



# Office Memorandum

To: Mr. McLenaghan  
(Through Mr. Patel, Division Chief)  
(Through Mr. Stillson, Division Chief) *MS*

From: *WN* K. W. Nahr and *JS* Jeffrey R. Taylor

Subject: USSR--Economic Reform Fact-Finding Mission

August 9, 1990

In response to the request by G7 leaders that the International Monetary Fund coordinate a multi-agency study of economic reform in the Soviet Union, a fact-finding mission has been organized to visit Moscow from August 13-21. The mission will be led by Mrs. Ter-Minassian, Deputy Director of the Fiscal Affairs Department and leader of the Fund's newly-formed Task Force for the Study of Soviet Economy, and is comprised of approximately 19 IMF staff members (two of whom are drawn from the Bureau of Statistics-- Mr. Taylor and Mr. Nahr) 1/, three representatives from OECD, and one representative from the World Bank. Names of the individuals participating in the mission are listed in Attachment A.

The mission has been divided into four groups, covering: (1) fiscal policy; (2) monetary and financial issues; (3) foreign trade and balance of payments; and (4) real sector developments. Mr. Nahr has been assigned to the second group which is led by Mr. Blejer; Mr. Taylor to the fourth group, which is led by Mr. Wolf.

The group on monetary and financial issues will focus on the review of the banking system and its relationship with the central credit plan, the short-term prospects of reform and the resulting changes of main financial aggregates. Mr. Nahr will be involved particularly in assessing the quality of the available banking statistics, making cross references to the credit plan, and reviewing other sources of domestic credit and their funding. Other members of the money and banking group are Mr. Cottarelli (EUR) and Ms. Nagy (FAD). Mr. Nahr is expected to participate in the writing of the money and banking report which is to be completed by September 10, 1990.

Mr. Taylor's group will focus on domestic economy issues and developments, such as on production, planning, prices, investment, employment, earnings, and consumption. Mr. Taylor's responsibilities

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1/ Our last day in the office will be Friday, August 10, 1990.

within the group are to provide advice on the compilation of and interpretation of real sector statistics, assess the strengths and weaknesses of Soviet data in this area, and participate in data gathering and collation. These are exceptionally challenging tasks given the relative paucity of statistical information published by the USSR, and given anticipated difficulties in adapting data compiled for central planning purposes to standards better-suited for monitoring an economy undergoing structural reform. Other members of the real sector group are Mr. Bradenkamp (EUR), who is responsible for analyzing growth and development issues, and Mr. Osband (EUR), who will focus on structural change. Shortly after returning from Moscow, the mission will draft four background reports summarizing the findings and recommendations of each subject-area group. Mr. Taylor is expected to participate in the writing of the real sector report, which must be complete in draft form by September 10, 1990.

The team has developed detailed questionnaires to facilitate the collection of information during the visit to Moscow (see Attachment B). All four reports will be used to prepare policy recommendations by a second IMF mission to the USSR, which is tentatively scheduled to depart for Moscow in mid-September. Participants in this second mission have yet to be designated.

It is important to note that the Fund's mission to Moscow is part of a multi-agency study of the Soviet economy that involves the World Bank, the OECD, and the European Bank for Reconstruction and Development (EBRD). The institutional division of labor regarding this study is still evolving, though the record of correspondence between the various organizations (Attachment D), suggests that the IMF will focus on overall macroeconomic issues, the World Bank will lead the study of sectoral issues (agriculture, housing, and manufacturing), the OECD will contribute its expertise on agriculture and other real sector affairs, and the EBRD will focus on primary industries, transport, and other infrastructure issues.

A memorandum has been circulated to all Division Chiefs in STA informing them of our mission, and we will endeavor to meet any requests they may have for further information on Soviet statistics. Upon our return, we will write a memorandum briefly summarizing our mission work while in Moscow. We shall continue to keep you apprised of any further developments as regards the interagency study of the USSR, and of areas of potential interest to the Bureau of Statistics.

Attachments

cc: Mr. Donovan  
Advisors  
Division Chiefs



# Office Memorandum

To: Mr. McLenaghan

August 9, 1990

From: C.A. Patel *CP*

Subject: USSR - Briefing Paper on Economic Reform Fact-Finding Mission

Attached for your review and clearance is the draft briefing paper on Mr. Taylor's forthcoming mission to the Soviet Union.

Attachment

cc: Mr. Donovan (o/r)  
Mr. Wolfe



# Office Memorandum

To: Mr. McLenaghan  
(Through Mr. Patel, Division Chief)

August 9, 1990

From: Jeffrey R. Taylor

Subject: USSR--Economic Reform Fact-Finding Mission

In response to the request by G7 leaders that the International Monetary Fund coordinate a multi-agency study of economic reform in the Soviet Union, a fact-finding mission has been organized to visit Moscow from August 13-21. The mission will be led by Mrs. Ter-Minassian, Deputy Director of the Fiscal Affairs Department and leader of the Fund's newly-formed Task Force for the Study of Soviet Economy, and is comprised of approximately 19 IMF staff members (two of whom are drawn from the Bureau of Statistics-- myself and Mr. Nahr) 1/, three representatives from OECD, and one representative from the World Bank. Names of the individuals participating in the mission are listed in Attachment A.

The mission has been divided into four groups, covering: (1) fiscal policy; (2) monetary and financial issues; (3) foreign trade and balance of payments; and (4) real sector developments. I have been assigned to the fourth group, which is led by Mr. Wolf, an advisor in the European Department and concurrently a member of the Task Force. My group will focus on domestic economy issues and

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1/ My last day in the office will be Friday, August 10, 1990.

employment, earnings, and consumption. My responsibilities within the group are to provide advice on the compilation of and interpretation of real sector statistics, assess the strengths and weaknesses of Soviet data in this area, and participate in data gathering and collation. These are exceptionally challenging tasks given the relative paucity of statistical information published by the USSR, and given anticipated difficulties in adapting data compiled for central planning purposes to standards better-suited for monitoring an economy undergoing structural reform. Other members of the real sector group are Mr. Bradenkamp (EUR), who is responsible for analyzing growth and development issues, and Mr. Osband (EUR), who will focus on structural change.

Shortly after returning from Moscow, the mission will draft four background reports summarizing the findings and recommendations of each subject-area group. I am expected to participate in the writing of the real sector report, which must be complete in draft form by September 10. The group I am working with has developed two questionnaires to facilitate the collection of information during the visit to Moscow (see Attachments B and C). All four reports will be used to prepare policy recommendations by a second IMF mission to the USSR, which is tentatively scheduled to depart for Moscow in mid-September. Participants in this second mission have yet to be designated.

It is important to note that the Fund's mission to Moscow is part of a multi-agency study of the Soviet economy that involves the World Bank, the OECD, and the European Bank for Reconstruction and Development (EBRD). The institutional division of labor regarding this study is still evolving, though the record of correspondence between the various organizations (Attachment D), suggests that the IMF will focus on overall macroeconomic issues, the World Bank will lead the study of sectoral issues (agriculture, housing, and manufacturing), the OECD will contribute its expertise on agriculture and other real sector affairs, and the EBRD will focus on primary industries, transport, and other infrastructure issues.

A memorandum has been circulated to all Division Chiefs in STA informing them of my mission, and I will endeavor to meet any requests they may have for further information on Soviet statistics. Upon my return, I will write a memorandum briefly summarizing my mission work while in Moscow. I shall continue to keep you apprised of any further developments as regards the interagency study of the USSR, and of areas of potential interest to the Bureau of Statistics.

Attachments

cc: Mr. Donovan

Advisors

Division Chiefs

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WASHINGTON, D. C. 20431

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23 MR. VICTOR V. RAKOV  
 22 ACTING MANAGER  
 21 STATE BANK OF THE USSR (GOSBANK)  
 20 MOSCOW, USSR  
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18 DEAR MR. RAKOV:  
 17 THANK YOU VERY MUCH FOR YOUR TELEX TO MR. BEITH OF  
 16 AUGUST 8. I AM VERY SURPRISED TO HEAR THAT YOU HAVE NOT  
 15 RECEIVED THE CONFIRMATION OF THE FACT FINDING MISSION AS  
 14 PLANNED AND THE LIST OF EXPERTS. WE HAVE COMMUNICATED  
 13 THROUGH THE SOVIET EMBASSY IN WASHINGTON TO MR. OBMINISKY  
 12 THE FOLLOWING INFORMATION:  
 11 THE MISSION WILL ACTUALLY BE COMPOSED OF FOUR SMALL  
 10 GROUPS THAT WILL BE FOCUSING ON DIFFERENT ASPECTS OF THE  
 9 ECONOMY. ONE GROUP, CONCENTRATING ON FISCAL ISSUES,  
 8 WOULD PLAN TO HOLD DISCUSSIONS AT THE MINISTRY OF FINANCE  
 7 AND WOULD COMPRISE MR. KOPITS (HEAD), MR. COELHO, MR.  
 6 GARAMFALVI, MS. CHEASTY AND MR. MIHALJEK.  
 5 THE SECOND GROUP, HEADED BY MR. BLEJER, WOULD BE FOCUSING  
 4 ON CREDIT AND MONETARY ISSUES, AND WOULD WANT TO MEET  
 3 WITH OFFICIALS OF GOSBANK. OTHER MEMBERS OF THIS GROUP  
 2 WOULD BE MR. NAHR, MR. COTTARELLI AND MRS. NAGY.  
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22 MOSCOW, SOVIET UNION

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18 THE THIRD TEAM, WHICH WOULD BE ADDRESSING FOREIGN TRADE

17 AND BALANCE OF PAYMENTS ISSUES, WOULD WISH TO VISIT THE

16 GOSBANK, THE MINISTRY OF FOREIGN ECONOMIC RELATIONS, THE

15 BANK FOR FOREIGN ECONOMIC AFFAIRS, AND POSSIBLY THE CMEA

14 SECRETARIAT. IT WOULD BE COMPOSED OF MR. FLICKENSCHILD

13 (HEAD) AND MR. DEMILNER.

12 A FOURTH GROUP WOULD CONCENTRATE ON DEVELOPMENTS IN THE

11 REAL SECTOR OF THE ECONOMY, INCLUDING PRODUCTION,

10 EXPENDITURE, EMPLOYMENT, INCOMES AND PRICES. IT WOULD

9 WANT TO HOLD DISCUSSIONS AT THE STATE COMMITTEES ON

8 STATISTICS AND PRICES, GOSPLAN AND POSSIBLY, AS WELL, THE

7 MINISTRY OF FINANCE. THE MEMBERS OF THIS TEAM WILL BE

6 MR. WOLF (HEAD), AND MESSRS. BREDENKAMP, OSBAND AND

5 TAYLOR.

4 I WILL BE JOINING THE SEPARATE DISCUSSIONS OF THE

3 DIFFERENT TEAMS AS THE NEED ARISES, BUT WILL PROBABLY

2 CONCENTRATE ON THE BALANCE OF PAYMENTS AND EXTERNAL

1 FINANCING ISSUES. THE MISSION WOULD ALSO INCLUDE A

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22 MOSCOW, SOVIET UNION  
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18 SECRETARY, MS. NGUYEN, AND TWO TRANSLATORS (MESSRS.  
17 RENFIELD AND KEASBEY). THE IBRD WILL SEND A  
16 REPRESENTATIVE (MR. EASTERLY) AND THE OECD WILL SEND  
15 THREE REPRESENTATIVES (MESSRS. SHAFER, HAGEMANN AND  
14 SIMMONS).  
13 WE HAVE REQUESTED HELP IN SECURING HOTEL ACCOMMODATIONS  
12 IN MOSCOW. WE WOULD REQUIRE 6 SINGLE ROOMS FROM  
11 AUGUST 11 TO AUGUST 21, INCLUDED. 1 TWO-ROOM SUITE, 15  
10 SINGLE ROOMS, AND IF POSSIBLE A CONFERENCE ROOM, FROM  
9 AUGUST 12 TO 21. FINALLY, WE WOULD NEED ONE MORE SINGLE  
8 ROOM FOR AUGUST 15-21 FOR MR. SIMMONS, WHO WILL JOIN THE  
7 TEAM LATER. INITIALLY WE HAD REQUESTED EITHER THE  
6 METROPOL OR THE NATIONAL. HOWEVER, WE UNDERSTAND THAT  
5 THEY ARE (OR WILL BE SHORTLY) UNDER RENOVATION AND,  
4 THEREFORE, WE WOULD PREFER IF RESERVATIONS COULD BE MADE  
3 AT THE MEZHDUNARODNAYA HOTEL PLEASE ADVISE ME AS SOON AS  
2 POSSIBLE OF THE AVAILABILITY OF ROOMS AND COST, AS WELL  
1 AS MANNER OF PAYMENT (TRAVELERS CHECKS, CREDIT CARDS,

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18 ETC.). THE FOLLOWING IS A LIST OF THE DATES AND TIMES OF  
17 ARRIVAL OF THE TEAM MEMBERS:  
16  
15  
14 ARRIVAL DATE: SATURDAY, AUGUST 11:  
13 MR. HANS FLICKENSCHILD, MR. RICHARD RENFIELD, MR.  
12 LAWRENCE DEMILNER, MR. WILLIAM KEASBEY, MS. CHAMPA NGUYEN  
11 ON LH 1372, FROM FRANKFURT, AT 5:30 P.M. AND MR. JOHN  
10 EASTERLY (IBRD) ON AF 270 AT 5:35 P.M.  
9 ARRIVAL DATE: SUNDAY, AUGUST 12:  
8 MRS. TERESA TER-MINASSIAN (LEADER - 1 SUITE), MR. HUGH  
7 BREDEKAMP, MR. ISAIAS COELHO, MESSRS. JEFFREY SHAFER AND  
6 ROBERT HAGEMANN (OECD) ON AF 2982, FROM PARIS, AT 2:20  
5 P.M..  
4 MESSRS. THOMAS WOLF, GEORGE KOPITS, LASZLO GARAMFALVI,  
3 HUGH BREDEKAMP, DUBRAVKO MIHALJEK, WILHELM NAHR, JEFFREY  
2 TAYLOR ON LH 1370, FROM FRANKFURT, AT 2:00 P.M..  
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22 MOSCOW, SOVIET UNION  
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18 MR. MARIO BLEJER AND MS. ADRIENNE CHEASTY ON BA 872, FROM  
17 LONDON, AT 4:00 P.M.. MR. KENT OSBAND WILL ARRIVE ON  
16 AEROFLOT 242, FROM LONDON, AT 7:25 P.M.. MR. CARLO  
15 COTTARELLI WILL ARRIVE ON PA 30, FROM NEW YORK, AT 10:35  
14 A.M.. MS. PIROSKA NAGY WILL ARRIVE FROM BUDAPEST ON  
13 MALEV 100 AT 12:20 P.M.  
12  
11 WE HAVE ALSO REQUESTED HELP IN SECURING THE SERVICES OF  
10 FIVE INTERPRETERS FOR THE PERIODS OF OUR STAY IN MOSCOW  
9 (I.E., AUGUST 13-21). PLEASE ADVISE US AS TO THEIR  
8 AVAILABILITY AND COST INVOLVED.  
7 FINALLY, WE WOULD BE MOST GRATEFUL IF A FEW CARS COULD BE  
6 PROVIDED FOR THE GROUP TO GO FROM THE HOTEL TO THE  
5 MEETINGS AND VICE VERSA.  
4 WE ARE SENDING THROUGH THE SOVIET EMBASSY AND TO YOU BY  
3 TELEFAX A QUESTIONNAIRE WHICH WE HOPE WILL FACILITATE  
2 PREPARATION FOR THE MISSION. WE WOULD LIKE TO HAVE AN  
1 INITIAL MEETING WITH THE COUNTERPART TEAM ON THE MORNING

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18 OF AUGUST 13 TO WORK OUT A MUTUALLY CONVENIENT SCHEDULE  
17 OF MEETINGS FOR THE MISSION.  
16 I WOULD APPRECIATE HEARING FROM YOU AS SOON AS POSSIBLE,  
15 ESPECIALLY AS REGARDS OUR HOTEL RESERVATIONS. MOST  
14 GRATEFUL FOR YOUR HELP.  
13 WITH BEST WISHES  
12 YOURS SINCERELY,  
11 TERESA TER-MINASSIAN  
10 LEADER, SOVIET UNION TASK FORCE  
9 INTERFUND

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Questions on the Domestic Economy and the  
Economic System (Planning, Management,  
Distribution, Wages and Prices)

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I. Real Sector Economic Activity

(List of specific data requirements attached)

1. Please discuss the trends in output and expenditure over the past decade--and particularly in the last half of the 1980s and into 1990--by sector (and main branches within industry) and for the economy as a whole, in both current and constant prices.

a. In this connection, please be prepared to discuss the statistical methodology and statistical reporting systems used to construct the different data series, as well as the different degrees of reliability of these methodologies and data collection systems.

b. Please discuss the main factors behind the slowing of growth rates and the recent fall in output, including the role of shifts in the pattern of expenditures, changes in the system of planning and management, energy and transportation bottlenecks, consumer goods shortages, work stoppages and changing economic relationships among the different republics.

2. Please discuss recent developments in investment and the growth of the fixed capital stock, including by sector. Please include a discussion of depreciation procedures and factors that may be contributing to lower productivity of the existing stock of fixed assets. Please also describe recent trends in the stock of uncompleted investment projects and the factors behind these trends.

3. What have been the recent trends in inventory accumulation and the main factors explaining these trends? What impact has enterprise stockbuilding had on shortages in the economy and the rate of economic growth?

4. Please outline major demographic trends and the growth of employment and unemployment by sector and republic. What policy measures have been introduced to deal with unemployment and how and by whom are they implemented?

*I do this  
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4 teams?*

## II. Incomes and Prices

(List of specific data needs attached)

1. What have been the major factors contributing to the recent acceleration in the money incomes of the population?
2. Transfers and subsidies to the population
  - a. Please discuss recent trends in social benefits--both in-kind and monetary payments--received by the population. What effects are such benefits estimated as having on the distribution of income?
  - b. What is the estimated impact on the distribution of income of consumer price subsidies, and how are such estimates made?

How is the "poverty line" defined and what proportion of the population is estimated to live below this line? Please discuss the extent to which the incidence of poverty differs as between urban and rural areas and among republics.

3. Please discuss the evolving financial position of enterprises, including their sources and uses of financial resources. What have been the major determinants explaining these developments?
4. Please discuss the recent evolution of prices at both the retail and producer levels. To what extent do the official price indices capture the rise in the overall price level (in other words, including prices on legalized free markets and other markets)?
  - a. In this connection, please explain the concept of "comparable" prices and how it may differ from the notion of "constant" prices applied in many other economies.
  - b. Please explain the methodologies used to construct the official price indices.

### III. Economic System

#### 1. System of planning and supervision of enterprises

a. Please discuss the main changes to date in the system of central planning, and, in particular, in the roles of Gosplan, the branch ministries, and the industrial associations vis-à-vis enterprises and each other.

b. How does the system of "state orders" operate and what proportion of output, by sector and main branches, is covered by these orders? What changes have occurred since its establishment?

c. To what extent are state enterprises now under the supervision of republican or local authorities as opposed to the central authorities?

#### 2. Enterprise management and industrial structure

a. What have been the major changes in recent years in the degree of autonomy of state enterprises and the way in which the internal management of these enterprises is conducted? Are there significant differences among branches or republics in this respect?

b. To what extent have enterprises been granted increased flexibility regarding the allocation of internally generated funds, and what changes have occurred regarding the basis for profit remittances to the budget?

c. To what extent have systems of worker self-management evolved within state enterprises?

d. Please indicate the distribution of enterprises in each branch by size of enterprise and the extent of monopolization in key products. To what extent are steps being taken to reduce the degree of the concentration in various sectors? How do you measure the degree of concentration?

e. Please discuss the current system of management in agricultural cooperatives, and the mechanisms by which agricultural land is conveyed to individuals for private use.

#### 3. Distribution system

a. Please discuss the recent changes in the system of central allocation of material inputs and equipment, and the role of Gosplan,

b. What changes have taken place in recent years in the systems of wholesale and retail distribution, both state-cooperative and private?

c. What effect has growing regional autonomy had on the systems of distribution at the intermediate, wholesale and retail levels?

4. Cooperative and private activities

a. What is the current status of provisions whereby state enterprises may be converted into joint stock companies or otherwise be "denationalized" or privatized?

b. What measures have been taken recently and are contemplated to encourage the growth of new private and cooperative activities?

c. What degree of access do cooperatives and private businesses have to supplies at official prices?

5. Wage regulation mechanism

a. Please explain how the mechanism for regulating the payment of wages and other remuneration by state enterprises and cooperatives has changed in recent years.

b. To what extent is the mechanism for direct or indirect regulation of wages differentiated across branches and republics?

6. Price system

a. Please describe the present system of prices, at the producer, wholesale and retail levels, and recent changes in this system. To what extent are prices set administratively at republican and local levels as well as at the central level? To what degree are foreign trade prices permitted to affect domestic prices?

b. Please indicate the principal categories of prices (at each level) by type of price control and the extent to which they are negotiated freely without intervention by the authorities. In the case of "contract prices," what criteria are used for setting price ceilings?

c. In contemplating major price revisions, what criteria are used in determining the appropriate structure of relative prices? In contemplating the liberalization of prices, what criteria could be used to determine those products for which prices would be freed?



Specific Data Requirements: Real Sector

Unless otherwise stated, all data would be needed on an annual basis from 1970 through 1989. Quarterly data are needed from 1988 to the present, where available.

Real sector economic activity

1. Net material product by final expenditure groups (national income utilized), sector of origin (national income produced), and primary incomes (the population, state enterprises, cooperatives, and private entities). Expenditure data should be disaggregated by detailed final use; sector of origin data should be disaggregated by both sector of the economy and by branches within sectors. Data on reconciliation of net material product by sector of origin and expenditure (in other words, statistical discrepancy) is also requested. All data are requested in both current and constant prices, to the extent available.
2. Gross domestic product (GDP) by final expenditure groups, sector of origin, and primary incomes. Levels of detail requested are the same as for net material product statistics above. Specific information (e.g. a tabular breakdown) on how gross domestic product was derived from the MPS system data is of critical importance here, as are data on the reconciliation of GDP estimates by sector of origin and expenditure (statistical discrepancy). Gross national product (GNP) estimates are also requested, with details on how net factor income from abroad was estimated. Please also provide both current and constant price data, to the extent available.
3. Estimates of the gross and net output value of "second sector" activities, by activity and/or sector and branch, if possible.
4. 1987 and 1988 input-output tables for the USSR. Please provide versions of the tables that show sources and uses of output for all sectors and branches within sectors, as well as components of both value-added and final demand.
5. Gross value of output, net value of output, and material inputs by sector and by branches within sectors; current and constant prices.
6. Percentage of output produced under state planning.
7. Production of major agricultural and industrial products, in physical units.
8. Share of arable land and agricultural output by category of ownership and use (state farms, cooperatives, and personal plots).
9. Overall yields for agriculture, as well as yields for major crops.
10. Gross and net fixed investment by sector, branches within sectors, type (structures versus machinery and equipment), decision-making entity, and source of funds.

11. Consumption fund by category of expenditure.
12. End-year gross value of fixed assets, net value of fixed assets, and depreciation, by sector and branches within sectors. Nonmaterial as well as material production sectors should be included in these data, as should a listing of both productive and nonproductive assets by each sector and branch. End-year stocks of unfinished construction are also requested at the same level of detail.
13. Levels and changes in inventories, by sector and branches within sectors.
14. Housing stocks by republic, ownership type (for example, cooperative and private) and urban/rural area. Please provide data in terms of square meters, numbers of rooms, and values, if possible.
15. Sources and uses of primary energy supplies, including the primary energy equivalent of hydroelectric and nuclear power. Please also provide a balance sheet for electricity.
16. Extent of central allocation of material inputs in both wholesale and retail trade; by sector, branches within sectors, and type of distribution system. Please include the percentage of intermediate inputs falling under state order and under wholesale trade.
17. *smallly available data?* Population, labor force, employment and unemployment for the economy overall, and by sector, gender, and republic. Employment of pensioners by sector is also requested, as is unemployment by age group, if available.

#### Prices and incomes

1. Money incomes and expenditures of the population, with decomposition of income sources and major expenditure categories. An indication of the sources of these data (in other words, household surveys or establishment reporting) are also requested, as are urban/rural breakdowns, if available. Please also provide estimates of income from "second sector" activities and details on how these figures were derived.
2. In-kind consumption and social benefits of the population.
3. Financial position of enterprises in aggregate, and if possible, broken down by sector, including derivation of accumulation (from gross output), the allocation of the accumulation fund, and sources and uses of all financial resources available to enterprises.
4. Distribution (by value) of retail, procurement and producer prices by type of price control, including the proportion of free-market prices.
5. Average monthly nominal wages for the total economy, and by sector and branches within sectors. Data sources (survey or other) are also requested.

6. Price developments, at both the retail and producer levels, disaggregated by main product groups. Weights of various product groups in official price indices, as well as sources of data (survey or otherwise) are requested.

7. Energy prices, producer and retail, by major form of energy consumed.



# Office Memorandum

CONFIDENTIAL

TO: Ms. Ter-Minassian

DATE: August 3, 1990

FROM: L. A. Whittome *LAW*

SUBJECT: E.C.

1. Lamy said that the fact finding mission now in Moscow would return Brussels August 4.
2. By August 20, he hoped it would have a comprehensible data base plus an understanding of the reforms already agreed. This information will be shared amongst the "four".
3. The EC team will return to Moscow September 4, in order to understand and discuss the reforms now being prepared. They aim to have a draft report ready by around the time of the Annual Meetings, and they could discuss it with us or the "four" just prior to that date.
4. They have had much cooperation but have found great logistical problems in Moscow. I doubt the practicality, let alone the efficiency, of all the teams being there in early September, but it would be best to explore this carefully on August 20-21, when you will have your colleagues with you in Moscow.
5. Will fax from Rome the questions sent to Moscow by the EC in advance. Please copy to our three friends at the meeting in Paris.
6. Please also say to those three friends that:
  - (a) EC promised to cooperate and their data base should be ready for circulation around August 21;
  - (b) They warn of major logistical problems in Moscow;
  - (c) Their first mission will return shortly, but their second will now not arrive in Moscow until September 4;
  - (d) Suggest that we leave it to our collaborators to assess on August 20/21 the position, and if necessary stagger further the various missions.
7. I told the EC that we were faxing our background chapter, and I was given a copy of their equivalent. I query whether our draft is pointed enough as to whether and what the basic problems are.

cc: Mr. Robinson

## MEMORANDUM TO THE SOVIET GOVERNMENT

### ASSESSMENT OF SOVIET ECONOMY BY THE EUROPEAN COMMISSION

#### 1. TOPICS FOR DISCUSSION WITH THE AUTHORITIES

##### I Economic situation, conjuncture and short term prospects

1. Production, Employment, Prices and Wages, etc.

##### II Major components of the economic reform and stabilization programme

1. Budget policy, union and by republics
2. Structure of taxes and subsidies

##### III Monetary, exchange rate and credit policy

1. Competitiveness
2. Exchange rate unification and convertibility
3. Methods of reduction of the monetary overhang

##### IV International trade and payments

1. Evolution of trade with West and CMEA; trade regime
2. Debt (gross and net)
3. Joint ventures and technology transfer
4. Current account

##### V Program of systemic reform

1. Constitutional reform, including decentralisation
2. Sequencing of reform policies, timing and speed
3. Price liberalization and demonopolisation
4. Industrial conversion and peace dividend
5. Sectoral structural reform: Agricultural, energy, industry, financial services, environment
6. Economy wide structural reform: privatization, subsidies, property rights, legal framework for competition and foreign direct investment.

#### 2. PRELIMINARY DATA REQUIREMENTS

Standard published sources (such as the Soviet Statistical Yearbook) often lack consistent and reliable data series. The data base required for the assessment concerns the 1980s, but especially the period since 1985. The series provided should be as up to date as possible, and have quarterly observations for 1989 and 1990. They should cover the union as well as the republics. Moreover any forecasts on these series should be provided together with the model used to generate it. The Commission will treat this data with the confidentiality called for by the Soviet authorities, including for very sensitive material, the possibility of strictly verbal presentation.

## I Production and Employment

- a) Net Material Product (NMP) by expenditure components, personal and government consumption, investment, exports and imports
- b) NMP by cost components, wages, depreciation, operating surplus
- c) NMP by sector of production, agriculture, manufacturing, construction, industry, raw material extraction.

NOTE 1: EQUIVALENT DATA IN GROSS DOMESTIC PRODUCT WOULD BE DESIRABLE

- d) Employment and unemployment by sector and region

## II Prices and Wages

- a) Price deflators for the production data mentioned in I (including GDP) and the underlying methodology
- b) Prices of major individual consumer products in the official market as well as in the free market, by republic and by region
- c) Consumer and wholesale price indices
- d) Wages and total labor costs (including fringe benefits in kind) by sector, including civil service
- e) Forms and evolution of social protection, e.g. indexation schemes.

## III Money and Credit

- a) Currency in circulation, bank deposits (including savings accounts), broken down by region
- b) Accounts (balance sheet and profit and loss) of the National bank, with a view to distinguishing commercial operations from central bank including the monetization of government deficits
- c) Loans to public enterprises and cooperatives, broken down by sectors and regions
- d) Official foreign exchange reserves
- e) Liquidity in domestic currency and foreign exchange balances outside the banking sector
- f) Sources of money creation
- g) interest rates by type of users
- h) Non performing loans and uncollectable debt, by borrower

## IV Government revenues and expenditures, budget deficit

- a) Structure of revenues, by type,
- b) Structure of expenditures, by type (including subsidies and interest on public debt)
- c) Size of deficit and its financing, by different levels of governments and type of enterprise
- d) Stock of public debt and the sources of its accumulation, distinguishing the different levels of government, and type of enterprise
- e) Revenues from the sale of public assets

## V International trade and payments

- a) imports and exports of goods and services by main categories,
- b) geographic direction of trade

- c) trade balances by currency and region
- d) Gross foreign debt and interest by type, currency and maturity
- e) invisible trade and other items in the current account
- f) foreign direct investment
- g) gold and foreign exchange reserves and their changes
- h) Net foreign debt and the sources of its accumulation differentiating the different levels of government and type of enterprise
- i) indicators of competitiveness (terms of trade, real effective exchange rates, relative unit labor costs, etc)

#### VI Other statistics

- a) production and distribution losses (wastage, strikes etc), by type
- b) self employment and parallel economy
- c) possible tax evasion, by type of tax
- d) repressed inflation
- e) transport and communication networks

### 3. FORTHCOMING MISSIONS

As agreed with the Soviet authorities during the visit of President Delors and Vice President Andriessen, the Commission is planning two missions in the coming weeks to propose a report which is due for discussion by the Commission from the beginning of October.

The first mission, led by Director Braga de Macedo assisted by Head of Division Maslen, will take place between July 30 and August 3. The delegation will comprise five professionals and an external consultant, Claudia Senik (from DELTA Paris) due in Moscow already on July 21, and possibly Director Emerson. The mission will be expected to gather data and to collect information on the implementation of the reforms.

4. The second mission, due to take place at the beginning of September 5, will be led by Deputy Director General Cadieux assisted by Directors Braga de Macedo and Emerson. The delegation will comprise eight professionals, including insofar as possible the participants in the first mission, two counsellors, two consultants, specialists on conjuncture, labour market and housing, monetary affairs, budgets and budget rules, legal aspects, one assistant and one secretary. We hope that by the time of the mission, it would be possible to know the new proposals for the economic reform and to discuss their contents with the Soviet authorities.

N.B. While the missions will have some logistic capabilities, and support from embassies of member states is expected, it is hoped that offices could be found in some of the relevant ministries, in particular MID, Commission on Economic Reform, Ministry of Finance, Planning Commission, Price Commission, External Bank, Statistical Office, National Bank, Institute for Economics, etc

Moscow, July 20, 1990



INTERNATIONAL MONETARY FUND  
WASHINGTON D C 20431

August 3, 1990

Dear Mr. Obminsky:

To follow up on the Managing Director's letter to you of August 1, 1990, I would like to confirm that I am preparing to head a fact finding mission to Moscow for the period August 13-18. Depending on where we stand after that week of discussions, some of the mission members may need to extend their stay by one or two working days to complete this initial information gathering stage. As indicated by the Managing Director's letter, I will be joined in Moscow on August 20-21 by senior representatives of other organizations involved in the study of the Soviet economy, in order to agree on a tentative schedule for further work on the project.

So as to assist you in making arrangements, I would like to indicate the names of the staff members comprising the mission and the agencies they would like to visit. The mission will actually be composed of four small groups that will be focusing on different aspects of the economy. One group, concentrating on fiscal issues, would plan to hold discussions at the Ministry of Finance and would comprise Mr. Kopits (head), Mr. Coelho, Mr. Garamfalvi, Ms. Cheasty and Mr. Mihaljek.

A second group, headed by Mr. Blejer, would be focusing on credit and monetary issues, and would want to meet with officials of Gosbank. Other members of this group would be Mr. Nahr, Mr. Cottarelli and Mrs. Nagy.

The third team, which would be addressing foreign trade and balance of payments issues, would wish to visit Gosbank, the Ministry of Foreign Economic Relations, the Bank for Foreign Economic Affairs, and possibly the CMEA Secretariat. It would be composed of Mr. Flickenschild (head) and Mr. DeMilner.

A fourth group would concentrate on developments in the real sector of the economy, including production, expenditure, employment, incomes and prices. It would want to hold discussions at the State Committees on Statistics and Prices, Gosplan and possibly, as well, the Ministry of Finance. The members of this team will be Mr. Wolf (head), and Messrs. Bredenkamp, Osband and Taylor.

I will be joining the separate discussions of the different teams as the need arises, but will probably concentrate on the balance of payments and external financing issues. The mission would also include a secretary, Ms. Nguyen, and two translators. The IBRD, the OECD and possibly the EBRD may wish to send a representative. We will communicate their names as soon as they become available.



We will send you next week a detailed questionnaire covering each of these four areas, and a further list of more specific questions and data requests will be provided to you at the first meeting. In this regard, I would like to propose that the mission begin with a short organizational meeting with you on Monday morning, August 13 in which we would hope representatives from each of the above mentioned Soviet institutions would also participate. Following that meeting, the Fund team will split up, as indicated, into four subgroups.

I would be most grateful for your assistance as regards the logistical arrangements for the visit. Our first preference would be to stay at the Hotel National; the second preference would be the Hotel Metropol. We would need, altogether, one (two-room) suite, 21 single rooms, and also, if possible, a small conference room. We would also appreciate your reserving a single room for Mr. Holsen who is the task force leader of the IBRD, on August 19-21. It would be most convenient if we could all be in the same hotel, but if necessary we could split up between them as they are fairly near one another.

Please advise us as soon as possible if such accommodations are unavailable. Also, we would appreciate it if you could let us know what means of payment (e.g., travelers' cheques, credit cards) are acceptable.

I will be arriving in Moscow on Sunday, August 12, as will most other team members. The following, however, will be arriving on Saturday, August 11: Mr. Flickenschild, Mr. DeMilner, Mr. Renfield and Ms. Nguyen. I would appreciate it if you could book reservations, beginning for the respective members of the mission on these dates and running through the night of August 21. I will be letting you know the arrival times of the team some time next week.

In addition to the hotel arrangements, we would like to have five interpreters for up to seven working days. Please advise us of the cost involved. Also, we would be most appreciative if cars could be provided for the team to the extent that any of the institutions that we would be visiting are beyond walking distance from our hotel. Finally, we would be grateful if you could assist in facilitating the processing of our visa applications.

Looking forward to hearing from you, and to arriving in Moscow for this second important stage in the evolving dialogue between the Soviet Union and the Fund.

Sincerely yours,

  
Teresa Ter-Minassian

Mr. E. Obminsky  
Deputy Minister of Foreign Affairs  
Ministry of Foreign Affairs  
Moscow, USSR

Meeting of Principal Representatives, IMF Paris Office, 10.00 am August 1, 1990

The meeting was attended by Messrs. Whittome and Robinson (IMF); Thalwitz, Fischer and Holsen (IBRD); Zecchini and Tuveri (OECD); and Flemming and Aghion (EBRD). The discussion covered the following main topics.

#### 1. Managing Director's visit to Moscow

Mr Whittome gave a brief account of the Managing Director's visit to Moscow, and provided written minutes of the discussions. Both the political and economic situation were extremely difficult. There was overt criticism of Gorbachev and Ryzkhov, and a real problem with the officer corps. The economy was deteriorating fast: there was a serious fiscal problem, a large monetary overhang, and a possibly acute balance of payments problem. Arrears--largely delays in payments to suppliers-- were of the order of US\$ 3 billion; while bank payments were being met in full on time, there was evidence that commercial banks were cutting credit lines back sharply. While the Soviets seemed to know what needed to be done, there was as yet no coherent plan for doing it.

The Soviets had appeared warm to the study, which they saw as potentially useful both internally and externally. Membership of the Bretton Woods institutions was clearly on the agenda. They had noted, however, that it would cause difficulties if the study's conclusions differed from those that the EC came to in their work, due to be completed by end-September. On the statistical side, they had expressed willingness to provide the necessary data, including total military expenditure, with the understanding that particularly sensitive items--for instance gold and reserves--were treated with the highest degree of confidentiality. To avoid duplication, they had asked that the study made full use of the materials the Soviets had already supplied to the EC.

Mr Fischer said that the forthcoming study was an enormous task of great difficulty and importance. It was a joint study, and thus it was crucially important that the participating institutions worked together effectively. He was concerned that the Managing Director's visit had not been fully in accord with the JFK agreement or subsequent discussions. Mr Zecchini and Mr Flemming expressed support for these points, Mr Zecchini noting that that Mr Paye had stressed the joint nature of the study to the Soviet Ambassador to France. Mr Whittome agreed on the importance of effective and full collaboration. The Managing Director's visit had, however, been a private one, and he had made it clear to his Soviet hosts that he was not in Moscow as a representative of the four Heads of Institution (HOs).

#### 2. Relations with the EC

The EC work on the USSR appeared to have expanded into a study, although, as Mr Zecchini pointed out, the Dublin Communique referred only to making proposals for short term credits and long term assistance. Especially in view of the Soviets' comments, there was a danger of preemption. There appeared to have been little direct contact with the EC so far, although this had been mandated by the Dublin Communique, and in particular there had been no information sharing. The latter was a particular concern, given the Soviets' desire to avoid duplicative data requests. Mr Whittome undertook to discuss the need for collaboration with Mr Lamy in his meeting with him on August 2.

### 3. Contacts with the Soviets

Mr Whittome said that the Soviets had said that Mr Obminsky, the Deputy Minister of Foreign Affairs, would be the contact point for the IMF teams. He understood that this would also apply to the IBRD and EBRD; the Soviets had suggested that the OECD might wish to continue to use their traditional contacts in the Ministry of Foreign Affairs. In response to a question from Mr Zecchini, he said that it was his impression--though these matters had not been discussed in detail during the visit--that Mr Obminsky would act as a conduit, directing requests to their proper destination in the bureaucracy. Mr Sitarian would likely be the main interlocutor for policy purposes.

### 4. Staffing and Organisation

The composition and organisation of the eight task forces was discussed. It was noted that not all participants would be full time, nor would all necessarily go on missions. Each organisation would provide final details of their participants in teams led by other organisations to the appropriate team leader as soon as possible, including a brief resume of their particular areas of expertise, and the amount of time they would be available for the study. Team leaders should be given full authority over the organisation and production of work within their teams.

It was agreed that the IBRD would head the team covering sectoral issues (agriculture, housing and manufacturing); the OECD who had significant expertise in the agricultural area, would decide on their contribution to this team in the near future. Mr Holsen would be in charge of all staffing matters for the IBRD; Mr Flemming said that he would head the EBRD team covering Primary industries etc.

### 5. Mission Organisation

Mr Whittome said that the Soviets had made it clear that they could not accept missions for policy discussion before September, as officials in the Ministry of Finance would be heavily occupied by work on the package of reforms due to be announced on September 10. However, after some persuasion, they had agreed to accept a factfinding mission, which the IMF team currently planned to go between August 13-18. Participation by other organisations would be most welcome. Mr Zecchini said that the OECD would probably send two participants; Mr Holsen thought one would go from the IBRD.

There was some discussion of mission organisation. It was agreed that a questionnaire should be sent in advance of the policy discussions, to which all organisations would contribute. This would at least advise the Soviets of the main areas of interest, although it was noted that the list of questions submitted in advance of the MD's visit had received no response at all from the Soviets. Given the joint nature of the study, it would be inappropriate for individual teams to leave aide-memoires or to have wrapup sessions at which policy conclusions were stated.

Mr Whittome expressed some concern as to the mechanics of the policy discussions in September. Given the number of teams, and the short time available if initial conclusions were to be transmitted to Heads of Organisation by mid-October, there would inevitably be much overlapping, and perhaps even effectively one giant team with as many as 60 people participating. This raised questions of management and control, as well as a variety of purely practical problems--for instance

teams, as had been done by the IBRD in Czechoslovakia; another possibility mentioned was to have initial small meetings attended by team leaders only. It was generally felt that further discussions with the Soviets would be necessary to work out a suitable timetable: to this end a letter to Mr Obminsky requesting meetings to discuss the organisation of work on August 20-21, immediately following the factfinding mission, was drafted and sent. It was expected that these discussions would be conducted by Mrs Ter-Minassian (IMF), Mr Holsen (IBRD), Mr Tuvali (OECD) and Mr Flemming (EBRD).

#### 5. Other issues

Mr Holsen said that the IBRD had commissioned Messrs Vanous and Hewett to put together a data base, including an evaluation of its quality. This should be ready by end-August and would of course be shared with all three other institutions.

OCDE

ORGANISATION DE COOPÉRATION ET  
DE DÉVELOPPEMENT ÉCONOMIQUES

OECD

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

CCEET/JPT/90.106

MEMORANDUM

A/To: Mrs. T. Ter-Minassian

JMT

De/From: J.P. Tuveri

Paris, 3rd August 1990

Objet/Subject: Study on the USSR Economy  
Mission to Moscow

On the OECD side, the following two people will participate in the  
13th August fact-finding mission.

Mr. Jeffrey Shafer, Deputy Director (ESD)  
Telephone: 45.24.87.70  
Fax: 45.24.85.00

Mr. Tim Simmons, Head of IEA Energy Statistics Division  
Telephone: 45.24.94.16  
Fax: 45.24.99.88

Please contact Mr. Shafer and Mr. Simmons for organisational  
arrangements.



# Office Memorandum

Mr. Donovan

To: Division Chiefs  
From: Jeffrey Taylor *JT*  
Subject: Moscow--Fact-Finding Mission

August 8, 1990

I am scheduled to visit Moscow on a fact-finding mission from August 12-21, 1990. Please let me know if there are any outstanding statistical issues that you would like me to raise with the authorities by c.o.b. August 8, 1990.

cc: Mr. McLenaghan  
Mr. Donovan (o/r)  
Advisors



# Office Memorandum

Mr. McLoughlan.

1990 AUG -8 10:47

To: The Managing Director (o/r)  
The Deputy Managing Director

August 8, 1990

From: T. Ter-Minassian *T.T.M.*

Subject: Fact-Finding Mission to Moscow

A staff team 1/ accompanied by Messrs. Shafer, Hagemann and Simmons (OECD) and by Mr. Easterly (IBRD), will visit Moscow on August 13-21 to gather information needed for the preparation of background papers (in the area of responsibility of the IMF task force) for the study of the Soviet economy called for in the Houston communique.

The main tasks of the mission will be as follows:

1. to review developments and discuss with the authorities short term prospects for demand and output, prices, incomes and income distribution, the balance of payments, external debt and reserves, the budget, and monetary and financial variables;

2. to review the current institutional setting, in particular in the following areas:

- a. the system of planning;
- b. supervision of enterprises; ownership relations and the scope of private and cooperative activities;
- c. the mechanisms of wage and price regulation;
- d. the exchange and trade system;

---

1/ The staff team, headed by myself, will be articulated into four groups, which will hold meetings with different agencies in the Soviet administration. The group on the domestic economy will comprise Messrs. Wolf (EUR, group leader), Osband (RES), Bredenkamp (EUR) and Taylor (STAT); the group on the balance of payments will include Messrs. Flickenschild (ETR, group leader) and DeMilner (WHD); the group on monetary and banking issues will comprise Messrs. Blejer (FAD/EUR, group leader), Cottarelli (EUR), Nahr (STAT) and Mrs. Nagy (FAD); and the group on fiscal policy and structural fiscal issues will consist of Messrs. Kopits (FAD, group leader), Coelho, Garamfalvi, Mihaljek and Ms. Cheasty (all FAD). The mission will also include 2 translators (Messrs. Renfield and Keasbey) and an administrative assistant (Ms. Nguyen).

cc: DD ✓  
TM  
St. I. S. v.  
Patel  
TO Cir  
D. W. Chuyter.



e. the banking and financial systems, and the methods and instruments of control of money and credit;

f. the revenue system, including taxes and tax administration;

g. the structure of government expenditures, including social security benefits and subsidies;

h. the budget preparation and execution process, financial control procedures and instruments for financing the government deficit;

i. financial relations among different levels of government, as well as between the budget and the state enterprises.

3. to gather available official statistics in the various areas, and discuss with the authorities the methodologies and sources of data utilized in the compilation of these statistics.

In all these areas, the mission will also attempt, to the extent possible, to obtain more detailed information on a sectoral and regional basis.

The above information will be analyzed in detail upon return to headquarters, and this analysis will form the basis for policy-oriented discussions, to be held later, on reform options and plans. Although the focus of the present mission will be on fact-finding, the staff will also try to gather information on the current state of the authorities' reform plans, due to be unveiled in early September. There are suggestions that the reform effort led by Mr. Abalkin is being overtaken by those of the joint Soviet-Russian Committee recently set up, following the reported agreement between Messrs. Gorbachev and Yeltsin. The mission will try to ascertain the state of play in this respect.

cc: Mr. Whittome (o/r)  
Mr. Frenkel  
Mr. Russo  
Mr. Tanzi  
Mr. Boorman  
Mr. McLenaghan  
Mr. Andrews  
Mission members



# Office Memorandum

To: Mrs. Ter-Minassian

From: John B. McLenaghan *JBM*

Subject: U.S.S.R.--External Debt Statistics

August 7, 1990

Attached are tables showing available statistics on U.S.S.R. external indebtedness.

1. Positions with international banks

Attachment I shows quarterly data on the cross border positions of U.S.S.R. residents with international banks for the period 1985-90 (Q1), as reported in the Fund's International Banking Statistics (IBS) series. An important caveat to be noted is that these data do not incorporate positions vis-a-vis the U.S.S.R. of some important banking centers which do not provide a full geographic breakdown; to the extent that these positions are unallocated, claims on (and liabilities to) the U.S.S.R. are likely to be understated.

2. OECD statistics

The OECD's data from the Creditor Reporting System (CRS), maintained in the Bureau of Statistics and available through the Debt Table Generator (DTG), are shown in Table 2. These data are available only for 1987 and 1988. Data with a somewhat smaller coverage, for bank and nonbank trade-related credits only, are available through the end of 1989 and are shown in Table 3. Methodological notes on the OECD data can be obtained from the Balance of Payments Division (Ext. 7921).

Attachments

*bcc:* Mr. Damadian (2/c)  
 Mr. Stillson  
 Mr. Bove

Table 1  
 Cross Border Positions of USSR  
Residents with Respect to International Banks  
 (end of period; in millions of US dollars)

	USSR Banks' Claims (7XADZF)	USSR Banks' Liabilities (7YADZF)	USSR Nonbanks' Claims (7XRDZF)	USSR Nonbanks' Liabilities (7YRDZF)
1985 Q1	8540	12515	226	3624
Q2	9208	15104	220	3855
Q3	10854	17177	240	4099
Q4	12857	18179	215	4586
1986 Q1	12386	18638	233	4613
Q2	13190	21311	278	4873
Q3	13694	23492	110	4830
Q4	14682	23666	102	5401
1987 Q1	13019	23283	162	5645
Q2	12449	24082	165	5898
Q3	13368	25724	208	5771
Q4	13979	27098	174	6285
1988 Q1	14073	28635	170	5954
Q2	13898	28169	212	5868
Q3	13616	27269	207	5882
Q4	15004	29556	296	7140
1989 Q1	14441	31671	245	7261
Q2	15043	32828	293	7102
Q3	14861	34642	395	7896
Q4	14357	36935	306	7917
1990 Q1	12294	37022	317	8249

AUG. 5, 1990

Table 2.  
U.S.S.R.  
Total External Debt,  
OECD Data 1/

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986	1987	1988
<u>Total identified liabilities</u>	--	--	--	--	--	36,652	43,333
<u>Long-term debt</u>	--	--	--	--	--	25,572	27,321
OECD countries and capital markets	--	--	--	--	--	25,572	27,321
Official development assistance	...	...	--	...	--	--	--
Officially supported 2/	...	...	...	...	...	12,367	11,640
Guaranteed export credits	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Guaranteed bank credits	(...)	(...)	(...)	(...)	(...)	(6,901)	(6,583)
Official export credits	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Financial markets	...	...	...	...	...	13,205	15,681
o/w: Deposit banks	...	...	...	...	...	...	...
Other private	...	...	...	...	...	...	...
Multilateral	...	...	--	...	--	--	--
Non-OECD creditors	--	--	--	--	--	--	--
CMEA	...	...	...	...	...	...	...
OPEC	...	...	...	...	...	...	...
Other	...	...	...	...	...	--	--
<u>Short-term debt</u>	--	--	--	--	--	11,080	16,012
Banks 3/	...	...	...	...	...	9,760	12,278
Export credits 4/	...	...	...	...	...	1,320	3,734
<u>Use of Fund Credit 5/</u>	...	...	--	...	--	--	--
<u>Other identified liabilities 6/</u>	...	...	--	...	--	--	--
<u>Total debt service 7/</u>	--	--	--	--	--	--	--
Long-term service	...	...	...	...	...	...	...
Amortization	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Interest	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Short-term interest	...	...	...	...	...	...	...
<u>Memorandum items</u>							
Total concessional debt	...	...	...	...	...	...	...

Source: OECD, External Debt Statistics.

1/ OECD data before 1982 are not shown because they are not consistent with data compiled thereafter. Inquire with the IBED division for earlier data. Last year of data may be preliminary.

2/ Officially supported credits, which are usually trade-related, are guaranteed or insured in creditor country. Export credits are suppliers' credits; official export credits are granted by governments or their agencies.

OECD estimates for short-term debt by original maturity is derived from BIS maturity distribution of bank credits. Recorded by the OECD's Creditor Reporting System (CRS).

5/ Data exclude Fund administered resources, which are included in Multilateral above.

6/ Identified domestic bank liabilities to nonresident nonbank entities.

7/ Excluding IMF repurchases and charges.

Table 3. U.S.S.R.: Bank and Trade Related Nonbank External Claims

(In millions of U.S. dollars)

	Dec. 1988	Jun. 1989	Dec. 1989
Stocks (end of period)			
External bank claims	36,843	39,614	44,499
of which:			
Identified guaranteed claims	(3,562)	(5,121)	(6,075)
Nonbank trade related credits	5,649	5,474	5,032
Total	42,492	45,089	49,532
Changes <u>1/</u> (during period)	2nd half 1988	1st half 1989	2nd half 1989
External bank claims	2,255	4,744	2,467
of which:			
Identified guaranteed claims	(-191)	(-492)	681
Nonbank trade related credits	-410	997	-695
Total	1,845	5,741	1,772

1/ Corrected for exchange rate variations.

Source: OECD and BIS, Statistics on External Indebtedness.



ATTACHMENT B

INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

CABLE ADDRESS  
INTERFUND

August 8, 1990

Dear Mr. Obminsky:

I understand that I will not have the pleasure of meeting you in Moscow during our forthcoming visit in August. I hope that it will be possible to agree on a visit by the task force leaders of the EBRD, IBRD, and OECD, as well as myself, on September 3-4, to prepare a further program of work by the four institutions.

To help with the preparation of the IMF fact-finding mission, we have put together a detailed list of questions and requests for data in the various areas to be covered by the mission. The questionnaire includes data routinely provided by IMF member countries to Article IV consultation missions. I apologize for the length of the questionnaire, which reflects our current ignorance of many aspects of the Soviet economy and institutions, and, more importantly, our desire to base the analysis in the study on full and correct documentation and understanding of the complexities of the economy.

I imagine that much of the information requested should be available in published (or easily compiled) form; the mission members would be happy to work with the Soviet officials in rearranging existing data in the format requested.

As I indicated in my previous letter, I would hope that the group leaders and I could meet with our counterpart team in the morning of August 13, to work out a mutually convenient schedule for the work of the mission.

With many thanks for your help and cooperation,

Sincerely yours,

  
Teresa Ter-Minassian

Mr. E. Obminsky  
Deputy Minister of Foreign Affairs  
Moscow, USSR

cc: Mr. Rakov (Gosbank)

Questions on the Domestic Economy and the  
Economic System (Planning, Management,  
Distribution, Wages and Prices)

I. Real Sector Economic Activity

(List of specific data requirements attached)

*They have to do*

1. Please discuss the trends in output and expenditure over the past decade--and particularly in the last half of the 1980s and into 1990--by sector (and main branches within industry) and for the economy as a whole, in both current and constant prices.

]

a. In this connection, please be prepared to discuss the statistical methodology and statistical reporting systems used to construct the different data series, as well as the different degrees of reliability of these methodologies and data collection systems.

b. Please discuss the main factors behind the slowing of growth rates and the recent fall in output, including the role of shifts in the pattern of expenditures, changes in the system of planning and management, energy and transportation bottlenecks, consumer goods shortages, work stoppages and changing economic relationships among the different republics.

2. Please discuss recent developments in investment and the growth of the fixed capital stock, including by sector. Please include a discussion of depreciation procedures and factors that may be contributing to lower productivity of the existing stock of fixed assets. Please also describe recent trends in the stock of uncompleted investment projects and the factors behind these trends.

3. What have been the recent trends in inventory accumulation and the main factors explaining these trends? What impact has enterprise stockbuilding had on shortages in the economy and the rate of economic growth?

4. Please outline major demographic trends and the growth of employment and unemployment by sector and republic. What policy measures have been introduced to deal with unemployment and how and by whom are they implemented?

## II. Incomes and Prices

(List of specific data needs attached)

1. What have been the major factors contributing to the recent acceleration in the money incomes of the population?

2. Transfers and subsidies to the population

a. Please discuss recent trends in social benefits--both in-kind and monetary payments--received by the population. What effects are such benefits estimated as having on the distribution of income?

b. What is the estimated impact on the distribution of income of consumer price subsidies, and how are such estimates made?

How is the "poverty line" defined and what proportion of the population is estimated to live below this line? Please discuss the extent to which the incidence of poverty differs as between urban and rural areas and among republics.

3. Please discuss the evolving financial position of enterprises, including their sources and uses of financial resources. What have been the major determinants explaining these developments?

4. Please discuss the recent evolution of prices at both the retail and producer levels. To what extent do the official price indices capture the rise in the overall price level (in other words, including prices on legalized free markets and other markets)?

a. In this connection, please explain the concept of "comparable" prices and how it may differ from the notion of "constant" prices applied in many other economies.

b. Please explain the methodologies used to construct the official price indices.



### III. Economic System

#### 1. System of planning and supervision of enterprises

a. Please discuss the main changes to date in the system of central planning, and, in particular, in the roles of Gosplan, the branch ministries, and the industrial associations vis-à-vis enterprises and each other.

b. How does the system of "state orders" operate and what proportion of output, by sector and main branches, is covered by these orders? What changes have occurred since its establishment?

c. To what extent are state enterprises now under the supervision of republican or local authorities as opposed to the central authorities?

#### 2. Enterprise management and industrial structure

a. What have been the major changes in recent years in the degree of autonomy of state enterprises and the way in which the internal management of these enterprises is conducted? Are there significant differences among branches or republics in this respect?

b. To what extent have enterprises been granted increased flexibility regarding the allocation of internally generated funds, and what changes have occurred regarding the basis for profit remittances to the budget?

c. To what extent have systems of worker self-management evolved within state enterprises?

d. Please indicate the distribution of enterprises in each branch by size of enterprise and the extent of monopolization in key products. To what extent are steps being taken to reduce the degree of the concentration in various sectors? How do you measure the degree of concentration?

e. Please discuss the current system of management in agricultural cooperatives, and the mechanisms by which agricultural land is conveyed to individuals for private use.

#### 3. Distribution system

a. Please discuss the recent changes in the system of central allocation of material inputs and equipment, and the role of Gosplan.

b. What changes have taken place in recent years in the systems of wholesale and retail distribution, both state-cooperative and private?

c. What effect has growing regional autonomy had on the systems of distribution at the intermediate, wholesale and retail levels?

4. Cooperative and private activities

a. What is the current status of provisions whereby state enterprises may be converted into joint stock companies or otherwise be "denationalized" or privatized?

b. What measures have been taken recently and are contemplated to encourage the growth of new private and cooperative activities?

c. What degree of access do cooperatives and private businesses have to supplies at official prices?

5. Wage regulation mechanism

a. Please explain how the mechanism for regulating the payment of wages and other remuneration by state enterprises and cooperatives has changed in recent years.

b. To what extent is the mechanism for direct or indirect regulation of wages differentiated across branches and republics?

6. Price system

a. Please describe the present system of prices, at the producer, wholesale and retail levels, and recent changes in this system. To what extent are prices set administratively at republican and local levels as well as at the central level? To what degree are foreign trade prices permitted to affect domestic prices?

b. Please indicate the principal categories of prices (at each level) by type of price control and the extent to which they are negotiated freely without intervention by the authorities. In the case of "contract prices," what criteria are used for setting price ceilings?

c. In contemplating major price revisions, what criteria are used in determining the appropriate structure of relative prices? In contemplating the liberalization of prices, what criteria could be used to determine those products for which prices would be freed?

## Specific Data Requirements: Real Sector

Unless otherwise stated, all data would be needed on an annual basis from 1970 through 1989. Quarterly data are needed from 1988 to the present, where available.

### Real sector economic activity

1. Net material product by final expenditure groups (national income utilized), sector of origin (national income produced), and primary incomes (the population, state enterprises, cooperatives, and private entities). Expenditure data should be disaggregated by detailed final use; sector of origin data should be disaggregated by both sector of the economy and by branches within sectors. Data on reconciliation of net material product by sector of origin and expenditure (in other words, statistical discrepancy) is also requested. All data are requested in both current and constant prices, to the extent available.
2. Gross domestic product (GDP) by final expenditure groups, sector of origin, and primary incomes. Levels of detail requested are the same as for net material product statistics above. Specific information (e.g. a tabular breakdown) on how gross domestic product was derived from the MPS system data is of critical importance here, as are data on the reconciliation of GDP estimates by sector of origin and expenditure (statistical discrepancy). Gross national product (GNP) estimates are also requested, with details on how net factor income from abroad was estimated. Please also provide both current and constant price data, to the extent available.
3. Estimates of the gross and net output value of "second sector" activities, by activity and/or sector and branch, if possible.
4. 1987 and 1988 input-output tables for the USSR. Please provide versions of the tables that show sources and uses of output for all sectors and branches within sectors, as well as components of both value-added and final demand.
5. Gross value of output, net value of output, and material inputs by sector and by branches within sectors; current and constant prices.
6. Percentage of output produced under state planning.
7. Production of major agricultural and industrial products, in physical units.
8. Share of arable land and agricultural output by category of ownership and use (state farms, cooperatives, and personal plots).
9. Overall yields for agriculture, as well as yields for major crops.
10. Gross and net fixed investment by sector, branches within sectors, type (structures versus machinery and equipment), decision-making entity, and source of funds.

11. Consumption fund by category of expenditure.
12. End-year gross value of fixed assets, net value of fixed assets, and depreciation, by sector and branches within sectors. Nonmaterial as well as material production sectors should be included in these data, as should a listing of both productive and nonproductive assets by each sector and branch. End-year stocks of unfinished construction are also requested at the same level of detail.
13. Levels and changes in inventories, by sector and branches within sectors.
14. Housing stocks by republic, ownership type (for example, cooperative and private) and urban/rural area. Please provide data in terms of square meters, numbers of rooms, and values, if possible.
15. Sources and uses of primary energy supplies, including the primary energy equivalent of hydroelectric and nuclear power. Please also provide a balance sheet for electricity.
16. Extent of central allocation of material inputs in both wholesale and retail trade; by sector, branches within sectors, and type of distribution system. Please include the percentage of intermediate inputs falling under state order and under wholesale trade.
17. Population, labor force, employment and unemployment for the economy overall, and by sector, gender, and republic. Employment of pensioners by sector is also requested, as is unemployment by age group, if available.

#### Prices and incomes

1. Money incomes and expenditures of the population, with decomposition of income sources and major expenditure categories. An indication of the sources of these data (in other words, household surveys or establishment reporting) are also requested, as are urban/rural breakdowns, if available. Please also provide estimates of income from "second sector" activities and details on how these figures were derived.
2. In-kind consumption and social benefits of the population.
3. Financial position of enterprises in aggregate, and if possible, broken down by sector, including derivation of accumulation (from gross output), the allocation of the accumulation fund, and sources and uses of all financial resources available to enterprises.
4. Distribution (by value) of retail, procurement and producer prices by type of price control, including the proportion of free-market prices.
5. Average monthly nominal wages for the total economy, and by sector and branches within sectors. Data sources (survey or other) are also requested.

6. Price developments, at both the retail and producer levels, disaggregated by main product groups. Weights of various product groups in official price indices, as well as sources of data (survey or otherwise) are requested.

7. Energy prices, producer and retail, by major form of energy consumed.

## Questions on the External Sector

### I. Exchange rate arrangements

1. Please list all the exchange rates practiced for the convertible and nonconvertible currency areas. How are these exchange rates determined (auction, bilateral negotiations, autonomously set)? Which foreign currencies are quoted regularly and by whom? Which margins apply to obtain buying and selling exchange rates? Are the margins different for cash transactions and for wire or electronic transfers? Are there additional surcharges or discounts (other than price equalization) or prescribed commissions for particular transactions?
2. Please describe the system of differential foreign exchange coefficients (DVK). What has been the average effective exchange rate resulting from its application in recent years? Who bears the subsidy if the average effective rate for exports exceeds the official exchange rate?
3. For auction-determined exchange rates, how and how frequently are the auctions conducted? Who has access to these markets on the demand and supply sides? Does the same market clearing exchange rate apply to all successful bids? Which restrictions apply on the use of foreign exchange bought at auction? Are all transactions spot? Please provide time series on the exchange rates and amounts offered and sold at auctions from their inception to date.
4. On what basis are bilateral noncommercial exchange rates with socialist countries set? To what transactions do they apply? Please provide time series for such rates for 1985 to date.
5. For autonomously set exchange rates, what method is used to determine the exchange rate peg (basket, single currency peg)? Who has the power to set the level of the peg? How frequently are the cross exchange rates adjusted (daily, weekly)? Please provide time series (monthly averages, end-of-month rates) for autonomously set exchange rates against the U.S. dollar and the deutsche mark for the period 1985-to date.
6. Please provide data on exchange rates in the black market (both domestic and abroad) and qualitative information on its estimated size and type and mode of operations.
7. Are there any forward exchange rate arrangements? For what transactions (trade, debt service, etc.)?

II. Foreign Trade and Payments System 1/

1. How is the annual foreign exchange allocation plan drawn up? Are any revisions made during the year? How is it implemented in the course of the year? Please provide a summary of the 1990 foreign exchange allocation plan.
2. Please provide annual data for payments (exports and imports separately) with each CMEA partner country that were channeled through IBEC and the cumulative creditor/debtor balances outstanding from the beginning to date. Also, please, provide information on transactions with CMEA members in convertible currencies.
3. Please provide a full set of currently applicable foreign exchange control regulations (foreign exchange control law, relevant circulars of the Gosbank and Vneshekonombank, resolutions of the Ministry of Foreign Economic Relations, etc.). Who has legal competence to issue and amend these various regulations? Who approves foreign exchange applications, and is there an appeals procedure in the case of rejection?
4. How and by whom are exchange controls being administered (degree of delegation, etc.)?
5. Please provide a description of the current status of the price equalization system and of changes made to the system in recent years. Does the system differentiate between the convertible and nonconvertible currency areas? Is the system financially balanced (e.g., on an annual basis) or does it require subsidies from the State budget or the banking system? What is the structure of equalization taxes and subsidies practiced on exports and imports? On what basis are these taxes and subsidies set? Please provide data on the operations of the system in 1989 and in 1990 to date and a projection for 1990 as a whole.
6. Please explain how the price equalization system relates to the system of differential foreign exchange coefficients (DVK).
7. Please provide the text and most recent protocols of bilateral trade and payments agreements (or a synopsis of these). With respect to payments agreements, what are the settlement modalities (type of accounts, currency of denomination, frequency of settlement, swing limits, interest rates on balances within swing limits).
8. To what extent is the ruble externally convertible at this stage? Please specify which receipts of nonresidents are fully and immediately convertible into foreign currency.

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1/ Questions in this section that are expected to be covered by the OECD-led task force on Trade and Investment are marked with an asterisk.

9. May foreign banknotes be used in exchange transactions and how are they quoted? What are the rules on the import and export of domestic and foreign banknotes?
10. Which institutions are authorized to carry out spot or forward transactions in foreign currency? Which types of transactions are they allowed to carry out?
11. Are authorized banks permitted to maintain foreign exchange holdings for their own account or are these holdings centralized or maintained on the account of a central reserve holding institution (e.g., Vneshekonombank)? How large a net foreign exchange position are banks permitted to hold?
12. On what terms can foreign exchange be retained by exchange earners or recipients? Is exchange retained "owned" or is there merely a right to repurchase? If so, is the exchange rate guaranteed? What sources of earnings or receipts are involved; which foreign currencies may be retained and for what period; what kinds of transactions may be settled with such retained currency; and in what circumstances is retained currency transferable (auctions, sale at freely determined exchange rates, etc.)?
13. What are the collection, repatriation and surrender requirements relating to foreign currency receipts?
14. To what extent is trading in securities and commodity futures and options permitted (for residents abroad and nonresidents in the Soviet Union)?
15. Does the exchange control territory coincide with the territory of the Soviet Union or are there exclusions because of the existence of ports or territories free of, or subject to special, exchange control? What is the status of free enterprise zones?
16. Are there any exchange license requirements in addition to import licenses? If so, describe the system and any exemptions from it on the basis of kinds of transactions and countries or currencies of settlement.
17. Are there any advance import deposit requirements? If so, please describe the system.
18. How are the concepts of resident and nonresident defined?
19. Is there a designated bank through which a resident must transact all his exchange transactions (bank of domicile)?
20. Is a resident obliged to stipulate payments to, and receipts from, a nonresident in a specified currency (prescription of currency requirement)?



21. What categories of account in domestic or foreign currency may be maintained by nonresidents? Which are their operational modalities?

22. What categories of foreign currency accounts may be maintained in the Soviet Union or abroad by residents? What are their modalities of operation?

23. Please provide data on the amount and currency composition of the types of accounts referred to in the preceding two questions.

24.\* Which imports or exports are prohibited, subject to quota, subject to individual licensing? Are these measures applied worldwide or with respect to particular countries or currency areas only? What are the reasons for maintaining these measures? Please provide data on the importance of these trade restrictions in 1985-89 and 1990 to date.

25.\* Please provide data on barter and compensation transactions in the same period. What countries and products were involved?

26.\* On what basis are economic units authorized to act as importers or exporters? What is the importance of state-owned Foreign Trade Organizations in exports and imports, by currency area? Who owns the FTOs (branch ministry, producing or using enterprises)? What product-line monopolies continue to exist in foreign trade? Are domestic prices for producers of exports/users of imports of the same good equalized, regardless of country of destination/origin?

27.\* On what terms are import and export licenses issued (validity period, country or currency limitations, etc.)? Are there licensing fees? Is import licensing tied to export performance or the use of certain domestic products? Are there products where individual licenses are required only for registration and supervision?

28. Are importers and exporters free to arrange credit terms or to make/receive prepayments?

29.\* What is the technique used for exempting imports from quantitative restriction (a specified freed import list, open general licenses, absence from a specified negative list of restricted/prohibited imports)?

30.\* Are there special border trading arrangements (customs treatment, foreign exchange retention, exchange control regime)?

31.\* What are the cost restrictions maintained on imports (customs tariff, surcharges, special turnover taxes, etc.)? Is the customs tariff uniform or does it differentiate with respect to currency area, country of origin (MFN, GSP) or provenance, commercial-personal imports? Are tariff rates ad valorem or specific? What is the unweighted average tariff and its dispersion (i) overall and (ii) with

respect to major import categories? What was the effective annual rate of customs duty collection in 1985-89 and 1990 to date and for what purpose are these proceeds used (state budget, price equalization, etc.)?

32.\* Are there any export taxes?

33. Please indicate how restrictively approval procedures for payments and transfers are handled for major categories of current invisible payments (service imports, personal remittances and profit transfers). Is there any differentiation in the regulations between country or currency area or between natural and juridical persons? Are there set limits for certain payments related to shipping, insurance, international transport, tourism, business or official travel, medical expenses, profit remittances, etc.?

34. Is preferential treatment granted to domestic enterprises in shipping, air transport and insurance as compared with foreign ones? What forms does such treatment assume?

35.\* Please describe the currently applicable regulations for direct foreign investment and joint ventures with special emphasis on foreign exchange retention privileges, access to foreign exchange for imports and profit remittances, access to domestic and foreign credit, restriction on expatriate employment and management, tax holidays, protection against adverse changes in the fiscal or regulatory environment, protection against expropriation, repatriation of liquidation proceeds. What is the quantitative importance of licenses issued, companies registered, operations started in the recent past (both in terms of number of enterprises and capital commitments)? In what branches and geographical areas is foreign investment allowed and taking place?

36. What are the regulations governing outward direct investment by residents? How important is such investment (banks, production enterprises)?

37. With which countries has the USSR negotiated bilateral investment protection agreements and what are their salient features?

38. What exchange control treatment is extended to requests for transfers abroad of personal capital transfers (inheritances, savings from wages and salaries, proceeds from the sale of personal property)? In authorizing such transfers, is a distinction being made between countries in the convertible and the nonconvertible currency area?

39. What measures are being applied to prevent the flight of capital abroad?

40. Are residents permitted to purchase, hold and sell gold and other precious metals at home and abroad?

### III. CMEA Operations 1/

1. What transactions are channeled/settled through CMEA (merchandise trade, current invisibles, etc.)? What, if any, are the exceptions that are channeled through bilateral agreements among CMEA members or settled in convertible currencies?
2. Is there a limit on the credit/debit position that each member must maintain?
3. How often are transferable ruble balances settled?
4. Is there a credit or overdraft facility and, if so, what is its size, how is it determined, and how often is it adjusted?
5. What are the interest rate and repayment terms of credit/overdraft facilities? What are the size and distribution of imbalances at present?
6. Does each member quote the exchange rate of its own currency against the transferable ruble and, if so, on what basis, and how often is the exchange rate adjusted?
7. Is the exchange rate which is agreed bilaterally with another member country for transactions not channeled through IBEC different from that which results from the cross-rate relationship against the transferable ruble?
8. Are there any sanctions, at the level of the CMEA, if member countries take steps to restrict exports to other members (i) above protocol limits or (ii) within protocol limits?
9. To what extent is CMEA trade based on enterprise-to-enterprise contracts or on transactions conducted by national Foreign Trade Organizations?
10. What is the state of play of the reform of the CMEA? (At its 45th session in Sofia in early 1990, it was decided to prepare reform proposals with a view to implementing reform as of January 1991.) Which countries are resisting reform and why? To what extent will convertible currency or bilateral payment agreements with swing limits replace the transferable ruble as of January 1, 1991?
11. What are the expected terms of trade gains/losses for individual CMEA members that would result from the switchover from negotiated/formula prices to world market prices?

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1/ Some of the questions in this section are also covered in Sections I and II above.

12. What procedures are foreseen to unwind cumulative bilateral creditor/debtor positions if CEMA were to be terminated at the end of 1990?

13. What is the expected impact of the reform of the CMEA trade and payments mechanism on the reform process in individual member countries? And what is the likely response of these countries in terms of their own need for structural adaptations?

IV. Balance of Payments

1. Please provide balance of payments statistics for 1985-89 and projections for 1990 and 1991 for the convertible currency area, for trade under bilateral agreements, and for the nonconvertible currency area. Are there monthly or quarterly balance of payments data for 1989 to date? Please state in what currency these balance of payments data are denominated (preferably U.S. dollars for the convertible currency area and transferable rubles for the nonconvertible currency area) and indicate the exchange rates used for conversion.
2. Is there any pronounced seasonality in Soviet balance of payments statistics? If trade data for customs and for balance of payments purposes are different, please explain the reasons for the discrepancies.
3. Please provide a breakdown of foreign trade (preferably valued f.o.b.) by major product categories (for total trade and by currency area), by economic classification (raw materials, intermediate goods, investment goods, consumer goods), by financing arrangement (cash payment, short-term trade financing, financing over one year, grants), and by country of origin and destination. Time period: 1985-89, annual; 1989 to date, monthly and quarterly.
4. Can the aggregate foreign trade data be broken down as to price and volume changes? What has been the development of the terms of trade with the convertible currency area and with the nonconvertible currency area?
5. Are any of the major exports sold under special arrangements, e.g., long-term contracts with periodically fixed prices (natural gas)? Are there minimum volumes agreed (gas exports, grain imports)? What are the arrangements for exporting gold, diamonds, platinum?
6. What is the prospective impact of the recent increase in energy prices on the balance of payments for 1989 and 1990?
7. Please provide a breakdown of the service accounts (both credits and debits) according to the following categories, again distinguishing between currency areas.

- Shipment and other transportation
- Travel (including tourism)
- Investment income
  - Interest due (both paid and unpaid)
  - Profits (both transferred abroad and reinvested)
- Other services

If possible, other services should distinguish between factor incomes (rents, wages and salaries) and nonfactor incomes.

8. Unrequited (or unilateral) transfers should also be reported separately for transfers received and transfers made and distinguish between private and official transfers. If possible, differentiate between transfers in the form of cash, goods and services (e.g., technical assistance).

9. Information on the capital account should also separate credit and debit entries and include direct foreign investment, disbursements of medium and long-term loans received and extended, amortization due (both paid and unpaid) on medium- and long-term loans received and extended, short-term capital movements (both borrowing and lending). If possible, the lending and borrowing operations (disbursements and amortization) should be sectorized by type of Soviet lender or borrower, i.e., general government (union, republics and local government), banking system (Gosbank, Vneshekonombank, other banking institutions) and nonfinancial socialized enterprises and foreign trade organizations.

10. If not shown separately in points (7) and (9) above, what were the amounts of interest and amortization that remained unpaid each year, quarter or month? And how much of the unpaid amounts of previous years, quarters or months were paid in the following time period? The two preceding questions should provide information to calculate the net increase or decrease of unpaid interest and amortization.

11. What was the change in gross international reserves and international reserve liabilities in each time period?

12. How are the sales of foreign currency stores treated on the credit side of the balance of payments?

V. External Debt and International Reserves

1. Please provide the stock of gross and net international reserves of the banking system at year-end in the period 1985-89 and at end of month thereafter.
2. Please provide a breakdown of reserve assets into gold, bank deposits abroad, bilateral balances, CMEA balances, other. What is the valuation method used for gold and other reserve assets? What is the currency composition and term structure of foreign exchange holdings? Are any of the reserve assets pledged or otherwise encumbered?
3. Please provide information on other reserve assets (participations in banks abroad, export credits extended to foreign nonbanks, etc.).
4. What is the stock of external debt disbursed and outstanding at year end during 1985-89 and at the end of March and June 1990? Please distinguish by currency area, by creditor country or organization, by creditor type (banks, government, suppliers, bonds, multilateral institutions such as IBEC and IIB), by original maturity (up to and including one year, 1 to 5 years, etc.). Please distinguish, as far as possible, between unguaranteed credits and credits guaranteed or insured by foreign export credit agencies.
5. Please provide a projection of annual debt service obligations (interest and amortization separately) for 1990-94 on the basis of debt disbursed and outstanding at the end of 1989. Please classify this information by currency area, creditor country or organization and creditor type.
6. Please provide data for the same time period as in (4) above for the USSR's claims on other countries and organizations using the same classifications as under (4).
7. Similarly, we would appreciate receiving projections for debt service due to the Soviet Union for the time period and with the classifications indicated in (5) above.
8. Please provide information on the stock of arrears outstanding at end-1989 and mid-1990 on both Soviet debt and claims distinguishing interest and principal, currency area, and creditor/debtor country or organization and creditor/debtor type.
9. What are the rules and regulations governing the contracting and guaranteeing of foreign debt? How have they evolved in the past few years? Is there a licensing or registration requirement?
10. What are the rules and regulations for extending credit abroad? What have been the changes in recent years?

## Questions on Government Finance

### 1. Basic statistical information

a. Attached please find blank tables for state budget operations by major categories of revenue, expenditure (if possible both economic and functional classification), and financing. Please provide actual annual data (in billions of rubles) for the period 1980-89, and actual quarterly or semiannual data for 1989 and 1990; and annual estimates of the likely outturn for 1990 compared with the initial budget.

b. Please provide additional detail on an annual basis for 1985-89 on the following revenues: (a) turnover tax broken down by main commodities and by republic; (b) tax and nontax revenue from enterprises (profit taxes, payments from assets, etc.), by industrial activity (major manufacturing branch, mining, agriculture), by legal form (state enterprises, state farms, cooperatives, etc.), and by republic; and (c) foreign trade taxes, separately by imports and exports of major commodity groups and by geographic area of origin and destination (i.e., CMEA vs. other regions). Also, please provide data on revenue earmarked (if any) for specific purposes.

c. Please provide additional detail (on annual basis) for 1985-89 on the following expenditures: (a) consumer and producer subsidies, broken down by major commodity or service; (b) various transfers and special-purpose subsidies to enterprises and institutions, by purpose (e.g., CMEA exports), by industrial activity and by legal form of enterprise or institution.

d. Please provide deconsolidated annual data (based on the aggregation requested in question 1(a) for 1985-89 at the republic and local government levels. Please provide data on annual transfers among the central (union) government, republics and local governments.

e. Please provide annual data (consistent with the level of aggregation requested in question 1(a) for 1985-89, on each major extrabudgetary fund at various levels of government.

f. Please explain the methodological and institutional characteristics underlying the above statistical data: (a) listing all budgetary and extrabudgetary entities at each level of government; and (b) describing the data collection and preparation, including periodicity, valuation methods, accounting conventions, and primary sources. Please describe problems affecting the reliability and correctness of data (due, for example, to recording, valuation, disclosure, noncooperation).



2. Fiscal developments

a. --Please discuss the budget outturn and the pattern of deficit financing in recent years and the expected outcome for 1990, in the light of developments to date during this year. In this discussion, please identify separately insofar as possible the influence of: (a) exogenous events (Chernobyl accident, Armenian earthquake, harvests, etc.), (b) policy and institutional changes in various areas, and (c) developments abroad (such as changes in commodity prices in world markets).

b. In particular, please elaborate on the impact on revenues and expenditures of the anti-alcohol campaign, the USSR Law on State Enterprise, reform of the foreign trade system, banking reform, changing arrangements in fiscal relations among various levels of government, and emergence of inter-enterprise credits. Also, please discuss the budgetary implications of changes in relations among CMEA member countries.

c. Please explain the assumptions (e.g., inflation, enterprise profitability) underlying the projections for 1990.

3. The revenue system

a. Please provide a brief summary of the present revenue system which should include all taxes (including social security contributions), fees, charges, and other revenues, whether earmarked for a specific fund or not. For each revenue category, please indicate the rate structure and statutory base, if any. Tax code decrees or other statutes would be appreciated.

b. In addition, please provide information on the number of turnover tax rates (whether explicit or implicit) and the prevailing rates on major commodity groups, and the method of collecting these taxes.

c. Please elaborate on the income taxation of, and/or profit acquisition from, state enterprises, state farms, banks and other financial institutions. What rules are followed in establishing a tax claim or a claim on profits by the government? Concerning the calculation of a statutory tax base, please describe depreciation and inventory valuation rules, and the accounting method used (cash or commitment). How much discretion or negotiation exists, and involving whom, to determine the tax liability or required transfer from the enterprise? How much variation exists in tax treatment across industries, legal forms, etc.? Please describe the reform of enterprise income taxation, scheduled for introduction next year. Are any exceptions or preferential treatment envisaged for specific industrial activities, joint ventures, foreign enterprises or other entities?

d. Please indicate the tax rates on the wage fund of enterprises and on personal income of employees, and the base on which they are assessed. Is any of these taxes earmarked to finance social security benefits? Please describe the application of the progressive tax on excess wage increases.

e. Please describe the income tax regime applicable to cooperatives, private enterprises and the self-employed and other individuals, indicating the rate structure and calculation of the base.

f. Please explain the taxation of foreign trade. Are there any predetermined statutory tax rates on imports and exports? If so, please state the rates by major product category and by major geographic origin and destination. (Please provide tariff classification, if available.) Or is the tax liability determined residually, upon application of foreign exchange coefficients?

g. Please describe the administration of tax and nontax revenue--separately for each major revenue category--highlighting (a) the organizational structure of tax or customs offices (or other official agencies in charge of administration) at the central, republic and local government levels, (b) the manpower in tax agencies, distributed by function, skills and location, and (c) computer facilities and training programs. Any plans for restructuring in this area?

h. Please discuss tax enforcement--for each major revenue category--summarizing (a) laws and regulations on filing tax returns, tax withholding by enterprises, audits, litigation and penalties, and (b) the actual application of these rules, with information on payments arrears.

i. Please discuss current arrangements for revenue sharing among various levels of government. At which levels are different revenues (please indicate by type of revenue) collected and which level is the ultimate destination of revenue?

#### 4. Structure of expenditure

a. Please provide the rates of consumer and producer subsidies for major commodities and services (including housing and transportation). How frequently are these rates changed and how are they determined?

b. Please discuss current wage policy and recent trends in wages and salaries of government employees. What is the number of civil servants by level of government and by broad occupational category?

c. Please discuss the size of expenditures on national defense and internal security, providing, if possible, a breakdown between the wage bill and payments for materials, equipment and services, indicating valuation methods used.

d. Are the activities of the Communist Party or other political organizations included in the state budget? If yes, please indicate the amount of expenditures. If not, how are they financed?

e. Please describe the principal social welfare programs (old-age and disability pensions, sick pay, family allowances, unemployment compensation and social assistance), outlining the structure of benefits, eligibility rules, and administration (at various levels of government). Have any proposals for reform been advanced in this area?

f. Please explain the criteria (e.g., financing difficulties, foreign trade commitments) used to determine the payment of lump-sum current and capital transfers to state enterprises and other institutions.

g. Please explain past and present government investment policies and practices, highlighting the sources of funds, design and implementation of investment projects (including investment abroad), and involvement of different levels of government.

##### 5. Budgeting and expenditure control

a. Please list the different levels of government whose budgets are included in the state budget and explain the existing financial relationships between the budgets at different levels of government. Are there any state activities at any level of government which are not covered by one of the budgets included in the state budget? Please provide a copy of the Budget Law currently in effect.

b. Please explain who are the principal decision makers and interveners in the budget process (i.e., preparation and execution). Specifically, what is the role of the Ministry of Finance, the Gosplan, the branch ministries, legislative bodies and the Communist Party, at the central and local levels? Please provide an organizational chart showing the location of, and relations between, departments, divisions and other units in charge of budget preparation and execution.

c. Please explain the budget preparation process. What is the normal timetable for it? Are there budget guidelines provided by the Ministry of Finance and/or the Gosplan? If yes, please indicate what these guidelines include. What are the respective roles of the Ministry of Finance and branch ministries in the process? What is the relationship between the Plan and the yearly budget? Is the yearly budget of a ministry closely related to the yearly plan for that ministry? If there are disagreements between the Ministry of Finance and a branch ministry concerning the size and the composition of the ministries' budget, how are these disagreements resolved?

d. Please explain how the budget is structured and how revenues and expenditures are classified in the budget document. Specifically, are investment and current expenditures shown separately? How are expenditures classified within the budget of a ministry? Is there a well-defined administrative classification applied to expenditures by all budgetary entities? Are expenditures reclassified for analytical purposes according to their economic nature and/or to their function? Are investment expenditures classified by project and/or by program?

e. Please explain how the budget is approved. Before approval by the Supreme Soviet of the USSR, is the budget discussed in specially appointed committees? Once the budget is approved, does it have the force of a law? Is the budget law binding for one year only or until such time as the appropriated expenditures are implemented and revenues collected?

f. Please explain how the budget is implemented and financial control is carried out. How are funds appropriated for a given ministry released? Who is the releasing authority, the Ministry of Finance or the branch ministry? Are funds released monthly, quarterly, or when needed? How are funds controlled from the moment of release until the final payment is made for goods purchased or services rendered? Who is in charge of controlling various steps in the expenditure process?

g. Please explain how public funds are managed. Specifically, is there an organizational unit in charge of the daily management of revenue and disbursement flows? If on any day revenues are not sufficient for paying expenditures of that day, how is this daily shortage of funds solved? Will the organizational unit in charge of disbursement borrow funds or will it simply postpone the payment of expenditure until funds are sufficient? What are the financial relations between a branch ministry and the banking system? Are payments affected through the banking system? What kind of banking instruments are used in the process?

h. Please explain the main features of the accounting system. Who is in charge of the compilation of accounts? What is the frequency of compilation (monthly, quarterly)? Are all budgetary operations covered by the accounting system? On what basis are accounts compiled (accrual, cash, or a combination of the two)?

i. Please explain the organization of fiscal reporting and monitoring, indicating the kind of reports prepared, the principal aim of these reports (expenditure control, cash flow management, fiscal policymaking), the frequency of these reports, the source of information (accounting or other), the agency responsible for preparing these reports, and the main users.

j. Please explain how budgetary operations are audited. Is the audit of budgetary operations a legal requirement? Which, if any, budgetary operations are submitted to a yearly audit?

k. Are there any state operations financed from funds (i.e., extrabudgetary funds) outside of the state budget and what is the rationale for these funds? If yes, what are the sources of revenue for these funds? Are these funds provided from tax revenues on a discretionary basis or through the process of earmarking, whereby a given proportion of revenues stemming from taxes is automatically diverted to these funds without transiting through the state budget? Please explain the decision-making process pertaining to these funds, as regards the agencies in charge, the criteria for revenue allocation to, and expenditure by, these funds. How are operations of these funds controlled and accounted for?

5. Government debt and financing

a. Please provide data (in billions of rubles) on the stock of government debt outstanding at year-end for 1980 and for each year since 1985, and for end-June 1990, broken down by type of instrument, by creditor (foreign creditors, Gosbank, other domestic banks, enterprises, individuals or other creditors). Please show separately liabilities assumed by the state on behalf of enterprises or other institutions. Please provide detail as to the level of government that holds the liability.

b. Please provide a breakdown of annual debt service payments for 1985-89, included in the state budget, by interest and principal repayment, and by major category of foreign and domestic creditor. What interest rates does the government pay on foreign and domestic debt? Does the government pay interest on borrowing from the state-wide loan fund?

c. Please discuss alternative channels (e.g., state loan fund, banks) and instruments (e.g., government bonds) to finance the state budget deficit, including those held by commercial banks, enterprises, households and foreign creditors. To what extent are these financial instruments held voluntarily by domestic creditors?

7-Aug-90

SSR: State Budget Operations, 1980-90: Revenue

(In billions of roubles)	1989										1990				
	1980	1985	1986	1987	1988	Plan	Q1	Q2	Q3	Q4	Est. total	Plan	Q1	Q2	Est. total
total revenue															
tax revenue															
Income and profits taxes															
Individual income taxes (on population)															
Income tax															
Agriculture tax															
Bachelor/small family tax															
Patents/other income taxes (please identify)															
Other taxes on population (please identify)															
Profits taxes and contributions															
Enterprises															
Profit/income deductions etc.															
Fixed payments															
Residual profit payments															
Wage tax															
On fixed/working capital															
Other taxes on enterprises (please identify)															
Coop. and social org. income tax															
Collective farms															
Cooperatives etc.															
Social insurance taxes															
Taxes on domestic goods and services															
Turnover taxes															
Alcohol															
Other															
Other domestic indirect taxes/excises (please identify)															
Revenue from foreign trade activity (please identify by major components)															
(e.g. export revenue															
import revenue															
foreign exchange transactions revenue)															
Other tax revenue (please identify)															

Source:

Section taking into account developments in the first half of 1990.

JSSR: State Budget Operations, 1980-90: Revenue, concluded

(In billions of roubles)						1989				1990								
	1980	1985	1986	1987	1988	Plan	Q1	Q2	Q3	Q4	total	Est.	Plan	Q1	Q2	total	Est.	
Nontax revenue																		
Entrepreneurial/property income																		
Revenue from sales, etc. by government entities																		
Transferred surpluses from banking system																		
Income from government assets																		
Revenue from use of government land, etc.																		
Other property income																		
(please identify)																		
Administrative fees and charges																		
Fines and penalties																		
Other nontax revenue																		
(please identify)																		
Capital revenue																		
Sale of assets																		
(please identify)																		

Source:

\*Projection taking into account developments in the first half of 1990.

17-Aug-90

USSR: State Budget Operations, 1980-90: Economic Classification of Expenditure

(In billions of roubles)	1980	1985	1986	1987	1988	1989					1990			
						Plan	Q1	Q2	Q3	Q4	total	Est.	Plan	Q1

Total expenditure

Current expenditure

Government consumption

Wages and salaries

Goods and services

Interest payments

On foreign debt

On domestic debt

Current subsidies and transfers

Social welfare expenditures

Social welfare

From state social sec. fund

Other

(please identify)

State social insurance payments

of which: pensions

State aid to families/mothers

To centralized collect. farm insur. fund

Subsidies

Food

Other consumer subsidies

(please identify)

Producer price subsidies

(please identify)

Transfers to cover enterprise losses

Trade subsidies

Capital expenditure and net lending

Centralized investment

Government capital formation

Capital transfers to enterprises

Transfers to abroad

Foreign aid

Other foreign transfers

(please identify)

Lending less repayments, to enterprises

Source:

\*Projection taking into account developments in the first half of 1990.



07-Aug-90

USSR: State Budget Operations, 1980-90: Functional Classification of Expenditure

(In billions of roubles)						1989					1990							
	1980	1985	1986	1987	1988	Plan	Q1	Q2	Q3	Q4	total	Est.	Plan	Q1	Q2	total	Est.	
Total expenditure																		
General public services																		
Defence																		
Public order and safety																		
Education																		
Health																		
Social security and welfare																		
Housing																		
Recreation and culture																		
Economic services																		
Fuel and energy																		
Agriculture, forestry, fishing, etc.																		
Mining and mineral resources																		
Manufacturing																		
Construction																		
Transportation																		
Communications																		
Other (please identify)																		
Other expenditures																		
Interest payments																		
Other (please identify)																		

Source:

\*Projection taking into account developments in the first half of 1990.

07=Aug-90

USSR: State Budget Operations, 1980-90: Financing

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(In billions of roubles)						1989				1990					
	1980	1985	1986	1987	1988	Plan	Q1	Q2	Q3	Q4	total	Plan	Q1	Q2	total
Total revenue											Est.				Est.
Total expenditure															
Overall balance															
Total financing (= -balance)															
Foreign, net															
Loans															
Socialist															
Non-socialist															
Repayments															
Socialist															
Non-socialist															
Domestic, net															
Banking system															
From state-wide loan fund															
Other Gosbank															
Other banks															
(please identify)															
Non-banking															
Loans from population (bonds, etc.)															
Allocs. to reserve monetary fund (-)															
Loans from enterprises															
Other															
(please identify)															

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Source:

\*Projection taking into account developments in the first half of 1990.

## I. Questions on the Monetary System and Financial Reform

1. Please describe the financial system in the Soviet Union prior to the 1987 reforms ( the role of the financial system in the carrying out plans; division of responsibilities between the Gosplan and the Gosbank; and the structure of the banking system). Please discuss the main monetary (credit) instrument that helped carrying out the state plans under the pre-reform system. In particular, what were the respective roles of the credit cash plans; what determined these plans, and was there any relationship between the two? Were these plans changed in the course of the plan period? Please describe the payments system in the pre-reform period.

2. Please explain the main features of the banking sector reform of July 1987. What were the main objectives of the reform? What are now the main responsibilities of the Gosbank? What is the relationship between the newly established banks and the Gosbank? Who owns the new banks and who is allowed to establish a commercial bank? How were the deposits and loans of the enterprise sector allocated to the new banks?

3. Please comment on the role and responsibilities of regional (local) banks. Are the regional and local authorities allowed to borrow from local banks, or any other financial institution, or to issue bonds to finance their operations? Please also discuss the relationship between the local banks and the Gosbank.

4. Is there an interbank money market ? Under what terms are foreign banks allowed to operate in the Soviet Union? Is there any form of capital markets currently operating?

5. Please describe changes in the use of monetary instruments following the reform . In particular: (i) are credit and cash plans still prepared, and if so, how do they differ from plans in the pre-reform system; (ii) is there a reserve requirement for banks (deposits of commercial and specialized banks mandatorily held at the Gosbank), and if so, is it uniform across the banks, regions and sectors; (iii) are there still credit ceilings/rationing in effect and if so, how do they differ from the pre-reform system; (iv ) does the Gosbank conduct open-market operations (selling and buying securities with a view to control money supply)?

6. What is the role of interest rates under the new system and how are interest rates determined? How are interest rates on Treasury bills determined, and how do they compare with interest rates on other financial assets?

7. Please discuss the terms under which credits are now granted to the enterprise sector, agricultural cooperatives and private firms, if any. Please distinguish between (i)

short-term financing of working capital, (ii) medium-term credit, (iii) trade financing including export credit. Is any of the above credit types still subsidized, and, if so, what is the mechanism for obtaining these subsidies. Please also provide information on (i) the sectoral (ii) the regional distribution of credit to enterprises and cooperatives.

8. Please discuss developments in credit to the central government, the enterprise sector, agricultural cooperatives and kolhozi, and households. According to some estimates, there has been a declining trend of bank credit to enterprises. If so, please explain the underlying factors (for example, debt-write-off operations by commercial banks).

9. Please discuss developments in domestic debt write-offs to enterprises and agricultural kolhozi. Who decides on debt-write-offs; what are their usual terms; and who carries the financial costs of these operations (the commercial banks, the state budget or the two jointly)? Are there further plans for debt-write-off operations and if so, what are their implication for credit, and in general, for monetary policy?

10. Please discuss the impact of increasing fungibility of enterprise deposits on their demand for money (cash and shorter-term deposits).

11. Do you agree that, as discussed in a number of papers, there is an increasing monetary overhang in the Soviet economy? If you do, how do you measure the magnitude of the overhang; what are its consequences and how can this excess liquidity be absorbed?

12. Do enterprises (cooperatives, farms) accumulate repayment arrears to the banks? If they do, are banks allowed to automatically debit deposit accounts of enterprises (even if those accounts are earmarked).

13. Please discuss developments in inter-enterprise credits. Is inter-enterprise credit legally permitted? Are enterprises allowed to channel excess liquidity to other enterprises, cooperatives, or to households, and if so, through which channels? What are the implications of inter-enterprise credit for monetary control?

14. Please discuss the terms under which central bank financing is provided to the budget. Please provide a list of all accounts of the government held with the Gosbank. Are there deposit accounts that are jointly owned by the government and enterprises/cooperatives, and if so, please provide information as to the terms of these accounts. Are other banks required to provide budgetary financing? Please provide information on amounts, maturities, yields and distribution of holdings of Treasury bills and other government bonds.

15. Please discuss the impact of the banking sector reform on the household sector. What types of financial assets are offered to households and with what yields? What kind of loans are extended to the household sector by the banks and at what interest rates? Do enterprises issue bonds that are available for purchase? Do enterprises provide loans to households (to their workers) and if so, what are the usual terms of such loan contracts? Please, also provide available information on the distribution of households deposits.

16. Can individuals and/or enterprises hold foreign currency deposits in the Soviet Union? Do they have to declare the source of the receipt of the foreign currency? What is the interest rate paid on these accounts? Is the use of these accounts restricted in any way? Are foreign currency deposits subject to reserve requirement?

17. How do branches of the banks (intra-bank accounts) and different banks (interbank accounts) clear among each other (procedures for crediting, magnitude of inter-branch accounts, etc.)?

18. Please describe who provides bank supervision under the new system, and what are the major guidelines for bank supervision.

19. Please explain the reasons for and the main changes envisaged in the forthcoming new bank law.

## Monetary statistics

### I. General questions

The attached tables, relating to monetary statistics, aim at collecting information on the financial assets and liabilities of different sectors of the Soviet economy and on the corresponding interest rates. We would appreciate to receive available material on balance sheets of Gosbank and of other financial institutions. We would also appreciate to receive a copy of the Handbook on Monetary Statistics recently published by the central statistical office. In addition it is important that data on assets and liabilities are reported in Tables 1-10; Table 11 can be used for interest rates. In compiling these tables, please notice that:

1) In the tables, data on financial assets and liabilities should refer, unless otherwise specified, to the amount or stock of a certain financial instrument (for example, bank deposits) outstanding at a certain date and not to the flow, or change in the stock, during the period.

2) Data should refer to the outstanding stock at the end of each period shown in the tables: for example, the data relative to 1988 should refer to the existing stock on December 31, 1988. We understand that balance sheets in the Soviet Union usually refer to the situation on January 1 of each year; clearly, data referring to January 1 can be used as referring to December 31 of the previous year. When quarterly data (indicated as Q1,...,Q4) are requested, the figures should again refer to the last day of each quarter (or to the first day of the following quarter).

3) In all tables data from 1979 to 1989-90 are requested. While all this information would be useful, in compiling the tables priority should be given to most recent figures, specifically those referring to 1985-90.

4) In each table, a Source is requested; the source should indicate the name and the date of the official publication from which the data are derived; if the data are not published the source should report the name of the agency from which the data are available (for example, Gosbank). More than one source can be indicated.

5) The present version of the tables should be considered as tentative; in the preparation of the tables it has been assumed, based on our current knowledge of the Soviet economy, that certain financial transactions do not exist, or are not quantitatively relevant at present; if necessary, new lines should be included to report relevant financial transactions omitted in the attached version.

6) The tables referring to banks (each considered to be as a separate sector) should balance, i.e. total assets should be equal to total

liabilities. However, in order to avoid a complete breakdown of assets and liabilities, in each table a residual line, referring to "other liabilities" has been included. This line should be interpreted as a "balancing item" and could be negative if the sum of the reported liabilities is higher than the sum of the reported assets. The residual item should however be small; if, based on the included lines, the residual item is relatively large, new lines should be introduced to provide more detailed information. However, please provide footnotes indicating which are the main assets or liabilities included in the residual items. Please, note that tables 9 and 10 (relative to selected assets and liabilities of firms) are not required to balance.

7) In many tables assets and liabilities are broken down between "short term" and "long term". This distinction is highly conventional: for example, the "short term" could refer to assets or liabilities with initial maturity equal to or below 1 year. We understand that the main distinction between short term and long term credit in the USSR is based on the type of real transaction which is financed by the credit operation (e.g. credit to finance stockbuilding, or ssudy pod tovarnomaterialnye cennosti, is considered as short term credit; credit to finance fixed investment is considered to be long term). Please, provide a brief footnote describing the criterion used to distinguish between short and long term, in the reported figures. It could also be useful to have a breakdown of short term credit according to the purpose (this breakdown has not been reported in the tables due to lack of sufficient knowledge on the real transaction behind short term credit).

8) We understand that the July 1987 reform of the banking system was effective as of January 1 1988; we are not sure whether data on assets and liabilities are available according to the new structure of the banking system already for that date, which in our tables would correspond to the end of 1987. Therefore, the tables referring to the new banks created by the reform (Tables 4-7) and the table for Stroybank (Table 3) both include 1987.

9) No table is included to describe financial assets and liabilities of the insurance system (Gossthakh); please, provide information on the main assets and liabilities of Gossthakh. If there are other important insurance agencies, please provide information on their operations as well.

10) Notice that collective farms (Kolkhoz) and cooperatives are included in the firms sector. However it could be useful to get separate information of financial assets and liabilities of both cooperatives and collective farms, especially for the most recent period.

11) the tables do not include specific lines for "bad loans", i.e. for credit whose repayment is dubious, for example because it was extended to cover losses; is there information on bad loans for different banks or for the aggregate of the banking system, from 1979 to 1989?

Table 1. USSR: Central Bank (Gosbank) Assets and Liabilities

(Millions of rubles)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988				1989				1990	
										Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Assets																			
Domestic credit																			
To firms																			
Short-term																			
Long-term																			
To Treasury																			
Possible different accounts																			
To other public agencies (e.g. local authorities)																			
To <u>Vneshtorgbank/Vneshekonombank</u>																			
To other banks																			
Other domestic assets																			
Claims against residents in foreign currency																			
Foreign assets																			
Gold																			
Convertible currencies																			
Nonconvertible currencies																			
CMEA bank																			
Total Assets																			
Liabilities																			
Currency in circulation																			
Deposits																			
Firms																			
Households																			
Demand																			
Savings																			
Res																			
Other deposits																			
In rubles																			
Liabilities against residents in foreign currency																			
Foreign liabilities																			
Convertible currencies																			
Short term																			
Nonconvertible currencies																			
Short term																			
CMEA bank																			
Capital																			
Reserves																			
Other liabilities																			
Total liabilities																			

Source:



Table 2. USSR: Assets and Liabilities of the Foreign Trade Bank (Vneshtorbank) (1979-87)  
and of the Foreign Relation Bank (Vneshekonombank) (1988-89)

(Millions of rubles)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988				1989				1990		
										Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<b>Assets</b>																				
Claims against residents																				
In rubles																				
In foreign currency																				
Foreign assets																				
Gold																				
Convertible currencies																				
Nonconvertible currencies																				
CMEA bank																				
Total assets																				
<b>Liabilities</b>																				
In rubles																				
Residents																				
Nonresidents																				
Liabilities against residents in foreign currency																				
Foreign liabilities																				
Convertible currencies																				
Short term																				
Nonconvertible currencies																				
Short term																				
CMEA bank																				
Capital																				
Reserves																				
Other																				
Total liabilities																				

Source:

CAC: USSR+b3

Table 3. USSR: Assets and Liabilities of Sstroybank

(Millions of rubles)

---

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Assets									
Cash									
Claims against Gosbank									
Domestic credit									
To firms									
To the treasury									
To others									
Total Assets									
Liabilities									
Credit from Gosbank									
Credit from the Treasury									
Deposits									
Firms									
Households									
Other liabilities									
Capital									
Reserves									
Total Liabilities									

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Source:

CAC: USSRtb4

Table 4. USSR: Assets and Liabilities of the Agro-Industrial Bank (Agroprombank),

(Millions of rubles)

	1987	1988	1989				1990	
			Q1	Q2	Q3	Q4	Q1	Q2
Assets								
Cash								
Claims against Gosbank								
Domestic credit								=
To firms								
To the treasury								
To others								
Total Assets								
Liabilities								
Credit from Gosbank								
Credit from the Treasury								
Deposits								
Firms								
Households								
Other liabilities								
Capital								
Reserves								
Total Liabilities								

Source:

CAC: USSRt65

Table 5. USSR: Assets and Liabilities of the  
Industrial Construction Bank (Promstroibank),

(Millions of rubles)

	1987	1988	1989				1990	
			Q1	Q2	Q3	Q4	Q1	Q2
<b>Assets</b>								
Cash							-	
Claims against Gosbank							-	
Domestic credit								
To firms								
To the treasury								
To others								
<b>Total Assets</b>								
<b>Liabilities</b>								
Credit from Gosbank								
Credit from the Treasury								
Deposits								
Firms								
Households								
Other liabilities								
Capital								
Reserves								
<b>Total Liabilities</b>								

Source:

CAC: USSRtb6

Table 6. USSR: Assets and Liabilities of the  
Housing-Social Development Bank (Zhilsotsbank),

(Millions of rubles)

	1987	1988	1989				1990	
			Q1	Q2	Q3	Q4	Q1	Q2
Assets								
Cash								-
Claims against Gosbank								-
Domestic credit								
To firms								
To the treasury								
To others								
Total Assets								
Liabilities								
Credit from Gosbank								
Credit from the Treasury								
Deposits								
Firms								
Households								
Other liabilities								
Capital								
Reserves								
Total Liabilities								

Source:

CAC: USSRtb7

Table 7. USSR: Savings Bank (Sberbank)

(Millions of rubles)

	1987	1988	1989				1990	
			Q1	Q2	Q3	Q4	Q1	Q2
<b>Assets</b>								
Cash								
Claims against Gosbank								
Credit to households								
Short term								
Long term								
Credit to firms								
Short term								
Long term								
Credit to treasury								
Credit to other public agencies								
Other credit								
<b>Total assets</b>								
<b>Liabilities</b>								
Deposits								
Firms								
Households								
demand								
term								
Others								
Other deposits								
Credit from Gosbank								
Other credit received								
Capital								
Reserves								
<b>Total liabilities</b>								

Source:

CAC: USSRtb8

Table 8. USSR: Commercial (Joint-stock) and Cooperative Banks

(Millions of rubles)

	1987	1988	1989				1990	
			Q1	Q2	Q3	Q4	Q1	Q2
<b>Assets</b>								
Cash								
Claims against Gosbank								
Credit to households								
Short term								
Long term								
Credit to firms								
Short term								
Long term								
Credit to treasury								
Credit to other public agencies								
Other credit								
<b>Total assets</b>								
<b>Liabilities</b>								
Deposits								
Firms								
Households								
demand								
term								
Others								
Other deposits								
Credit from Gosbank								
Other credit received								
Capital								
Reserves								
<b>Total liabilities</b>								

Source:

Table 9. USSR: Selected Financial Assets and Liabilities of Firms

(Millions of rubles)

	1979	1980	1981	1982	1983	1984	1985	1986	1987				1988				1989				1990	
									Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Assets</b>																						
Bank deposits																						
Of enterprises																						
Of cooperatives																						
Of kolkhoz																						
<b>Liabilities</b>																						
Short term bank credit																						
To enterprises																						
To cooperatives																						
Of kolkhoz																						
Long term credit																						
To enterprises																						
To cooperatives																						
To Kolkhoz																						
Long term credit																						
To industry																						
Mining																						
Engineering																						
Light industry																						
Metallurgy																						
Chemicals																						
Food processing																						
Others																						
To nonindustrial activities																						
Of which:																						
Agriculture																						
Shares and bonds																						

Source:



CAC; USSRtb10

Table 10 USSR: Selected Financial Assets and Liabilities of households

(Millions of rubles)

	1979	1980	1981	1982	1983	1984	1985	1986	1987				1988				1989				1990	
									Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Assets																						
Currency																						
Deposits																						
Demand																						
Term																						
Other																						
Government bonds																						
Other bonds and shares																						
Insurance policies																						
Liabilities																						
Loans from banks																						
Of which: housing																						

Source:

CAC; USSRtbl1

Table 11. USSR: Interest Rates

(Percentage points)

---

	1979	1980	1981	1982	1983	1984	1985	1986	1987				1988				1989				1990	
									Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Bank deposits																						
Firms																						
Households																						
Demand																						
Time																						
Other																						
Bank loans																						
Government bonds																						

---

Source:

## II. Specific questions and remarks

### Tables 1 and 2:

- 1) Table 1 refers to assets and liabilities of Gosbank before and after the July 1987 reform. Some of the lines included in this table should therefore present large changes in the last years of the period.
- 2) We understand that, as of 1963, Gosbank included also the system of Saving Banks, which however maintained some accounting autonomy; the data reported in Table 1 should include also the accounts of the Saving Banks.
- 3) The tables include data on assets and liabilities in gold and foreign currency; we are not sure that Gosbank holds directly foreign assets and liabilities. If foreign assets and liabilities are held directly only by Vneshekonombank (Table 2) the corresponding lines in Table 1 should be omitted. Relatively to gold holdings, the price per ounce applies for the conversion in rubles should be indicated. Please, provide also information on the exchange rates used to derive the value in rubles of foreign assets and liabilities.
- 4) In case Gosbank extended credit directly to households before the reform, a corresponding line should be added in Table 1.
- 5) According to our information, there are two kind of currency in the Soviet Union: the first (bilety gusudarstvennogobanka) is considered as a liability of Gosbank. The second (kaznacheiskie bilety), which includes denominations up to five rubles, is issued by the Treasury. Please, indicate in a footnote to Table 1 to which definition the data refer to. In case only the first component is reported among the liabilities of Gosbank, please indicate separately the figures on the kaznacheiskie bilety.
- 6) Capital and reserves refer to the own funds of Gosbank; a breakdown between these two items is not necessarily required.

### Tables 3-6

- 1) These tables have the same structure and show on the asset side credit to firms, which we believe is the major asset of these banks, and to other sectors, and on the liability side credit from Gosbank and Treasury, together, if appropriate, with deposits. Do these banks receive grants, subsidies or other funds from the Treasury and the Gosbank, apart from credit? If yes, please indicate the flows of these funds for each year included in the Tables. Please also indicate if there are transfers of funds among banks, apart from those with Gosbank.

### Table 7

- 1) Please indicate if the system of Saving Banks receives grants, subsidies or other funds from the Treasury and the Gosbank, apart from credit. If yes, please indicate the flows of these funds for each year included in the Tables. Please also indicate if there are transfers of

funds from other banks, apart from those from Gosbank.

Table 8

1) Please report in this table the consolidated data referring to the new commercial (joint-stock) banks and of cooperative banks. Please indicate the number of these banks at the end of 1988 and of 1989, and at present, possibly classified according to their ownership structure (e.g. whether they are owned by enterprises, by local authorities, etc.).

Table 9

1) We understand that firms, especially before the 1987 reforms, had constraints on the use of deposits held at the banking system: a large share of deposits could not be used freely, but could be employed only for specific purposes. In addition to the series of bank deposits by firms indicated in the table, please provide information on the amount of firms' deposits that could and can be used without limits.

2) The amount of cash held by firms is not included in the table, as we believe to be extremely small; is this assumption correct?

3) Did firms receive or receive grants or other funds from the Treasury and/or the banking system apart from those considered as credit?

4) The last item of the table (Shares and bonds) refers to securities issued directly by firms after the 1987-88 reform.

5) Have the data on bank credit reported in the table been influenced by the transfer of part of the debt to the Treasury? From our information it seems that bank credit to firms has been declining recently; is this a reflection of the writing off of bad loans?

Table 10

1) Please provide information on the characteristics of bank deposits of households, in addition to interest rates (to be reported in Table 10); are there any checking deposits? what are the maturities of term deposits? what is the number deposit accounts of households? are there limits on their use? what is the distribution of households' deposits by deposit size?

2) Do the data refer only to State banks or do they also include the new cooperative and commercial banks?

3) Are there different types of Government bonds held by households?

4) Do you have information on the amount of real assets (e.g. houses) held by households?

5) On the liability side are there bank loans to households, as indicated in the table? if yes, could you describe some of the main features of these loans (maturity, interest rates, etc.)?

6) Could you provide information on the geographical distribution of households' deposits (if possible, the amount of households' deposits for each Republic in the last ten years)?

7) The item "Other bonds and shares" refers to securities issued directly by firms after the 1987-88 reform, purchased by households.

Table 11

1) Are interest payments subject to taxes? if yes, please indicate the tax rate applied to each interest rate.

2) The interest rates included in the table refer to transactions in which either households or firms are involved; could you provide information on the rates on other financial transactions, e.g. loans from Gosbank to the Treasury or to other banks?

3) Are interest rates on bank deposits and loans differentiated according to the use of credit, the size of loan/deposits, etc.? If yes, could you provide information on interest rate differentiation?



# Office Memorandum

*Mr. Taylor*

To: Mr. Flemming (EBRD)  
Mr. Zecchini (OECD)  
Mr. Holsen (IBRD)

August 6, 1990

From: Teresa Ter-Minassian *T.T.M.*

Subject: Preliminary Draft of Paper on  
Main Trends in the Soviet Economy

As agreed in the July 21 meeting of PRs, we have hastily put together a note on main trends in the Soviet economy during the eighties, which I am telefaxing for your information. I wish to stress that this note reflects primarily published information, and that we expect to revise it extensively after our fact finding visit to Moscow next week. I would nevertheless welcome any comments that you may wish to make on this version.

cc: The Managing Director (o/r)  
The Deputy Managing Director  
Mr. Whittome (o/r)  
Mr. Frenkel  
Mr. Russo  
Mr. Tanzi  
Mr. Boorman  
Mr. Andrews  
Task force members & Mr. Robinson

Mr. Lamy (EC Commission)

DRAFT  
August 6, 1990

Main Trends in the Soviet Economy

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## Main Trends in the Soviet Economy

### I. Overview

GNP growth in the Soviet Union slowed significantly from annual rates of 4-5 percent in the late 1960s to less than 2 percent in the early 1980s. The slowdown primarily reflected the exhaustion of reserves for extensive growth--as fuels and raw materials had to be extracted under increasingly difficult conditions--and smaller increases in labor force participation rates, as they neared a demographic maximum. With large capital stocks already accumulated in industry and basic industrial skills in place, the failure to introduce advanced technology, conservation, and improved management and labor incentives resulted in a sharp slowdown in productivity growth. Total factor productivity is estimated to have stagnated or declined during 1975-85.

As the world's largest oil and natural gas producer, the Soviet Union reaped substantial gains in its terms of trade with nonsocialist countries from the oil price shocks of the 1970s. But the long-term benefits were mixed, insofar as the windfall encouraged costly investments in energy production at the expense of industrial modernization. The drop in energy prices in the 1980s laid bare the structural weaknesses.

By the mid-1980s, the Soviet authorities accepted the need for a new growth strategy. The post-1985 leadership initially emphasized changes within the traditional framework: investment in new machinery, stricter labor and managerial discipline, and quality control.



Cautiously, without elaborating particulars, it also endorsed market-oriented reform. An increasingly open debate ensued, with calls for economic reform quickly overshadowing the investment and discipline campaigns.

Thus far, however, actual progress toward reform has been uneven. The government has been unable to balance the need for, on the one hand, radical structural change and, on the other, effective macroeconomic stabilization. Steps taken to promote private enterprise and cooperatives and the autonomy provided to state enterprises have frequently been vitiated by other restrictions or subsequently reversed. Living standards have continued to stagnate, queues have grown longer, hoarding has proliferated, labor discipline has been eroded (despite wage concessions), and many investment plans remain unfulfilled as resources have been shifted toward production of consumer goods.

Emergency stabilization measures, adopted in December 1989, attempted to restore balance to consumer markets through a crash program of consumer goods production and imports. These measures failed to contain wage inflation, overcome supply rigidities, or prevent strikes and inter-ethnic disturbances. In January 1990, a proposal for substantial increases in a range of wholesale prices was withdrawn in the face of trade union pressure, while retail price increases proposed in May were similarly abandoned after a public outcry. By spring 1990, much of the domestic retail trade network had essentially broken down, the convertible currency current account had deteriorated sharply, and arrears had begun to emerge in payments to foreign suppliers.

Centrifugal tendencies by republican and local authorities were becoming increasingly strong. Efforts are under way, both at the government level and, according to press reports, jointly with the Russian republic, to prepare new reform packages, due to be unveiled in September.

## II. The Background to Soviet Economic Reform

For many decades, economic growth in the U.S.S.R., like that in other centrally planned economies (CPEs), has depended on the exploitation of fuel and mineral reserves, high rates of investment (on the order of 30 percent of GDP) and expanded labor force participation and education. In the extensive application of inputs, the Soviet economy has outperformed most others. It has been seriously deficient, however, in transforming inputs into useful goods and services. Factor productivity is low, even taking into account the stage of development. 1/ Moreover, productivity trends in the Soviet Union have lagged increasingly behind those in most OECD countries and the newly industrializing countries of East Asia. 2/

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1/ Bergson (1987) estimated that, correcting for stage of development and labor quality, the Soviet Union is slightly less efficient than Hungary, Poland, and Yugoslavia and 25-30 percent less efficient than the average for seven OECD economies. According to Gomulka (1987), industrial labor productivity in the European socialist countries is 40 percent lower than in the OECD.

2/ Levine (1983), Desai (1985), Bergson (1987), and Maddison (1989) all report a slowdown in total factor productivity growth in the Soviet Union, turning negative after the mid-1970s. The decline of total factor productivity may be exaggerated to the extent that the growth rate of the capital stock is overstated (see Rumer 1989) and the elasticity of substitution is less than one.

1. Natural resources

The Soviet Union's vast natural wealth, and in particular the revaluation of Soviet fuel reserves following new discoveries in Siberia and the oil price increase of 1973, enabled it to pursue an extensive growth orientation longer and more successfully than other CPEs. Having decided in the mid-1970s to stress fuel and mineral production, the Soviet Union became by 1983 the world's largest oil and gas producer and the third largest producer of coal, accounting, respectively, for 23 percent, 35 percent, and 17 percent of world output. Despite the fact that most of the oil output was sold to other members of the Council for Mutual Economic Assistance (CMEA) at subsidized prices, convertible currency energy export revenues were sufficient through the late 1970s to sustain both a military buildup and rising civilian living standards.

As real fuel prices receded in the early 1980s, the problems of rising natural resource extraction costs, high energy- and material-intensity in industry, dwindling labor reserves, and aging equipment became more evident. Although Soviet use of fuel, metal, and cement in industry and construction is the highest per capita in the world, Soviet living standards (the product of those inputs) are probably less than one-half of those in the United States. Fuel and minerals from Siberia and the Arctic, which contain most of the rich reserves, are hard to reach and expensive to transport. Water supplies are vanishing in Soviet Central Asia--the most extreme illustration being the 40 percent shrinkage in area of the Aral Sea--with potentially calamitous

implications for agriculture and public health (Micklin and Bond (1988)). Air and water pollution from heavy industry is severe, as are the environmental costs of the Chernobyl accident.

2. Capital stock and labor supply

Despite continued high rates of investment, the Soviet capital stock has been aging rapidly. The rate of replacement of old equipment is low by international standards, with equipment service-life averaging about 20 years (Chawluk (1987), Rumer (1984)). The problem is compounded by the long gestation period for investment projects; new plants take 9 years on average to construct (Aslund (1989); Leggett (1983)). Agricultural productivity has also been consistently low. Massive investments in farm machinery have borne only modest returns, reflecting inadequate labor incentives and bottlenecks in transportation, processing, and storage (Nove (1988)). At the same time, the scope for rapid expansion of the workforce has lessened. The average annual growth rate of the population of working age declined from 1-2 percent in the period 1950-1980 to around 1/2 percent in the last decade. Moreover, the aggregate statistics mask pronounced regional disparities. Families with more than three children are exceptional in the Russian and Baltic republics, while families of five children and more are common in the less developed and less urbanized Central Asian republics.

3. Economic growth

Weaknesses in official Soviet statistics 1/ make for hazardous estimation of real growth rates, although all sources affirm the long-term decline in growth. The CIA estimates hidden inflation on the order of 1-2 percent annually (on average, but higher in recent years), implying lower real growth than official figures would suggest, while two Soviet observers (Selyunin and Khanin (1987)) are even more pessimistic. Most observers believe that living standards stagnated or declined after 1978-80 (Table 1).

Table 1. Soviet Union: Estimates of Economic Growth, 1961-85

(Average annual growth in  
real NMP produced, in percent)

	1961-65	1966-70	1971-75	1976-80	1981-85
Official	6.5	7.8	5.7	4.3	3.6
CIA <u>1/</u>	5.1	5.0	3.0	2.3	2.0
Selyunin and Khanin	4.4	4.1	3.2	1.0	0.6

Source: Aslund (1989)

1/ Estimated growth of GNP.

1/ The quality of official Soviet economic statistics is adversely affected by incentives for misreporting by enterprises, distorted relative prices, methodological problems and intentional omissions and reshuffling of data to disguise military expenditures and other sensitive information.

4. The external position

Soviet export performance in nonsocialist markets 1/ remained lackluster in this period, and continued to be dominated by fuel (58 percent of nonsocialist exports 1981-85) and arms (19 percent), with the latter often sold to developing countries on credit. Petroleum exports rose through 1984, but fell in 1985 on account of delays in oil well repairs. Despite these weaknesses and the nonconvertibility of the ruble, the Soviet Union continued to be viewed in international financial markets as creditworthy, due to its cautious financial management and the ready marketability of its fuel and mineral reserves. Gross convertible currency debt remained at about \$22 billion from 1981 through 1984, or less than \$100 per capita, and about half of this was offset by hard-currency assets in the West. In 1985, Soviet net hard currency debt rose to \$16 billion, equivalent to about one half of current account receipts in convertible currencies (PlanEcon (1989)).

III. Economic Trends and Reform Since 1985.

Numerous steps had been taken in the early 1980s to raise productivity, including measures to strengthen labor discipline, tighten surveillance of output quality, improve enterprise rewards for plan fulfillment, and redirect investment to renovation. These measures were not generally successful. Of more lasting impact was the cautious license given to economic debate after Brezhnev's death in 1982. The

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1/ In the Soviet nomenclature, "socialist" countries include, in addition to the members of the CMEA, China, Laos, North Korea, and Yugoslavia.

core issue of debate was whether the Soviet Union should, like Hungary and China, move in a significantly more market-oriented direction. Reform advocates gradually won influence among the emerging political leaders.

1. Mr. Gorbachev's initial reforms

Elected General Secretary of the Communist Party in March 1985, Mr. Gorbachev came to office determined to reverse the Soviet economic slide but uncertain about how to do it. His initial efforts focused on acceleration of engineering investment, but lacked a comprehensive and realistic framework. Indeed, the new output targets for investment goods in the 1986-90 Five Year Plan significantly exceeded projections based on past supply, in effect assuming that productivity would rise dramatically even before the new productivity-enhancing equipment was in place. The ratio of expenditure on material inputs to national income was targeted to decline by 4-5 percent from 1986 to 1990, in comparison with a 2.5 percent reduction from 1981 to 1985 (Kushnirsky (1987)).

To catalyze the hoped-for productivity surge, the authorities emphasized labor discipline, quality control, replacement of corrupt or incompetent officials, and a crackdown on speculation and other "unearned" income. Shakeups were effected in personnel, severe restrictions were imposed on the sale of alcohol, and an independent state agency, Gospriemka, was formed to enforce quality standards.

The costs of these measures appear to have outweighed the benefits. Machine-building output dropped precipitously in January 1987 after Gospriemka was empowered to reject items not up to standard. The subsequent temporary resurgence of output growth probably owed less to

quality improvement than to relaxation of Gospriemka enforcement. The anti-alcohol campaign was even more expensive, since it impinged on a major government revenue source. With alcohol sales (of which only 10-15 percent represented actual production expenses) accounting for over 15 percent of total retail sales in 1984, turnover taxes on alcohol yielded almost 6 percent of GDP to the budget. The decline in state sales of alcohol induced by restrictions and by repeated increases in alcohol prices (15-25 percent in 1985 and another 20-25 percent a year later), and the inability to tax growing illegal private sales, caused nominal budgetary revenues from alcohol to drop by one-quarter by the end of 1986 (Trembl (1987)). As for the campaign against speculation and corruption, it was ineffective in the face of widespread shortages, and frequently served as a pretext for further harassment of private enterprise.

## 2. Increased liberalization and decentralization

Alongside the industrial modernization and discipline campaigns, the Government subsequently introduced a third theme of "radical reform", which was explicitly endorsed at the 27th Party Congress in February 1986. Reflecting the hesitations of reformers and the resistance of conservatives, the reform measures announced over the next eighteen months aimed for a hybrid "market socialism," with expanded enterprise and individual economic autonomy under a framework of predominantly state ownership. Key prices and investment decisions would continue to be controlled by the state, with factor markets narrowly circumscribed (Aganbegyan (1988)). Reform and industrial modernization were intended to be complementary, but in practice the



transitional costs inherent in reform severely limited the resources available for new investment, to the detriment of both modernization and reform.

a. State enterprises

The cornerstone of the new edifice was intended to be the Law on State Enterprises, promulgated on 1 July 1987 in time to be reflected in the 1988 Plan. Abolishing the traditional mandatory output targets, it allowed enterprises to contract directly with their suppliers and customers, and to make more freely decisions concerning investment and the deployment of profits. Central planners and the ministries would concentrate on formulating long-term investment objectives and putting out procurement contracts ("state orders") for direct government needs.

In practice, state orders tended not to be voluntary, not to be restricted to direct government needs, and not to be backed up with payment guarantees. State orders were involuntary because many state enterprises were monopoly suppliers and because planners and ministries frequently sought to ensure the production of low-profit and even loss-making items. They were not restricted to direct government needs because of lobbying pressure from enterprises under state contract for their own supplies to be guaranteed, and because of distrust of free market mechanisms. The state orders were not backed up with payment guarantees precisely in the hope that this would make enterprises more responsive to their customers. With state orders embracing over 80 per-

cent of Soviet output in 1988 and with most wholesale prices remaining under state control, the development of wholesale markets was stunted. Enterprises clamored for state orders so as not to be frozen out of state supply networks.

The Law on State Enterprises also failed to clarify enterprise rights vis-à-vis the ministries or to set up procedures for enforcement. Its most substantive feature was the loosening of controls over the disposition of state enterprises' internal funds and, in particular, the expansion of enterprise wage-setting powers. These reforms took place, however, against the background of a continuing lack of incentives for internal accumulation of funds, due to arbitrary, enterprise-specific taxation of undistributed surpluses, and growing trends toward worker self-management. Because of this, and of the lack of a hard budget constraint on the enterprises--reflecting an accommodating attitude of the banking system--these reforms contributed to an acceleration of wage increases. The easy availability and low cost of bank credit, along with widespread uncertainties about supply availability, also contributed to a large build-up of inventories, and thereby to shortages.

Having risen roughly 3 percent per year in 1986 and 1987, average wages and salaries rose by over 8 percent annually in 1988 and 1989, and reportedly by 10 percent in the first quarter of 1990 relative to the comparable period of 1989. Over the same period the rate of increase in the official retail price index, which underestimates underlying inflation, was less than 3 percent annually. As real wages rose, and demand increasingly outstripped supply, new categories of goods became

subject to shortages, and differentials between official and black market prices widened, which in turn encouraged corruption and queuing, and eroded incentives for productive activities.

b. Cooperatives and private activity

Liberalization of the private sector has been uneven and halting. The Law on Individual Labor Activity, adopted in November 1986 and implemented in May 1987, stressed the subordinate role of private labor, barred private activity in some of the most potentially lucrative sectors, and imposed strict licensing requirements in others. Restrictions were reinforced by special taxes, at steeply rising marginal rates, on private income. The Draft Law on Cooperatives, which appeared in March 1988, was distinctly more liberal. It placed cooperatives, defined sufficiently broadly to include both large collective farms (kolkhozy) and three-person family collectives, on a legal par with state ownership. Cooperatives would be allowed to engage in a broad range of activities, lease out property, subcontract to other cooperatives or individuals, hire outside labor, and raise capital through issue of shares. Cooperative protection was further strengthened by the Supreme Soviet, in its initial act of parliamentary initiative (admittedly encouraged by statements of Mr. Gorbachev), before passage of the Law in June 1989. Discriminatory treatment by state suppliers and pricing restraints continued, however, to impede cooperative development. By December 1988 the Council of Ministers had decreed new restrictions on cooperative activity, and in October 1989 the Supreme Soviet allowed local councils to roll back cooperative price increases deemed to be excessive. Cooperatives were preyed on by

organized crime and also provided new opportunities for corruption. Despite these obstacles, the number of people employed in the private and cooperative sector (excluding kolkhozy), rose from 600 thousand in the first quarter of 1988 to 8.9 million in the first quarter of 1990 (PlanEcon (1990)).

c. The financial system

The banking system reform, launched in 1987, aimed at breaking up the monobank system. The formerly omnipotent Gosbank was split into a central bank and state-owned specialized banks, organized along sectoral lines: separate banks for industry, agriculture, households and foreign trade. In addition, a large number of new banks were founded in the wake of the regional management reform, in part by enterprises. While these changes eliminated the monopoly position of the Gosbank, they have not so far led to increased competition, partly because of the strict sectoral nature of the new system, and because of limits on enterprises' ability to establish commercial links with more than one bank. There is no interbank money market or capital market; foreign banks are not allowed to operate; and to date only one bank has been established with foreign participation. Monetary control and bank supervision appears to lag behind institutional changes, with the main instruments of credit allocation having remained essentially the same as in the pre-reform system. Similarly, the segmentation of financial markets and, to a lesser extent, the lack of transferability of enterprise funds continue to prevail.

d. External economic relations

Foreign trade barriers were relaxed in 1986 to allow 21 ministries and 67 state enterprises the right to trade directly with foreign organizations. Foreign trading rights were extended to all enterprises in April 1989, but subject to a number of restrictive provisions. (Lavigne (1989)). Exporting enterprises are allowed to retain varying proportions of their export earnings. Exports and imports must be licensed, some imports are prohibited, and goods produced under state order cannot be diverted abroad. Foreign trade rights can be curtailed in case of "unfair competition" or "activities damaging to the interests of the State". The foreign trade organizations (FTOs) retain monopolies on exports of fuel and raw materials and imports of agricultural goods, raw materials, and many intermediate goods such as equipment for new projects. Finally, commercial exchange rates continue to be set on a product-specific basis--the so-called differential currency coefficients--and the bulk of foreign trade continues to be settled domestically at internal rather than border prices. A December 1988 decree called for a phased movement towards a unified exchange rate for commercial transactions, but this process has yet to begin. In November 1989, the tourist rate was devalued tenfold to reduce the incentive for trade in foreign currency on the parallel market. Foreign currency auctions, using enterprises' own foreign exchange, were introduced in November 1989. Reportedly, the market has remained very thin and the premium on currency sold has been high.

Joint ventures on Soviet territory with firms from nonsocialist countries have been allowed since January 1987. In December 1988 the ceiling of 49 percent on the foreign ownership was lifted, as was the requirement that a Soviet national head the joint company, while taxation and marketing regulations were streamlined. Nevertheless, inadequate legal protection, limited access to domestic supplies, nonconvertibility of the ruble, and restrictions on repatriation of profits remain major disincentives to direct foreign investment. Of the nearly 1,600 joint ventures registered as of April 1990 only about 200 are in operation, of which 85 percent have total capitalization of under \$8 million (PlanEcon (1990)).

e. Prices

Perhaps the weakest point of Soviet reform efforts involves domestic pricing. The current level and structure of prices in the economy fail to reflect aggregate demand pressures and relative scarcities, and would require substantial adjustments. Yet, Soviet officials have been reluctant to relinquish price-setting powers, in part because of legitimate concerns about the monopoly position of many state enterprises, the liquidity overhang, and the fear of igniting a wage-price spiral. Moreover, retail price reform is deeply unpopular, a consideration that has become more important with the growing democratization and factionalization of Soviet politics. Since 1986, the subject of price reform has repeatedly been broached only to be postponed "for 1 to 2 years."

3. Developments in the state budget

The delays in price reform have had a particularly deleterious impact on the state budget, which has also been adversely affected by the inadequate reforms of state enterprises and by the campaign to reduce alcohol consumption. Food subsidies, chiefly for meat and milk, grew from around 7 percent of GDP in 1985 to an estimated 9 percent in 1989. Other current expenditures are said to have grown even faster, partly reflecting the heavy one-time outlays associated with the Chernobyl disaster in 1986 and with the Armenian earthquake in 1988. Reductions in defense expenditure and in the foreign aid bill, which might have been expected to follow the government's change in foreign policy, have yet to become apparent in the budget.

The stickiness of domestic prices, coupled with the deteriorating terms of trade in the second half of the 1980s (for oil, in particular), also led to a fall in tax revenues from foreign trade, equivalent to about 4 percent of GDP between 1985 and 1989. The easing, after 1987, of restrictions on alcohol sales improved turnover tax revenue by only 1/2 percent of GDP, following a loss of nearly 2 percentage points in turnover tax receipts in 1984-86, when the restrictions were implemented. Likewise, the decline in enterprise contributions to the budget, which began in 1987 with the push towards decentralization of enterprise investment, has continued. Revenues fell by around 4 percentage points of GDP from 1986 to 1989, although this was partly offset by the reduction in budget-financed investment.

The budget deficit is estimated to have risen from around 2 percent of GDP in the first half of the 1980s to just under 10 percent in 1989 <sup>1/</sup> (Table 2).

#### 4. Monetary growth

According to the limited data currently available, money supply growth appears to have outpaced nominal GDP growth in recent years. Given the likelihood that money demand grew slowly and that financial control weakened, this may indicate a build-up of excess liquidity and a growing monetary overhang in the economy. The sources of monetary growth included bank credit to both the government and the enterprise sector. Credit to the government has increased markedly since 1985, because of the virtual absence of alternative ways of financing the rapidly widening budget deficit. Credit to the enterprise sector is also reported to have grown strongly, in the wake of the decentralization reforms, as enterprises found that the reduction in profit taxes was insufficient to cover rising wage claims and reduced budget subsidies for investment. In the absence of adequate instruments for monetary control, and because of the soft budget constraint of the new banks, increased demand for credit was accommodated, with an expansionary impact on money supply.

#### 5. Developments in the domestic economy

Official statistics indicate that NMP growth fluctuated in the 2 to 4 percent range between 1986 and 1989 (Table 3). According to the CIA, Soviet GNP grew 4.1 percent in 1986 and an average of 1.6 percent

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<sup>1/</sup> Budget and GDP figures quoted here have been drawn from secondary sources, and are subject to verification.



Table 2. Soviet Union: Fiscal, Monetary and Price Indicators, 1985-90

	1985	1986	1987	1988	1989	1990 (Prelim. 1st half)
<u>(In percent of GDP)</u>						
Budget deficit	1.8	5.8	6.3	9.3	9.9	4.4
Government debt	17.1	22.4	28.0	35.7	43.4	...
Government expenditures	49.7	52.2	52.2	52.5	52.6	...
Savings deposits	68.0	73.1	78.2	81.0	83.7	...
<u>(Growth rate in percent)</u>						
Average nominal wages	2.9	2.9	3.7	8.3	9.5	8-9
Retail prices (official index)	1.0	1.9	1.5	0.5	2.0	...
Retail sales, total	2.1	0.4	1.1	6.9	8.1	...
Food	-2.1	-6.6	--	5.1	3.0	...
Nonfood	6.5	7.4	2.3	8.2	8.4	...
Alcohol	-14.5	-36.9	-15.1	13.3	25.0	...

Source: PlanEcon (1990) for 1985-89; Soviet authorities for 1990.

Table 3. Soviet Union: Output and Expenditure, 1986-90

(Real growth rates in percent)

	1986	1987	1988	1989	1990 (Preliminary first half)
NMP, <u>1</u> / official	2.3	1.6	4.4	2.4	-2.0
GNP, official	3.3	2.9	5.5	3.0	-1.0
PlanEcon	3.9	0.5	1.6	-1.0	...
CIA	4.1	1.3	2.2	1.4	...
GNP by sector of origin, CIA:					
Agriculture	10.3	-4.0	-3.2	...	...
Industry	2.7	2.9	2.4	...	...
Construction, transport, communications, trade	2.7	2.0	2.3	...	...
Services	2.2	2.9	3.2	...	...
GNP by end use, CIA:					
Consumption	1.8	2.8	2.4	...	...
Investment	5.4	1.3	2.2	...	...
Of which: net fixed	6.5	0.6	2.2		
Administration, defense, other	9.7	-4.1	-3.9	...	...

Source: PlanEcon (1989, 1990); CIA (1989); CIA and DIA (1990); and Soviet authorities.

Coal strikes in the early summer, ethnic strife in the Caucasus, and severe bottlenecks in rail transport contributed to the poor performance in 1989. Hopes for a recovery in the last quarter of 1989 were dashed by further strikes, by ethnic strife between the Azeris and the Armenians--which not only crippled the Armenian economy but also tied up tens of thousands of railroad cars needed for transport further north--and by echoing supply disruptions from the summer. <sup>1/</sup> Rail tonnage declined by 2 percent in 1989, and severe bottlenecks persisted into 1990. Imported goods were reported to have accumulated at Soviet borders with various East European countries.

Construction backlogs also continued to accumulate in 1989. Finished construction actually declined, compared to a planned increase of 13 percent. Aggregate energy output fell slightly. Agricultural performance was better, however, with output rising by 3 percent in 1989, the first significant gain since 1986.

With fuel exports stagnant and imports of consumer goods rising, the Soviet trade balance with nonsocialist countries is estimated to have deteriorated to a deficit of US\$1.3 billion in 1989 from a surplus of US\$4.2 billion in 1988. Gross Soviet hard currency debt rose to about US\$57 billion, with net debt estimated to exceed US\$30 billion (PlanEcon (1990)) (Table 4).

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<sup>1/</sup> The rail system operates at close to capacity, so delays cannot easily be rectified by extra loads at a later time.

Table 4. Soviet Union: Convertible Currency Account  
and Debt, 1985-89

(In billions of U.S. dollars)

	1985	1986	1987	1988	1989
CIA estimates:					
Exports <u>1/</u>	26.4	25.1	29.1	31.2	33.6
Imports	25.9	23.1	22.9	28.5	35.0
Current account balance <u>1/</u>	0.1	1.4	5.1	1.2	-3.2
Gross debt, end-year	29.0	35.8	40.8	42.8	47.0
Net debt, end-year	15.7	20.9	26.4	27.3	32.0
PlanEcon estimates:					
Exports <u>1/</u>	29.9	27.9	32.4	34.1	...
Imports	30.6	27.3	26.9	32.9	...
Current account balances <u>1/</u>	-1.2	0.1	5.3	0.8	...
Gross debt, end-year	29.0	36.0	40.8	43.0	...
Net debt, end-year	16.2	21.5	27.1	28.2	...
Debt service ratio <u>2/</u>					
Excluding short-term debt	20	24	25	27	...
Including short-term debt	39	61	61	69	...

Sources: PlanEcon (1989) and CIA and DIA (1990). PlanEcon's estimates are due for revision shortly.

1/ Excludes gold sales.

2/ Debt service in percent of convertible currency exports net of energy re-exports.

By the fall of 1989, the Soviet economy was approaching a crisis situation. An emergency program announced in December 1989 aimed to redirect resources from producer to consumer goods production, recentralize industrial procurement, cut back new construction, and sell capital assets to the population. A wide range of measures was proposed, several of which have yet to be implemented. Production of consumer goods was planned to rise by 7.6 percent in 1990, while producer goods output would increase by only 0.8 percent. Mandatory state procurement orders were to cover virtually all consumer goods and their inputs. Self-financed construction projects of more than two years' duration would be banned, while a 25 to 30 percent tax was to be levied on shorter projects, unless the enterprise undertaking the investment produced consumer goods. Interest rates on savings deposits and bank loans to enterprises were to be raised. Houses and enterprise shares (which are more like corporate bonds) were to be sold on a wider scale, and warrants on durable goods would be issued.

In the event, the targets for real consumption could not be met, due to supply and capital stock rigidities and continued low productivity. Indeed, industrial output declined in the first half of 1990. By May, the government decided that price reform could no longer be avoided. Prime Minister Ryzhkov proposed a tripling of retail prices for bread starting July 1990, to be followed by a doubling of meat and milk prices and substantial increases in the prices of other retail goods and services. By the end of 1991, average wholesale prices in industry were to have risen 46 percent, while fuel and energy prices would increase by up to 82 percent. The majority of prices, however,

would have remained under state control. The announcements triggered massive runs on stocks and the extension of municipal rationing schemes. Denounced by conservatives for being too market-oriented and by radical critics for not being market-oriented enough, the government once again postponed price reform.

As of August 1990, the retail trade system is rapidly breaking down. Many stores are no longer open to the public but invite particular organizations or subgroups (e.g., people registered to be married) to shop. There is ample evidence of redirection of supplies to parallel markets. As confidence in the ruble diminishes, traders increasingly revert to barter or turn to convertible currency.

In recent months, many suppliers of imports from the convertible currency area have not been paid in timely fashion. The delays largely stem from a decision in 1989 to allow trading enterprises to borrow abroad in their own name, while leaving control of foreign exchange reserves with the Bank for Foreign Economic Affairs (Vnesheconombank), the renamed successor to the Foreign Trade Bank. With the growth of trade credits outpacing the capacity of Vnesheconombank to mobilize revenues, the hitherto excellent Soviet payment reputation has been damaged.

Soviet trade relations with the socialist or formerly socialist countries are also in upheaval. Declining oil production and producer goods investment, consequences in part of the December 1989 decision to emphasize consumer goods, have prompted cutbacks in both oil deliveries to and machinery imports from CMEA partners. The Soviet Union has announced it will charge world market prices in CMEA trade starting

January 1, 1991 and move to convertible currency settlement. This should yield a substantial terms of trade gain and convertible currency trade surpluses with individual CMEA members. The Soviet Union has also recently publicly questioned its expensive commitments to long-favored aid recipients such as Cuba and Vietnam.

6. The political situation

After four years of mostly unsuccessful efforts, Soviet economic reform is at an impasse. The continuing experiments and reorganizations have seriously weakened central economic administration. As the Communist Party has become less cohesive and powerful, it has become less able to mediate disputes within the state apparatus, and particularly those between the center and the republics and among the republics themselves. All of the republics, with the Baltics in the lead, have been granted additional economic as well as political rights, 1/ but the partial concessions have only whetted republican appetites for more. Trade and investment are increasingly disrupted, as the republics strive to ensure that every outflow of resources yields an inflow of equal or greater value.

There appears, now, to be a broad consensus in favor of a developed market economy, but little agreement on how to get there. To break the deadlock, a coalition of populists and radicals, including the leaders

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1/ The Law on the Economic Independence of Lithuania, Latvia, and Estonia, passed in November 1989, gives the Baltic republics the right to manage their own banking systems, form independent budgets, control domestic wages and prices, arrange foreign economic relations, and to create capital markets. It also pledges to transfer the main enterprises from Union to republic control. Discrimination in inter-republican trade is forbidden, with the ruble to be used for inter-republican settlement.

of major cities and republics, have proposed large-scale rapid privatization, or more precisely "denationalization," of state property. The aims are to spread wealth equitably, to break up monopolies, and most importantly to create a popular constituency supportive of further reform. Recent press reports indicate that a new committee, including representatives from both the central government and the Russian republic, has been established to prepare a joint program of reform by September.



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Mr. McLoughlin

# Office Memorandum

To: The Managing Director (o/r)  
The Deputy Managing Director

August 2, 1990

From: Teresa Ter-Minassian

Subject: Composition of Task Force for  
Study of Soviet Economy

In consultation with Mr. Whittome and the Directors of the Departments concerned, I would like to propose for your approval the following composition of the core task force for the study of the Soviet economy.

1. Domestic economy, planning, price  
other systemic reforms

T. Wolf (EUR), group leader  
H. Bredenkamp (EUR)  
K. Osband (RES)

2. Foreign trade, balance of payments  
external debt, exchange system

H. Flickenschild (ETR), group leader  
L. DeMilner (WHD)

3. Monetary and financial issues

M. Blejer (FAD/EUR) group leader  
C. Cottarelli (EUR)  
P. Nagy (FAD)

4. Fiscal policy

G. Kopits (FAD), group leader  
A. Cheasty (FAD)

In addition, we would hope to draw on other staff members, with relevant experience and expertise, for contributions in specific areas. We have already secured additional support from the FAD for the structural fiscal issues (which, in the agreement among the four organizations involved in the study, are assigned to the IMF), from STAT, and from ETR. Specifically, FAD has assigned Messrs. E. Ahmad, I. Coelho, L. Garamfalvi and D. Mihaljek to cover, tax policy and tax administration, budgeting and social security and social safety net issues (the latter in cooperation with the OECD). STAT has assigned Messrs. J. Taylor and W. Nahr for work on national accounts and monetary statistics, respectively. We expect ETR to assign a staff member to work with the core team and the OECD on external trade issues. We would hope to involve the Research Department in work on issues, e.g., of convertibility, monetary reform, and the Central Banking Department in

100 AUG - 3 11 9 50

6/10 ✓  
10/10  
11/10

work on reform of the Central Bank. We would also hope to consult on an ad hoc basis with staff in area departments, such as ASD, with relevant experiences. I wish to express my sincere appreciation to the Departments who have agreed, or offered, to provide--in some cases at a substantial opportunity cost--the needed support to this effort.

As regards support staff, we are looking into the possibility of securing a suitable research assistant. The team would need two secretaries (head secretary, Ms. C. Nguyen (FAD)) and, assuming that we can hire interpreters in Moscow, the support of two translators.

cc: Heads of Departments  
Members of the Task Force  
Mr. Andrews

# Lectures on the Soviet Economy (Aug. 3, 1990)

GNP Fall (-1)

Transport 65%  
Massive breakdown  
General breakdown.  
Fall harvest problems

Areas on bank payables supplies credits not paid  
200 x 14,000 remainder to credit  
FTBank credit not handled; all payments done  
one/good alternative:

Notes for notes:

Bob De / How to do  
GDP 8/5  
Deflation - Documenting GDP data  
Detailed Inventory Data  
Sectoral and Man Hours and  
Detailed Input - Output Data  
Estimates of Supply - Costs of Russian Refs

Outline : chaos energy & growth.  
Problems: Paradox  
Yellow: Supply side  
Assessing ownership.

New  
text

Five lines  
Capital Expend  
Five Prices  
Supply and

Move to Conjecture

Regime level entities are already autonomous.

Major cities will avoid transition

Get out of Moscow: Ask questions

Who does what in Syria??

gets the check

.. over that?

Moscow Play - Who signs it?

Debt - whose debt is it?

- Ask Regime about debt

Best case - Yugoslavia

- Being several countries.

from independence. - not a  
single country.

Transition: Decentralization: Pluralism of Ownership

Differences at the regime level: Fragmentation.

Dynamics differ

Plans for 6 weeks to move things forward.

Agenda:

Production prospects are not that bad.

Production will be slow.

Production of housing stock will take more time.

Budget equal gross underachievement - by 10% or more

77 billion rubles, agr debt is under 7%



Real sector:

GDP & Demand

Overestimates come from delusion of  
infrastructure:

Lower growth will come from allowance of the  
Production capacity is not destroyed.

∴ 17% drop is haunting:

We are seeing a major industrial change.

Statistics : Losing part of what we see  
in stats. Not being captured.

Production Sector is in much better shape vs. the  
services sector. | Retail / Distribution.

Special study on the state of the services sector

GDP

Sticky and a large chunk of really  
Black market : Illegal or hidden for taxes

Are black market prices have doubled in 3/4 years  
Volume has 3 segments

There are also large alternate channels:

Empty shelves are indicating

Black market - 10% or more of GDP

Industrial Developments

Theft from the state - from private as well?  
Smuggling (illegal) / Official business / organized crime  
resisting reform.

Increase in consumer goods sector of 4/5%.

Large bank sector has dropped compared  
much of the overall drop.

Services - No few and infrastructure.

Market that consider lack of

infrastructure

communal costs / property rights /

joint ventures.

News : Economy is not poor, but poorly managed.

Open:

State Budget : Large - 50 % of GDP

Conceptual aspects of budget structure.

Expenditure budget increases : deficit 8-10% of  
GDP

depreciate fund.

for

increases of for the same

Reform Goals:

Costs to budgets of devaluation -  
declining profits.  
tax delinquency.

Y Taxes: Corp  
Indiv.

[ Over Savings for defense cutbacks - peace dividend ]

Trying to cut the deficit

\* Detailed budget data now available

Y Taxes - Restating Tax Authority:  
Arguments for Sales/Turnover tax.

Need for Safety and Revenue.

Desired Effects on Real Estate

Value and Savings.

Govt Asset holding for purposes: 4 months  
rules. - Finance and 15% of the

Overhang may also be done

\* Policy prescribes to balance budget in a  
conventional sense - focus on subsidies.

Stabilization

External financing of relative prices!

Prefer large financial market structure

Monetary : Income

Debt may apply to joint economy

But when applied to firm price controlled

economy there is not monetary market

What you do have is severe price

distortion -

eg. They have a 20% for each rate

Banking system: In common economy:

\* It shows a sharp drop in bank loans

Part of expansion is made up of debt to finance  
77 billion in late 70s  
also 70 .. finger to control.

Price Control : Leninism

4 lessons:

(i) Stabilization — (1) control / low — budget — banks  
(ii) Mon. policy

(iii) System Reform. —

(iii) Fiscal issue — restructurable of govt  
function

(iv) Physical rebuilding of country.

Capital stock is declining at  
rapidly decreasing.

Accelerated environmental destruction

Stabilization will not be possible without —  
legitimate government. — There is none today.

Transfer of revenue collection  
between local / republics to state

Accounts of Bombay in Dept -  
in detail.

van Brabant

Cross in 'top 1990 June half.

Feb \$606.      May 1992.  
Not ..      26.5 (89-)      36.4 (1992)

→ Hanson

Questions: Long Air Drops.  
: Gold  
:

Note.

Despite expense to direct access to forecasts, etc., etc. we still have many to some extent.

Requering is a must  
constraints some, industry - external.

Prediction:  $\psi$  good scenario : some part

Price budget -

inputs is needed.

Analysis of news

Some analysis.



Table 1. State Budget Data: 1971-1990

	1971-5	1981-5	1989		1990	(3)-(2)	(5)-(3)	(5)-(2)
	(1)	(2)	Original plan (3)	Revised plan (4)	plan (5)			
<b>Percent of GDP</b>								
1 Total expenditures	43.0	49.5	53.2	51.7	48.8	3.7	-4.4	-0.7
2 Investment	10.3	8.9	8.7	6.5	5.3	-0.1	-3.4	-3.6
3 Ordinary expenditures	32.7	40.7	44.5	45.2	43.5	3.8	-1.0	2.9
4 National economy <sup>a</sup>	11.3	12.6	10.5	12.7	11.5	-2.0	1.0	-1.0
5 Subsidies <sup>b</sup>	5.8	9.1	11.1	11.1	12.0	2.0	0.9	2.9
6 Social welfare	13.9	14.3	15.4	15.5	15.9	1.1	0.5	1.5
7 Defense <sup>c</sup>	n/a	9.1	8.3	8.3	7.1	-0.8	-1.2	-2.0
8 External expenditures	1.4	2.5	3.4	3.2	2.6	0.8	-0.8	0.1
9 Total revenues	39.8	47.2	39.9	41.6	42.8	-7.3	2.9	-4.4
10 Profit taxes	14.3	15.1	13.0	12.1	12.3	-2.0	-0.8	-2.8
11 Above normal profit taxes <sup>d</sup>	5.3	6.6	2.7	1.9	1.9	-3.9	-0.8	-4.7
12 Turnover taxes	13.8	14.2	11.3	11.9	12.2	-2.9	0.9	-2.0
13 Foreign trade revenues	4.0	9.5	6.5	6.5	5.8	-3.0	-0.7	-3.8
14 Taxes on individuals	4.0	4.2	4.2	4.6	4.8	0.0	0.5	0.6
15 Social security taxes	2.3	3.1	3.4	3.5	4.0	0.3	0.6	0.9
16 Total deficit	3.2	2.3	13.3	10.1	6.0	11.0	-7.3	3.7
17 Ordinary deficit	-7.1	-6.5	4.6	3.6	0.7	11.1	-3.9	7.2
18 Ordinary deficit (adj.)	-7.1	0.1	7.3	5.5	2.6	7.2	-4.7	2.5
19 Net taxes on goods and services	11.0	14.6	6.7	7.4	6.0	-7.8	-0.7	-8.5
20 Net taxation	26.2	30.6	21.1	22.4	22.5	-9.5	1.4	-8.1
21 Net taxation (adj.)	20.9	24.0	18.5	19.7	20.6	-5.6	2.2	-3.4
<b>Billions of current rubles</b>								
22 Total expenditures	186.7	353.0	494.8	481.0	488.2	141.8	-6.6	135.2
23 Total revenues	172.6	336.3	371.0	386.8	428.2	34.7	57.2	91.9
24 Total deficit	14.0	16.7	123.8	94.1	60.0	107.1	-63.8	43.3
25 GDP	433.7	712.8	930.0	930.0	1,000.0	217.2	70.0	287.2

<sup>a</sup> Excluding expenditures on investment and defense.

<sup>b</sup> The figure for 1981-85 is estimated by applying the same ratio between food and total subsidies as in 1989.

<sup>c</sup> The figure for defense in 1981-85 was estimated by assuming real annual growth of 3 percent between 1983 and 1989.

<sup>d</sup> Profit taxes in excess of 40 percent of profits.

Sources: Ofer (1990), Appendix Table 1; 1989 revised plan (column 4) revised on the basis of *PlanEcon Report*, February 21, 1990, p. 13 (based on *Ekonomicheskaja Gazeta*, No. 40, 1989).

Table 2. Demand for Assets, Money and Saving: 1965-1989

		(Annual data; current billions of rubles)								
		65-70	71-75	76-79	80-82	83-85	86	87	88	89 <sup>a</sup>
<b>Billions of Rubles</b>										
1	Personal disposable income	143.4	206.5	265.4	310.3	347.6	375.0	389.0	420.9	473.1
2	Change in personal disposable income		63.1	59.0	44.8	37.2	27.5	14.0	31.9	52.2
<b>Financial Assets of The Household Sector</b>										
3	Total (4+5+6-7)	39.0	105.7	176.0	227.4	277.2	325.8	360.1	401.7	461.2
4	Saving deposits	31.0	74.1	124.2	165.5	203.3	242.8	266.9	296.7	337.7
5	Cash	8.7	25.5	47.7	58.3	69.8	78.1	87.1	100.0	118.5
6	Bonds	2.0	8.5	5.9	6.3	8.5	11.0	12.2	11.4	11.4
7	Net borrowing	2.7	2.3	1.8	2.7	4.4	6.0	6.1	6.4	6.4
<b>Savings (flows)</b>										
8	Total (9+10+11-12)	7.1	13.5	20.2	13.6	22.1	31.3	34.1	44.2	60.5
9	Change in saving deposits	5.1	8.9	13.8	9.4	15.5	22.0	23.9	29.8	41.0
10	Cash	1.9	3.3	5.6	3.5	5.8	8.3	9.0	11.9	18.5
11	New bonds	0.3	1.4	0.9	1.0	1.4	1.9	2.2	2.0	2.0
12	Net borrowing	0.3	0.2	0.1	0.3	0.6	0.9	0.9	1.0	1.0
<b>Changes in Savings</b>										
13	Total (14+15+16-17)		6.4	6.7	-6.6	8.5	9.2	2.8	8.6	17.8
14	Changes in change in SD		3.7	4.9	-4.5	6.2	6.5	1.9	5.9	11.2
15	Changes in change in cash		1.4	2.2	-2.0	2.2	2.5	0.7	2.9	6.6
16	Changes in change in new bonds		1.14	-0.51	0.08	0.44	0.49	0.25	-0.17	0.00
17	Changes in change in net borrowing		-0.1	-0.1	0.2	0.3	0.3	0.0	0.1	0.0
18	Capital stock of the economy	704.9	1116.6	1694.1	2274.1	2869.4	3397.4	3629.1	4006.5	4544.8
19	Retail price index	100.00	105.54	113.02	122.68	131.44	138.27	140.34	147.55	159.41
20	All financial assets/capital stock (3/18)		0.055	0.095	0.104	0.100	0.097	0.096	0.099	0.100

(cont.)

Table 1. Selected Domestic Financial Stock (Balance Sheet) Magnitudes, 1970-1989

Billions of rubles, end of year

	1970	1985	1987	1988	1989
1. Bank loans to enterprise sector, incl. kolkhozy <sup>a</sup>	126.2	521.3	432.1	404.6	387.9
2. of which: Short-term	(104.7)	(426.4)	(356.6)	(302.3)	(284.6)
3. Long-term <sup>a</sup>	( 21.5)	( 94.9)	( 96.0)	(102.3)	(103.3)
4. Gosbank and Savings Bank, loans to the budget (Treasury)	n.a.	n.a.	[225-235]	[280-290]	370-380
5. Total, above-listed bank loans <sup>b</sup>	n.a.	n.a.	[ <del>645-665</del> ] [650-670]	[680-700]	750-770
6. Deposits in Savings Bank [SD]	46.6	220.8	266.9	296.7	337.7
7. Ditto, withdrawable on demand	n.a.	n.a.	159.2	176.2	[200]
8. Currency in circulation [C]	@24	[@75]	@80	@92	@110
9. Ditto, in possession of population [C']	n.a.	n.a.	@76	88	105.1
10. "Monetary means" of enterprises (incl. kolkhozy)	n.a.	[@58]	93.9	111.0	n.a.
11. Ditto, excl. kolkhozy	16.5	51.3	81.5	98.2	n.a.
12. Sum of lines 7. and 9.	n.a.	n.a.	235	264	305
13. Sum of lines 10. and 12.	n.a.	n.a.	329	375	n.a.

Notes to Table 1.:

n.a. -- not available

[ ] -- our estimate

a. Long-term loans include very small amounts of loans to households (0.6 BR in 1970, 5.8 BR in 1988).

b. There may be other domestic loans, for which no data are published; e.g., to "social organizations".

Sources: Lines 1.-3.: 1970-88, Narkhoz...1988, p. 629; 1989, Gerashchenko:1990. Line 4.: 1989, Titarev:1990; 1988, the 1989 figure less the amount of Gosbank and Savings Bank loans

Notes to Table 1 (cont.)

to the budget in 1989 (Table 2, line 7.); 1987 figure, derived from 1988 by subtracting estimate of Gosbank and Savings Bank loans to the budget in 1988. Line 6.: Narkhoz...1988, p. 98; 1989, annual report for 1989, Soviet press, January 30, 1990. Line 7.: 1988, Finansy, Table III:21. Line 8.: 1989, Titarev:1990, where it is estimated at about 110 BR; carried back to 1988 by official announcement of issue of "over 18 BR" during 1988 (said to have been 56 percent more than in 1987, which yields 1987 issue at close to 12 BR), hence, 1987 - @ 80 BR.); 1985 -- guesstimate. Line 9.: 1989, Itoqi, p. 4; source states that currency in possession of the population increased by 17 BR in 1989; hence, 1988 - @ 88 BR. It is not clear whether "population" includes the cooperative sector. 1985 - Sliun'kov states (Pravda, 25 June 1990, p. 2) that currency "in the hands" of the population increased by "a third" over four years, presumably end of 1985 to end of 1989, which yields @ 79 BR for 1985, here assumed to be 76 BR in view of the 80 BR figure for 1987 for all currency in circulation. Lines 10. and 11.: 1987 and 1988 figures from Finansy, Tables VII:1 and 2.

Table 2. Selected Data on Financial Flows (or year's changes in stocks), 1985-90

Billions of rubles

	1985	1986	1987	1988	1989
<u>Budget (consolidated)</u>					
1. Expenditures	-386.5	-417.1	-430.9	-459.5	n.a.
2. Revenues (excl. all borrowing)	<u>371.2</u>	<u>369.7</u>	<u>376.5</u>	<u>376.9</u>	<u>n.a.</u>
3. Expenditures less Revenues	<u>- 15.3</u>	<u>- 47.4</u>	<u>- 54.4</u>	<u>- 82.6</u>	<u>n.a.</u>
4. financed by: Loans placed with population	- 1.4	- 1.9	- 1.9	- 2.0	- 2.2
5. Savings Bank loans				- 21.0 - 2.6 - 66.5	
6. Gosstrakh loans	- 18.0	- 47.9	- 57.1		- 92.1
7. Gosbank loans					
8. increase in budget's deposits in banks <sup>a</sup>	<u>+ 4.1</u>	<u>+ 2.4</u>	<u>+ 4.6</u>	<u>+ 9.5</u>	<u>n.a.</u>
9. "Deficit" (= line 3)	- 15.3	- 47.4	- 54.4	- 82.6	n.a.
<u>Banks (and Gosstrakh)<sup>b</sup></u>					
Assets:					
10. Loans, short-term, to enterprises	23.6	- 69.8	- 21.9	- 32.4	- 7.7
11. Loans, long-term, to enterprises and population	0.9	1.1	1.4	4.9	1.0
12. Loans to budget:	18.0	47.9	57.1	90.1	92.1
13. from Savings Bank				(21.0)	
14. from Gosstrakh				( 2.6)	
15. from Gosbank				(66.5)	
16. Total, known loans	<u>42.5</u>	<u>- 20.8</u>	<u>36.6</u>	<u>62.6</u>	<u>85.4</u>
Liabilities:					
17. (Savings) Certificates sold	--	--	--	0.9	1.9
18. Currency issued	n.a.	@ 5		@12	18 +
19. Enterprises' "monetary means" (incl. kolkhozy)	n.a.	36		@17.1	n.a.
19a. Ditto, excl. kolkhozy	1.1	<u>30.1</u>		@16.7	n.a.
20. Budget account (line 8.)	4.1	2.4	4.6	9.5	n.a.

Table 2 (cont.)

	1985	1986	1987	1988	1989
21. Savings deposits	18.7	22.0	24.1	29.8	40.7
21a. <u>Ditto</u> , withdrawable on demand	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>(17.0)</u>	<u>(24.3)</u>
22. Sum of lines 18., 19., 20., 21.	n.a.	94		69.3	n.a.
<del>23. Memo: Money supply increment (sum of lines 18., 19., 21a.)</del>	<del>n.a.</del>	<del>n.a.</del>	<del>n.a.</del>	<del>46.1</del>	<del>n.a.</del>

Enterprise sector

## Assets:

24. Currency	n.a.	n.a.	n.a.	@ 1	@ 1
25. "Monetary means" (line 19)	1.1	36		@17.1	n.a.

## Liabilities:

26. Bank loans, short-term	23.6	- 69.8	- 21.9	- 32.4	- 7.7
27. Bank loans, long-term	0.2	0.7	0.7	2.2	n.a.

Population

## Assets:

28. Currency	n.a.	@ 8		@11	17
29. Savings deposits	18.7	22.0	24.1	29.8	40.7
30. Treasury bonds	1.4	1.9	1.9	2.0	2.2
31. Certificates	--	--	--	0.9	1.9
32. Sum of above (rounded)	n.a.	@ 58		44	62
Liabilities:					
33. Bank loans, long-term	0.2	0.4	0.7	2.7	n.a.

Notes to Table 2.

n.a. -- not available

a. Residual. Plus sign indicates increase in the deposits, although these amounts may in some measure be in fact expended on extra-budget items.

b. Gosstrakh is the Soviet insurance monopoly.

Sources: Lines 1.-7.: 1985-1988 - from Narkhoz...1988, p. 824, except that the breakdown for 1988 is from Otchet, p. 5, and the figures for 1989 are from Itaqi, pp. 1 and 4. Lines 10. and 11. are from Table 1. and Narkhoz...1988, p. 629. Lines 12.-15. are from lines 5.-

Notes to Table 2 (cont.)

7. above. Line 17.: 1985 - //////////////// Lines 17. - 3<sup>3</sup>/<sub>2</sub>. - from other parts of this table and/or from Table 1.

Table 3. Selected series, 1971-1989, growth in percent per year

	1970-85	1985-89	1970-89
GDP, "real" (CIA series):			
1. 1970 wts	2.8		
2. 1982 wts	2.2	2.2	2.2
3. Freight/cargo shipped, weight	3.1	1.4	2.8
4. National income (NMP) utilized, <u>nominal</u> , official	4.7	3.9	4.5
5. Currency in circulation [C]	7.8	@10	@8.3
6. Savings deposits [SD]	10.9	11.2	11.0
7. "Monetary means" [BB] of enter- prises (excl. kolkhozes)	7.9	17.6 (to 1988)	10.4 (to 1988)

Notes to Table 3: Lines 1. and 2. - 1970-89 figure chained at 1980. In the opinion of some specialists the CIA series may overstate the real rate of growth. Line 3. - official data on tons shipped, incl. maritime freight; accuracy not beyond reproach. Line 4. - official series, corrected (Narkhoz...1988, p. 16). Line 5. - 1970-85 is based on Gorbachev's statement of a 3.1-fold increase in C (Pravda, 27 June 1987); 1985-89 - from Table 1. Lines 6. and 7. - from Table 1. Line 8. - from Table 1, official series; the addition of 30 BR is a rounded figure based on the statement that "in the last 25 years, 26.7 BR of indebtedness by kolkhozy and sovkhozy has been written off" (A. Bekker in MN, 1990:10, p. 10). N.B. Stock variables are as of year-end.



# The Reform of Soviet Foreign Trade: A Progress and Regress Report

Philip Hanson

## Introduction

The fundamental influence on Soviet foreign trade is the domestic economic system. So far there is still not a market economy. Therefore prices are not generally scarcity prices; the currency remains inconvertible, and there is no pressure of domestic competition forcing Soviet enterprises towards making internationally competitive products. The proposed wholesale (and retail) price revisions to come in 1991 will not change this; the 14 June 1990 law on enterprise taxation, which comes into effect at the start of 1991, includes export and import taxes that will continue to perform the function of the old Preisausgleich. In other words, Soviet trading entities will still be paying into the budget positive differences between domestic prices and the official ruble equivalent of export and import prices. (Izvestiya 29.vi.90: 1-3).

The traditional system has proved, in the USSR and Eastern Europe, to be incompatible with the development of internationally competitive manufacturing, services and agricultural sectors. All that is left are the extractive industries, so that, as a crude generalization, only Siberia can pay its way in the world. All of this is well understood by Soviet executives and specialists, but that does not mean the transformation will happen quickly.

This note deals with changes in the foreign trade system itself. Pending the transformation of the domestic economic system, organizational changes in the management of foreign trade

as such are secondary. Some of them have nonetheless yielded some improvement. The progress and regress so far can be summarised as follows.

### Progress

1. Diffusion of foreign trade rights from the old Ministry of Foreign Trade (MFT) and less than 100 foreign trade organisations (FTOs), mostly subordinate to it, to some 14-16,000 state enterprises, branch ministries and cooperatives. This raises potential contacts, reduces communications problems with the outside world.
2. Legislation allowing joint ventures (JVs) on Soviet territory. Now over 1500. These are channels for absorption of managerial and technical know-how, plus foreign investment.
3. Special economic zones (SEZs): officially being established in Vyborg, Nakhodka, Novgorod; possibly also in Poti, Sochi, Uzhgorod. Less officially, so far as Moscow is concerned, there are de facto favourable regimes being established in the Baltic states, Leningrad, Sakhalin (governor Valentin Fedorov - Izvestiya 24.v.90:3).
4. The statute on joint-stock companies of 19 June 1990, which begins the creation of a framework for foreign direct investment and, more generally, the creation of real firms in the USSR. Foreign share acquisitions could become a more effective means of foreign participation in the Soviet economy than the JVs. Already KamAZ and GAZ are preparing sales of shares, including to foreigners. (Ekonomika i zhizn 1990: 27:12-15).

5. The construction of a GATT-compatible goods classification and tariff structure and the introduction of customs declarations - all part of the mechanics of a decentralised trade system.
6. The expansion of training programmes for Soviet bankers, managers, accountants and others, familiarising them with international business.
7. The auctions of hard currency for rubles, albeit at a minute level: the amounts of hard currency changing hands in this way so far has been a small fraction of 1 percent of the annual hard-currency import bill.
8. The shift to hard currency settlement next year within CMEA should have the net effect of raising Soviet hard-currency purchasing power by several billion dollars.

### Regress

1. The new trading entities have increased confusion and reduced the average level of competence of the Soviets with whom western businessmen have to make deals. The old FTOs have lost good specialists to the JVs, and the new trading entities are desperately short of international know-how. FTOs that have been moved from the MFT to branch ministries no longer get market analyses and price guidance from the MFT's successor - the Ministry of Foreign Economic Relations (MFER), (Pravitel'stvennyi vestnik 1990: 23 round table). One of the consequences has been Soviet ministries or enterprises signing contracts for imports without knowing where the hard currency would come from or having a

Vnesheconombank (VEB) guarantee: e.g. the State Education Committee's large order for PCs from Siemens. It is estimated that at present \$1 bn worth of short-term credit falls due for payment each month, and VEB and other officials have been suffering hard to cope with this. As a result, from mid-1989 to mid-1990 credit terms to Soviet borrowers have gone from LIBOR + 0.25 to 0.5 to LIBOR + 1.0. (WSJ 15.vi.90).

2. The JVs are not only bringing in very little Western investment, they have been (Jan-Sept 1989) generating hard currency imports in excess of their exports plus domestic sales for hard currency (Vestnik statistiki 1990:4(?)). This may well be because much of what is being imported is in effect part of the initial investment by the Western partner.
3. The tendency of the USSR to decompose into separate states and other entities makes life even more complicated for Western business partners. The Baltic states are developing independent links with the outside world, and separate currencies, but with painfully limited reserves and hindrance from the VEB in Moscow. Now Russia may also set up its own currency (Mikhail Berger, Izv 1.vii.90:1), and its First Deputy Prime Minister, Ruslan Khazbulatov, says he is supervising the preparation of a batch of RSFSR legislation on foreign economic relations, which includes dealings with other republics (Ekonomika i zhizn 1990:28:4). Anatolii Sobchak, the new, Westernising mayor of Leningrad, seems to be espousing an independent foreign economic policy for Leningrad. In Moscow, Il'ya Zaslavski, campaigning for

the Russian Republic elections in the Oktyabr'skii district, promised to make that district a special economic zone (Larissa Piyasheva in Izvestiya 18.ii.90:2). Presumably that is the very least that Rukh will want for the Ukraine.

My personal view is that the USSR probably will break up into separate states. I also believe that it is in most people's interest in the long run that it should do so - provided it does it peacefully. But I cannot pretend that the present state of affairs - partial, confused and contested decomposition - is good for business.

4. Soviet sovereign credit-worthiness has, for reasons already indicated, deteriorated. But a legal framework that would enable Western commercial lenders to feel they had loan guarantees and collateral they could rely on, is not yet in place.

### Conclusions

Amiable divorce between the more Westernising and the more traditionalist bits of the USSR may be the way in which things gradually sort themselves out, so far as Soviet-Western trade is concerned. The only other attractive scenario is one in which the present Soviet leadership introduces changes sufficient to establish a voluntary federation with the same basic currency and trade regime, and one that is clearly committed to transformation into a mixed, market economy. The time available for this to be done seems inadequate. The natives (of Moscow, Leningrad, Kiev, Tallinn, Vilnius, etc) are probably too restless.

The trouble is that the time-horizons of most Western

businesses are not long enough for them to invest now on a substantial scale, and wait for the muddle to be sorted out. Companies that have already established some sort of bridgehead will no doubt keep waiting for quite a while, but without committing much more in the way of resources. Perhaps some companies from countries that have what the Economist calls proprietor capitalism, rather than punter capitalism, will be able to take a long enough view. One such country - Germany - also has powerful reasons for pumping taxpayer-guaranteed credit into trade with Moscow. Another, Japan, on the other hand, has what might be called insular reasons for not doing so.

On balance, it seems to me that specialist Russia-watchers like ourselves should still be issuing health warnings about the Soviet market to the Western business community. It is also my view that the integrity of the USSR as a single state, and the power of the Soviet government to rule that single state are now highly questionable. Whether Western governments and/or international organizations can achieve anything by assistance to the Soviet government now - as distinct from assistance to successor states later - needs to be very carefully considered.

July 1990

## SOVIET ECONOMIC GROWTH SINCE 1965

Sectors, inputs and outputs (% p.a. growth rates)

## A. Soviet official measures

	1966-70	1971-75	1976-80	1981-85	1986-88	1989	1990 I
GNP	7.6	6.2	4.8	3.6	3.9	3.0	-1.0
NMP produced	7.8	5.7	4.3	3.2	2.8	2.4	-2.0
NMP utilised	7.2	5.1	3.8	2.9	2.3		
gross industrial output	8.5	7.4	4.4	3.6	4.0	1.7	-1.2
gross agricultural output (a)	3.9	2.5	1.7	1.0	3.0	1.0	
investment	7.3	6.7	3.7	3.7	7.1	0.6	
capital stock	7.5	7.9	6.8	6.0	5.1		
electric power	7.9	7.0	4.5	3.6	3.4	1.0	1.0
three main fuels (b)	5.2	5.4	4.2	2.5	3.4	-0.6	-1.3

## B. CIA estimates(c)

GNP	4.9	3.1	2.1	1.9	2.3	1.4	
industrial output	6.0	5.6	2.4	2.0	2.7	0.2	
agricultural output	3.4	-2.3	0.2	1.2	0.8	3.4	
investment	5.4	5.0	3.9	3.3	3.0	0.5	
capital stock	7.7	7.5	6.4	5.4	(4)		
labour (man-hours)	3.6	2.2	1.4	0.7	0.4	0.0	
per capita cons.	5.0	3.0	2.0	0.8	0.3		

Notes: General: All output series and the investment and capital-stock series are, in principle, in constant prices, i.e., denote "real" changes. The Soviet official series, however, are known to contain an element of hidden inflation and therefore to be upward-biased.

a: For five-year periods, the growth rates shown are those between the total for the period and the total for the preceding five-year period.

b: Oil + gas + coal; author's estimates in terms of standard coal fuel units.

c: At 1982 ruble factor cost. last two columns are preliminary.

Sources: Narodnoe khozyaistvo SSSR v 1988:8,259,381; Izvestiya 28.i.90; Ekon. i zhizn' 1990:18:15-18; CIA, Handbook of Economic Statistics 1988; CIA/DIA, annual report to the Subcommittee on National Security Economics of the US Congress Joint Economic Committee, April 1990.

# EAST-WEST TRADE: STRUCTURE & DYNAMICS

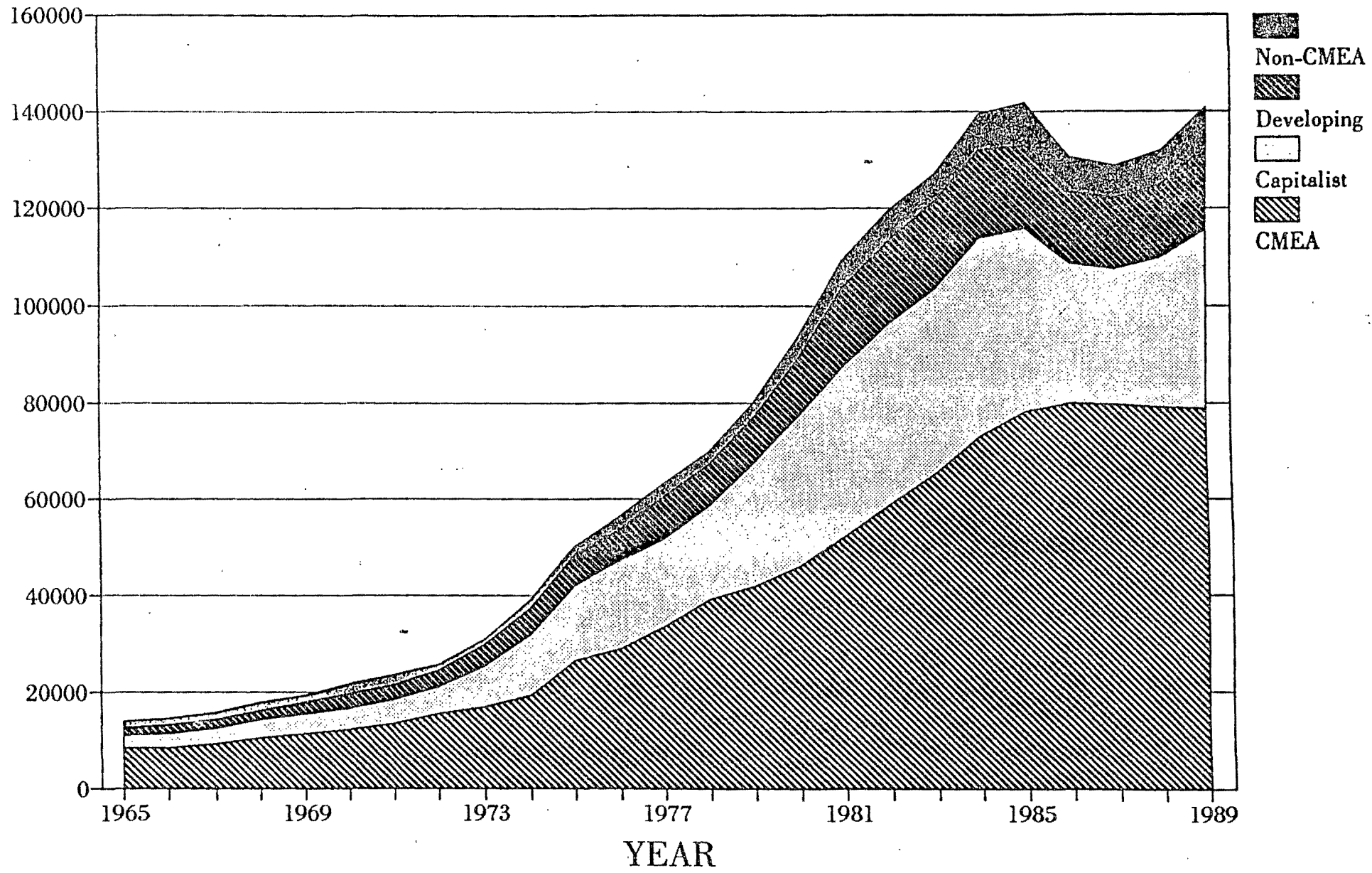
East-West Trade Research Unit

University of Birmingham

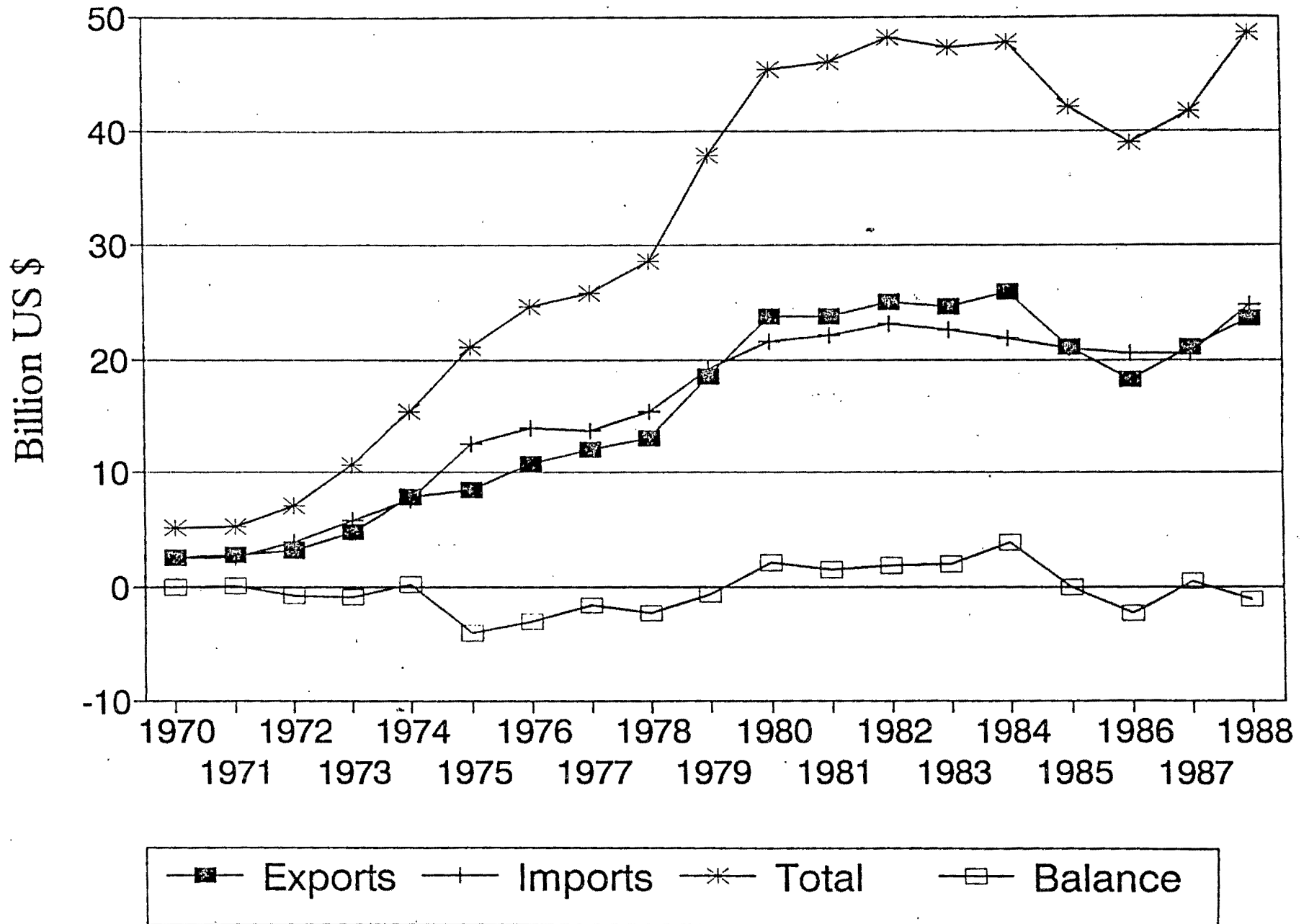
*(Mostly prepared by Dr M.J. Bradshaw)*



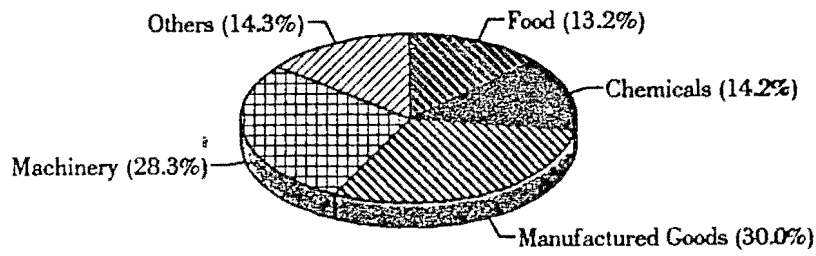
# Soviet Foreign Trade, 1965-1989 (1,000 Roubles)



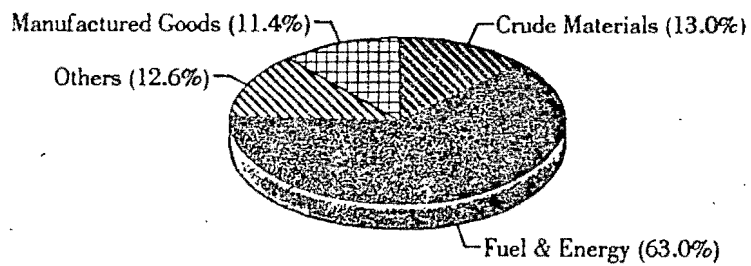
# Soviet Trade with the OECD, 1970-88



## Structure of OECD Exports to the USSR 1987



## Structure of OECD Imports from the USSR 1987



## East-West Technology Transfer Sectoral Distribution

Sector	Total # Contracts	%	Joint Ventures	%
Oil & Gas	326	17.2	2	1.1
Energy	55	2.9	0	0.0
Forest	151	8.0	15	8.4
Chemicals	356	18.7	22	12.4
Metals	160	8.4	5	2.8
Machines	110	5.8	17	9.6
Automotive	274	14.4	5	2.8
Transport	172	9.1	1	0.6
Food Industry	93	4.9	26	14.6
Textiles	92	4.8	16	9.0
Light Industry	66	3.5	15	8.4
Electronics	41	2.2	16	9.0
Other (Services)	3	0.1	38	21.3
Total	1899	100.0	178	100.0

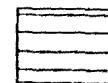
# DISTRIBUTION OF WESTERN TECHNOLOGY

BY ECONOMIC REGION: 1970-89

Number of Contracts



10 to 29



29 to 43



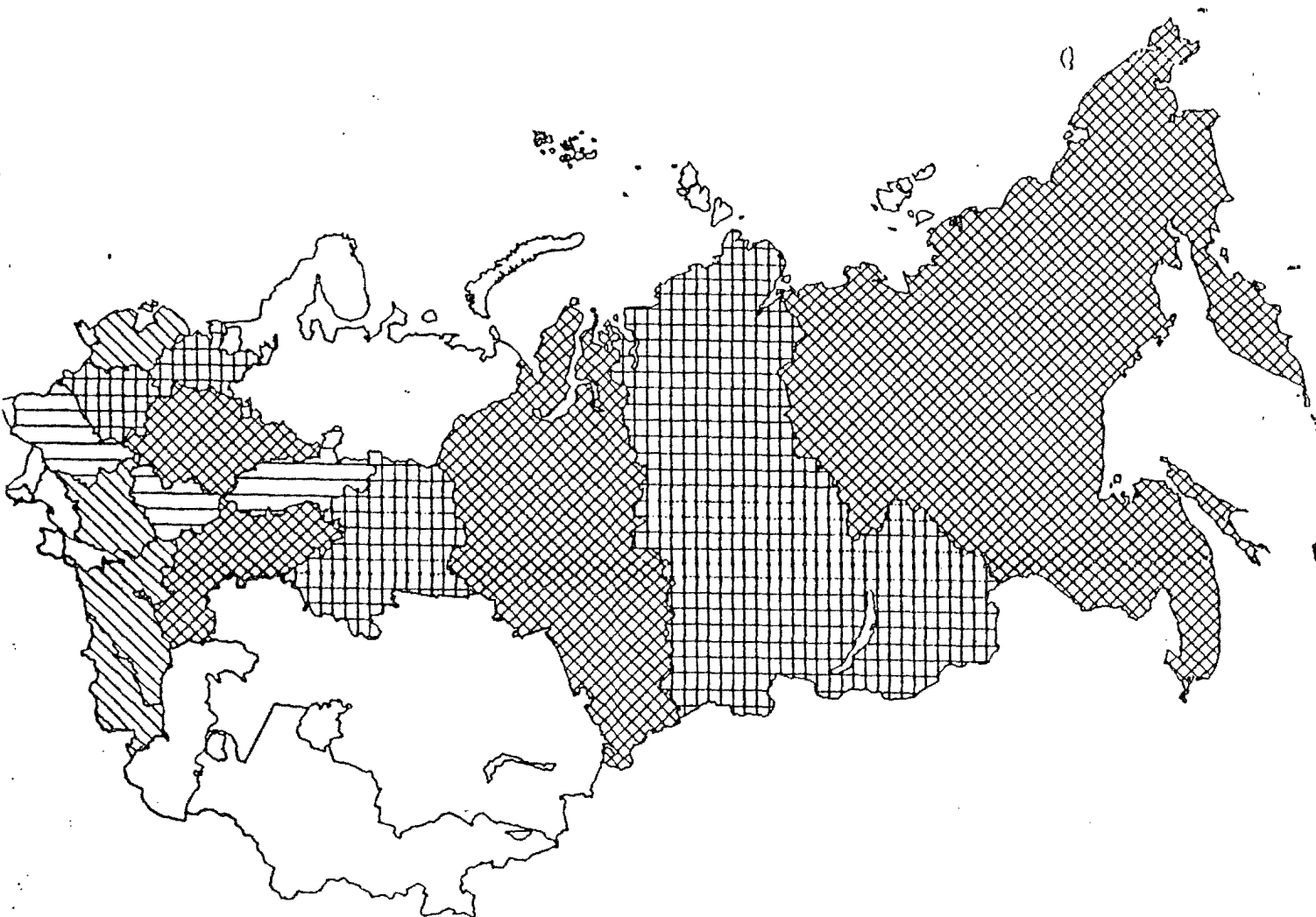
43 to 57



57 to 111

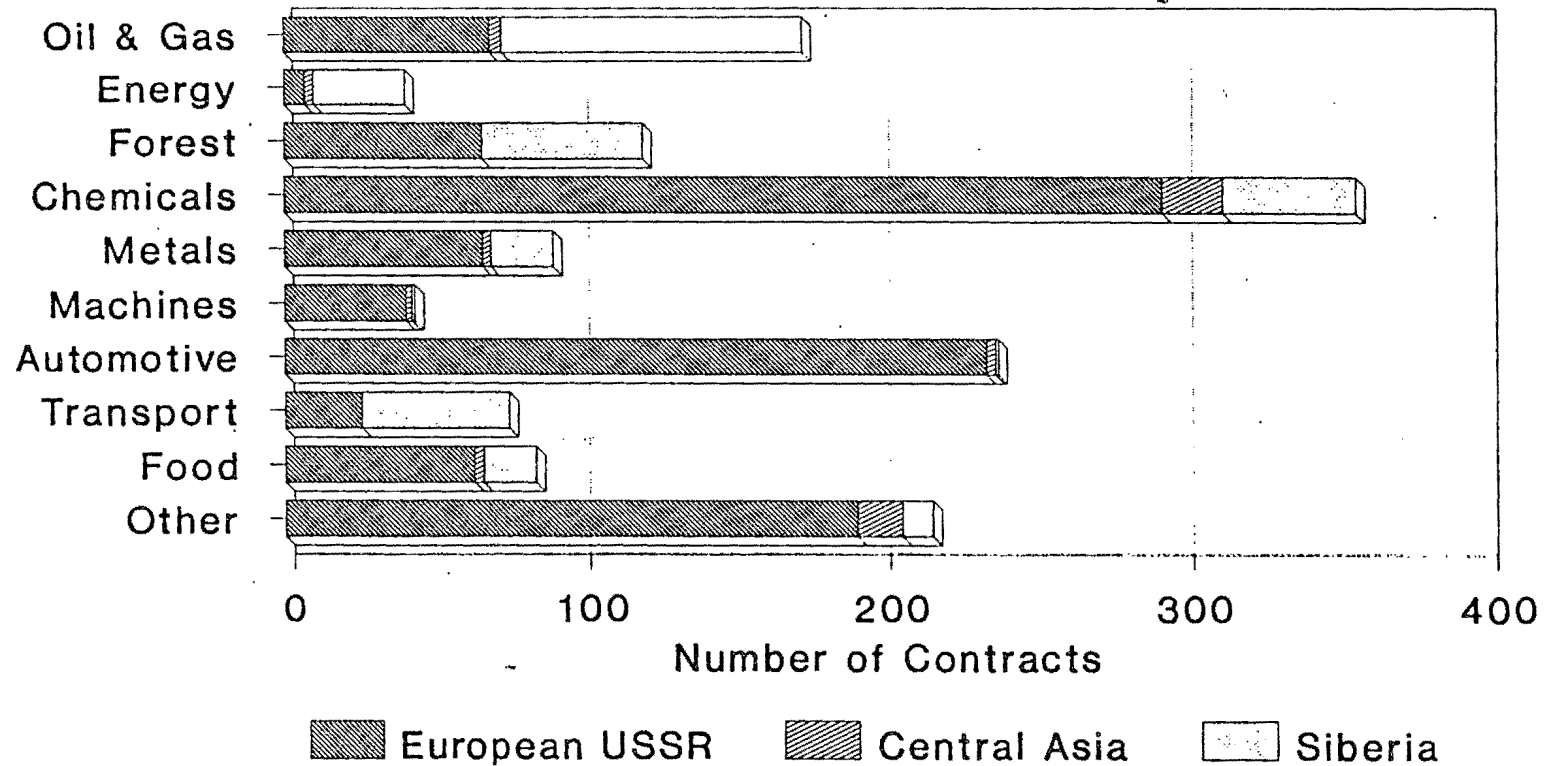


111 to 229



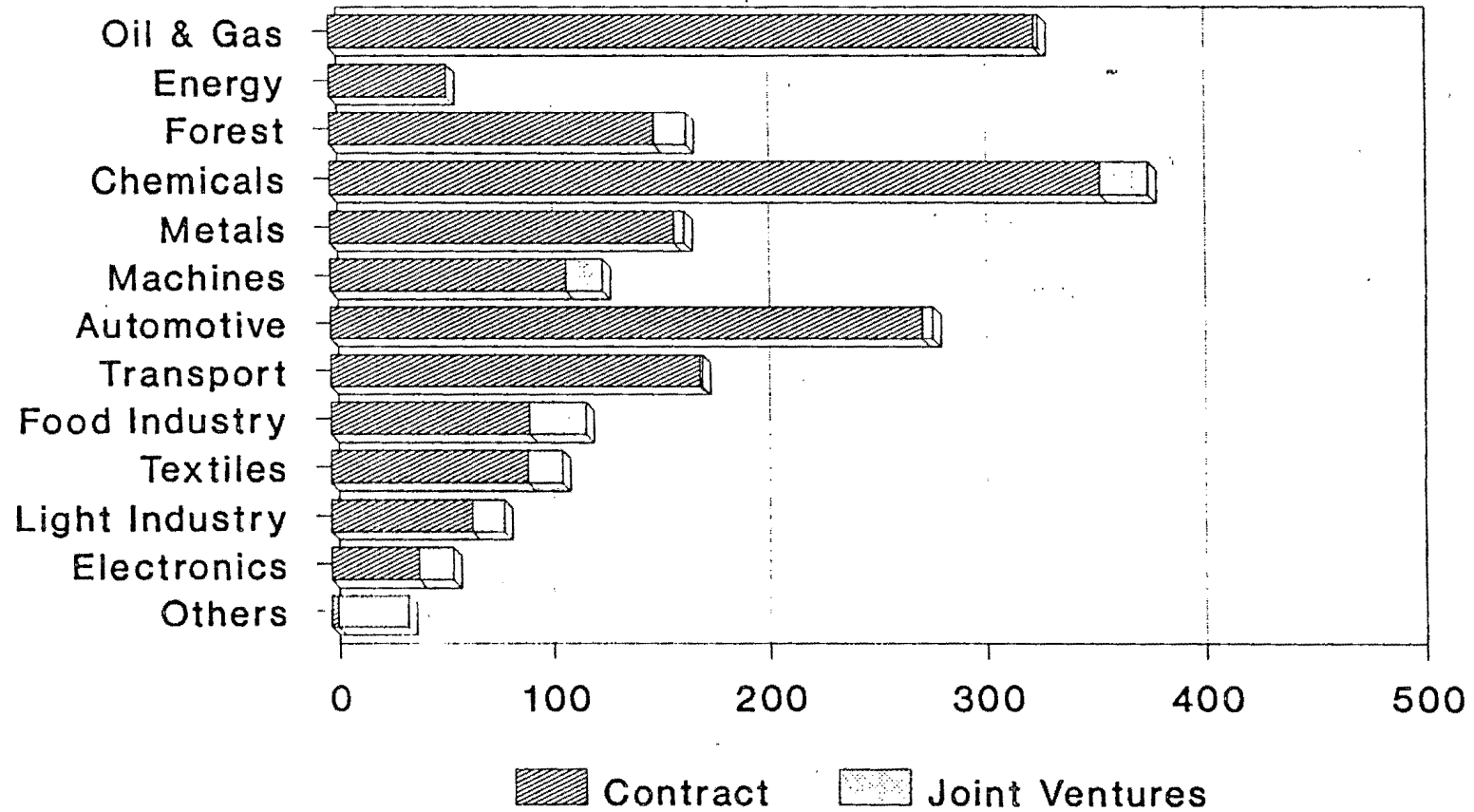
# Regional Distribution of Western Technology, 1970-89

Sector



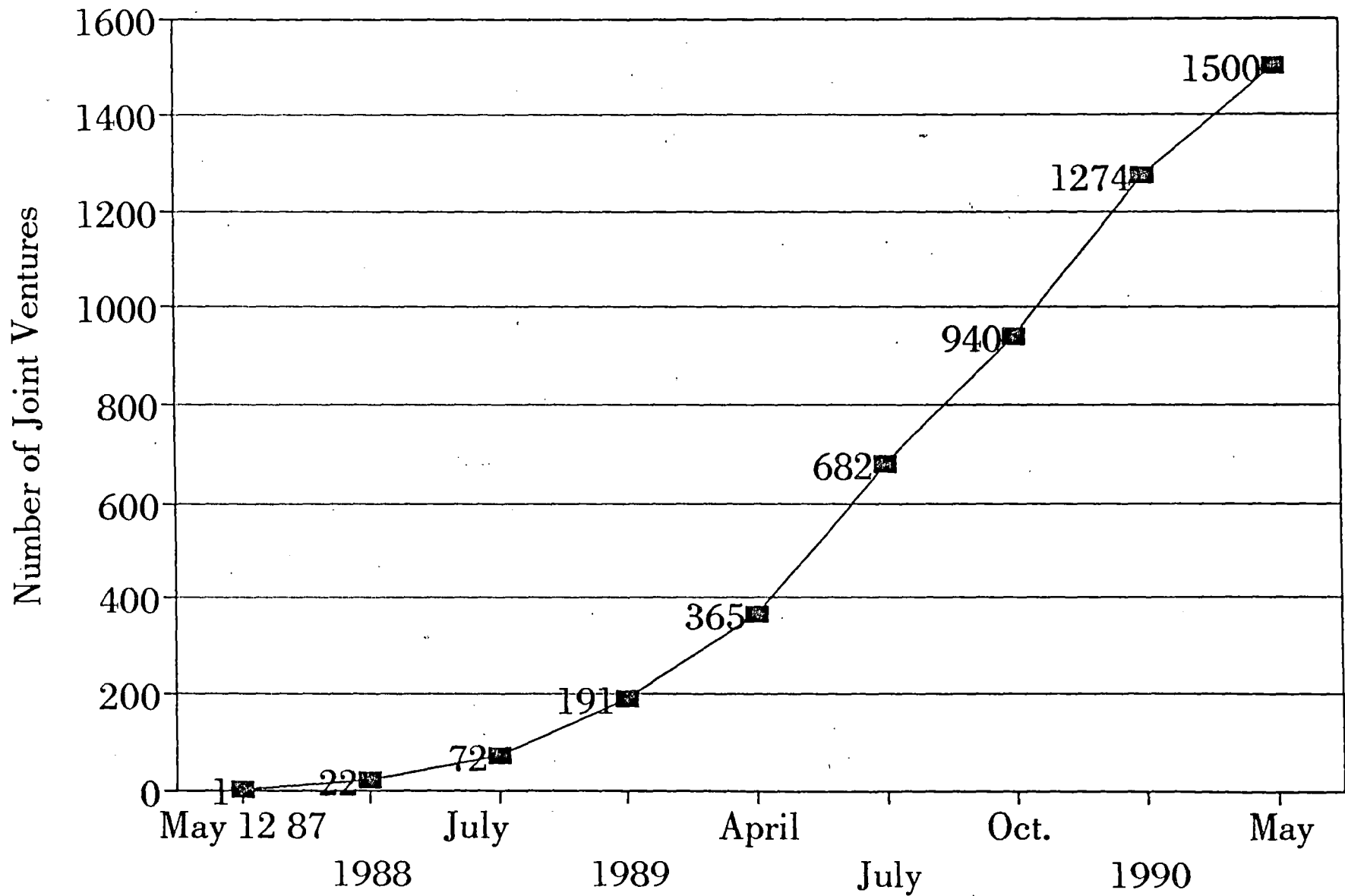
Source: ESRC Project Data Base 21/11/89

# Sectoral Distribution of Western Technology



Source: ESRC Project database

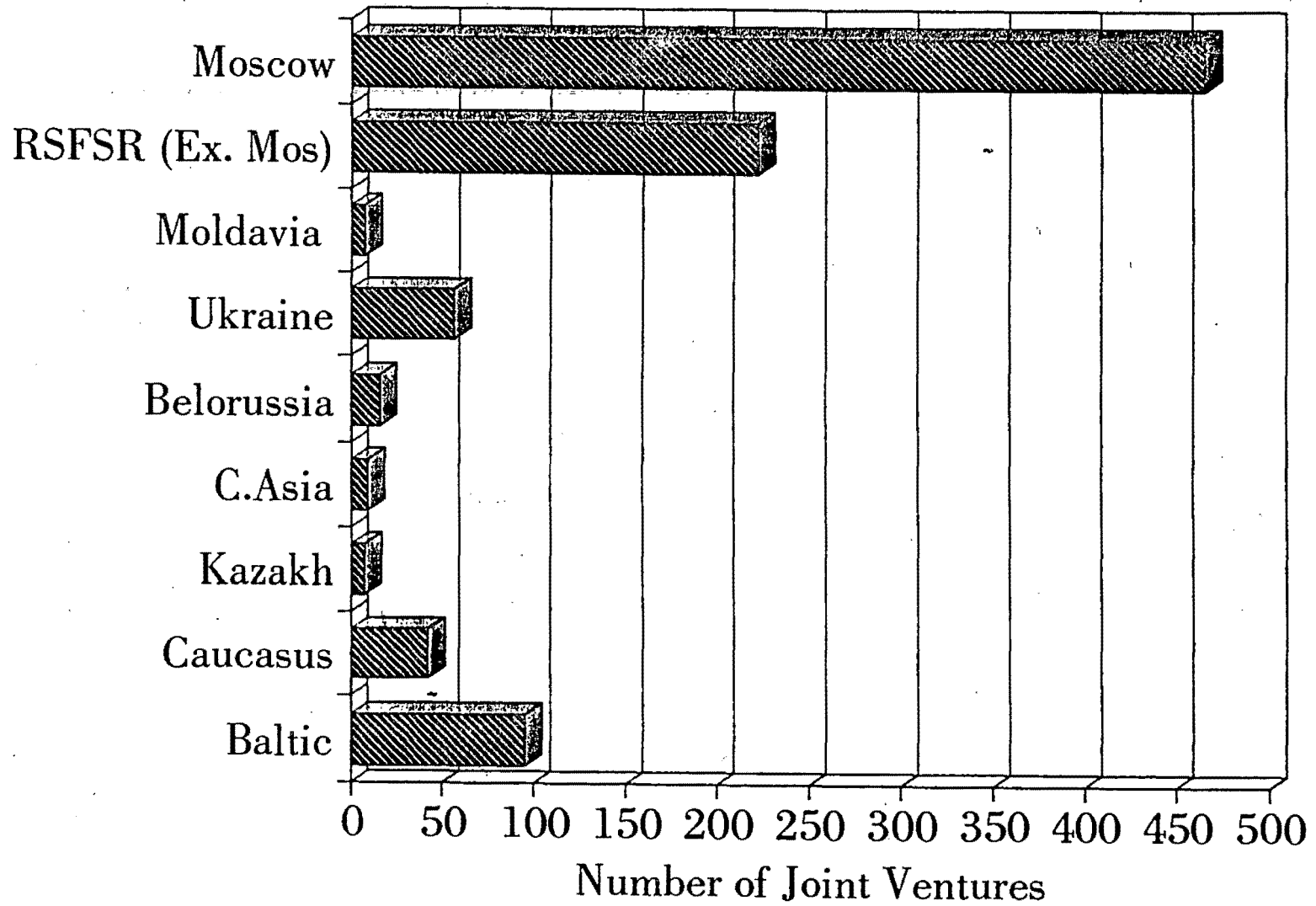
# Joint Ventures in the Soviet Union May 1987-May 1990



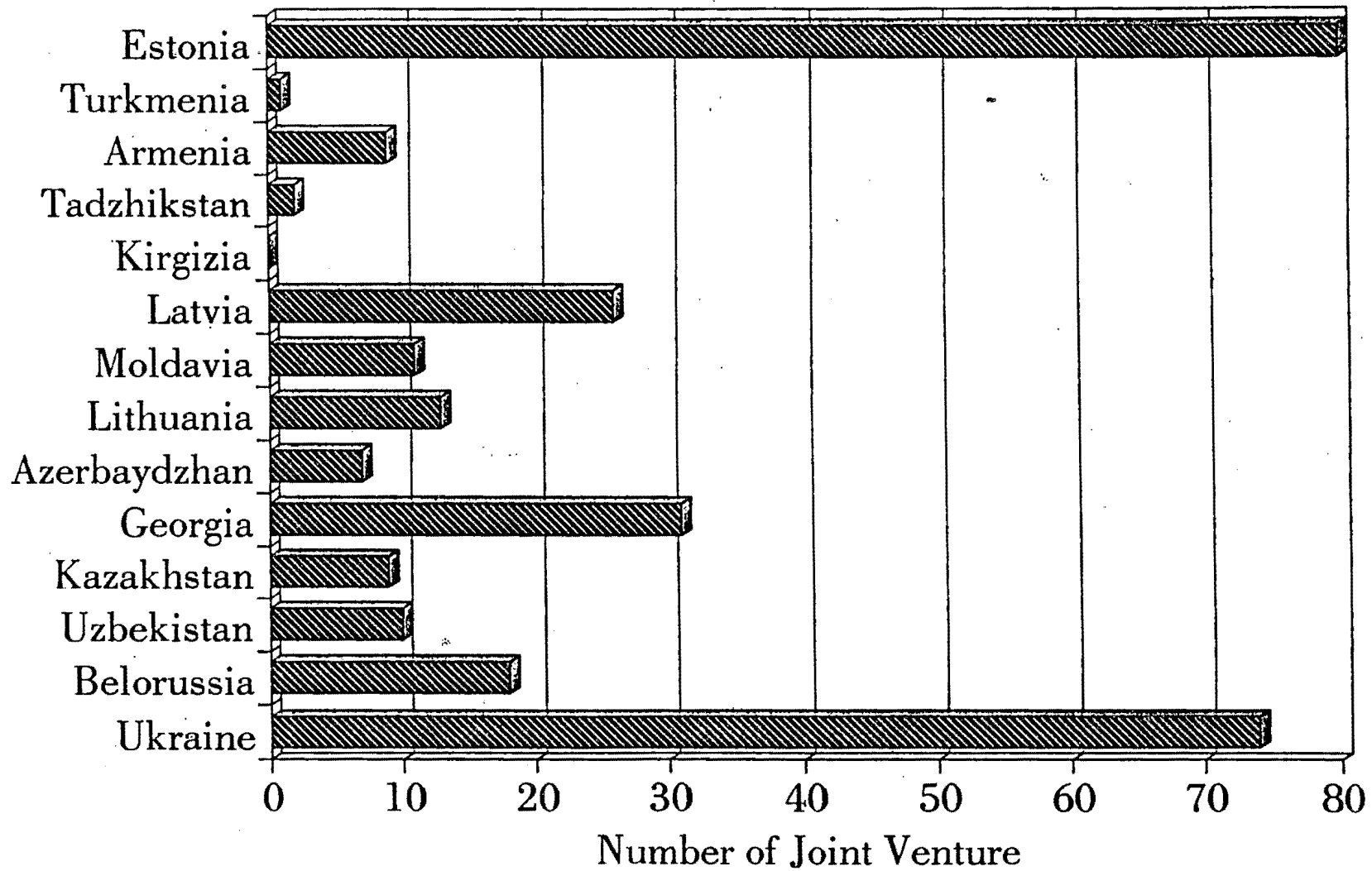


# LOCATION OF JOINT VENTURES IN THE USSR

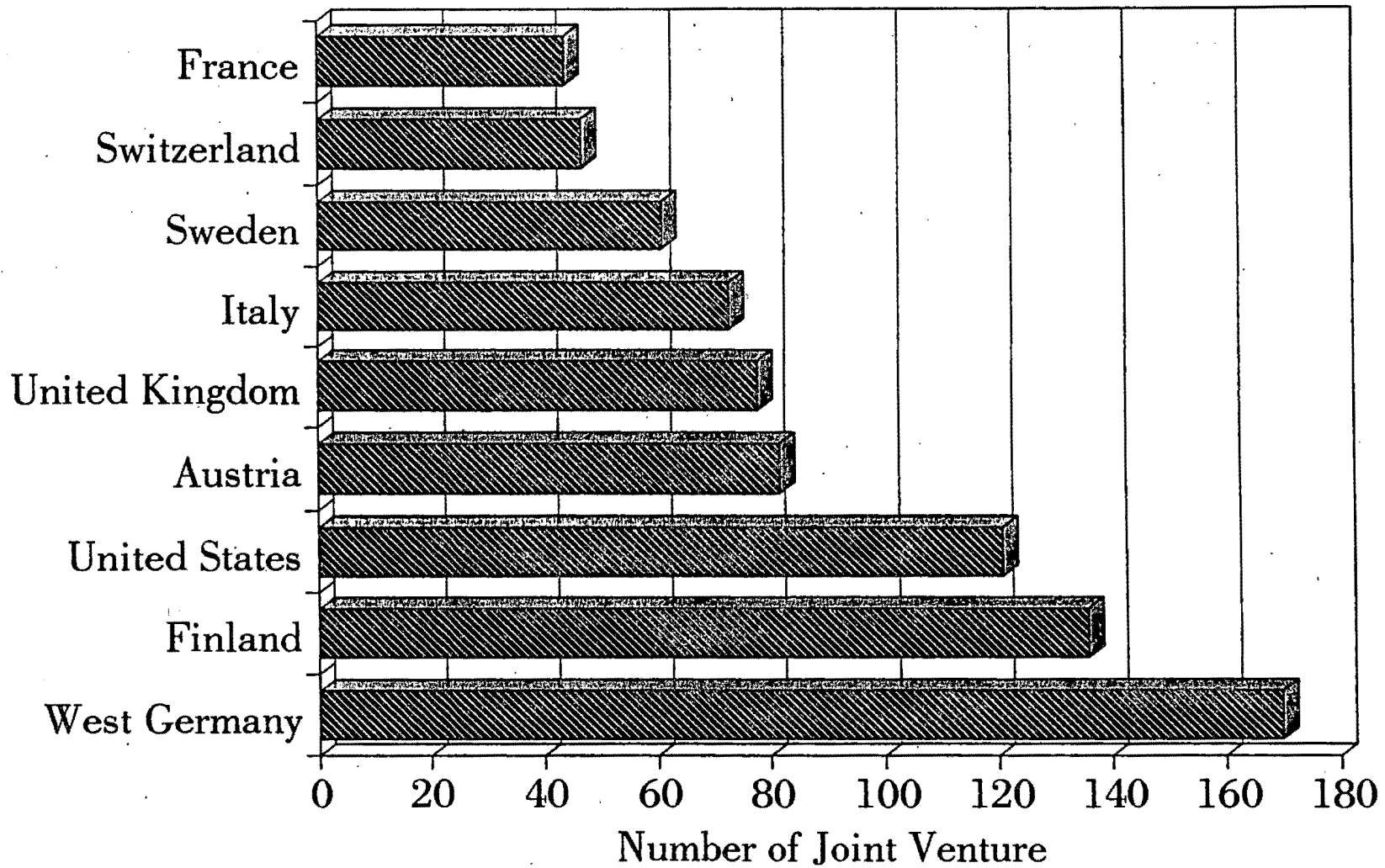
Total = 927



# Regional Distribution of Joint Ventures Excluding the RSFSR (on 1.12.89)



# Major Western Joint Venture Partners As of December 1st, 1989



### Geographical Distribution of Joint Ventures

Region	Number	Percent	Socialist	Capitalist
USSR TOTAL	1136	100	133	1003
USFSR	845	74.3838028169	91	754
Ukraine	74	6.51408450704	20	54
Belorussia	18	1.58450704225	6	12
Uzbekistan	10	0.88028169014	3	7
Kazakhstan	9	0.79225352113	2	7
Georgia	31	2.72887323944	2	29
Azerbaydhan	7	0.6161971831	1	6
Lithuania	13	1.14436619718	2	11
Moldavia	11	0.96830985915	2	9
Latvia	26	2.28873239437	2	24
Kirgizia	0	0	0	0
Tadzhikstan	2	0.17605633803	0	2
Armenia	9	0.79225352113	1	8
Turkmenia	1	0.08802816901	0	1
Estonia	80	7.04225352113	1	79

### Major Western Partners

Country	Number of JVs	Percent Total
West Germany	170	14.9647887324
Finland	136	11.9718309859
United States	121	10.6514084507
Austria	82	7.21830985915
United Kingdom	78	6.8661971831
Italy	73	6.42605633803
Sweden	61	5.36971830986
Switzerland	47	4.13732394366
France	44	3.87323943662
Total Western Partners	812	71.4788732394

Tekst 1

(1)

USSR Tekst (bi \$ current price)

	1960	1985	1986	1987	1988	1989
TOT X	76.50	86.77	96.94	107.62	110.51	109.1
M	68.53	82.91	88.85	95.93	107.09	114.5
Bm	7.97	3.86	8.09	11.69	3.42	-5.3
EEB X	32.24	40.63	50.94	54.28	54.00	50.
EB <sub>0</sub> M	29.43	39.50	44.26	54.19	57.96	56.0
Bm	2.81	1.13	3.70	0.10	-3.95	-6.4
DNE X	24.45	22.19	16.61	22.40	24.15	26.
(feet) M	24.23	23.04	22.51	21.91	26.87	32.
Bm	0.22	-0.85	-3.90	0.49	-2.72	-6.0
DE X	10.59	11.48	13.56	15.41	15.75	16.
(nmdob) M	7.85	9.13	6.95	7.49	8.80	11.0
Bm	2.74	2.35	6.61	7.91	6.95	4.9
	<u>1990</u>		<u>1989</u>			
1-6 m. X	50.09		53.11			
M	60.78		57.18			
Bm	-10.69		-4.08			
1-6 m X sor	30.94		33.09			
M	35.83		36.07			
Bm	-4.89		-2.98			
1-6 m X Nd	19.15		20.02			
M	24.95		21.12			

Table 2

USA Quantum and price developments

<u>Q.</u>	1985	1986	1987	1988	1989
Xg	100	109.3	112.2	115.9	116.7
mq	100	94.7	92.7	96.1	→ 97.7
IT	100	90.9	90.2	82.9	83.0

Table 3

Class Composition of Exports

	<u>Current price</u>		<u>Constant price</u>	
	<u>1985</u>	<u>1989</u>	<u>1989</u>	<u>1989</u>
Machinery	13.9	16.4	12.0	
Fuels + Energy	52.7	39.9	56.0	
Iron + Alumina + metals	7.5	10.5	7.8	
Chemicals	3.9	4.0	4.1	
Iron ores + concentrates	3.0	3.5	2.6	
Textiles + fibers	1.3	1.6	1.2	
Food + R.H.	1.5	1.6	1.4	
Dred. commodities	2.0	2.6	2.0	
	<u>Imports</u>			
Machinery	37.1	38.5	34.5	
Fuels	5.3	3.0	4.8	
Iron etc	8.3	7.3	6.9	
Chemicals	5.0	5.1	5.3	
Iron ores	1.3	1.2	1.1	
Textiles	1.7	1.6	1.0	
Food	21.1	16.6	18.4	
Iron commodities	12.6	14.4	14.4	

Table 4

USA

Commodity Composition

	1965		1969	
<u>SOTD</u>	X	M	X	M
Mach.	15.88	47.31	26.89	45.58
RM	19.86	9.97	23.34	9.78
Food	1.60	17.90	1.40	14.50
Int. G.	2.20	15.50	2.90	16.20
Fuels	49.79	1.00	40.81	1.90
<u>Needs</u>				
Mach.	9.27	29.14	9.36	27.22
RM	13.91	34.59	24.37	32.85
Food	1.34	17.91	1.92	26.01
Int. G.	1.69	7.96	2.12	11.48
Fuels	57.16	4510.88	38.27	19047

Table 5

(8)

USSR Regional Trade (London Current price)

	1960	1965	1967	1969
(X) SOTN	54.20	61.20	64.86	61.43
EEB	42.15	46.82	50.44	46.16
DHE	31.96	25.57	20.82	23.85
DE	13.84	13.23	14.32	14.73
(M) SOTN	53.19	61.20	<del>61.69</del> 69.35	61.90
EEB	42.94	47.64	56.48	49.63
DHE	35.36	27.79	22.84	28.41
DE	11.45	11.01	7.81	9.88



Table 6

SU Assets + liabilities on BIS reporting basis  
(incl & CNET banks) (bi \$)

	1975 (end year)	1980	<del>1985</del>	1985-1989	1989
Liabi	7.93	13.39		22.73	44.39
Assets	3.09	8.57		13.06	15.22
Net debt	4.84	4.82		9.66	29.17

total gross debt (C) + currency  
end - 1988 \$49.5 bi  
end - 1989  $\approx$  \$60.0

Table 7

Soviet arms abroad

1/1/90 (principal + interest)

TOT	85.9 bi. Roubles	(= \$ 136.35 bi.)
SOTD	43.84	
EEB	6.12	85% to Cuba & other countries
(P = 4.96)		
CNER DE	34.16	CM 58
DE	42.04	
Algeria	2.52	
Angola	2.03	
Afghanistan	3.06	
Egypt	1.71	
India	8.91	
Iraq	3.80	
Libya	1.71	
Yemen	1.85	
Syria	6.74	
Ethiopia	2.86	

Table 8

Cost to UREA

	<u>1989</u>	<u>1988</u>	<u>1986 (high)</u>
CMFA	15.21 R	17.40	22.59
Wash	19.03 \$	15.38 \$	13.65 (high)

CMFA at offmeter	.63	.6073	.7044
L	\$ 24.14	\$ 28.65	\$ 32.07

Commodity at C1	10.10	12.11	13.94
G	8.72	9.98	12.95
H	7.27	8.97	13.80
P	5.13	7.17	11.87

~~FR~~  
 TOTAL oil 1989 626 71.362 <sup>mi</sup> / ton  
 assume 7.2 barrels/ton  
 => 513.81 mi barrels

price 1989 offmeter ER	12.404 bi \$
C2	5.189
G	4.460
H	3.735
P	2.635
at WMP	9.777
extra cost at offmeter ER	-2.627 bi \$
C2	4.588
G	5.297
H	6.042
P	7.142

## SOVIET UNION: AID DILEMMAS

### I. INTRODUCTION

The political and economic situation in the Soviet Union is evolving rapidly. The political scene has become more unstable with the emergence of a more diverse power structure. This perhaps holds out prospects of more rapid political reform, but also of political indecisiveness or chaos.

The economic situation is deteriorating fast. The social instability and absence of effective authority disrupts production and hampers genuine economic reform. The prospect of a more regionalised political structure moreover raises doubts about the relevance of economic reform instigated by the central government.

At this juncture at least two second-best objectives must be borne in mind:

- Minimising the risks of a further slide into political instability, economic decay and ensuing civil unrest;
- At least beginning the dismantlement of outdated socio-economic structures, which are incompatible with democratic progress, and continuing a progressive move towards a more decentralised social market economy.

These objectives would already confirm that isolation of the Soviet Union is, as a strategic concept, to be discarded from the outset. They suggest a genuine solidarity from the West.

Secondly, the special character of the problem has to be recognised.

The size of the Soviet Union, of its economy and of its political weight, probably calls for an approach that would allow such actions of solidarity to evolve over time in line with the recognition of real needs and circumstances calling successively for immediate relief and more durable solutions.

Moreover, the global impact of developments in the Soviet Union, unlike in the case of other Central and East European countries, implies that a commensurate responsibility is incumbent on all Western governments. It does not seem advisable to accept that geographical proximity would trigger the assistance or determine burden sharing.

Assistance would be guided by the wish to build confidence, safeguard the reforms already achieved, avoid disruptive side-effects in Central and Eastern Europe, and provide openings for further political and economic reform.

This would suggest an evolution in the Western effort, starting perhaps with some forms of assistance given unconditionally, towards more elaborate and more comprehensive forms of assistance which would imply mutual agreement on terms and conditions.

## II. ECONOMIC STATE OF PLAY

### A. Conjunctural situation

The Soviet Union is going through a deep recession. Statistics for the first quarter of 1990 show that GNP declined by 1.7 percent. Industrial production fell by 3%, the volume of investment by 10%, real imports and exports by 7%. There are increasing shortages of food and basic commodities. Inflation is reported at 8% (clearly underestimated if repressed inflation is taken into account), with major price increases having taken place for meat (+ 16 %) and fruit (+20%). Average wages continued to rise faster than labour productivity: 9% versus 2.3% in 1989. Labour productivity declined by 2 per cent in the first quarter of 1990. This performance during the first quarter indicates that the measures taken so far to stabilize the economy have failed.

Already in 1989, economic performance was poor. Output was stagnant; growth in Net Material Product produced was reported at 2.4 per cent, but since growth indicators are understood to be overestimated by 2 to 4 percentage points, mainly because of hidden inflation, it can be inferred that there was no growth in real terms last year. Stagnation is also signalled by other official statistics:

- A weak performance of both the industrial and the agricultural sectors. There was an absolute decline of production in some key sectors such as oil (-3% with respect to 1988), coal (-4%), almost all branches of metallurgy (steel -2%, ferrous metals -3%), machine-building and chemicals;
- The increase in open, repressed and hidden inflation. Inflation was reported at 2% for state prices, but a new official index, which for the first time takes into account hidden inflation, puts it at 7.5%. Even this figure is likely to underestimate the phenomenon. Informally, the Deputy Chairman of the Committee for Statistics suggested that a more realistic figure for the increase in the consumer price index would be 49% per annum.

Increasing social unrest is reported to have caused major problems. Losses on account of strikes were reported at 7 mln working days during 1989, the equivalent of an average 30,000 people on strike daily. This implies direct losses of Roubles 0.8 billion.

For the first time it has been admitted that unemployment exists in the Central Asian republics, where a limited number of people are officially recorded as unemployed (exact figures not specified). However, labour shortages are reported in some sectors, such as: car industry (119,000), construction (654,000), commerce (245,000).

## **B. Budgetary situation**

The Soviet budget deficit for 1989 is reported at Roubles 92 bn, i.e. 10 percent of GDP, down from Roubles 120 billion in 1988. Government debt is reported at Roubles 400 billion, i.e. 44% of GDP. Strong budgetary consolidation policies were announced for 1990, with the aim of halving the deficit by the end of 1990, but no progress has been made during the first quarter.

## **C. Monetary situation**

Monetization of the budget deficit is one of the major sources of liquidity creation, and thus contributes to the serious monetary overhang, estimated at around 165 billion Roubles (18% of GNP). This overhang worsened during 1989, because the money income of the population was growing much faster than planned (Roubles 57.7 bn) and 1.4 times faster than expenditures on goods and services. This tendency is likely to continue in 1990. In fact, during the first four months of the year there has already been a further 17.6 billion Rouble increase in the money income of the population. This substantially exceeds the official target for the entire year. According to official estimates, the growth rate of the money stock is approximately 6 to 8 times faster than in the early 1980s.

As an indicator of repressed inflation, savings in the banks increased by 14% in 1989. A further increase of 17.6 billion registered from January to March 1990, brought total savings to 350 billion roubles.

## **D. Balance of payments and debt**

A sharp deterioration in the Soviet external balance took place in 1989. The overall trade deficit for 1989 was reported at US \$ 5.4 billion. For the first time since the 1970s, the surplus with the developing countries was not large enough to offset the rising deficits with the developed market economies and the Eastern European countries.

The sharp rise in the deficit with western developed countries (US \$ 6.5 billion in 1989, as against \$ 2.7 billion in 1988) is particularly worrying; Soviet imports from the West continued to expand much more rapidly (23% in nominal terms) than exports (8%).

Between January and March, the country accumulated a trade deficit of Transferable roubles 2.6 billion with Eastern Europe (compared to Transferable Roubles 1.5 billion in January-March 1989), and \$ 4 billion with the West (against \$ 1.5 billion a year before).

The Soviet Union's terms of trade vis-a-vis its CMEA partners have been deteriorating for most of the past decade as prices for its hydrocarbon exports softened. An increase in Soviet export prices in 1989 led to a marginal upturn

in the terms of trade with the West, the first improvement since the early 1980s. A more radical improvement in its terms of trade with the CMEA countries is, however, in prospect (see next section).

In 1989 the Soviet Union sold some US \$ 3.7 billion of gold and borrowed more extensively on the international market, raising its estimated net debt to US \$ 44.3 billion. This, however, is still a relatively moderate external debt position: the ratio of debt service to hard currency earnings is 21 per cent, well below the level generally considered to threaten future debt-servicing problems.

However, signs of financing difficulties have emerged in recent months. In the past the Soviet Union followed a policy of tight control over external indebtedness. Borrowing has been undertaken mainly in response to internal or external shocks and has always been followed by adjustment measures. In the last two years there has been no evidence of such measures aiming at narrowing the deficit in hard currency trade. Furthermore, the process of decentralization of decision-making on foreign trade, whereby enterprises have been allowed to trade without prior authorization by the foreign trade ministry, has generated delays in payments estimated as high as \$ 1-2 billion.

#### **E. Transition to CMEA trade at world market prices**

A move is already under way for trade between the Soviet Union and its European CMEA partners to be conducted in convertible currencies and at world market prices; Czechoslovakia and Hungary, for instance, expect this switch to occur at the beginning of 1991.

This will imply a drastic improvement in the USSR's terms of trade: its exports of energy and raw materials to the CMEA are generally priced close to world market levels, but imports are considerably overvalued. The degree of overvaluation of these imports is hard to assess, but on the basis of a conservative working hypothesis of 50%, the switch of all CMEA trade to world market prices would yield a terms-of-trade gain of 1.6% of the USSR's GDP.

The transition to trade at world market prices will be very beneficial to the USSR and very costly to the Central and East European countries; consequently, the case for assisting these countries appears much stronger than the case for aid to the USSR.

#### **F. Economic reform**

In the last four years the Soviet Union has introduced many measures of economic policy and reform intended to activate market mechanisms, so as to resume and accelerate economic growth.

Major reform measures include:

- the abolition of the normative nature of central planning and the use of government contracts instead of direct orders
- the legalization of individual economic activity
- the promotion of cooperatives (originally without limits to earnings and sector of activity, then subject to some restrictions)
- joint ventures with Western partners
- the direct participation in foreign trade by the large majority of enterprises and the establishment of direct links between them
- the creation of new banks, and the privatisation of some state assets through leasing (*arenda*) and sales of a small part of the housing stock.

After a phase of gradual liberalisation, additional measures "for stabilising consumer markets" and strengthening state control of prices were introduced in November 1989. This meant that drastic restrictions were imposed on exports of a wide range of food, consumer goods and raw materials.

A conference at the end of 1989 discussed a comprehensive blueprint for economic reform which was prepared by a commission headed Deputy Prime Minister Abalkin. A much diluted version of this was presented by Prime Minister Ryzhkov to the Second Congress of People's Deputies in December and included the following features:

- The introduction of a variety of forms of ownership: private, cooperative, and state;
- Assigning to the market the role of coordinating economic activity, based on competition and free prices;
- Macroeconomic regulation by means of the "normal" instruments of economic policy.

The programme also announced the revision of major laws such as the law on enterprises and the law on property; the introduction of some degree of regional autonomy was also foreseen.

The programme envisaged two stages. The first (1990-1992) was mainly conceived as a period of stabilisation. A complex set of measures to reduce and eliminate the budget deficit and excess demand in the consumer market, was coupled with rigid wage controls, the reduction of centralised investment, and the conversion of military production facilities to civilian use.

The second stage (1993-1995) envisaged the transformation of the Soviet economy into a market economy. A package of laws and decrees dealing with taxation, banking, investment, employment and other economic activities was announced. The programme remains very cautious, and subsequent developments have shown that even mild reform measures could prove difficult to implement.



Thus, at the end of May 1990, Prime Minister Ryzhkov presented a controversial plan implementing part of these programmes. The plan envisaged price rises not only for basic foodstuffs, but also for fuel and energy and other intermediate products, which would bring them closer to world market levels. However, the package of proposals for institutional and economic reform which should accompany these price rises has not been specified. This has provoked strong criticism among Soviet economists and policy makers. One of the main elements under discussion is whether price reform should come before institutional reform. In particular, it is suggested that anti-monopoly legislation must control or break up the industrial ministries and the associations so that the responsibility for determining prices falls on individual enterprises.

The overall impression is that the country began the process of restructuring without a clear and officially accepted blueprint for reform. Furthermore, the implementation of reform measures aimed at transforming the Soviet Union into a model of "market socialism" has been halted well before a complete restructuring of the economic system has been achieved.

Strategic weaknesses in this approach include failures to:

- ~~take all the steps necessary for the activation of markets (introduction of market-clearing prices, abolition of the tutelage system associated with the monopoly power of large enterprises and ministries, etc.);~~
- ~~follow an operational sequencing of reform steps that would minimize the risk of reversal.~~

### **G. Devolution and economic reform**

The pattern of economic reform will be greatly influenced by constitutional developments. The central government is contemplating greater devolution of power for the constituent republics of the Soviet Union. But if Gorbachev, or a successor, does not proceed vigorously enough with controlled decentralization and the accompanying political and economic reforms to satisfy the aspirations of individual republics, they may decide to take the initiative. The Russian Republic envisaged the possibility of a programme of radical reforms coupled to important measures of devolution of economic policy competences currently held by the central USSR authorities. Should it proceed with these plans, the smaller European republics would be encouraged to pursue their own radical reform and independence manifestos. This fragmentation could transform the Soviet Union relatively peacefully into something closer to a community of nations rather than a federation. The individual republics would then be able to experiment more freely with their own economic as well as political reforms.

There is a clear link between the degree of autonomy of the republics and the profile of economic reform: the way in which devolution is to take place will affect the speed and sequencing of reform. In the event of an effective devol-

ution of power to the various republics, their relative level of development, factor endowment and the shape of the new institutions that they are likely to set up, will lead to differences in both the speed and the sequencing of economic reform. Under controlled decentralization the sequence of reform would be common to all the republics, but the speed at which it was introduced would be very slow compared with individual republics in a looser federation.

Were a looser federation to develop, the outcome would depend to a large extent on the institutional arrangements governing relationship among the autonomous republics. If a common currency (the convertible rouble) were retained, but the autonomous republics traded at world market prices, it would become evident that regional trade was not balanced. Given the distortions in the pattern of trade and in prices, few republics would be in current account balance: several unsustainable deficits are to be expected.

In the effective absence of private saving and investment, the external account is broadly the same as the government account. A key role is thus going to be played by the budget. First, tax revenue and public expenditure are probably going to be redirected towards the republics and away from the central government. In the short term there could be problems with, for example, the retention of net hard currency earnings from ports, ferries and tourism (at present controlled and kept by the centre), fees or other tolls on cargo or other movements of goods and services.

Second, budgetary problems may arise from the different tax base in the various republics. Clearly the Islamic Republics currently enjoy a level of public consumption well above what they have the capacity to pay for. They are basically poor underdeveloped countries, which would not be well placed (to say the least) to follow the model of the European republics. Furthermore, for geopolitical reasons, Russia might wish to retain closer links with them. It might therefore assume a colonial or ex-colonial responsibility, providing aid to these republics.

Third, there is the suspicion that net taxes in Russia are much higher than in the other republics: Mr. Silayev, Prime Minister of the Russian Republic, claims that Russia contributes three times more to the national treasury than it receives in benefits. The measurement may be open to question, but if it is correct this statistic implies the need for fiscal arrangements to be devised that would provide for transfers within the federation. One effect of this would be to make transparent the transfers between Russia and the European republics. This would be equivalent to the valuing of CMEA trade at world prices, and would therefore provide a means of monitoring the devolution process.

### III. CONCEIVABLE TYPES OF ASSISTANCE

#### A. Technical Assistance

##### 1. *Conventional.*

The Soviet Union has enormous needs in the areas of basic skills for commerce, business management and economics, including knowledge of foreign languages. They start from nearly zero in these fields, whereas in the physical sciences they are relatively strong. Exchanges of students, teachers and experts can be envisaged, but there will be bottlenecks limiting the flow (e.g. lack of Russian language competence in the West, as well as foreign languages on their side). Therefore the amounts will not be large, (tens or at the most hundreds of millions of ECU, rather than billions, for the West as a whole). The Commission (DG II/XII) already has a small proposal ready for economic science (ACE).

Questions of political or economic conditionality need not arise. Such aid could be supplied in a decentralised manner, as well as through Moscow.

##### 2. *Special E.C. expertise.*

The Community has a unique expertise in how to organise a market economy within the framework of a decentralised political constitution. The Community and Soviet Union are in this sense converging. Soviet expertise on how to apply the "subsidiarity" principle is weak, to say the least. The Community could assemble, at little cost, a team of lawyers, economists and political scientists to provide this kind of advice. It could be a politically attractive gesture on both sides. A few million ECU would suffice to mount a serious project, including dissemination activities.

#### B. Short-Term Assistance

##### 1. *Credit and Debt relief.*

Given the recent financing difficulties, it is not unlikely that requests could be made. Indeed, there is already talk about a large German line of credit. In this eventuality there would be some questions of whether this should remain a bilateral effort, or become part of a wider EC effort, or, wider still, include also the US and Japan.

For non-concessional credit, the question of guarantee or collateral security arises. Here there may be some options, but there is also a lack of sure information:

- gold collateral. Would the Soviets be prepared to deposit gold in Western central banks, or the BIS? How much gold do they actually have? Could they expand gold production and pledge this? The answers are not evident.

- petroleum or gas collateral. The short-term possibilities for expanded production are very slight. Would pledges of supplies in the medium-term future be viable?

There is likely to develop here a linkage with the issue of intra-CMEA financing, and the likely claim by the Soviet Union for improved terms of trade with the other CMEA countries (see above, page 4). In the case of the GDR, it is already envisaged that GDR exports to the Soviet Union may have to be subsidised for a time (effectively by Bonn). For the remaining ex-satellite countries, Czechoslovakia has recently proposed a \$16 bn fund to help these countries absorb the shock of a cut in Soviet import prices for their goods.

As regards conventional issues of Soviet external debt, see Annex 1.

## 2. *Emergency Food Aid*

This would be to answer requests (at some unforeseeable future point in time) stemming perhaps from a combination of crop failure, financial bankruptcy and communication and logistic problems (an economic equivalent of the Armenian earthquake disaster). It would result in significant population areas needing large amounts of basic food or other necessities to be supplied rapidly to avert disasters.

The motivation for Western assistance would in this case be basically humanitarian, and the nature of the programme short-term.

To give a quantitative perspective, Soviet grain production is currently on a trend of a little over 200 million tons. The recent range between maximum and minimum crops has been some 30 million tons. This latter quantity, if hypothetically obtained from the Community, would cost 6.5 billion ECU. (The Community's intervention stocks, however, at present are only 5 to 6 million tons).

## C. *Medium-Term Economic Assistance*

### 1. *Large-scale project assistance.*

A natural starting-point is the BERD, which is initially limited in its operations in the USSR, for an initial three year period (1991-1994), to investing not more than the Soviet Union's own capital contribution (6% of the total). This is likely to amount to no more than 36 million ECU per year. A next step, if political and economic conditions were propitious, would consist of lifting this ceiling on BERD activities; the conditionality for this might only be of a rather general and soft character. The amounts could then increase very substantially.

In the search of projects that could have a real impact on the macro-economic outlook of the Soviet Union, and in particular its external financing constraint,

particular possibilities might be considered in the hydrocarbon sector. The Soviet Union's physical reserves are enormous, especially for natural gas. However these are mainly in Siberia, and it is considered doubtful whether they could be profitably exploited at present world market prices. The oil prospects are unclear, since the Soviet Union has so far not extended "glasnost" to foreign oil companies. They have so far been restricted to oil fields which are very difficult to exploit. Known possibilities for expansion of oil production (e.g. near the Caspian Sea) are rather modest in size.

## 2. *Large-scale macroeconomic assistance*

In this case the hypothesis is that the Soviet Union would be inviting the West to underwrite the reform and stabilization process in a much more fundamental way.

Analogies with the Marshall Plan and EC Structural Funds become more relevant. The basic philosophy of these two examples may be recalled:

- the Marshall Plan supplied over a four-year period, very soft loans and grants to finance imports, so as to permit a massive re-equipment of the economy, without requiring such a contraction of private consumption levels that would threaten to overturn the process politically. The financing amounted to between 2 to 7% of the GDP of recipients per annum.
- The EC Structural Funds supply grants, matched almost equally by EIB loans, to strengthen the basic productive capacity of the economy (economic infrastructure, production investment, manpower training) at the same time as a radical set of macroeconomic reform measures (1992 etc.) and macroeconomic stabilization (EMS, etc.). In the case of principal recipients the total resource inflows will rise to annual amounts of between 1½ to 6% of GDP.

Quantitative perspectives for the Soviet Union might start with a reference figure of 1 to 2% of Soviet GDP. In order to avoid problems of exchange rate uncertainty, let us suppose that Soviet GDP per capita was the same as Portugal. In this case the 1 to 2% of GDP range for the Soviet Union would be 12 to 24 billion ECU.

Viewed from an external financing perspective, the Soviet Union starts in 1989 with a convertible currency trade deficit of about 5 billion ECU; If the reform process allowed economic growth to build up again in the near future, this financing requirement would certainly rise, perhaps to around \$24 billion for 1990 to 1992 (as illustrated in some calculations annexed. However, as already noted, the Soviet Union may next year try to extract a terms of trade improvement from its CMEA partners of this order of magnitude, in which case it is they, more than the Soviet Union, who may most need the help).

Notwithstanding, in the hypothesis of assistance to the Soviet Union on the scale mentioned, there would naturally have to be very serious conditionality, political and economic. Leaving aside here questions of political plausibility, the substance of such conditions might be as follows:

- political: multi-party democracy at USSR as well as republic levels, and a fair political framework for the decentralisation process.
- economic: there would be no way of breaking the logical chain between the three strategic elements - budget, money and market reforms. All three have to be a consistent whole. None, nor even pairs of the three, can progress alone. Thus,
- the budget deficit has to be reduced to a level not requiring monetary financing; state subsidies for enterprises, housing and food consumption must be drastically reduced; a normal tax system must be introduced.
- the monetary overhang has to be resolved (i.e. the stock, as well as new flows) if price reform is not to produce an explosive increase in inflation. The basic choice is between monetary reform, introducing a new heavy rouble, together with partial expropriation of the monetary overhang, and a large jump in the price level.
- the market reform process has to include massive changes in relative prices, more unequivocal private property laws, privatisation of companies and housing, as well as the whole legal infrastructure of the private, corporate economy.

Most of these measures have been foreseen in the Abalkin Plan of October 1989, but implementation is, as already reported, not progressing well.

The prospects for decentralisation also raise the question of the appropriate level of government for conditionality. If important economic policy powers are drastically devolved to the republics, this would have corresponding implications as to who the "interlocuteur valable" would be.

#### IV. CONCLUDING REMARKS

To summarise the foregoing material:

##### A. on assessing the present state of affairs:

1. the conjunctural and external payments situations are going from bad to worse;
2. the economic reform programme of the central administration is not progressing well;
3. the decentralisation process becomes stronger in Russia as well as the European republics, but it is unclear whether this will lead to faster political and economic reform, or more chaos;

##### B. on conceivable forms of Western assistance

1. there are some rather unproblematic categories of possible assistance for the Soviet Union, which can be put into action without delay (technical assistance, BERD), and which could be further developed over time. There are no conditionality issues here, except the circumstances under which the BERD ceiling for the Soviet Union might be lifted. The World Bank might also join in this kind of effort.
2. There are some categories of assistance that the West may have to face up to at short notice: emergency financing of payments problems, or possible food supply problems. These are by their nature uncertain, and credit facilities involve some difficult technical questions such as collateral debt security (gold, gas etc.). Western market access could be viewed as a different and possibly more effective instrument of pressure. There is already talk of a large line of credit from Germany; if this materialises there would be the question of more EC and other countries following.
3. there is, finally, the hypothesis of large-scale macroeconomic financial assistance, which would raise major issues of political and economic conditionality. Possible involvement of the IMF would raise such issues, at least of economic conditionality. However, conditional assistance would raise also two further major questions:
4. The extent and orderliness of decentralisation of the Soviet Union. In some circumstances Moscow might not be an "interlocuteur valable" for conditionality. Economic decentralisation among the European republics could, also,

pose terms of trade and financial problems between Russia and the other republics of the same kind as with the other CMEA countries (see point 5 below).

5. how the Soviet Union reforms its trade relations with the other CMEA countries. It is not unlikely that the Soviet Union will in 1991 seek to extract a large terms of trade improvement from these countries. In this case it is the latter, not the Soviet Union, who would need and deserve the aid most.
6. However, from the West's point of view, the problem will not go away. Either the Soviet Union or the other CMEA countries are likely to be "demandeur". It is quite conceivable that the Soviet Union would try rather to transfer the problem to these other countries. Or, the Soviet Union might rapidly try to secure Western assistance, before also then proceeding to extract gains from the rest of the CMEA.

21 June 1990

#### ANNEXES

1. The current payment situation of the USSR
2. Hypothetical balance of payments financing requirements
3. Basic economic indicators
4. The state of economic reform in Central and Eastern Europe
5. "Structural conditions for a stable monetary regime and efficient allocation of investment: Soviet country study"; paper by Wolfram Schrettl.



## ANNEX I

### THE CURRENT PAYMENT SITUATION OF THE USSR

Recent Soviet arrears on trade debt are estimated at up to two billion \$, corresponding to some 10% of annual trade payments to Western suppliers. They have caused widespread concern about the reserve position and the ability of the country to meet its future financing requirements, and have seriously damaged its credit rating.

The USSR does not publish data of its gold or foreign currency reserves; Western estimates of the gold stock amount to some 35 billion \$, whereas foreign currency assets at BIS banks at the end of 1989 exceeded 16 billion \$ (compared to some 11 billion in 1984). To claim that a structural shortage of reserves would be at the origin of the commercial payments delay consequently seems unjustified; it is more likely that a combination of several other factors has played a role.

First, imports of consumer goods have been surging in the second half of 1989, both because of an urgent need to counter increasing shortages and because of the introduction of some degrees of freedom for foreign companies to conclude trade deals. As a consequence, some companies are believed to have been over-importing without having secured appropriate funding.

Secondly, Western banks have been far more reluctant than in previous years to extend new credit because of the political unrest and a number of gloomy reports on the economic situation; this change of attitude might have hit the USSR by surprise. The S.U. has in response to this situation secured an understanding from several Western central banks that in an emergency the state bank could raise cash by pledging gold to be repurchased at a later date.

Apart from this liquidity shortage which is likely to be manageable, a more fundamental problem is to be found in the evolution of gross debt, which went up from 22 billion \$ in 1984 (65% of exports) to over 50 billion \$ last year (156% of exports). In this respect, the current cash problem could be a sign of a rapidly deteriorating external position.

## ANNEX 2

### HYPOTHETICAL BALANCE OF PAYMENTS FINANCING REQUIREMENTS

The table overleaf is an extension of Annex 2 to the Information Note from Vice-President Christophersen in agreement with Vice-President Andriessen "An economic overview of the reform process in the countries of central and eastern Europe" (SEC(90) 827/3) of 4 May 1990. This Annex explains the figure of 17 billion ECU as a hypothetical balance of payments financing requirement for convertible currency trade of the seven countries of Central and Eastern Europe excluding the USSR, and 37 billion ECU as the corresponding figure for total trade including intra-CMEA transactions. The first seven panels of the annexed table are reproduced from the Information Note.

For the Soviet Union, its present deficit with the non-CMEA world is 4 bn ECU. This is projected to rise to a total of 21 bn for the 1990-1992 period, which reflects the import requirements of faster economic growth. However, the Soviet Union's current account balance with other CMEA countries, which in 1989 was in approximate balance (-1 bn ECU) is projected to move into substantial surplus (+24 bn ECU for the 1990-1992 period), which is assumed to reflect the sharp terms of trade gain resulting from the transition to world market prices. (Whereas USSR hydrocarbon exports are already charged at world market-related prices, its imports from CMEA are at present greatly overvalued).

HYPOTHETICAL FINANCING REQUIREMENTS  
FOR CENTRAL AND EASTERN EUROPE

		1989	1990	1991	1992	90-92 Total
POLAND	Real GDP growth	-3%	-6%			
	Export value growth	7%	8%			
	Current account (convertible)	-1	0	-1	-1	-2
	Current account (total)	-1	0	-1	-3	-5
HUNGARY	Real GDP growth	1%	-1%			
	Export value growth	6%	6%			
	Current account (convertible)	0	-1	-1	-2	-4
	Current account (total)	0	-1	-2	-3	-6
ROMANIA	Real GDP growth	1%	0%			
	Export value growth	-2%	-1%			
	Current account (convertible)	2	2	2	1	5
	Current account (total)	2	2	1	-1	3
CZECHOSLOVAKIA	Real GDP growth	2%	0%			
	Export value growth	11%	6%			
	Current account (convertible)	0	0	0	-1	-2
	Current account (total)	-1	-1	-4	-8	-13
BULGARIA	Real GDP growth	-1%	0%			
	Export value growth	-26%	-5%			
	Current account (convertible)	-1	-2	-2	-3	-7
	Current account (total)	1	1	-1	-4	-5
GDR	Real GDP growth	2%	-5%			
	Export value growth	3%	3%			
	Current account (convertible)	0	0	0	-2	-2
	Current account (total)	0	1	-2	-7	-9
YUGOSLAVIA	Real GDP growth	1%	0%			
	Export value growth	4%	9%			
	Current account (total)	1	3	3	2	8
SOVIET UNION	Real GDP growth	2%	-2%			
	Export value growth	0%	4%			
	Current account (convertible)	-4	-3	-6	-12	-21
	Current account (total)	-5	-4	0	6	3
CONSOLIDATED CURRENT ACCOUNT	Convertible currency trade	-3	-1	-6	-18	-25
	Total trade (including CMEA)	-2	-1	-6	-18	-24

## Annex 3

## BASIC ECONOMIC INDICATORS

	Poland	Hungary	Romania	Czecho- slovakia	Bulgaria	USSR
Population (millions)	38	11	23	16	9	286
Gross domestic product (ECU bn) (a)	234	78	107	134	57	2147
GDP per head (a)	6168	7335	4651	8589	6362	7496
Growth rate 1981-87 (b)	1	1	5	2	4	3
Exports (ECU bn)	7	5	7	5	3	94
Imports (ECU bn)	6	4	3	5	4	91
Gross external debt end-1989 (ECU bn)	35	18	1	4	8	46
Net external debt end-1988 (ECU bn)	30	14	1	3	5	22
Net external debt end-1989 (ECU bn)	32	17	0	3	7	33
Net debt as % of GDP	13	17	1	2	9	1
Net debt as % of hard currency exports	460	270	19	62	184	72
Interest as percentage of exports (c)	36	19	3	4	15	5
Inflation rate	60%	16%	4%	3%	5%	2%
LIVING STANDARD INDICATORS						
Meat production (Kg/head)	80	160	70	120	100	60
Automobiles (units per 1000 persons)	105	145	11	173	120	42
Life expectancy	70	69	70	71	71	69

(a) GDP data were converted at US purchasing power equivalents.

(b) For Yugoslavia: growth rate of Gross Social Product at constant prices, 1982-1987.

(c) Net interest paid abroad as percentage of convertible currency exports. For Yugoslavia, interest plus amortization as percent of current account receipts.

Note: All data refer to 1988, unless otherwise specified.

## THE STATE OF ECONOMIC REFORM IN CENTRAL AND EASTERN EUROPE

	Poland	Hungary	Romania	Czecho-slovakia	Bulgaria	Yugoslavia	Soviet Union
Abolition of imperative planning	yes	yes	no	in progress	discussed	yes	yes
Reduction in the number of ministries	one industrial ministry	one industrial ministry	no	no	11 industrial ministries	yes	discussed
Reduction of government contracts	yes	yes	no	no	no	yes	1992-1995
Smaller scope of centrally fixed prices	free prices	yes	no	yes	somewhat	free and frozen	small
Laws promoting genuine cooperatives	no need	no need	no	discussed	discussed	most firms	yes, important
Laws promoting the private sector	yes	yes	yes	in progress	yes	yes	individual
Laws promoting joint ventures	yes	yes	yes	yes	yes	yes	yes
Labour mobility	yes	yes	no	no	no	yes	yes
Splitting of large enterprises	some	discussed	no	no	no	discussed	discussed
Anti-trust and competition laws	yes	yes	no	no	discussed	discussed	no
Unemployment - present	318,000	100,000	no	7,000	no	13%	4,000,000
Unemployment - forecast	1,300,000	more	no	more	no	16%	more
Sectoral restructuring	yes	yes	not yet	not yet	not yet	yes	yes
Stabilisation programme	yes	yes	expected	discussed	discussed	yes	inadequate
Privatisation of state assets	yes (1990)	yes (1989)	some land	discussed	no	discussed	housing, leases
Banking reform	yes (1989)	yes (1987)	no	limited, under revision	yes (1987)	not needed	yes, limited
Financial market for bonds and shares	thin, de facto	yes (1987, 1990)	no	discussed	discussed	bonds only	bonds only
Liquidation and bankruptcies	yes, limited	yes	no	discussed	in theory	yes	yes, rare
Foreign trade liberalisation	yes	yes	no	discussed	no	yes	licencing
Direct access to world markets	yes	yes	yes, controlled	discussed	no	yes	yes, controlled
Hard currency auctions	convertibility	not needed	no	monthly	yes	convertibility	two (IX,89, I,90)

Source: prepared by D.M. Nuti for the European Commission, updated by Commission services