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CONFIDENTIAL

June 15, 1993

To: Members of the Executive Board

From: The Acting Secretary

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

Attached for consideration by the Executive Directors is a paper on a request expected to be received from the Russian Federation for a first purchase under the systemic transformation facility in an amount equivalent to SDR 1,078.275 million.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Donovan (ext. 37902), Mr. Berengaut (ext. 38773), or Mr. Valdivieso (ext. 34705) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

Use of Fund Resources--Request for 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

June 14, 1993

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

Monetary and credit policy

In line with our objectives for inflation, the expansion of total domestic credit of the Central Bank of Russia (CBR) will not exceed rub 2,890 billion from March 31 to June 30, 1993, rub 6,930 billion from March 31 to September 30, 1993, and rub 10,544 billion from March 31 to December 31, 1993. 1/ We believe that this will be consistent with expansion of net domestic assets of the CBR not exceeding rub 2,760 billion from March 31 to June 30, 1993, rub 6,202 billion from March 31 to September 30, 1993, and rub 9,362 billion from March 31 to December 31, 1993. 2/ A further deceleration in the growth of both total CBR credit and net domestic assets is envisaged during the first half of 1994.

Fiscal policy

a. The cash deficit of the enlarged government (defined to include the general government plus unbudgeted import subsidies) will be limited to rub 3,278 billion in the first half of 1993, to rub 7,104 billion in the first three quarters of 1993 and to rub 10,141 billion in the year 1993 as a whole. Consistent with the monetary and credit program specified above, the expansion of net bank credit to the government by the domestic banking system will not exceed rub 1,373 billion during the first half of 1993, rub 3,720 billion during the first three quarters of 1993 and rub 6,289 billion during the year 1993. It is expected that rub 650 billion of government securities will be sold on market terms during 1993, beginning May 18, 1993.

b. In order to attain the fiscal targets specified above, the following measures will be introduced:

- (i) across-the-board expenditure cuts amounting to rub 4.2 trillion, for 1993; effective immediately, spending will be constrained in line with these expenditure cuts;
- (ii) a reduction in subsidies to the coal sector of rub 1 trillion resulting from adjustments in the domestic price of coal in July 1993;
- (iii) an increase in revenue from excise taxes on natural gas and oil with an estimated yield of rub 0.6 trillion, to be implemented

1/ Total domestic credit of the Central Bank of Russia consists of net lending to the general government, gross credit to banks and net lending to other central banks in the former Soviet Union. Detailed definitions of the concepts used in this Technical Annex are provided in a memorandum of definitions.

2/ Net domestic assets include total domestic credit plus other items net. It can be calculated as the difference between the monetary base (currency plus bank reserves) and the net international reserves of the monetary authorities.

implementation of the bankruptcy law. The CBR intends to strengthen the supervision of financial institutions.

6. Interstate cooperation

a. The Government and CBR recognize the considerations causing other states of the former Soviet Union to introduce a separate currency, and they are ready to cooperate fully with them. The Government will seek to conclude agreements with those states which express the wish to use the Russian currency.

b. We have initiated negotiations with the other countries of the former Soviet Union on the terms and conditions that will apply to credits extended by Russia in 1992 and early 1993, and on the amounts and modalities of new intergovernmental loans extended by Russia to those countries. These loans will be extended only through the budget and will be considered official claims.

c. We intend to work with interested states to increase the effectiveness of payments mechanisms among the states of the former Soviet Union, including the creation of improved interstate clearing mechanisms.

7. Policy implementation and monitoring

The Russian Government will provide the staff of the International Monetary Fund with the information necessary to monitor compliance with the economic program to be supported by the use of Fund resources. In this connection, and in cooperation with the Fund staff, the Government and the Central Bank will develop a system of short-term indicators of financial and external developments. Steps are being taken to improve the Government's capacity to implement policies, including in particular strengthening the operational capacities of the Credit Policy Commission, making the Treasury fully operational, and developing cooperation with all extrabudgetary funds. Lastly, the Government will establish by September 1, 1993 a mechanism to monitor foreign disbursements and the collection of counterpart funds, and will establish for that purpose a working group with the participation of representatives of the IMF.

8. Stand-by arrangement

It is the intention of the Russian authorities to reach understandings with the IMF as soon as possible on an economic program that could be supported by a stand-by arrangement in the upper credit tranches.

May 22, 1993

/S/ V. Chernomyrdin

/S/ V. Gerashchenko

of foreign financing and the scope for issuing government securities on market terms.

b. The Government will introduce expenditure and revenue measures needed to ensure adherence to the overall deficit target and the limit on bank borrowing. These measures will include cuts in subsidies, in particular import subsidies and subsidized directed credits, and removal of tax exemptions. The Government also intends to increase revenue from taxation of energy products.

3. Exchange rate policy and international reserves

a. We regard the establishment of a market-based unified exchange system as a milestone in the transition to a market economy. Our ultimate objective is to achieve a stable exchange rate; in the meantime, the ruble will continue to float against other currencies until financial policies have been tightened and inflation has been substantially reduced. Until then, the CBR will not intervene in the foreign exchange market for the purpose of achieving a specific exchange rate target. We intend to strengthen Russia's international reserve position.

b. We intend to expand the access of nonresidents to foreign exchange markets in Russia. From July 15, 1993 nonresidents will be authorized to sell foreign exchange in the interbank market, and from September 1, 1993 they will be authorized to purchase foreign exchange.

c. The CBR intends to take further measures to foster the development of the foreign exchange market, including the support of regional currency exchanges and a transition to daily quotations of the exchange rate by the CBR.

4. Trade policy

The Government will take further steps toward trade liberalization. Export quotas for various products will be phased out according to specific calendars. The value of exports under the centralized export scheme will not be increased in 1993 and will be limited in 1994 to no more than one third of the level for 1993. During the program period, the Government does not intend to introduce or intensify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement or impose any new import restrictions for balance of payments reasons.

5. Structural change

The Government intends to complete its privatization program, develop a legal framework suitable for a market economy and to foster the development of financial markets and facilitate structural changes in the economy. In particular, the Government will seek approval of the new laws on joint stock companies and securities as well as of the new civil and commercial code, including the strengthening of the legal enforcement of contracts; it will seek removal of restrictions on land ownership; and it will begin prompt

Economic Policy Statement of the Government of Russia
and Central Bank of Russia

Objectives

Fiscal and monetary policies of the Government and Central Bank will aim at reducing the monthly rate of inflation to single digit levels by the end of 1993 and to achieve further progress toward price stability in 1994. Other policies, including those related to external trade, the exchange rate system and privatization, will aim at increasing the efficiency of the Russian economy, speeding up its integration into the world economy, and expanding the role of markets taking into account the federal structure of the state. The specific aspects of the policy measures contained in this statement are specified in the Technical Annex.

1. Monetary and credit policy

a. Total credit expansion by the Central Bank of Russia (CBR) will be subject to quarterly ceilings consistent with the authorities' inflation objectives, beginning in the second quarter of 1993.

b. Authorization of directed subsidized credits, whether by the Government or the CBR, will be limited so as to be consistent with the above mentioned credit targets. All requests for directed bank credits will be channeled through the Commission on Credit Policy.

c. The Russian Government and the CBR will phase out all directed central bank credits, provide subsidies only from the budget, and rely on market mechanisms in the conduct of monetary policy. To achieve this goal, the CBR will substantially increase the proportion of credit it extends to commercial banks through credit auctions or other market-related mechanisms. The CBR also will refrain from allocating credit on a sectoral or regional basis and from extending credit directly to specific enterprises. By July 15, 1993 the CBR finance rate will be set at a level of not more than 7 percentage points (at an annual rate) below the interbank rate; this maximum spread between the CBR finance rate and the interbank rate will be maintained thereafter.

From now on, all interest rate subsidies will be provided only through the budget subject to the limits specified in the budget.

d. Henceforth, the Government and the CBR will not authorize the extension of credit for the purpose of clearing interenterprise arrears. Measures will be taken to introduce an efficient system of settlements and trade credit.

2. Budgetary policy

a. The cash deficit of the enlarged government (defined to include the general government plus unbudgeted import subsidies) will be subject to quarterly targets consistent with the credit program in section 1. The Government's borrowing requirement from the domestic banking system, including the CBR, will be correspondingly limited, taking into account the availability



EXECUTIVE DIRECTOR

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

June 14, 1993

Dear Mr. Camdessus,

On behalf of my authorities I am pleased to attach a copy of the Policy Statement of the Russian authorities dated May 22, 1993, on the basis of which we will request a drawing of SDR 1,078.275 million under the IMF's Systemic Transformation Facility.

Sincerely yours,

A handwritten signature in dark ink, appearing to be "Konstantin Kagalovsky", written over a horizontal line.

Konstantin Kagalovsky
Executive Director
for Russian Federation

Mr. Michel Camdessus
Managing Director
International Monetary Fund

Table 12. Russian Federation: Major Structural Reforms,
January 1992-May 1993

Area	Actions
Price system	<p>Liberalization of prices of most domestic goods and services</p> <p>Elimination of obligatory state orders</p> <p>Substantial adjustment of administered prices</p> <p>Liberalization of domestic price of oil, subject to export quotas</p>
Foreign trade	<p>Elimination of quantitative import restrictions</p> <p>Reduction in quantitative export restrictions for some categories of goods</p>
Exchange system	<p>Exchange rate unification</p> <p>Current account convertibility for residents</p> <p>Broadening of foreign exchange markets</p>
Fiscal operations	<p>Introduction of VAT</p> <p>Introduction of Treasury bill auctions</p> <p>Progress toward a full-fledged Treasury</p>
Privatization	<p>Corporatization of state enterprises</p> <p>Substantial progress in privatization of small-scale enterprises, housing, and municipal properties</p> <p>Establishment of private farms</p> <p>Accelerated privatization of medium- and large-sized enterprises, including through voucher auctions</p>

Table 11. Russian Federation: Indicators of Fund Credit, 1992-99 ^{1/}

	1992	1993	1994	1995	1996	1997	1998	1999
	(In percent)							
Outstanding Fund credit								
Quota	16.7	66.7	66.7	66.7	58.4	50.0	45.9	41.7
Exports	2.5	10.0	9.0	7.7	6.0	4.7	3.9	3.3
Reserves	19.6	59.0	40.1	30.8	22.6	16.7	13.1	10.4
Total external debt	1.3	4.4	3.8	3.6	3.0	2.5	2.3	2.0
Fund charges and repurchases								
Quota	--	0.8	5.3	5.2	13.4	13.0	7.1	6.8
Exports	--	0.1	0.7	0.6	1.4	1.2	0.6	0.5
Reserves	--	0.6	3.2	2.4	5.2	4.3	2.0	1.7
Total external debt	--	--	0.3	0.3	0.7	0.6	0.4	0.3
	(In billions of U.S. dollars)							
<u>Memorandum items:</u>								
Fund purchases	1.0	3.0	--	--	--	--	--	--
Fund repurchases	--	--	--	--	0.5	0.5	0.25	0.25
Total liabilities								
to the Fund	1.0	4.0	4.0	4.0	3.5	3.0	2.8	2.5
Fund charges	...	0.05	0.3	0.3	0.3	0.3	0.2	0.2
SDR/US\$ exchange rate	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4

Source: Fund staff estimates.

^{1/} Assuming purchases of SDR 1,078.275 million under the STF in July and December 1993.

Table 10. Russian Federation: Balance of Payments
with FSU States, 1991-93

(In billions of rubles)

	1991	1992		1993 Staff projections
		Actual prices	World prices 1/	
Current account	32	298	2,683	3,802
Trade balance	32	298	2,683	2,439
Exports	135	2,147	7,278	13,530
Oil	12	405	2,450	3,200
Natural Gas	5	196	1,794	3,128
Other	118	1,546	3,034	7,202
Imports	-116	-1,849	-4,595	-11,092
Services, net	...	...	...	...
Interest receipts 2/	--	--	--	1,363
Capital account	...	...	...	...
Interstate arrears	...	270	270	-270
State credits	...	-2	-2	-800
Commercial banks	...	...	...	-800
Enterprises	...	...	...	-1,000
Other	...	-4	-4	-32
Implicit subsidy 3/	...	...	-2,385	...
Errors and omissions	...	465	465	--
Overall balance	...	1,027	1,027	900
Financing	...	-1,027	-1,027	-900
Correspondent accounts 4/ and technical credits	...	-1,027	-1,027	-900
<u>Memorandum item:</u>				
GDP deflator (percentage change)	...	1,558	1,558	591

Sources: Goskomstat; CBR; State Committee on Economic and Financial Relations with CIS States; and Fund staff estimates and projections.

1/ Estimates based on information provided by the Russian authorities.

2/ Based on the technical assumption of 100 percent interest rate on the CBR, Government, and commercial bank credits, the same assumption as in the April projections. The Russian Government is presently negotiating with the other FSU states on the terms of such lending and the outcome might differ from the assumption used in this projection.

3/ Implicit subsidy calculated as the difference between trade at actual prices and at world prices.

4/ Excluding currency issue. In these projections, no convertible currency financing from other sources than Russia has been assumed.

Table 9. Russian Federation: Balance of Payments (Excluding FSU Transactions), 1991-93

(In billions of U.S. dollars)

	Est. 1991	1992 (Est.)					1993 (Scenario)				
		QI	QII	QIII	QIV	Year	QI	QII	QIII	QIV	Year
Current account	4.1	-2.2	-1.2	-1.0	0.2	-4.3	0.8	-4.4	-3.5	-4.0	-11.1
Trade balance 1/	6.4	-1.3	0.8	0.9	2.7	3.1	3.5	-1.8	-1.1	-1.6	-1.0
Exports	50.9	7.5	10.2	9.9	12.4	40.0	7.0	10.2	11.4	11.4	40.0
Oil	11.8	2.3	3.2	3.5	3.7	12.7	2.3	2.8	3.0	3.0	11.1
Natural gas	10.3	1.8	1.8	1.8	2.0	7.5	1.9	1.9	2.4	2.4	8.6
Other	28.8	3.4	5.1	4.5	6.7	19.8	2.7	5.5	6.0	6.0	20.2
Imports	-44.5	-8.8	-9.4	-9.0	-9.7	-36.9	-3.5	-12.0	-12.5	-13.0	-41.0
Gold	2.3	0.6	--	0.3	0.2	1.1	0.2	0.2	0.2	0.1	0.7
Services, net	-4.6	-1.6	-2.0	-2.2	-2.7	-8.5	-2.9	-2.8	-2.6	-2.5	-10.7
Transportation and insurance	0.1	--	-0.1	--	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.4
Travel	-0.3	-0.1	-0.1	-0.1	-0.1	-0.4	-0.1	-0.1	-0.1	-0.2	-0.5
Interest, net	-2.2	-0.8	-1.1	-1.1	-1.5	-4.5	-1.5	-1.5	-1.3	-1.1	-5.4
Receipts	0.5	0.3	0.2	0.2	0.2	0.9	0.3	0.3	0.3	0.3	1.2
Payments	-2.7	-1.1	-1.3	-1.3	-1.7	-5.4	-1.8	-1.8	-1.6	-1.4	-6.6
Other	-2.2	-0.7	-0.7	-1.0	-1.0	-3.4	-1.1	-1.1	-1.1	-1.1	-4.4
Capital account	3.6	0.3	0.1	1.1	-1.5	--	-1.2	-2.9	-0.3	1.0	-3.4
Grants	1.6	0.8	0.8	0.7	0.7	3.0	0.8	0.7	0.8	0.7	3.0
Medium- and long-term capital	2.8	2.3	0.9	-0.1	0.1	3.3	-2.1	-1.8	-1.4	-1.5	-6.8
Disbursements	7.8	4.5	3.5	2.2	2.5	12.8	1.5	2.2	2.3	2.3	8.3
Amortization 2/	-5.0	-2.1	-2.4	-2.2	-2.3	-8.9	-3.4	-3.7	-3.5	-3.5	-14.1
Other	--	-0.1	-0.2	-0.1	-0.1	-0.6	-0.2	-0.3	-0.2	-0.3	-1.0
Commercial banks	-0.7	-2.3	-1.2	0.3	-2.5	-5.7	-0.1	-2.0	--	1.5	-0.6
Other short term	--	-0.7	-0.7	--	--	-1.4	--	--	--	--	--
Foreign direct investment	-0.1	0.2	0.2	0.2	0.1	0.7	0.2	0.2	0.3	0.3	1.0
Monetization of gold	...	--	0.1	--	0.1	0.2	...	...	...	...	...
Errors and omissions	-1.8	-1.7	-2.8	-2.5	-1.5	-8.4	-3.5	--	--	--	-3.5
Overall balance	5.9	-3.6	-3.9	-2.4	-2.7	-12.7	-4.0	-7.3	-3.8	-3.0	-18.0
Financing	-5.9	3.6	3.9	2.4	2.7	12.7	4.0	7.3	3.8	3.0	18.0
Net international reserves											
Convertible currencies	0.6	0.1	--	-0.5	-1.0	-1.3	-0.7	-0.1	1.0	1.0	1.1
Assets	1.5	0.3	-0.1	-0.5	-2.0	-2.2	-0.4	-0.4	-0.5	-0.5	-1.7
Liabilities	-0.9	-0.2	0.1	--	1.0	0.9	-0.3	0.2	1.5	1.5	2.9
Fund credit		--	--	--	1.0	1.0	--	--	1.5	1.5	3.0
Other	-0.9	-0.2	0.1	--	--	-0.1	-0.3	0.2	--	--	-0.1
Arrears	1.4	1.7	2.1	1.1	2.0	6.9	2.9 3/	...	...	...	-11.8
1992 deferral	0.3	1.8	1.8	1.8	1.7	7.1	1.8	...	...	...	...
April 1993 rescheduling 2/				...	...	...	...	...	...	...	13.4
Possible other rescheduling 2/				...	...	...	...	...	...	...	15.3
Interrepublican residual	-8.2	...	...	...	...	...	...	...	...	...	...
Memorandum item:											
Russia's debt share (in percent)	...	100	100	100	100	100	100	100	100	100	100

Source: Goskomstat; Central Bank of Russia; Vneshekonombank; and Fund staff estimates.

1/ The trade balance in 1992 includes a surplus on barter and clearing transactions, which is estimated by the Government at US\$4.7 billion. This estimate could arise from valuation problems with barter trade and could affect reported errors and omissions. The staff will continue to discuss this issue with the authorities to try to resolve this problem.

2/ In 1993, excludes the repayments and refinancing of the principal deferred in 1992.

3/ Includes rescheduleable arrears.

Table 8. Russian Federation: Quarterly Revenue, 1993

	Jan.-Mar.	Apr.-Jun.	July-Sept.	Oct.-Dec.	Cumulative		
					Jan.-Jun.	Jan.-Sept.	Jan.-Dec.
(In billions of rubles)							
Revenue	5,038.4	7,937.5	11,103.0	12,007.6	12,975.9	24,078.8	36,086.4
Value-added tax (VAT)							
(including on imports)	1,506.9	2,458.0	2,938.4	3,193.6	3,964.9	6,903.3	10,096.9
Excise tax (including on imports)	138.9	367.5	540.4	657.6	506.4	1,046.8	1,704.5
Domestic tax on oil	151.5	172.3	350.0	655.2	323.8	673.8	1,329.0
Profits tax	1,816.7	2,555.0	2,500.0	2,528.3	4,371.7	6,871.7	9,400.0
Trend	1,816.7	...	...	...	...	...	...
Impact of energy price increase	...	...	...	...	...	...	...
Household income tax	365.8	369.8	480.0	631.7	735.6	1,215.6	1,847.3
Tax on natural resources (timber)	154.8	338.1	596.1	690.5	496.5	1,092.6	1,783.1
Foreign activity	605.3	1,359.5	1,879.2	1,688.9	1,964.8	3,844.1	5,532.9
Export tax on oil	407.4	298.4	252.1	168.5	705.8	1,275.9	1,126.5
Export tax on gas	...	509.0	570.1	516.9	509.0	1,079.1	1,596.0
Export tax, outside CES	...	217.2	252.0	230.6	217.2	469.2	699.8
Import tariff and charges	159.6	280.6	532.0	522.9	440.2	972.2	1,495.1
Counterpart funds (budget)	30.7	54.3	273.0	249.9	85.0	358.0	607.9
Other	7.6	5.0	5.0	5.0	12.6	17.6	22.6
Other	294.9	317.2	1,818.8	1,961.8	612.1	2,430.9	4,392.8
CBR profit transfer	--	--	495.1	495.1	--	495.1	990.2
7 percent VAT earmarked	--	--	771.3	880.9	--	771.3	1,652.2
Other new taxes	--	148.2	296.4	296.4	148.2	444.6	740.9
(In percent of GDP)							
Revenue	40.1	37.6	34.7	33.2	38.5	36.7	35.4
Of which:							
Value-added tax (VAT)							
(including on imports)	12.0	11.6	9.2	8.8	11.8	10.5	9.9
Excise tax (including on imports)	1.1	1.7	1.7	1.8	1.5	1.6	1.7
Domestic tax (on oil and gas)	1.2	0.8	1.1	1.8	1.0	1.0	1.3
Profits tax	14.5	12.1	7.8	7.0	13.0	10.5	9.2
Household income tax	2.9	1.8	1.5	1.7	2.2	1.9	1.8
Export tax	3.2	4.8	3.4	2.5	4.2	4.3	3.4
Import tariff	1.3	1.3	1.7	1.4	1.3	1.5	1.5
New taxes	--	0.7	4.9	4.6	0.4	2.6	3.3
Memorandum items:							
Exchange rate per U.S. dollar	574.0	905.0	1,050.0	961.0	739.5	843.0	872.5
Nominal GDP	12,563.0	21,132.0	32,003.0	36,188.0	33,695.0	65,698.0	101,886.0

Sources: Data provided by the authorities; and Fund staff estimates.

Table 7. Russian Federation: Detailed Quarterly Budget, 1993

(In billions of rubles and in percent of GDP)

	Year	1993			
		QI (Prel.est.)	QII (Proj.)	QIII (Prog.)	QIV (Prog.)
Revenue	36,086	5,038	7,937	11,103	12,008
VAT, including on imports	10,097	1,507	2,458	2,938	3,194
Excise taxes, including on imports	1,705	139	368	540	658
Domestic energy tax, oil	1,329	152	172	350	655
Profit tax	9,400	1,817	2,555	2,500	2,528
Household income tax	1,847	366	370	480	632
Tax on national resources and mineral extraction:	1,783	158	338	596	690
Foreign activity	5,533	605	1,360	1,879	1,689
Export tax on oil	1,126	407	298	252	169
Export tax on gas	1,596	...	509	570	517
Export tax, other	700	...	217	252	231
Import tariff and charges	1,495	160	281	532	523
Counterpart funds from U.S. dollar sales	608	31	54	273	250
Interest income	8	8	...	...	...
Other, excluding privatization	4,393	295	317	1,819	1,962
Expenditure	44,515	6,016	9,331	14,590	14,579
National economy excluding investment	2,169	394	560	559	656
Operation, maintenance	1,142	333	333	267	209
Conversion fund	382	--	100	100	182
Geological research, including off-budget	645	61	127	192	265
Total subsidies	5,556	1,002	1,257	1,986	1,310
Coal	1,297	335	457	318	187
Agriculture, other than interest through banks	1,385	32	250	812	290
Military conversion, including off-budget	--	--	--	--	--
Interest subsidy through banks	900	71	200	300	329
Subsidy to other sectors	421	30	100	150	141
Subsidy from local budgets	1,552	534	250	406	362
Social-cultural expenditure	8,257	1,251	1,923	2,245	2,837
Science	1,138	142	204	209	583
Internal security	2,410	284	441	776	909
Administration	1,060	145	233	241	441
Investment, including off-budget	4,960	433	906	2,126	1,495
Defense (total)	6,368	950	1,310	2,031	2,077
Reserve Fund of Government	192	6	50	60	75
Domestic debt service (excluding amortization)	1,052	147	250	300	355
Foreign expenditure	6,440	624	1,775	2,060	1,981
External debt service	2,879	159	815	945	961
Domestic U.S. dollar debt service	911	75	259	301	275
Centralized imports (cash)	1,354	188	362	420	384
Other foreign expenditure	1,296	202	339	394	360
Transfers (Chernobyl)	523	51	100	150	222
Reserve Fund for wage increases	741	--	188	235	318
Net lending for working capital increase	430	-20	-50	550	150
Interest on Treasury bills	183	--	11	52	120
Other	3,037	606	173	1,009	1,250
Float and statistical discrepancy	313	313	--	--	--
Extrabudgetary funds, total	2,265	311	670	774	510
General government fiscal balance (including float and discrepancy; in percent of GDP)	-5,851	-354	-723	-2,713	-2,061
	-6	-3	-3	-8	-6
Unbudgeted import subsidies (in percent of GDP)	4,289	644	1,557	1,113	975
	4	5	7	3	3
Enlarged government sector balance (in percent of GDP)	-10,140	-998	-2,280	-3,826	-3,037
	-10	-8	-11	-12	-8
Arrears (- reduction)	--	--	--	--	--
Interest deferral/rescheduling	2,844	517	815	840	673
Fiscal balance, commitment	-12,984	-1,515	-3,094	-4,666	-3,709
Fiscal balance, cash basis (in percent of GDP)	-10,140	-998	-2,280	-3,826	-3,037
	-10	-8	-11	-12	-8

Sources: Data provided by the authorities; and Fund staff estimates.

Table 6. Russian Federation: Quarterly Financing of the Enlarged Government, 1993

(In billions of rubles and in percent of GDP)

	1993 (Prog.)	Q1 (Prel.)	Q2 (Proj.)	Q3 (Prog.)	Q4 (Prog.)
Total deficit financing	<u>10,140</u>	<u>998</u>	<u>2,280</u>	<u>3,826</u>	<u>3,037</u>
Foreign financing	<u>7,059</u>	<u>683</u>	<u>1,907</u>	<u>2,349</u>	<u>2,121</u>
Grants to budget (excluding German grants)	258	52	54	95	58
Foreign disbursements (excluding net lending)	7,150	689	1,943	3,359	2,159
Net amortization	-349	-57	-91	-105	-96
Amortization	-12,339	-1,952	-3,349	-3,675	-3,364
Principal deferral	11,990	1,894	3,258	3,570	3,267
Domestic financing	<u>3,082</u>	<u>315</u>	<u>373</u>	<u>1,417</u>	<u>916</u>
Nonbank financing	-3,208	5	-690	-870	-1,653
Principal repayment (commodity debt and repayments to Sberbank)	-3,685	-92	-800	-1,000	-1,793
Proceeds of privatization	197	57	50	50	40
Sales of gold and precious metals	280	40	60	80	100
Bank financing	6,290	310	1,063	2,347	2,569
CBR	6,042	413	1,174	2,141	2,314
Commercial banks	-402	-103 ^{1/}	-261	-44	5
Treasury bills	650	--	150	250	250

Sources: Provided by the authorities; and Fund staff estimates.

^{1/} See Table 4, footnote 5.

Table 5. Russian Federation: Summary of Fiscal Indicators, 1992-93

(In percent of GDP, unless otherwise indicated)

	1992	1993	1993	1993			
	Actual	Current	(Prog.)	First quarter (prel.)	Second quarter (proj.)	Third quarter (prog.)	Fourth quarter (prog.)
Revenue	30.8	34.4	35.4	40.1	37.6	34.7	33.2
Of which:							
VAT	11.8	9.9	9.9	12.0	11.6	9.2	8.8
Domestic tax on oil and gas	0.5	0.7	1.3	1.2	0.8	1.1	1.8
Profit tax	9.2	9.2	9.2	14.5	12.1	7.8	7.0
Household income tax	2.5	1.8	1.8	2.9	1.8	1.5	1.7
Export tax	1.8	3.4	3.4	3.2	4.8	3.4	2.5
Import tariffs	0.3	1.5	1.5	1.3	1.3	1.7	1.4
Expenditure 1/	40.8	48.5	43.7	47.9	44.2	45.6	40.3
Of which:							
Wage bill 2/	6.4	11.5	11.0	9.5	11.1	10.1	12.2
Producer and consumer subsidies	8.1	7.7	5.5	8.0	5.9	6.2	3.6
Operation and maintenance	7.3	6.6	5.9	9.6	6.7	4.9	5.2
Investment	2.9	6.5	4.9	3.5	4.3	6.6	4.1
Foreign expenditure	3.1	6.3	6.3	5.0	8.4	6.4	5.5
Defense (including wages)	5.0	7.0	6.2	7.6	6.2	6.3	5.7
Interest payments on treasury bills	--	0.2	0.2	--	--	0.2	0.3
Net lending for working capital	3.5	0.4	0.4	-0.2	-0.2	1.7	-0.1
Float and stat. discrepancy	...	...	0.3	2.5	0.0	0.0	0.0
Extrabudgetary funds 3/	2.6	2.2	2.2	2.5	3.2	2.4	1.4
General government balance, cash basis	-7.3	-11.9	-5.7	-2.8	-3.4	-8.5	-5.7
Unbudgeted import subsidies	12.6	5.2	4.2	5.1	7.4	3.5	2.7
Enlarged deficit, cash basis	-20.0	-17.1	-10.0	-7.9	-10.8	-12.0	-8.4
Total financing	20.0	...	10.0	7.9	10.8	12.0	8.4
Net foreign financing	12.8	...	6.9	5.4	9.0	7.3	5.9
Net domestic financing	7.1	...	3.1	2.5	1.8	4.6	2.5
Privatization receipts	0.4	...	0.2	0.5	0.2	0.2	0.1
Amortization of internal debt	-0.2	...	-3.6	-0.7	-3.8	-3.1	-5.0
Gold and precious metal sales	1.0	...	0.3	0.3	0.3	0.2	0.3
Domestic bank financing	6.0	...	6.2	2.5	5.0	7.3	7.1
CBR net credit	...	...	5.9	3.3	5.6	6.7	6.4
Commercial banks	...	...	-0.3	-0.8	-1.2	-0.1	0.0
Treasury bills	...	...	0.6	0.0	0.7	0.8	0.7
Memorandum items:							
On-lending of foreign credit	0.0	...	0.4	0.0	0.7	0.5	0.4
Surplus of local governments 4/	1.7	...	3.0	4.1	3.0	3.0	2.7
Nominal CBR credit, rub billion	...	...	6042.0	413.0	1174.0	2141.0	2314.0
Nominal GDP, rub billion	17,000	...	101,886	12,563	21,132	32,003	36,188

Sources: Ministry of Finance; and Fund staff estimates.

1/ Economic classification of expenditures is based on estimates by the Ministry of Finance and Fund staff (official data are presented in a mixture of functional and economic classification).

2/ Includes the wage bill in the military sector, and social security contributions.

3/ Includes Pension Fund, Employment Fund, Social Support Fund of the Population, Social Insurance Fund, Military Fund from Resettlement, and Road Fund.

4/ Includes direct transfers from the federal to local governments; excludes drawdown of own deposits.

Table 4. Russian Federation: Monetary Projections, 1992-93
(In billions of rubles; unless otherwise indicated)

	End-of-Period Stocks							
	Jun 92	Sep 92	Dec 92	Preliminary		Program Targets		
				Mar 93	Mar 93 1/	Jun 93	Sep 93	Dec 93
I. Central Bank of Russia (CBR)								
Net international reserves 2/	297	643	1,458	2,949	3,880	3,950	3,050	2,150
CBR net domestic assets	861	2,001	2,926	3,527	2,596	5,357	8,799	12,229
Net domestic credit	1,233	2,652	5,548	7,706	7,706	10,596	14,637	18,251
Net credit to gen. govt.	338	900	1,577	1,990	1,990	3,165	5,305	7,619
Gross credit to banks	598	1,328	2,947	4,043	4,043	5,543	7,443	8,743
Interstate loans	297	424	1,024	1,673	1,673	1,889	1,889 3/	1,889 3/
Other net unclassified 4/	-372	-651	-2,622	-4,179	-5,110	-5,240	-5,838	-6,022
Base money	1,158	2,644	4,384	6,476	6,476	9,307	11,849	14,379
Currency	453	1,010	1,890	2,966	2,966	...	...	...
Required reserves	113	254	472	731	731	...	...	...
Correspondent account balances	592	1,380	2,021	2,779	2,779	...	...	...
II. Monetary Survey								
Net foreign assets 2/	1,201	2,366	5,300	9,359	12,315	14,184	13,284	11,034
Net international reserves	297	643	1,457	2,949	3,880	3,950	3,050	2,150
Banking system foreign exchange	904	1,723	3,843	6,410	8,434	10,234	10,234	8,884
Net domestic assets	1,623	4,606	6,953	9,391	9,150	13,659	20,146	26,239
Net credit to gen. govt. 5/	238	615	1,358	1,266	1,266	2,329	4,676	7,245
Credit to economy	2,020	4,170	6,928	10,799	10,799	14,505	19,923	24,681
Interstate loans	297	424	1,024	1,673	1,673	1,889	1,889	1,889
Other items net 6/	-932	-603	-2,357	-4,347	-4,588	-5,064	-6,342	-7,576
Liabilities to nongovernment	2,824	6,972	12,253	18,750	21,464	27,843	33,430	37,273
Ruble broad money	1,972	4,438	7,086	10,155	10,155	14,734	19,521	24,144
Currency	448	990	1,856	2,951	2,951	...	...	...
Quasi-money	1,524	3,448	5,230	7,204	7,204	...	...	...
Foreign exchange deposits 2/	852	2,534	5,167	8,595	11,309	13,109	13,109	13,129
(Changes in relation to base money at the beginning of the period; in percent) 7/								
CBR net domestic assets		98	35	14	...	43	37	29
Net domestic credit		123	110	49	...	45	43	31
CBR credit to gen. govt.		49	26	9	...	18	23	20
CBR gross credit to banks		63	61	25	...	23	20	11
Interstate loans		11	23	15	...	3	...	...
(Changes in relation to liabilities to nongovernment at the beginning of the period; in percent) 6/								
Banking system net domestic assets		106	34	20	...	23	23	18
Net credit to gen. govt.		13	11	-1	...	6	8	8
Credit to economy		76	40	32	...	20	19	14
Interstate loans		4	9	5	...	1	...	...

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

1/ CBR net international reserves and banking system foreign exchange and foreign exchange deposits valued at an accounting exchange rate of rub 900 per U.S. dollar.

2/ Valued at end-period exchange rates from end-June 1992 through end-March 1993 except as indicated by footnote 1 for March 1993, and at an accounting exchange rate of rub 900 per U.S. dollar thereafter.

3/ The amounts shown include only credit limits authorized (and mostly used) as of end-May. To the extent that additional credits are extended, net credit to general government and/or gross credit to banks will be reduced correspondingly.

4/ Includes net equity, NIR reporting discrepancy, float, and a small amount of deposits of enterprises.

5/ Includes holdings of Treasury bills by commercial banks. The financing implicit for the first quarter of 1993 differs from what is shown in Table 6 owing to payments made but not cleared at the level of commercial banks; this reconciliation problem is being investigated.

6/ Includes net equity, NFA reporting discrepancy, float, deposits of the economy, U.S.S.R. debt, frozen resident foreign exchange accounts, and net credit for the clearing of interenterprise arrears during 1992.

7/ Percentage changes shown for the last three quarters of 1993 exclude the impact of changes in the exchange rate.

Table 3. Russian Federation: Monetary Survey, 1991-93 ^{1/}

(In billions of current rubles)

	1991	1992				1993
	Dec.	Mar.	June	Sept.	Dec.	Mar.
Net foreign assets ^{2/}	438	657	1,201	2,366	5,300	9,359
Net international reserves	246	225	297	643	1,458	2,949
Gold ^{3/}	280	222	341	662	1,230	2,092
Net CBR foreign exchange	2	9	17	85	328	801
Net government foreign exchange	--	22	13	22	118	323
Official short-term liabilities	-35	-27	-74	-125	-219	-268
Net banking system foreign exchange	193	432	904	1,723	3,843	6,410
Net domestic assets	763	977	1,624	4,605	6,954	9,394
Domestic credit	895	1,305	2,258	4,785	8,286	12,065
Net claims on government	140	66	238	615	1,358	1,266
Net claims on federal government	...	...	431	1,181	2,114	2,790
Net claims on local government	-37	-74	-83	-209	-274	-731
Net claims on extrabudgetary funds	...	...	-110	-358	-481	-792
Claims on rest of the economy	755	1,239	2,020	4,170	6,928	10,799
Ruble credit	594	1,010	1,688	3,682	6,126	9,309
Foreign exchange credit ^{2/}	161	230	332	488	802	1,490
Net banking system interstate credit ^{4/}	--	40	297	421	1,003	1,596
Other items net	-132	-368	-932	-600	-2,335	-4,267
Money	1,201	1,633	2,824	6,972	12,253	18,750
Currency outside banks	167	240	448	990	1,856	2,951
Currency issue	173	250	453	1,010	1,890	2,966
Less: currency in bank vaults	-6	-10	-5	-21	-34	-15
Ruble deposits	831	1,075	1,524	3,448	5,230	7,204
Foreign exchange deposits ^{2/}	203	319	852	2,534	5,167	8,595

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 March 1992 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 March 1992, and thereafter on the basis of end-period exchange rates quoted on the Moscow Interbank Currency Exchange Market. The information after December 1992 is provisional.

^{3/} Official gold valued at US\$300 per troy ounce.

^{4/} Comprises CBR interstate loans and net claims of the banking system on other FSU states.

Table 2. Russian Federation: Monetary Authorities' Accounts, 1991-93

(End of period; in billions of rubles)

	1991 Dec. 1/	1992 Mar. 1/	June	Sept.	Dec.	1993 Mar.
Net international reserves 1/	246	225	297	643	1,458	2,949
Gold 2/	280	222	341	662	1,230	2,093
Net government foreign exchange	--	22	13	22	118	323
Net CBR foreign exchange	2	9	17	85	328	801
Official short-term liabilities	-35	-27	-74	-125	-219	-268
Net domestic assets	108	329	860	2,001	2,926	3,527
Net domestic credit	321	433	1,233	2,652	5,548	7,706
Net credit to Government	178	67	338	900	1,577	1,990
Net credit to federal government	...	...	470	1,259	2,167	3,026
Net credit to local government	-24	-49	-61	-165	-211	-414
Net claims on extrabudgetary funds	...	...	-71	-194	-379	-622
Credit to banks	143	326	598	1,328	2,947	4,043
Credit to banks at penalty rate	2	27	24	29	77	202
Credit to banks at bank rate	134	286	568	1,293	2,865	3,835
Other credit to banks	...	8	13	6	6	55
Interstate loans	--	40	297	424	1,024	1,673
Other assets net	-213	-104	-372	-651	-2,622	-4,178
Monetary base	353	556	1,158	2,644	4,384	6,476
Currency issue	173	250	453	1,010	1,890	2,966
Bankers' deposits	180	306	706	1,633	2,494	3,510
Minimum reserves	8	86	113	254	472	731
Correspondent accounts	171	220	592	1,380	2,021	2,779
<u>Memorandum items:</u>						
Currency issue to other central banks	99	120	174	294	547	842
Government gold holdings (in tons)	290	180	196	185	175	184
Government foreign exchange (US\$ millions)	--	216	88	85	284	472

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 March 1992, 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 March 1992 and, hence, other assets net is not directly comparable. The information after December 1992 is provisional.

2/ Official gold is valued at US\$300 per troy ounce.

Table 1. Russian Federation: Basic Data

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

	1990	1991	1992	1993	
				Q1	Year 1/
Real GDP	...	-9	-19	-17	-15
Real gross industrial output	-0.1	-8	-19	-19	...
Output of oil	-6.5	-11	-15	-15	-10
Output of natural gas	4.0	--	--	--	-1
Consumer prices (RPI/CPI)					
Average	5.6	93	1,354	667	591
Within-period	...	144	2,318	88	417
Industrial producer prices					
Average	3.9	138	1,949	...	...
Within-period	...	236	3,275	114	...
Average monthly wage (level, in rubles)	297	552	6,014	19,323	39,614
End-period monthly wage (level, in rubles)	...	1,195	16,071	23,559	...
Minimum monthly wage (level, in rubles)	80	130	668	2,250 2/	...
Registered unemployed (End-period level, in percent of the labor force)	...	0.1	0.8	1.0	...
General government deficit (on a cash basis, in percent of GDP)	...	16 3/	7	3	6
Enlarged government sector deficit (on a cash basis, in percent of GDP) 4/	...	...	20	8	10
Credit to the economy (end-period) 5/					
Nominal	...	127	803	56	250
Real 6/	...	-7	-63	-17	-32
Ruble broad money (end-period)					
Nominal	...	99	610	41	236
Real 6/	...	-18	-71	-25	-35
Balance of payments 7/					
Exports in U.S. dollars	...	-36	-22	-7	--
Oil, including oil products (in volume)	-16	-37	-7	26	--
Natural gas (in volume)	...	-5	-1	8	3
Imports in U.S. dollars	...	-46	-18	-60	11
Trade balance (level, in billions of U.S. dollars)	-2.0	6.6	3.1	3.5	-1.0
Current account balance (including gold sales, level, in billions of U.S. dollars)	-4.5	4.2	-4.3	0.8	-11.1
Total scheduled debt service (in billions of U.S. dollars)	14.0	10.4	15.6	5.1	20.5
Principal	11.1	7.8	10.4	3.4	14.1
Interest	2.9	2.6	5.2	1.7	6.4
Arrears (- = decrease)	2.7	-0.5	7.1	2.9	-11.8

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

1/ Program.

2/ The minimum wage was raised to rub 4,275 on April 1, 1993.

3/ In 1991, refers to the notional budget deficit.

4/ General government, plus unbudgeted import subsidies associated with foreign disbursements.

5/ Excluding credit to Government.

6/ Deflated by the within-period CPI/RPI.

7/ Excludes shipments to or from other states of the FSU.

the part of state enterprises implied by the tightening in credit conditions and the phasing out of directed, subsidized credits may well be strongly resisted. Against this background, it would be of major importance for the authorities to give an early and clear signal that the budgetary limits on interest rate subsidies will be strictly enforced and that the monetary program be implemented in full and without delay.

Effective trade and payments mechanisms among the FSU states still remain to be implemented; also, several states continue to debate whether they should introduce a separate national currency. This is creating uncertainties and distortions that are adversely affecting economic activity, especially trade, and the effectiveness of economic policy-making in general, throughout the FSU. To help resolve these uncertainties, it is important for the Russian authorities to convey clearly and consistently their policy intentions with respect to Russia's trade and financial relations vis-à-vis the states of the FSU.

From a medium-term perspective, it must be recognized that the challenge of transforming the economy is immense. Russia also faces a heavy debt service burden in the years when obligations to the Fund fall due. Even if the measures included in the current program are fully implemented, the task of macroeconomic stabilization will remain to be completed, and will require in 1994 a significant further reduction in the growth of monetary and credit and further substantial measures to reduce the fiscal imbalance. The adjustment effort will need to be applied consistently over many years, and sustained support from the international financial community on appropriate terms and growing reliance on nondebt-creating flows, will be crucial in assuring its success.

The phased elimination of export quotas and the sharp cut in the scope of the centralized export scheme will make an important contribution to the integration of Russia's economy in the world economy and will help to improve resource allocation domestically. In this connection, it is important for Russia's trading partners to liberalize access of Russian exports to their markets.

Rapid progress in implementing structural policies is critical to ensure the transition to a market economy and set the stage for sustained growth. Structural reforms are also essential to minimize output losses during the process of macroeconomic stabilization. In the period immediately ahead, emphasis should be placed on completing the privatization program, removing the existing restrictions on land ownership, and introducing the missing elements of a legal framework suitable for a market economy. The implementation of the existing bankruptcy legislation--a necessary component of a hard budget constraint for the state enterprise sector--will send an important signal to economic agents regarding the Government's unwillingness to subsidize inefficiency. A strengthening of the supervision of financial institutions by the CBR and efforts to foster efficient mechanisms in the areas of settlements and trade credit also would be highly desirable, especially in light of the envisaged tightening of financial policies.

The importance of Russia's economic and financial relations with the other states of the FSU, which is likely to remain very significant in the foreseeable future, underscores the need to rapidly implement efficient trade and payments arrangements among them. The staff welcomes the authorities' stated readiness to cooperate with those states of the FSU that choose to introduce their own national currencies and to conclude agreements with the remaining states that wish to continue to use the Russian currency.

The process of economic reforms in Russia has come a long way from its beginning in January 1992. Markets have been largely liberalized and the basic institutions of a market system have begun to be introduced. However, the goal of macroeconomic stabilization so far has proved elusive. If fully implemented, the authorities' program would represent a milestone in reversing the dangerously destabilizing financial situation that has emerged over the last nine months. Given the record of policy slippage in 1992, it is critical that concerted and decisive action be taken from the outset of the program to achieve this objective and to pave the way for discussions on the use of Fund resources under an upper credit tranche arrangement.

The economic and financial program to be supported by the STF entails significant risks. In the fiscal area, the degree of the Supreme Soviet's support for the envisaged retrenchment is highly uncertain; in such circumstances, the Government's determination to resort to the provisions of the budget law allowing it to sequester expenditures if sufficient revenue is not forthcoming is essential if the credibility of the program is to be maintained. In the area of monetary policy, the major behavioral change on

emerge from loss-making state enterprises, and which could find support within the Parliament. Indeed, the success of the monetary program will require the use of bankruptcy proceedings to deal with enterprises that are unable or unwilling to adjust.

Success of the financial program also depends crucially on a substantial tightening in fiscal policy. The underlying budgetary position is precarious and, in the absence of strong fiscal adjustment, the monetary program would be derailed and inflation probably would spiral out of control. The adjustment envisaged--a reduction of some 7 percentage points of GDP in the cash deficit of the enlarged government for 1993 compared to the outlook under current policies--will require a major effort. Given the existing heavy tax burden, the staff strongly welcomes the emphasis placed on expenditure cutbacks in designing the package of deficit-reduction measures. However, while across-the-board expenditure sequestration--which accounts for roughly half of the proposed fiscal adjustment--may be relatively easy to administer, it cannot be sustained for long and is not a substitute for strict prioritization of spending programs. Moreover, sequestration makes it difficult to treat selectively specific expenditure categories, in particular, those relating to the social safety net.

The identification of explicit expenditure cuts, in particular, reductions in subsidies to importers, the coal sector, grain producers, and users of directed credits, is an important step to both improve the fiscal position and promote a more efficient allocation of resources. Achievement of the planned reduction in import subsidies--a major component of the fiscal effort--will require improved collection of counterpart funds from importers. The intention to increase excise taxes on energy products and to review existing tax exemptions with a view to their substantial reduction by January 1, 1994 is to be welcomed. Even with full implementation of the above measures, however, there is a clear need for contingency fiscal measures that could be implemented quickly in case of unforeseen adverse developments. Furthermore, the authorities are urged to keep the growing wage bill in the budgetary sphere under close review.

The authorities' renewed commitment to maintaining a unified and market-based exchange system continues to be a cornerstone of their reform strategy, and pressures to deviate from this approach should be resisted firmly. The attainment of exchange rate stability will require financial stabilization and a substantial reduction in inflation. In the meantime, the ruble should continue to float against other major currencies and the authorities should refrain from exchange market intervention aimed at achieving a specific level of the exchange rate. In this context, the proposed measures to broaden the foreign exchange market are to be welcomed.

The programmed strengthening of Russia's gross international reserves position is important in light of the existing relatively low import coverage ratio. Given the uncertainties involved, the authorities' intention to review by end-September the adequacy of the net and gross reserve targets for end-1992 is appropriate.

quota in 1996, but would remain relatively low in relation to exports and total external debt.

V. Staff Appraisal

The successful implementation of the program to be supported by the STF would represent a major step toward the attainment of financial stabilization which, as Executive Directors have urged on a number of occasions, is critically needed at the present juncture. Full adherence to the program would demonstrate the authorities' capability to implement strong adjustment measures and pave the way for the provision of Fund support under an upper credit tranche arrangement. Moreover, over the medium term, macroeconomic stabilization, together with firm implementation of the structural measures contained in the program, will set the stage for sustained growth of the Russian economy.

The key objectives of the program are: to reduce the monthly rate of inflation to a low single-digit level by December 1993 while increasing the role of market forces in the allocation of financial resources and reducing Russia's large fiscal imbalance; and to improve the efficiency of the economy, notably through continued progress in privatization and trade liberalization. With consumer prices rising at an average monthly rate of 24 percent since September 1992, the target for inflation is clearly ambitious, but the Fund staff and the Russian authorities consider it to be both appropriate and achievable. The success of the program will depend, to a large extent, on lowering inflationary expectations rapidly; thus, it is critical to put in place the major adjustment measures quickly, and to demonstrate unambiguously the joint commitment of the Government and the CBR to achieving the objectives of the program.

The staff views the growth of monetary and credit aggregates embodied in the financial program as fully consistent with the deceleration of inflation that is envisaged. However, success in bringing down inflation, while improving the efficiency of resource allocation, will require not only a restrained policy regarding credit expansion, but also a radical change in the institutional setup in which monetary and credit policy has been operating. This will mean moving away from a system in which directed, subsidized credits are provided in response to pressures from specific sectors, regions, and enterprises to one in which central bank credit is allocated to commercial banks on the basis of market conditions. The institutional changes required include phasing out directed credits, limiting interest rate subsidies extended through the budget, bringing the CBR finance rate in line with the market-determined interbank rate, and refusing any pressure to monetize interenterprise arrears. The staff welcomes the commitment of both the Government and the CBR to take these actions, and supports the strengthening of the Commission on Credit Policy which should play an important role in achieving the required degree of cooperation between the Government and the CBR. It is clear, however, that a firm resolve will be needed to implement the above measures steadfastly and to resist backsliding in the face of pressures that will inevitably

preliminary information from creditors, disbursements of grants could equal US\$3 billion, bilateral export credits may reach about US\$7 billion, and the World Bank and other multilateral sources would provide at least US\$1 billion. A meeting of the Consultative Group for Russia is scheduled for early June, which will allow an updated projection of external financing flows in 1993 and 1994. An upper credit tranche arrangement, on which initial negotiations could start in the near future, would include the standard set of performance criteria on external debt. To help track inflows of external credits and grants on a timely basis, the authorities intend to establish a working group, with the participation of Fund representatives, that would aim to put in place by September 1 an effective system for monitoring foreign disbursements and the collection of counterpart funds.

The Government intends to regularize its relations with external creditors. The April 1993 rescheduling agreement with official creditors is estimated to provide about US\$13.5 billion in financing in 1993, including the rescheduling of most of the arrears to these creditors. ^{1/} The authorities have begun to seek rescheduling agreements on comparable terms from other official creditors, commercial banks, and uninsured suppliers, which would imply additional debt relief of about US\$15 billion in 1993. The proposed STF-supported program does not include requirements regarding the elimination of arrears and the nonaccumulation of new arrears, but an upper credit tranche arrangement would include the standard performance criteria on arrears. However, the authorities have committed themselves to certain terms and conditions in this regard in their agreements with official creditors.

The medium-term outlook for the balance of payments remains broadly the same as that discussed with the authorities in April. ^{2/} Russia's external current account deficit vis-à-vis non-FSU states could still improve in 1994 and beyond, provided that tight financial policies are put in place. Even with strong policies, Russia would still face a very high level of external debt service in relation to prospective exports for several years to come.

Assuming that both purchases are made under the STF, Russia's outstanding obligations to the Fund would rise to about two thirds of Fund quota by the end of 1993 (Table 11), and would be equivalent to a large share of gross foreign exchange reserves in the period 1993-96. Fund charges and repurchases would rise steadily to a peak of over 13 percent of

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The phased elimination of export quotas and the sharp cut in the scope of the centralized export scheme will make an important contribution to the integration of Russia's economy in the world economy and will help to improve resource allocation domestically. In this connection, it is important for Russia's trading partners to liberalize access of Russian exports to their markets.

Rapid progress in implementing structural policies is critical to ensure the transition to a market economy and set the stage for sustained growth. Structural reforms are also essential to minimize output losses during the process of macroeconomic stabilization. In the period immediately ahead, emphasis should be placed on completing the privatization program, removing the existing restrictions on land ownership, and introducing the missing elements of a legal framework suitable for a market economy. The implementation of the existing bankruptcy legislation--a necessary component of a hard budget constraint for the state enterprise sector--will send an important signal to economic agents regarding the Government's unwillingness to subsidize inefficiency. A strengthening of the supervision of financial institutions by the CBR and efforts to foster efficient mechanisms in the areas of settlements and trade credit also would be highly desirable, especially in light of the envisaged tightening of financial policies.

The importance of Russia's economic and financial relations with the other states of the FSU, which is likely to remain very significant in the foreseeable future, underscores the need to rapidly implement efficient trade and payments arrangements among them. The staff welcomes the authorities' stated readiness to cooperate with those states of the FSU that choose to introduce their own national currencies and to conclude agreements with the remaining states that wish to continue to use the Russian currency.

The process of economic reforms in Russia has come a long way from its beginning in January 1992. Markets have been largely liberalized and the basic institutions of a market system have begun to be introduced. However, the goal of macroeconomic stabilization so far has proved elusive. If fully implemented, the authorities' program would represent a milestone in reversing the dangerously destabilizing financial situation that has emerged over the last nine months. Given the record of policy slippage in 1992, it is critical that concerted and decisive action be taken from the outset of the program to achieve this objective and to pave the way for discussions on the use of Fund resources under an upper credit tranche arrangement.

The economic and financial program to be supported by the STF entails significant risks. In the fiscal area, the degree of the Supreme Soviet's support for the envisaged retrenchment is highly uncertain; in such circumstances, the Government's determination to resort to the provisions of the budget law allowing it to sequester expenditures if sufficient revenue is not forthcoming is essential if the credibility of the program is to be maintained. In the area of monetary policy, the major behavioral change on

the part of state enterprises implied by the tightening in credit conditions and the phasing out of directed, subsidized credits may well be strongly resisted. Against this background, it would be of major importance for the authorities to give an early and clear signal that the budgetary limits on interest rate subsidies will be strictly enforced and that the monetary program be implemented in full and without delay.

Effective trade and payments mechanisms among the FSU states still remain to be implemented; also, several states continue to debate whether they should introduce a separate national currency. This is creating uncertainties and distortions that are adversely affecting economic activity, especially trade, and the effectiveness of economic policy-making in general, throughout the FSU. To help resolve these uncertainties, it is important for the Russian authorities to convey clearly and consistently their policy intentions with respect to Russia's trade and financial relations vis-à-vis the states of the FSU.

From a medium-term perspective, it must be recognized that the challenge of transforming the economy is immense. Russia also faces a heavy debt service burden in the years when obligations to the Fund fall due. Even if the measures included in the current program are fully implemented, the task of macroeconomic stabilization will remain to be completed, and will require in 1994 a significant further reduction in the growth of monetary and credit and further substantial measures to reduce the fiscal imbalance. The adjustment effort will need to be applied consistently over many years, and sustained support from the international financial community on appropriate terms and growing reliance on nondebt-creating flows, will be crucial in assuring its success.

Table 1. Russian Federation: Basic Data

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

	1990	1991	1992	1993	
				Q1	Year 1/
Real GDP	...	-9	-19	-17	-15
Real gross industrial output	-0.1	-8	-19	-19	...
Output of oil	-6.5	-11	-15	-15	-10
Output of natural gas	4.0	--	--	--	-1
Consumer prices (RPI/CPI)					
Average	5.6	93	1,354	667	591
Within-period	...	144	2,318	88	417
Industrial producer prices					
Average	3.9	138	1,949	...	...
Within-period	...	236	3,275	114	...
Average monthly wage (level, in rubles)	297	552	6,014	19,323	39,614
End-period monthly wage (level, in rubles)	...	1,195	16,071	23,559	...
Minimum monthly wage (level, in rubles)	80	130	668	2,250 2/	...
Registered unemployed (End-period level, in percent of the labor force)	...	0.1	0.8	1.0	...
General government deficit (on a cash basis, in percent of GDP)	...	16 3/	7	3	6
Enlarged government sector deficit (on a cash basis, in percent of GDP) 4/	...	...	20	8	10
Credit to the economy (end-period) 5/					
Nominal	...	127	803	56	250
Real 6/	...	-7	-63	-17	-32
Ruble broad money (end-period)					
Nominal	...	99	610	41	236
Real 6/	...	-18	-71	-25	-35
Balance of payments 7/					
Exports in U.S. dollars	...	-36	-22	-7	--
Oil, including oil products (in volume)	-16	-37	-7	26	--
Natural gas (in volume)	...	-5	-1	8	3
Imports in U.S. dollars	...	-46	-18	-60	11
Trade balance (level, in billions of U.S. dollars)	-2.0	6.6	3.1	3.5	-1.0
Current account balance (including gold sales, level, in billions of U.S. dollars)	-4.5	4.2	-4.3	0.8	-11.1
Total scheduled debt service (in billions of U.S. dollars)	14.0	10.4	15.6	5.1	20.5
Principal	11.1	7.8	10.4	3.4	14.1
Interest	2.9	2.6	5.2	1.7	6.4
Arrears (- = decrease)	2.7	-0.5	7.1	2.9	-11.8

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

1/ Program.

2/ The minimum wage was raised to rub 4,275 on April 1, 1993.

3/ In 1991, refers to the notional budget deficit.

4/ General government, plus unbudgeted import subsidies associated with foreign disbursements.

5/ Excluding credit to Government.

6/ Deflated by the within-period CPI/RPI.

7/ Excludes shipments to or from other states of the FSU.

Table 2. Russian Federation: Monetary Authorities' Accounts, 1991-93

(End of period; in billions of rubles)

	1991	1992				1993
	Dec. 1/	Mar. 1/	June	Sept.	Dec.	Mar.
Net international reserves 1/	246	225	297	643	1,458	2,949
Gold 2/	280	222	341	662	1,230	2,093
Net government foreign exchange	--	22	13	22	118	323
Net CBR foreign exchange	2	9	17	85	328	801
Official short-term liabilities	-35	-27	-74	-125	-219	-268
Net domestic assets	108	329	860	2,001	2,926	3,527
Net domestic credit	321	433	1,233	2,652	5,548	7,706
Net credit to Government	178	67	338	900	1,577	1,990
Net credit to federal government	...	...	470	1,259	2,167	3,026
Net credit to local government	-24	-49	-61	-165	-211	-414
Net claims on extrabudgetary funds	...	...	-71	-194	-379	-622
Credit to banks	143	326	598	1,328	2,947	4,043
Credit to banks at penalty rate	2	27	24	29	77	202
Credit to banks at bank rate	134	286	568	1,293	2,865	3,835
Other credit to banks	--	8	13	6	6	55
Interstate loans	--	40	297	424	1,024	1,673
Other assets net	-213	-104	-372	-651	-2,622	-4,178
Monetary base	353	556	1,158	2,644	4,384	6,476
Currency issue	173	250	453	1,010	1,890	2,966
Bankers' deposits	180	306	706	1,633	2,494	3,510
Minimum reserves	8	86	113	254	472	731
Correspondent accounts	171	220	592	1,380	2,021	2,779
<u>Memorandum items:</u>						
Currency issue to other central banks	99	120	174	294	547	842
Government gold holdings (in tons)	290	180	196	185	175	184
Government foreign exchange (US\$ millions)	--	216	88	85	284	472

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 March 1992, 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 March 1992 and, hence, other assets net is not directly comparable. The information after December 1992 is provisional.

2/ Official gold is valued at US\$300 per troy ounce.

Table 3. Russian Federation: Monetary Survey, 1991-93 ^{1/}

(In billions of current rubles)

	1991	1992				1993
	Dec.	Mar.	June	Sept.	Dec.	Mar.
Net foreign assets ^{2/}	438	657	1,201	2,366	5,300	9,359
Net international reserves	246	225	297	643	1,458	2,949
Gold ^{3/}	280	222	341	662	1,230	2,092
Net CBR foreign exchange	2	9	17	85	328	801
Net government foreign exchange	--	22	13	22	118	323
Official short-term liabilities	-35	-27	-74	-125	-219	-268
Net banking system foreign exchange	193	432	904	1,723	3,843	6,410
Net domestic assets	763	977	1,624	4,605	6,954	9,394
Domestic credit	895	1,305	2,258	4,785	8,286	12,065
Net claims on government	140	66	238	615	1,358	1,266
Net claims on federal government	...	...	431	1,181	2,114	2,790
Net claims on local government	-37	-74	-83	-209	-274	-731
Net claims on extrabudgetary funds	...	...	-110	-358	-481	-792
Claims on rest of the economy	755	1,239	2,020	4,170	6,928	10,799
Ruble credit	594	1,010	1,688	3,682	6,126	9,309
Foreign exchange credit ^{2/}	161	230	332	488	802	1,490
Net banking system interstate credit ^{4/}	--	40	297	421	1,003	1,596
Other items net	-132	-368	-932	-600	-2,335	-4,267
Money	1,201	1,633	2,824	6,972	12,253	18,750
Currency outside banks	167	240	448	990	1,856	2,951
Currency issue	173	250	453	1,010	1,890	2,966
Less: currency in bank vaults	-6	-10	-5	-21	-34	-15
Ruble deposits	831	1,075	1,524	3,448	5,230	7,204
Foreign exchange deposits ^{2/}	203	319	852	2,534	5,167	8,595

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 March 1992 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 March 1992, and thereafter on the basis of end-period exchange rates quoted on the Moscow Interbank Currency Exchange Market. The information after December 1992 is provisional.

^{3/} Official gold valued at US\$300 per troy ounce.

^{4/} Comprises CBR interstate loans and net claims of the banking system on other FSU states.

Table 4. Russian Federation: Monetary Projections, 1992-93
(In billions of rubles; unless otherwise indicated)

	End-of-Period Stocks							
	Preliminary				Program Targets			
	Jun 92	Sep 92	Dec 92	Mar 93	Mar 93 1/	Jun 93	Sep 93	Dec 93
I. Central Bank of Russia (CBR)								
Net international reserves 2/	297	643	1,458	2,949	3,880	3,950	3,050	2,150
CBR net domestic assets	861	2,001	2,926	3,527	2,596	5,357	8,799	12,229
Net domestic credit	1,233	2,652	5,548	7,706	7,706	10,596	14,637	18,251
Net credit to gen. govt.	338	900	1,577	1,990	1,990	3,165	5,305	7,619
Gross credit to banks	598	1,328	2,947	4,043	4,043	5,543	7,443	8,743
Interstate loans	297	424	1,024	1,673	1,673	1,889	1,889 3/	1,889 3/
Other net unclassified 4/	-372	-651	-2,622	-4,179	-5,110	-5,240	-5,838	-6,022
Base money	1,158	2,644	4,384	6,476	6,476	9,307	11,849	14,379
Currency	453	1,010	1,890	2,966	2,966	...	...	...
Required reserves	113	254	472	731	731	...	...	...
Correspondent account balances	592	1,380	2,021	2,779	2,779	...	...	...
II. Monetary Survey								
Net foreign assets 2/	1,201	2,366	5,300	9,359	12,315	14,184	13,284	11,034
Net international reserves	297	643	1,457	2,949	3,880	3,950	3,050	2,150
Banking system foreign exchange	904	1,723	3,843	6,410	8,434	10,234	10,234	8,884
Net domestic assets	1,623	4,606	6,953	9,391	9,150	13,659	20,146	26,239
Net credit to gen. govt. 5/	238	615	1,358	1,266	1,266	2,329	4,676	7,245
Credit to economy	2,020	4,170	6,928	10,799	10,799	14,505	19,923	24,681
Interstate loans	297	424	1,024	1,673	1,673	1,889	1,889	1,889
Other items net 6/	-932	-603	-2,357	-4,347	-4,588	-5,064	-6,342	-7,576
Liabilities to nongovernment	2,824	6,972	12,253	18,750	21,464	27,843	33,430	37,273
Ruble broad money	1,972	4,438	7,086	10,155	10,155	14,734	19,521	24,144
Currency	448	990	1,856	2,951	2,951	...	...	...
Quasi-money	1,524	3,448	5,230	7,204	7,204	...	...	...
Foreign exchange deposits 2/	852	2,534	5,167	8,595	11,309	13,109	13,109	13,129
(Changes in relation to base money at the beginning of the period; in percent) 7/								
CBR net domestic assets		98	35	14	...	43	37	29
Net domestic credit		123	110	49	...	45	43	31
CBR credit to gen. govt.		49	26	9	...	18	23	20
CBR gross credit to banks		63	61	25	...	23	20	11
Interstate loans		11	23	15	...	3	...	...
(Changes in relation to liabilities to nongovernment at the beginning of the period; in percent) 6/								
Banking system net domestic assets		106	34	20	...	23	23	18
Net credit to gen. govt.		13	11	-1	...	6	8	8
Credit to economy		76	40	32	...	20	19	14
Interstate loans		4	9	5	...	1	...	...

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

1/ CBR net international reserves and banking system foreign exchange and foreign exchange deposits valued at an accounting exchange rate of rub 900 per U.S. dollar.

2/ Valued at end-period exchange rates from end-June 1992 through end-March 1993 except as indicated by footnote 1 for March 1993, and at an accounting exchange rate of rub 900 per U.S. dollar thereafter.

3/ The amounts shown include only credit limits authorized (and mostly used) as of end-May. To the extent that additional credits are extended, net credit to general government and/or gross credit to banks will be reduced correspondingly.

4/ Includes net equity, NIR reporting discrepancy, float, and a small amount of deposits of enterprises.

5/ Includes holdings of Treasury bills by commercial banks. The financing implicit for the first quarter of 1993 differs from what is shown in Table 6 owing to payments made but not cleared at the level of commercial banks; this reconciliation problem is being investigated.

6/ Includes net equity, NFA reporting discrepancy, float, deposits of the economy, U.S.S.R. debt, frozen resident foreign exchange accounts, and net credit for the clearing of interenterprise arrears during 1992.

7/ Percentage changes shown for the last three quarters of 1993 exclude the impact of changes in the exchange rate.

Table 5. Russian Federation: Summary of Fiscal Indicators, 1992-93

(In percent of GDP, unless otherwise indicated)

	1992	1993	1993	1993			
	Actual	Current	(Prog.)	First quarter (prel.)	Second quarter (proj.)	Third quarter (prog.)	Fourth quarter (prog.)
Revenue	30.8	34.4	35.4	40.1	37.6	34.7	33.2
Of which:							
VAT	11.8	9.9	9.9	12.0	11.6	9.2	8.8
Domestic tax on oil and gas	0.5	0.7	1.3	1.2	0.8	1.1	1.8
Profit tax	9.2	9.2	9.2	14.5	12.1	7.8	7.0
Household income tax	2.5	1.8	1.8	2.9	1.8	1.5	1.7
Export tax	1.8	3.4	3.4	3.2	4.8	3.4	2.5
Import tariffs	0.3	1.5	1.5	1.3	1.3	1.7	1.4
Expenditure ^{1/}	40.8	48.5	43.7	47.9	44.2	45.6	40.3
Of which:							
Wage bill ^{2/}	6.4	11.5	11.0	9.5	11.1	10.1	12.2
Producer and consumer subsidies	8.1	7.7	5.5	8.0	5.9	6.2	3.6
Operation and maintenance	7.3	6.6	5.9	9.6	6.7	4.9	5.2
Investment	2.9	6.5	4.9	3.5	4.3	6.6	4.1
Foreign expenditure	3.1	6.3	6.3	5.0	8.4	6.4	5.5
Defense (including wages)	5.0	7.0	6.2	7.6	6.2	6.3	5.7
Interest payments on treasury bills	--	0.2	0.2	--	--	0.2	0.3
Net lending for working capital	3.5	0.4	0.4	-0.2	-0.2	1.7	-0.1
Float and stat. discrepancy	...	...	0.3	2.5	0.0	0.0	0.0
Extrabudgetary funds ^{3/}	2.6	2.2	2.2	2.5	3.2	2.4	1.4
General government balance, cash basis	-7.3	-11.9	-5.7	-2.8	-3.4	-8.5	-5.7
Unbudgeted import subsidies	12.6	5.2	4.2	5.1	7.4	3.5	2.7
Enlarged deficit, cash basis	-20.0	-17.1	-10.0	-7.9	-10.8	-12.0	-8.4
Total financing	20.0	...	10.0	7.9	10.8	12.0	8.4
Net foreign financing	12.8	...	6.9	5.4	9.0	7.3	5.9
Net domestic financing	7.1	...	3.1	2.5	1.8	4.6	2.5
Privatization receipts	0.4	...	0.2	0.5	0.2	0.2	0.1
Amortization of internal debt	-0.2	...	-3.6	-0.7	-3.8	-3.1	-5.0
Gold and precious metal sales	1.0	...	0.3	0.3	0.3	0.2	0.3
Domestic bank financing	6.0	...	6.2	2.5	5.0	7.3	7.1
CBR net credit	...	...	5.9	3.3	5.6	6.7	6.4
Commercial banks	...	...	-0.3	-0.8	-1.2	-0.1	0.0
Treasury bills	...	...	0.6	0.0	0.7	0.8	0.7
<u>Memorandum items:</u>							
On-lending of foreign credit	0.0	...	0.4	0.0	0.7	0.5	0.4
Surplus of local governments ^{4/}	1.7	...	3.0	4.1	3.0	3.0	2.7
Nominal CBR credit, rub billion	...	...	6042.0	413.0	1174.0	2141.0	2314.0
Nominal GDP, rub billion	17,000	...	101,886	12,563	21,132	32,003	36,188

Sources: Ministry of Finance; and Fund staff estimates.

^{1/} Economic classification of expenditures is based on estimates by the Ministry of Finance and Fund staff (official data are presented in a mixture of functional and economic classification).

^{2/} Includes the wage bill in the military sector, and social security contributions.

^{3/} Includes Pension Fund, Employment Fund, Social Support Fund of the Population, Social Insurance Fund, Military Fund from Resettlement, and Road Fund.

^{4/} Includes direct transfers from the federal to local governments; excludes drawdown of own deposits.

Table 6. Russian Federation: Quarterly Financing of the Enlarged Government, 1993

(In billions of rubles and in percent of GDP)

	1993 (Prog.)	Q1 (Prel.)	Q2 (Proj.)	Q3 (Prog.)	Q4 (Prog.)
Total deficit financing	<u>10,140</u>	<u>998</u>	<u>2,280</u>	<u>3,826</u>	<u>3,037</u>
Foreign financing	<u>7,059</u>	<u>683</u>	<u>1,907</u>	<u>2,349</u>	<u>2,121</u>
Grants to budget (excluding German grants)	258	52	54	95	58
Foreign disbursements (excluding net lending)	7,150	689	1,943	3,359	2,159
Net amortization	-349	-57	-91	-105	-96
Amortization	-12,339	-1,952	-3,349	-3,675	-3,364
Principal deferral	11,990	1,894	3,258	3,570	3,267
Domestic financing	<u>3,082</u>	<u>315</u>	<u>373</u>	<u>1,417</u>	<u>916</u>
Nonbank financing	-3,208	5	-690	-870	-1,653
Principal repayment (commodity debt and repayments to Sberbank)	-3,685	-92	-800	-1,000	-1,793
Proceeds of privatization	197	57	50	50	40
Sales of gold and precious metals	280	40	60	80	100
Bank financing	6,290	310	1,063	2,347	2,569
CBR	6,042	413	1,174	2,141	2,314
Commercial banks	-402	-103 ^{1/}	-261	-44	5
Treasury bills	650	--	150	250	250

Sources: Provided by the authorities; and Fund staff estimates.

^{1/} See Table 4, footnote 5.

Table 7. Russian Federation: Detailed Quarterly Budget, 1993

(In billions of rubles and in percent of GDP)

	Year	QI (Prel. est.)	1993 QII (Proj.)	QIII (Prog.)	QIV (Prog.)
Revenue	36,086	5,038	7,937	11,103	12,008
VAT, including on imports	10,097	1,507	2,458	2,938	3,194
Excise taxes, including on imports	1,705	139	368	540	658
Domestic energy tax, oil	1,329	152	172	350	655
Profit tax	9,400	1,817	2,555	2,500	2,528
Household income tax	1,847	366	370	480	632
Tax on national resources and mineral extraction	1,783	158	338	596	690
Foreign activity	5,533	605	1,360	1,879	1,689
Export tax on oil	1,126	407	298	252	169
Export tax on gas	1,596	...	509	570	517
Export tax, other	700	...	217	252	231
Import tariff and charges	1,495	160	281	532	523
Counterpart funds from U.S. dollar sales	608	31	54	273	250
Interest income	8	8	...	...	...
Other, excluding privatization	4,393	295	317	1,819	1,962
Expenditure	44,515	6,016	9,331	14,590	14,579
National economy excluding investment	2,169	394	560	559	656
Operation, maintenance	1,142	333	333	267	209
Conversion fund	382	--	100	100	182
Geological research, including off-budget	645	61	127	192	265
Total subsidies	5,556	1,002	1,257	1,986	1,310
Coal	1,297	335	457	318	187
Agriculture, other than interest through banks	1,385	32	250	812	290
Military conversion, including off-budget	...	--	--	--	--
Interest subsidy through banks	900	71	200	300	329
Subsidy to other sectors	421	30	100	150	141
Subsidy from local budgets	1,552	534	250	406	362
Social-cultural expenditure	8,257	1,251	1,923	2,245	2,837
Science	1,138	142	204	209	583
Internal security	2,410	284	441	776	909
Administration	1,060	145	233	241	441
Investment, including off-budget	4,960	433	906	2,126	1,495
Defense (total)	6,368	950	1,310	2,031	2,077
Reserve Fund of Government	192	6	50	60	75
Domestic debt service (excluding amortization)	1,052	147	250	300	355
Foreign expenditure	6,440	624	1,775	2,060	1,981
External debt service	2,879	159	815	945	961
Domestic U.S. dollar debt service	911	75	259	301	275
Centralized imports (cash)	1,354	188	362	420	384
Other foreign expenditure	1,296	202	339	394	360
Transfers (Chernobyl)	523	51	100	150	222
Reserve Fund for wage increases	741	--	188	235	318
Net lending for working capital increase	430	-20	-50	550	-50
Interest on Treasury bills	183	--	11	52	120
Other	3,037	606	173	1,009	1,250
Float and statistical discrepancy	313	313	--	--	--
Extrabudgetary funds, total	2,265	311	670	774	510
General government fiscal balance (including float and discrepancy; in percent of GDP)	-5,851 -6	-354 -3	-723 -3	-2,713 -8	-2,061 -6
Unbudgeted import subsidies (in percent of GDP)	4,289 4	644 5	1,557 7	1,113 3	975 3
Enlarged government sector balance (in percent of GDP)	-10,140 -10	-998 -8	-2,280 -11	-3,826 -12	-3,037 -8
Arrears (- reduction)	--	--	--	--	--
Interest deferral/rescheduling	2,844	517	815	840	673
Fiscal balance, commitment	-12,984	-1,515	-3,094	-4,666	-3,709
Fiscal balance, cash basis (in percent of GDP)	-10,140 -10	-998 -8	-2,280 -11	-3,826 -12	-3,037 -8

Sources: Data provided by the authorities; and Fund staff estimates.

Table 8. Russian Federation: Quarterly Revenue, 1993

	Jan.-Mar.	Apr.-Jun.	July-Sept.	Oct.-Dec.	Cumulative		
					Jan.-Jun.	Jan.-Sept.	Jan.-Dec.
(In billions of rubles)							
Revenue	5,038.4	7,937.5	11,103.0	12,007.6	12,975.9	24,078.8	36,086.4
Value-added tax (VAT)							
(including on imports)	1,506.9	2,458.0	2,938.4	3,193.6	3,964.9	6,903.3	10,096.9
Excise tax (including on imports)	138.9	367.5	540.4	657.6	506.4	1,046.8	1,704.5
Domestic tax on oil	151.5	172.3	350.0	655.2	323.8	673.8	1,329.0
Profits tax	1,816.7	2,555.0	2,500.0	2,528.3	4,371.7	6,871.7	9,400.0
Trend	1,816.7	...	...	...	...	...	...
Impact of energy price increase	...	...	...	...	...	...	...
Household income tax	365.8	369.8	480.0	631.7	735.6	1,215.6	1,847.3
Tax on natural resources (timber)	154.8	338.1	596.1	690.5	496.5	1,092.6	1,783.1
Foreign activity	605.3	1,359.5	1,879.2	1,688.9	1,964.8	3,844.1	5,532.9
Export tax on oil	407.4	298.4	252.1	168.5	705.8	1,275.9	1,126.5
Export tax on gas	...	509.0	570.1	516.9	509.0	1,079.1	1,596.0
Export tax, outside CES	...	217.2	252.0	230.6	217.2	469.2	699.8
Import tariff and charges	159.6	280.6	532.0	522.9	440.2	972.2	1,495.1
Counterpart funds (budget)	30.7	54.3	273.0	249.9	85.0	358.0	607.9
Other	7.6	5.0	5.0	5.0	12.6	17.6	22.6
Other	294.9	317.2	1,818.8	1,961.8	612.1	2,430.9	4,392.8
CBR profit transfer	--	--	495.1	495.1	--	495.1	990.2
7 percent VAT earmarked	--	--	771.3	880.9	--	771.3	1,652.2
Other new taxes	--	148.2	296.4	296.4	148.2	444.6	740.9
(In percent of GDP)							
Revenue	40.1	37.6	34.7	33.2	38.5	36.7	35.4
Of which:							
Value-added tax (VAT)							
(including on imports)	12.0	11.6	9.2	8.8	11.8	10.5	9.9
Excise tax (including on imports)	1.1	1.7	1.7	1.8	1.5	1.6	1.7
Domestic tax (on oil and gas)	1.2	0.8	1.1	1.8	1.0	1.0	1.3
Profits tax	14.5	12.1	7.8	7.0	13.0	10.5	9.2
Household income tax	2.9	1.8	1.5	1.7	2.2	1.9	1.8
Export tax	3.2	4.8	3.4	2.5	4.2	4.3	3.4
Import tariff	1.3	1.3	1.7	1.4	1.3	1.5	1.5
New taxes	--	0.7	4.9	4.6	0.4	2.6	3.3
Memorandum items:							
Exchange rate per U.S. dollar	574.0	905.0	1,050.0	961.0	739.5	843.0	872.5
Nominal GDP	12,563.0	21,132.0	32,003.0	36,188.0	33,695.0	65,698.0	101,886.0

Sources: Data provided by the authorities; and Fund staff estimates.

Table 9. Russian Federation: Balance of Payments (Excluding FSU Transactions), 1991-93

(In billions of U.S. dollars)

	Est. 1991	1992 (Est.)					1993 (Scenario)				
		QI	QII	QIII	QIV	Year	QI	QII	QIII	QIV	Year
Current account	4.1	-2.2	-1.2	-1.0	0.2	-4.3	0.8	-4.4	-3.5	-4.0	-11.1
Trade balance 1/	6.4	-1.3	0.8	0.9	2.7	3.1	3.5	-1.8	-1.1	-1.6	-1.0
Exports	50.9	7.5	10.2	9.9	12.4	40.0	7.0	10.2	11.4	11.4	40.0
Oil	11.8	2.3	3.2	3.5	3.7	12.7	2.3	2.8	3.0	3.0	11.1
Natural gas	10.3	1.8	1.8	1.8	2.0	7.5	1.9	1.9	2.4	2.4	8.6
Other	28.8	3.4	5.1	4.5	6.7	19.8	2.7	5.5	6.0	6.0	20.2
Imports	-44.5	-8.8	-9.4	-9.0	-9.7	-36.9	-3.5	-12.0	-12.5	-13.0	-41.0
Gold	2.3	0.6	--	0.3	0.2	1.1	0.2	0.2	0.2	0.1	0.7
Services, net	-4.6	-1.6	-2.0	-2.2	-2.7	-8.5	-2.9	-2.8	-2.6	-2.5	-10.7
Transportation and insurance	0.1	--	-0.1	--	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.4
Travel	-0.3	-0.1	-0.1	-0.1	-0.1	-0.4	-0.1	-0.1	-0.1	-0.2	-0.5
Interest, net	-2.2	-0.8	-1.1	-1.1	-1.5	-4.5	-1.5	-1.5	-1.3	-1.1	-5.4
Receipts	0.5	0.3	0.2	0.2	0.2	0.9	0.3	0.3	0.3	0.3	1.2
Payments	-2.7	-1.1	-1.3	-1.3	-1.7	-5.4	-1.8	-1.8	-1.6	-1.4	-6.6
Other	-2.2	-0.7	-0.7	-1.0	-1.0	-3.4	-1.1	-1.1	-1.1	-1.1	-4.4
Capital account	3.6	0.3	0.1	1.1	-1.5	--	-1.2	-2.9	-0.3	1.0	-3.4
Grants	1.6	0.8	0.8	0.7	0.7	3.0	0.8	0.7	0.8	0.7	3.0
Medium- and long-term capital	2.8	2.3	0.9	-0.1	0.1	3.3	-2.1	-1.8	-1.4	-1.5	-6.8
Disbursements	7.8	4.5	3.5	2.2	2.5	12.8	1.5	2.2	2.3	2.3	8.3
Amortization 2/	-5.0	-2.1	-2.4	-2.2	-2.3	-8.9	-3.4	-3.7	-3.5	-3.5	-14.1
Other	--	-0.1	-0.2	-0.1	-0.1	-0.6	-0.2	-0.3	-0.2	-0.3	-1.0
Commercial banks	-0.7	-2.3	-1.2	0.3	-2.5	-5.7	-0.1	-2.0	--	1.5	-0.6
Other short term	--	-0.7	-0.7	--	--	-1.4	--	--	--	--	--
Foreign direct investment	-0.1	0.2	0.2	0.2	0.1	0.7	0.2	0.2	0.3	0.3	1.0
Monetization of gold	...	--	0.1	--	0.1	0.2	...	...	...	...	...
Errors and omissions	-1.8	-1.7	-2.8	-2.5	-1.5	-8.4	-3.5	--	--	--	-3.5
Overall balance	5.9	-3.6	-3.9	-2.4	-2.7	-12.7	-4.0	-7.3	-3.8	-3.0	-18.0
Financing	-5.9	3.6	3.9	2.4	2.7	12.7	4.0	7.3	3.8	3.0	18.0
Net international reserves											
Convertible currencies	0.6	0.1	--	-0.5	-1.0	-1.3	-0.7	-0.1	1.0	1.0	1.1
Assets	1.5	0.3	-0.1	-0.5	-2.0	-2.2	-0.4	-0.4	-0.5	-0.5	-1.7
Liabilities	-0.9	-0.2	0.1	--	1.0	0.9	-0.3	0.2	1.5	1.5	2.9
Fund credit		--	--	--	1.0	1.0	--	--	1.5	1.5	3.0
Other	-0.9	-0.2	0.1	--	--	-0.1	-0.3	0.2	...	...	-0.1
Arrears	1.4	1.7	2.1	1.1	2.0	6.9	2.9 3/	...	...	...	-11.8
1992 deferral	0.3	1.8	1.8	1.8	1.7	7.1	1.8	...	...	...	...
April 1993 rescheduling 2/											13.4
Possible other rescheduling 2/											15.3
Interrepublican residual	-8.2	...	...	...	...	...	...	...	...	...	...
Memorandum item:											
Russia's debt share (in percent)	...	100	100	100	100	100	100	100	100	100	100

Source: Goskomstat; Central Bank of Russia; Vneshekonombank; and Fund staff estimates.

1/ The trade balance in 1992 includes a surplus on barter and clearing transactions, which is estimated by the Government at US\$4.7 billion. This estimate could arise from valuation problems with barter trade and could affect reported errors and omissions. The staff will continue to discuss this issue with the authorities to try to resolve this problem.

2/ In 1993, excludes the repayments and refinancing of the principal deferred in 1992.

3/ Includes rescheduleable arrears.

Table 10. Russian Federation: Balance of Payments
with FSU States, 1991-93

(In billions of rubles)

	1991	1992		1993
		Actual prices	World prices <u>1/</u>	Staff projections
Current account	<u>32</u>	<u>298</u>	<u>2,683</u>	<u>3,802</u>
Trade balance	32	298	2,683	2,439
Exports	135	2,147	7,278	13,530
Oil	12	405	2,450	3,200
Natural Gas	5	196	1,794	3,128
Other	118	1,546	3,034	7,202
Imports	-116	-1,849	-4,595	-11,092
Services, net	...	...	...	...
Interest receipts <u>2/</u>	--	--	--	1,363
Capital account	...	...	...	...
Interstate arrears	...	270	270	-270
State credits	...	-2	-2	-800
Commercial banks	...	...	...	-800
Enterprises	...	...	...	-1,000
Other	...	-4	-4	-32
Implicit subsidy <u>3/</u>	...	...	-2,385	...
Errors and omissions	...	465	465	--
Overall balance	...	1,027	1,027	900
Financing	...	-1,027	-1,027	-900
Correspondent accounts <u>4/</u> and technical credits	...	-1,027	-1,027	-900
<u>Memorandum item:</u>				
GDP deflator (percentage change)	...	1,558	1,558	591

Sources: Goskomstat; CBR; State Committee on Economic and Financial Relations with CIS States; and Fund staff estimates and projections.

1/ Estimates based on information provided by the Russian authorities.

2/ Based on the technical assumption of 100 percent interest rate on the CBR, Government, and commercial bank credits, the same assumption as in the April projections. The Russian Government is presently negotiating with the other FSU states on the terms of such lending and the outcome might differ from the assumption used in this projection.

3/ Implicit subsidy calculated as the difference between trade at actual prices and at world prices.

4/ Excluding currency issue. In these projections, no convertible currency financing from other sources than Russia has been assumed.

Table 11. Russian Federation: Indicators of Fund Credit, 1992-99 1/

	1992	1993	1994	1995	1996	1997	1998	1999
(In percent)								
Outstanding Fund credit								
Quota	16.7	66.7	66.7	66.7	58.4	50.0	45.9	41.7
Exports	2.5	10.0	9.0	7.7	6.0	4.7	3.9	3.3
Reserves	19.6	59.0	40.1	30.8	22.6	16.7	13.1	10.4
Total external debt	1.3	4.4	3.8	3.6	3.0	2.5	2.3	2.0
Fund charges and repurchases								
Quota	--	0.8	5.3	5.2	13.4	13.0	7.1	6.8
Exports	--	0.1	0.7	0.6	1.4	1.2	0.6	0.5
Reserves	--	0.6	3.2	2.4	5.2	4.3	2.0	1.7
Total external debt	--	--	0.3	0.3	0.7	0.6	0.4	0.3
(In billions of U.S. dollars)								
Memorandum items:								
Fund purchases	1.0	3.0	--	--	--	--	--	--
Fund repurchases	--	--	--	--	0.5	0.5	0.25	0.25
Total liabilities ^a								
to the Fund	1.0	4.0	4.0	4.0	3.5	3.0	2.8	2.5
Fund charges	...	0.05	0.3	0.3	0.3	0.3	0.2	0.2
SDR/US\$ exchange rate	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4

Source: Fund staff estimates.

1/ Assuming purchases of SDR 1,078.275 million under the STF in July and December 1993.

Table 12. Russian Federation: Major Structural Reforms,
January 1992-May 1993

Area	Actions
Price system	Liberalization of prices of most domestic goods and services Elimination of obligatory state orders Substantial adjustment of administered prices Liberalization of domestic price of oil, subject to export quotas
Foreign trade	Elimination of quantitative import restrictions Reduction in quantitative export restrictions for some categories of goods
Exchange system	Exchange rate unification Current account convertibility for residents Broadening of foreign exchange markets
Fiscal operations	Introduction of VAT Introduction of Treasury bill auctions Progress toward a full-fledged Treasury
Privatization	Corporatization of state enterprises Substantial progress in privatization of small-scale enterprises, housing, and municipal properties Establishment of private farms Accelerated privatization of medium- and large-sized enterprises, including through voucher auctions



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR

CABLE ADDRESS
INTERFUND

June 14, 1993

Dear Mr. Camdessus,

On behalf of my authorities I am pleased to attach a copy of the Policy Statement of the Russian authorities dated May 22, 1993, on the basis of which we will request a drawing of SDR 1,078.275 million under the IMF's Systemic Transformation Facility.

Sincerely yours,

A handwritten signature in dark ink, appearing to be "K. Kagalovsky", is written over a horizontal line.

Konstantin Kagalovsky
Executive Director
for Russian Federation

Mr. Michel Camdessus
Managing Director
International Monetary Fund

Economic Policy Statement of the Government of Russia
and Central Bank of Russia

Objectives

Fiscal and monetary policies of the Government and Central Bank will aim at reducing the monthly rate of inflation to single digit levels by the end of 1993 and to achieve further progress toward price stability in 1994. Other policies, including those related to external trade, the exchange rate system and privatization, will aim at increasing the efficiency of the Russian economy, speeding up its integration into the world economy, and expanding the role of markets taking into account the federal structure of the state. The specific aspects of the policy measures contained in this statement are specified in the Technical Annex.

1. Monetary and credit policy

a. Total credit expansion by the Central Bank of Russia (CBR) will be subject to quarterly ceilings consistent with the authorities' inflation objectives, beginning in the second quarter of 1993.

b. Authorization of directed subsidized credits, whether by the Government or the CBR, will be limited so as to be consistent with the above mentioned credit targets. All requests for directed bank credits will be channeled through the Commission on Credit Policy.

c. The Russian Government and the CBR will phase out all directed central bank credits, provide subsidies only from the budget, and rely on market mechanisms in the conduct of monetary policy. To achieve this goal, the CBR will substantially increase the proportion of credit it extends to commercial banks through credit auctions or other market-related mechanisms. The CBR also will refrain from allocating credit on a sectoral or regional basis and from extending credit directly to specific enterprises. By July 15, 1993 the CBR finance rate will be set at a level of not more than 7 percentage points (at an annual rate) below the interbank rate; this maximum spread between the CBR finance rate and the interbank rate will be maintained thereafter.

From now on, all interest rate subsidies will be provided only through the budget subject to the limits specified in the budget.

d. Henceforth, the Government and the CBR will not authorize the extension of credit for the purpose of clearing interenterprise arrears. Measures will be taken to introduce an efficient system of settlements and trade credit.

2. Budgetary policy

a. The cash deficit of the enlarged government (defined to include the general government plus unbudgeted import subsidies) will be subject to quarterly targets consistent with the credit program in section 1. The Government's borrowing requirement from the domestic banking system, including the CBR, will be correspondingly limited, taking into account the availability

of foreign financing and the scope for issuing government securities on market terms.

b. The Government will introduce expenditure and revenue measures needed to ensure adherence to the overall deficit target and the limit on bank borrowing. These measures will include cuts in subsidies, in particular import subsidies and subsidized directed credits, and removal of tax exemptions. The Government also intends to increase revenue from taxation of energy products.

3. Exchange rate policy and international reserves

a. We regard the establishment of a market-based unified exchange system as a milestone in the transition to a market economy. Our ultimate objective is to achieve a stable exchange rate; in the meantime, the ruble will continue to float against other currencies until financial policies have been tightened and inflation has been substantially reduced. Until then, the CBR will not intervene in the foreign exchange market for the purpose of achieving a specific exchange rate target. We intend to strengthen Russia's international reserve position.

b. We intend to expand the access of nonresidents to foreign exchange markets in Russia. From July 15, 1993 nonresidents will be authorized to sell foreign exchange in the interbank market, and from September 1, 1993 they will be authorized to purchase foreign exchange.

c. The CBR intends to take further measures to foster the development of the foreign exchange market, including the support of regional currency exchanges and a transition to daily quotations of the exchange rate by the CBR.

4. Trade policy

The Government will take further steps toward trade liberalization. Export quotas for various products will be phased out according to specific calendars. The value of exports under the centralized export scheme will not be increased in 1993 and will be limited in 1994 to no more than one third of the level for 1993. During the program period, the Government does not intend to introduce or intensify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement or impose any new import restrictions for balance of payments reasons.

5. Structural change

The Government intends to complete its privatization program, develop a legal framework suitable for a market economy and to foster the development of financial markets and facilitate structural changes in the economy. In particular, the Government will seek approval of the new laws on joint stock companies and securities as well as of the new civil and commercial code, including the strengthening of the legal enforcement of contracts; it will seek removal of restrictions on land ownership; and it will begin prompt

implementation of the bankruptcy law. The CBR intends to strengthen the supervision of financial institutions.

6. Interstate cooperation

a. The Government and CBR recognize the considerations causing other states of the former Soviet Union to introduce a separate currency, and they are ready to cooperate fully with them. The Government will seek to conclude agreements with those states which express the wish to use the Russian currency.

b. We have initiated negotiations with the other countries of the former Soviet Union on the terms and conditions that will apply to credits extended by Russia in 1992 and early 1993, and on the amounts and modalities of new intergovernmental loans extended by Russia to those countries. These loans will be extended only through the budget and will be considered official claims.

c. We intend to work with interested states to increase the effectiveness of payments mechanisms among the states of the former Soviet Union, including the creation of improved interstate clearing mechanisms.

7. Policy implementation and monitoring

The Russian Government will provide the staff of the International Monetary Fund with the information necessary to monitor compliance with the economic program to be supported by the use of Fund resources. In this connection, and in cooperation with the Fund staff, the Government and the Central Bank will develop a system of short-term indicators of financial and external developments. Steps are being taken to improve the Government's capacity to implement policies, including in particular strengthening the operational capacities of the Credit Policy Commission, making the Treasury fully operational, and developing cooperation with all extrabudgetary funds. Lastly, the Government will establish by September 1, 1993 a mechanism to monitor foreign disbursements and the collection of counterpart funds, and will establish for that purpose a working group with the participation of representatives of the IMF.

8. Stand-by arrangement

It is the intention of the Russian authorities to reach understandings with the IMF as soon as possible on an economic program that could be supported by a stand-by arrangement in the upper credit tranches.

May 22, 1993

/S/ V. Chernomyrdin

/S/ V. Gerashchenko

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

Monetary and credit policy

In line with our objectives for inflation, the expansion of total domestic credit of the Central Bank of Russia (CBR) will not exceed rub 2,890 billion from March 31 to June 30, 1993, rub 6,930 billion from March 31 to September 30, 1993, and rub 10,544 billion from March 31 to December 31, 1993. 1/ We believe that this will be consistent with expansion of net domestic assets of the CBR not exceeding rub 2,760 billion from March 31 to June 30, 1993, rub 6,202 billion from March 31 to September 30, 1993, and rub 9,362 billion from March 31 to December 31, 1993. 2/ A further deceleration in the growth of both total CBR credit and net domestic assets is envisaged during the first half of 1994.

Fiscal policy

a. The cash deficit of the enlarged government (defined to include the general government plus unbudgeted import subsidies) will be limited to rub 3,278 billion in the first half of 1993, to rub 7,104 billion in the first three quarters of 1993 and to rub 10,141 billion in the year 1993 as a whole. Consistent with the monetary and credit program specified above, the expansion of net bank credit to the government by the domestic banking system will not exceed rub 1,373 billion during the first half of 1993, rub 3,720 billion during the first three quarters of 1993 and rub 6,289 billion during the year 1993. It is expected that rub 650 billion of government securities will be sold on market terms during 1993, beginning May 18, 1993.

b. In order to attain the fiscal targets specified above, the following measures will be introduced:

- (i) across-the-board expenditure cuts amounting to rub 4.2 trillion, for 1993; effective immediately, spending will be constrained in line with these expenditure cuts;
- (ii) a reduction in subsidies to the coal sector of rub 1 trillion resulting from adjustments in the domestic price of coal in July 1993;
- (iii) an increase in revenue from excise taxes on natural gas and oil with an estimated yield of rub 0.6 trillion, to be implemented

1/ Total domestic credit of the Central Bank of Russia consists of net lending to the general government, gross credit to banks and net lending to other central banks in the former Soviet Union. Detailed definitions of the concepts used in this Technical Annex are provided in a memorandum of definitions.

2/ Net domestic assets include total domestic credit plus other items net. It can be calculated as the difference between the monetary base (currency plus bank reserves) and the net international reserves of the monetary authorities.

balance of payments presented in Table 10, therefore, represents staff projections.

The current account deficit for 1993 with non-FSU states is now projected at about US\$11 billion, compared with US\$10 billion in the April projection. According to preliminary estimates, both exports and imports in the first quarter of 1993 were well below the levels projected in April. These estimates were taken into account only partially as it is expected that the trade data will be substantially revised. Also, based on the estimated outturn for the first quarter, outflows through errors and omissions are now put at US\$3.5 billion. Net international reserves are projected to decline by over US\$1 billion in 1993, but gross official reserves should rise by US\$1.7 billion to US\$6.8 billion by end-1993, equivalent to 1.8 months of imports.

Given the high degree of uncertainty involved, the projections for Russia's balance of payments with other FSU states do not take into account possible convertible currency financing of inter-FSU trade. Russia's current account surplus with FSU states is projected at about rub 3.8 trillion, essentially the same as in scenario B--the "constrained financing" scenario--in the April projections. It is important to note that this projection implies a substantial contraction in the volume of interstate trade. This current account surplus is expected to be offset by about rub 1.7 trillion in credits to other FSU states from the Russian Government and the CBR and about rub 2.1 trillion in financing from Russian commercial banks and enterprises. 1/ The projected enterprise financing reflects the fact that Russian exporters of energy products accumulated large claims (in arrears) on the importing FSU states during the first half of 1993, partly because of the unavailability of alternative means of financing. The terms of the interstate credits are still under negotiation. 2/ Inasmuch as other FSU states were able to pay Russia in convertible currencies, Russia would have to extend less ruble credit to these states, or else trade would contract by less than assumed in this scenario.

Russia's external financing requirement (grants and loans from bilateral and multilateral creditors and debt relief, excluding non-FSU states) is projected at about US\$43 billion in 1993, including US\$3 billion from the Fund; this amount could be reduced to the extent that Russia receives convertible currency payments from other FSU states. Based on

1/ During the first five months of 1993, the CBR had already extended nearly rub 0.9 billion in technical credits. CBR loans to the other FSU states, which form part of total domestic credit of the CBR, are not targeted separately.

2/ The projections presented in Table 10 assume that Russia charges the other FSU states a nominal interest rate of 100 percent per annum beginning July 1, 1993, on the outstanding stock of government, CBR, and commercial bank credits, and the corresponding interest receipts are shown in the service account.

Articles of Agreements, or impose any new import restrictions for balance of payments reasons.

b. Privatization and legal framework for a market economy

In 1992, the Government elaborated an extensive program to privatize state enterprises. The authorities have reaffirmed their intention to complete this program. During the first quarter of 1993, a few very large enterprises (those employing more than 10,000 workers) and 15,000 small- and medium-sized enterprises have been privatized. In addition, some 5,000 enterprises have been leased, most with an option to buy. This follows the privatization during 1992 of over 46,000 enterprises of the 250,000 state and municipal enterprises that were in operation at the beginning of last year. Voucher auctions started in December 1992 and, recently, some 500 medium- and large-scale enterprises a month have been privatized through voucher auctions. This number is expected to increase steadily.

The Government will seek the removal of restrictions on land ownership, which had slowed down considerably the privatization of land and the reorganization of state farms and agricultural cooperatives. The number of private farms increased from 49,000 on January 1, 1992 to 243,000 on May 1, 1993, and the area encompassed by private farms rose from some 2 million hectares to more than 10 million hectares (or about 5 percent of Russia's agricultural land) over this period.

The Government also intends to reinforce its efforts to develop a legal framework that is fully compatible with a market economy, including the legal enforcement of contracts. In this context, emphasis will be given to securing approval of the new laws on joint-stock companies, securities, and the new civil and commercial codes. At the same time, steps will be taken to begin to implement the bankruptcy law. In a period of rapid institutional change with a significant expansion in the number of financial market participants and the scope of their operations, the CBR will strengthen the supervision of financial institutions.

IV. Balance of Payments for 1993 and Beyond and the Capacity to Repay

The projections for the balance of payments in 1993 vis-à-vis both non-FSU and FSU states ^{1/} have been updated and revised slightly to incorporate the targets and policies under the program and to make explicit the program assumptions about external financing. While the revised balance of payments projections with the non-FSU area was agreed with the authorities, it proved difficult to discuss specific projections vis-à-vis the FSU area since the Russian authorities were negotiating with other FSU states the level and terms of possible financial assistance. The FSU

^{1/} These projections, which were agreed with the authorities in April, are described in detail in SM/93/66, Supplement 1.

to sell foreign exchange in the interbank market from July 15, and to buy foreign exchange for current account transactions from September 1, 1993. As a step toward improving the functioning of the foreign exchange market, the CBR has recently liberalized the import and export of foreign currency bank notes (see Annex V) and it will soon regulate the open foreign exchange position of banks.

The CBR also intends to broaden further the interbank market in foreign exchange. The frequency of the foreign exchange auctions that take place in the Moscow interbank market will be expanded from twice a week to daily, which will also permit the CBR to quote exchange rates on a daily basis. In addition, the CBR will support the regional development of interbank markets (at present, auctions of foreign exchange take place in St. Petersburg, Yekaterinburg, Novosibirsk, Vladivostok, and--most recently--Rostov). The Fund staff is providing technical assistance in the development of the foreign exchange market, including foreign exchange regulations, intervention techniques, and reserves management.

Regarding the trade system, the Government aims to eliminate all quantitative restrictions on exports during the next few years and refrain from introducing restrictions on imports. Export duties, which range from 20 percent to 30 percent on more than two thirds of exports, will be gradually phased out as domestic prices approach world market prices. ^{1/} As part of the liberalization of the trade system, the authorities are committed to phase out by end-1993 all quotas on exports of nonenergy products, except those relating to trade restrictions imposed by other countries, while quotas on energy products will be eliminated by end-1994. In the meantime, by September 1, 1993, export quotas will be increased by 10 percent for energy products and by 20 percent for nonenergy products. The so-called centralized exports scheme initially was envisaged to cover US\$15.4 billion of exports in 1993, ^{2/} but its coverage is likely to be considerably lower; so far, it has been limited mainly to energy products, some nonferrous metals, and timber. The Government does not intend to increase the scope of centralized exports in 1993 and plans to reduce the level of centralized exports in 1994 to only one third of the level realized in 1993. Finally, the Government and the CBR, in collaboration with the State Customs Committee, are preparing measures to improve enforcement of existing exchange regulations.

During the program period, the Government does not intend to introduce or intensify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's

^{1/} For a detailed description of the trade system, see SM/93/75.

^{2/} Centralized exports comprise government exports financed through the budget (originally projected at US\$8.5 billion) and exports financed through nonbudgetary resources (US\$6.9 billion). The budgetary part is now projected by the authorities to amount to US\$6 billion in 1993.

required formal procedures, spending will be immediately constrained in line with these cuts; (ii) a reduction in subsidies to coal producers amounting to rub 1 trillion through upward adjustments in the domestic price of coal in July; (iii) beginning in June, a reduction of approximately 40 percentage points in the average rate of import subsidy, along with an increased effort to improve counterpart fund collections, with a view to reducing budgeted and unbudgeted import subsidies by a total of rub 1.4 trillion in 1993; (iv) a reduction in subsidies to grain producers by rub 0.5 trillion, to be implemented by June 15; (v) a reduction in interest rate subsidies of rub 0.3 trillion to a maximum of rub 0.9 trillion in 1993; and (vi) the introduction (in July) of an excise tax on the production of natural gas, and an increase in the existing excise tax on oil, with a total estimated yield of rub 0.6 trillion in 1993 or, if these are not implemented, alternative revenue measures with an equivalent yield.

c. Interstate cooperation

The authorities have stated their intention to continue to cooperate with those states of the former Soviet Union (FSU) that wish to continue to use the Russian ruble as legal tender. They have also initiated negotiations on the terms and conditions that will apply to credits extended by Russia in 1992 and early 1993, ^{1/} and on the amounts and modalities of new intergovernmental loans that may be extended by Russia. From now on, such loans will be extended only through the budget and will be considered official claims. In addition, the authorities are considering, in cooperation with interested parties, ways to increase the effectiveness of payments mechanisms.

The authorities have also indicated their intention to cooperate with FSU states which are contemplating the introduction of a separate currency.

3. Structural policies ^{2/}

a. Foreign exchange and trade system ^{3/}

The authorities are committed to the maintenance of the unified exchange system introduced in July 1992. In November 1992, the new foreign exchange law introduced current account convertibility for residents. The authorities intend to extend convertibility to nonresidents by allowing them

^{1/} Russia has already reached agreement with Armenia and Tajikistan on converting the existing balances in the correspondent accounts of their central banks with the CBR into interstate loans. The outstanding claims will be indexed to U.S. dollars, with an interest rate of LIBOR plus a spread and a repayment period of over 5 to 6 years ending in 2000.

^{2/} Developments in structural policies during 1992 and early 1993 are summarized in Table 12 (see SM/93/66 and SM/93/75 for further details).

^{3/} Exchange measures subject to Fund jurisdiction are listed in SM/93/75, Supplement 1, Annex IV.

Summary of Fiscal Indicators

(In percent of GDP)

	1992 Actual	1993	
		Current policies	Program
<u>Enlarged government balance</u>	<u>-20.0</u>	<u>-17.1</u>	<u>-10.0</u>
General government	-7.3	-11.9	-5.7
Federal and local governments	-10.0	-14.1	-8.0
Extrabudgetary funds	2.6	2.2	2.2
Unbudgeted import subsidies	-12.6	-5.2	-4.2
<u>Foreign financing</u>	<u>12.8</u>	<u>...</u>	<u>6.9</u>
<u>Domestic financing</u>	<u>8.3</u>	<u>...</u>	<u>3.0</u>
Banking system	7.2	...	6.1
Central Bank	8.2	...	5.9
Other	-1.1	...	0.2
Nonbank 1/	1.1	...	-3.1
<u>Residual</u>	<u>-1.1</u>	<u>...</u>	<u>--</u>

1/ Includes proceeds from sales of gold and other precious metals, privatization receipts, and repayments of commodity debt (further details are provided on page 18 of SM/93/75, April 9, 1993). The latter are projected to amount to 3 1/2 percent of GDP in 1993.

The program envisages that the deficit of the enlarged government for 1993 will be reduced by 7 percentage points relative to the "current policies" estimate, i.e., 10 percent of GDP. Given the expected availability of foreign and domestic nonbank financing, this tightening would make it possible to restrict the domestic bank financing requirement of the enlarged government to rub 6.1 trillion (6.1 percent of GDP). The latter would be consistent with the overall CBR credit program, and the need to avoid an undue squeeze on credit expansion to the rest of the economy.

The Government is committed to introduce fiscal measures aimed at yielding about rub 8 trillion (8 percent of GDP) in 1993, which would achieve the targeted reduction in the deficit and provide a small cushion of about 1 percent of GDP. The measures consist of the following: (i) across-the-board expenditure cuts (affecting all expenditure categories except for debt service) amounting to rub 4.2 trillion; pending the introduction of the

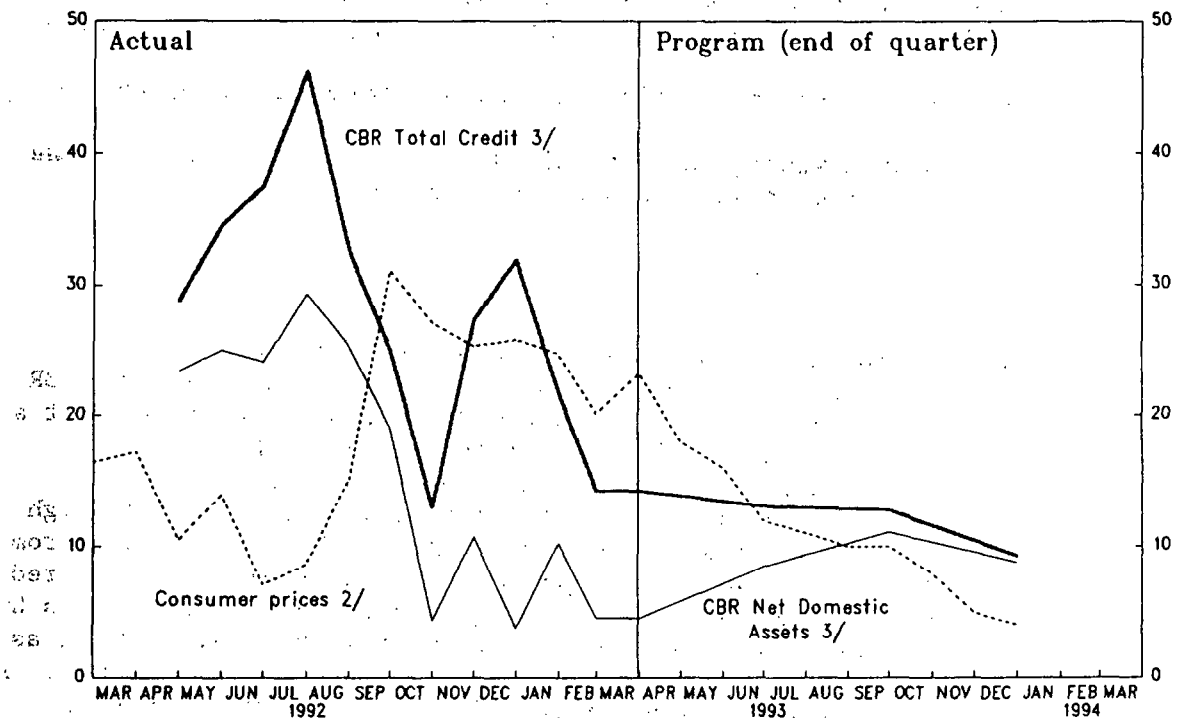
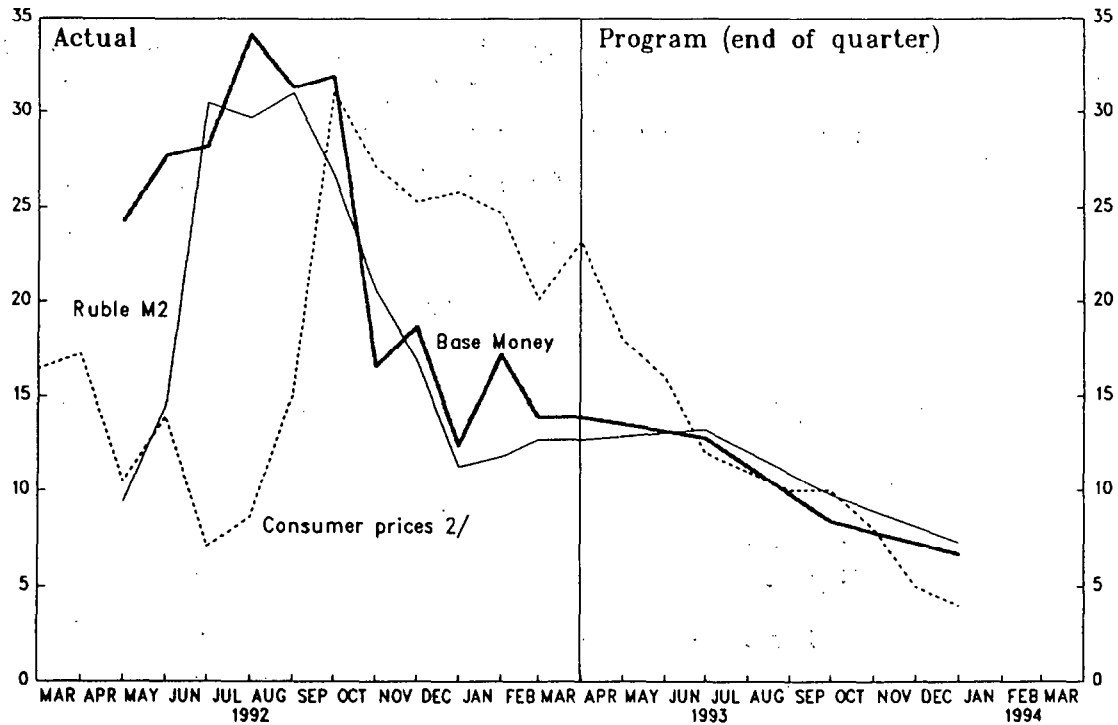
To enhance the role of interest rate policy in allocating credit, the program envisages that, by July 15, 1993, the CBR finance rate will be raised to a level of not more than 7 percentage points (at an annual rate) below the interbank rate. Subsequently, the authorities will ensure that the CBR finance rate does not fall below the interbank rate by more than 7 percentage points. Deposit interest rates, currently highly negative in real terms, are expected to adjust rapidly as commercial banks react to tighter credit conditions and a rising CBR lending rate.

The monetary program incorporates a targeted increase of US\$1.4 billion in gross official reserves between the end of March and December 1993, and a decline in net international reserves of no more than US\$1.9 billion over the same period. The latter reflects, in part, the expected use of the Fund resources (about US\$3 billion) to be obtained under the STF. Since reserves would remain at a relatively low level (in relation to imports), the authorities intend to review by end-September 1993 the adequacy of the net and gross reserves levels for end-December 1993, in consultation with the Fund staff.

b. Fiscal policy

A substantial tightening of fiscal policy is a central element of the financial program. Revisions to the 1993 federal budget approved by the Supreme Soviet in March are currently being prepared. These revisions take account of recent developments in wages, prices, and the exchange rate, and incorporate new spending initiatives of the Supreme Soviet and the Government--particularly the one-time indexation of household deposits at Sberbank, higher wages and other benefits for military personnel, and increased subsidies for the coal sector. They also reflect the assumption that Russia will pay US\$3.5 billion in external debt service in 1993, in line with the recent rescheduling agreement with official creditors and comparable terms assumed to be reached with other official, bilateral, and commercial creditors. The staff and the authorities agreed that, based on current policies, the overall deficit of the enlarged government (i.e., the general government deficit plus unbudgeted import subsidies) could amount to some 17 percent of GDP in 1993. This would imply an expansion in domestic bank financing of the budget that would lead to a very sharp acceleration in inflation.

CHART 2.
RUSSIAN FEDERATION
Money, Credit and Inflation 1/
March 1992 - December 1993
(Monthly percentage changes)



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

1/ For the monetary and credit aggregates, percentage changes refer to average monthly percentage changes during previous three months.

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

3/ Percent change in relation to beginning period base money.

Russian Federation: Summary Indicators of Money and Credit

	1992		1993	1993		
	<u>Actual</u>		<u>Prel.</u>	<u>Program Targets</u>		
	QIII	QIV	QI	QII	QIII	QIV
(Monthly changes within period in percent)						
Consumer prices	10	28	24	17	11	8
Base money <u>1/</u>	32	18	14	13	8	7
Net international reserves (NIR) <u>2/</u> <u>3/</u>	11	10	5	--	-3	-3
CBR net domestic assets <u>2/</u> <u>3/</u> <u>4/</u>	24	10	10	13	11	9
Of which: CBR total domestic credit <u>2/</u>	31	28	14	13	13	9
Ruble M2 velocity (level) <u>5/</u>	4.6	5.1	6.1	6.4	7.3	6.4

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.

In line with the intention to rely increasingly on market-based mechanisms in the conduct of monetary policy, the Government and the CBR have undertaken to limit directed, subsidized credits and will instruct all government agencies to channel their requests for loans through the Commission on Credit Policy. In addition, the CBR will substantially increase the proportion of credit it extends to commercial banks through credit auctions or other market-related mechanisms, while refraining from allocating credit on a sectoral or regional basis and from extending credit directly to specific enterprises. Remaining directed credit operations by the CBR will continue to be conducted at the ongoing CBR lending rate, as interest rate subsidies will be specifically limited within the budget. As indicated below, the budget has provisions for limited direct lending to specific critical sectors.

the ruble eventually will stabilize (and the real exchange rate will continue to appreciate) as a result of the sustained implementation of tight financial policies. In the meantime, the authorities will refrain from intervening to support a specific level of the exchange rate.

The main quantitative objective of monetary policy is to reduce the rate of growth of base money from an estimated monthly rate of 13 percent during the second quarter of 1993 to 7 percent during the last quarter (Chart 2). The principal operational instrument to achieve this reduction is a limit on the expansion of total domestic credit extended by the CBR, 1/ beginning in the second quarter of 1993 (see tabulation below). The rate of expansion of CBR total domestic credit 2/ is targeted to decline from 13 percent per month during the second and third quarters of 1993, to 9 percent per month during the fourth quarter. On a seasonally adjusted basis, the rate of growth of credit is expected to be lower in the third quarter, and somewhat higher in the final quarter, compared with the seasonally unadjusted projections. This projected path for CBR credit is consistent with the fiscal program described below and with the expected path for real GDP. It is also consistent with a decline in the monthly rate of expansion of the CBR's net domestic assets.

The tightening of credit conditions and the associated increase in interest rates envisaged under the program are expected to be reflected initially in a rise in the velocity of ruble broad money in the third quarter of 1993, continuing an upward trend observed since November 1992. This would be followed by a decline in velocity starting in the fourth quarter of 1993 as inflationary expectations recede. A further deceleration in the growth of both total CBR credit and net domestic assets is envisaged during the first half of 1994. 3/ Also, to avoid repeating the inflationary consequences of the actions taken in August-November 1992 and their adverse effect on the willingness of state enterprises to adjust, the Government and the CBR are committed not to extend credit for the purpose of clearing any interenterprise arrears that might emerge. Rather, they intend to take measures to improve the financial settlements system and foster a market for commercial credit.

1/ Total domestic credit of the CBR consists of net lending to the general government, gross credit to banks, and net lending to other central banks in the former Soviet Union. The authorities will also monitor the evolution of net domestic assets (i.e., total domestic credit plus "other items (net)").

2/ Measured in relation to base money at the beginning of the period.

3/ In view of uncertainties involved at present, the elaboration of a detailed monetary and credit program for 1994 is expected to be undertaken around the last quarter of 1993.

Russian Federation: Summary of Macroeconomic Indicators

	<u>Actual</u>		<u>Prel.</u>	<u>Prog. Targets</u>			
	1991	1992	Q1	Q2	Q3	Q4	Q1-Q4
			1993				
Real GDP <u>1/</u>	-9	-19	-17	-16	-14	-12	-15
GDP deflator							
Percent change within							
period <u>2/</u>	...	2,493	80	59	37	25	388
Monthly percent change							
during period	...	31	22	17	11	8	14
Current account balance							
(in US\$ billions)	4.2	-4.3	0.8	-4.4	-3.5	-4.0	-11.1
Gross official reserves							
End-period (in US\$ billions)	...	5.0	5.4	5.8	6.3	6.8	6.8
In months of merchandise							
imports	...	1.5	1.5	1.5	1.6	1.8	1.8

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

2/ Percentage change over previous period.

2. Financial policies

a. Monetary and exchange rate policies

The program assigns a central role to monetary policy in bringing down inflation. In addition, it seeks to replace the old system of financial intermediation, in which subsidized credit (channeled directly to specific sectors, regions, and enterprises) played a major role, by a system in which market mechanisms have a predominant function in the allocation of central bank credit. In pursuing these objectives, the monetary program relies on four basic types of action: (i) a reduction in the growth of monetary and credit aggregates; (ii) a rise in the CBR finance rate to market levels; (iii) the provision of subsidized credits only from the budget (and not by the CBR) and a reduction in the amount of these subsidies; and (iv) a commitment not to extend central bank credit for the purpose of clearing interenterprise arrears. The authorities also intend to maintain a flexible exchange rate policy, although they expect that the nominal exchange rate of

III. The Program for 1993

1. Program objectives and macroeconomic framework

The program aims at reducing the monthly rate of inflation to low single-digit levels by end-1993 and achieving further progress toward price stability in 1994, while increasing the efficiency of the Russian economy, speeding up its integration into the world economy, and expanding the role of markets. To achieve these objectives, the program combines a considerable tightening of monetary and fiscal policies with measures designed to reinforce and extend structural reform efforts undertaken so far.

Monetary policy is expected to play a key role in lowering inflation in the context of the Government's continued commitment to rely on a unified floating exchange rate regime. Monetary control will be exercised through quantitative limits on credit creation by the central bank. At the same time, directed subsidized credits will be phased out to ensure an increasing reliance on market-based mechanisms to allocate credit and promote financial savings. Firm implementation of these policies are expected to work to reduce the monthly rate of inflation from 24 percent during the first quarter of 1993, to 11 percent by the third quarter and 8 percent during the fourth quarter; by December 1993, the monthly inflation rate should be down to 5 percent. The program assumes gross foreign financing in the order of US\$43 billion, including the impact of debt rescheduling and prospective STF purchases from the Fund. The gross international official reserve position is targeted to strengthen by US\$1.7 billion during 1993 so as to achieve a reserve import coverage equivalent to 1.8 months by the end of the year.

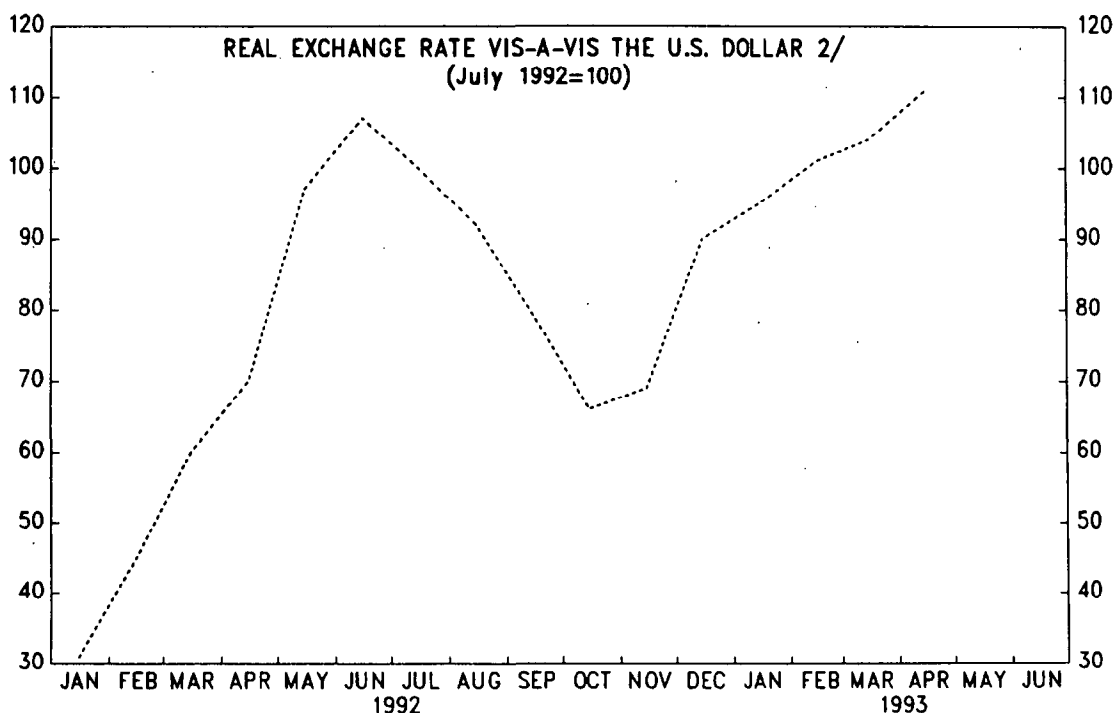
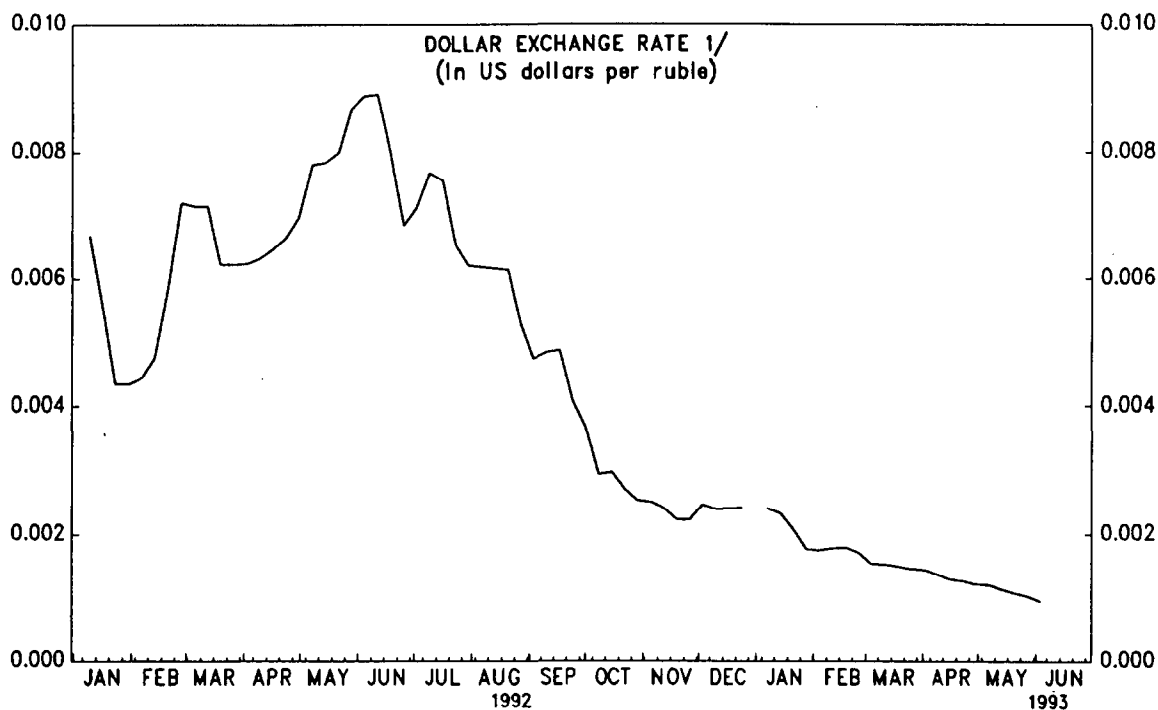
In line with the objectives of monetary policy, the program calls for a major fiscal adjustment to limit the enlarged government deficit to about 10 percent of GDP, half the level recorded in 1992, and over 7 percentage points below the level projected for 1993 in the absence of corrective measures. Financing of the deficit by the domestic banking system is to be limited to about 6 percent of GDP, approximately the same level as in 1992. Most of the fiscal adjustment consists of expenditure-reducing measures, including cuts in various subsidies.

Structural measures contemplated under the program aim at further liberalizing the exchange and trade system, continuing with the privatization effort and the financial reform, and developing further the legal framework required for the adequate functioning of a market economy. The combination of tight financial policies and continued economic restructuring envisaged in the program could involve a rise in unemployment from an estimated 0.6 million at the beginning of the year to around 4 million by year-end. The fiscal impact of this rise is reflected in a decline from 1992 to 1993 in the projected combined surplus of the extrabudgetary funds, consisting of the Pension Fund, Employment Fund, Social Support Fund of the Population, Road Fund, and Social Insurance Fund.

CHART 1.
RUSSIAN FEDERATION

Foreign Exchange Developments

January 1992 - June 1993



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

1/ Weekly average for transactions on the Moscow Interbank Foreign Currency Exchange.
2/ Based on relative consumer price indices.

II. Recent Economic and Financial Developments 1/

The rate of inflation continues to be very high, ranging from 20 percent to 25 percent monthly rates since the beginning of 1993 (Table 1). Real GDP, on a seasonally adjusted basis, is estimated to have remained roughly flat in the first quarter of 1993, following a large decline in the second half of 1992. Registered unemployment is increasing gradually, but still amounts to only about 1 percent of the labor force.

In the first quarter of 1993, the rate of expansion of total domestic credit of the Central Bank of Russia (CBR) declined significantly, and the monthly rate of growth of ruble broad money edged down to 13 percent, from 17 percent in the previous quarter (Tables 2, 3, and 4). On March 30, 1993, the CBR finance rate was increased by 20 percentage points to 100 percent per annum; and, on April 1, Sberbank increased interest rates paid on deposits from 20-60 percent per annum to a range of 100-160 percent, and those on loans from 20 percent to 100-140 percent. Despite these increases, interest rates throughout the financial system, including the Moscow interbank rate which averaged around 155 percent as of end-May, remain highly negative in real terms. On May 18, 1993, the authorities started Treasury bill auctions. Rub 1 billion of bills were placed at an effective annual interest rate of about 100 percent.

Preliminary data on the fiscal outcome for the first quarter of 1993 point to a cash deficit of 8 percent of GDP for the enlarged government and 3 percent of GDP for the general government, with the difference reflecting unbudgeted import subsidies (Tables 5, 6, 7, and 8). With regard to the enlarged government balance, net foreign financing amounted to some 5 percent of GDP and net domestic financing to 3 percent of GDP. On March 25, the Supreme Soviet approved a federal budget for 1993, but instructed the Government to revise the budget estimates to: (i) take into account updated information on wages, prices, and the exchange rate; and (ii) incorporate a number of new spending initiatives.

Provisional data indicate no significant change in merchandise exports and a substantial drop in imports in the first three months of 1993 compared to the same period in 1992 (Tables 9 and 10). Debt service payments totalled about US\$0.4 billion. Net international reserves rose by US\$0.7 billion. The ruble has continued to depreciate in nominal terms, trading at rub 1,072 per U.S. dollar on June 3 compared with rub 684 at end-March, but a significant real appreciation has occurred in the early part of 1993, reflecting continued high domestic inflation (Chart 1).

1/ For a detailed review of developments through February 1993, see SM/93/66 (April 2, 1993).

I. Introduction

In a letter dated June 14, 1993 and accompanying Economic Policy Statement (Annex I), the Russian authorities have indicated their intention to request an initial purchase under the Systemic Transformation Facility (STF) for an amount equivalent to SDR 1,078.275 million (25 percent of quota). A second purchase, in the same amount, is expected to be requested when the conditions for it under the STF are met. Discussions on an economic and financial program to be supported by Fund resources were conducted in Washington (May 8-13, 1993) and in Moscow (May 5-21, 1993). The Russian representatives included Messrs. Fedorov and Shokhin, Deputy Prime Ministers; Mr. Gerashchenko, Chairman of the Central Bank of Russia (CBR); Messrs. Dubinin and Vavilov, First Deputy Finance Ministers; Messrs. Tulin and Ignatiev, Deputy Chairmen of the CBR; Mr. Petrov, Deputy Minister of Foreign Economic Relations; Mr. Kagalovsky, the Executive Director for Russia; and Mr. Mozhin, the Alternate Executive Director. 1/

The Russian Federation became a member of the Fund on June 1, 1992, with a quota of SDR 2,876 million; following the Ninth Review, the quota was increased to SDR 4,313.1 million on November 25, 1992. A first credit tranche stand-by arrangement (equivalent to 16.7 percent of the new quota) was approved on August 5, 1992, and expired on January 4, 1993. The authorities drew the full amount of SDR 719 million under the arrangement, performance under which was reviewed in SM/93/66.

The eligibility of the Russian Federation to use the STF is discussed in Annex II. Fund Relations and Relations with the World Bank are covered in Annexes III and IV, respectively. Annex V describes main changes in the exchange and trade system in 1993.

The first Article IV consultation was concluded on April 21, 1993 (EBM/93/60). In the Chairman's Summing Up (SUR/93/40), Executive Directors emphasized that Russia's chief policy priority should be a substantial reduction in inflation, to be achieved by a sharp cutback in the growth of monetary and credit aggregates. They emphasized the importance of improved financial policy coordination in the framework of the Commission on Credit Policy. Directors stressed the need to reduce the domestic borrowing requirement of the Government, to continue systemic reforms, especially vis-à-vis the state enterprise sector, and to resolve financing uncertainties within the ruble area. Directors also called on the authorities to maintain a unified exchange system with current account convertibility.

1/ The staff team comprised Messrs. Hernández-Catá, Donovan, Citrin, Berengaut, Valdivieso, Ross, Aitken, Mrs. Nagy (all EUR II); Ms. Christensen and Mr. Rennhack (both PDR); Mr. Hagemann (FAD); and Mrs. Koo (WHD) and Mr. Huscha (LEG) as staff assistants. Ms. Dillon and Messrs. Foglizzo, Lopez-Claros, and Tiwari of the Moscow Office assisted the mission.

in July 1993, or additional measures with an equivalent revenue yield;

- (iv) a reduction in subsidies to grain producers by rub 0.5 trillion, to be implemented by June 15, 1993;
- (v) a 40 percentage point cut in the average rate of import subsidy by July 1, 1993, with a view to reducing budgeted and unbudgeted import subsidies by a total of rub 1.4 trillion in 1993. We also intend to improve the collection of counterpart funds. Import subsidies will be further reduced by January 1, 1994;
- (vi) a reduction in interest rate subsidies of rub 336 billion to a maximum of rub 900 billion in 1993. There will be no further allocations for the working capital scheme.

These measures are expected to reduce the deficit of the enlarged government in 1993 by a total of rub 8 trillion to a level of rub 10.1 trillion.

In addition, existing tax exemptions are being reviewed with a view to their substantial reduction by January 1, 1994. In the meantime, the Government will refrain from granting new tax exemptions.

International reserves

Net international reserves will be targeted to reach a level of at least US\$4,386 million by end-June 1993, US\$3,386 million by end-September 1993, and US\$2,386 million by end-December 1993. The corresponding targets for gross international reserves are US\$5,783 million by end-June 1993, US\$6,283 million by end-September 1993, and US\$6,783 million by end-December 1993. By end-September 1993, 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 1993.

Trade policy

By September 1, 1993, export quotas will be raised on average by 20 percent for non-energy products and by 10 percent for energy products. All export quotas will be eliminated by the end of 1993 except for those applying to oil, gas, and certain oil products which will be eliminated by the end of 1994, and those necessitated by trade restrictions imposed by other countries.

External debt

The Government intends to regularize its relations with external creditors by negotiating, in line with the recently concluded agreement with official bilateral creditors, rescheduling agreements with other official and commercial creditors.

May 22, 1993

/S/ V. Chernomyrdin

/S/ V. Gerashchenko

Eligibility for Use of STF

Russia's eligibility to draw under the Systemic Transformation Facility (STF) can be established based either on a sharp fall in exports or a substantial and permanent increase in net import costs, or a combination of both, due to a shift away from trading at nonmarket prices. ^{1/} In the case of Russia, the sharp fall in exports that has occurred is, on its own, sufficient basis to establish eligibility under the STF.

The central planning system was dismantled with effect from 1991, including the system of obligatory state orders, although, in effect, the process had already begun earlier. In addition, from 1991, the CMEA trade and payments system ceased to exist. This system had been based on annual bilateral trade agreements and (effectively) bilateral clearing arrangements with trade taking place at nonmarket prices denominated in transferable rubles. The collapse in central planning and in the settlements system, and, more generally the demise of the FSU, also severely disrupted trade with the other FSU states.

Both exports to the FSU and non-FSU area declined substantially in U.S. dollar terms between 1990 and 1992 (see Annex Table 1). As mentioned in EBS/93/58, Supplement 1 ^{2/}, there are major statistical problems in converting trade denominated in rubles into U.S.dollars. This concerns particularly inter-FSU trade, where prices were not market-determined. The calculation of the export shortfall is, therefore, highly sensitive to the choice of the exchange rate for converting ruble-dominated trade into U.S. dollars (as illustrated in Table 1). In addition, the conversion of trade with former CMEA countries denominated in transferable rubles into U.S.dollars in 1990 is also subject to major valuation problems. However, whether historical and market exchange rates are used or a PPP exchange rate (base 1992), the decline in Russia's exports was substantial during the period 1990-92 and far exceeded the threshold required for a member to be eligible for STF support (i.e., 50 percent of quota, which is equivalent to US\$3 billion). Selected indicators of the development of export volume, including of energy products, also support the conclusion that exports declined sharply between 1990 and 1992. The drop in exports to the non-FSU area was particularly sharp vis-à-vis the former CMEA countries (Annex Table 2),

^{1/} Decision No. 10348-(93/61) STF, adopted April 23, 1993: this decision provides that the Fund is prepared to provide financing to "members that are experiencing balance of payments difficulties as a result of severe disruptions in their traditional trade and payments arrangements that are manifested by: (i) a sharp fall in total export receipts due to a shift from significant reliance on trading at nonmarket prices to multilateral, market-based trade; (ii) a substantial and permanent increase in net import costs, due to a shift from significant reliance on trading at nonmarket prices toward world-market pricing, particularly for energy products; or (iii) a combination of both."

^{2/} A Fund Facility to Help Members Respond to Systemic Disruptions in Their Trade and Payments Arrangements--Supplementary Information.

because of the transition to market prices and settlement in convertible currencies, as well as some diversion of trade to other countries.

Table 1. Russian Federation: Exports, 1990-92

	1990	1991	1992
(In billions of U.S. dollars)			
I. At Historical and Market Exchange Rates ^{1/}			
Non-FSU	78.7	50.9	40.0
FSU	<u>125.0</u>	<u>75.0</u>	<u>11.0</u>
Total	203.7	125.9	51.0
(cumulative change from 1990)	(--)	(-77.8)	(-152.7)
(cumulative change from 1990, in percent of quota)	(--)	(-1,289)	(-2,529)
Rubles per U.S. dollar ^{1/}	0.6	1.8	198
II. At PPP Adjusted Exchange Rates (base 1992)			
Non-FSU	78.7	50.9	40.0
FSU	<u>10.0</u>	<u>10.0</u>	<u>11.0</u>
Total	<u>88.7</u>	<u>60.9</u>	<u>51.0</u>
(cumulative change from 1990)	(--)	(-27.8)	(-37.7)
(cumulative change from 1990, in percent of quota)	(--)	(-460)	(-624)
Rubles per U.S. dollar	8	14	198
(In billions of rubles)			
Memorandum item:			
Exports to FSU area	75	135	2,147

Sources: CIS Goskomstat; Goskomstat of the Russian Federation; and Fund staff estimates and projections.

^{1/} The official exchange rate for 1990, the commercial exchange rate for 1991, and the interbank market rate for 1992-93.

Table 2. Russian Federation: Exports to Non-FSU Countries, 1990-92

	<u>Exports</u>		
	1990	1991	1992
	<u>(In billions of U.S. dollars)</u>		
Total	<u>78.7</u>	<u>50.9</u>	<u>40.0</u>
Of which:			
Former CMEA countries <u>1/</u>	34.0	11.7	8.0
China, Korea, Lao P.D.R., former Yugoslavia	5.4	3.6	4.0
Developed countries	28.3	28.8	23.8
Developing countries	11.1	6.9	4.1

Source: CIS Goskomstat.

1/ Bulgaria, Cuba, former Czech and Slovak Republics, Hungary, Mongolia, Poland, Romania, and Viet Nam.

Russian Federation: Fund Relations

(As of May 31, 1993)

I. Membership Status: Joined June 1, 1992/Article XIV

II. <u>General Resources Account:</u>	<u>SDR Million</u>	<u>As Percent of Quota</u>
Quota	4,313.10	100.0
Fund holdings of currency	5,031.75	116.7
Reserve position in the Fund	.70	0.0

III. <u>SDR Department:</u>	<u>SDR Million</u>	<u>As Percent of Allocation</u>
Holdings	0.73	...

IV. <u>Outstanding Purchases and Loans:</u>	<u>SDR Million</u>	<u>As Percent of Quota</u>
Stand-by arrangements	719.00	16.7

V. <u>Financial Arrangements:</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved</u> (SDR million)	<u>Amount Drawn</u> (SDR million)
Stand-by	08/05/92	01/04/93	719.00	719.00

VI. Projected Obligations to the Fund (SDR million;
based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u> <u>5/31/93</u>	<u>Forthcoming</u>				
		<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Principal	--	--	--	--	359.5	359.5
Charges/interest	--	<u>21.0</u>	<u>41.6</u>	<u>41.0</u>	<u>33.9</u>	<u>14.4</u>
Total		21.0	41.6	41.0	393.4	373.9

VII. Exchange Rate Arrangement:

The exchange rate of the ruble is determined in the interbank 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 Missions:

The following table summarizes the technical assistance provided by the Fund to the Russian Federation since end-1992. 1/

<u>Dept.</u>	<u>Subject/ Identified Need</u>	<u>Action</u>	<u>Timing</u>	<u>Counterpart</u>
FAD	Tax administration	Mission	January 1993	State Revenue Service
	Tax administration	Posting of a Resident Advisor	February 1993/ February 1994	State Revenue Service
	Budget and treasury management	Mission	February 1993	Ministry of Finance

1/ See Annex IV of Supplement 1 to SM/92/59 for information on technical assistance provided prior to that date.

<u>Dept.</u>	<u>Subject/ Identified Need</u>	<u>Action</u>	<u>Timing</u>	<u>Counterpart</u>
FAD	Budget and treasury management	Mission	June 1993	Ministry of Finance
INS	Training in financial programming and policies	Courses/Seminars in Moscow, Vienna, and Washington	Ongoing	CBR
MAE	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
		Coordination of technical assistance with BIS, OECD, IBRD, EBRD, EC, and central banks	Ongoing	CBR
STA	Balance of payments statistics	Mission	February 1993	Goskomstat, CBR
	Producer price index	Mission	April 1993	Goskomstat
	Money and banking statistics	Mission	April/May 1993	CBR

X. Resident Representatives:

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.

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

Russian Federation: Relations with the World Bank

The relations between the Russian Federation and the World Bank are described in detail in SM/93/66 (Annex V). Significant recent developments include the following:

1. As of May 18, 1993, a total of US\$298.1 million had been disbursed under the US\$600 million Rehabilitation Loan approved in 1992. An oil rehabilitation loan is expected to be approved in June 1993; the project cost amounts to US\$1,035 million, of which US\$610 million would be provided by the World Bank.
2. In support of the G-7 proposal for an exceptional program of assistance to Russia, the World Bank is developing an Accelerated Program of lending over the next 12 to 18 months amounting to US\$4 billion. Depending on progress in stabilization and structural reforms, the World Bank is prepared to develop 12 operations centered on the key issues of enterprise reform and restructuring, financial sector development, energy development, social safety net, and infrastructure needs.

Main Changes in the Exchange and Trade System in 1993

January 1: A uniform procedure was introduced for licensing and export quotas to FSU and non-FSU countries.

January 1: New export tariff rates for exports to non-FSU states were introduced, which implied a reduction in the export tariff to about 20 percent for most commodities subject to the tariff (about 70 percent of total exports); the rates amounted to about 30 percent for barter transactions and exports not subject to the surrender requirement.

January 1: The quota for exports of natural gas to non-FSU states was set at 112.5 billion cubic meters, of which the state would account for 55 percent in the form of centralized exports to meet its own needs. The foreign exchange would be placed in the foreign exchange account of the Government. GASPROM would be exempt from export duties on noncentralized exports and also from import duties on equipment and materials purchased abroad and financed from the export proceeds.

January 20: New reporting requirements were introduced that apply to the permits needed by residents in order to sell goods or services for foreign exchange in the territory of the Russian Federation.

February 1: The export tariff was, in principle, extended to the other FSU states (it had already applied to the Baltic states), except for goods delivered to meet state needs in accordance with intergovernmental agreements and which were sold by the state corporations Roskontract and Rosagrokhim. In addition, prior to the entry into force of the intergovernmental agreements on free trade and of other agreements provided for the nonapplication of import duties, imports from the following states would be exempt from import duties: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Import duties were introduced at twice the normal rates on goods from the three Baltic countries, Georgia, Moldova, and Tajikistan.

February 1: Value-added tax (VAT) and excise duties on imports were introduced except on goods originating from the CIS states and precious metals.

March 1: Oil- and gas-extracting enterprises and associations were to obtain export quotas during 1993-95 sufficient to pay for the repair of oil wells, including equipment, and be exempted for export duties for the concerned quotas and import duties on the import of equipment.

March 4: Regulations were introduced establishing a tender system for the right to export goods to meet state needs (the so-called centralized exports).

March 14. To compensate for the reduction of foreign currency earnings of oil- and gas-producing enterprises, excluding enterprises with foreign investments registered after January 1, 1992 which provide goods for

centralized exports, beginning from January 1993, such enterprises would be exempt from export duties for the decentralized portion of their exports.

March 15: Ceratin goods, in particular, wood, paper, and household products, were eliminated from the list of strategic exports, while others, notably fish and fish products, were added.

March 19: In order to make up for the reduction of companies' foreign currency receipts from supplies of oil, gas condensate, and products of their processing for centralized exports to meet state needs, oil- and gas-producing, geological prospecting, and oil-refining enterprises providing supplies for export for rubles for centralized exports were exempted from the obligation to sell 50 percent of their foreign exchange earnings for exports within their quotas, including extra quotas to supply production and technological needs and develop new fields. The procedure would be effective in 1993 pending the cancellation of the centralized export of these goods.

March 25: Prepayment for the import of goods and services was limited to 180 days between the dates of prepayment and delivery of goods.

March 27: Existing privileges granted in foreign economic activity, including exemptions for the payments or reduction of import and export duties, were to be reviewed. New privileges were only to be granted by the Foreign Exchange Commission of the Government of the Russian Federation and be given mainly in the form of deferral, rather than exemption, of payment for import and export of investment products with adequate guarantee from an authorized bank that such payment would subsequently be made. Payment would take place valued according to the exchange rate in effect on the date of payment.

April 1: A new import tariff was introduced applying to imported goods regardless of the date of the contract. For a few luxury items, rates of 25 percent to 150 percent were applied. Exempt from the tariff were food products, medicines, a few raw materials, ships, and boats.

April 19: Authorized banks holding general licenses were permitted to import and export foreign currency bank notes, treasury notes, coins in circulation, and securities without restrictions, provided customs regulations were observed.

April 28: A government decision established that, in the absence of bilateral (multilateral) agreements on the terms of energy product deliveries to the CIS member states, Azerbaijan and Georgia, or in the absence in these agreements of energy product price arrangements, deliveries of natural gas, coal and coal products, and oil and oil products should be performed by enterprises and organizations on the basis of world market prices converted into rubles or national currencies at the rate quoted by the CBR on the 15th of the month preceding the month of delivery. Deliveries of energy products to the Baltic states should be based on world market prices.