposits	No limit

3. Savings bank interest rates (with government guarantee)

		1991	1992
Deposits			
	< 1 year	2 percent	3 percent
	1-3 years	5 percent	7 percent
	3-5 years	7 percent	10 percent
	> 5 years	9 percent	15 percent
	Special	9 percent	15 percent
Loans			
	To union	5 percent	11 percent
	To CBR	8 percent	15-18 percent[5]
	Interbank	12 percent	22 percent
	Business-related	Interbank + 2-3 percent	
	Individuals	17 percent	...
	Special	3-5 percent	To cover costs[6]

Sources: CBR and Savings Bank of Russia.

[1]This table shows the institutionally set interest rates. It appears that, in most cases, the regulated rates were adhered to.

[2]Central bank borrowing by banks that lend to preferred sectors may be subsidized through the budget. No information on preferential-rate lending is yet available.

[3]The authorities stated that this penal rate would be maintained at around double the normal lending rate.

[4]25 percent was the legal limit. Nonetheless, annualized rates of up to 1,000 percent were observed.

[5]Intention in January 1992.

[6]Savings Bank lending to preferred sectors (farmers and housing in 1991) will be charged an interest rate of around the average deposit rate in 1992, or a budget subsidy will be allocated to the Savings Bank to cover the difference.

Table 23. Summary Balance of Payments, 1990-91[1]

(In billions of U.S. dollars)

	1990	1991
Current account	-4.6	9.2
Trade balance	-2.0	11.8
Exports	80.9	56.5
Convertible currencies	27.6	30.7
Former CMEA	40.1	15.9
Bilateral	13.2	10.0
Imports	-82.9	-44.7
Convertible currencies	-25.1	-23.3
Former CMEA	-45.9	-13.9
Bilateral	-11.9	-7.5
Services, net	-4.1	-4.7
Of which:		
interest payments	-2.9	-2.7
Gold sales[2]	1.6	2.1
Capital account	1.4	3.5
Medium- and long-term capital (net)[3]	2.0	3.0
Disbursements	6.6	7.8
Amortization	-4.9	-5.0
Repayments from abroad	0.3	0.2
Other	-0.6	0.5
Overall balance	-3.2	12.7

Sources: National Market Research Institute; Vneshekonombank; and IMF staff estimates.

[1]Does not include transactions with other republics of the former U.S.S.R.
[2]Excluding gold swaps.
[3]Based on data for the entire former U.S.S.R. and an estimated share of 61 percent for Russia.

Table 24. Balance of Payments for Russia and the U.S.S.R. Territory in 1990 and 1991

(In billions of U.S. dollars)

	In All Currencies				In Convertible Currencies[1]			
	U.S.S.R. territory		Russia		U.S.S.R. territory		Russia	
	1990	1991	1990	1991	1990	1991	1990	1991
Trade balance	-16.9	2.0	-2.0	11.8	-1.7	2.4	2.4	7.3
Exports	103.8	70.2	80.9	56.5	33.6	37.7	27.6	30.7
Oil	27.1	11.1	27.1	11.1	13.0	7.1	13.0	7.1
Natural gas	11.1	11.8	9.6	10.3	4.3	6.9	3.7	6.0
Other	65.6	47.3	44.2	35.1	16.3	23.7	10.9	17.6
Imports	-120.7	-68.2	-82.9	-44.7	-35.3	-35.3	-25.1	-23.3
Services, net	-6.6	-7.8	-4.1	-4.7	-5.6	-6.6	-3.6	-4.0
Transportation and insurance	-0.2	0.2	-0.3	0.1	-0.9	-0.7	-0.7	-0.4
Travel	-0.5	-0.5	-0.3	-0.3	0.2	0.2	0.1	0.1
Interest, net	-3.5	-3.8	-2.1	-2.3	-3.7	-3.6	-2.3	-2.2
Receipts	1.2	0.6	0.7	0.4	1.0	0.6	0.6	0.4
Payments	-4.7	-4.4	-2.9	-2.7	-4.7	-4.2	-2.9	-2.6
Other	-2.4	-3.7	-1.4	-2.2	-1.2	-2.5	-0.7	-1.5
Current account, excl. gold	-23.5	-5.8	-6.2	7.1	-7.3	-4.2	-1.1	3.4
Gold sales, excl. swaps	2.5	3.4	1.6	2.1	2.5	3.4	1.6	2.1
Current account, incl. gold	-21.0	-2.4	-4.6	9.2	-4.8	-0.8	0.5	5.5
Grants	--	2.6	--	1.6	--	2.6	--	1.6
Medium- and long-term cap	3.3	4.6	2.0	3.0	3.3	4.6	2.0	3.0
Disbursements	10.9	12.5	6.6	7.8	10.9	12.5	6.6	7.8
Amortization	-8.1	-8.2	-4.9	-5.0	-8.1	-8.2	-4.9	-5.0
Repayments from abroad	0.5	0.3	0.3	0.2	0.5	0.3	0.3	0.2
Short-term capital	--	--	--	--	--	--	--	--
Foreign direct investments	-0.7	-0.2	-0.4	-0.1	--	0.2	--	0.1
Errors and omissions	-0.3	-1.7	-0.2	-1.0	-0.3	-1.7	-0.2	-1.0
Capital account	2.3	5.3	1.4	3.5	3.0	5.7	1.8	3.7
Overall balance	-18.7	2.9	-3.2	12.7	-1.8	4.9	2.2	9.2
Financing	18.7	-2.9	3.2	-12.7	1.8	-4.9	-2.2	-9.2
Net foreign assets	14.2	-2.4	9.2	-0.8	-2.7	-4.4	-1.1	-2.0
Gross VEB reserves	7.4	1.4	5.1	1.5	7.4	1.4	5.1	1.5
Official reserves	--	--	--	--	--	--	--	--
Short-term liabilities	6.8	-2.6	4.1	-1.6	-10.1	-4.6	-6.2	-2.8
Other banks	--	-1.2	--	-0.7	--	-1.2	--	-0.7
Arrears	4.5	-0.8	2.7	-0.5	4.5	-0.8	2.7	-0.5
Possible principal deferral[2]	--	0.3	--	0.2	--	0.3	--	0.2
Interrepublican residual	--	--	-8.8	-11.6	--	--	-3.9	-7.1

Sources: Goskomstat of the U.S.S.R.; Goskomstat of the Russian Federation; Vneshekonombank (VEB); VNIKI; Ministry of Economy; Ministry of Finance; and IMF staff estimates.

[1]Between 1990 and 1991 changes took place in the country area that was considered as the convertible currency area. In 1991, the former German Democratic Republic and Finland were included in the convertible area, while they were previously considered as part of the nonconvertible area.

[2]Debt deferral on principal payments has only been agreed with external creditors through March 1992. The projections indicate the size of principal deferral if creditors agree to extend it through 1992.

Table 25. Energy Balance for the U.S.S.R. Territory and Russia, 1990-92

	U.S.S.R. Territory		Russia		
	1990	1991	1990	1991	1992[1]
	(In millions of metric tons)				
Oil					
Production	569.8	515.5	516.2	461.1	404.7
Consumption[2]	421.7	422.5	...	...	...
Russia	227.4	241.5	227.4	241.5	218.4
Other	194.3	181.0	...	...	...
Exports	159.0	93.0	155.8	91.1	90.0
Of which:					
Crude oil	109.0	52.0	106.8	51.0	60.0
Oil products	50.0	41.0	49.0	40.2	30.0
Deliveries to other republics/states[3]	...	...	163.0	158.2	120.8
Of which:					
Crude oil	...	...	123.0	126.4	96.0
Oil products	...	...	40.0	31.8	24.8
Deliveries from other republics/states	...	...	30.0	29.7	24.5
Of which:					
Crude oil	...	...	19.0	18.7	16.6
Oil products	...	...	11.0	11.0	7.9
Imports	10.9	--	--	--	--
	(In billions of cubic meters)				
Natural gas					
Production	815.0	810.0	640.6	642.9	653.6
Consumption[2]	708.0	708.0	...	...	...
Russia	547.6	415.9	547.6	415.9	453.8
Other	160.4	292.1	...	...	...
Exports	109.0	105.0	95.0	91.0	103.5
Deliveries to other republics/states[3]	...	...	...	139.0	99.3

Sources: Goskomstat of the U.S.S.R.; Goskomstat of the Russian Federation; and Ministry of Fuel and Energy.

[1]Projection.
[2]Consumption has been derived as a residual of domestic production and exports, thus implicitly assuming no change in stocks.
[3]The projections for 1992 are based on the trade agreements between the republics of the former U.S.S.R.

Table 26. Exchange Rate Developments, December 1991-March 1992

(Rubles per U.S. dollar)

	Commercial Exchange Rate/Special Commercial Exchange Rate	Quasi-Market Rate	Market Exchange Rates[1]		
			Interbank Market	Russian Exchange Bank	Tourist Exchange Rate[2]
December 1991					
1-6	1.7	...	110	132	...
7-14	1.7	...	170	172	101
15-21	1.7	...	170	144	115
22-31	1.7	...	169	144	108
January 1991					
2-6	55	110	150	144	109
7-14	55	110	180	178[3]	114
15-21	55	110	230	120	116
22-31	55	110	230	...	120
February 1992					
1-6	55	110	225	...	126
7-14	55	110	210	...	117
15-21	55	100	170	...	99
22-29	55	90	...	...	...
March 1992					
1-6	55	90	140	...	...
7-14	55	90	140	...	...
15-21	55	90	161	...	...
22-31	55	100	160	...	...

Sources: U.S.S.R. Gosbank; CBR; and *Commersant*.

[1]The inter-enterprise exchange rates recorded by the banks are also market-determined rates, but are difficult to interpret because of side payments which imply that the exchange rate does not reflect the price of the transaction.

[2]Average midpoint of buying and selling rates in Moscow as published by *Commersant*.

[3]During an "open auction" held on January 7 (i.e., an auction in which the Russian Exchange Bank is the only seller), the average exchange rate was rub 146 per U.S. dollar. The exchange rates quoted in this table refer to the so-called "closed auctions" where all legal persons (both residents and nonresidents) can participate as buyers and sellers of foreign exchange. The auctions were discontinued from the fourth week of January 1992.

Table 27. 1992 Cumulative Budget

(In billions of rubles, and in percent of GDP)

		January-March	April-December	January-December 1992
I.	Revenue	284.9	3,000.2	3,285.1
	VAT	100.0	871.0	971.0
	Excise taxes	11.6	102.0	113.6
	Royalty on oil	--	240.8	240.8
	Royalty on gas	--	155.6	155.6
	Profit tax	85.8	416.0	501.8
	Household income tax	22.7	92.5	115.2
	Tax on timber	1.6	4.8	6.4
	Tax on natural resources	0.8	18.0	18.8
	Tax on mineral extraction	5.4	44.6	50.0
	Tax on excess wage increases	--	--	--
	Foreign activity	39.2	951.4	990.6
	Other	17.8	103.6	121.4
II.	Expenditure	486.6	2,625.0	3,111.6
	Nat. economy, excl. investment	29.6	125.2	154.8
	Total subsidies	45.0	147.1	192.1
	Coal	27.0	60.0	87.0
	Food	8.6	5.0	13.6
	Medicine	1.8	13.4	15.2
	Housing	3.9	25.1	29.0
	Transportation	1.1	14.2	15.3
	Heating, gas of household	2.6	29.4	32.0
	Social-cultural expenditure	87.5	786.6	874.1
	Of which: social benefits	18.8	237.8	256.6
	Science	10.1	76.4	86.5
	Justice	12.3	94.3	106.6
	Administration	6.9	55.8	62.7
	Impact of cut in civil service	--	-28.6	-28.6
	Investment	33.0	220.4	253.4
	Defense (total)	54.0	357.3	411.3
	Reserve Fund of Government	2.0	--	2.0
	Domestic debt service[1]	13.2	290.8	304.0
	Foreign expenditure	143.6	399.4	542.9
	External debt service	81.1	295.0	376.1
	Exchange rate subsidies[2]	4.1	74.4	78.4
	Other	58.4	30.0	88.4
	Transfer associated with Chernobyl	5.1	17.9	23.0
	Reserve Fund associated with prices	26.2	--	26.2
	Additional transfer on child allowance	7.8	59.5	67.3
	Other	10.3	22.9	33.2
III.	Extrabudgetary funds			
	Social Support Fund	--	-129.3	-129.3
	Revenue	10.0	--	10.0
	Expenditure (incl. military safety measures)	10.0	129.3	139.3

Table 27 *(concluded)*

		January-March	April-December	January-December 1992
	Employment Fund	--	-136.2	-136.2
	Revenue	3.0	26.4	29.4
	Expenditure	3.0	162.6	165.6
	Unemployment benefits	--	90.8	90.8
	Retraining	--	34.9	34.9
	Public works	--	39.9	39.9
	Pension Fund	--	--	--
	Revenue	57.1	321.0	378.1
	Expenditure	57.1	321.0	378.1
	Social Insurance Fund	--	--	--
	Revenue	25.7	116.7	142.3
	Expenditure	25.7	116.7	142.3
	Road Fund	--	--	--
IV.	Fiscal balance, commitment basis	-201.7	109.7	-92.0
	(In percent of GDP)	-14.2	13.3	-0.9
V.	Domestic fiscal balance	-97.3	-442.3	-539.7
	(In percent of GDP)	-6.9	-1.4	-5.5
VI.	Arrears (-: reduction)	--	-252.0	-252.0
	External	--	-252.0	-252.0
	Domestic	--	--	--
VII.	Fiscal balance, cash basis	-201.7	-142.3	-344.0
VIII.	Financing requirement	201.7	142.3	344.0
IX.	Domestic financing, net	196.3	-293.9	-97.6
	Central Bank financing, net	196.3	-293.9	-97.6
	Credit	198.1	-169.1	29.0
	Ordinary credit			
	Other (to extrabudgetary fund, loan guarantee)	--		
	Debt retirement	-1.8	-124.9	-126.6
	Deposits (-:increase)	--		
	Nonbank financing	--		
	Privatization revenue (-)	--		
X.	Foreign financing, net	5.4	436.2	441.6
	Disbursement of loans (+)	5.8	451.2	457.1
	Amortization (-)	10.1	375.0	385.1
	Debt deferral (+)	9.7	360.0	369.7

Source: IMF staff estimates.

[1]Final agreement on the sharing of former U.S.S.R. domestic debt is still pending; Russian Ministry of Finance's conservative estimate of servicing about rub 500 billion. The final figure may turn out to be lower.

[2]In the first quarter of 1992, an accounting rate of rub 5.4 was used by the authorities to calculate the subsidy for centralized imports.

Table 28. Estimated Revenue Impact of New Measures in Memorandum of Economic Policies

(In percent of GDP)

1.	Domestic tax on oil and gas	4.0
2.	New export taxation (variable export tax, levied at 100 percent of the difference between domestic and world market prices)	5.4
	(Of which: energy)	(3.9)
3.	Import tariffs with 15 percent average rate	1.3
4.	Extension of VAT to excises and imports	1.0
5.	Reinstatement of full VAT for all products	0.5
	Total impact	12.2

Source: IMF staff calculations.

Table 29. Balance of Payments for Russia, 1992[1]

(In billions of U.S. dollars)

	In All Currencies	In Convertible Currencies
Trade balance	-0.6	-1.6
Exports	49.4	27.0
Oil	10.4	6.7
Natural gas	8.8	5.1
Other	30.1	15.2
Imports	-50.0	-28.6
Services, net	-6.0	-5.3
Transportation and insurance	0.1	-0.4
Travel	-0.3	0.1
Interest, net	-3.3	-3.0
Receipts	0.2	0.2
Payments	-3.6	-3.5
Other	-2.5	-1.8
Current account, excl. gold	-6.6	-6.9
Gold sales, excl. swaps	1.0	1.0
Current account, incl. gold	-5.6	-5.8
Grants	...	...
Medium- and long-term capital	...	...
Disbursements	...	...
Amortization	-5.6	-5.6
Repayments from abroad	0.2	0.2
Short-term capital	--	--
Foreign direct investment	0.2	0.2
Errors and omissions	--	--
Capital account	-5.4	-5.2
Overall balance	-11.0	-11.0
Financing	11.0	11.0
Net foreign assets	-3.1	-3.1
Gross VEB reserves	-0.5	-0.5
Official reserves	-2.0	-2.0
Short-term liabilities	-0.3	-0.3
Other banks	-0.3	-0.3
Arrears	-2.6	-2.6
Possible principal deferral[2]	4.4	4.4
Financing gap (61% debt)[3]	12.3	12.3
Financing gap (100% debt)[3]	17.0	17.0

Source: IMF staff projections.

[1]Excluding transactions with republics of the former U.S.S.R.
[2]Debt deferral on principal payments has only been agreed with external creditors through March 1992. The projections indicate the size of principal deferral of creditors.
[3]Assuming that Russia would make payments on 61 percent of the debt of the former U.S.S.R.
[4]Assuming that Russia would make payments on 100 percent of the debt of the former U.S.S.R.

Table 30. Debt-Service Obligations: U.S.S.R. Territory, 1991-94[1]

(In billions of U.S. dollars)

	1991	1992	1993	1994
Long-term bank credit	4.3	6.2	6.4	5.0
Principal	(3.1)	(4.7)	(5.0)	(3.9)
Interest	(1.2)	(1.5)	(1.4)	(1.1)
Commercial credits	4.1	2.4	2.2	1.3
Principal	(3.5)	(1.9)	(1.8)	(1.1)
Interest	(0.6)	(0.5)	(0.4)	(0.2)
Medium-term fin. credits	3.4	3.8	3.4	3.7
Principal	(1.6)	(2.2)	(2.4)	(3.0)
Interest	(1.8)	(1.6)	(1.0)	(0.7)
Licensed debt (non-VEB)	...	0.3	0.2	0.2
Principal	(...)	(0.3)	(0.2)	(0.2)
Interest	(...)	(...)	(...)	(...)
Short-term credits	5.2	0.7	0.2	0.2
Principal	(4.6)	(0.5)	(...)	(...)
Interest	(0.6)	(0.2)	(0.2)	(0.2)
Debt after 1.1.1992	...	1.2	...	...
Principal	(...)	(--)	(...)	(...)
Interest	(...)	(1.2)	(1.2)	(1.2)
Interest on arrears	...	0.7	...	...
Interest on clearing accounts	...	0.2	...	...
Payment of principal deferred	--	--	7.5	--
Total scheduled debt service obligations	17.0	15.6	19.9	11.6
Principal	(12.8)	(9.6)	(16.9)	(8.2)
Interest	(4.2)	(6.0)	(4.2)	(3.4)
Possible debt deferral	0.3	7.2	...	...
Principal	(0.3)	(7.2)	(...)	(...)
Actual payments[2]	16.7	8.4	...	...
Principal	(12.5)	(2.4)	(...)	(...)
Interest	(4.2)	(6.0)	(...)	(...)
Arrears (plus: reduction)	0.8	4.2	--	--

Sources: Vneshekonombank; and IMF staff estimates.

[1]Based on external debt outstanding at the end of 1991 and projected disbursements in 1992. Debt- service payments for projected disbursements for the U.S.S.R. territory in 1993-94 have not been taken into account.
[2]Excluding arrears.

Table 31. Selected Economic Indicators, 1989-92

	1989	1990	1991 Est.	1992 Proj.
		(In billions of rubles)		
Nominal GDP	573	622	1,130	9,850
		(Percentage change)		
Real NMP	1.9	-3.6	-11	-15 to -20
Household money incomes	13.3	16.6	120[1]	...
Retail prices (official index)				
Year average	2.4	5.2	90	1,000
End-of-year	...	...	152	900
Broad money (end-of-year)[2]	14.6	19.4	77	...
Total credit (end-of-year)[2]	9.8	21.0	93	...
		(In percent of GDP)		
Budget balance of the general government				
Actual	...	...	-11	-0.9
Notional[3]	...	...	-20[4]	...
		(In millions of tons)		
Oil				
Production	552	516	461	405
Shipments to former republics[5]	173	163	158	121
Exports to third countries[5]	185	156	91	90
		(In billions of cubic meters)		
Natural gas				
Production	616	641	643	654
Shipments to former republics	...	...	139	99
Exports to third countries	...	95	91	104
		(In billions of U.S. dollars)		
Trade balance[6]	...	-2	12	-1
Exports[6]	...	81	57	49
Imports[6]	...	83	45	50
Current account (including gold sales)[6]	...	-5	9	-6
Change in external reserves (- increase)	...	5	2	-2
Total scheduled debt service[7]				
Principal	...	5	5	6
Interest	...	2	2	3
Arrears (- increase)	...	-3	1	3

Sources: Russian Ministry of Finance; U.S.S.R. Goskomstat; Goskomstat of the Russian Federation; U.S.S.R. Gosbank; CBR; and IMF staff estimates.

[1]Including deposit compensation for the April 1991 price increases.
[2]For 1989 and 1990, the U.S.S.R. figure is used.
[3]Includes Russia's assumed share of the union budget.
[4]Excluding deposit compensation and debt write-off.
[5]Includes crude oil and petroleum products.
[6]With third countries (all currencies).
[7]Assuming Russia services 61 percent of the debt of the former U.S.S.R.

Table 32. Basic Social Indicators, 1990-91

	1990	1991
Population[1]		
Total (in millions)	148.0	148.5
As a share of total		
Urban	74.0	73.9
Rural	26.0	26.1
Ethnic Russian[2]	81.5	
Births (per thousand)	13.4	12.2
Deaths (per thousand)	11.2	11.3
Natural rate of growth (per thousand)	2.2	0.9
Migration (per thousand)[3]	1.1	0.7
Health and education		
Child mortality (per thousand born)	17.4	...
Average life expectancy (years)	69.3	...
Men	63.9	...
Women	74.3	...
Number of doctors (per 10,000 inhabitants)	47	...
Hospital beds (per 10,000 inhabitants)	138	...
Student-teacher ratio[4]	13.8	...
Scientists (per 10,000 inhabitants)	70	...
Standard of living		
Housing (square meters per inhabitant)	16.4	...
Consumption (kilos per inhabitant)		
Meat	69	...
Fish	20	...
Vegetables	89	...
Fruit	35	...
Household equipment (per thousand inhabitants)		
Televisions	364	...
Refrigerators	308	...
Washing machines	254	...
Private cars (per thousand inhabitants)	59	...

Sources: Narkhoz RSFSR 1990, Statistical Committee of the CIS.

[1]Beginning of year.
[2]1989.
[3]Net inflow.
[4]Secondary schools.

Annexes

Annex 1. Tax Reform in the Russian Federation

In the fourth quarter of 1991, the Supreme Soviet and the Government of the Russian Federation undertook a comprehensive program of tax reform, which can be seen as a continuation of the reform efforts of the U.S.S.R. government in 1990 and 1991, oriented toward replacing the former state financing structure—which relied on transfers from the state enterprises and a turnover tax based on administratively set prices—with taxes on consumption, income, trade, and property that correspond more closely to those in market economies.

As of the end of February 1992, only two new tax laws had been both enacted and published: the laws on VAT and excise taxes. Three other taxes—the enterprise profits tax, the enterprise property tax, and the individual income tax—had also been adopted but not yet published. The rest of the tax reform package consisted of a framework law on taxation and about a dozen laws on particular taxes, most of them already finalized at the parliamentary level and waiting for presidential sanction. This Annex presents the main features of the proposed tax structure; the details of tax bases, rates, and exemptions are set forth below.

The Framework Law on Taxation

In its present draft form, this law consists of two parts, the first establishes general taxation rules, taxpayer rights and duties, penalties, and tax administration powers; the second specifies the taxes that may be levied by the federal, regional, and local governments and attributes the revenue of each tax to the various budgets. In a departure from previous practice, the new law generally treats the granting of tax exemptions and privileges as a prerogative of the legislative powers. According to the envisaged nonoverlapping taxing powers, the federal government will levy the main consumption taxes (especially the VAT and excise taxes) and taxes on the income of individuals and enterprises, credit and exchange operations, on foreign trade, and some minor taxes including stamp duties. The revenue from some of these taxes, however, will have to be shared with subnational governments in proportions not specified in this draft law. At the regional level (including constituent republics of the Russian Federation and *krais*, *oblasts*, autonomous regions, and national areas), tax bases comprise natural resources, petroleum and natural gas products, and a tax on enterprise assets, and provisions are made for tax sharing with local governments. Finally, local governments are assigned 22 different taxes. The taxes on buildings and land are mandatory, whereas the adoption of the remaining local taxes is left at the will of each local legislative branch. (The law establishes maximum rates that may be adopted for some taxes; for example, the tax on the sales of used automobiles and computers may not exceed 10 percent, and the levy on the foreign exchange transactions of stock exchanges may not exceed 0.1 percent.)

Tax on Individual Income

The new law unifies the various schemes, previously utilized for the taxation of earned income, into a schedule of rates ranging from 12 percent to 60 percent. The bracket of 12 percent, however, is very wide—applying to annual income up to rub 42,000, or more than ten times the minimum wage. The highest rate, 60 percent, will apply only to that part of earned income which exceeds by more than 100 times the minimum wage. The new tax replaces a simple system of monthly, final withholding at the source, without further adjustment, by a complex system of intrayear cumulative assessments, thus burdening employers with laborious calculations. At the same time, many workers will be called to present annual tax returns, and, in the absence of self-assessment, the tax administration will have to review each return and prepare the corresponding tax advice. The income of nonresidents will be taxed at a flat rate of 20 percent.

Enterprise Profits Tax

This tax, which was modeled after the corporation tax of industrial countries, has a standard rate of 32 percent but higher rates for selected activities that may reach as much as 70 percent. Foreign investors are in general granted nondiscriminatory treatment. A system of advance payments tries to correlate tax payments with the flow of realized profits, but no adjustment is made to insulate taxable profits from inflation, and depreciation rules do not yet conform to international standards. Intercompany dividends are taxed at a special rate of 15 percent. At the same time that this law was proposed by the government, a competing bill was initiated in the Supreme Soviet to tax the enterprise's "income"—defined as profits plus wages—instead of profits, as a way to discourage excessive wage increases in state enterprises. A compromise was reached whereby both laws were approved, but the implementation of the (18 percent) income tax law was deferred to some unspecified time. In the meantime, enterprises will pay the profits tax. Special laws, not yet adopted, will deal with the taxation of the net income of the banking and insurance sectors. Although there are similarities with the taxation of other enterprises, according to the existing proposals banks and insurance companies would pay a tax on their profits at special rates (banks, 30 percent; insurance companies, 25 percent) and would apply specific rules for the determination of taxable profits.

Value-Added Tax

The VAT was introduced on January 1, 1992 to replace the classical turnover tax (which was levied on the difference between administratively set retail and wholesale prices, less a trading margin) and the 5 percent sales tax that had gone into effect in February 1991. Under the VAT, exports outside the CIS are fully exempt, and intra-CIS sales are taxed at the origin. Imports from the rest of the world, however, are not taxed. The standard rate is 28 percent, but on February 3, 1992, a 15 percent rate was introduced for retail sales of some foodstuffs.

Excise Taxes

These are levied on alcoholic beverages, tobacco products, automobiles, and some luxury goods at rates that vary from 14 percent to 90 percent. These rates are expressed in proportion of the excise-inclusive wholesale price. In the case of spirits, for example, the statutory rate of 90 percent corresponds to an implicit rate of 900 percent on the before-excise price. For vodka, which has an excise tax of 80 percent, high compliance—at least as far as legal transactions are concerned—relies on the existence of a state monopoly. As with the VAT, excises are not levied on exports outside the CIS area, nor on any imports. The revenue from excises is transferred to lower levels of government, with the exception of half the proceeds of the tax on vodka and the excise on automobiles, the latter being earmarked for the Federal Road Fund. Petroleum derivatives are subject to taxes (not excises), which total 25 percent of price and are directed to the federal and territorial road funds.

Taxation of International Transactions

In February 1992, taxation in this area was still in a state of flux. The 1981 customs tariff was revoked on January 15, 1992, and it has been announced that a new tariff would be in place on April 1, 1992. The negative protection, entailed by the exemption of imports from the VAT and excises, has temporarily been prevented from having adverse effects on the economy by an exchange rate much depreciated compared with its level in 1991. An export tax was introduced on January 1, 1992, on most exports. Designed to capture between 30 percent and 40 percent of the value of taxed exports, the tax is denominated in ECU (European Currency Units) per ton of exported goods, and the proceeds are earmarked for the servicing of the external debt and government's imports.

Other tax legislation, which was in an advanced stage of preparation by end-February 1991, comprised taxes on inheritance and gifts, the individual property of automobiles and real estate, transfers of bonds, stocks, and other securities, and various small taxes and stamp duties.

The State Tax Service was created in December 1991, with ministerial status, to perform the tax administration functions. It drew on personnel previously working in the Ministry of Finance and is in the process of hiring more officers to reach its authorized strength of 70,000. The State Tax Service is a centralized agency in charge of collecting all government revenues at all levels of government (except customs duties and possibly some extrabudgetary revenues) and is in the process of restructuring and modernization, including computerization. Customs administration is the responsibility of the Customs Committee, but permanent arrangements in this area will have to await the definition of the contour and characteristics of the common customs area to be formed by the Russian Federation and other former republics. For a summary of taxes in the Russian Federation as of March 1, 1992, see Table A1.

Annex 2. Structure of the Financial System

The banking system in Russia consists of the Central Bank of Russia (CBR) and around 1,580 universal commercial banks, with a total of 2,000 branches. (This total does not include the limited-service offices of the Savings Bank.) Its structure was legally defined by the 1988 (U.S.S.R.) Law on Cooperatives, which permitted the establishment of commercial banks, and the Laws on Central Banking and Banking Activity passed in December 1990. Before enactment of the 1990 laws, the Russian Federation's branch of Gosbank (State Bank of the U.S.S.R.) played a limited central banking role, and the U.S.S.R. and Russian branches of the five specialized banks continued the functions allotted to them under the monobank system. These banks have now been reorganized in conformity with the governing banking laws.

The five sectoral banks included the Savings Bank (Sberbank), the Foreign Trade Bank (Vneshtorgbank), and the banks for construction and industry (Promstroibank), agriculture (Agroprombank), and the social sector (Zhilsotsbank). The reorganization was complex. The Savings Bank was deemed to be a commercial bank for a time, then was reclassified as part of the central banking system, but at present is again treated as a commercial bank subject to a special regime. The Foreign Trade Bank was renamed the Bank for Foreign Economic Affairs (Vneshekonombank) and was maintained as part of the (union) central banking system, but a Russian foreign trade commercial bank (Vneshtorgbank) now offers some of the trading facilities that Vneshekonombank used to provide. Promstroibank evolved into the largest commercial bank network. Agroprombank functioned as a commercial bank for a time, was liquidated in September 1991 because of its burdensome portfolio of nonperforming loans, but was being re-established in the beginning of 1992. Zhilsotsbank was closed in mid-1991.

Central Bank of Russia

The CBR was the Russian branch of Gosbank until the Central Banking Law of 1990 gave it added powers on Russian territory and formally defined it as a central bank. The CBR remained technically subordinate to Gosbank until the latter was liquidated on December 21, 1991. At that time, the CBR became the legal successor to Gosbank, according to Russian law. However, the assets and liabilities of Gosbank are in the process of being divided among the former republics of the U.S.S.R.

Banks Handling Foreign Transactions

Banks handling foreign transactions are given a separate heading here for two reasons: first, the CBR, unlike central banks in most other countries, does not manage the official foreign transactions of Russia (reserve management, debt service, and the like); second, not all commercial banks have the right to deal in foreign exchange. The allocation of responsibility for Russia's official foreign transactions is still in flux. For instance, it is not clear what part of the foreign exchange holdings of the banking system constitutes official reserves.

Given the evolving nature of Russia's financial system, the current financial situation may not be permanent. At the moment, the Russian Federation Hard Currency Fund, which receives foreign exchange earned by Russian enterprises that is subject to the 40 percent surrender requirement, is managed by Vneshtorgbank. The exchange intervention fund, which receives 10 percent of foreign exchange earnings, is controlled by the CBR, which uses these funds to intervene selectively in the interbank exchange auction conducted weekly under its auspices. External debt service for most of the republics of the former U.S.S.R. remains the titular responsibility of Vneshekonombank. New Russian official debt will be contracted and managed by Vneshekonombank, which will give guarantees on state projects. Vneshtorgbank will act as the government agent for gold transactions abroad, while the CBR is likely to become responsible for domestic gold transactions.

Vneshekonombank

In the past, the U.S.S.R. Bank for Foreign Economic Affairs had responsibility for official reserves, for financing foreign trade, and for the U.S.S.R.'s foreign debt management and service. Following the debt agreement of eight former U.S.S.R. republics with the Group of Seven (G-7) countries in November 1991, it was determined that Vneshekonombank should remain the debt manager for the union debt. A decree signed on January 13 by the Chairman of the Parliament of the Russian Federation made the Vneshekonombank responsible to the CBR.

Vneshtorgbank

Vneshtorgbank of the Russian Federation was established on January 2, 1991, as a joint-stock company. The CBR is the majority shareholder; other shareholders include various (republican and local) government agencies, enterprises, and individuals. Since its founding it has opened 12 regional holding banks in Russia and established correspondent relations with banks in 40 countries. During 1991 its main clients were large exporting enterprises. Measured by asset size, Vneshtorgbank was around one-thirtieth the size of Vneshekonombank at end-1991.

Foreign Exchange Licensing

Since late 1990, commercial banks have been permitted to perform transactions in hard currency, subject to licensing requirements. Three kinds of licenses may be granted. General licenses, granted to around 11 banks in Russia as of end-1991, allow banks to engage in transactions outside the Russian Federation, as well as with nonresidents in Russia, and to hold open positions in foreign exchange. Common licenses, held by around 40 banks, allow banks to make foreign exchange transactions only on Russian territory, for Russian residents and joint ventures. Specific licenses, for one-time transactions, also exist, but they are few.

Other Commercial Banks

The Savings Bank (Sberbank of Russia)

The Savings Bank of Russia is predominantly a deposit-taking institution for small savers. Its headquarters are in Moscow and it has 77 regional branches, with 2,400 divisions and 44,000 subsidiary offices. Measured by asset size, the Russian Savings Bank system represents just under one third of the entire Russian financial system (without Vneshekonombank). Historically, the Savings Bank system acted as the conduit of the deposits of individuals to finance the deficit of government, and, indirectly, the enterprise sector. In Russia's Savings Bank, two-thirds of deposits were used to finance union government debt. Besides its lending to government, Sberbank has begun to lend to commercial banks, as well as to supply small amounts of preferential lending to priority sectors. Deposits in the Savings Bank are protected by government guarantee. The Savings Bank is not subject to reserve requirements; during 1991, however, it maintained substantial deposits in the CBR.

"Ex-Specialized" Banks

Russia required the specialized banks to reorganize as commercial banks by end-1990. In practice, Promstroibank alone adapted fully to the new universal banking system. Four of its former branches are now (by far) the biggest commercial banks in Russia. Agroprombank remained a large monolith (with nominal assets amounting to around one sixth of those of the banking system) until September 1991, when it was closed. (Discussions are under way, however, concerning its possible re-establishment.) Gosbank records Zhilsotsbank as having been liquidated in mid-1991. Sberbank, as described above, remains as a specialized institution under a different regime.

Reportedly, the "ex-specialized" banks may be distinguished from new commercial banks in several ways. Since they carried their former clients with them through the reorganization, they are significantly bigger than the new banks. Moreover, practically all of their business is with large state enterprises rather than with the emerging entrepreneurial sector; in some cases, the sectors they finance remain quite specialized. Since they used to depend on Gosbank's capital to back them, and since they were subject to a more lenient capital-assets requirement than new commercial banks at the time of their reorganization, they are considered to be relatively undercapitalized. Thus, it appears that they depend more on the central bank window to finance their lending than do the new commercial banks, whose access to that window may have been relatively restricted during 1991.

New Commercial Banks

The average new commercial bank is very small. Mid-1991 estimates suggested that the top 50 new commercial banks had average assets of around rub 1.5 billion, compared with the biggest ex-specialized bank, whose assets amounted to rub 113 billion. Transactions of commercial banks are said to be focused outside the state enterprise sector. With the advantage of starting from scratch, they also reportedly have significantly more modern technology and accounting practices than the ex-specialized banks.

State Insurance Company

The State Insurance Company (Gosstrakh) remains the predominant, but not the only, insurance company in Russia. It was treated as part of the monetary system under the union. However, the Russian authorities have not included it in banking system statistics, and its size and impact on the Russian financial system is unclear.

Other Sources of Credit

The financial system in Russia, despite the recent proliferation of banks, remains relatively shallow and segmented. In 1990–91, enterprises sometimes found it convenient to bypass the banking system and to obtain supplier's credit either from the commodity exchanges that were accounting for a growing share of wholesale turnover in Russia or directly from the supplier enterprise. The importance of these sources of credit has not been documented. Reports from early 1992 suggest that the emerging banking system is beginning to take over the functions of the commodity exchanges—which are said to have begun to shrink.

Annex 3. The Exchange and Trade System

On November 15, 1991, President Yeltsin signed a Decree on the Liberalization of Foreign Economic Activity setting out the basic principles of the exchange and trade system for the Russian Federation. This new system is designed to increase the degree of current account convertibility and to expand gradually the role of market forces in the determination of the exchange rate. Nonetheless, more time is needed to adopt all the decrees and regulations necessary to put the new system into effect. As of March 2, 1992 detailed guidelines have been issued for the surrender of foreign exchange, quotas duties and licenses for exports, and import licenses. A law on foreign currency control is currently before the Russian Parliament and is expected to enter into effect on April 1, 1992, with the implementing regulations to be completed by May 1. The Russian law on foreign direct investment approved in July 1991 still is in effect, although certain amendments are under consideration. As a result, a gap currently exists for certain types of foreign exchange transactions, and the previous foreign exchange regulations of the Gosbank for the former U.S.S.R. were reissued in January as an interim measure.

Exchange Rate System

An exchange rate for the ruble vis-à-vis the U.S. dollar is to be quoted by the CBR on a weekly basis, taking into account the balance of supply and demand in other exchange markets where the rate is market determined. Ten percent of convertible currency earnings (net of convertible currency costs for freight and insurance) from all exports must be surrendered to the CBR at the quoted market rate to support official intervention in the interbank market. There is no clear procedure, however, for adjusting the quoted market exchange rate in line with market-based exchange rates.

A special commercial exchange rate is set by the CBR in coordination with the Ministry of Finance and the Ministry of Foreign Economic Relations. It was initially set at 50 percent of the quoted market exchange rate, but it remained unchanged while the market rate quoted by the central bank appreciated in February 1992 and then depreciated in March. This special commercial rate is used for the purchase of foreign exchange by the government, which is used to build deposits in the Hard Currency Reserve of the Russian Federation. The funds in the Hard Currency Reserve provide for payments in convertible currencies of external debt service of the Russian Federation, so called centralized imports of basic necessities, and stabilization of the free market value of the ruble. A surrender requirement of 40 percent at the special commercial exchange rate applies to the convertible currency proceeds (net of the cost of shipment, insurance, and freight paid in convertible currency) of exports of energy and other raw materials. (These products include minerals and mineral products; chemical and chemical products; timber and timber products; live animals and products of animal husbandry; vegetables, fruit, and related products; products of the food industry; alcohol and light beverages and vinegar; tobacco and tobacco substitutes; mineral products; chemicals and chemical products; timber and timber products; nonprecious metals and related articles; precious metals; weapons and munitions.) Up to 2 percentage points of the 40 percent of the net convertible currency earnings may be channeled to local governments. Enterprises and banks wholly owned by foreign investors, joint ventures that are more than 30 percent foreign owned, or currency earnings from exports as part of international production cooperation are exempt from the 40 percent surrender requirement.

Two special exchange rates or accounting rates were created on January 19, 1992. An exchange rate of rub 5.4 per U.S. dollar applies to centralized import operations and other trade operations carried out at the expense of the Hard Currency Reserve. An exchange rate of rub 10 per U.S. dollar applies to the tax payments by Russian citizens with incomes in hard currency.

The official exchange rate at about rub 0.6 per U.S. dollar—although not listed by the CBR—continued to be in place for the valuation of external assets.

The foreign exchange retained by exporters may be used to finance their own imports or to sell in one of several exchange markets with a market determined exchange rate. The interbank market consists of weekly auctions conducted at the CBR, which may intervene in this market, and covers noncash transactions among banks trading on behalf of enterprises. This market is now organized through a joint-stock company called the Moscow Interbank Currency Exchange, with 34 owners that consist of 30 banks (including the CBR), two financial companies, and two noncommercial organizations (the Committee for Economic Forecasting of the City of Moscow and the Association of Russian Banks). In January 1992, 38 banks had general licenses, which permitted them to operate in the interbank market, but only about 20 banks were active at that time.

The state of foreign exchange regulations governing the interbank market is still uncertain. As mentioned above, the previous Gosbank regulations were reissued in January as an interim measure while the new foreign exchange law and regulations were being developed. Transactions in this market are mostly related to sales of unsurrendered export proceeds and purchases for imports. Nonresidents may not buy or sell foreign currency for current transactions in this market, although this restriction is expected to be relaxed in the future. Foreign exchange purchased in the interbank market is to be deposited in a special account and to be used against proper import documentation. Unused foreign exchange must be resold in the market.

Banks may also trade on behalf of clients on days on which there is no auction, and this market is often referred to as the inter-enterprise market, since the banks act only as intermediaries between specific enterprises. As of January 2, 1992, the exchange rate in this market was not allowed to be more depreciated than the interbank market exchange rate set at the prior auction. This restriction was removed in March 1992.

A separate market still exists for cash transactions primarily related to tourism. Since December 2, 1991, the exchange rate in this market has been allowed to float, subject to a maximum spread of 10 percent between the buying and the selling rate. The cash and noncash markets are presently segmented by restrictions that are expected to be lifted shortly.

The transferable ruble no longer applies to any foreign trade transactions. (Some debts among members of the former CMEA are denominated in transferable rubles, but these debts are to be converted into convertible currencies.) Trade agreements have been signed with Bulgaria, Croatia, the Czech and Slovak Federal Republic, Hungary, Poland, Romania, Serbia, and Slovenia that establish a list of goods to be traded by volume. For these goods, all payments are made through special accounts. For all other goods or for volumes in excess of the amounts agreed, payments occur in convertible currencies without any special accounts. The Russian Government is currently seeking to reach agreements with Albania, Macedonia, and Herzegovina.

The special accounts consist of two parts. First, 40 percent of proceeds of exports by Russian enterprises to the other country are placed in an account denominated in convertible currency of the Vneshtorgbank in that country, and these proceeds must be used to finance imports by Russia from that country. Second, the other 60 percent must be kept in an interest-bearing blocked account of the Vneshtorgbank in that country for 30 days, and after this period the enterprise is free to use these funds as it chooses. The only exception is the agreement with Bulgaria, in which all foreign exchange earnings of Russian enterprises must be used to pay for imports from Bulgaria.

Bilateral Clearing Arrangements

In 1992, the Russian Government is seeking to limit the number of bilateral clearing arrangements, as part of the longer-term goal of eliminating these types of agreements entirely. Russia has or intends to have these types of agreements with Afghanistan, Cuba, Egypt, India, the Islamic Republic of Iran, Cambodia, the Democratic People's Republic of Korea, the Lao People's Democratic Republic, and Syria.

Merchandise Exports and Imports

Quotas and licenses on exports to other countries, including members of the CIS, apply to certain goods. The list of goods subject to quotas and licensing requirements is set periodically by the Russian Government on the basis of recommendation of the Ministry of Finance.

Exports of raw materials and energy are subject to quotas. For a subset of these products (including coal, crude oil and oil products, natural gas, fish and fish products, timber and timber products, and steel), the quotas are distributed by the Ministry of Finance to the ministry responsible for that product, and certificates, which may be sold freely and give the right to a license, are allocated on the basis of the quotas. For the remaining products subject to a quota (including mineral fertilizers, spent mixtures of oil products, waste paper, textiles and textile products— only for export to EC countries, ferrous and nonferrous metals, scrap metal and waste, and curative raw materials of vegetable and animal origin), the quotas are issued to the Ministry of Foreign Economic Relations, which in turn sells the quotas to the exporters.

Export licenses are issued on the basis of an application procedure set by the Ministry of Foreign Economic Relations and are required for exports of certain products (including military equipment and arms, gold, diamonds, other precious stones and metals, certain food products, wildlife, medicines, chemical raw material for the production of medicines, collectible minerals, and overseas investments of enterprises registered on Russian territory). Enterprises may be granted a general license, which allows the enterprise to export for one year any product within a subgroup as defined in the Goods List for Foreign Economic Activity, or a single license, which permits the export of an individual type of good.

Specific export duties apply to about 400 products, which are on a list determined by the Russian Governemnt. The duties are denominated in ECU and range from ECU 3 to ECU 100,000 per ton. The duties, however, are payable in rubles (using the quoted market exchange rate of the CBR) at the time the goods are shipped; in principle, financing is available from commercial banks for the cost of the tax until the export proceeds are received, but in practice it has been difficult for exporters to arrange financing. Exporters of products subject to the 40 percent surrender requirement at the commercial exchange rate are compensated for the cost generated by the difference between the two exchange rates. (For example, if the special commercial exchange rate is set at 50 percent of the quoted market rate, 40 percent of export proceeds are converted to domestic currency at a 50 percent penalty rate, resulting in an implicit tax of 20 percent on total export proceeds. The compensation means that these exporters pay 80 percent of the total duty owed. According to the information provided by the State Customs Committee, these exporters are to pay 100 percent of the tax owed at the time of shipment and are to receive the compensation when the proceeds are surrendered.) Exports of products in January 1992 were entitled to a postponement of payment of the export duty. Exports to the CIS countries are currently exempted from export duties.

The export of certain consumer goods may be limited (and in some cases banned) to any country, except those countries (including members of the CIS) that do not apply a similar prohibition against the Russian Federation.

Imports are generally free of quotas and licenses. Licenses are required for the import of medicines and chemical raw materials for the production of medicines, pesticides, and industrial waste. These licenses are distributed by the Ministry of Finance to the ministries responsible for that product, which in turn distribute the licenses.

The customs duty on imports of the former U.S.S.R. was abolished on January 15, 1992, and the authorities are planning to introduce a uniform ad valorem tariff of 15 percent effective on July 1, 1992. Until this new tariff is effective, imports are free from customs duties.

On trade with other republics of the former U.S.S.R., bilateral trade agreements have been signed with all, except Georgia, and 11 of these 13 agreements establish volumes of goods to be traded in 1992. (The exceptions are Lithuania and Turkmenistan.) For Estonia and Latvia, the list of goods has been agreed only for the first quarter of 1992. Licenses and quotas will apply to the export of certain products, although the quota limits may be exceeded by a decision of the government. Enterprises will be free to negotiate prices for such trade, which will be settled in rubles. The payments system for this type of trade is centralized in the CBR.

Payments for and Proceeds from Invisibles

Exports of certain services are subject to the 40 percent surrender requirement at the special commercial exchange rate (railway, sea, air, motor, and river transportation and freight and insurance services, for which net earnings are defined as gross proceeds minus hard currency costs associated with rendering these services; trade and brokerage transactions, for which net earnings are defined as the proceeds from the sale minus the cost of acquisition, including the cost of freight and insurance; banking transactions, for which net earnings are defined as hard currency proceeds minus the hard currency payments connected with the performance of the transaction; and tourism and culture services, for which net earnings are defined as gross hard currency proceeds minus outlays in foreign currency associated with the rendering of these services). There are no services related to trade transactions that are currently subject to a quota or license requirement, although the law would allow such quotas or licenses to be established by the government. Services not related to commercial transactions are currently subject to a number of restrictions and licensing requirements. Under the law on foreign investments, there are no restrictions on repatriation of profits, dividends or other income on foreign investments if these items are earned in foreign currency. Profits earned in domestic currency may be converted into foreign currency at an exchange rate not more appreciated than the rate applied to foreign trade operations by the CBR.

Foreign Exchange Accounts

Both residents and nonresidents have the right to open foreign currency accounts at authorized banks in the Russian Federation. Resident individuals may open these accounts in their own name without having to specify the source of the foreign currency. Authorized banks may not open anonymous accounts or bearer accounts in foreign currency. The interest rates on these deposits are determined by the authorized banks.

Capital Transactions

While moving toward convertibility for current transactions, the new exchange system in Russia maintains a number of restrictions on capital account transactions. Under the new foreign currency law, both residents and nonresidents have the right to import, transfer, or remit foreign currency into Russia without restriction, as long as customs regulations are observed. Currently, foreign borrowing is subject to a licensing requirement. The CBR may limit the amount of foreign currency purchased by individual residents for the export of capital, whereas resident enterprises and all nonresidents may export foreign currency assets up to the amount of these assets that were previously imported into Russia. Nonresidents may buy or sell foreign currency assets in exchange for rubles for capital transactions only in accordance with the Russian law on foreign investments.

Individuals may open bank accounts abroad when they work temporarily or permanently abroad, and enterprises may open accounts at foreign banks with special permission according to a procedure defined by the CBR. Authorized banks may maintain correspondent accounts abroad with permission of the CBR.

Foreign residents are free to invest in Russian enterprises either through joint ventures or through ownership of up to 100 percent of a Russian enterprise. (The investment may take place in fixed and working capital in all sectors of the economy, securities, special monetary deposits, scientific and technological production, intellectual property rights, property rights, and any other activity not prohibited by Russian legislation.) An enterprise with foreign investment must be registered with the Ministry of Finance, and investments exceeding rub 100 million must receive a permit from the Council of Ministers. The ability to remit funds abroad depends on the currency in which the funds are received. Income from investments, the proceeds from a partial or total sale of the investment, and certain other payments may be transferred abroad without restriction if the funds were earned in foreign currency. Funds earned in rubles may be reinvested freely. Profits earned in domestic currency may be converted into foreign currency at an exchange rate not more appreciated than the rate applied to foreign trade operations by the CBR. The legal regime of foreign investments may not be less favorable than the regime for property, property rights, and investment activity of residents of Russia. Foreign investments may be nationalized or confiscated only in exceptional cases stipulated by legislation, and in such cases the investor is entitled to compensation.

Administration of Control

Under the new foreign currency control law, the CBR is the main institution for regulating foreign currency transactions. The responsibility for monitoring the legality of foreign currency transactions lies with the CBR, the Ministry of Finance, the Ministry of Foreign Economic Relations, the Currency Supervision Inspectorate, the State Tax Service, and the State Customs Committee. The CBR is to carry out general supervision and monitor the transactions of authorized banks, including their accounting procedures. The Ministry of Finance supervises compliance with regulations concerning transactions in precious metals and raw precious stones. The State Tax Service is to supervise the payment of taxes on income in foreign currency, and the State Customs Committee is to monitor export and import transactions.

Annex Table

Table A1. Tax Summary as of March 1, 1992

(All values in rubles)

Tax	Nature of Tax / Deductions and Exemptions	Rates: Annual income (in rubles)	Rates: Marginal rate (on income in bracket)
1. *Taxes on individual income*			
1.1 *Tax on the income of physical persons* Law on Income Tax from Physical Persons, Dec. 7, 1991.	A federal, schedular tax on the individual income of permanent residents. Income received abroad is taxed, but a tax credit is granted. Enterprises withold the tax from their employees' pay, monthly, on a cumulative basis, prorating family allowances. Persons with income from various sources present an annual return. Business expenses are deductible, but advance payments are required. *Exempt income:* (a) social insurance benefits; (b) state-granted family benefits; (c) pensions; (d) student stipends and grants; (e) cooperative income from the prospecting of certain metals; (f) bank and state-debt interest; (g) disability compensations; (h) compensations for the donation of blood and human milk; (i) gains obtained in the occasional sale of property; (h) rural income (sale of animals, vegetablas, etc. except flowers and medical herbs); (i) inheritances (see item 8 below), except author and artistic rights; (j) prizes obtained in authorized lotteries (see 2.10 below); (k) insurance compensations; (l) divorce settlements; (m) emergency and calamity relief; (n) gifts received from enterprises, up to the minimum annual wage; (o) prizes obtained in competitions, up to the minimum annual wage; (p) dismissal compensations; (q) compensation for the transfer to a new place of work; (r) compensations received by parents and widows of military personnel; (s) housing allowance; (t) food allowance; (u) unemployment benefit, up to the minimum wage; (v) income received from farmers' cooperatives within 5 years of its formation; (x) wages earned for work abroad. A monthly *deduction* equal to 5 minimum wages applies to: (a) Heroes of the Soviet Union and persons awarded the Order of Slava; (b) certain war veterans; (c) victims of atomic radiation and evacuees from contaminated zones; (d) certain invalid persons. A monthly *deduction* equal to 3 minimum wages applies to: (a) parents and spouses survivors of war casualties; (b) veterans of Afghanistan and other military operations abroad; (c) persons taking care of certain invalids. *General deduction for employees:* 1 minimum wage. The sum of the deductions mentioned above are limited to 5 minimum wages. Other *deductions:* (a) contributions to charity and institutions of culture, education, health care, and social insurance; (b) a minimum wage per child under 18 (under 24 if fulltime student) and other economically dependent (deduction available only for employees). Special exemptions and deductions apply to alien residents.	Up to 42,000 42,001 to 84,000 84,001 to 120,000 120,001 to 180,000 180;001 to 300,000 300,001 to 420,000 Over 420,000 Income from work in the Far North and other areas of hard climatic conditions	12 percent 15 percent 20 percent 30 percent 40 percent 50 percent 60 percent 12 percent
1.2 *Tex on the income of foreign residents*	A federal tax witheld at the source of non-labor income of persons without a permanent residence in the Russia Federation.	20 percent	

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
2. *Taxes on business income*			
2.1 *Enterprise profits tax* Law on the Enterprise Profit Tax (to be published).	A federal tax on the profits of juridical persons, dependencies without such status, and foreign enterprises which engage in economic activities in the Russian Federation. Deductible costs are limited to 4 minimum wages per employee (except in foreign-owned enterprises). Special rules apply to: (a) enterprises belonging to the Ministries of Railways and Communications; (b) banks--see 2.2 below; (c) insurance--see 2.3 below.	Are *exempt or deductible*: a) profits resulting from the production of agricultural produce; b) dividends and interest; c) up to 50 percent of profits, the amounts allocated to form reserve funds, until they reach 25 percent of the statutory capital; d) proceeds of sale of broker's seats by stock and commodity exchanges, applied to statutory funds; e) contributions to religious and public organizations (except political parties and trade unions), by enterprises owned by them; f) profits of religious associations and the selling of religious articles; g) profits connected with aid or rehabilitation of invalids; h) profits of folk craft groups; Are *deductible, up to 50 percent* of taxable profit: a) reinvested profits of the industries of oil, coal, food, medicines, listed consumer goods, equipment for the production of food and medicines; b) 30 percent of investment in protection of the environment; c) spending in health care, housing for the elder and invalids, pre-school, children rest camps, sport and culture facilities, and public education; d) charity contributions, limited to 2 percent of the taxable profit; e) profits reinvested in fixed assets or new technologies by enterprises with less than 200 employees (scientific services, 100; other production enterprises, 50; non-production, trading enterprises, 15); f) past losses, not covered by reserve funds. A *three-year tax holiday* applies to new enterprises in agriculture, construction, and construction material.	Standard rate 32 percent Brokerage firms, investment institutions 45 percent Casinos, video theatres, video shows, leasing of video and audio, and slot machines with monetary prizes 70 percent Concerts and shows in open stages, stadiums, and halls with 2,000 seats or more 50 percent The rate is reduced by 50 percent for enterprises with majority of invalids in the workforce. *Advance payments* are due: a) on the 10th and 25th of each month, normally; b) on the 25th, by small taxpayers; c) on the 25th of the last month of each quarter, by enterprises with foreign investment.

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
2.2 *Tax on bank income* Law on the Taxation of Bank Income (proposal).	A federal tax on banking income (interest; commissions; income from currency operations, licensing, factoring, and brokerage; expense reimbursements; services income; and receipt of payments for debt pay-in), net of the following deductions: profits, land, and transport tax; contributions to the Pension Fund, Medical Insurance Fund, and Social Insurance Fund; interest; commissions; expenses for currency operations; depreciation; acquisition of intangibles; advertisement; advisory and auditing services; lease payments; physical plant maintainance costs; business trips; communications, transfer, and computer services; cost of Central Bank banking license; acquisition of brokerage seats on exchanges.	*Exempt income*: interest and dividend on state obligations and securities. *Exempt banks*: the Central Bank and its institutions and enterprises. *Deductions*, up to 50 percent of the taxable base: a) provisions for deposit insurance, bank bankrupcy insurance, and funds for interest risks, up to 1 percent of profit for each fund; b) authorized expenses on health; housing for the elder and invalids; children pre-school and rest camps; public education, sports, culture, and housing; c) contributions to charity and institutions of ecology, culture, education, health, social security, physical culture, and sport, up to 1 percent of taxable income.	Standerd rate 30 percent Commercial banks with majority of credit to agriculture 20 percent The tax is paid in foreign currency when income is received in foreign currency. Advance payments are due quarterly.
2.3 *Tax on insurance income* Law on the Taxation of Income from the Insurance Activity (proposal).	A federal tax on the income of the insurance activity, net of the following deductions: insurance compensations; reinsurance reimbursements; commissions; contributions to special insurance reserves; property, land, and road taxes; mandatory contributions to social funds; (limited) interest; depreciation and amortization; advisory and audit services; physical plant expenses; business trips; communications; computer services; advertisement; representation; and other expenses related to the insurance activity. Non-insurance income of insurance companies, including dividends and interest, is taxed under the enterprise profits tax (2.1 above).	*Deductions*, up to 50 percent of the taxeble base: a) aproved expenditure on health facilities, housing for the elderly and disabled, children pre-school and rest camps, education, and the housing fund; b) contributions to charities and organizations of ecology, religion, culture, public education, health, social security, physical education, and sport, up to 1 percent of taxable income.	Standard rate 25 percent The rate is reduced by 50 percent if the majority of employees is invalid. The tax is paid in foreign currency on income received in foreign currency. *Advance payments* are due: a) on the 10th and the 25th of each month, normally; b) on the 20th of each month, by small taxpayers.
2.4 *Tax on investment income of enterprises* Law on the Enterprise Profit Tax (to be pub-lished).	A federal, witholding tax on profits, dividends, and interest derived by enterprises from shares bonds, and other securities issues in the Russian Federation.	*Exempt*: income from bonds and other state securities.	15 percent
2.5 *Tax on foreign juridical persons* Law on the Enterprise Profit Tax (to be published).	A federal tax on dividends, interest, copyright, licences, rent payments and other income of foreign juridical persons, derived from Russian sources.		Dividends and interest 15 percent Copyright, licences, rent payments, other income 20 percent Freight for international transportation 6 percent

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
2.6 *Tax on exchange activities* Law on the Bases of the Tax System (proposal).	A federal tax (to be defined) on the activities of stock and commodity exchanges.		
2.7 *Levy on trading rights* Law on the Trade Tax (proposal).	A local tax under the form of coupon or patent which grants the right, permanent or temporary, of individuals to conduct retail trade.	Tax benefits may be established by the local executive bodies.	Maximum rates are established by the Ministry of Finance.
2.8 *Licensing fee on trade in alcoholic beverages* Law on the Bases of the Tax System (proposal).	A local levy paid annually on legal entities and individuals who sell wine and vodka to the public. Temporary traders, serving evening events, balls, carnivals, etc. pay an amount fixed per day of trading.		Legal entities rub 10,000 Individuals rub 5,000 Temporary traders rub 100 per day
2.9 *Levy on the registration of business of physical persons* Law on Registration Fee for Individuals Engaged in Entrepreneurial Activity (proposal).	A local tax on individuals and partnerships of unlimited responsibility, levied when they register or reregister. In the case of a partnership, each member is registered separately.		Up to rub 100.
2.10 *Levy on auctions and lotteries* Law on the Bases of the Tax System (proposal).	A local levy paid by the organizers of auctions and lotteries on the cost of auctioned goods or the amount for which lottery tickets are issued.		10 percent.

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates	
2A. *Social security taxes*				
2A.1 *Pension fund contribution* Decree of the Supreme Soviet on Matters Related to the Pension Fund, 27 Dec. 1991. Decree of the Supreme Soviet on Procedures for the Payments of Insurance Premia to the Pension Fund, 27 Dec. 1991.	A contribution paid monthly by employers and self-employed persons, on the amount of wages and salaries, or income, to the Pension Fund.	Organizations of disabled persons and retirees are exempt.	Standard rate	31.6 percent
			Farms and agriculture businesses	20.6 percent
			Self-employed, lawyers	5 percent
			Other workers	1 percent

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
3. *Taxes on goods and services*			
3.1 *Value-added tax* Law on the Value-Added Tax, December 6, 1991. Instruction of the State Tax Service No.1, December 9, 1991. Resolution of the Presidium of the Supreme Soviet of Feb. 3, 1992.	A federal tax on the value, actually received, of goods sold and services rendered by enterprises, associations, and individuals who engage in entrepreneurial activity. The base includes: a) intra-enterprise deliveries; b) barter seles; c) transfers partly or fully gratis. Excises taxes are included in the tax base. The VAT is calculated on the before-VAT price. On trading activities (wholesale, retail, procurement, supply, marketing, etc.) the base is the difference between the before-VAT selling price and the after-VAT purchase price. Credit for the VAT is not allowed on the purchase of goods/assets subject to depreciation and amortization.	Individual traders, not registered as juridical persons, with annual sales up to rub 100,000, are *exempt*. *Zero-rated* goods and services: (a) exports outside the CIS; (b) transportation, loading, unloading, and thansfer of exports outside the CIS, or the transit of foreign cargoes through the Russian Federation; (c) goods and services used by diplomatic representations and their personnel; (d) passenger transportation at municipal level (except taxis) and on suburban maritime, river, rail, or automotive routes; (e) apartment rent; and (f) sale and lease of privatized state enterprises. *Simple-exempted* goods and services: (a) insurance and reinsurance; (b) credit and deposit transactions; (c) foreign exchange operations; (d) financial securities; (e) postal stamps (except collectibles) and cards; (f) lottery cards; (g) government fees; (h) legal services; (i) language translation services; (j) intelectual property rights; (k) certain education revenues; (l) cultural, artistic, and religious services; (m) theater performences, pageants, and athletic, cultural, educational, and entertainment events; (n) video shows, casinos, coin-operated games, and winnings from racetrack bets (subject to 2.1); (o) funeral services; (p) school and hospital canteens and other public catering in budgetary institutions.	Standard rate 28 percent Consumer sales (other than by producers) of flour, pasta and cereals, milk, yogurt, cottage cheese, and sunflower oil 15 percent Goods sold at regulated, VAT-inclusive prices 21.88 percent *Payment* is made monthly, by the 15th of the following month; or quarterly (enterprises with average monthly tax payment lower than rub 100,000); or annually (enterprises with average monthly payments lower then rub 10,000). *Excess of credits* over debits in a month is carried over or refunded. *Advanced payments* are due between the 10th and the 28th of each month by enterprises with average monthly payments greater than rub 300,000.

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates	
3.2 *Excise taxes* Law of December 6, 1991 Presidential Decision published in *Rossiyskaya Gazeta* on January 3, 1992.	A federal tax *on the excise-inclusive price* of listed goods, at rates set by the Government. The tax is self-assessed by the taxpayer, daily (wine and liquor) and every 10 days (other products). *Payment*: on the 3rd day following the assessment period. *Earmarking*: the proceeds of the excise tax on the sales of automobiles for personal use are earmarked for the Federal Road Fund.	Are *exempt*: a) goods exported outside the CIS; b) passenger car tires dispatched for car assembly.	<u>Goods</u> Alcoholic beverages: Spirits Vodka Liqueur Wine Brandy Sperkling wine Beer Delicatessen: Chocolate Caviar Tobacco products Automobiles: GAS Other automobiles Tires Jewellery Furs High-quality porcelain High-quality cristals Carpets Leather clothing	<u>Rates (in %)</u> 90 80 75 46.5 55 47.5 25 40 40 14,20,25,40 35 25 62 10 10,20,35 30 45 20,45 350
3.3 *Tax on fuels and lubricants* Law on the Road Funds in the RSFSR, of October 18, 1991.	A twin tax on the sales of fuel and lubricants (gasoline, diesel fuel, automotive oils, and condensed and liquified gas used as motor fuel), earmarked for financing the road funds. The rates are set by the Council of Ministers of the Russian Federation.		Federal tax Territorial tax Total	18 percent <u>7 percent</u> 25 percent
3.4 *Tax on the users of motor roads* Law on the Road Funds in the RSFSR, of October 18, 1991.	A tax on the sales of goods and services, earmarked 25 percent for the Federal Road Fund and 75 percent for the territorial road funds.		Official purchasing agencies, including wholesale organizations Other enterprises	0.03 percent 0.40 percent
3.5 *Tax on the purchase of means of motor transportation* Law on the Road Funds in the RSFSR, of October 18, 1991.	A tax paid by the buyers of new and used motor vehicles, due before registration. The tax is calculated on the selling price before the VAT and excises. The proceeds of the tax are earmarked for the territorial road funds.	Are *exempt*: a) persons affected by radiation from the Chernobyl disaster; b) disabled persons and their public organizations; c) vehicles for public transportation, except taxicabs; d) enterprises engaged in the maintainance of highways; e) farms and their associations.	Trucks Pickups, vans Buses Special cars Trailers Automobiles sold at wholesale price Taxicabs Auctioned vehicles	20 percent 20 percent 40 percent 20 percent 40 percent 40 percent 20 percent 40 percent of the starting price

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
3.6 *Tax on operations with securities* Law on the Taxation of Securities Transactions (proposal).	A federal tax on the issuing and purchases/sales of securities (stocks, bonds, promissory notes, U.S.S.R. 1982 loan certificates, Government bonds, and Savings Bank certificates). The tax is paid by the issuer and, in subsequent transactions, by the buyer.	*Exempt transactions*: a) issuance and acquisition of stocks: (a.1) when a joint-stock company is founded; and (a.2) by a workers collective; b) go-between sales of securities on a comission basis.	Registration of issue 0.5 percent of face value Purchase transactions 0.3 percent
3.7 *Tax on construction in resort zones* Law on the Bases of the Tax System (proposal).	A tax which local governments may levy on the construction of sanatoria and other resort institutions in resort zones.		
3.8 *Publicity tax* Law on the Bases of the Tax System (proposal)	A local tax paid by legal entities and individuals which advertise their goods.		5 percent of the cost of advertising.
3.9 *Tax on the resale of motor cars, computer technology, and personal computers* Law on the Bases of the Tax System (proposal).	A local tax on legal entities and individuals who resell such goods.		Up to 10 percent.
4. *Taxes on international transactions*			
4.1 *Customs duties* Decree on Customs Duties on Imported Goods, Jan.15, 1992.	The customs tariff of 1981 loses legal force as of January 15, 1992. A new customs tariff is expected to be introduced on April 1, 1992.		

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
4.2 *Export duties* Decree 213, Nov.15, 1991. Decree 91, Dec.31, 1991. Decree of Jan.23, 1992. Administration: State Customs Committee.	A tax on exports, from the territory of the RSFSR, of listed goods. Exports through barter operations are also taxed. The government may alter the list of goods and the rates. Weekly, the Central Bank quotes the (market) exchange rate used to pay the tax in rubles. A surtax applies to exports not subject to surrender requirement.	If the export is subject to a foreign exchange surrendering requirement, the tax (=tXe) is reduced by ktX(e-e'), where k=percentage of surrendering, t=tax rate, X=quantity exported, e=market exchange rate, and e'=surrendering exchange rate. In this case the tax liability equals tX[e(1-k)+e'k].	Sample of rates: ECU/ton Oil 26 Gasoline 57 Diesel oil 51 Lubricants 490 Vodka 600 Iron 5 Potassium fertilizers 30 Timber: softwood 16 Timber: hardwood 11 Aluminium 290 Zinc 340 Newspaper 74 Stainless steel ingots 155 Metal pipes 177-584 Uranium 5,000 Beryllium 80,000 Niobium 30,000 Coke 16 Leather and skin 200-1,000 Artificial leather 100 The proceeds are earmarked for the Republican Reserve of Foreign Currency.
5. *Taxes on property*			
5.1 *Land tax* Land Code Law on Payments for Land	A local, mandatory tax.		
5.2 *Tax on buildings, premises, and structures* Law on Individual Property Taxes (proposal).	A local, mandatory tax levied annualy on the value of buildings, premises, and structures, including apartments, residential houses, dachas, and garages.	*Persons exempt*: a) Heroes of the Soviet Union and awardees of the Order of Glory; b) certain disabled persons; c) certain war veterans; d) certain survivors of Chernobyl; e) pensioners; f) certain low-ranking military personnel. Other benefits may be granted by the regional and local soviets.	0.1 percent.

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates	
5.3 *Tax on vehicles* Law on Individual Property Texes (proposal).	A local, mandatory tax levied annualy on the owners of automobiles, trucks, motorcycles, scooters, tractors, motorized sleds, motor boats, and other self-propelled, wheeled mechanisms.	*Vehicles exempt*: a) tracked machinery end mechanisms; b) engine-powered grain harvesting and specialized combines. c) special vehicles for disabled persons; d) motor boats under 10 HP or 7.4 kW. *Persons exempt*: a) Heroes of the Soviet Union and awardees of the Order of Glory; b) certain disabled persons; c) certain war veterans; d) certain survivors of Chernobyl. Other benefits may be granted by the regional and local soviets.	Passenger cars Motorcycles and scooters Trucks and other self-propelled mechanisms Motorized slides and boats	rub 0.50/HP or rub 0.68/kW rub 0.30/HP or rub 0.408/kW rub 1.00/HP or rub 1.36/kW rub 0.15/HP or rub 0.204/kW
5.4 *Tax on the owners of means of transportation* Law On the Road Funds in the RSFSR, of October 18, 1991.	A tax paid annually by the owners of motor vehicles. It is also levied when property of the vehicle is transferred. The proceeds of the tax are earmarked for the territorial road funds.	Are *exempt*: a) persons affected by radiation from the Chernobyl disaster; b) disabled persons and their public organizations; c) vehicles for public transportation, except taxicabs; d) farms and their associations; e) enterprises engaged in the maintainance of highways; f) harvesters and other agricultural machines. The legislative power may grant other exemptions.	 Automobiles: up to 100 HP over 100 HP Motorcycles Buses Trucks end tractors: up to 100 HP from 100 to 150 HP from 150 to 200 HP from 200 to 250 HP over 250 HP Other self-propelled and pneumatic vehicles	<u>Rate per HP</u> rub 0.50 rub 1.30 rub 0.30 rub 2.00 rub 2.00 rub 4.00 rub 4.80 rub 5.20 rub 7.15 rub 2.00

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
5.5 *Enterprise property tax* Law on the Enterprise Property Tax, Dec. 13, 1991.	A local tax paid annually by the enterprises that have an independent balance sheet, on the gross value of the assets minus depreciation allowances, expensing of short-lived and inexpensive fixed assets, and borrowed funds.	Are *exempt*: a) budgetary organizations, the state bodies, and the legal bar; b) agricultural and fishing enterprises; c) state enterprises producing orthopedic and prosthetic devices; d) property used for public education and culture; e) religious organizations and ethnic cultural communities; f) enterprises of the housing and communal sphere; g) property used for seasonal accumulation (power plants etc.); h) organizations of invalids. A one-year *tax holiday* applies to new enterprises. Property *excluded* from the base: a) housing, communal, and socio-cultural equipment; b) assets used for environmental protection and fire safety; c) property used in agriculture and fishing; d) pipelines, roads, communication channels, high-voltage lines and adjacent strip of land; e) communication satellites; f) land.	Up to 0.5 percent. Advance payments are due 10 days after each quarter.
6. *Taxes on natural resources*			
6.1 *Payment for geological prospecting and exploration* Law on the Bases of the Tax System (proposal).	A federal tax on the value of production of main mineral resources, earmarked for geological expenditures of the Ministry of Geology.		10 percent.
6.2 *Tax on the sale of exploration rights* Law on the Bases of the Tax System (proposal).	A federal tax on the value of sales of concessions for the exploration of natural resources.		15 percent.
6.3 *Tax on the extraction of natural resources* Law on the Bases of the Tax System (proposal).	A federal tax on the extraction of coal, oil, gas, mineral ores and other useful minerals, timber, electric power and medicinal mineral waters. The rate is determined by the regional government by agreement with the Council of Ministers of the Russian Federation.		Coal, oil, ore and other useful minerals and mineral waters ...per ton Diamond ...per carat Electric power ...per megawett

Table A1 *(continued)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
7. *State and stamp duties* Law on the Bases of the Tax System (proposal).	Taxes which may be levied by local governments.		
8. *Gift and inheritance tax* Law on the Tax on Property Transferred as Inheritances and Gifts (proposal).	A tax on the acquisition, formalized in notarial documentation, of property through inheritance or gift, including houses, dachas, apartments, share capital accumulation in housing construction, garage construction or dacha construction cooperatives, garden houses in gardening associations, cars and trucks, motorcycles, motor boats, launches, yachts and other vehicles, antiques and art objects, money, securities, jewelry and other products made from valuable metal and gemstones and their scraps.	If formally documented, are *exempt*: a) inheritances under rub 100,000 and gifts under rub 10,000; b) transfers from one spouse to the other; c) transfers of residential houses or shares in housing construction cooperatives between persons who lived together; d) inheritance from persons killed in defense of the USSR or in other specified circumstances.	Inheritance value (in rubles) — Rate on amount within bracket a) To primary heirs: 100,000 to 200,000 — 5 percent 200,001 to 300,000 — 10 percent Over 300,000 — 15 percent b) To secondary heirs: 100,000 to 200,000 — 10 percent 200,001 to 300,000 — 20 percent Over 300,000 — 30 percent c) To other persons: 100,000 to 200,000 — 20 percent 200,001 to 300,000 — 30 percent Over 300,000 — 40 percent Value of gift (in rubles) — Rate on amount within bracket a) To children and parents: 10,000 to 100,000 — 3 percent 100,001 to 200,000 — 7 percent 200,001 to 300,000 — 11 percent Over 300,000 — 15 percent b) To other persons: 10,000 to 100,000 — 10 percent 100,001 to 200,000 — 20 percent 200,001 to 300,000 — 30 percent Over 300,000 — 40 percent
9. *Other taxes*			

Table A1 *(concluded)*

Tax	Nature of Tax	Deductions and Exemptions	Rates
9.1 *Resort tax* Law on the Bases of the Tax System (proposal). Law on the Resort Tax (proposal).	A tax which may be levied by local governments on persons who arrive in resort locations without a pass.	Are *exempt*: a) children under 16; b) disabled persons; c) visitors for purpose of business, schooling, work, and permanent residence; d) certain tourist groups; e) elderly citizens arriving to visit children, or vice versa.	Up to rub 10.
9.2 *Levy on dog owners* (Law on the Bases of the Tax System (proposal)	A local tax payable annually by persons who own dogs.	*Exempt*: working dogs.	Up to rub 30.
9.3 *Levy on the occupation of apartments* Law on the Bases of the Tax System (proposal)	A local levy payable the receivers of the right to settle in a particular apartment.		Up to rub 150, depending on the area and quality.
9.4 *Automobile parking fees* Law on the Bases of the Tax System (proposal)	A local levy payable by drivers of motor cars when parking in spaces specially designated for this purpose.		Rates set by the local Councils of People's Deputies.
9.5 *Special-purpose levies* Law on the Bases of the Tax System (proposal)	Local levies earmarked for the maintenance of the police force, for social development, and other purposes.		

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INTERNATIONAL MONETARY FUND

NEWS BRIEF

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IMF PUBLISHING ECONOMIC REVIEWS OF THE REPUBLICS OF THE FORMER U.S.S.R.

—The International Monetary Fund has published the first in a series of economic reviews of the independent republics that constituted the U.S.S.R. These first four studies examine the economies of the Russian Federation and Ukraine, the economy of the U.S.S.R. in 1991, and common policy issues and interrepublic economic relations. Reviews of economic conditions in the other republics will be published in the coming weeks.

Between September 1991 and March 1992, all 15 states of the former U.S.S.R applied for membership in the IMF. During this period IMF staff visited each of the republics to hold discussions with the various national authorities to provide economic policy advice, review the domestic procedural and legal steps required for IMF membership, and collect economic data to process the membership applications. Following these visits reports were prepared on the economies of the republics, together with two companion studies; one reviews the economy of the U.S.S.R. in 1991, and the other provides an overview of common policy issues and major interrepublic economic relations.

Although the reports are of an interim nature, as it is still too early to present a comprehensive assessment of most of the economies, the IMF is publishing them because of the importance of, and widespread interest in, the subject. The reports are based on information that was available in early 1992, and were prepared for the Executive Board of the IMF for the pre-membership economic reviews of the republics that were conducted in late March and early April. The descriptions of developments and policies contained in the studies are those of the IMF staff and are not attributable to Executive Directors or the authorities of any of the individual republics.

The reports were prepared by the IMF's European II Department, under the direction of John Odling-Smee, Director, and draw on the expertise of other IMF departments. They are being edited and published by the IMF's External Relations Department (Ian McDonald, Chief Editor). Copies are available to members of the press from the IMF's Information Division; telephone (202) 623-7100; fax (202) 623-6278. Copies may be purchased by the public from the IMF's Publication Services; telephone (202) 623-7430; fax (202) 623-7201, for US$10.00 each.

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