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April 13, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Russian Federation - Use of Fund Resources - Request for Second
Purchase Under the Systemic Transformation Facility

Attached for consideration by the Executive Directors is the staff report on the Russian Federation's request expected to be received for a second purchase under the systemic transformation facility in an amount equivalent to SDR 1,078.275 million. A draft decision appears on page 30. This subject is tentatively scheduled for discussion on Wednesday, April 20, 1994.

Mr. Donovan (ext. 37902), Mr. Valdivieso (ext. 34705), or Mr. Zavoico (ext. 36288) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Commission of the European Communities (CEC) and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

Use of Fund Resources--Request for Second Purchase Under
the Systemic Transformation Facility (STF)

Prepared by the European II and Policy Development and Review Departments

(In consultation with other departments)

Approved by Eduard Brau and Jack Boorman

April 13, 1994

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I. Introduction

In a letter dated April 8, 1994, to which a Statement on Economic Policies is attached (Annex I), the Russian authorities have indicated their intention to request the second purchase under the Systemic Transformation Facility (STF) for an amount equivalent to SDR 1,078.275 million (25 percent of quota). Discussions on an economic and financial program to be supported by this purchase were conducted in Moscow over the course of two visits (February 8-25, 1994 and March 9-23, 1994). 1/ The Russian representatives included Deputy Prime Ministers Soskovets, Yarov, and Zaverjukha; Economy Minister Shokhin and Acting Finance Minister Dubinin; and Central Bank of Russia (CBR) Chairman Gerashchenko. The Managing Director visited Moscow during March 17-23, 1994 and met with Prime Minister Chernomyrdin; Deputy Prime Ministers Chubais and Zaverjukha; Economy Minister Shokhin and Acting Finance Minister Dubinin; CBR Chairman Gerashchenko; as well as representatives from the Duma and the religious, banking, and academic communities.

The Russian Federation's current quota is SDR 4,313.1 million. A first credit tranche stand-by arrangement (equivalent to 16.7 percent of quota) was approved on August 5, 1992, and expired on January 4, 1993. The authorities drew the full amount of SDR 719 million available under the arrangement. 2/ The first Article IV consultation was concluded on April 21, 1993 (EBS/93/60). 3/ On June 30, 1993, the Executive Board approved an economic program to be supported by the first purchase under the STF, and Russia purchased the SDR 1,078.3 million (equivalent to 25 percent of quota) from the Fund on July 6, 1993. 4/

1/ Staff participating in one or both missions included Messrs. Hernández-Catá, Donovan, Valdivieso, Marrese, Koen, Mendonca, Pastor, Richardson, Ross, Bisat, Treichel, and Ms. Nagy (all EUR II), Messrs. Gilman (PDR), Hagemann and Norregaard (FAD), and Ms. Llana and Ms. Toso (Administrative Assistants, EUR II). Ms. Dillon and Messrs. Foglizzo, Lopez-Claros, and Tiwari from the Moscow Office also participated in the discussions.

2/ Performance under the first credit tranche stand-by arrangement was reviewed in SM/93/66.

3/ Since then, the staff has reported to the Executive Board on developments in Russia on several occasions, notably BUFF/93/41 (July 29, 1993); BUFF/93/51 (September 1, 1993); BUFF/93/52 (September 3, 1993); BUFF/94/19 (March 1, 1994); as well as Statements by the Staff on November 15, 1993, March 23, 1994, and by the Managing Director on March 24, 1994 (BUFF/94/36).

4/ Documents in support of Russia's request for the first purchase under the STF included EBS/93/91 and Supplement 1.

II. Recent Developments ^{1/}

The economic situation remained difficult in 1993. Output continued to decline, albeit at a somewhat lower rate than in 1992 and inflation remained high, although it has slowed down in recent months (Table 1). Average wages broadly kept pace with inflation and open unemployment did not increase appreciably, although forced vacations and shortened work time did increase. The Government pursued a relatively tight fiscal policy during the first half of the year. However, the budget presented to the Supreme Soviet implied a deficit somewhat higher than that assumed under the program supported by the first STF purchase. Subsequently, the Supreme Soviet approved an even larger deficit which imposed strong pressures to increase domestic expenditures. The subsequent heated debate between the Government and the Parliament on fiscal policy ended with the dissolution of the Parliament on September 21, 1993 and the adoption of an emergency fiscal program. This program was short-lived and, in October, the Government moved to address the difficult fiscal situation by containment of cash expenditures, which led to mounting budgetary arrears. On the external front, Russia recorded current account surpluses in both the FSU and non-FSU balance of payments. Although foreign financing fell below the amount programmed, net international reserves increased by over US\$3 billion. Interest rates rose substantially during the year. The real exchange rate appreciated considerably.

1. Domestic economy

Real GDP is estimated to have declined by 12 percent in 1993 after falling by 19 percent in 1992. In the first two months of 1994, real GDP dropped by 17 percent relative to the same period in the preceding year. Industrial output fell by 16 percent in 1993 (and by 24 percent in the first two months of this year compared to the same period in 1993). In contrast, agricultural output declined by only 4 percent in 1993. The declining trend in oil extraction continued in 1993 and early 1994, reflecting mainly low rates of investment in exploration, as well as inadequate maintenance of drilling equipment. Natural gas production declined by 4 percent in 1993, owing mainly to a weakening in demand.

^{1/} Despite recent improvements, economic statistics in many areas are subject to frequent revisions and remain problematic. For a discussion of the problems affecting national accounts and prices, see WP/94/6; for a discussion of some methodological issues affecting external sector data, see WP/93/74.

Summary of Macroeconomic Indicators, 1992-94

	<u>Actual</u>		<u>1994 Program</u>				
	1992	1993	Q1	Q2	Q3	Q4	Year
Real GDP <u>1/</u>	-19	-12	-17	-12	-7	-3	-10
GDP deflator							
Percent change within period	2,688	867	46	48	37	26	271
Monthly average percent change within period	32	21	13	14	11	8	12
Current account balance (excluding FSU)(- deficit) <u>2/</u>	-6	3	-3	-4	-3	-2	-12
Gross official reserves							
End-period <u>2/</u>	4.5	8.9	6.8	7.8	8.8	9.9	9.9
In months of imports of goods and nonfactor services	1.0	2.0	1.2	1.4	1.6	1.8	1.8

Source: Table 7.

1/ Percentage change over corresponding period in the preceding year.

2/ In billions of U.S. dollars.

The average monthly rate of consumer price inflation exceeded 20 percent in 1993, with prices increasing by 840 percent during the course of the year. 1/ Inflation slowed down somewhat in the second quarter, reflecting a tightening of financial policies earlier in the year, but it picked up in the third quarter, partly in response to a loosening in financial policies and partly in connection with the liberalization (or administrative increases) of coal, natural gas, and grain prices in mid-1993. The monthly rate of inflation has been on a declining trend since late summer 1993, falling to about 11 percent in February 1994. 2/

1/ By end-1993, price liberalization had been largely completed. Export quotas and administratively set profitability margins kept the prices of certain products, such as oil and derivatives, well below world market levels throughout 1993.

2/ The inflation data used in this report are those published by Goskomstat using a Laspeyres fixed weights index. The staff understands that other indices are available which employ different weighing schemes and, in some cases, show higher rates of inflation, particularly in early 1994. The staff intend to explore further with the authorities the implications of these alternative indices for the measurement of inflation in a rapidly changing economic environment.

The estimated rate of open unemployment barely increased in 1993, ending the year at around 5 percent. 1/ However, partial unemployment, in the form of shortened work hours and forced leave, has been rising. Nominal wages broadly kept pace with inflation in 1993 and the average real wage remained at around half of its level in late 1991. The stock of wage arrears grew sharply in late 1993 and early 1994, approaching one third of the monthly wage bill in industry by end-February 1994. Wage arrears reportedly were also very large in the budgetary sphere, and continued to grow in the first quarter of 1994 as the salary increase of 90 percent introduced on January 1 was not paid.

2. Fiscal policy and the social safety net 2/

In 1993, the cash deficit of the enlarged government (including the federal and local governments, the major extrabudgetary funds, and unbudgeted import subsidies) amounted to Rub 13 trillion, or 8 percent of GDP. The deficit of the consolidated state budget (federal and local) was Rub 10 trillion while the major extrabudgetary funds registered a surplus of nearly Rub 1 trillion and unbudgeted import subsidies totalled Rub 4 trillion. About two thirds of the enlarged government deficit was financed from domestic sources, primarily credit from the monetary authorities; external financing came mostly in the form of tied credits. The Government relied marginally on the placement of securities to finance its deficit and made some repayments of internal debt.

1/ Partly because of low benefits, a large proportion of unemployed workers are known not to register with the Federal Employment Service. Registered unemployment rose only slightly during 1993, to reach 1.3 percent of the labor force in early 1994.

2/ The discussion of fiscal data, including external debt service, in this report is presented on a cash basis.

Summary of Fiscal Indicators, 1992-94

(In percent of GDP)

	<u>Actual</u> 1992	<u>Prel.</u> 1993	<u>Prog.</u> 1994
Enlarged government balance <u>1/</u>	<u>-18.2</u>	<u>-8.0</u>	<u>-6.5</u>
Federal and local governments	-8.8	-6.2	-7.5
Revenue	29.0	28.6	30.9
Expenditure <u>2/</u>	37.8	34.8	38.4
Extrabudgetary funds	2.5	0.6	1.1
Unbudgeted import subsidies	11.9	2.3	--
Financing	18.2	8.0	6.5
Monetary authorities	6.8	6.1	5.4
Other domestic <u>3/</u>	-0.8	-0.7	-0.5
Net foreign	12.2	2.6	1.7

Sources: Table 10.

1/ Reported on a cash basis.

2/ Including float and statistical discrepancy.

3/ Includes net proceeds from privatization and gold sales, commercial bank financing, domestic debt payment, and sales of government securities.

Revenues collected by the federal and local governments fell from about 34 percent of GDP in the first half of 1993 to 27 percent in the second half. The decline, which was particularly pronounced for the value added tax (VAT) and profit taxes, reflected a combination of poor compliance, the granting of tax deferrals, and the impact of interenterprise arrears. 1/ In addition, in late 1993, the Government revised the method for calculating the profit tax (including revaluation of assets and changes in the excess wage tax threshold) in a way that would considerably reduce revenue from this tax in 1994. Total revenue in January and February 1994 declined further in relation to GDP, reflecting the trends already evident in 1993, together with the changes in the profit tax.

On the expenditure side, the authorities sought to reduce subsidies in several areas, particularly for bread and coal. However, partial success in

1/ The steepness of the decline late in 1993 may be exaggerated because of an inflated revenue base in the beginning of 1993 and because of a "once and for all" revenue spike in the first part of 1993 associated with changes in the VAT and the clearance of interenterprise arrears.

this area was more than offset by the extension of considerable loans from the budget, mainly to agriculture and the Northern Territories. At various times during 1993, the authorities attempted to control the deficit by limiting cash expenditures to available receipts plus financing, but budgetary commitments and spending promises well in excess of revenues and available financing resulted in the accumulation of substantial budgetary arrears by the end of the year. In the context of preparing the 1994 budget, the Government recognized and paid arrears amounting to Rub 4 trillion in early 1994. 1/

Russia's social safety net was only moderately effective during 1993, and was inadequate in the case of unemployment benefits. Although pensions were adjusted for inflation during the first half of the year (albeit with a lag of four months), minimum pensions nevertheless remained below the estimated subsistence level of income for the elderly throughout most of the year. Beginning in November 1993, the Government introduced a new system of indexation which provides full protection against inflation only for low-income pensioners. However, the effective indexation of benefits led to some erosion in the financial position of the Pension Fund in 1993. In contrast, outlays on unemployment benefits remained very low, reflecting both the low real benefits offered to the unemployed 2/ and the small number of actual claimants. The Employment Fund thus remained in slight surplus in 1993. Child allowances, which are categorically targeted and, thus, ostensibly designed to reach some of the most vulnerable groups, amounted to only 0.6 percent of GDP in 1993. Little quantitative information is available on the programs (e.g., locally sponsored subsidies and in-kind assistance) operated at local levels of government.

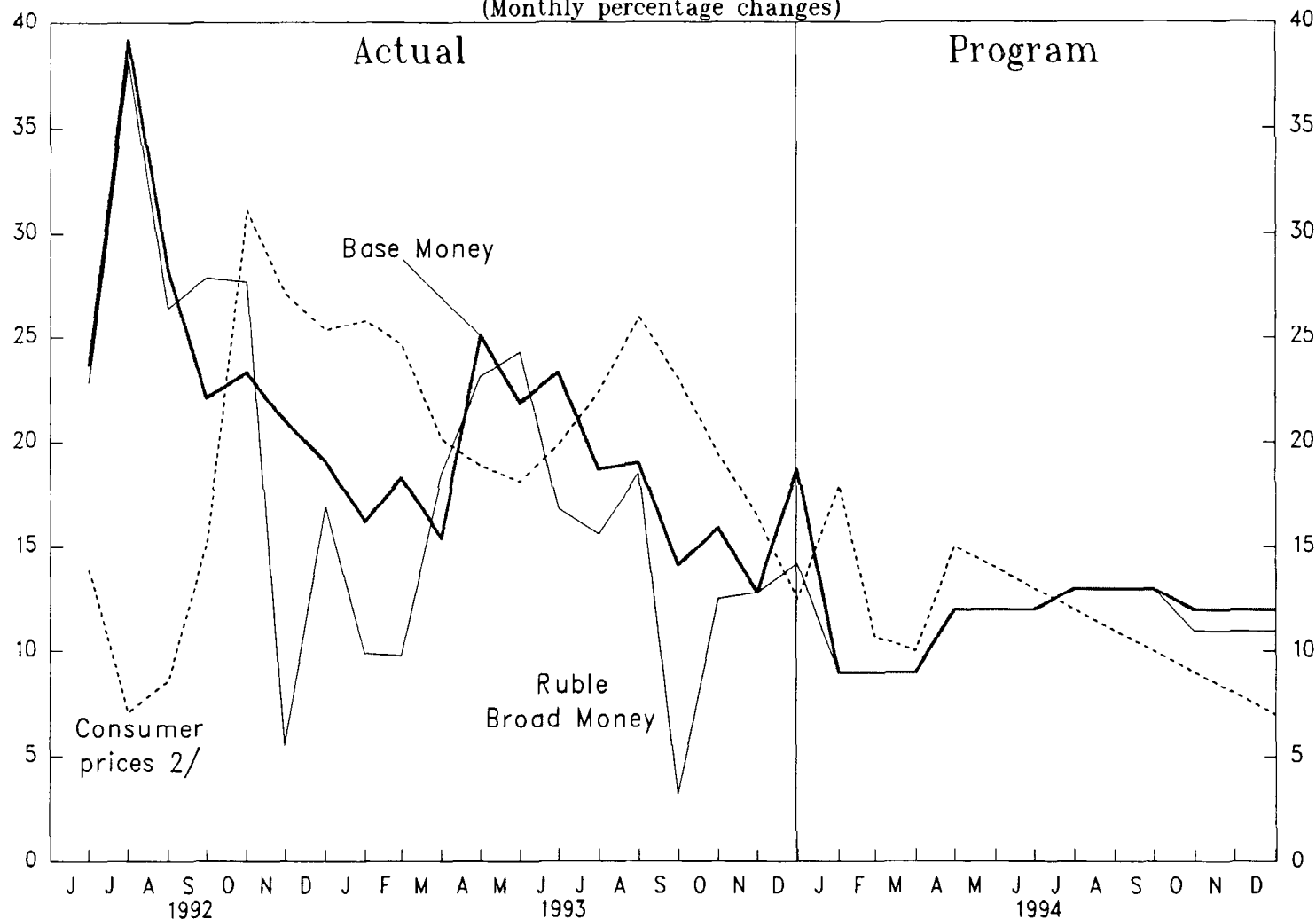
3. Monetary and credit policy

During 1993, the monetary authorities aimed at lowering the growth of ruble broad money and base money by setting quantitative limits on domestic credit to the enlarged government, to commercial banks, and to central banks in other countries of the former Soviet Union. Base money increased by 88 percent in the second quarter of 1993, mostly because of a large accumulation in net international reserves (Table 2 and Chart 1). The growth in the monetary base then slowed to 61 percent and 55 percent in the third and fourth quarters, respectively. In contrast with the second quarter of 1993, the accumulation of reserves slowed down significantly in the third and fourth quarters; base money growth during these two quarters was dominated by credit expansion to the Government. During the second half

1/ Due to the proliferation and varying nature of spending commitments made by different levels of government during 1993, the authorities were unable to quantify in a precise way the scale and composition of budgetary arrears as of end-1993.

2/ The ratio of the average unemployment benefit to the average wage was only 12 percent in 1993, about one third of the ratio of the average pension to the average wage.

CHART 1
RUSSIAN FEDERATION
Money and Inflation 1/
June 1992 - December 1994
(Monthly percentage changes)



Sources: Central Bank of Russia; Goskomstat; and IMF staff estimates.

1/ Monetary aggregates data during the program period refer to average monthly percentage changes within the quarter under consideration.

2/ Urban CPI through December 1992, expanded CPI thereafter.

of 1993, the CBR did not approve new credits to central banks of other countries of the former Soviet Union, although some disbursements of previously granted credits took place.

Summary Indicators of Money and Credit, 1993-94

(Quarterly changes in percent)

	1993			1994 Program			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consumer prices	68	90	56	44	48	37	26
Base money	88	61	55	28	39	44	40
Net international reserves <u>1/2/</u>	102	18	4	-15	-3	4	3
Net domestic assets of <u>1/2/</u>	-13	44	52	43	42	40	37
Of which: Net credit to							
the enlarged Government <u>1/</u>	-28	83	50	44	44	36	30
Net credit to banks <u>1/</u>	41	17	-6	14	10	12	14
Ruble M2	79	41	45	28	39	44	38
<u>Memorandum item:</u>							
Ruble M2 velocity <u>3/</u>	7.2	10.4	10.2	11.1	11.3	11.7	10.5

Source: Table 4.

1/ Changes in relation to monetary base at the beginning of the period.

2/ Of the monetary authorities. Calculated using a constant accounting exchange rate of Rub 1,247 per U.S. dollar.

3/ Calculated by dividing the annualized GDP in the last month of the period indicated by the end-period stock of ruble broad money.

The CBR finance rate was raised from 80 percent in the first quarter of 1993 to 210 percent in the fourth quarter, reflecting the CBR's commitment in May 1993 to link its finance rate to the market-determined interbank rate (Chart 2). ^{1/2/} Both interest rates were negative in real terms during most of the year, but then turned positive toward the end of the year and exceeded the rate of inflation by about 6 percentage points in February 1994 (on a monthly basis). The commercial banks' deposit and lending rates showed a similar pattern. The proportion of foreign exchange deposits to broad money declined to an estimated 35 percent by end-1993, compared to 41 percent at end-1992, partly reflecting the rise in real interest rates on ruble deposits (Table 3).

Interenterprise arrears declined in real terms throughout most of 1993. Since September 1993, however, their real value has increased again, although it is still far below the levels reached in 1992. Among industrial enterprises, arrears to the energy sector accounted for about 40 percent of the total at end-1993; arrears to enterprises in the construction sector were also substantial.

4. External sector

a. Trade and payments with non-FSU countries

Russia's current account with non-FSU countries registered a surplus of US\$2.7 billion in 1993, compared to a deficit of US\$5.7 billion in 1992 (Table 5). This improvement appears to have resulted primarily from a sharp decline in centralized imports, mostly due to the elimination of budgeted import subsidies, a near halving of machinery imports reflecting the overall decline in investment, and a drop in tied external credits and associated unbudgeted import subsidies. Import demand, however, was buoyed up later in the year by the large real appreciation of the ruble; given the problems with the trade data, it could be that underreported imports are also

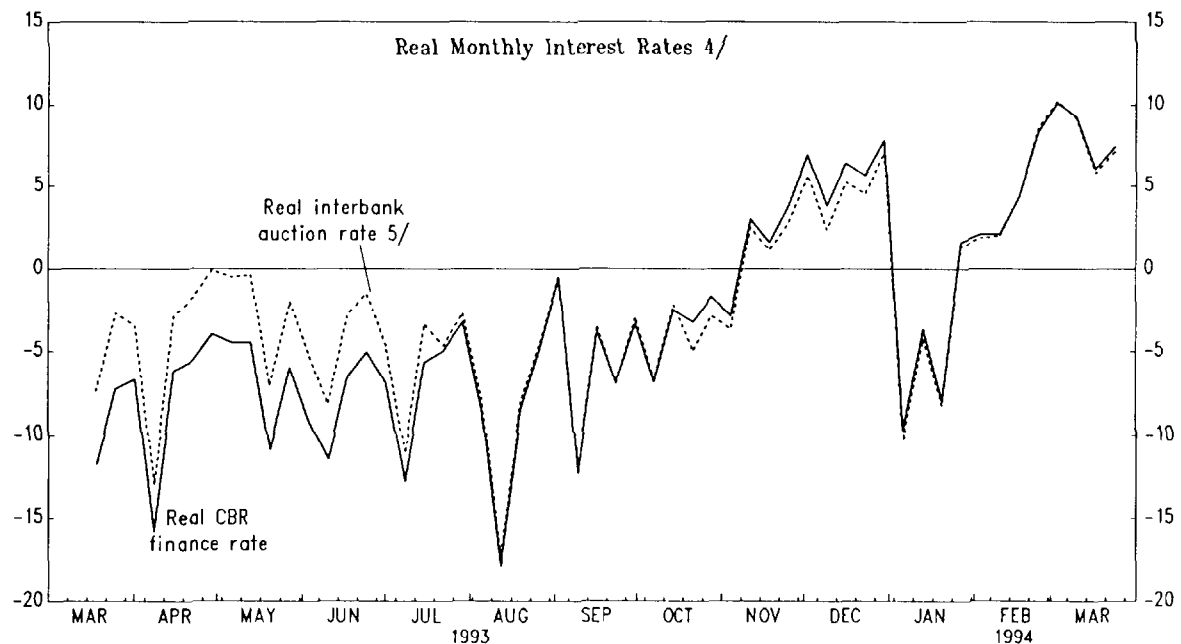
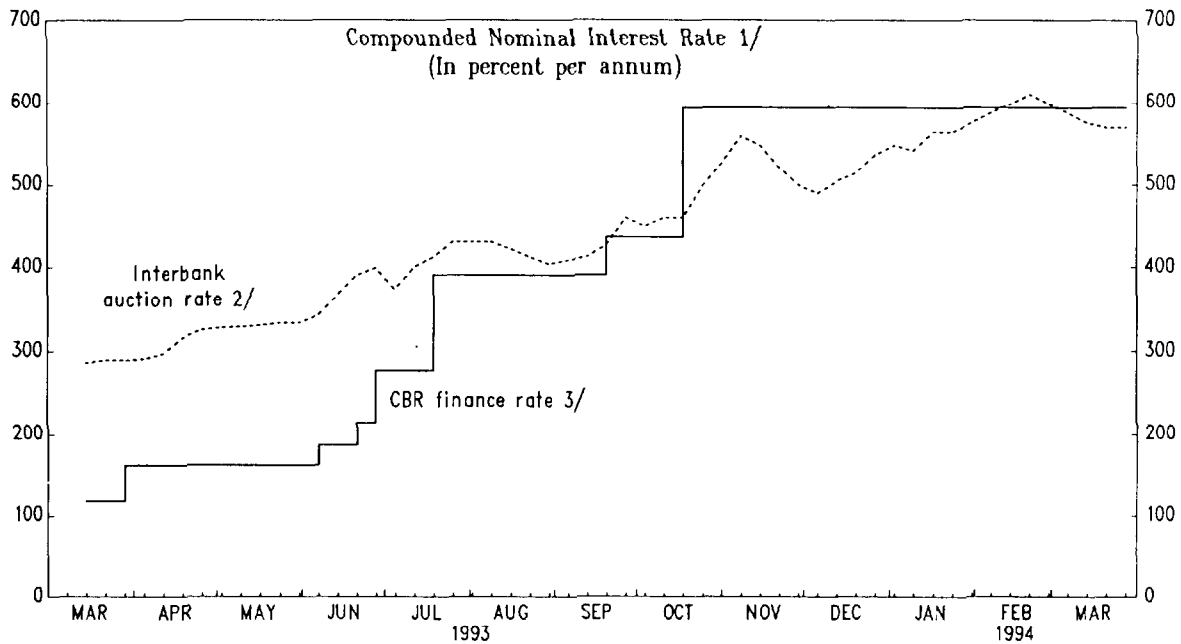
^{1/} Quoted interest rates are uncompounded. The associated annual compounded rates are 117 percent and 593 percent, respectively.

^{2/} Since July 15, 1993, and in line with the program supported by the first STF purchase, the CBR finance rate was not to fall below the interbank reference rate by more than seven percentage points.

CHART 2

RUSSIAN FEDERATION

Interest Rates in the Moscow Region March 15, 1993 - March 28, 1994



Sources: CBR; Finansovye Izvestia; Rating publication; and IMF staff calculations.

1/ These rates are compounded assuming one-twelfth of the quoted annual rate is paid monthly, i.e., for a quoted rate of 120 percent per annum, 10 percent is paid each month.

2/ Data for January 1992 - June 1993 are the end of period interbank rate reported by Rating publication. From July 1993 the reported rate is equal to the weighted average of the rates quoted on three interbank exchanges, excluding extreme values and is the reference rate used to adjust the CBR refinance rate.

3/ End-period interest rate.

4/ Based on consumer price inflation in same week.

5/ Reference rate used to adjust CBR refinance rate.

reflected in the "errors and omissions" item. 1/ The value of exports rose slightly in 1993, mostly on the strength of non-energy exports as the value of energy exports declined due to weak international prices. By contrast, there was a sizable deficit on Russia's nonfactor services account (amounting to nearly US\$4 billion), mainly reflecting large transportation and insurance charges, and expenditures related to construction and training.

Debt service obligations in 1993 amounted to nearly US\$32 billion, including US\$20 billion in current maturities and about US\$12 billion in overdue obligations. Debt relief amounting to US\$12 billion was obtained through the rescheduling of debt service by a group of official creditors on April 2, 1993, and quarterly deferrals of pre-cutoff principal by private creditors totalled US\$6 billion. Obligations amounting to more than US\$11 billion were still in arrears at the end of 1993, pending the conclusion of negotiations with Russia's other creditors. 2/ Russia also received nearly US\$10 billion in external financing other than debt relief, including US\$5.3 billion in bilateral credits; 3/ US\$0.5 billion in multilateral disbursements; US\$2.6 billion in grants; and US\$1.5 billion purchased under the STF.

Recorded foreign direct investment inflows remained modest in 1993, at less than US\$1 billion. During most of 1993, commercial banks accumulated significant claims against nonresidents; however, in the fourth quarter, almost all of these claims were converted into convertible currency cash to satisfy domestic demand. Errors and omissions remained large, reflecting partly the underreporting of current transactions, but probably also continued capital outflows. Net international reserves rose by US\$3.4 billion during 1993. At the end of 1993, gross reserves were equivalent to two months of imports of goods and nonfactor services.

1/ Trade figures used in this report differ considerably from the official Russian trade statistics. As indicated in EBS/93/161, the staff concluded, following an analysis of the official data, that underreporting was widespread, particularly on the import side. A review of trade statistics as reported by Russia's partner countries confirmed this view and resulted in a revision of data by the Russian statistical authorities, thereby significantly reducing the extent of underreporting. However, further analysis by the staff suggested that the levels of Russia's 1993 imports and exports were still underestimated (by US\$6 billion and US\$2.2 billion, respectively), compared with the revised official trade data. The lack of partner-country data for 1992 precluded a similar analysis for that year; therefore, comparisons of trade performance in 1992 and 1993 should be interpreted with caution.

2/ In January 1994 the group of official creditors extended the terms of the 1993 agreement to maturities falling due through end-April 1994.

3/ The data on disbursements are preliminary and are in the process of being reconciled with creditor information.

In nominal terms, the ruble depreciated against the U.S. dollar through most of 1993, but at a slower rate than domestic inflation (Chart 3); during the second half of the year, the value of the ruble was supported by significant intervention by the CBR. The real exchange rate of the ruble appreciated considerably (by over 150 percent during the second half of 1993) and the resulting loss of competitiveness has led to a sharp intensification of protectionist pressures. The rate of nominal depreciation picked up in the first quarter of 1994, notwithstanding further substantial CBR intervention (totalling about US\$1.5 billion) early in the period; by March 31 the ruble had lost 41 percent of its nominal value compared to end-1993. However, this depreciation was roughly offset by inflation, with the result that the real exchange rate appreciated by only a further 2.6 percent during the first quarter of 1994.

b. Trade and payments with FSU countries 1/

Serious data weaknesses continue to limit the analysis of Russia's balance of payments with other FSU states. However, it appears that during 1993, Russia continued to record a sizable trade surplus with these states (Table 6), albeit at a much lower level in real terms, with both export and import volumes estimated to have fallen by almost 30 percent. The overall decline in trade volumes reflected the fall in output and demand throughout the area and the continuing disarray in the interstate monetary and payment systems throughout most of the year. Russia's exports of oil and oil products and natural gas to the FSU fell by 45 percent and 26 percent, respectively, in 1993 in relation to 1992. The prices charged by Russia for energy exports to the rest of the FSU increased sharply in 1993, and are estimated to have largely reached a level close to world prices by end-1993.

Russia's official financing to the other FSU states was considerably reduced in 1993. In mid-1993, the CBR discontinued credits to central banks in other FSU states and most credits extended previously were converted into medium- and long-term state debts. While new state credits amounting to about US\$400 million were extended in the second half of 1993, a significant inflow of capital to Russia occurred through the commercial banking system (US\$800 million). There was also a large buildup of interstate arrears to Russian enterprises, estimated at US\$2.5 billion at end-1993. Only a small part of the transactions between Russia and the other FSU states appears to have been settled in convertible currencies.

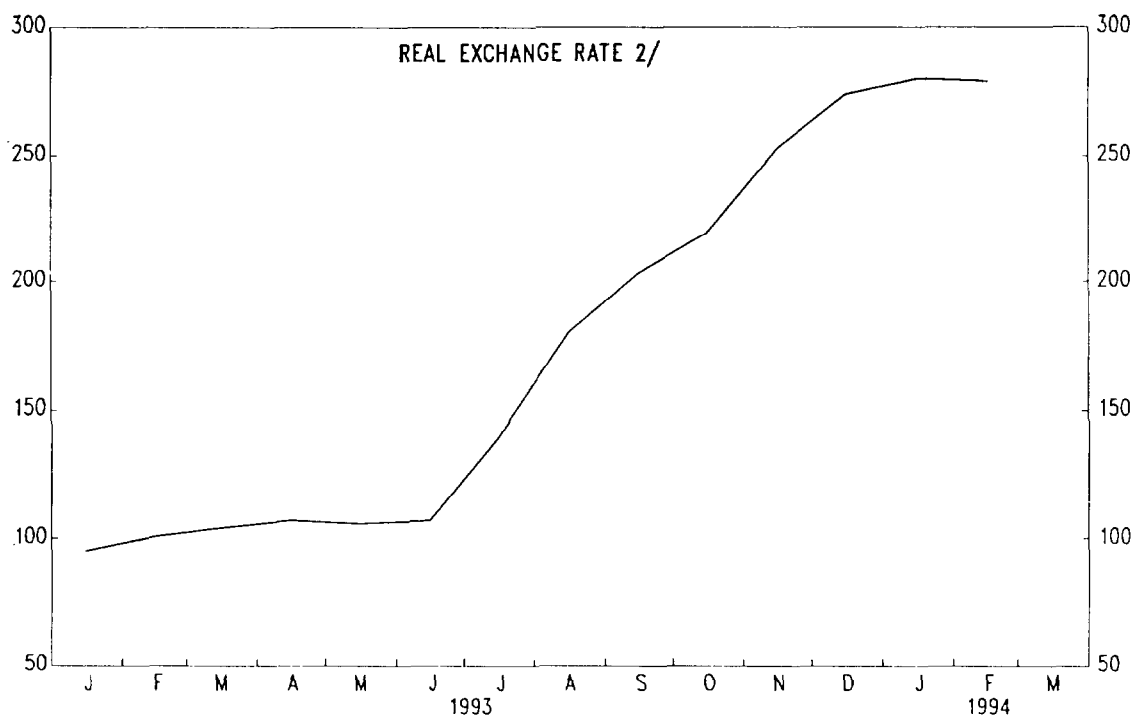
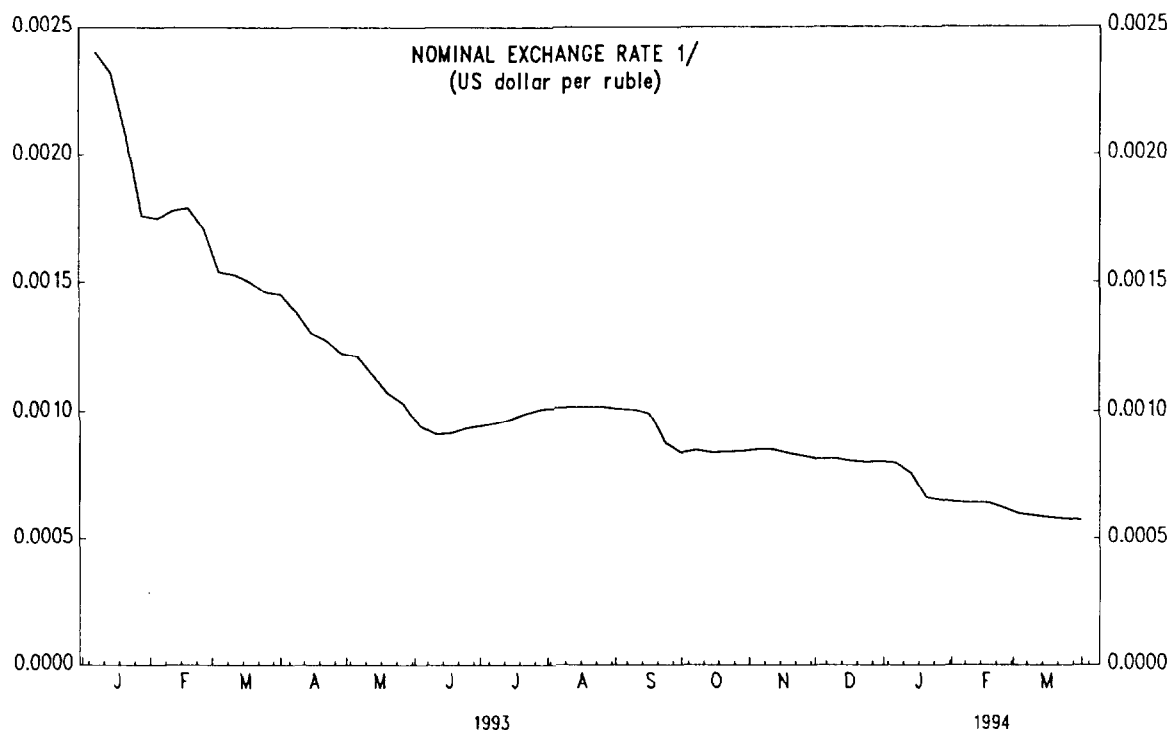
5. Interstate monetary arrangements

In the six months following the Russian currency conversion of July 1993, all FSU states that had continued to use the ruble--with the exception

1/ For further discussion of financial relations among the FSU countries, particularly as regards trade credits and discussions on new monetary arrangements, see IMF Economic Reviews, Volume 1, 1994, "Financial Relations Among Countries of the Former Soviet Union."

CHART 3

RUSSIA: EXCHANGE RATE DEVELOPMENTS January 1993 - March 1994



Sources: IMF, International Financial Statistics; Goskomstat; and Moscow Interbank
Currency Exchange.

1/ Weekly quotations.

2/ Based on the monthly consumer price index in the United States and in the Russian Federation;
base July 1992 = 100.

of Tajikistan--introduced their own national currencies. Five states (Armenia, Belarus, Kazakhstan, Tajikistan, and Uzbekistan) had initially envisaged monetary reunification with Russia, but negotiations to that end proved generally unsuccessful. Negotiations on monetary unification with Belarus are continuing, but prospects for a union remain uncertain, with key issues related to monetary and fiscal procedures as well as interstate energy pricing remaining unresolved. Tajikistan has introduced the Russian ruble as legal tender--on the basis of a cash loan from Russia--but the precise status of future monetary arrangements with Russia remains to be clarified.

III. Performance under the Program Supported by the First STF Purchase

Following a strong start in June/July 1993, Russia's performance under the STF program was mixed during the remainder of the year. 1/ While the Government failed to adhere to several of its key commitments in the areas of fiscal, monetary, and trade policies, it took a number of important policy steps consistent with the transition toward a market economy and it consolidated some of the reforms introduced in 1992.

All of the quantitative program targets and indicative limits were observed for end-June 1993 (Tables 5 and 8). 2/ In contrast, the ceilings relating to the CBR's total domestic credit, net domestic assets, the cumulative deficit of the enlarged public sector, and the banking system's net credit to the Government were exceeded by wide margins at end-September and end-December 1993. On the other hand, there was significant

1/ The program period associated with this STF purchase was March 31-December 31, 1993.

2/ Table 7 is based on the definitions of targets, indicative limits, and projections in use at the time that understandings were reached on a program supported by the first STF purchase. The Technical Annex to the Policy Statement of the Government and Central Bank of the Russian Federation (EBS/93/91, 6/15/93) established quantitative targets for total domestic credit of the CBR, the cash deficit of the enlarged government, net bank credit to the enlarged government by the domestic banking system and for net and gross international reserves for the periods ending June, September, and December 1993. In addition, there was an indicative limit for net domestic assets which was thought to be consistent with the limit on domestic credit. In constructing the quantitative framework of the program, projections for several key indicators, such as inflation and broad money, were also made. It should be noted that the definitions used in May have been revised, in some cases substantially, on the basis of an understanding reached between the staffs of the Central Bank of Russia, the Ministry of Finance, and the IMF. If the new definitions were used to assess performance, the yearly deviations in the fiscal targets would remain significant while the deviations with respect to the domestic credit would be reduced on account of a lower credit to banks on the part of the CBR.

overperformance with respect to the targets (floors) for net and gross international reserves as of the same dates (Chart 4).

Relatively tight monetary and fiscal policies in the second quarter of 1993 contributed to a reduction in inflation during that period, but the loosening of financial policies in August-September soon led to higher than expected inflation. As indicated in the following tabulation, higher than anticipated growth in the monetary base accounted for most of the deviation between actual and programmed inflation in the third quarter and for about one half of the deviation in the fourth quarter. 1/ The tabulation also shows that most of the unanticipated growth in base money in the third quarter, and somewhat less than one half in the fourth quarter, reflected the failure to meet the targets for net domestic assets.

Factors Behind Deviations in Inflation Under the STF, 1993

(Unanticipated changes in percentage points) 1/

	Third Quarter	Fourth Quarter
Consumer price inflation	53	32
Explained by:		
Monetary base	36	17
Net domestic assets <u>2/</u>	22	7
Net international reserves <u>2/</u>	14	10
Velocity	19	15
Multiplier	-11	-1
Other factors <u>3/</u>	9	1

Source: Table 7.

1/ Actual minus STF program projection (or target), in percentage points.

2/ In percent of the monetary base at the beginning of the quarter.

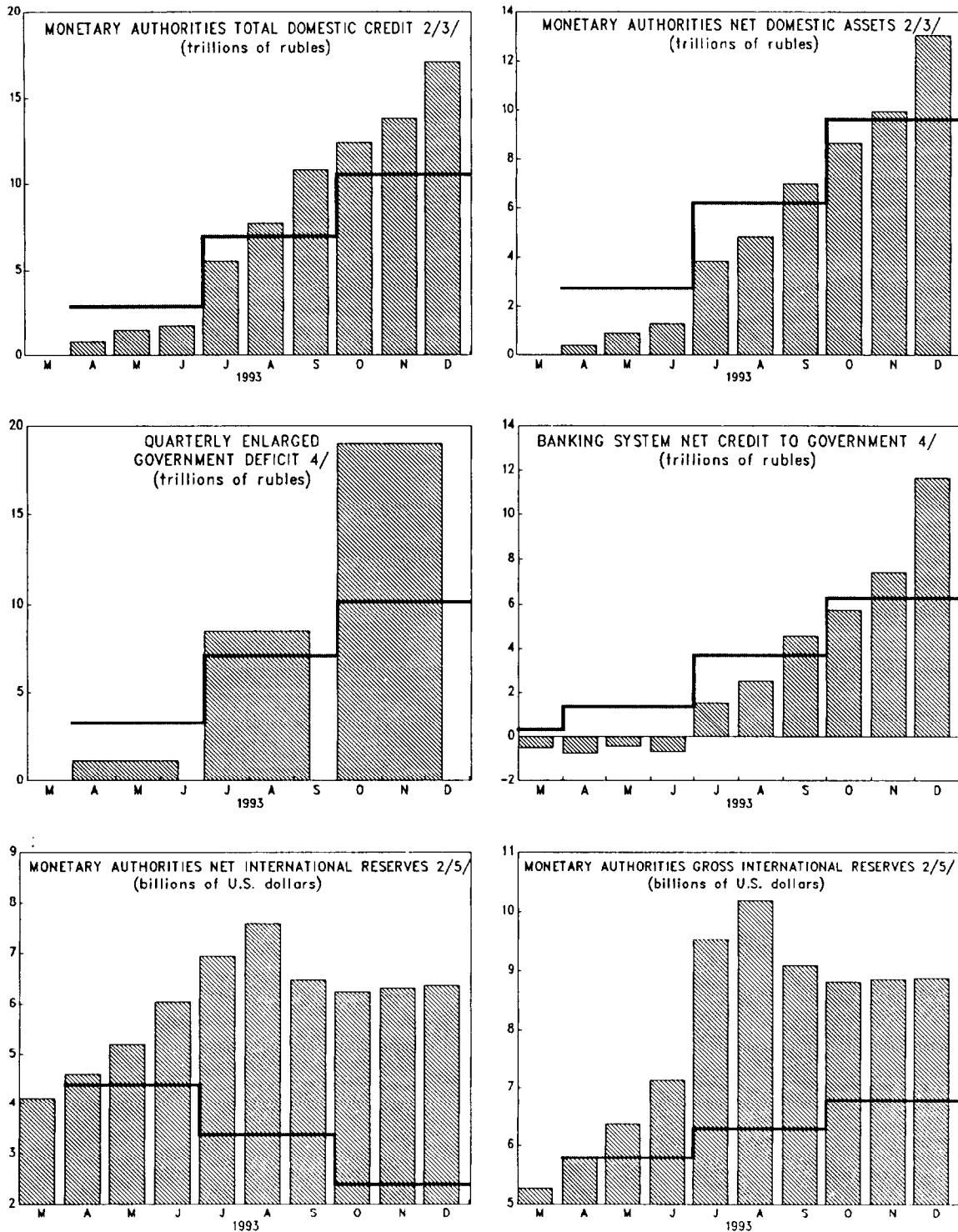
3/ Includes the impact of deviations in real GDP growth and the difference between deviations in the consumer price index and the GDP deflator.

1/ In general, the difference between unanticipated inflation and the unanticipated growth in the monetary base reflects unforeseen changes in velocity (the ratio of nominal GDP to the money stock), in the money multiplier (the ratio of the money stock to base money) and in real GDP.

CHART 4

RUSSIAN FEDERATION
Performance Under the STF in 1993 1/

Actual Target



1/ According to the May 1993 Memorandum of Definitions.

2/ Monetary Authorities are defined to include the Central Bank of Russia and the Ministry of Finance.

3/ Cumulative flows in relation to end-March 1993.

4/ Cumulative flows in relation to end-December 1992.

5/ Stocks at the end of the period.

The buildup in net international reserves in the second half of 1993 exceeded the minimum levels specified in the program, and this also contributed to the higher than expected growth in base money, particularly in the third quarter. A major factor accounting for this unexpected rise in reserves was a much stronger than foreseen current account balance (mostly because of a lower than expected level of imports), which more than offset a worse than projected outcome for the capital account plus errors and omissions.

At the end of June 1993 the cash deficit of the enlarged government was well within the established program limits. However, fiscal performance deteriorated rapidly in the second half of the year. By the end of 1993 the cash deficit of the enlarged government reached Rub 19 trillion (almost 12 percent of GDP), compared with a program target of Rub 10 trillion, notwithstanding a significant accumulation of arrears. ^{1/} State budget revenues were higher than programmed by Rub 10 trillion, but expenditures exceeded the program's ceiling by the equivalent of Rub 16 trillion. The surplus of extrabudgetary funds was much lower than expected, but unbudgeted import subsidies turned out to be lower than anticipated mainly due to lower than forecast disbursements of tied credits.

The record of implementation of other commitments under the STF program was mixed (see Table 9). In the area of monetary policy, a notable success was achieved in moving the CBR lending rate up to market-related levels, but there was little progress in phasing out directed credits and increasing the proportion of CBR credit extended through market mechanisms. In the area of external sector policies, the open and unified exchange system was maintained and strengthened, but quotas on non-energy exports were not eliminated as scheduled. In the fiscal area, budgeted import subsidies were cut, but grain and coal subsidies were not reduced to agreed levels and an across-the-board cut in expenditure was not implemented as envisaged under the program.

In the area of structural change, the Government continued the rapid pace of privatization, and a Presidential decree on land reform removed restrictions on the sale of land. However, implementation of the bankruptcy law remains very limited. As regards institutional development, there has been significant progress in setting up an interagency working group in the CBR to monitor program performance, and a system for monitoring external

^{1/} The deficit of the enlarged government reported in this section differs from the one in Section II because references in this section are based on the first STF program definitions while elsewhere in the paper the new definitions are used. The main difference refers to the treatment of net proceeds from the sales of gold and other precious metals, part of which (e.g., gross expenditures) were included above the line, due to lack of information. Other differences stem from changes in the monetary accounts, particularly the measurement of the monetary authorities' net credit to the enlarged government.

disbursements and the collection of counterpart funds was established in late 1993.

IV. The Program for 1994

1. Program objectives and macroeconomic framework

The main objectives of the 1994 program are to reduce further the rate of inflation through tighter fiscal and monetary policies, while consolidating and strengthening the process of structural reform and the transition to a market economy, thereby setting the stage for economic growth and an improvement in living standards.

In quantitative terms, the monthly rate of inflation is projected to decline to 7 percent by end-1994; monthly inflation would average 12 percent in 1994, compared to 21 percent in 1993. ^{1/} There would be a further substantial reduction in inflation during 1995. Moreover, gross international reserves are targeted to reach nearly US\$10 billion at year-end. To achieve these objectives, the program calls for a reduction in the expansion of net domestic assets by the monetary authorities which, in turn, would require a significant reduction in the budget deficit. The program assumes that the sharp decline in real GDP recorded in early 1994 will be partly reversed in the remainder of the year; on a year-on-year basis, GDP is assumed to fall by 10 percent in 1994, compared to 12 percent in 1993.

The structural aspects of the program include continued movement toward a market-oriented monetary policy, consolidation of the existing unified flexible exchange rate system and maintenance of free prices, and measures to further liberalize foreign economic activity. Also, institutional reforms relating to privatization, land reform, property rights, enterprise reform, and the establishment of effective bankruptcy procedures are to be accelerated. Finally, the program calls for strengthening the effectiveness of the social safety net, specifically as regards unemployment benefits.

2. Financial policies

a. Monetary and exchange rate policies

Continuing the approach used in the 1993 program, the program for 1994 assigns a key role to monetary policy in bringing down inflation, but also

^{1/} Consumer price inflation would rise from 44 percent in the first quarter of 1994 to 48 percent in the second quarter, before falling to 37 percent and 26 percent in the third and fourth quarters, respectively. The rise in the second quarter would reflect the expectation of a much lower decline in net international reserves than in the first quarter, coupled with continued credit expansion to the Government at a relatively rapid pace owing partly to the assumed repayment of arrears.

in fostering a more efficient allocation of resources. The main elements of monetary policy are (i) a reduction in the growth rate of monetary and credit aggregates; (ii) the maintenance of the CBR finance rate at market levels; (iii) a move away from the system of centralized credit distribution to the provision of CBR credit to commercial banks through credit auctions and other market mechanisms; (iv) the avoidance of interest rate subsidies on new credits; and (v) the commitment not to clear interenterprise arrears by extending CBR credit. As regards exchange rate policy, the authorities do not intend to introduce substantive changes in the existing unified flexible exchange rate system. Intervention in the foreign exchange market by the CBR will be aimed only at smoothing exchange rate fluctuations and not at supporting the ruble exchange rate artificially.

The main quantitative objective of the monetary program is to reduce the average monthly growth in base money from 18 percent in 1993 to 11 percent in 1994. The average monthly growth in ruble broad money is projected to decline from 15 percent in 1993 to 11 percent in 1994 (Table 4). The velocity of ruble broad money is expected to rise in the second quarter of 1994 in response to a tightening of credit conditions, but this would be followed by a gradual decline (on a seasonally adjusted basis) during the second half of the year as inflationary expectations abate. 1/

The principal operational instrument to achieve the reduction in base money growth is a limit on the expansion of the net domestic assets (NDA) of the monetary authorities, 2/ from a monthly average rate of 15 percent in the last quarter of 1993 to 11 percent in the fourth quarter of 1994. 3/ These limits are consistent with the minimum targets set for net international reserves. However, if net international reserves were to exceed their floors by more than 40 percent and if the monetary base were to be rising more rapidly than anticipated, the authorities will consult with the Fund staff. Quarterly limits have also been established for the increase in the monetary authorities' net credit to the enlarged government.

In line with the intention of the CBR to develop market-oriented instruments of monetary policy, the share of CBR credit offered through

1/ Quarterly seasonally adjusted velocity is expected to increase from 9.3 in the first quarter to 10.1 in the second, before declining to 9.8 and 9.8 in the third and fourth quarters, respectively.

2/ NDA consists of net credit to the general government (including CBR direct net credit to the enlarged government and the ruble counterpart of the stock of government net international reserves), CBR net credit to banks and "other items (net)," including net lending to other central banks of the Former Soviet Union, if any.

3/ Changes are calculated in relation to base money at the beginning of the period.

credit auctions (which started in February), 1/ and other market-related instruments (such as a Lombard-type facility and a rediscounting facility, which the authorities are considering establishing) was about 10 percent in the first quarter of 1994 and is planned to be 15-17 percent in 1994 as a whole. The CBR will not allow its finance rate to fall more than five percentage points below the reference interbank market interest rate and the interest rate on auctioned credit is to be determined on the basis of supply and demand. Centralized credits will be extended to commercial banks at the CBR finance rate, and resources from the federal budget will not be used to subsidize new centralized credits nor will initiatives be taken to allow borrowers to defer payments of interest on previously granted centralized credits. The Government has started a process of transition from the use of centralized credits to the financing by the budget of expenditures that are of a budgetary character.

b. Fiscal policy

A tighter fiscal policy is essential to achieve the programmed reduction in credit expansion and inflation. The deficit of the enlarged government is targeted to decline from an estimated 8 percent of GDP in 1993 to 6½ percent of GDP in 1994 (Table 10). After taking into account net foreign financing and domestic nonbank financing (which is expected to be negative, largely because of the planned repayment of commodity debt in 1994), financing of the enlarged government by the monetary authorities is to be limited to 5½ percent of GDP. The deficit of the federal government is projected to rise slightly to 7¼ percent of GDP, but the underlying fiscal position at the federal level would improve in 1994 taking into account: (i) substantial arrears incurred in the fourth quarter of 1993, which were to be paid in the first half of 1994; and (ii) the explicit inclusion in the 1994 budget of a number of previously unbudgeted programs equivalent to approximately 2 percent of GDP (e.g., transfers to Northern Territories and on-lending of foreign credit). The local governments are envisaged to show a small deficit in 1994 compared to last year's surplus of 1 percent of GDP, while the extrabudgetary funds are likely to record a modest surplus of about 1 percent of GDP. Following the Government's decision to discontinue them on January 1, 1994, unbudgeted import subsidies, an important component of the enlarged deficit in 1993, are expected to be replaced by a system of budgetary on-lending in 1994.

1/ In the two CBR auctions conducted to date, the total amount offered was Rub 250 billion, of which Rub 160 billion was taken up, mainly because not all bidding banks complied with the CBR's prudential requirements. The auction interest rate has been slightly above the CBR lending rate.

(1) The federal budget

The draft federal budget approved by the Government in February 1994 projected revenues of Rub 114 trillion, 1/ expenditures of Rub 165 trillion, and a federal deficit of Rub 51 trillion (7 percent of official GDP). 2/ Most of this deficit was to be financed by credit from the monetary authorities (Rub 42 trillion). A slightly revised version of this budget (with the aggregates for revenue and expenditure and the deficit unchanged) was submitted to the State Duma in the second half of March.

Federal Budget Operations, 1993-94 1/

(In percent of GDP)

	1993 (Prel.)	Draft Budget	1994		
			Current Policies (IMF Pro- jection)	Measures/ Contin- gencies	Program
Balance	<u>-6.7</u>	<u>-7.0</u>	<u>-13.2</u>	<u>6.0</u>	<u>-7.2</u>
Revenue	13.7	15.7	14.4	3.3	17.6
Expenditure	20.3	22.8	27.6	-2.7	24.8
Financing	<u>-6.8</u>	<u>7.0</u>	<u>7.2</u>		<u>7.2</u>
Monetary authorities <u>2/</u>	6.9	5.7	5.4		5.4
Other domestic <u>3/</u>	-0.3	--	0.2		0.2
External	0.2	1.3	1.6		1.6
Fiscal gap	--	--	<u>-6.0</u>		--

Sources: Tables 10-12.

1/ On an unconsolidated basis.

2/ Defined as net credit from the CBR to the federal government, plus the ruble counterpart of the Government's use of Net International Reserves (NIR).

3/ Net financing yielded by sales of government obligations is offset by domestic principal repayment.

1/ This forecast took account of the likely yield from the 3 percent levy on value added (earmarked for coal and agriculture), introduced at end-1993.

2/ The figures in the official draft budget are Rub 121 trillion and Rub 182 trillion for revenues and expenditures, respectively, resulting in a deficit of Rub 62 trillion. The figures presented in this section are based on the IMF methodology, which defines amortization as negative financing and privatization proceeds and net proceeds from gold and precious metals operations as nonbank financing.

The budgetary projections underlying the program were prepared on the basis of extensive discussions between the staffs of the Ministry of Finance and the Fund, and differ from the projections contained in the original draft budget in several respects. First, the draft budget was based on an official forecast for GDP in 1994 (Rub 725 trillion), which is lower than the staff's GDP estimates (Rub 746 trillion). 1/ Second, the draft budget's revenue forecast did not take adequately into account the poor revenue performance of late 1993 and the first quarter of 1994 and was generally overoptimistic regarding the likelihood of improved tax compliance throughout the remainder of the year. Third, certain expenditure commitments appeared not to have been fully reflected in the draft budget. These included interest rate and transportation subsidies to the Northern Territories; compensation for savings bank (Sberbank) depositors to offset the impact of price liberalization in early 1992; transfers to the Pension Fund; possible underestimation of external debt service; and likely overruns in budgeted amounts elsewhere. In addition, the staff expressed concern about the realism of the assumption contained in the draft budget that a large number of recent laws and other decisions of the President, the Government, or the Parliament--associated with potential expenditures officially estimated at Rub 88 trillion, or 12 percent of GDP in 1994--would be canceled or not implemented.

The staff's revised projections indicated that, in the absence of fiscal measures, federal revenue was likely to reach Rub 107 trillion (14.4 percent of GDP), compared to the draft budget forecast of Rub 114 trillion. Revised estimates for expenditures were put at Rub 206 trillion (27.6 percent of GDP), compared to the budgeted level of Rub 165 trillion. Overall, the projections indicated a financing gap of Rub 45 trillion (6 percent of GDP), which needed to be closed in order to achieve the federal government deficit of Rub 54 trillion (7.2 percent of GDP) targeted under the program.

To close this gap, the authorities intend to raise Rub 18 trillion via additional revenue measures during the course of 1994 (see Table 1 of the Annex to the Statement on Economic Policies). By April 15, 1994, the authorities are to take the steps necessary to implement those measures, some of which require approval by the State Duma. The measures include: the elimination of some exemptions to the VAT; the introduction of accrual accounting for calculating VAT liabilities; 2/ the presumptive taxation of

1/ The official GDP estimate for 1994 was developed in late 1993 and, therefore, it reflected neither the larger than expected drop in production and real GDP in the early months of 1994 nor the higher than anticipated inflation in January 1994.

2/ Implying that tax liabilities will be incurred when transactions take place rather than when payment is made.

small enterprises; 1/ the introduction of a stamp system to curb the evasion of excise taxes on tobacco and alcohol; an increase in the gasoline tax, the introduction of a per ton tax on oil; 2/ measures to collect the existing excise tax on natural gas; the repeal of some exemptions on import tariffs; an increase in revenue from privatization; and improved tax administration via increased penalties for noncompliance. 3/

To deal with the remaining gap (about Rub 27 trillion), the authorities have indicated their intention to take additional deficit reduction measures, as needed. First, the authorities have agreed to contingency measures to be adopted if, as a result of the negotiations with creditors, the amount of external debt service to be paid during 1994 turns out to be higher than assumed in the draft budget (in the program projections these measures are assumed to be on the revenue side). Second, in the event that some of the potential spending commitments (of up to Rub 88 trillion) associated with laws and other decisions that could not be canceled commitments had to be honored, offsetting measures (assumed in the projections to be on the expenditure side) will be taken. Finally, the authorities stated their determination to exercise restraint in their wage policy.

The authorities intend to improve other aspects of budgetary policy and execution. In 1994, for the first time, all transactions related to foreign credits, hard currency operations, and flows of precious metals are included in the budget; also included are all extrabudgetary funds financed by obligatory allocations from the enterprises. (The Pension Fund, the Medical Insurance Fund, the Social Insurance Fund, and the Employment Fund will remain outside the budget.) While most of the deficit will be financed with credit from the monetary authorities, increased recourse to domestic nonbank financing of the budget deficit (mainly through the sale of Treasury bills) is also planned within prudent limits, i.e., without risking a large increase in the Government's real interest payments.

1/ Taxable income for smaller enterprises is to be estimated based on indicators that are relatively easy to determine, such as total turnover, or would be levied in the form of annual licensing fees.

2/ This would replace the existing excise tax levied on the value of products, which had led to significant compliance problems. The new per ton tax, which is a temporary measure pending full introduction of a profit-based tax scheme for the oil sector, has also been set at a higher effective level than the previous tax (given the current domestic price).

3/ Including penalties on commercial banks of 1 percent per day on delayed payments in general, and double that amount in cases of delayed tax payments; obligatory submission of information to the tax authorities on all domestic and foreign banks accounts held by taxpayers; obligatory transfers to the budget from the accounts of taxpayers with tax arrears; and increased fines for tax evasion.

The transition in the execution of the federal budget from the banking system to a Treasury being established in the Ministry of Finance is expected to be largely completed by end-1994. Also, a new budget classification conforming to IMF Government Finance Statistics standards is to be introduced gradually in 1994, and become fully effective in 1995.

(2) Local governments

The financial position of the local governments will be crucially affected by the introduction of a new system of budgetary relations between the Federation and its subjects. This system, which, as the authorities indicate in their Statement, was established as of April 1, 1994, specifies a division of rights and responsibilities at various levels of government, including the setting of tax rates, the level of budgetary expenditures, and the creation of a unified mechanism for determining the scale of financial support to regional budgets in the form of federal transfers. ^{1/} Under the new system, the federal government does not prepare official forecasts for the local budgets. The revenue projections developed for the program assume that the new revenue-sharing arrangements are implemented. In addition, under the program the authorities are committed to implement other measures, the revenue from which would accrue only to local budgets, including the expanded application of a tax on fixed assets of enterprises (up to 2 percent), the repeal of certain tax allowances and exemptions relating to the income tax, the introduction of a 5 percent withholding tax on personal interest income, and higher taxation on land. Barring any increase in federal transfers relative to budgeted levels, local government expenditures will be constrained by the absence of significant sources of deficit financing, other than a possible drawdown of deposits with the CBR and the commercial banks. Local governments are not permitted to borrow from the CBR. The program implies a reduction in local government expenditures from 17 percent to 16 percent of GDP in 1994; this may partly occur as a result of a shift of certain health expenditures formerly carried out by the local budgets to the newly created Medical Insurance Fund (an extrabudgetary fund); also, consumer subsidies extended by local governments are expected to decline, in tandem with a planned steep rise in rents and utilities.

^{1/} Under the system in use prior to April 1, 1994, regions negotiated the scale of transfers with the Ministry of Finance, which decided in a discretionary way the amounts to be provided to each region. The new system is characterized by a more or less uniform formula-based rule governing transfers out of an earmarked fund equivalent to a total of 22 percent of total VAT receipts. This system will require regular data collection from the local budgets.

(3) Extrabudgetary funds and the social safety net

Despite improvements suggested to the authorities by the staff, 1/ few policy changes with respect to the social safety net are expected in 1994. A surplus continues to be projected for the extrabudgetary funds at around 1 percent of GDP. This is attributable mainly to the Pension Fund, which is expected to benefit financially from the switch from full to partial indexation of benefits as from November 1993. 2/ As a result, the average pension is projected to decline in relation to the average wage. On the other hand, the other major vulnerable group--unemployed workers--should benefit from the planned increase in the average unemployment benefit, financed by reductions in so-called "job-creation" outlays. However, assistance for the long-term unemployed is yet to be introduced. The estimated surplus of the extrabudgetary funds is not very sensitive to small unexpected changes in real wages and/or employment, but would not be sustained if either of these factors, or payroll tax compliance by enterprises, were to worsen sharply.

3. Structural policies

a. Trade policy

The authorities intend to pursue a general policy of integrating Russia into the world economy, and to this end plan to proceed with negotiations regarding Russia's accession to the GATT. Apart from areas where legislative restrictions apply, foreign entrepreneurs will be accorded the same treatment in Russia as nationals.

The authorities plan to liberalize the export regime in several ways, as follows: (i) all export quotas except for certain energy products and nonferrous metals are to be eliminated by May 15, 1994. Some of the remaining export quotas are to be liberalized by that date and all quotas will be eliminated by end-1994, except for products subject to trade restrictions in connection with agreements between Russia and other countries; (ii) the centralized export scheme is to be phased out in 1994 as existing contracts expire and is to be eliminated at the beginning of 1995; (iii) the average level of export duties is to be reduced by one third by September 1, 1994 relative to the 1993 level (some of the specific reductions planned are referred to in the Annex); and (iv) the scheme to limit the number of exporters of strategic goods is to be eliminated by January 1, 1995.

1/ Especially following the January 1994 FAD mission on the social safety net (see BUFF/94/12, February 15, 1994).

2/ Since November 1993, all pensioners are paid a fixed supplement equal to the change in the cost of the minimum subsistence consumption basket during the previous calendar quarter. Therefore, only low-income pensioners are fully compensated for inflation, albeit with the same lag as previously.

Concerning the import regime, government imports for use by the economy are to be limited to certain foodstuffs, medicines, veterinary products, and some investment goods financed by tied credits. All import subsidies were discontinued as of January 1, 1994 and will not be reintroduced (however, there is provision in the 1994 budget for some minor amounts of subsidies relating to contracts signed earlier and for the budgetary on-lending of tied import credits). On March 15, 1994, a decree was issued increasing import duties on a wide variety of products. The weighted average import duty is expected to approximately double, to about 15 percent in 1994, the tariff structure will become considerably more dispersed than before, and certain final products will be afforded substantially higher effective protection. The staff expressed concern regarding the protectionist nature of this measure and its potential detrimental effects on consumer welfare and on the competitiveness of Russian producers. Government officials responded that the new system of import duties was a transitional measure. They intended to announce, no later than October 1994, a timetable for the step-by-step reduction of import tariffs over a period of 3-5 years. Also, by October 1994, the share of import duty rates above 30 percent will be substantially reduced. Finally, all import duty exemptions, except for those named in the Law on the Customs Tariff of the Russian Federation, were to be eliminated on April 1, 1994.

b. Other structural reforms

The authorities do not intend to adopt discriminatory restrictions on the activities of separate categories of enterprises, or administrative restrictions, including profitability limits, on the setting of prices by enterprises, except for certain natural monopolies and situations of effective monopoly as specified in the Annex to the Statement.

In December 1993 the Government approved the state privatization program for 1994, which reduced the list of enterprises excluded from privatization--a measure which affects, in particular, many enterprises in the defense industry. By early 1994, about 66,000 small-scale service enterprises (roughly 70 percent of the total) and almost half of all state and municipal enterprises, including 8,500 medium- and large-scale enterprises (employing in total more than 8 million workers), had been privatized. Starting July 1, 1994, the auction of enterprise shares will be conducted on the basis of cash rather than vouchers, and investment tenders will be used on a considerably larger scale. The authorities intend to encourage the participation of foreign direct investment in the privatization process.

In October 1993 a Presidential decree introduced significant changes in land legislation, including the elimination of the moratorium on the sale of land and the allocation of Certificates of Ownership to the members of state and collective farms. These changes, if fully implemented, could accelerate the privatization of agricultural land. By end-1993, more than 10 percent of all agricultural land was privately owned, including 11 million hectares belonging to family farms and 6 million hectares of household plots. To

accelerate the process of privatization, the authorities intend to include land plots presently used by enterprises in the privatization process and to create an appropriate market.

In the area of enterprise reform, the Government intends to establish criteria to determine whether state-owned enterprises should be reorganized, closed down, or privatized. The legal and institutional infrastructure of the securities market is to be strengthened to ensure liquidity of shares of privatized enterprises and encourage capital mobilization. A mechanism for protecting the rights of shareholders on the basis of developing an effective system of corporate management is to be created.

The authorities intend to improve the functioning of the social safety net. In particular, the Government will submit to the State Duma a proposal to increase unemployment benefits and simultaneously reduce the resources used by the Employment Fund resources used to support individual enterprises. If such a measure were implemented immediately, the ratio of the average unemployment benefit to the average wage could rise from the current level of about 13 percent to 20 percent.

V. The Balance of Payments Outlook and the Capacity to Repay

1. The balance of payments in 1994

Under the program, net international reserves are targeted to decline by US\$0.5 billion and gross reserves to rise by US\$1 billion during 1994; by the end of the year, gross reserves would cover 1.8 months of projected 1994 imports of goods and nonfactor services. ^{1/} This coverage would be relatively low by the standards of developing countries, even those with flexible exchange rates, and the program provides that the adequacy of the reserve targets will be reassessed with the Fund staff by end-June 1994.

The balance of payments projections for 1994 assume that the real exchange rate of the ruble vis-à-vis the U.S. dollar would remain relatively stable during 1994; this would imply a real appreciation of more than 100 percent on a year-on-year basis, offsetting much of the perceived undervaluation of the ruble in late 1992.

The current account with non-FSU countries is expected to register a deficit of US\$12 billion in 1994; both the price and the volume of energy exports would decline and imports would rise significantly reflecting the real appreciation of the ruble. Oil exports are projected to decline by 4 1/2 percent in volume terms, reflecting a fall in production of almost 8 percent, while the average price would drop by over 13 percent compared to

^{1/} In view of the decline in gross reserves estimated at just over US\$2 billion in the first quarter of 1994, this implies a buildup of over US\$3 billion in the remaining 9 months of the year.

1993. Other exports would remain close to last year's level in nominal terms but they would decline by 3 percent in volume terms, reflecting reduced competitiveness in some sectors and problems of market access (for example, for textiles and nonferrous metals). Imports are expected to rise by 26 percent, reflecting the large real appreciation of the ruble since late 1993.

Debt service falling due in 1994 amounts to US\$21 billion with respect to current maturities; in addition, US\$11 billion is owed, mostly to nonofficial creditors. 1/ Except for loans received from multilateral creditors, Russia has been contracting most of its officially guaranteed export and supplier credits at relatively short maturities. Thus, amortization with respect to post-cutoff-date (i.e., January 1, 1991) contracts amounts to US\$8 billion, of which US\$2 billion represents amortization due on post-1991 contracts. The Russian authorities have contacted their various creditors to seek debt relief with respect to obligations falling due in 1994. In this regard, the group of official creditors will consider its approach to debt relieve for Russia at a meeting scheduled for April 14; the staff will inform Directors of the outcome of this meeting.

The financing requirement for 1994 would amount to US\$34 billion, after taking account of a purchase of 25 percent of quota under the STF (US\$1½ billion) and the net accumulation of convertible currency payments of US\$1½ billion from transactions with other FSU states (see below). It is expected that resources will be available to ensure that the financing requirement is fully met. Disbursements by bilateral creditors are conservatively estimated at about US\$5 billion, multilateral disbursements at US\$1½ billion, and grants at over US\$2 billion. Debt relief from all creditors would amount to almost US\$26 billion, of which US\$8 billion has been retained as the working assumption for debt relief from official creditors. The balance of payments projections for 1994 are broadly in line with those contained in the 1993 Article IV consultation report, which supported the Russian request for the first STF purchase. A balance of payments need is still judged to exist for the use of the STF. 2/

With respect to the balance of payments with other FSU states, trade volumes are expected to continue to decline in 1994, although at a lower rate than in 1993. The volume of exports of oil and natural gas would fall by 15 percent, while average export prices would increase by more than 50 percent for oil and by more than 90 percent for natural gas. Other exports would decline by 25 percent, as a result of a relative shift from

1/ Debt service data are based upon the outstanding stock of external debt as of July 1, 1993 and estimates related to subsequent disbursements.

2/ See SM/93/66, Supplement 1 (4/16/93), p. 25. More specifically, the staff is satisfied that Russia continues to experience balance of payments difficulties in an amount at least equivalent to 50 percent of quota as a result of the factors set out in the STF decision (No. 103486-(93/61)).

non-energy to energy imports from Russia by other FSU states facing a significant financial constraint. Imports by Russia would decline moderately. Russia's current account surplus would remain broadly unchanged relative to 1993, namely, US\$4 billion.

The only new disbursements of state credits by Russia assumed for 1994 relate to the undisbursed amounts in respect of commitments made in 1993 (Rub 384 billion); these are expected to be used mostly to pay interenterprise arrears. A significant level of foreign direct investment by Russia in other FSU states is projected in 1994, reflecting the possible financing of a trade imbalance as well as settlement of interenterprise arrears by property transfers to Russian enterprises. Assuming net payments in convertible currencies of US\$1½ billion, 1/ unidentified financing of about US\$2½ billion remains. The form that this financing may take would depend on various options being discussed between Russia and the other FSU states, and could include additional transfers of property to Russia or larger payments in convertible currency, price adjustments in interstate trade; and other forms of credit.

2. The capacity to repay

A comprehensive updated medium-term scenario for Russia's balance of payments has not been prepared at this juncture. Intensive program negotiations precluded a thorough discussion of these issues with the Russian authorities. Moreover, debt and debt service data were being revised, but were not provided to the staff by the authorities in a timely manner to allow their incorporation into the program estimates. However, the staff will have an opportunity to consider these issues more thoroughly with the authorities during the forthcoming 1994 Article IV consultation discussions. In the main, the staff's judgement is that the projections which were contained in the last consultation report remain broadly appropriate. 2/ In particular, while there could be some shifts between various categories, the overall magnitude of Russia's medium-term financing requirement should be broadly as reported earlier.

The staff is of the view that Russia has good potential for developing a strong external position in the medium term, particularly given its rich natural resource endowment. With appropriate policies to unlock its vast human and productive potential, Russia's immediate payments problems could be readily resolved. As suggested by the experience under the first credit tranche program in 1992 and the program supported by the first STF purchase in 1993, however, there remains a risk that, lacking a broad political consensus for a major reform effort, the Government might not be able to implement the agreed package of macroeconomic and structural policies. Moreover, in the short-term, even with strong policies, Russia would still

1/ As well as the deferral of Kazakhstan interest payments.

2/ SM/93/66, Supplement 1 (4/16/93).

face a very high level of external debt service in relation to prospective exports.

VI. Staff Appraisal

In mid-1993, a steep rise in the central bank lending rate led to a strengthening of the ruble and a strong accumulation of international reserves. However, large scale slippage on expenditure and failure to adopt revenue measures envisaged in the first STF program led to a sharp deterioration of the fiscal position in the second half of the year. The monetary and fiscal targets specified in the program were exceeded by a wide margin in the third and fourth quarters of 1993, and inflation remained high. On the basis of annual averages, however, the authorities succeeded in reducing both the deficit of the enlarged government and the growth rates of money and credit from 1992 to 1993.

Toward the end of 1993, the authorities limited government borrowing from the central bank by compressing cash expenditure. This has helped to reduce inflation in the first quarter of 1994. However, it has also led to a substantial accumulation of government arrears which, together with a weak performance of revenue, has complicated an already difficult budgetary situation. Meanwhile, the drop in output has accelerated, although unemployment so far has remained relatively low.

The broad strategy for 1994 outlined in the Statement of Economic Policies of the Government and the Central Bank of Russia calls for the consolidation and the strengthening of structural reforms and for the gradual stabilization of the economy through relatively tight budgetary and credit policies. While a more audacious approach to stabilization would be preferable in some respects, the staff believes that the proposed strategy should help to deal with Russia's current difficulties. In particular, the relatively tight financial policies envisaged in the program are essential to reduce inflation, stabilize the ruble and bring about an environment of confidence needed to encourage private investment and growth. They are also needed to impose on enterprise managers the degree of financial discipline that is essential to the development of a dynamic and competitive enterprise sector. Achievement of this objective also will require a firm policy to discourage interenterprise arrears and encourage resort to bankruptcy procedures in appropriate circumstances.

The fall in industrial production that has taken place is largely an unavoidable consequence of the systemic transformation of the Russian economy and it cannot be confronted by loosening financial policies--this would only increase instability, delay restructuring and prolong the period of economic weakness. Rather, economic policy should be aimed at creating an environment in which private enterprises operating under hard budget constraints will account for an increasing share of total output. At the same time, however, in view of the serious difficulties faced by some large state-owned enterprises and given the social and regional consequences that

could result from their liquidation, a system of limited and conditional government support consistent with the overall fiscal objectives will be needed for some time. In this respect, the authorities' commitment to increase unemployment benefits is a step in the right direction, but significantly greater efforts will be needed to ensure that the most vulnerable groups of the population are better protected from the adverse effects of the transition.

The success of the program outlined in the Statement of Economic Policy hinges critically on the strict implementation of its fiscal plan. The draft federal government budget that was recently submitted to the Duma would imply a sizable reduction of the enlarged government deficit in relation to GDP. This would be achieved through tight control of expenditure and an improvement in revenue in relation to GDP from the low level reached in the first quarter of 1994. In addition, there would be a rise in the surplus of the extrabudgetary funds.

The staff's analysis suggests that the revenue projections contained in the draft budget are optimistic. Therefore, it welcomes the Government's commitment to introduce measures that will increase revenues by about 2 1/2 percent of GDP in 1994. While supporting the intention of the authorities to cut expenditure by the federal and local governments relative to GDP, the staff questioned the feasibility of this plan--including the chances of its approval by Parliament--in light of the likely reluctance of various sectors to accept a sharply reduced level of budgetary support. The staff is encouraged by the Government's commitment to take offsetting deficit-reduction measures in the event that outlays in certain areas were to exceed budgeted levels. Provided total expenditure is kept within the program's limits, and provided the aforementioned revenue measures are implemented in full, the enlarged government deficit could be reduced from 8 percent of GDP in 1993 to 6 1/2 percent of GDP.

The Central Bank of Russia has committed itself to a moderately restrictive credit program, particularly as regards credit expansion to banks. Assuming the financing requirement of the Government is reduced as envisaged, this program should allow a reduction in the monthly rate of inflation to 7 percent at the end of 1994. This is clearly not a very ambitious objective, but it could improve expectations about inflation and, if combined with a further reduction in the growth of money and credit, could allow monthly inflation to fall to low single digit levels by mid-1995. The financial program also is consistent with an accumulation of gross international reserves to approximately \$10 billion at the end of 1994, which would cover 1.8 months of imports of goods and services. This would be an improvement from the current situation, although a further significant increase in import coverage, more in line with international standards, would seem appropriate over time. The Russian authorities' reaffirmation of their commitment to a free and unified exchange system is important, and their intention to limit intervention to smoothing exchange rate fluctuations is entirely appropriate under current circumstances.

While the Russian authorities themselves will determine the ultimate success of their adjustment efforts, the international community also plays a key role in providing open access to its markets and financial assistance, including in the form of debt relief. In the view of the staff, the program for 1994 can be fully financed as Russia proceeds to regularize its financial relations with debtors and creditors. The assistance of the international community would also help the balance of payments in the near term. However, the terms of such assistance--with the relatively short maturities of new loans and market interest rates--imply that post-cut-off date debt obligations are rising quickly and could significantly complicate payments in the medium term. Accordingly, creditors could usefully examine the terms of new assistance provided and eschew resort to requirements for escrow accounts to collateralize new loans. Under the envisaged stand-by arrangement, the terms and amounts of external financing will be carefully reconsidered.

After the second STF purchase, Russia's outstanding obligations to the Fund would remain low in relation to quota, exports, reserves and total external debt (Table 14). Nonetheless, given the fundamental nature of the continuing adjustment facing Russia, the external sector will remain highly vulnerable to both external and internal shocks. Although the projected indicators do not include the impact of prospective Fund purchases, Russia is likely to be a heavy user of Fund resources in coming years provided that the authorities are able to pursue and intensify their adjustments efforts.

In the structural area, the staff welcomes the continued rapid pace of privatization and the recent steps to extend privatization to the agricultural sector. In contrast, the record in the area of trade liberalization has been disappointing. The commitments specified in the program supported by the first STF purchase with regard to the liberalization of export quotas and the centralized export scheme were not implemented. These commitments have been broadly re-affirmed in the current program, although their implementation will be significantly delayed. The recent increase in import duties is a step in the wrong direction as it will shield domestic producers from international competition and impose higher prices on consumers and producers for many goods and inputs. The staff welcomes the Government's intention to review its policy in this area, and urges that this review lead soon to a significant reduction in both the level and the dispersion of import duties.

In spite of recent progress in some areas, there are still major weaknesses in the Russian data base in several sectors which impair the authorities' ability to formulate and implement economic and financial policies and the staff's ability to monitor developments under a program. The staff urges the authorities to address these problems through, *inter alia*, the timely implementation of technical assistance recommendations. The Fund staff is prepared to work closely with Russian officials in all areas of statistics with the aim of developing macroeconomic statistics according to international standards. The staff welcomes the authorities'

intention to introduce in the near future a new, improved budget classification.

In light of the STF decision, the staff considers the request for the second purchase warranted on the basis of likely financing assurances as well as satisfactory progress in reaching understandings on a comprehensive adjustment program. In particular, despite the difficult political circumstances prevailing in the latter part of 1993, the Russian authorities have continued to pursue their privatization program and consolidated other structural reform policies while containing pressures on the budget, albeit partly by running up arrears, and making some progress in reducing money growth and inflation. The 1994 program proposed by the Russian authorities is dependent upon their political will to persevere with its implementation under inevitably heavy pressure to relax financial policies. If successfully implemented, the program supported by the second STF purchase will set the stage for a more ambitious program which could be supported by an upper credit tranche arrangement.

VII. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

Request for Purchase under Systemic Transformation Facility

1. The Fund has received a request by the Government of the Russian Federation for a purchase equivalent to SDR 1,078.275 million under the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993).

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

CHAIRMAN
OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

No. 0481p-114

Moscow, April 8, 1994

Mr. Michel Camdessus, Managing Director
International Monetary Fund

Dear Mr. Camdessus:

On behalf of the Government of the Russian Federation, I am hereby sending you the Economic Policy Statement of the Government of the Russian Federation and the Central Bank of the Russian Federation for 1994. On the basis of this Economic Policy Statement we request that a second tranche of the Systemic Transformation Facility be extended to the Russian Federation in the amount of SDR 1,078,275,000.

Sincerely yours,

/S/
V. Chernomyrdin

S T A T E M E N T

Of the Government of the Russian Federation and the Central Bank
of the Russian Federation
On Economic Policies in 1994

The main goal of the economic policies of the Government and of the Central Bank of the Russian Federation in 1994 is to create favorable conditions for overcoming the present crisis and revitalizing the Russian economy. The main effort will be directed to gradually reducing inflation, creating the conditions for the stabilization of production, and accelerating institutional and structural changes. The principal task is to bring inflation down to the level of 7 percent per month by the end of 1994, and would achieve further substantial reductions during 1995. To achieve these goals the Government and the Central Bank intend to undertake the following steps.

1. Monetary and credit policy

a) In accordance with the general anti-inflationary targets, quarterly limits will be established for the increase in the net domestic assets of the monetary authorities (Central Bank of Russia and Ministry of Finance). To limit the inflationary pressures caused by the budget deficit on the economy, quarterly limits will be established for the increase in net credit to the enlarged Government from the monetary authorities. These targets, as well as other targets and commitments in this statement, are specified in the Annex which constitutes an integral part of this statement. The targets and key macroeconomic indicators set out in the Annex shall be defined in accordance with a Memorandum of Definitions formulated jointly by the staffs of the Ministry of Finance, the Central Bank of Russia, and the IMF.

b) The Central Bank will grant credits to the commercial banks only at the refinance rate. The Government will not subsidize the interest rates on new credits from the resources of the federal budget, including use of central bank profits. The Government will take no initiative to allow borrowers to defer payment of interest on previously granted centralized credits.

c) The Government and the Central Bank will gradually shift away from the centralized distribution of credit resources to refinancing commercial banks through credit auctions and other market mechanisms. In the first quarter of 1994 not less than 10 percent of the total growth of Central Bank credit to the economy will be offered through credit auctions. Further, the share of Central Bank refinancing to commercial banks through market means in total Central Bank credit granted will increase during the course of 1994. The Government has started the process of transition from the centralized credits to the financing by the budget of expenditures that are of a budgetary character.

d) Starting from April 1, 1994, the refinance rate of the Central Bank will be no more than 5 percentage points below the reference interbank market interest rate. Credit auctions by the Central Bank began on February 28, 1994, and the operation of a rediscounting facility is under active consideration by the CBR. In the auctions of the credit resources of the Central Bank, the interest rate is to be determined on the basis of supply and demand.

e) The Central Bank will take measures to bring the financial reporting and supervision of the commercial banks closer to international standards.

f) The Government and the Central Bank will not clear interenterprise arrears by extending Central Bank credit.

g) The inclusion of the monetary systems of the CIS member-states into the monetary system of Russia is only possible upon the adaptation of the economic systems of those states, and on the basis of a single emission center. To this end, rules may need to apply to the states joining the Russian monetary system during a transitional period while harmonized mechanisms for economic, tax, fiscal and monetary policies are being developed.

h) Cooperative efforts to resolve the problem of interstate interenterprise arrears will be intensified.

2. Budgetary policy

a) In 1994 the Government will consolidate in the federal budget all transactions related to the utilization of foreign credits and flows of precious metals; all extrabudgetary funds financed by obligatory allocations from the enterprises will also be consolidated into budget, except for the socially oriented funds (Pension Fund, Medical and Social Insurance Fund, and the Employment Fund).

b) The Government will adhere to quarterly limits on the cash deficit of the enlarged budget deficit (the sum of the deficit of the consolidated budget, and the net balance of all extra-budgetary funds) in line with the general goals of monetary and credit policy. The enlarged government budget deficit for the year 1994 will not exceed Rub 48.2 trillion. In line with this target, the Government will adhere to quarterly limits on the federal budget deficit, which will not exceed Rub 53.8 trillion for 1994 as a whole. The Government will introduce revenue and expenditure measures needed to ensure adherence with these targets.

c) The Government will intensify efforts to broaden its borrowing in the financial markets for domestic non-monetary financing of the budget deficit, in order to finance approximately 5 percent of the total federal budget deficit this way. To this end, new kinds of government obligations will be issued, including medium-term obligations and those to be placed

among the general public. The Government intends to regularize its outstanding obligations with respect to commodity debt.

d) The Government will improve tax policy and tax legislation in order to enhance the adequacy of the tax system to the needs of a market economy. Special effort will be made to improve the system of tax collection and strict observance of existing tax legislation. Specific measures are being taken to significantly increase collections from the VAT, and the fuel and energy complex. The Government will refrain from granting new tax exemptions (including exemptions in the sphere of foreign economic activity) and will eliminate certain existing exemptions, as described in the Annex, in order to create equal conditions for competition among various economic agents. These measures will help to improve the tax base and would allow the Government to consider reducing tax rates over time as the overall budgetary situation improves.

e) As of April 1, 1994, a new system of budgetary relations between the Federation and its subjects will be introduced, which will be based on the principles of fiscal federalism. A division of rights and responsibilities between authorities at various levels will be stipulated, including in the setting of tax rates, the level of budgetary expenditures, and the creation of a unified mechanism for determining the scale of financial support to regional budgets in the form of transfers from the federal budget.

f) The Government will take the necessary measures to improve the budgetary process. The transition in the execution of the federal budget from the banking system to the Treasury is expected to be largely completed by the end of 1994.

g) During the first half of 1994 a new budget classification will be introduced, in parallel with the existing one. It will take into account the methodological requirements of the IMF concerning the classification of state revenues and expenditures. Starting from 1995 the budget will be prepared and executed only by the new classification.

3. Policies in the areas of exchange rate, international reserves, and external financing

a) The Government and the Central Bank will not introduce substantive changes to the existing mechanism for the functioning of the domestic foreign exchange market in the Russian Federation. The ruble exchange rate will be determined on the basis of supply and demand.

b) The Central Bank will not use its foreign exchange reserves to intervene in the foreign exchange market for the purpose of supporting the ruble exchange rate artificially. Interventions will be carried out in the exchange market only to smooth exchange rate fluctuations. Decisions about intervention in the foreign exchange market will be made by the CBR in close consultation with the Ministry of Finance.

c) The Central Bank will regulate the level and the structure of net international reserves in coordination with the general goals of monetary policy and in consultation with the Ministry of Finance. The net international reserves of the monetary authorities will be subject to quarterly floors. Gross international reserves are targeted to reach no less than US\$9.9 billion by the end of 1994.

d) The Government is actively seeking to reach understanding with its creditors and debtors with a view to regularizing financial relations as soon as possible.

e) The Government will strengthen the system to monitor foreign disbursements and the collection of counterpart funds on a comprehensive and timely basis.

4. Structural policies and institutional changes

a) The Government will pursue policies consistent with development of competition and free enterprise, will not permit the adoption of discriminatory restrictions on the activity of separate categories of enterprises, and will not introduce administrative restrictions, including profitability limits, on the setting of prices by the enterprises (except for certain specified natural monopolies and situations of effective monopoly).

b) The policy of integrating Russia into the world economy will continue to be pursued, and to this end negotiations will proceed on the subject of Russia joining the GATT. National treatment will apply to foreign entrepreneurs in the territory of Russia (except in the areas where legislative restrictions apply).

c) The Government will continue to pursue the liberalization of foreign economic activity. All export quotas on goods other than crude oil, diesel fuel, natural gas, electric energy, nickel, copper, and aluminum will be eliminated from May 15, 1994. Some of the remaining export quotas will be liberalized by that date and all will be eliminated by the end of 1994. These commitments would not apply to products subject to trade restrictions in connection with agreements between Russia and other countries. Export duties will also be reduced in 1994. The centralized export scheme will be reduced in 1994 as contracts expire and will be eliminated at the beginning of 1995.

d) Government imports for use by the economy will be limited to certain foodstuffs, medicines, and veterinary products, and some investment goods financed by tied credits. All import subsidies were eliminated as of January 1, 1994, and will not be reintroduced. A moderate level of import duties will be maintained during a transition period, but duties will not be used as a means to close the domestic market; in particular, the weighted average import duty will not exceed 15 percent in 1994. The Government will eliminate exemptions and will announce, no later than October 1994, a

timetable for the step-by-step reduction of import tariffs over a period of 3-5 years. Also by October 1994, the share of import duty rates above 30 percent will be substantially reduced.

e) The rules for the privatization of enterprises will continue to guarantee the free access of all concerned to the purchase of the state property. Starting July 1, 1994, new rules will apply according to which the auction of enterprise shares will be conducted on the basis of cash rather than vouchers. Packages of shares of state property previously held by the Government will be sold at specialized cash auctions and investment tenders will be used on a considerably larger scale. The Government will encourage foreign direct investment in the ongoing process of privatization.

f) The Government will continue to work to form an effective legislative and institutional infrastructure for the securities market in order to ensure liquidity of shares of privatized enterprises and create the possibility of capital mobilization, and also to create the mechanism of protecting the rights of shareholders on the basis of developing an effective system of corporate management.

g) The Government intends to support the inclusion of land plots presently used by enterprises into the privatization process and to create the appropriate market.

h) In accordance with the Law of the Russian Federation "On Insolvency (bankruptcy) of the Enterprises", and on the basis of the already established Federal Department for Issues of Insolvency (Bankruptcy), the Government intends to establish criteria to determine whether state enterprises should be reorganized, closed down, or privatized, taking into account social, economic and budgetary consequences.

i) The Government intends to make serious efforts to improve the efficiency of the functioning of the social safety net and the targeting of social benefits, so that state aid would be concentrated on the socially unprotected groups of the population, with a simultaneous increase in the social support level. The Government of the Russian Federation intends to introduce in the State Duma a proposal for changing the legislation on the Employment Fund with the aim of increasing unemployment benefits and simultaneously reducing the use of the Employment Fund's resources for the support of individual enterprises.

5. Policy implementation and monitoring

a) The Government and the Central Bank will conduct a continuous exchange of statistical information, to monitor the main macroeconomic parameters of the economy. They will also provide the International Monetary Fund with all the information needed to monitor the implementation of the program.

b) In the coming months the Government intends to reach understandings with the IMF on an economic program that could be supported by a stand-by arrangement in the upper credit tranches.

/ S /
V. Chernomyrdin
Prime Minister
Russian Federation

/ S /
V. Gerashchenko
Chairman
Central Bank of the
Russian Federation

Annex to the Policy Statement of the
Government and Central Bank of the Russian Federation

Monetary and credit policy 1/

In line with our objectives for inflation, the stock of net domestic assets (NDA) of the monetary authorities, which is projected to reach Rub 15.9 trillion as of March 31, 1994, will not exceed Rub 24.9 trillion as of June 30, 1994, Rub 36.6 trillion as of September 30, 1994, and Rub 52.5 trillion as of December 31, 1994. 2/ In addition, the stock of net credit to the enlarged government by the monetary authorities, 3/ which is projected to reach Rub 18.9 trillion as of March 31, 1994, will not exceed Rub 28.3 trillion as of June 30, 1994, Rub 38.9 trillion as of September 30, 1994, and Rub 51.6 trillion as of December 31, 1994. 4/ The monetary authorities are defined as the Government and the Central Bank of Russia (CBR). The enlarged government is defined to include the consolidated budget, and the net balance of all extrabudgetary funds; any outlays related to previously granted import subsidies will be included in the federal budget.

Consistent with the objective of shifting away from the centralized distribution of credit resources, the share of CBR credit offered through credit auctions and other market-related instruments will be at least 10 percent in the first quarter of 1994 and 15-17 percent in 1994 as a whole.

1/ The targets and key macroeconomic indicators set out in this Annex shall be defined in accordance with a Memorandum of Definitions formulated jointly by the staffs of the Ministry of Finance, the Central Bank of Russia, and the IMF.

2/ The net domestic assets of the monetary authorities are calculated as the difference between the monetary base (currency plus bank's legally required reserves) and the net international reserves of the monetary authorities valued in rubles at the accounting exchange rate defined in the Memorandum of Definitions.

3/ The stock of net credit extended by the monetary authorities to the enlarged government is defined to include the stock of net credit extended by the CBR to the enlarged government plus the ruble counterpart of the Government's holdings of foreign exchange net of short-term foreign liabilities (including those to the International Monetary Fund), and gold reserves.

4/ The targets for NDA and net credit to the Government by the monetary authorities are expected to be consistent with a stock of CBR net credit to commercial banks of no more than Rub 5.1 trillion as of March 31, 1994, Rub 7.3 trillion as of June 30, 1994, Rub 10.9 trillion as of September 30, 1994, and Rub 16.8 trillion as of December 31, 1994.

Fiscal policy

The cash deficit of the enlarged government, which is projected to reach Rub 7.2 trillion in the first quarter of 1994, will be limited to Rub 18.4 trillion in the first half of 1994, Rub 31.2 trillion in the first three quarters of 1994, and Rub 48.2 trillion in the year 1994 as a whole. These targets are expected to be consistent with a Federal budget deficit not to exceed Rub 8.1 trillion in the first quarter of 1994, Rub 20.9 trillion in the first half of 1994, Rub 35.2 trillion in the first three quarters of 1994, and Rub 53.8 trillion in the year 1994 as a whole. It is expected that the Government will raise Rub 3.5 trillion (net) in government securities on market terms during 1994.

In order to attain the fiscal targets specified above, the measures described in Table 1 will be introduced according to the schedule set out in that table. Before April 15, the Government will submit to Parliament all measures requiring Parliamentary approval and will issue the appropriate decrees for the implementation of the remaining measures.

International reserves

The net international reserves of the monetary authorities, which are projected to reach US\$4,310 million at end-March 1994, are targeted to reach a level of at least US\$3,829 million at end-June 1994, US\$4,829 million at end-September 1994, and US\$5,882 million at end-December 1994. The corresponding minimum targets for gross international reserves, which are projected to reach US\$6,809 million at end-March 1994, are US\$7,809 million at end-June 1994, US\$8,809 million at end-September 1994, and US\$9,862 million at end-December 1994. The authorities will consult with the IMF staff if net international reserves exceed their floors by more than 40 percent and the monetary base is rising more rapidly than anticipated. By mid-1994, we intend to review, in consultation with the IMF staff and in light of developments under the program, the adequacy of the net and gross international reserve targets for end-December 1994.

Trade policy

The average level of export duties will be reduced by one third by September 1, 1994 relative to the 1993 level, including the following reductions in duty rates: 50 percent for fuel oil; 29 percent for natural gas; 80 percent for lumber; 67 percent for wood compound products; 59 percent for wood pulp products; 80-90 percent for ferrous metals; and 90 percent for food and agricultural products. The scheme to limit the numbers of exporters of strategic goods will be eliminated by January 1, 1995.

All import duty exemptions, except for those named in the Law on the Customs Tariff of the Russian Federation, will be eliminated by April 1, 1994.

During the program period, the Government does not intend to introduce or intensify any exchange restrictions or introduce or modify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement or impose or intensify any import restrictions for balance of payments reasons.

Price regulation

Price controls will not be introduced except for the following list of natural monopolies and situations of effective monopoly:

- natural gas;
- electrical energy and heat;
- pumping and loading of oil;
- freight and passenger transport by railroad;
- selected freight and passenger transportation by sea, river, and air;
- services of the icebreaker fleet;
- loading and unloading services in ports and port fees;
- servicing aircraft, passengers, and freight in airports;
- airline navigation services along routes and in the regions of airports;
- passenger and baggage transport by city and suburban automobiles (except for taxis) and electrified rail transport (including the subway);
- services of water pipelines and sewers;
- selected postal and electrical communications services.

Table 1. Revenue Measures to be Implemented in 1994

Measure	Revenue Gain in Percent of Annual GDP		Date of Implementation
	General govt.	Federal govt.	
	(Rub trillion)		
<u>VAT</u>			
1. Elimination of some exemptions	0.2	0.2 (1.1)	July 1 <u>1</u> /
2. Introduction of invoice credit system in the trade sector to replace the present markup method	...	...	June 1/July 1
3. Introduction of accruals accounting on both revenue and cost side	0.2	0.2 (1.1)	July 1 <u>1</u> /
<u>Profit Tax</u>			
4. Presumptive taxation of small enterprises	0.2	0.1 (0.6)	Federal: July 1 <u>1</u> / Local: April 1
5. Encourage expanded application of tax on fixed assets of enterprises (up to 2 percent)	0.3	--	Immediately
<u>Income Taxes</u>			
6. Repeal of tax allowances and exemptions	0.2	--	July 1 <u>1</u> /
7. 5 percent withholding tax on personal interest income	0.1	--	July 1 <u>1</u> /
<u>Property Taxes</u>			
8. Increase in taxation of land	0.1	--	January 1 <u>1</u> /
<u>Excises</u>			
9. Introduction of stamp system	0.3	0.2 (1.1)	Tobacco: June 1 Alcohol: July 1

Table 1. Revenue Measures to be Implemented in 1994 (concluded)

Measure	Revenue Gain in Percent of Annual GDP		Date of Implementation
	General govt.	Federal govt.	
	(Rub trillion)		
<u>Energy Taxes</u>			
10. Increase in the gasoline tax to 20 percent	--	-- (0.2)	September 1
11. Introduction of per ton tax on oil of US\$10-12	0.5	0.5 (3.7)	May 1
12. Collection of existing excise on natural gas	0.2	0.2 (1.6)	April 15
<u>Tariffs</u>			
13. Repeal of tariff exemptions	0.3	0.3 (2.5)	April 1
<u>Other</u>			
14. Increased privatization revenues	0.5	0.2 (1.5)	Ongoing activity
15. Improved tax administration via increased penalties for noncompliance	1.0	0.5 (3.7)	May 1 <u>1/</u>
Total	4.1	2.4 (18)	

1/ Decision is required by the State Duma.

Russian Federation: Fund Relations
(As of March 31, 1994)

- I. Membership Status: Joined 6/01/92; Article XIV
- II. General Resources Account:
- | | <u>SDR Million</u> | <u>% Quota</u> |
|---------------------------|--------------------|----------------|
| Quota | 4,313.10 | 100.0 |
| Fund holdings of currency | 6,109.67 | 141.7 |
| Reserve position in Fund | 1.01 | .0 |
- III. SDR Department:
- | | <u>SDR Million</u> | <u>% Allocation</u> |
|----------|--------------------|---------------------|
| Holdings | 1.29 | N/A |
- IV. Outstanding Purchases and Loans:
- | | <u>SDR Million</u> | <u>% Quota</u> |
|----------------------------------|--------------------|----------------|
| Stand-by arrangements | 719.00 | 16.7 |
| Systemic transformation facility | 1,078.28 | 25.0 |
- V. Financial Arrangements:
- | | <u>Approval</u>
<u>Date</u> | <u>Expira-
tion</u>
<u>Date</u> | <u>Amount</u>
<u>Approved</u>
<u>(SDR Million)</u> | <u>Amount</u>
<u>Drawn</u>
<u>(SDR Million)</u> |
|-------------------------|--------------------------------|--|--|---|
| <u>Type</u>
Stand-by | 8/05/92 | 1/04/93 | 719.00 | 719.00 |
- VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):
- | | <u>Overdue</u>
<u>3/31/94</u> | <u>Forthcoming</u> | | | | |
|------------------|----------------------------------|--------------------|-------------|-------------|-------------|-------------|
| | | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> | <u>1998</u> |
| Principal | | | | 359.5 | 359.5 | 179.7 |
| Charges/interest | | 69.0 | 91.0 | 82.7 | 65.5 | 48.1 |
| Total | | 69.0 | 91.0 | 442.2 | 425.0 | 227.8 |
- VII. Exchange Rate Arrangement:
- The exchange rate of the ruble is determined in the interbank auction market. Russia maintains exchange restrictions in accordance with Article XIV.
- VIII. Article IV Consultations:
- a. Twelve-month consultation cycle, last consultation concluded on April 21, 1993.
- b. The following decision was taken by the Board on April 21, 1993.

(1) The Fund takes this decision in concluding the 1993 Article XIV consultation with the Russian Federation, in the light of the 1993 Article IV consultation with the Russian Federation conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

(2) The Russian Federation maintains restrictions on payments and transfers for current international transactions under Article XIV in the form of limitations on the transferability of certain balances by nonresidents and pending the settlement of balances under inoperative bilateral payments agreements with Fund members, as described in SM/93/75 and Supplement 1. The Fund encourages the Russian Federation to remove these restrictions as soon as its balance of payments permits.

IX. Technical Assistance:

Annex IV summarizes the technical assistance provided by the Fund to the Russian Federation since May 1, 1993. 1/

X. Resident Representatives:

Ms. K. Burke Dillon, Chief Economic Advisor, since May 5, 1993.

Mr. Jean Foglizzo, Senior Resident Representative, since November 3, 1991.

Mr. Augusto Lopez-Claros, Economic Representative, since April 20, 1992.

Mr. Siddharth Tiwari, Economic Representative, since April 19, 1993.

1/ See Annex III of EBS/93/91 for information on technical assistance provided prior to that date.

Russian Federation: Relations with the World Bank

The Russian Federation joined the IBRD and IDA (the latter as a Part I member) on June 16, 1992. The first World Bank loan to Russia, a US\$600 million Rehabilitation Loan, was approved on August 6, 1992. This loan provides financing for critical imports needed in support of Russia's program of stabilization and structural reform. Recent developments include the following:

1. As of end-March 1994, a total of US\$500 million had been disbursed under the 1992 Rehabilitation Loan. Three other loans were approved in 1992-93: the Employment Services and Social Protection Project (US\$70 million), the Privatization Implementation Assistance Project (US\$90 million), and the Oil Sector Loan I (US\$610 million). A Highway Loan (US\$300 million) was approved in February 1994. However, no significant disbursements have yet been made under these loans.
2. The World Bank is preparing several other operations to support high-priority structural reforms. Over the coming months the World Bank is expected to present for Board consideration the Oil Sector Loan II, the Rehabilitation Loan II, a Private Enterprise Support Project, a Financial Institution Development Project, a Agriculture Reform Implementation Support Loan and a Land Reform Implementation Support Loan. Total lending commitments under these operations could total about US\$2 billion.

Fund Technical Assistance Missions: May 1993-March 1994

<u>Subject/Identified Need</u>	<u>Action</u>	<u>Timing</u>	<u>Counterpart</u>
<u>Fiscal Affairs Department (FAD)</u>			
Tax administration	Resident Advisor	February 1993 -	State Tax Service
Budget and treasury management	Mission	June 1993	Ministry of Finance
Treasury	Mission	July 1993	Ministry of Finance
Treasury	Resident Advisor	October/1993 -	Ministry of Finance
Treasury	Resident Advisor	September 1992 -	Ministry of Finance
Treasury	Peripatetic Advisor	August 1993 -	Ministry of Finance
Tax administration	Resident Advisor	January 1993 -	State Tax Service
Tax administration	Peripatetic Advisor	January 1994 -	State Tax Service
Social safety net	Mission	January 1994	Ministry of Finance; Pension Fund; Employment Fund
Tax administration	Mission	January 1994	State Tax Service
<u>IMF Institute (INS)</u>			
Training in financial programming and policies	Courses/seminars in Moscow, Vienna, and Washington	Ongoing	CBR

<u>Subject/Identified Need</u>	<u>Action</u>	<u>Timing</u>	<u>Counterpart</u>
<u>Monetary and Exchange Department (MAE)</u>			
Central Bank modernization, action plan for technical assistance (including coordination with other agencies on the Interstate Bank and domestic payments system), foreign exchange operations	Mission	April 1993	CBR
Monetary operations, monetary research and foreign exchange operations	Mission	May 1993	CBR
Accounting and payment issues	Mission	June 1993	CBR
Accounting and payment issues	Mission	September 1993	CBR
Monetary operations and public debt management	Mission	October/ November 1993	CBR
General banking	Resident Advisor	October 1993 -	CBR
Banking supervision	Resident Advisor	October 1993 -	CBR
	Coordination of technical assistance with BIS, OECD, EBRD, IBRD, EC, and central banks	Ongoing	CBR
EC In-house Training Program for the CBR	Missions, training	Ongoing since Nov. 1993	CBR
Payments system (Int. Steering Committee)	Mission	January 1994	CBR
Interstate Bank	Mission	January 1994	CBR

<u>Subject/Identified Need</u>	<u>Action</u>	<u>Timing</u>	<u>Counterpart</u>
<u>Statistics Department (STA)</u>			
Produce price index	Mission	April 1993	Goskomstat
Money and banking statistics	Mission	April/May 1993	CBR
Balance of payments	Mission	June/July 1993	Goskomstat
Government finance statistics	Mission	June/July 1993	Ministry of Finance
Balance of Payments	Mission	October 1993	Goskomstat
Joint IMF/CIS Seminar on Financial Statistics	Seminar	December 1993	Goskomstat/CIS
Multitopic	Resident advisor	December 1993/ December 1994	CBR
Producer prices	Mission	January 1994	Goskomstat
Balance of payments	Mission/Seminar	February 1994	Goskomstat, CBR
Money and Banking	Mission	March 1994	CBR
National Accounts	Mission	March 1994	Goskomstat

Table 1. Russian Federation: Basic Data, 1991-94

(Percentage change over the corresponding period
in previous year, unless otherwise specified)

	1991	1992	Est. 1993	Proj. 1994
Real GDP <u>1/</u>	-13	-19	-12	-10
Real gross industrial output	-8.2	-18.4	-16.4	...
Output of oil	-10.5	-13.5	-11.5	-7.6
Output of natural gas	0.4	-0.4	-3.6	-2.2
Consumer prices (RPI/CPI)				
Average	93	1,353	896	399
Within-period	144	2,322	841	268
Average monthly wage (level, in rubles)	552	6,127	58,285	272,526
End-of-period monthly wage (level, in rubles)	1,195	16,071	141,218	505,347
Minimum monthly wage (level, in rubles)	130	668	6,075	...
Registered unemployed (End-of-period level, in percent of the labor force)	0.1	0.8	1.1	...
General government deficit (on a cash basis, in percent of GDP) <u>2/</u>	-16.0	-6.3	-5.7	-6.5
Enlarged government sector deficit <u>3/</u> (on a cash basis, in percent of GDP)	...	-18.2	-8.0	-6.5
Net domestic assets of the monetary authorities (end-of-period) <u>4/5/</u>	...	552	346	263
Ruble broad money velocity <u>6/</u>	1.3	2.8	4.8	6.2
Balance of payments (excluding FSU transactions)				
Exports (in billions of U.S. dollars)	53.2	41.6	43.9	41.4
Oil, including oil products	11.0	12.7	11.6	9.7
Natural gas	10.3	7.5	6.7	6.0
Exports (Volume change, in percent)				
Energy exports	-15.3	-4.6	18.5	-3.1
Non-energy exports	...	...	15.0	-3.2
Imports (in billions of U.S. dollars)	44.5	37.2	33.1	41.7
Imports (Volume change, in percent)	...	...	-14.0	23.6
Trade balance (in billions of U.S. dollars)	7.8	4.4	10.8	-0.3
Current account balance (billions of U.S. dollars)	3.2	-5.7	2.7	-12.0
Total scheduled debt service				
In billions of U.S. dollars <u>7/</u>	7.7	14.4	19.2	21.3
In percent of merchandise exports <u>7/</u>	14.7	34.7	43.6	51.5
Arrears (in billions of U.S. dollars; - = decrease)	0.2	6.9	-3.8	...

Sources: Russian authorities; and Fund staff estimates.

1/ Seasonally adjusted.

2/ Includes the federal and local governments and the extrabudgetary funds.

3/ Includes the general government and unbudgeted import subsidies associated with foreign disbursements.

4/ Defined to include the Central Bank of Russia (CBR) and the Government.

5/ In relation to the monetary base, at the beginning of the period.

6/ Nominal GDP divided by the end-of-period stock of ruble broad money.

7/ In 1991, this represents Russia's 61 percent share of the debt service of the former-USSR.

Table 2. Russian Federation: Monetary Authorities' Accounts, 1991-94 ^{1/}

(End of period, in billions of rubles)

	1991 Dec.	1992 Dec.	1993				1994 Jan.
			Mar.	June	Sept.	Dec.	
Net international reserves	221	1,249	2,811	6,407	7,582	7,958	8,229
Gold ^{2/}	280	1,069	1,765	2,910	3,433	3,814	4,750
Net government foreign exchange	--	73	351	1,086	-1,216	-1,460	-1,352
Net CBR foreign exchange	2	326	801	2,500	5,433	5,643	4,878
Official short-term liabilities	-61	-219	-105	-89	-68	-39	-48
Net domestic assets ^{3/}	-30	983	730	255	3,155	8,703	8,735
Net credit to enlarged government	463	1,693	1,709	687	6,227	11,673	13,728
Net credit to federal government	...	2,864	3,818	3,648	7,701	12,694	15,532
Net credit to local government	-24	-257	-531	-565	-1,033	-844	-1,052
Net claims on extrabudgetary funds	...	-360	-664	-828	-904	-914	-1,132
Ruble counterpart of the stock of government NIR ^{4/}	--	-474	-914	-1,568	463	737	380
CBR net credit to banks	-27	312	728	2,188	3,312	2,688	4,027
CBR gross credit to banks	144	2,844	3,883	5,401	8,025	8,744	8,788
CBR gross liabilities to banks ^{5/}	171	2,532	3,155	3,213	4,712	6,056	4,761
Interstate loans	--	906	1,702	2,021	2,616	2,403	2,410
Other items (net)	-465	-1,928	-3,409	-4,641	-9,000	-8,061	-11,430
Monetary base	191	2,232	3,541	6,662	10,737	16,661	16,964
Currency outside CBR	179	1,760	2,810	5,435	8,842	13,952	13,819
Minimum reserves	12	472	731	1,227	1,895	2,710	3,145

Source: Central Bank of Russia.

^{1/} Net international reserves are valued at an accounting exchange rate of rub 100 per U.S. dollar for December 1991, and thereafter at end-period rates quoted on the Moscow Interbank Foreign Exchange Market. The definitions used after March 1992 differ from those used for December 1991, and, hence, other items (net) is not directly comparable. The information after December 1993 is provisional.

^{2/} Official gold is valued at US\$300 per troy ounce. Includes holdings of the Central Bank of Russia and the Government.

^{3/} Of monetary authorities (the Central Bank of Russia and the Government).

^{4/} Includes the ruble equivalent of the sale of the STF, but excludes changes in the value of the stock of foreign exchange holdings due to changes in the exchange rate.

^{5/} Excluding legal reserves.

Table 3. Russian Federation: Monetary Survey, 1991-94 ^{1/}

(End of period, in billions of rubles)

	1991	1992	1993				1994
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.
Net foreign assets ^{2/}	413	5,044	9,364	17,040	20,082	19,483	22,536
Net international reserves	221	1,249	2,811	6,407	7,582	7,958	8,229
Gold ^{3/}	280	1,069	1,765	2,910	3,433	3,814	4,750
Net government foreign exchange	--	73	351	1,086	-1,216	-1,460	-1,352
Net CBR foreign exchange	2	326	801	2,500	5,433	5,643	4,878
Official short-term liabilities	-61	-219	-105	-89	-68	-39	-48
Net banking system foreign exchange	193	3,795	6,552	10,633	12,500	11,525	14,307
Net domestic credit	724	5,966	7,558	11,534	19,411	32,637	34,079
Net claims on enlarged government	140	1,227	581	-955	3,512	9,410	11,256
Net claims on federal government	...	2,577	3,293	3,049	6,456	12,020	14,931
Net claims on local government	-37	-399	-965	-1,242	-2,030	-1,763	-2,038
Net claims on extrabudgetary funds	...	-477	-833	-1,161	-1,413	-1,585	-2,017
Ruble counterpart of the stock of government NIR ^{4/}	--	-474	-914	-1,568	463	737	380
Claims on rest of the economy	755	6,922	10,789	17,483	26,895	38,185	40,175
Ruble credit	594	6,121	9,299	14,816	23,042	31,060	31,043
Foreign exchange credit ^{2/}	161	802	1,490	2,666	3,854	7,125	9,132
Banking system interstate net credit ^{5/}	--	886	1,625	1,826	2,101	2,132	2,055
Other items (net)	-101	-3,069	-5,437	-6,821	-13,097	-17,090	-19,407
Money	1,207	11,010	16,922	28,573	39,493	52,120	56,614
Currency outside banks	173	1,678	2,559	5,113	8,409	13,304	12,991
Currency issue	179	1,785	2,838	5,493	8,939	14,097	13,974
Less: currency in bank vaults	-6	-106	-279	-381	-530	-793	-984
Ruble deposits	831	4,794	6,692	11,407	14,952	20,537	19,543
Foreign exchange deposits ^{2/}	203	4,538	7,671	12,053	16,132	18,278	24,080

Source: Central Bank of Russia.

^{1/} Provisional consolidation of the CBR, commercial banks, Sberbank, Gosbank U.S.S.R., and the VEB, excluding VEB's foreign and union operations. The definitions used after March 1992 differ from those used for December 1991, and, hence, other items net is not directly comparable.

^{2/} Net foreign assets, foreign exchange credit, and deposits are valued at rub 100 per U.S. dollar in December 1991, and thereafter on the basis of end-period exchange rates quoted on the Moscow Interbank Currency Exchange Market. The information after December 1993 is provisional.

^{3/} Official gold valued at US\$300 per troy ounce. Includes holdings of the Central Bank of Russia and the Government.

^{4/} Includes the ruble equivalent of the sale of the STF, but excludes changes in the value of the stock of foreign exchange holdings due to changes in the exchange rate.

^{5/} Comprises CBR interstate loans and net claims of the banking system on other FSU states. Commercial bank data reflect only movements in ruble correspondent accounts. Other interstate transactions may not be included.

Table 4. Russian Federation: Monetary Projections
(In billions of rubles)

	End-Period Stocks							
	1993				1994			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
I. Monetary Authorities								
NIR 1/	2,811	6,407	7,582	7,958	8,012	9,829	16,588	24,893
NDA	730	255	3,155	8,704	13,309	19,801	26,003	34,921
Net credit to Government	1,708	687	6,227	11,673	18,919	28,288	38,919	51,632
CBR net credit to Government	2,622	2,255	5,764	10,936	...	...	...	...
Ruble counterpart to NIR	-914	-1,568	463	737	...	...	...	...
Net credit to banks	728	2,188	3,313	2,688	5,088	7,261	10,877	16,807
Gross credit to banks	3,883	5,401	8,025	8,744	10,544	14,653	20,546	27,845
Liabilities to banks (excluding minimum reserves)	3,155	3,213	4,712	6,056	5,456	7,392	9,669	11,038
Interstate official loans	1,702	2,021	2,616	2,403	2,400	2,400	2,400	2,400
Other net unclassified	-3,408	-4,641	-9,001	-8,061	-13,098	-18,140	-26,193	-35,918
Base money	3,541	6,662	10,737	16,662	21,321	29,630	42,590	59,813
Currency	2,810	5,435	8,842	13,952	...	...	...	...
Required reserves	731	1,227	1,895	2,710	...	...	...	...
II. Monetary Survey								
Net foreign assets	9,364	17,040	20,082	19,483	25,193	33,553	48,334	64,004
NIR	2,811	6,407	7,582	7,958	8,012	9,829	16,588	24,893
Other (counterpart of foreign exchange deposits)	6,553	10,633	12,500	11,525	17,181	23,724	31,746	39,112
Net domestic credit	7,558	11,533	19,411	32,638	45,361	64,254	88,520	117,718
Net claims on enlarged government	580	-955	3,512	9,410	15,456	23,975	33,856	45,419
Claims on rest of the economy	10,789	17,483	26,895	38,185	49,899	65,323	87,753	115,114
Banking system interstate net credit 2/	1,625	1,826	2,101	2,132	2,132	2,132	2,132	2,132
Other items net	-5,436	-6,821	-13,097	-17,089	-22,127	-27,177	-35,222	-44,947
Liabilities to nongovernment	16,922	28,573	39,493	52,121	70,554	97,807	136,853	181,722
Ruble broad money	9,251	16,520	23,361	33,843	43,305	60,181	86,505	119,691
Currency	2,559	5,113	8,409	13,304	...	...	...	...
Quasi-money	6,692	11,407	14,952	20,539	...	...	...	...
Foreign exchange deposits	7,671	12,053	16,132	18,278	27,248	37,626	50,349	62,031
Memorandum items:								
Monthly GDP annualized	77,484	118,872	241,812	343,716	478,524	680,040	1,012,104	1,256,760
Average monthly inflation (in percent)	25	19	25	15	13	14	11	8
End-period exchange rate	684	1,060	1,169	1,247	1,859	2,567	3,435	4,232
Ruble money velocity	8	7	10	10	11	11	12	11
Ruble money multiplier	3	2	2	2	2	2	2	2
Banks' legal reserves (in percent of quasi-money)	11	11	13	13	...	...	...	...
Change in NIR (in billions of U.S. dollars)	1.5	2.4	1.1	0.7	-2.1	-0.5	1.0	1.1
CBR	1.1	1.9	0.4	-0.1	-2.1	-0.5	1.0	1.1
Rest of banking system	0.4	0.5	0.7	0.8	0.0	0.0	0.0	0.0

Sources: Central Bank of Russia; and Fund staff estimates.

1/ The stocks of NDA shown here differ from those in Annex I because in this table NIR are valued at the current exchange rate.

2/ Commercial bank data reflects only movements in ruble correspondent accounts. Some other interstate transactions may not be included.

Table 5. Russian Federation: Balance of Payments (excluding FSU Transactions), 1992-94

(In billions of U.S. dollars)

	1992	1993 ^{1/} Est.	1994 ^{2/} Proj.
Current account	-5.7	2.7	-12.0
Trade balance	4.4	10.8	-0.3
Exports ^{3/}	41.6	43.9	41.4
Oil	12.7	11.6	9.7
Natural gas ^{4/}	7.5	6.7	6.0
Gold	1.1	1.0	0.7
Other	20.3	24.6	25.0
Of which: Adjustment ^{5/}	...	2.2	...
Imports ^{6/}	-37.2	-33.1	-41.7
Grain, food, and medicine	-8.3	-3.0	-3.7
Machinery and equipment	-16.2	-8.2	-11.4
Humanitarian imports	-1.9	-1.0	-1.0
Other	-10.8	-21.0	-25.6
Of which: Adjustment ^{5/}	--	-6.0	--
Services (net)	-10.1	-8.1	-11.7
Nonfactor services (net)	-5.5	-3.8	-5.8
Transportation and insurance	-1.7	-0.9	-2.0
Travel and tourism	-0.4	-0.1	-0.4
Other	-3.4	-2.7	-3.3
Interest (net)	-4.6	-4.3	-6.0
Receipts	0.9	0.7	0.7
Payments	-5.5	-5.1	-6.7
Capital account	-0.6	-10.0	-13.0
Grants (net) ^{7/}	3.0	2.6	-0.2
Medium and long-term capital	3.3	-9.0	-15.6
Disbursements	12.8	5.8	...
Amortization	-8.9	-14.1	-14.6
Other	-0.6	-0.7	-1.0
Commercial banks (net)	-6.4	-0.1	--
Currency operations (net) ^{8/}	...	-2.7	--
Purchases of foreign currency	...	-5.7	--
Counterpart of "private" imports ^{9/}	...	3.0	--
Other short-term	-1.4	-2.6	1.7
Of which: trade credits	...	-1.7	1.7
Other long-term flows	0.7	0.9	0.7
Of which: direct investment (net)	0.7	0.7	0.7
Monetization of gold	0.2	0.9	0.4
Errors and omissions ^{10/}	-7.0	-7.8	--
Overall balance	-13.3	-15.1	-25.0
Financing	13.3	15.1	25.0
Net official international reserves	-0.8	-3.4	0.5
Assets	-1.7	-4.4	-1
Liabilities	0.9	1.0	1.5
Fund purchases	1.0	1.5	1.5
Other	-0.1	-0.5	--
FSU convertible currency payments ^{11/}	...	0.4	1.5
Arrears	6.9	-3.8	-11.4
Deferral of pre-cutoff principal	7.2	6.0	...
April 1993 rescheduling	...	12.4	...
Amounts unpaid pending rescheduling	...	3.4	...
Other financing ^{12/}	--	--	34.4

Sources: Goskomstat, Ministry of Finance, MFER, Central Bank of Russia; and Fund staff estimates.

^{1/} Preliminary estimates.

^{2/} Projections under the program scenario.

^{3/} Excludes trade with the Baltic states.

^{4/} Includes a valuation adjustments associated with the Yamburg agreement.

^{5/} For 1994, the adjustment is included in the projection for "other".

^{6/} Excludes trade with the Baltic states, and includes a cif/fob adjustment factor.

^{7/} Includes Russia's foreign assistance to developing countries.

^{8/} Consists of foreign currency banknotes purchased through Russian commercial banks; other movements of cash would be reflected in errors and omissions. On the basis of national income data, the Russian authorities have estimated a net currency inflow of about US\$2.5-US\$3.0 billion by households.

^{9/} Estimate of imports that are paid for in cash by individuals.

^{10/} For 1993, the Russian authorities estimate that a difference in valuation of barter exports and imports of about US\$1 billion is reflected in errors and omissions.

^{11/} Use of convertible currency proceeds arising from payments between Russia and other FSU states.

^{12/} Residual financing requirement for 1994 before grants, loans, and debt relief.

Table 6. Russian Federation: Balance of Payments with FSU States, 1992-94

(In billions of dollars)

	<u>1992</u> Est.	<u>1993</u> Est.	<u>1994</u> Proj.
Current account	1.5	4.0	4.0
Trade balance	1.5	5.0	4.8
Exports	10.8	15.4	18.2
Baltics	...	0.6	0.6
CIS	...	14.9	17.7
Oil	2.0	2.9	3.8 ^{1/}
Natural gas	1.0	2.9	4.8
Other	7.8	9.1	9.1
Imports	-9.3	-10.4	-13.5
Baltics	...	-0.1	-0.1
CIS	...	-10.3	-13.4
Oil	-0.2	-0.6	-0.9
Natural gas	--	-0.1	-0.3
Other	-9.2	-9.6	-12.2
Services, net	...	-1.0	-0.8
Transport and insurance	...	-0.9	-0.9
Interest	...	...	0.2
Other	...	-0.1	-0.1
Capital Account	...	-7.3	-0.1
Medium- and long-term capital	--	-5.6	0.3
State credits	--	-0.4	-0.2
Rescheduling of CBR claims and arrears	--	-5.2	--
Amortization	--	--	0.5
Commercial Banks	...	0.8 ^{2/}	--
Foreign direct investment	...	...	-1.3
Interstate interenterprise arrears ^{3/}	...	-2.5	0.9
Errors and omissions	3.1	0.3	...
Overall balance	4.6	-3.0	3.9
Financing	-4.6	3.0	-3.9
Bilateral central bank accounts	-4.6	0.2	--
Conversion adjustment	--	3.3 ^{4/}	--
Payments in convertible currencies ^{5/}	...	-0.4	-1.5
Debt service deferral on Russian claims	--	--	-0.1
Unidentified financing	--	--	-2.3

Sources: Russian authorities; and Fund staff estimates and projections.

^{1/} The projected value is based on a volume of exports of 42.7 million tons. The Russian authorities expect to sell 50.2 million tons.

^{2/} Includes some other interstate transactions in addition to the ruble correspondent accounts.

^{3/} There are some indications that a significant part of the interenterprise arrears rescheduled in 1993 (Rub 439 billion) accrued in 1992.

^{4/} It reflects the discrepancies resulting from the conversion of the rescheduled credits at negotiated exchange rates instead of the market exchange rate current at the time of the rescheduling.

^{5/} It is assumed that convertible currency payments are not already reflected in commercial bank balances.

Table 7. Russian Federation: Performance Under the STF, 1993

		Period ending:		
		June	Sept.	Dec.
(Cumulative flows in billions of rubles from end-March)				
Ruble broad money	Actual	7,868 ^{1/}	17,445	28,210
	STF projection	4,579		
Net domestic assets of the monetary authorities ^{3/}	Actual	1,317	7,002	13,036 ^{2/}
	STF indicative limit	2,761	6,203	9,633
Total domestic credit of the monetary authorities ^{3/}	Actual	1,763	10,843	17,117 ^{2/}
	STF target	2,891	6,931	10,545
Net credit to enlarged government by the monetary authorities ^{4/}	Actual	-211	5,489	11,203
	STF projection	1,175	3,315	5,629
Net credit to enlarged government by the monetary authorities ^{4/}	Actual	-211	5,489	11,203
Of which: CBR credit	Actual	443	4,112	9,552
Counterpart of net sales of NIR	Actual	-654	1,377	1,651 ^{2/}
Gross credit to banks	Actual	1,653	4,440	5,212
	STF projection	1,500	3,400	4,700
Interstate loans	Actual	319	914	702
	STF projection	216	216	216
(In percent per month)				
Consumer price inflation ^{5/}	Actual	19	24	16
	STF objective	17	11	8
(Cumulative flows from end-1992)				
Enlarged government deficit	Actual	1,156	8,486	19,056 ^{2/}
	STF target	3,278	7,104	10,141
Domestic banking system	Actual	-676	4,574	11,669 ^{2/}
Net credit to the enlarged government	STF target	1,374	3,720	6,289
(End-period stocks in millions of U.S. dollar)				
Net international reserves of the monetary authorities ^{3/}	Actual	6,044	6,486	6,382 ^{2/}
	STF target	4,386	3,386	2,386
Gross international reserves of the monetary authorities ^{3/}	Actual	7,137	9,093	8,882 ^{2/}
	STF target	5,783	6,382	6,783

Sources: Russian authorities; and Fund staff calculations.

^{1/} Includes an additional Rub 2 trillion of ruble deposits that was omitted from the end-June balance sheet due to a compilation problem.

^{2/} Preliminary estimates.

^{3/} Monetary authorities are defined to include the Central Bank of Russia and the Ministry of Finance.

^{4/} Includes net credit extended to the enlarged government directly by the Central Bank of Russia plus the ruble counterpart of the use (or less in case of an accumulation) of gold and foreign exchange by the Ministry of Finance.

^{5/} Average monthly change in the three months preceding the month indicated.

^{6/} Cash deficit of the general government plus unbudgeted import subsidies.

Table 8. Russian Federation: Summary Indicators of Money and Credit, 1993

		Q2	Q3	Q4
Consumer prices	Actual	68	90	56
	STF program	59	37	25
Base money <u>1/</u>	Actual	47	64	38
	STF program	44	27	21
Net international reserves (NIR) <u>2/3/</u>	Actual	27	4	-1
	STF program	1	-10	-8
Net domestic assets of the monetary authorities <u>2/3/4/</u>	Actual	20	59	39
	STF program	43	37	29
Total domestic credit <u>2/</u>	Actual	27	95	40
	STF program	45	43	31
Ruble M2 velocity <u>5/</u>	Actual	6.6	8.8	9.0
	STF program	6.4	7.3	6.4

Sources: Russian authorities; and Fund staff calculations.

1/ Defined as the sum of currency issued and commercial bank reserves.

2/ Changes in relation to monetary base at the beginning of the period.

3/ Calculated using a constant accounting exchange rate of Rub 900 per U.S. dollar.

4/ Net domestic assets are defined as the difference between base money and NIR.

5/ Calculated by dividing the annualized GDP in the last month of the period indicated by the end-period stock of ruble broad money.

Table 9. Russian Federation: Program Supported by the STF--Status of Implementation as of March 31, 1994

Description of Measures	Implementation Status
<u>Monetary policy</u>	
1. By July 5, 1993, moving the CBR finance rate to within seven percentage points of the interbank rate.	Implemented.
2. Total credit expansion by the CBR to be subject to quarterly ceilings consistent with the authorities' inflation objective, beginning in the second quarter of 1993.	Not implemented.
3. Authorization of directed subsidized credits, whether by the Government or the CBR, to be limited so as to be consistent with the program's credit targets.	Not implemented.
4. The Government and the CBR to phase out all directed central bank credits, provide subsidies only from the budget, and rely on market mechanisms in the conduct of monetary policy.	Not implemented.
5. The CBR to substantially increase the proportion of credit it extends to commercial banks through credit auctions and other market-related mechanisms.	Not implemented.
<u>External policy</u>	
1. Expansion of access of nonresidents to foreign exchange market, for sales by July 15, 1993 and for purchases by September 1, 1993.	Implemented.
2. Establishment by September 1, 1993 of a mechanism to monitor foreign disbursements and the collection of counterpart funds.	Partially implemented.
3. Increase by September 1, 1993 of export quotas by 20 percent for nonenergy products and 10 percent for energy products.	Not implemented as envisaged.

Table 9. Russian Federation: Program Supported by the STF--Status of Implementation as of March 31, 1994 (concluded)

Description of Measures	Implementation Status
4. Elimination of all export quotas by end-1993 except for those applying to oil, gas, and certain oil products.	Not implemented.
<u>Fiscal policy</u>	
1. Across-the-board expenditure cuts amounting to Rub 4.2 trillion.	Not implemented.
2. Reduction in subsidies to the coal sector of Rub 1 trillion in July 1993.	Not implemented.
3. Increase in revenue from excise taxes on natural gas and oil with an estimated yield of Rub 0.6 trillion to be implemented in July 1993.	Implemented, but no revenue was collected on the tax on gas, and much less than expected was collected on oil.
4. Reduction in subsidies to grain producers by Rub 0.5 trillion on June 15, 1993.	Not implemented.
5. Cut by 40 percent in the average rate of import subsidy by July 1, 1993.	Implemented.
6. Avoidance of new tax exemptions.	Unclear.

Table 10. Russian Federation: Summary Fiscal Table, 1993-94

	1993 Prel.	1994 MoF	Program 1994				
			Q1	Q2	Q3	Q4	Year
(In trillions of rubles)							
I. Enlarged government balance (II+III-IV) <u>1/</u>	-13	-32	-7	-11	-13	-17	-48
Revenues <u>2/</u>	...	269	32	58	88	113	291
Expenditures	...	302	39	69	101	130	340
II. Consolidated state balance <u>1/</u>	-10	-46	-8	-13	-15	-21	-56
Revenues	46	202	24	46	71	90	230
Expenditures <u>1/</u>	57	248	32	59	85	111	287
a. Federal government balance <u>3/</u>	-11	-51	-8	-13	-14	-19	-54
Revenues	22	114	13	27	40	51	131
Expenditures	33	165	21	39	55	70	185
Of which:							
Transfers to local governments	4	18	3	4	5	6	18
Transfers to the Pension Fund	0	0	1	1	1	1	2
b. Local government balance <u>3/</u>	1	5	0	-0	-0	-2	-2
Revenues (includes federal transfers)	29	106	13	24	35	45	117
Expenditures	28	101	13	24	36	47	120
III. Extrabudgetary funds balance <u>3/</u>	1	14	1	2	2	4	8
Revenues (includes federal transfers)	...	67	9	13	18	23	63
Expenditures	...	54	8	11	16	20	55
IV. Unbudgeted import subsidies	4	0	0	0	0	0	0
(In percent of GDP)							
I. Enlarged government balance (II+III-IV) <u>1/</u>	-8.0	-4.4	-7.3	-7.4	-5.8	-6.2	-6.5
Revenues <u>2/</u>	...	37.2	32.6	38.8	40.3	40.6	39.1
Expenditures	...	41.7	39.8	46.2	46.2	46.8	45.5
II. Consolidated state balance <u>1/</u>	-6.2	-6.4	-8.1	-8.6	-6.7	-7.5	-7.5
Revenues	28.6	27.9	23.8	30.8	32.3	32.4	30.9
Expenditures <u>1/</u>	34.8	34.2	31.9	39.4	39.0	39.9	38.4
a. Federal government balance <u>3/</u>	-6.7	-7.1	-8.1	-8.5	-6.5	-6.7	-7.2
Revenues	13.7	15.7	13.3	17.7	18.4	18.5	17.6
Expenditures	20.3	22.8	21.4	26.2	24.9	25.2	24.8
b. Local government balance <u>3/</u>	0.6	0.7	0.1	-0.1	-0.1	-0.8	-0.3
Revenues (includes federal transfers)	17.6	14.7	13.4	15.8	16.2	16.1	15.7
Expenditures	17.0	13.9	13.3	15.9	16.3	16.9	16.0
III. Extrabudgetary funds balance <u>3/</u>	0.6	1.9	0.8	1.1	0.8	1.3	1.1
IV. Unbudgeted import subsidies	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
GDP (trillions of rubles)	162	725	99	150	219	277	746

Sources: Ministry of Finance, extrabudgetary funds; and Fund staff calculations.

1/ Includes float and statistical discrepancy in 1993.

2/ Transfers to the Pension Fund excluded.

3/ Unconsolidated revenues and expenditures (inclusive of transfers).

Table 11. Russian Federation: Financing of the Enlarged Government Sector, 1993-1994

	1993	1994				
		Q1	Q2	Q3	Q4	Year
<u>(In trillions of rubles)</u>						
Total financing of the enlarged government balance	13.0	7.2	11.2	12.8	17.1	48.3
Domestic financing	8.8	5.4	8.7	9.3	12.6	36.0
Domestic bank financing	8.2	6.2	9.5	10.2	13.5	39.4
Monetary authorities net credit to the Government	10.0	7.2	9.4	10.6	12.7	40.0
Net credit from CBR	8.8	...	...	...	...	...
Ruble counterpart of the Government's net use of NIR	1.2	...	...	...	...	...
Of which: gold	-0.1	...	...	...	...	...
Net credit from the rest of the banking system	-1.8	-1.0	0.1	-0.5	0.8	-0.5
Net credit from commercial banks	-2.0	-1.0	-1.0	-1.0	-1.0	-4.0
Securities held by commercial banks	0.2	0.0	1.2	0.5	1.8	3.5
Treasury bills (net proceeds)	0.2	0.0	0.0	0.5	2.0	2.5
Gold backed securities (net proceeds)	0.0	0.0	0.0	0.0	-0.2	-0.2
Bills of exchange	0.0	0.0	1.2	0.0	0.0	1.2
Domestic nonbank financing	0.7	-0.9	-0.9	-0.9	-0.9	-3.5
Proceeds from privatization	0.3	0.1	0.1	0.1	0.1	0.5
Net proceeds from sales of gold and precious metals	0.8	0.1	0.1	0.1	0.1	0.5
Total sales	3.2	1.6	1.6	1.6	1.6	6.4
Gross domestic sales	1.2	1.6	1.6	1.6	1.6	6.4
Gross external sales	2.2	0.0	0.0	0.0	0.0	0.0
Less proceeds of gold sales accounted for above	-0.1	...	...	...	...	0.0
Total gross expenditures	2.4	1.5	1.5	1.5	1.5	5.9
Securities held by the nonbank sector	0.0	0.0	0.0	0.0	0.0	0.0
Domestic principal repayment to nonbanks	-0.4	-1.1	-1.1	-1.1	-1.1	-4.5
Net foreign financing	4.2	1.8	2.5	3.5	4.4	12.3
Foreign disbursements	4.5	2.7	3.8	5.1	6.6	18.2
Tied credit	4.0	2.1	2.9	4.0	5.1	14.2
Untied credit	0.6	0.6	0.8	1.1	1.4	4.0
Principal repayment, cash	-0.3	-0.9	-1.2	-1.7	-2.1	-5.9
<u>(In percent of GDP)</u>						
Total financing	8.0	7.3	7.5	5.8	6.2	6.5
Domestic	5.4	5.4	5.8	4.2	4.6	4.8
Of which: monetary authorities	6.1	7.3	6.3	4.9	4.6	5.4
Net foreign	2.6	1.9	1.7	1.6	1.6	1.7
Memorandum item:						
GDP (trillions of rubles)	162	99	150	219	277	746

Sources: Ministry of Finance, CBR; and Fund staff calculations.

Table 12. Russian Federation: Revenue Projections, 1994

1994: Program											
1993 2/	Consolidated Budget:						Of which:		1994: MOF Draft Budget		
	Federal and Local						Federal	Local3/	Of which:		
	Q1	Q2	Q3	Q4	Year	Total			Federal4/	Local3/	
(In trillions of rubles)											
Total	46	23.6	46.2	70.7	89.7	230.2	131.1	99.1	202	114	88
Federal	...	13.2	26.6	40.2	51.2	131.1					
Local	...	10.4	19.6	30.6	38.5	99.1					
VAT	11	6	10	16	20	53	40	12	...	45	...
Excise taxes	2	1	2	4	4	11	7	4	...	10	...
Domestic taxes on energy	1	0	3	4	8	8	...	...	6	...	...
On oil		0	1	2	3	6	6	...	...	...	...
On natural gas		0	0	1	1	2	2	...	...	...	...
On gasoline 5/		0	0	0	0	1	1	...	...	...	...
Profit taxes	17	6	14	19	24	63	23	41	...	22	...
Income taxes	4	2	4	7	8	21	2	20	...	1	...
Taxes on natural resources	1	0	1	1	2	4	3	2	...	3	...
Foreign activity	6	3	5	7	9	25	24	0	...	21	...
Export tax on oil	3	1	1	1	1	3	3	...	...	...	...
Export tax on gas	...	1	1	1	2	5	5	...	...	...	...
Export duties	2	1	2	2	3	8	...	...	...	...	...
Import tariffs	1	0	2	2	3	7	7	...	...	...	...
Other	5	4	8	12	15	38	18	20	...	5	...
Contingency measure 6/	...	...	2	2	3	7	7				
(In percent of GDP)											
Total	28.5	23.8	30.8	32.3	32.4	30.9	17.6	13.3	27.9	15.7	12.2
Federal	...	13.3	17.7	18.3	18.5	17.6					
Local	...	10.4	13.1	14.0	13.9	13.3					
VAT	7.0	6.3	6.7	7.3	7.4	7.1	5.4	1.6	...	6.3	...
Excise taxes	0.9	1.0	1.2	1.6	1.6	1.4	0.9	0.5	...	1.3	...
Domestic taxes on energy	0.3	0.2	0.9	1.3	1.3	1.1	1.1	...	...	0.9	...
On oil	...	0.2	0.8	1.0	1.0	0.9	0.9	...	...	...	...
On natural gas	...	0.0	0.2	0.3	0.3	0.2	0.2	...	...	...	...
On gasoline 5/	...	0.1	0.1	0.1	0.1	0.1	0.1	...	...	...	...
Profit taxes	10.4	6.2	9.1	8.8	8.8	8.5	3.1	5.5	...	3.0	...
Income taxes	2.7	2.4	2.5	3.1	3.0	2.9	0.2	2.6	...	0.2	...
Taxes on natural resources	0.7	0.4	0.6	0.6	0.6	0.6	0.3	0.2	...	0.5	...
Foreign activity	3.4	3.2	3.5	3.3	3.2	3.3	3.2	0.1	...	2.9	...
Export tax on oil	1.5	0.5	0.5	0.4	0.4	0.4	0.4	...	...	...	...
Export tax on gas	0.0	0.9	0.7	0.6	0.6	0.7	0.7	...	...	...	...
Export duties	1.1	1.1	1.1	1.1	1.1	1.1	...	...	...	...	...
Import tariffs	0.6	0.5	1.1	1.1	1.1	1.0	1.0	...	...	...	...
Other	3.2	4.1	5.0	5.4	5.4	5.2	2.4	2.7	...	0.7	...
Contingency measures 6/	...	...	1.1	1.0	1.0	0.9	0.9	...			
Memorandum items:											
Exchange rate (rubles/US\$)	932	1,589	2,197	3,000	3,849	2,659			3,000		
Nominal GDP (trillions of rubles)	162	99	150	219	277	746			725		

Sources: Ministry of Finance; and Fund staff projections.

- 1/ It is not appropriate to compare nominal values of the IMF and MOF projections due to the difference in projected GDP.
2/ Preliminary.
3/ Excludes transfers from the federal government.
4/ Adjusted to exclude proceeds from the sale of gold and other precious metals.
5/ Includes Rub 419 billion estimate of the Ministry of Finance.
6/ If, as a result of the negotiations between the Russian Federation and its creditors, the amount of external debt service to be paid in 1994 turns out to be higher than budgeted, the Government will implement additional measures to keep the budget deficit within the targets agreed in the Statement of Economic Policies of April 8, 1994.

Table 13. Russian Federation: Consolidated State Government Expenditures, 1994

Functional expenditure categories	Program						Program		MoF Draft Budget		
	1993	1994					1994		1994		
	Year 1/	Q1	Q2	Q3	Q4	Year	Federal	Local	Federal	Local	Total
(In trillions of rubles)											
National economy	20	7	16	26	39	87	39	48	33	...	33
Subsidies and other	14	4	11	16	25	56	20	36	17	...	17
Conversion	1	0	0	0	1	2	2	...	1	...	1
State investment	5	2	5	10	13	30	17	12	16	...	16
Social-cultural	15	9	14	19	25	66	11	55	11	...	11
Science	1	1	1	1	1	4	4	0	4	...	4
Internal security	3	2	3	4	5	14	13	1	13	...	13
Administration	1	1	2	3	3	9	5	5	4	...	4
Reserve funds	0	0	0	0	0	0	0	...	0	...	0
Chernobyl	0	0	1	1	1	2	2	0	2	...	2
Northern territories	0	0	3	3	2	8	8	...	6	...	6
Defense	7	5	8	11	14	38	38	...	38	...	38
Domestic interest payments	0	0	1	1	1	2	2	...	2	...	2
Foreign	6	3	3	6	6	19	18	0	22	...	22
Of which: On-lending	0	2	2	4	4	11	11	...	13	...	13
External interest payments	0	2	3	4	5	14	14	...	6	...	6
Other	4	1	4	6	6	17	7	10	5	...	5
Provision for extraordinary allocations	...	0	1	1	3	5	5	...	...	...	...
Total	57	32	59	85	111	287	167	120	147	101	248
(In percent of GDP)											
National economy	12	7	10	12	14	12	5	6	5	...	5
Subsidies and other	9	4	7	7	9	8	3	5	2	...	2
Conversion	0	0	0	0	0	0	0	...	0	...	0
State investment	3	2	3	4	5	4	2	2	2	...	2
Social-cultural	9	9	9	9	9	9	2	7	2	...	2
Science	1	1	1	1	0	1	1	0	1	...	1
Internal security	2	2	2	2	2	2	2	0	2	...	2
Administration	1	1	1	1	1	1	1	1	1	...	1
Reserve funds	0	0	0	0	0	0	0	...	0	...	0
Chernobyl	0	0	0	0	0	0	0	0	0	...	0
Northern territories	0	0	2	2	1	1	1	...	1	...	1
Defense	4	5	6	5	5	5	5	...	5	...	5
Domestic interest payments	0	0	0	0	0	0	0	...	0	...	0
Foreign	4	3	2	3	2	3	2	0	3	...	3
Of which: On-lending	0	2	1	2	1	2	2	...	2	...	2
External interest payments	0	2	2	2	2	2	2	...	1	...	1
Other	3	1	3	3	2	2	1	1	1	...	1
Provision for extraordinary allocations	...	0	0	1	1	1	1	...	...	...	...
Total	35	32	39	39	40	38	22	16	20	14	34
GDP	162	99	150	219	277	746	746	746	725	725	725

Sources: Ministry of Finance; and Fund staff calculations.

1/ Excludes unbudgeted import subsidies.

Table 14. Russian Federation: Indicators of Fund Credit, 1992-98 ^{1/}

	1992	1993	1994	1995	1996	1997	1998
	<u>(In percent)</u>						
Outstanding Fund credit in relation to:							
Quota	16.7	41.8	67.5	67.8	59.5	51.2	44.9
Exports	2.4	5.7	9.6	8.4	6.6	5.1	4.2
Reserves	21.7	28.3	40.4	33.5	26.1	20.2	16.0
Total external debt	1.3	3.1	4.3	4.0	3.4	2.8	2.4
Fund charges and repurchases in relation to:							
Quota	--	0.8	1.6	2.1	10.3	9.9	7.4
Exports	--	0.1	0.2	0.3	1.1	1.0	0.7
Reserves	--	0.5	1.0	1.0	4.5	3.9	2.6
Total external debt	--	0.1	0.1	0.1	0.6	0.5	0.4
	<u>(In billions of U.S. dollars)</u>						
Fund purchases	1.0	1.5	1.5	--	--	--	--
Outstanding Fund credit	1.0	2.5	4.0	4.0	3.5	3.0	2.6
Total payments to the Fund	0.0	0.05	0.13	0.20	0.67	0.66	0.50
Repurchases	--	--	--	--	0.49	0.49	0.37
Charges	--	0.05	0.13	0.20	0.18	0.16	0.14
Memorandum item:							
SDR/US\$ exchange rate	1.41	1.39	1.37	1.36	1.36	1.36	1.36

Sources: Goskomstat, CBR, Ministry of Finance, VEB; and Fund staff estimates.

^{1/} End of year; assuming second purchase of SDR 1,078.275 million under the STF in May 1994.

