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The Acting Chairman's Concluding Remarks at the
Discussion on Trade and Financial Relations
Among the Countries of the Former Soviet Union
Executive Board Seminar 93/6 - December 1, 1993

I would like to conclude this Board seminar with some comments, which are not intended as either a comprehensive or a formal summing up, but are a way of highlighting some of the points that were made during the discussion.

On the specific issue of the ruble area, as one Director put it, we had today a "post mortem." It is fair to say that all agreed that the maintenance or revival of such an area was neither realistic nor desirable; consequently, Directors welcomed the, by now, almost universal introduction of separate currencies in the states of the former Soviet Union (FSU). As was pointed out by many, however, a separate currency is not a panacea for dealing with the economic problems of these countries and will require strong supporting policies, particularly budgetary and monetary policies.

The discussion also focused on how to deal with the large external payments imbalances facing the countries of the former Soviet Union other than Russia. While problems in the interstate payments system and the confusion in monetary arrangements have complicated financing arrangements and delayed the resolution of the imbalances, Directors generally noted that they are not the underlying source of the serious payments imbalances between Russia and most of the other FSU states. Directors agreed that these imbalances emanate from the reduction in the very large net transfer of resources--mainly, but not only, through low energy prices--that Russia historically provided to many other states in the former Soviet Union during the Soviet period.

In discussing ways to deal with these large imbalances, Directors' statements clearly reflected agreement on a few basic principles. First, solutions to problems in trade and payments arrangements should be cooperative and in no way delay overall stabilization and reform efforts. Second, such solutions should help and not deter the development of market-based commercial bank relationships and foreign exchange markets. Third, any such measures in financial and trade relations should speed up the integration of these transition economies in the global economy.

As suggested by the illustrative balance of payments scenario prepared by the staff, the adjustment facing most FSU countries will be formidable, particularly in light of the reduction in explicit financing that Russia is providing to the rest of the former Soviet Union. While noting that the need to adjust to the external shocks that these states are facing is unavoidable, Directors have pointed to a number of ways to keep the adjustment process as orderly as possible, in a cooperative framework.

First, a number of Directors noted the indication given by Mr. Kagalovsky that Russia will continue to provide financial assistance to the other FSU states, in coordination with other bilateral and multilateral creditors, and believed that this financing would need to be consistent with the requirements of financial stabilization in Russia itself.

Second, Directors have urged a stepped-up effort by non-FSU donors to provide assistance to those countries in the former Soviet Union that are undertaking strong macroeconomic policies and implementing needed structural reforms. In this regard, Directors have supported the continued use of the consultative group mechanism and other traditional means of coordinating external assistance. All of us involved have become very concerned by the unwillingness of some countries to provide financing for programs supported by the structural transformation facility, in contrast to the expectations created when this facility was established. In that context, I am pleased to note that a pledging session for Moldova is planned for next week and a similar meeting for Kazakhstan will likely take place in January 1994 if agreement on a program is reached. I trust that donors will respond appropriately to the strength of these programs and the needs of these countries. Further down the road, it will probably be necessary to consider such meetings for Belarus and Ukraine as well. The external financing problems for all these countries are severe, and strong support is required if their adjustment efforts are to be successful and ultimately attract much-needed private sector capital flows.

Third, Directors also seemed generally agreed that while the Interstate Bank could serve a useful purpose as a multilateral clearing facility, especially if it is viewed as a transitional step, its transitory character must be well reflected in its founding arrangements. Directors warned against its utilization as a vehicle for extending balance of payments financing to FSU states. Directors also emphasized the importance of continuing to develop commercial bank relationships and foreign exchange markets in and between the FSU states. This would likely have important implications for the future allocation of the Fund's technical assistance efforts, which would be extended, taking into account the work of the World Bank in this area.

Directors were of the view that rapid trade liberalization was crucial in the transformation of the FSU economies; such liberalization required complementary measures on price liberalization, macroeconomic stabilization, and institution building. Directors saw the immediate priorities as the dismantling of direct state involvement in trade and the removal of remaining export controls and import subsidies. In addition, exports taxes should also be quickly phased out. While tariffs could play a useful role in raising needed revenues, they should be kept relatively low and uniform and be progressively reduced over time.

Directors stressed that liberalization on a most-favored-nation basis was the best way to reap the benefits from trade liberalization. Removal of existing intra-FSU barriers was particularly important, given the high

degree of inherited interdependence. The initiative on economic union among the FSU states could potentially be helpful in this regard, but Directors cautioned that it should not be allowed to perpetuate past inefficient resource allocation or prevent the establishment of outward-looking trading systems and consequent integration into the world economy.

Of course, Directors thought that improved market access by industrial countries was crucial to support FSU reform. The rapid removal of subsidies and the elimination of state trading by FSU states would help speed up this process.

