FOR AGENDA

EBS/92/198

CONFIDENTIAL

December 1, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Russian Federation - Review of Developments Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report on the review of developments under the stand-by arrangement with the Russian Federation, which is tentatively scheduled for discussion on Friday, December 18, 1992.

Mr. Wolf (ext. 37413) or Mr. Berengaut (ext. 38773) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

Review of Developments Under the Stand-By Arrangement

Prepared by the European II and
Policy Development and Review Departments

(In consultation with other departments)

Approved by John Odling-Smee and Jack Boorman

November 30, 1992

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I. Introduction

The Executive Board approved Russia's request for a first credit tranche stand-by arrangement on August 5, 1992 (EBS/92/119 and Sups. 1-5) in an amount equivalent to SDR 719 million. 1/ The arrangement represented the first stage of the strategy of phased cooperation between Russia and the Fund developed in June 1992. For the second stage it was envisaged that, once conditions for implementing an effective system of monetary control within the ruble area were in place, negotiations would begin on an economic program that could be supported by an upper credit tranche arrangement. If the request for an upper credit tranche arrangement was not brought to the Executive Board within a reasonable period of time, Directors requested that they be kept informed on the developments under the stand-by arrangement (Concluding Remarks by the Chairman, Buff/92/120, 8/7/92).

This paper describes general economic developments since August 1992 and certain aspects of performance under the current arrangement. However, at the time of the preparation of this paper, complete end-September data on economic variables for which indicative targets had been established under the arrangement had not become available and could not be discussed in a comprehensive manner with the authorities. It is planned that a supplementary note will be issued prior to the Board discussion that will, inter alia, update the information on performance relative to the end-September indicative targets.

Since the approval of the first credit tranche arrangement, there have been several missions to Moscow and visits of Russian officials to Washington. During these contacts, management and staff met with Acting Prime Minister Gaidar, Deputy Prime Ministers Shumeiko, Shokhin and Chubais, Chairman of the Central Bank of Russia (CBR) Gerashchenko, Minister of the Economy Nechaev, Minister of Foreign Economic Relations Aven, First Deputy Minister of Finance Vavilov, and other senior officials of the Government and the CBR. 2/

Technical assistance missions during this period have included FAD missions on tax policy and tax administration; two MAE missions dealing with various monetary and foreign exchange issues; and assistance provided by STA on national accounts and balance of payments statistics and the improvement of the producer price index, as well as a multi-topic statistical mission.

1/ A purchase under the arrangement in the amount equivalent to SDR 240 million was effected on November 23, 1992.

2/ The staff members participating in these discussions included Messrs. Odling-Smee, Hernandez-Cata, Wolf, Berengaut, Marrese, Koen, Ross, and Ms. Cheasty and Ms. Nagy (all EUR II); Ms. Christensen and Mr. Rennhack (both PDR); Mr. Nahr (STA); and Mrs. Puri (WHD) as staff assistant. The missions in Moscow were assisted by Mr. Foglizzo, Senior Resident Representative, and Mr. Lopez-Claros, Resident Representative.

During the Annual Meetings, Mr. Kagalovskiy was elected Executive Director by the Russian Federation and took his seat on November 1, 1992. Russia's relations with the IBRD are summarized in Annex IV.

II. Summary of Performance Under the Arrangement

The economic program supported by the first credit tranche arrangement with Russia has not been consistently implemented. Early on, there were delays in the implementation of various fiscal measures. Extension of the VAT and excise taxes to imports had been rejected by the Supreme Soviet in July, and the increase in average import duties--from 5 to 15 percent--was postponed from August 1 to September 1. The imposition of new energy taxes and attendant increase in energy prices was first postponed to late August, but only finally implemented in mid-September. Even when implemented, these measures were still incomplete, as the excise tax on oil was set at 18 percent rather than 35 percent as envisaged in the program, and no excise tax was imposed on natural gas. Moreover, the necessary basis for full collection of these taxes was not in place at the time the decree on energy taxation was issued. Offsetting measures, as contemplated in the Economic Memorandum of July 10, 1992, were inadequate.

In part because of the delays in implementing fiscal measures, there was a serious slippage in the overall budgetary position in July and August. Preliminary data suggest that the deficit on general government, on a commitment basis, was about 19 percent of GDP in the third quarter of 1992, compared to around 6 percent under the program. The domestic financing requirement amounted to some 14 percent of GDP, compared to the programmed level of 6.5 percent.

Slippages in the area of monetary policy were also serious. During the third quarter, CBR lending to the banking system increased by around rub 700 billion (excluding credits associated with the process of netting out interenterprise arrears), or by as much as the total amount programmed for the entire second half. CBR lending to other central banks of the FSU was almost three times as high as the amount of such credit envisaged in the program. Meanwhile, the CBR has not pursued the active interest rate policy espoused in the Economic Memorandum.

The result of these slippages in fiscal and monetary policy has been an acceleration of inflationary pressures beginning in September, and a sharp depreciation of the ruble, in both nominal and real terms, from rub 135 per U.S. dollar immediately following unification of the exchange system in early July, to rub 450 per U.S. dollar on November 24 (Chart 1).

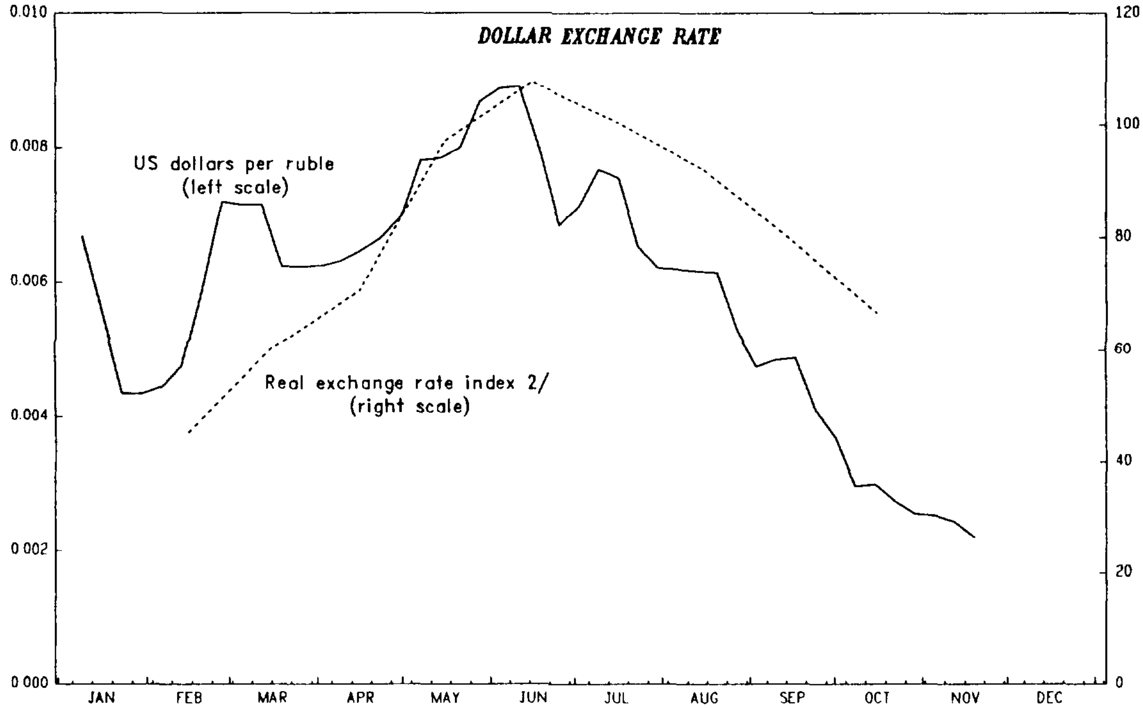
There were also slippages in external policy, as the new foreign exchange law was not signed until October and its implementing regulations are yet to be issued. The reduction of the scope of export quotas on August 1, 1992 was also less significant than envisaged in the program, and the use of auctions for remaining quotas has remained limited.

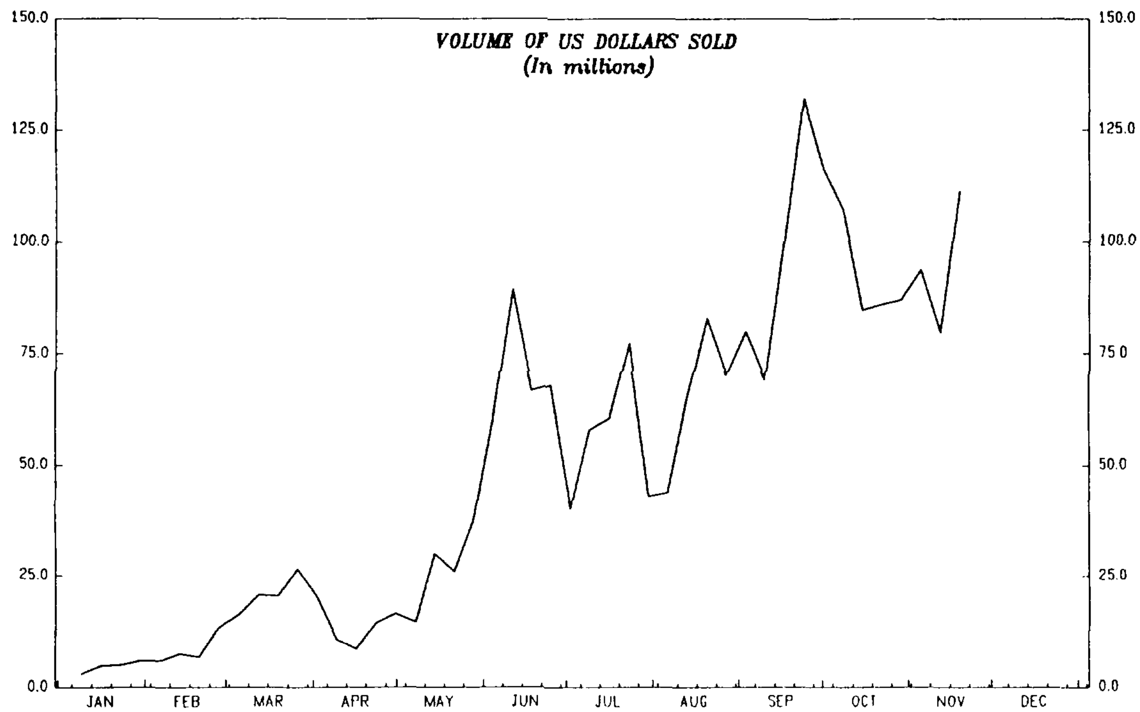
CHART 1

RUSSIAN FEDERATION

FOREIGN EXCHANGE DEVELOPMENTS 1/

January-November 1992





Source: Moscow Interbank Foreign Currency Exchange.
1/ Weekly averages.
2/ Based on the consumer price index; the base used is the July 2, 1992 rate (rub 135 per US dollar).

The authorities have also failed to provide adequate and timely data in a number of areas, particularly in the monetary sphere. In some cases, they have also shown a reluctance to engage the staff in policy discussions.

During visits to Moscow in August, September and October, and in discussions with the authorities in Washington, management and staff have expressed serious concerns about these developments. They have stressed the need for prompt implementation of remaining measures envisaged under the program, for a sharp tightening of both fiscal and monetary policy so as to move back as closely as possible towards the original program targets, and to avoid new policy measures which would aggravate the growing inflationary pressures and which could complicate the process of moving towards approval of an upper credit tranche arrangement.

III. Recent Economic Developments

1. Output, prices, wages, and employment

a. Output

The decline in output continued to accelerate in the third quarter of 1992. Net material product declined by 20 percent in the period January-September 1992 relative to the corresponding period in 1991 (Chart 2). The decline in industrial production accelerated in the third quarter, with a total decline for the period January-September of 18 percent relative to the same period in 1991. Industrial output is expected to fall by 20 percent in 1992. In the energy sector, oil extraction is projected to drop by 14 percent and production of natural gas by 4 percent (Chart 3). Capital construction fell by 41 percent in the first nine months, and oil production for January-September was 14 percent below its 1991 level. With most of the grain harvest complete, the harvest was 16 percent above a year earlier mainly on account of a 21 percent increase in yields. The recorded decline in real NMP in Russia by roughly 30 percent since 1989 is more severe than the transition declines experienced by Czechoslovakia and Poland, about equal to that in Romania, but less severe than in Bulgaria or Albania.

A number of factors was thought to have contributed to the accelerated decline in output in 1992, including the effects of the economic transition, investment cutbacks, compression of essential imports, and disruptions in the payments system and in intra-FSU trade. The sharp fall of output, especially of industrial production, could also have reflected an acceleration of structural change. For instance, although precise data are not available, it appears that the production of military hardware is being reduced and consolidated.

It should be noted, however, that measures of recorded output probably overstate the actual decline in economic activity, since production is likely to be underreported in the rapidly growing, albeit still small private sector. Some indicators appear to confirm this hypothesis. For example, Chart 2 shows that the cumulative volume of freight transported by rail in January-September 1992 fell by 15 percent relative to the same period last year, compared with a cumulative decline in industrial production of 18 percent. The discrepancy is even greater for electricity consumption, which declined during this period by only 6 percent. 1/ High profit tax revenues could also be indicative of an under-recording of economic activity.

Indications of a supply response to the new market conditions appear to have become more pronounced since the second quarter of 1992. While, given its limitations, statistical evidence is insufficient to confirm these trends, anecdotal evidence supports it strongly. At the enterprise level, there are signs of increasing acceptance by managers that the shift to market conditions was a permanent one and that adjustment is necessary. The actual pace of adjustment, however, differs substantially depending on circumstances. At the same time, significant numbers of newly-established though small enterprises are operating. Although these enterprises predominantly involve service and distribution activities, small-scale producing units have also appeared. In this context, the privatization program for small-scale state enterprises and the rapid growth of private farms, described in Section 5, is also quite important.

b. Price behavior

The marked decline in the rate of inflation observed during July-August 1992 was reversed in September when consumer prices increased--compared with 9 percent in August--by 15 percent (Table 1). The rate of consumer price inflation doubled in October to 31 percent as foreshadowed by food price inflation, which rose steeply beginning in September reaching a monthly rate of growth on the order of 30 percent through early November (Chart 4). In addition to the relaxation of financial policies, the recent increase in measured inflation reflects partly the quasi-deregulation of domestic oil prices as of September 18, 1992 (see Section 2). Although information on current prices is spotty, the average price of crude oil in the aftermath of the September measures was reported to have increased from about rub 2,000 per ton to about rub 8,000 per ton (exclusive of VAT) for fourth quarter deliveries (even higher prices were recorded in intra-FSU trade).

Currently, prices are liberalized for most goods, with the exception of utilities, public transportation and communication services, and of various food items which local government bodies are permitted to subsidize. Regulation of prices produced by monopolists is now allowed on an ex post

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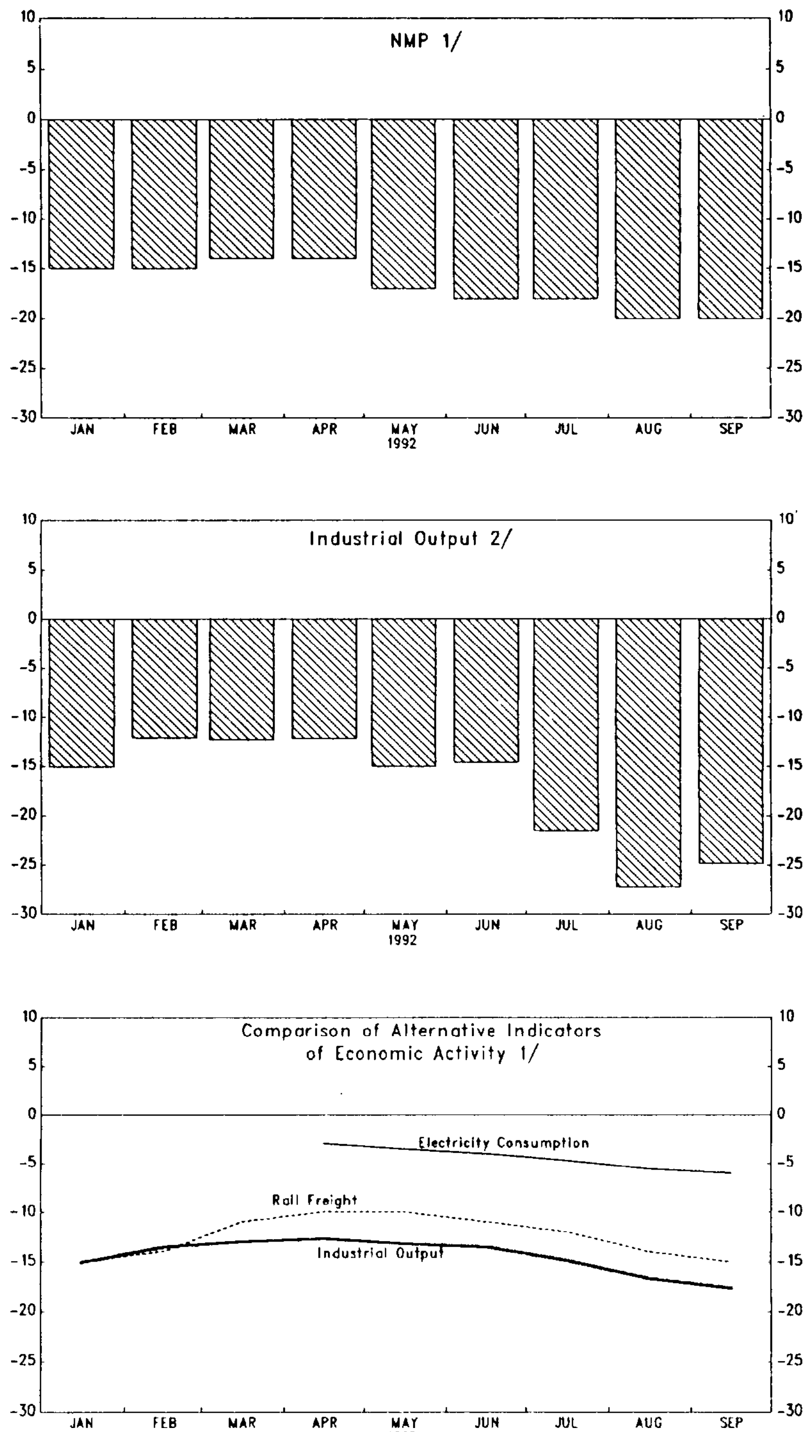
1/ The slower drop in electricity consumption is unlikely to be very much affected by steady levels of household electricity consumption, since households consume only 10 percent of all electricity. On the other hand, it is not unusual for electricity consumption, which is part of fixed costs, to decline by less than aggregate output.

CHART 2

RUSSIAN FEDERATION

Output Indicators, 1992



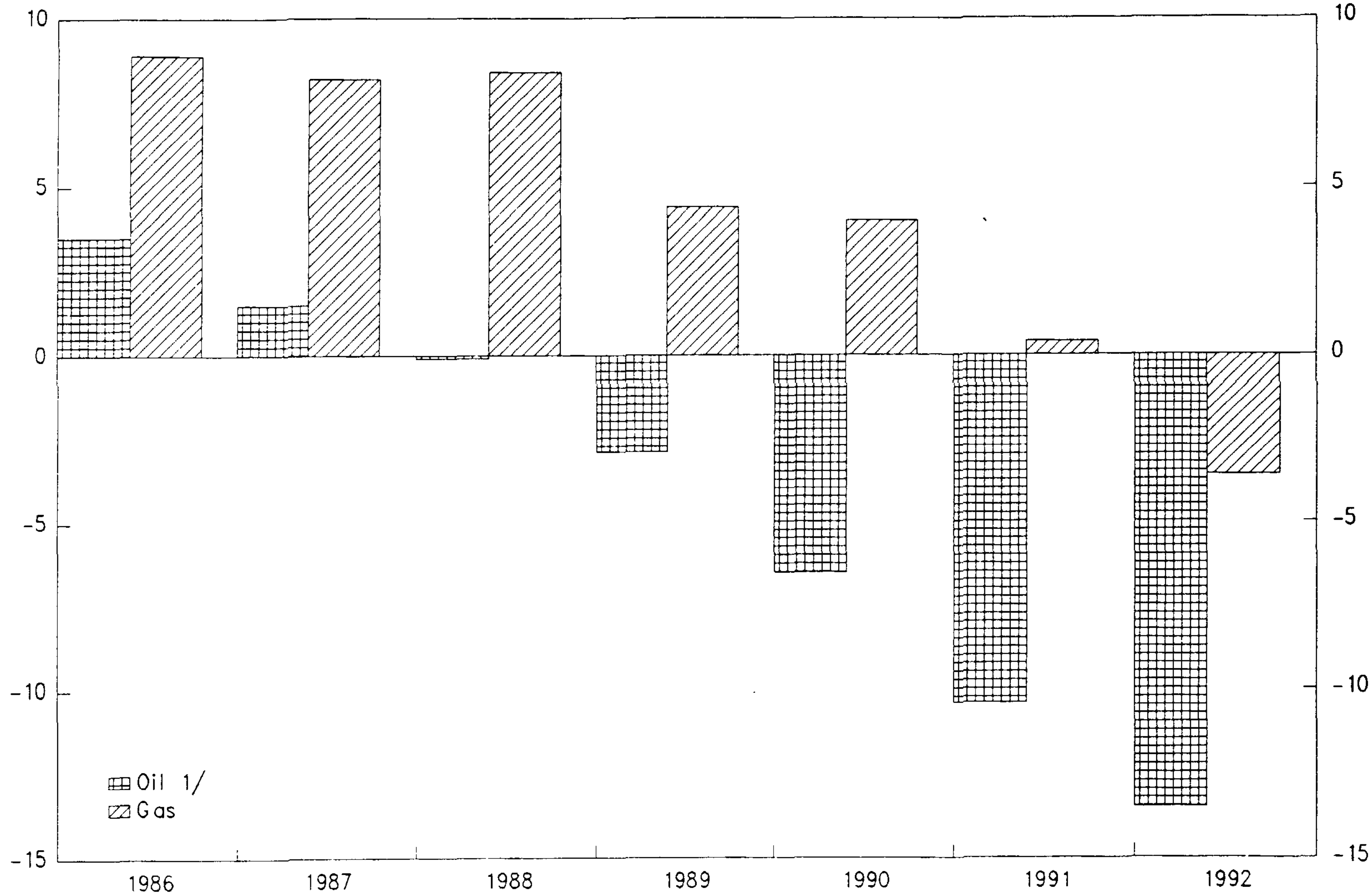
Sources: Goskomstat; and staff estimates.

1/ Percentage change, cumulative over same period in 1991.
2/ Percentage change, month over same month of 1991.

CHART 3
RUSSIAN FEDERATION

Volume of Oil and Natural Gas Output, 1986-92

(percent change from previous year)



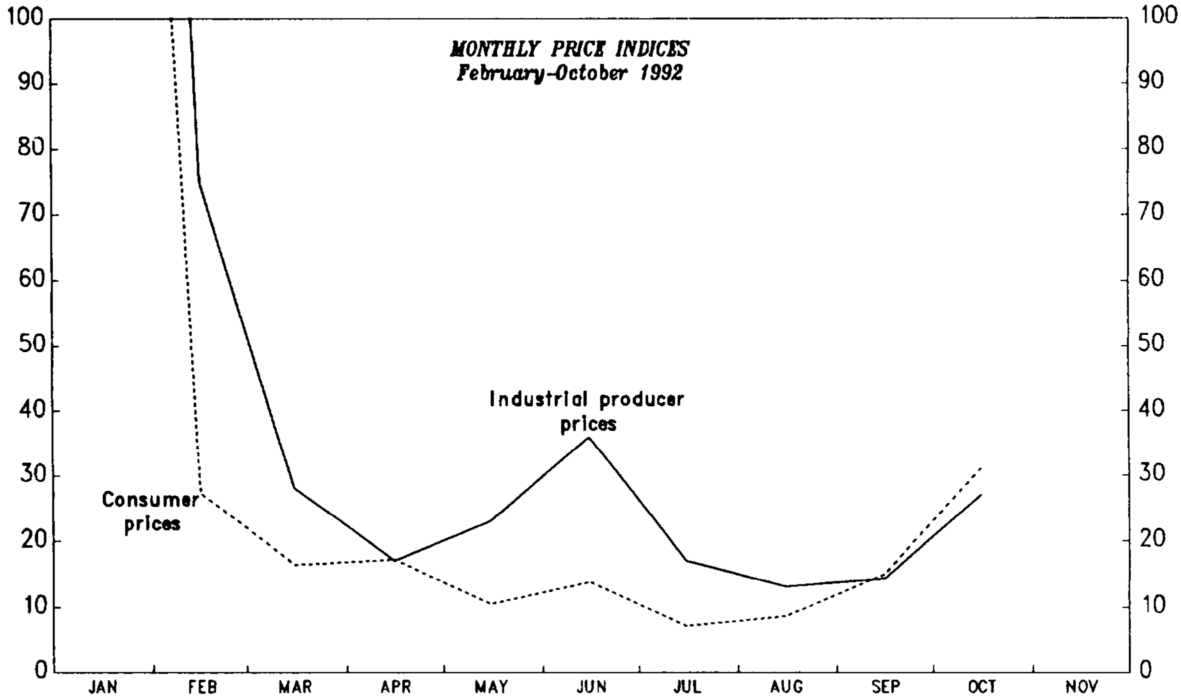
Sources: World Bank; and staff estimates.

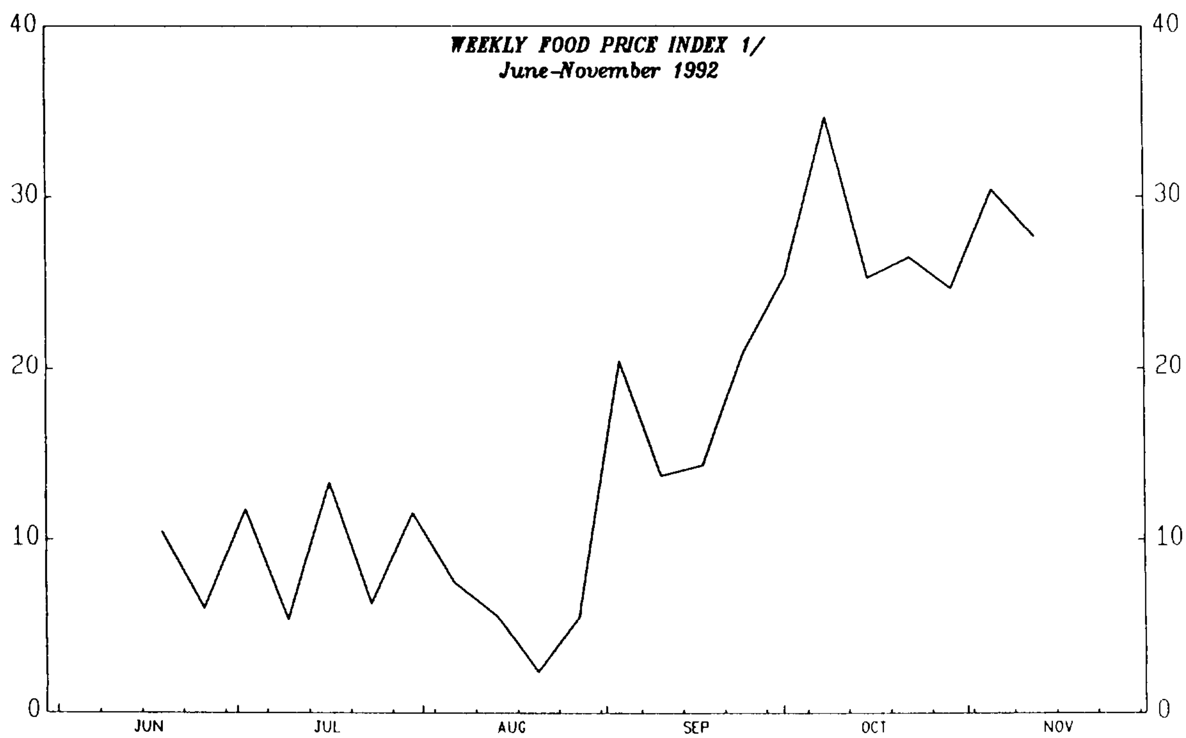
1/ Includes gas condensates.

CHART 4

RUSSIAN FEDERATION

INFLATION
February-November 1992
(In Percentage Points)





Source: Goskomstat.
1/ Monthly rate associated with weekly price increase.

basis, i.e., once there has been a finding of abuse of the monopoly position. The recent acceleration of inflation has been accompanied by the introduction of legislation in Parliament that could provide a framework for the potential re-introduction of price controls.

c. Wages

In January 1992, when the government liberalized most prices, the measured average real wage dropped by about two thirds from its December 1991 level (Chart 5), and by one third from its level in 1987 (the last year before the rate of growth of wages per unit of measured output began to outpace the increase in prices). 1/ During the first half of 1992, however, recorded nominal wages rose faster than consumer prices, and by June the real wage had returned to its 1987 level. Actual wage and other household income payments, however, were increasingly lagging, mainly because of the effect of the cash shortage on wage arrears (Table 2). In July and August, the arrears were mostly eliminated; thus, while the measured real wage remained constant, actual real wage payments rose substantially. 2/ In September, wages in the budgetary sphere were increased by 50 percent, and the average economy-wide nominal wage rose by 23 percent to an estimated level of rub 7,200, implying a further rise of the order of 10 percent in real terms. The minimum wage, however, remained at rub 900 per month (Table 3).

d. Employment

Despite the magnitude of the cumulative output decline, the number of job seekers remained very low, at 921,300, or 1 1/4 percent of the labor force on October 1 (Table 4, Chart 6), and labor hoarding continues to be considerable. The number of registered unemployed was much lower still, at 367,500, or 1/2 percent of the labor force. 3/ However, the number of individuals working shortened hours or on forced leave without pay had reached 2 million in industry, or close to 10 percent of the industrial

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1/ As noted in previous staff reports, there are serious questions about the reliability of the various statistical measures during the Soviet period. See also the forthcoming working paper "Price Liberalization in Russia: The Early Record."

2/ The information made available to the staff is not sufficient to quantify precisely the evolution of the discrepancy between wages due and wages paid.

3/ The gap between the number of job seekers and the number of registered unemployed partly reflects the fact that dismissed workers receive severance pay from their former employer during the first three months following their lay-off, but may also be due to the reluctance of some of the unemployed to be officially registered as such (including in their personal work documents).

labor force, by August 1992. Furthermore, registered vacancies have continued to drop, to 363,700 as of September 1. 1/

Public works and training programs have begun but are still modest in scale--in part, according to the authorities, because candidates are difficult to find. As of end-June, about 14,700 persons participated in public works projects. During the first seven months of 1992, 40,000 to 45,000 individuals underwent retraining.

The rules governing unemployment compensation have not been changed so far, with unemployment benefits calculated as a share of the recipient's past wage. Legislation replacing this earnings-related system by a two-tier flat-rate system was submitted to the Supreme Soviet in June 1992 but is still awaiting enactment.

2. Fiscal policy

a. Performance in the first half of 1992

The economic program supported by the first credit tranche was negotiated against the backdrop of a worsening of the fiscal position which had started in the second quarter of 1992. As described in EBS/92/119, Sup. 3, tight fiscal policy in the first quarter was largely reversed in the second quarter, primarily on account of expenditure overruns. The actual outcome for the first half of the year turned out to be considerably worse than estimated at the time of program negotiations. The deficit of the general government, on a commitment basis, reached almost 10 percent of GDP in the first half, while the commitment deficit of the "enlarged" general government amounted to about 32 percent of estimated first half GDP. 2/ The accumulation of arrears reduced the cash deficit to about 25 percent of GDP. Furthermore, as a large part of this deficit was financed by foreign resources (rub 905 billion, or 22.2 percent of GDP), the domestic financing of the fiscal deficit, after taking into account the proceeds from privatization, was limited to an estimated rub 105 billion, or 2.6 percent of GDP.

b. Program objective and measures

The main objective of the fiscal program under the first credit tranche arrangement was to limit the domestic financing of the budget to about 5 percent of GDP in the second half of the year, compared with estimated

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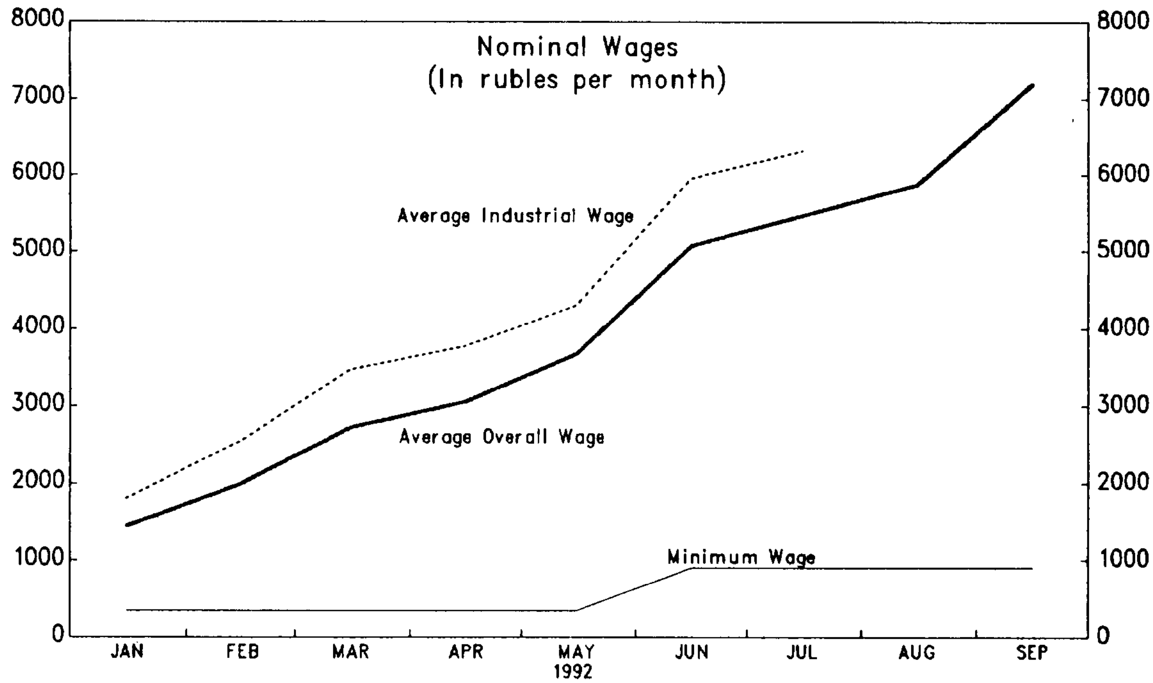
1/ Registered vacancies are estimated to represent about one-third of total vacancies.

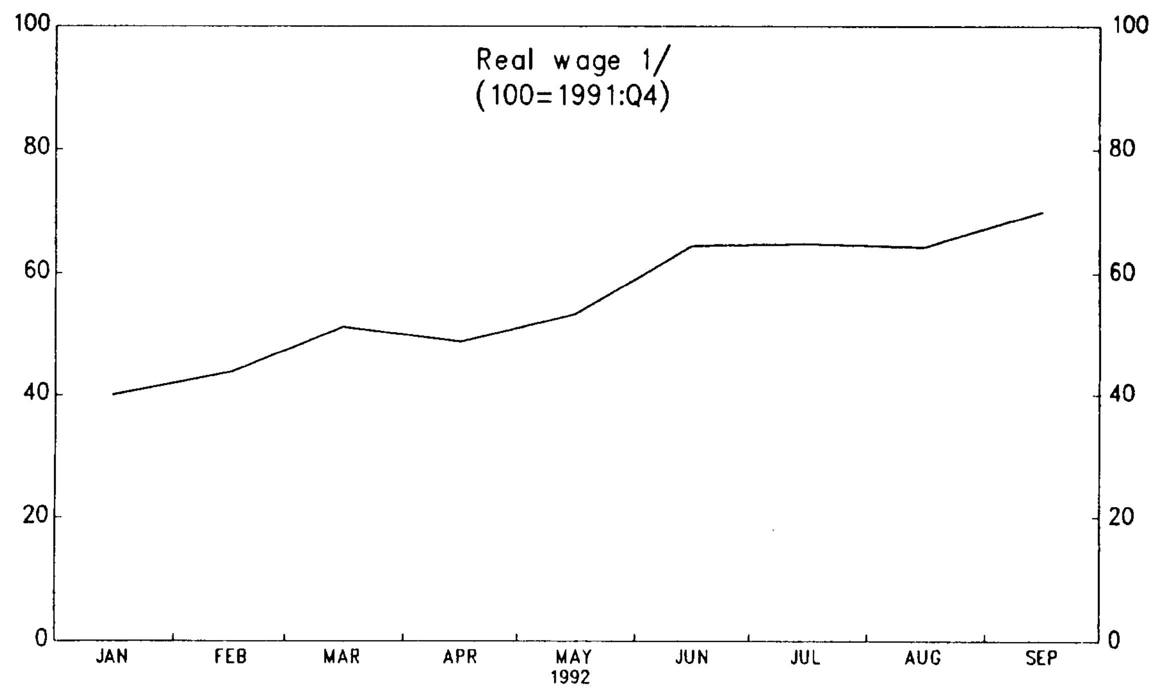
2/ The "enlarged" general government deficit includes unbudgeted exchange rate subsidies (or more recently, import subsidies). These subsidies, mainly associated with foreign disbursements, turned out to be higher than projected, reflecting the combined impact of much higher foreign disbursements, and very high subsidization.

CHART 5

RUSSIAN FEDERATION

Wages, 1992





Source: Goskomstat.

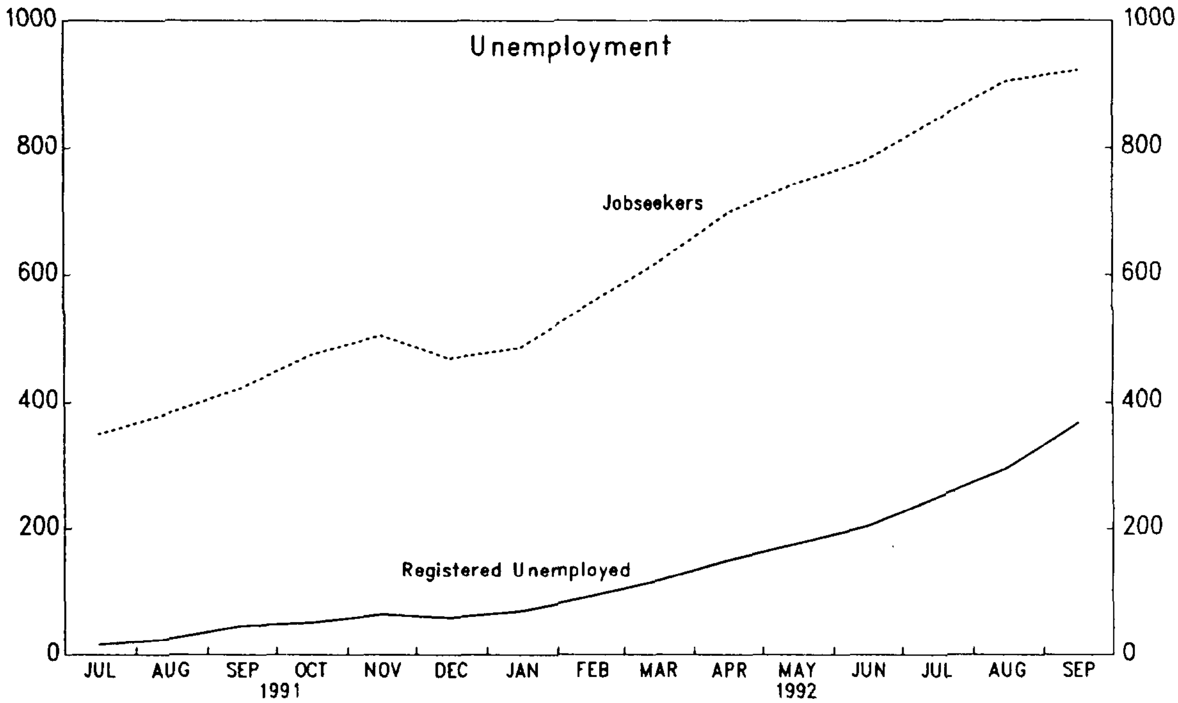
1/ Average wage in the economy deflated by the consumer price index, not adjusted for arrears on wage payments.

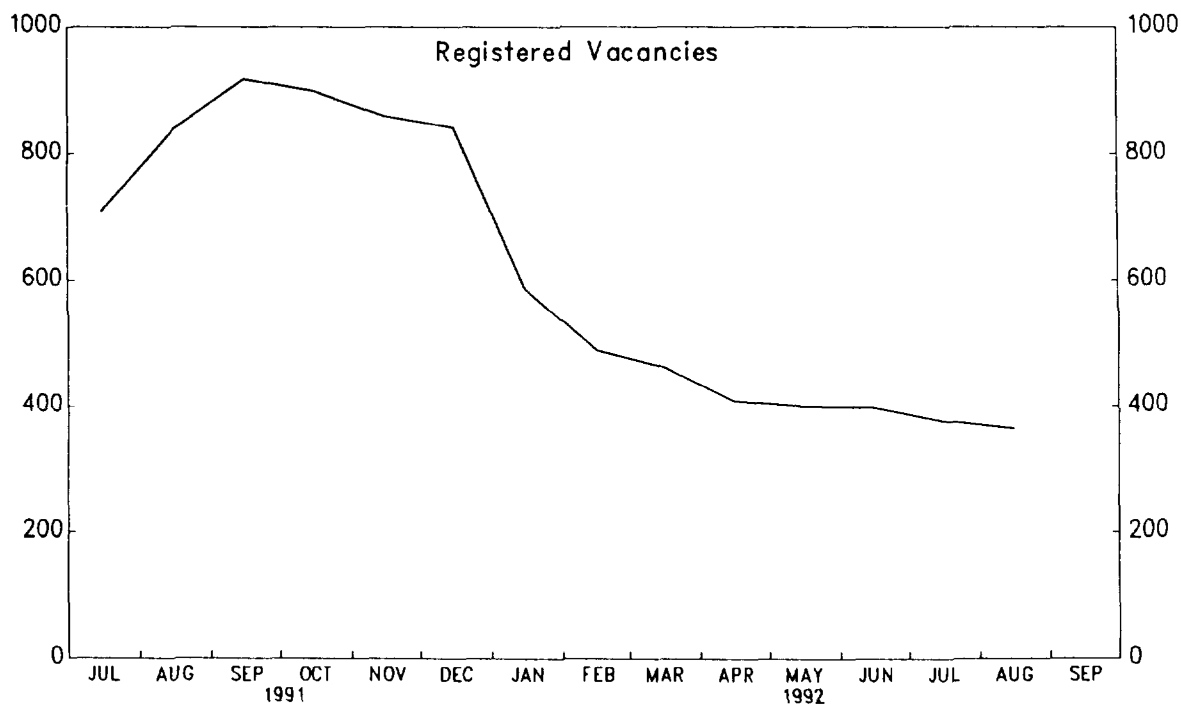
CHART 6

RUSSIAN FEDERATION

Unemployment and Vacancies, 1991-92

(In thousands)





Source: Goskomstat.

domestic financing of 17 percent of GDP in the absence of corrective fiscal measures (Tables 5 and 6). To achieve this objective, a number of revenue-enhancing and expenditure controlling measures were to be put in place (Table 7). The revenue measures, all scheduled to be introduced by August 1, 1992, included:

(i) a domestic excise tax on oil and gas equivalent to 35 percent and 45 percent of the domestic price, respectively; 1/

(ii) an increase in the weighted average import tariff from 5 percent to 15 percent; and

(iii) an extension of VAT and excise taxes to imports.

On the expenditure side, the authorities undertook to cut unprotected expenditures of the federal government by 20 percent through the use of a sequestering mechanism, and to limit budgetary outlays for the increase in the working capital position of the enterprise sector to rub 100-150 billion in the second half of 1992. It was agreed that any higher outlay for this purpose would be made subject to understandings with the Fund staff. Finally, the authorities committed themselves to implement compensatory fiscal measures should there be revenue shortfalls or expenditure overruns relative to the program.

c. Implementation of measures

The authorities' implementation record has been mixed. The government's proposal to extend the VAT and excises to imports was rejected by the Supreme Soviet in July 1992. The other major revenue measures were introduced with a considerable delay, and in an incomplete way. The increase in the taxation of energy was implemented in mid-September instead of August 1, and its coverage excluded natural gas. As regards oil, its price was de facto liberalized in mid-September, subject to the constraints of a 50 percent profitability margin applied to sales in excess of rub 4,000 per ton and the existing export quotas. The existing progressive tax, with

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1/ These prices, in turn, were to rise to approximately one-third of world market prices at the then prevailing market exchange rate of about rub 100-110 per U.S. dollar.

a modified schedule and reduced rates, 1/ was maintained but was supplemented with a new excise tax, with an average rate of 18 percent. 2/

The increase in the average import tariff from 5 to 15 percent went into effect with a one month delay, on September 1, 1992. Moreover, as all imports that had been contracted before that date were exempted, collections have fallen short of the forecast.

On the expenditure side, the authorities commenced sequestering only in September, after they had used all the central bank financing approved by the Supreme Soviet for the third quarter, but preliminary indications suggest that sequestration has been effective. As of end-October, the budgetary credits for increases of enterprise working capital amounted to rub 300 billion, of which rub 246 billion had actually been disbursed.

d. Performance in the third quarter

The fiscal position worsened further in the third quarter mainly because of expenditure overruns which are thought to have been concentrated in the area of subsidies and also owing to the partial and delayed implementation of the revenue measures (see table below). 3/ In July and August, the cash deficit of the federal government reached rub 640 billion, or 29 percent of estimated GDP. 4/ It was against this background that the authorities decided to tighten fiscal policy, using, as a main instrument, expenditure cuts and sequestration. In particular, the Ministry of Finance abandoned the regular budget, and set up a priority list of expenditures. In September, only the most essential outlays were made, such as wage payments and payments for electricity and rents. Investment outlays were virtually halted, and payments of subsidies, particularly on subsidized loans, were not effected. These measures, coupled with improved tax collection, halted the worsening of the fiscal accounts on a cash basis and the federal government recorded only a small deficit in September. However,

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1/ The progressive tax was introduced for oil and gas in May 1992. The tax rate rose from 60 to 90 percent for prices ranging from rub 1,801 to the maximum price of rub 2,200 per ton for oil; and from 70 to 90 percent for prices ranging from rub 1,101 to the maximum price of rub 1,600 per thousand cubic meters for natural gas. The tax schedule and rates were modified for oil in September, when a 30 percent rate was introduced for the excess of the price over rub 4,000; 40 percent between rub 4,500 and 5,000, and 50 percent for the excess of the domestic price over rub 5,000 per ton.

2/ The rate structure of the excise tax is to be differentiated, taking account of the different cost structure of various oil-producing fields.

3/ In relation to GDP, however, revenue was higher than programmed owing to a lower than expected nominal GDP.

4/ IMF definition, which includes transfers to enterprises for working capital increases but excludes payments of principal on the government's external and internal debt. Note that this figure does not include import subsidies associated with foreign disbursements.

this only partially reversed slippages relative to the program that had occurred in the previous two months. Moreover, it was also not clear to what extent these cuts would be permanent, or to what degree they represented only a postponement of expenditures and/or accumulation of domestic arrears. Fiscal slippages at the state level (federal and local governments), however, were partially offset by higher-than-foreseen surpluses of the extrabudgetary funds. These resulted mainly from substantially better outcomes than expected for the Pension Fund and the Employment Fund due, respectively, to delayed adjustments of pension benefits 1/ and to lower unemployment than previously forecast.

Summary of Fiscal Indicators, 1992

(In percent of GDP)

		Jan.-June	July-September		Jan.-Sept.
		Preliminary	Program	Preliminary estimates	Preliminary estimates
I.	Revenue	24.6	29.2	34.8	29.4
II.	Expenditure	36.5	36.5	57.3	46.2
III.	Balance of extrabudgetary funds	2.2	0.9	3.5	2.8
IV.	General government fiscal deficit, commitment (I-II+III)	-9.7	-6.3	-19.0	-14.0
V.	Unbudgeted import subsidies	21.9	3.9	9.8	16.3
VI.	Enlarged fiscal deficit, commitment	-31.6	-10.2	-28.7	-30.3
VII.	Enlarged fiscal deficit, cash	-24.9	-8.8	-24.3	-24.6
VIII.	Foreign Financing	22.2	3.9	10.1	16.6
IX.	Domestic Financing (after commodity debt, privatization proceeds)	2.6	6.4	14.3	8.0

Sources: Ministry of Finance; and staff estimates.

1/ The delay in adjusting pensions was possible in part because from August 1992 on, the federal budget paid a monthly supplement of rub 420 to each pensioner. To this extent, the higher surplus of the Pension Fund has reflected in a higher deficit at the federal government level.

Preliminary information suggests a third quarter commitment deficit on general government equal to about 19 percent of GDP, compared with a program target of 6.3 percent of (program) GDP. Import subsidies, associated with the disbursement of foreign loans, were also substantially higher than programmed, in part because the coverage of import subsidization went beyond that agreed in the program (food and medicine), and partially because the subsidization rate, at around 90 percent, was higher than programmed (70 percent). As a result, the deficit of the enlarged government in the third quarter, on a commitment basis, is estimated at around rub 1 trillion, or close to 29 percent of estimated GDP in the third quarter, as compared to the program target of around 10 percent of GDP. Although not envisaged in the program, external arrears on interest payments continued to accumulate, and domestic arrears were practically rolled over from the first half of the year. These probably limited the cash deficit of the enlarged government to around 24 percent of GDP in the third quarter GDP, compared with the program target of about 9 percent.

Although foreign financing in the third quarter of about rub 360 billion, or slightly over 10 percent of GDP, was higher than expected, it was not large enough to avoid higher-than-programmed bank financing. After an allowance for the repayment of commodity debt and privatization proceeds (rub 14 billion), the net domestic financing requirement reached some rub 500 billion, or 14 percent of GDP, compared to 6.4 percent under the program. For the first nine months as a whole, the commitment deficit of the general government is estimated to have reached 14 percent of GDP while the fiscal deficit of the enlarged government amounted to around 30 percent of GDP.

(1) Revenue developments 1/

Total revenues of the state budget fell short of the program target in the third quarter by some rub 108 billion, reflecting the impact of a better-than-foreseen performance of all the existing taxes, but disappointing results from the new taxes. The most notable development was a strong pickup in VAT collection from 6.8 percent of GDP in the first half of the year to 12.9 percent of GDP in the third quarter. The improved performance reflected the positive impact of shifting VAT payments to an advanced payment basis, as well as a slower accumulation of inter-enterprise arrears. 2/ Profit tax collection, at 11 percent of GDP, continued to be strong. However, an important part of this revenue--an estimated 1.5 percentage points of GDP--was the result of the existing incomes policy, which limits wage cost deductibility to four times the minimum wage. Because the minimum wage has not changed since May 1992, this regulation has effectively

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1/ Excluding revenues of the extrabudgetary funds.

2/ Indeed, in EBS/92/119, Sup. 3, the negative impact of the cash payments basis on VAT in the context of increasing interenterprise arrears was estimated to have resulted in foregone revenues of 5 percentage points of GDP in the first half.

sheltered profit tax revenue from the impact of wage cost increases in recent months. The buoyancy in profit taxes may also reflect higher revenues in the export sector in the wake of the recent large depreciation of the ruble. Finally, household income taxes were boosted relative to the projection by strong increases in money incomes.

By contrast, performance of the newly introduced taxes on oil as well as import tariffs was very weak. As regards energy taxation, underreporting of prices may have played some role, 1/ but it appears that revenue collection fell short of what could have been collected on the reported prices as well, which points to a serious tax administration problem. Collection of import duties is also estimated to have fallen short of forecast, owing to the granting of exemptions to importers who had entered into contracts prior to the increase in import tariffs. Similarly, because of large scale exemptions, revenue from export tax payments hardly benefitted from the depreciating exchange rate.

(2) Expenditure developments

Preliminary information indicates that total expenditure commitments in the third quarter exceeded the program target by some rub 360 billion. While details are not available, it appears that increased subsidies to enterprises may have been a major factor. Also, spending on social-cultural activities may also have been higher than previously foreseen (probably on account of higher operations and maintenance expenses); and foreign expenditure was increased by the depreciating exchange rate. In addition, the authorities spent rub 96 billion more on transfers for working capital of enterprises than had been programmed.

(3) Local governments

Information on developments at the local government level remains very sketchy. Since those taxes that mainly or fully accrue to the local governments (profit taxes and individual income taxes) remained buoyant, it is probable that revenues of local government performed strongly. However, there may have also been expenditure overruns, particularly related to producer and consumer subsidies. Increases in budgetary wages also affected the local budgets. As a result, the net surplus of the local governments was equal to 2.4 percent of GDP in the third quarter, which was slightly lower than had been projected.

e. Social safety net

The existing social safety net consists of family allowances (complemented by social assistance), social insurance, pensions, and an

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1/ With high progressive taxation applied to prices in excess of rub 4,000 per ton, oil producers have strong incentives to underreport sale prices and accept side payments.

unemployment system which is in the process of reform. It would appear that at least rub 300 billion (7 percent of GDP) was expended during the first six months of 1992 for cash benefits. The data for the third quarter are not yet available. To the extent that most benefits and pensions are closely tied to the monthly minimum wage, to which only ad hoc adjustments were made during the year, the real incomes of beneficiaries probably have declined during the year.

Many benefits are paid out of the general revenues of the federal budget. The bulk of benefits, however, are provided through extrabudgetary funds financed by a payroll tax set at an overall rate of 37 percent for employers and 1 percent for workers. 1/ The Social Insurance Fund, which provides mainly sickness and maternity benefits, is funded by 5.4 percentage points of the payroll tax. Although the fund realized a small surplus during the first half of the year, financial difficulties began to emerge during the second half linked to payroll arrears. The Employment Fund is projected to be in surplus for the current year. Naturally, as unemployment and associated benefits begin to mount, a sizeable deficit will emerge rapidly. The Pension Fund, which is financed by the revenues from 31.6 percentage points of the payroll tax, is estimated to have realized a surplus, possibly of around rub 169 billion, during the first three quarters of 1992. Despite the increase, as of November 1, in the minimum pension to rub 2,250 per month, the surplus of the Fund is likely to be sustained during the final quarter of 1992. As the full-year impact of the recent pension increases begins to be felt in 1993, however, and depending upon the behavior of nominal wages over the near term, the financial position of the Pension Fund can be expected to be eroded.

3. Monetary policy 2/

a. Program for the second half of 1992

The aim of monetary policy under the program was to achieve the inflation objective of high single digit monthly inflation by end-1992 and to begin to restore confidence in the ruble to the extent possible. It was hoped that the policy pursued under the program during the second half of 1992 would result in an increase in the demand for real ruble money balances and a real appreciation of the exchange rate. The CBR undertook to pursue a flexible interest rate policy in the light of developments in prices, the foreign exchange market, and the level of official reserves, and to move its finance rate to a positive real level by the end of 1992. Moreover, the

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1/ The Fund for Social Support of the Population, which also provides targeted benefits, depends mainly on privatization proceeds for supplementing its initial endowment of rub 10 billion.

2/ Recent developments and issues related to Russia's relations with the other states of the former U.S.S.R. are covered in the staff paper on "Interstate Monetary, Payments and Financing Arrangements in the Former Soviet Union" that is to be issued shortly.

program provided for an increase by August 1, 1992 in the deposit rates of Sberbank to 10 percent for sight deposits and 60 percent for long-term deposits. 1/

The growth of CBR credit to the banking system was to be limited to rub 700 billion in the second half of 1992, representing an average monthly increase of 14 percent, or roughly one half the monthly rate of increase in the first six months of 1992, even after taking into account the traditionally heavy financing needs of the harvest. During the same period, rub 600 billion of credit would be made available to the general government to meet its targeted deficit financing requirement of 5 percent of GDP. The indicative ceiling for the growth of net domestic assets of the CBR in the second half of 1992 was set at roughly rub 1.3 trillion while the indicative ceiling on the growth of net credit of the banking system to the federal government was set at rub 950 billion. 2/

Progressively tighter credit policies, including the movement toward positive real interest rates, and the limitation on producer subsidies, were expected to harden budget constraints for enterprises, and discourage the further build-up in interenterprise arrears. In this manner it was thought that creditworthy enterprises would be able to switch their borrowing to the banking system, and credit to the economy (i.e., to non-government borrowers) could increase in real terms in the second half, allowing enterprises to respond to the new structure of prices and incentives, and helping to provide financing for the early stages of the privatization program.

To deal with the cash shortage that had emerged in the first half of 1992, 3/ the authorities planned to issue larger denomination notes, and to clarify the rights of banks (and bank branches) to settle directly among themselves and to establish independent clearing centers. Various other technical measures were being taken to speed up settlements. It was also

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1/ The increased cost to the Savings Bank was to be covered by an increase in the interest rate paid by the Government on that part of its internal debt financed by household savings. The higher interest costs to the Government arising from this measure were reflected in the staff's budget projections.

2/ The indicative ceiling was placed on credit to the federal government for purposes of the first credit tranche program because the federal authorities have information on a regular basis only at this level. The ceiling was placed on net credit to the federal government of the banking system, rather than of the CBR, to allow for the possibility that some of the large former "specialized" banks could be persuaded to extend credit to government. The actual ceiling in the Economic Memorandum (Appendix Table 2 of EBS/92/119, 7/10/92) took into account the expectation that local authorities as a group and some major extrabudgetary funds would likely be in surplus.

3/ See EBS/92/119, Sup. 3, 7/24/92, Section II.

planned to eliminate the formal restrictions on the use of currency after the cash shortage had been resolved. The demand for currency, relative to deposits, was anticipated to diminish as interest rates approached positive real levels and inflationary pressures diminished. 1/

b. Outturn in the third quarter of 1992

The staff has not yet received the necessary data to prepare a monetary survey for end-September 1992. Accordingly, this report focusses on developments in July and August, for which comprehensive data are available, and draws on partial information for September 1992 (Tables 8 and 9). There was considerable loosening in the stance of monetary policy in the third quarter. Net credit to government increased by a total of around rub 400 billion in July and August as the federal deficit widened considerably (see Section 2) and despite the build-up of deposits of the extrabudgetary funds and the local authorities.

Total bank lending to the economy grew by 73 percent in the two months ending August 31; real credit to the economy grew by 49 percent during this period. 2/ The growth in credit reflected predominantly the expansion in CBR lending. Nonetheless, banks continued to hold balances with the Central Bank considerably in excess of reserve requirements. CBR lending to commercial banks increased by about rub 500 billion in July and August and while some deceleration in the growth of this lending has been reported for September, for the third quarter as a whole CBR lending is expected to have reached around rub 700 billion, equal to the ceiling agreed in the program for the second half of 1992 as a whole. Most of this credit was earmarked for particular sectors and regions and was made available at interest rates that were subsidized by the Government. The overrun in the growth of CBR lending to banks relative to the target agreed under the program was mainly due to the decision to meet the larger than anticipated demands for credit from the Northern Territories and the agricultural sector. An extra rub 150 billion of credit had been needed for deliveries to the Northern Territories in the period through early September and an additional rub 20 billion was still thought to be required in the third quarter. Additional credit of rub 100 billion for the agricultural sector had been used to cover the working capital needs associated with the increase in the procurement price of grain.

1/ The currency multiplier has been quite variable in 1992 and is likely to continue to be volatile in the coming months. This is one factor underlying the staff's definition of base money as including deposits at the CBR as well as currency, and its focus on the money multiplier--with base money defined to include all CBR deposits--which appears to have been more stable than the currency multiplier.

2/ Credit aggregates referred to here do not include credit in blocked accounts used for netting of interenterprise arrears (see below).

Despite the apparent increase in excess reserves of the banking system, the rapid growth in base money resulted in an acceleration of the growth in broad money, which increased in July and August by 80 percent, presaging the surge of inflation in September-October 1992. 1/

The level of commercial bank lending rates increased during the third quarter despite the CBR finance rate remaining unchanged at 80 percent per annum since late-May (Table 10). Commercial bank rates in October/November amounted to around 60 percent for deposits and 80-110 percent for loans, yet remained sharply negative in real terms relative to measured consumer price inflation. The deposit rates of Sberbank were increased by August 1, 1992 in accordance with the program.

c. Interenterprise arrears

Interenterprise arrears surged in the first half of 1992, reaching some rub 3 trillion (or almost twice the level of bank credit to the economy) by June 30. 2/ The recorded stock of interenterprise arrears consists of the aggregate amount of payment orders presented to the banking system which was not executed due to the insufficiency of funds in clients' accounts and recorded in so-called File No. 2. A portion of these arrears involves cross-border transactions. Since July 1, 1992, the banking system has discontinued the practice of recording unpaid payments orders (arrears); as a result, no comprehensive information is available on arrears accumulated since mid-year. Enterprises are now supposed to ship goods only on the basis of prepaid orders. Anecdotal evidence suggests that while arrears are still being incurred, their rate of growth has slowed significantly.

The Russian authorities started the process of netting the end-July stock of interenterprise arrears in August. For this purpose, the CBR authorized commercial banks to set up blocked accounts for enterprises, which were used by banks to settle arrears of their clients. For those banks that, as a result of these operations, had an aggregate net debtor position, the balancing counter-entry was a claim on the CBR. The claim on the CBR was a bookkeeping transaction while these balances remained blocked in enterprises' accounts. The netting process was by and large completed by early October. A large part of the amounts held in the blocked accounts has been released to enterprises to allow them to settle arrears to the budget and the banking system. According to preliminary information, by end-October already rub 370 billion of net creditor balances had been unblocked. Of this amount rub 220 billion would accrue to the budget, rub 112 billion to commercial banks and some rub 38 billion for (unspecified) priority payments.

1/ These broad money aggregates do not include deposits in the blocked accounts used for netting interenterprise arrears (see Section c below).
2/ For an analysis of the causes, see Annex II of EBS/92/119, Sup. 3, 7/24/92.

The approach for dealing with interenterprise arrears by transferring debts to an Agency for the Management of Enterprise Debts, as described in the Economic Memorandum (paragraph 22), has languished. While discussions on the creation of this agency have proceeded, no concrete measures have been taken to establish it as an operational unit.

4. Balance of payments developments and external policies

a. Balance of payments

The weaker than expected implementation of financial policies is expected to result in a larger balance of payments deficit for Russia in 1992 than envisaged under the program. 1/ The projection assumes that Russia services 100 percent of the external debt of the FSU in 1992 to reflect recent developments in the establishment of a legal framework regarding responsibility for this debt. The overall balance of payments deficit in 1992 with non-FSU states is projected to be US$14.4 billion, compared with the program projection of US$9.8 billion (Table 11). The current account deficit is likely to be somewhat lower than projected, reflecting lower net nonfactor service payments and higher gold exports than expected. Both exports and imports appear to be recovering as projected in the second half of the year from the very low levels in the first half. Oil exports would be slightly less than expected, however, reflecting higher apparent consumption, while natural gas exports would be higher than originally expected. The capital account, however, is estimated to show a net outflow of US$5.4 billion, compared with no net flows projected under the program. This partly reflects revisions to the capital account for the first half of the year, as net outflows through the commercial banks and net errors and omissions turned out to be much larger than previously projected. In addition, net capital outflows recorded on these two accounts are now projected at US$1.3 billion in the second half of the year, compared with an inflow of US$1.3 billion anticipated under the program, mostly because credit and interest rate policy have been looser than expected.

Disbursements of medium and long term credits--mostly of tied bilateral export credits committed to the FSU--amounted to US$8.4 billion in the first half of the year and are expected to total about US$12.5 billion for the year as a whole. There is little information on the amount of these disbursements that have been linked to escrow accounts. Thus far, all these credits have been disbursed to Russia although part of the corresponding

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1/ The projected balance of payments has been separated into two parts--one for transactions with FSU states and the other for the rest of the world--because the pricing and settlement systems differ between these two groups of countries. Both projections form part of a consistent framework in which shifts in the net resource balance with FSU states influences the resource balance with the rest of the world.

imports have been resold to other FSU states. 1/ Disbursements from the World Bank have been projected at US$50 million compared to US$800 million under the program, due to delays in finalization of loan documents for the Rehabilitation Loan (Annex IV) and in negotiating policy-based loans for the energy and agricultural sectors. Grants are estimated at US$1.5 billion, less than expected because of a slower pace of disbursements of grants from Germany. Amortization of medium and long term obligations and net repayments from abroad are expected to be about as projected under the program.

Total scheduled debt service due in 1992 is expected to total US$14.6 billion, consisting of interest payments of US$5.6 billion and amortization of medium- and long-term debt of US$9.0 billion (Tables 12 and 13). Actual debt service paid has been much less, and external payments arrears have continued to rise (Table 14). As of end-June, external payments arrears amounted to US$10.9 billion, including debt service arrears of US$4.9 billion. Cash payments on external debt in the third quarter amounted to US$430 million, and arrears continued to increase.

These difficulties partly reflect problems in organizing debt service payments from all the states of the FSU, despite the December 1991 treaty on interrepublican debt issues. 2/ No other state has yet made a deposit into the appropriate account at the VEB, and only Russia has made cash payments on debt service. As a result, Russia has proposed an approach (the so-called zero option) to assume responsibility for servicing the share of FSU debt of other states provided these states agree to transfer their share of the assets of the FSU to Russia. At a meeting in late October, official creditors agreed to the authorities' request to delay discussion of a full rescheduling until the responsibility for servicing the debt of the FSU had become more clear. At that time, official creditors confirmed that the deferral of medium- and long-term principal payments on pre-cutoff date debt granted last January would be extended until the end of 1992. 3/ To date, Russia has reached agreement with Belarus, Kyrgyzstan, Turkmenistan and Uzbekistan on the zero option approach. Russia has signed protocols with Armenia, Kazakhstan, Moldova, Tajikistan and Ukraine giving Russia the authority to manage the external debt and assets until this issue is finally settled through bilateral agreements. Meetings with official creditors on a possible rescheduling were held in late November. Commercial creditors agreed in late September to extend their deferral of principal to the end of the year, and no meeting between the Russian authorities and the Bank

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1/ According the authorities' information, the disbursements of these credits finance imports that enter Russia. These imports may then be sold or channeled to a Russian enterprise, which in turn may sell the goods to a non-Russian enterprise. There is unfortunately no information on the distribution of the imports by final user.

2/ See SM/92/68, 3/23/92, Annex II for details.

3/ The deferred principal owed to official creditors technically falls due on January 1, 1993.

Advisory Committee is scheduled in the near future. For the year as a whole, net international reserves are expected to decline slightly by US$0.1 billion, compared with a program projection of a gain of US$0.6 billion.

A provisional balance of payments projection for 1993, based on the assumption of a strong adjustment program, was agreed with the authorities in late September; it was explained in a Memorandum to the Executive Board dated October 8, 1992. If Russia were responsible for 100 percent of the debt service, the current account deficit excluding FSU transactions was projected to rise to US$15.5 billion. Scheduled debt service payments would amount to over US$20 billion, consisting of US$6.5 billion of interest and almost US$14 billion of amortization. It is assumed that much stronger economic policies would stop the short-term capital outflow and generate a small inflow. Allowing for a modest build-up of reserves to the equivalent of one month of imports and before any disbursements of credits or grants, the financing requirement would amount to US$30 billion.

The information on Russia's trade with other FSU states is very incomplete. Staff estimates indicate that Russia's trade surplus with other FSU states in 1992 could be on the order of US$3-5 billion. The trade surplus could rise next year if the price of Russia's oil exports moves closer to world levels, but the response of demand in the other FSU states to higher oil prices is difficult to predict. Russia is discussing free trade agreements with many other FSU states; Russia's trade with other FSU states in 1993 is unlikely to be governed by bilateral trade agreements, which have often not been effective.

b. External policies

Several major reforms of the foreign exchange and trade system were planned to take place in July-August 1992. They included the unification of the exchange system, the introduction of resident convertibility of the ruble for current transactions, and a significant reduction in the scope of export quotas. 1/ Subsequently, however, slippages occurred with respect to a number of external policy commitments under the program, as most export quotas were maintained, import subsidies continued to be large, and there were delays in introducing the foreign exchange regulations and in consolidating the foreign exchange reserves within the CBR.

The unification of the ruble was accomplished through the abolition of the special commercial exchange rate and official exchange rate on July 1, the so-called market rate of the Central Bank of Russia on July 3, most of the special budgetary exchange rates on July 1, and of the remaining one on August 15. The unification of the exchange system was expected to result in a large depreciation of the exchange rate applying to centralized imports, which accounted for about two thirds of total imports during the

1/ These changes were described in EBS/92/119, Sup. 3.

first half of 1992. 1/ In the period July to mid-August, for contracts concluded before July 1, a special budgetary exchange rate at 20 percent of the market rate was applied. 2/ From mid-August, however, all budgetary rates were abolished and thereafter imports have taken place at the unified exchange rate. During the second half of 1992, import subsidies were expected to be confined to grain and medicine as well as imports under the World Bank's Rehabilitation Loan.

The new regulations that took effect from August 15, however, had little effect on the domestic prices of centralized imports, as explicit budgetary import subsidies effectively replaced the previous multiple exchange rates. The explicit subsidies to be paid by the federal budget varied by commodity and averaged approximately 60-70 percent of the foreign currency value of subsidized centralized imports.

While a new foreign exchange law consistent with current account convertibility for residents had been approved by the Supreme Soviet in July 1992, the law did not become effective until October, when it was signed by President Yeltsin after certain amendments had been made and approved by the Supreme Soviet. The authorities were committed to introduce foreign exchange regulations covering both current and capital account transactions by August 1, 1992 to complement the foreign exchange law, thereby establishing a complete legal framework for all foreign exchange transactions. A draft of these regulations was prepared by August 1 and although the law has entered into effect, the regulations have still not been issued.

In July 1992, the Government appointed an auditor to examine the books of the Debt Manager (Vneshekonombank) concerning the external debt of the former U.S.S.R. and related transactions. This work has progressed in line with the original time schedule and the audit is expected to be completed by the end of 1992. Also in July, an internationally recognized firm was appointed to investigate foreign exchange flows from major export earners in Russia and other FSU states. Due to certain administrative problems, however, the firm has not yet been able to begin its work, which was scheduled to be completed by the end of 1992.

The program also envisaged that all official gold reserves would be brought under the control of the CBR on July 1, and that the Government would hold only working balances in foreign exchange. Since that date, all purchases of gold from producers and sales to domestic enterprises and exporters have been carried out through the CBR. However, the Russian

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1/ Before July 1992, such imports had taken place at an exchange rate of rub 1.7 per U.S.dollar for imports financed through foreign credits and at exchange rates varying from rub 2 to rub 70 per U.S.dollar for imports financed from reserves.

2/ For example, if the market exchange rate was rub 150 per U.S.dollar, the budgetary exchange rate would be rub 30 per U.S.dollar.

Government has maintained control over most of the existing stock of official gold reserves (190 tons on September 30, equivalent to about US$2 billion at the current London market price of gold) and the CBR holds only limited reserves (50 tons of monetary gold and 35 tons of non-monetary gold on the same date). The official foreign exchange reserves as defined under the program comprise CBR and government holdings. In addition, the Government has ownership of foreign exchange reserves held on accounts of Russian enterprises abroad which have been earmarked for centralized imports. These funds were expected to have been drawn down through payments for already committed imports and not to be further accumulated. However, export taxes paid in foreign currency have been deposited into these accounts and the outstanding amount in fact had grown in July and August to US$1.5 billion by mid-August.

Under the program, all export quotas related to trade operations with all countries (including FSU states) were to have been abolished by August 1, 1992 with the exception of those for energy products (until the end of 1992) and for goods subject to voluntary export restrictions. On August 1, the Government removed quotas only on limited categories of goods. 1/ Quotas remained in place for a number of important export commodities besides energy products, including timber and timber products, textiles, ferrous and nonferrous metals, steel and ferrous alloys. Under the program, the authorities were committed to auction all export quotas that had not already been distributed. Although auctions have continued to take place, they have not yet encompassed all undistributed export quotas.

Under a new proposal for "centralized exports", some US$5 billion of exports in 1993--including some 25-33 percent of oil and natural gas exports--would be purchased by the Government from domestic producers for resale abroad. The prices at which the goods involved would be bought domestically are as yet to be determined, but reportedly they would be sharply lower than world market levels. This would involve the collection of an implicit export tax--in foreign currency--that would be used directly to fund a significant share of the Government's foreign currency expenditures. Apparently as a secondary objective, governmental resale of these products in some cases is intended to ensure fulfillment of various supply commitments to foreign governments under barter arrangements.

5. Systemic changes

a. Privatization

A key aspect of Russia's transition to a market economy is the privatization program. The authorities have been promoting privatization via the following channels: publicized auctions of small retail and service establishments; the beginning of the mass privatization of medium and large

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1/ Fish and fish products, synthetic rubber, ammonia, methanol, styrols and phenols.

enterprises through a voucher scheme; the monitored sale of the largest firms to foreign investors; 1/ sale of apartments to the current tenants on very favorable terms; and the establishment of private farms.

According to data provided by the State Committee for Managing State Property (GKI), as of October 1, 1992, there were 214,803 enterprises in Russia which had independent legal status. 2/ Approximately 200,000 of these were small and medium-sized enterprises, of which 24,217 had already been privatized. 3/ Privatization was carried out either through publicized auctions or through preferential sale to management and employees.

With respect to the privatization of large state enterprises, the first step is to complete the corporatization procedure (transformation into joint-stock companies). In July 1992, a Presidential decree was issued stipulating that 6,541 large firms must be corporatized and begin the privatization process by the end of 1992. 4/ As of October 1, 1992, only 542 of these enterprises had been transformed into joint stock companies and had issued stock for sale. One obstacle to the privatization of large companies has been the leasing of industrial enterprises to the managers or to their business associates.

The corporatization procedure requires that every enterprise fill out two forms and return them to the local GKI office by October 1, 1992. The first form deals with the characteristics of the enterprise (book value of assets, number of employees and so forth) and the second form commits the enterprise to one of three privatization options. Local GKI offices then become responsible for overseeing these new joint-stock companies. Once the

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1/ The largest firms are defined as having at least 10,000 employees or having fixed assets worth rub 150 million or more as of January 1, 1992, along with many firms in the defense, energy, fuel, and extractive sectors. These firms will be privatized on a case-by-case basis exclusively at the discretion of the GKI of Russia in consultation with sectoral ministries. In addition, these firms will not be required to select one of the three privatization options described below.

2/ This includes state enterprises, joint ventures, and private companies but excludes state farms, collective farms, industrial cooperatives, partnerships, and sole proprietorships.

3/ Small and medium-sized enterprises are defined as having fewer than 1,000 employees and fixed assets valued at less than rub 50 million as of January 1, 1992.

4/ A large enterprise is defined as having between 1,000 and 10,000 employees or fixed assets valued at over rub 50 million but less than rub 150 million as of January 1, 1992. Most defense enterprises, public utilities, and large transportation companies along with some large firms in the areas of nuclear energy and telecommunications were classified as among the "largest" enterprises and were not included in this part of the privatization process.

forms have been processed, closed subscriptions at preferential terms for managers and employees will be arranged. The period of closed subscription, during which vouchers may be used by those already working at the firm, is expected to be completed by end-1992, although some delays have been experienced. After the closed subscription, a portion of the remaining shares will be transferred to private hands via voucher-only auctions, which themselves will be followed by cash-only auctions for still another portion of shares.

Each new corporation will have four interim directors on its managing board--one nominated by the manager (with two votes as opposed to one vote for the other directors), one by the local GKI, one by employees, and one by local government. This board of directors will have no veto power over the privatization, but will serve as a governance structure until new investors are found.

The distribution of the first wave of vouchers to every Russian born before September 1, 1992, began on October 1, 1992. These vouchers will be valid until the end of 1993. While the face value of the voucher is rub 10,000, the actual value will depend on the way in which the voucher is used, namely in a closed subscription of the holder's own enterprise, in a voucher-only auction, to buy a share of an investment fund, or in exchange for cash. Voucher-only auctions will most likely begin in early 1993.

One area of privatization that has experienced noticeable progress has been housing. By October 1, 1992, over 1.2 million apartments (some 4 percent of the total) had been privatized, 900,000 of which were given to residing tenants at no cost. Existing land legislation permits the private ownership of land for farming, but places a 10-year resale moratorium on any land that was received free of charge from the state. As of October 1, 1992, 148,700 private farms had been created--up from 49,000 as of January 1, 1992--on 6.3 million hectares of land.

b. Other reforms

(1) Changes in the legal framework

The legal system is in the process of being reformed in order to provide adequate rules of the game for private activities and the transition to a market economy. New laws or changes to previous laws are being considered by the Supreme Soviet in the following areas: enterprise restructuring, provision of collateral, foreign direct investment, anti-trust, eliminating barriers to entry, supervision of commercial banks, the establishment of a commission on securities and exchanges, and the creation of non-bank financial intermediaries. Bankruptcy legislation was adopted by the Supreme Soviet in November 1992.

(2) Financial sector reforms

The authorities have concluded that the commercial banking system needs to be restructured for several reasons: banking services have not been available to people living in rural areas; the fees charged for banking services have been alleged to be "unreasonably" high, even in urban areas; small banks owned by a consortium of enterprises may borrow funds on the interbank market to finance their owners' rollover of unrepayable loans and capitalization of the associated interest payments; and the prevailing system of disbursing credit is frequently based on noncommercial criteria.

Anticipated changes in the commercial banking system include: (1) the re-registration of all banks with capital of more than rub 200 million (as of October 1992, only 33 out of the 1,552 banks in Russia) and the examination of all existing licenses to conduct various banking operations; (2) an increase in the minimum founding capital needed to register a bank; (3) the creation of a state deposit insurance system; (4) setting regulations that require diversification of portfolios and prohibit banks from making loans to their founders; (5) clarification of the banking inspectorate's duties with respect to monitoring bank liquidity; and (6) implementation of new accounting systems for banks.

A final draft of the revised Commercial Banking Law, originally to be submitted by the CBR to the Supreme Soviet by November 1, 1992, is now expected to be considered by end-1992.

(3) Land reform

During the first nine months of the year the Government adopted a package of laws that establishes the right of private farms to exist and gives private farmers the right to hire laborers and to have equal access to credit and other inputs. Under these conditions, the number of private farms has risen sharply during 1992. However, progress towards a full-fledged land reform has been stymied by the refusal of the Supreme Soviet to pass legislation to provide individuals with full rights to own, sell, and mortgage land.

IV. Staff Appraisal

In his concluding remarks at the Executive Board meeting of August 5, 1992 at which the first credit tranche arrangement for Russia was approved, the Chairman noted the crucial importance of containing inflation, normalizing trade and monetary relations among all the states of the FSU, and accelerating the pace of implementation of structural reforms so as to support the transition process, minimize the fall in output in the near term, and pave the way for a high and sustainable rate of growth in the medium term. 1/ The discussions which the staff has had with the authorities in recent months have emphasized these points.

The staff has stressed to the authorities the need to contain inflationary pressures as quickly as possible. Indeed, the goal under the program of reducing monthly inflation to below 10 percent by end-1992 was seen as an important intermediate step toward achieving low single digit monthly inflation by the second half of 1993. While the management of the CBR has indicated its commitment to fighting inflation, it also views its task as providing sufficient credit to forestall a further significant decline in output. In its view, the high degree of monopolization of the Russian economy and its structural disproportions mean that inflation has as much of a structural as a monetary basis. The monetary authorities are correspondingly less sanguine about significantly reducing inflation until these structural factors can be fundamentally altered. The staff representatives, however, have emphasized that it has been the experience of the Fund in dealing with diverse countries all over the world for many years that there is a close connection between credit and monetary growth and inflation. While market structure may be important in determining the price level following comprehensive price liberalization, it generally has little influence on the rate of inflation per se. The staff has also pointed out that it is unlikely that major structural reforms can be successfully implemented under the conditions of high inflation and it has cautioned the authorities against substituting price controls for financial discipline to control inflation.

The growth in real wages in recent months, after their sharp fall at the time of price liberalization in January 1992, also is of considerable concern to the staff. It has suggested the need for a more effective nominal anchor, particularly in a situation of accelerating inflation. The staff has pointed out that buoyant profit tax collections in part reflect the lack of success of the current scheme for moderating wage growth, which consists of limiting the tax deductibility of wage payments. The staff has stressed that an effective tax-based incomes policy is one in which the tax rates are so high as to prohibit excessive wage growth and therefore to generate no more than negligible revenues for the budget. In the present situation of incipient hyperinflation, the authorities should urgently consider means for containing excessive wage growth in the public enterprise sector.

The staff has emphasized the urgent importance of regaining budgetary discipline. This will not only require the implementation of all agreed revenue measures. It also means that the Government must resolutely oppose parliamentary pressures to reduce existing tax rates--notably on the VAT and the profit tax--in the absence of compensating measures. It must also take early measures to eliminate tax exemptions and improve tax administration. With the technical assistance of Fund staff, the State Tax Service is taking

1/ Buff/92/120, 8/7/92.

steps to improve collection of the VAT. Attention also needs to be focused as soon as possible on effective collection of the new energy taxes and taxes on foreign trade--both export taxes and import duties.

The staff has estimated that if the tightening of expenditures which began in September could be continued and tax administration improved rapidly, the general government deficit on a commitment basis might be reduced to some 10-12 percent of GDP for 1992 as a whole, which would compare favorably with the "notional" deficit of 20 percent of GDP in 1991. 1/ The postponement of expenditures, however, can only be seen as a temporary expedient. What is necessary is for the authorities to take steps to contain and indeed reverse the growth of producer subsidies and import subsidies, and to continue to reduce defense spending and centralized investment. The authorities will also have to follow through to completion the improvements in expenditure management initiated with the assistance of FAD, especially the setting up of a Treasury charged with monitoring budget execution and debt management. In addition, the authorities should resist pressures to expand the scheme for the "indexation" of the working capital position of enterprises, avoid increasing the real value of social money benefits, and make unemployment compensation more cost effective.

In discussions with the authorities on monetary policy, the staff has emphasized that it is absolutely essential to control credit expansion if inflation is to be contained and ultimately reduced. It has also noted that the bulk of CBR lending has been extended at subsidized interest rates. This has placed additional strains on the budget, weakened the economic significance of the CBR finance rate, and reduced the role of the commercial banking system as an effective vehicle for financial intermediation on commercial terms. The CBR representatives, for their part, have emphasized that a large proportion of these subsidized credits in effect have been extended under the pressure of various governmental ministries and the Supreme Soviet.

As regards interest rate policy, the CBR representatives have noted that the level of the CBR finance rate--80 percent on an annual basis, unchanged since May--is very high by historical standards and, as such, is believed to contribute to cost-push inflation in the economy. They also have pointed out that, relative to the rate of inflation, the level of market interest rates is not significantly higher than that of the CBR finance rate, and should inflation ultimately decelerate, this rate would move towards a positive real level. The staff has stressed that the entire structure of interest rates remains sharply negative in real terms, and this continues to affect adversely the incentives to hold ruble-denominated financial assets. The sharp depreciation of the ruble in the foreign exchange market and continuing, significant capital flight are clear indicators of the urgent need for the tightening of monetary policy which

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1/ For a definition of this "notional" deficit, see Annex II.

should involve restrained credit expansion coupled with a more active interest rate policy.

Throughout this period, the staff has emphasized that any solution to the interenterprise arrears problem needed to be implemented in the framework of the agreed financial program and a policy of subjecting state enterprises to a hard budget constraint. Otherwise, inflation would be aggravated and enterprise managers could be expected to continue to accumulate arrears in the expectation of future government bailouts. Although the unblocking of the balances of net creditor enterprises for the purpose of repaying budgetary arrears does not constitute a net injection of liquidity into the financial system, the CBR has unfortunately provided ambiguous signals about its future policy intentions in respect of remaining blocked accounts. For this reason, the staff continues to stress the merits of the original proposal of the authorities--described in the Economic Memorandum--to transform these net creditor positions into claims on debtor enterprises through the proposed Agency for the Management of Enterprise Debts. It regrets that little progress has been made in this direction. The staff also urges the authorities to take steps to prevent a continued accumulation of arrears, including through an effective implementation of bankruptcy legislation and progress in enterprise reform. In the meantime, it is indispensable to monitor the situation closely.

On issues related to monetary, payments, and financing relations among the states of the FSU, the staff has emphasized the urgent need for each state to decide between membership in a unified ruble area with an effective mechanism for monetary control or a separate currency. The long delays in reaching a decision have had an adverse impact on monetary policymaking in Russia and, consequently, on inflation performance.

The authorities have expressed great concern over the recent depreciation of the ruble and the continuing thinness of the foreign exchange market. They have suggested that the autonomy of exporting enterprises and fiscal evasion in general have contributed to these problems. The staff has strongly urged the authorities to avoid taking any measures that could reverse one of the main achievements of economic reform in Russia--the unification of the exchange system. It has emphasized that the movements in the exchange rate since unification have mainly reflected lax financial policies and their effects on inflationary expectations. The staff has cautioned that the reintroduction of trade controls or multiple exchange rates would send the wrong signals, both domestically and to the international community, and would be unlikely either to broaden the interbank market or to lead to a sustainable reversal of capital flight. Furthermore, as previously noted, the staff has emphasized the important role that an active interest rate policy could play in increasing the demand for ruble assets and relieving pressure on the exchange rate.

In its discussions with the Russian authorities, the staff has also strongly discouraged their proposed scheme for "centralized exports." The authorities have justified this scheme by the poor record of collection of explicit foreign trade taxes, together with the sharp depreciation and volatility of the exchange rate following its unification, both of which have limited their ability to finance adequately their foreign currency operations. The staff has advised against this scheme on the grounds that the fiscal authorities should not think in terms of a "foreign exchange budget" but instead, as envisaged in the Economic Memorandum of July 10, 1992, the Government should meet its foreign currency needs through purchases of foreign exchange from the CBR at the market rate. Moreover, this scheme would represent a step backwards in terms of the reform of the trade and exchange system, including efforts to broaden the interbank market for foreign exchange and to limit the role of administrative instruments in the economy. In this context the staff has also urged the authorities to comply with the program undertakings concerning the removal of export quotas and export subsidies.

Against the backdrop of a further worsening of its external position, Russia has received substantial amounts of external disbursements thus far in 1992. Nonetheless, arrangements that would ensure that the counterpart funds to these disbursements were properly collected and accounted for are still not fully in place. Russia has been making only very limited payments on its debt service and the resulting arrears are bound to affect adversely future disbursements. The staff would encourage the Russian authorities to accelerate their cooperation with other FSU states and with Russia's creditors to find workable and effective solutions to the debt servicing difficulties. This will involve, inter alia, arriving at effective legal arrangements with all other states of the FSU, so as to provide the legal basis for possible rescheduling arrangements with external creditors that would be implemented by Russia alone.

The staff has strong reservations about the use of escrow accounts in external financing. These accounts have serious macroeconomic and structural implications, and in particular are likely to undermine the development of a broad-based foreign exchange market. More generally, securitized lending could seriously weaken the link between the availability of external financial assistance and the implementation of appropriate macroeconomic and structural policies.

The Russian authorities have recognized fully the crucial role of systemic reforms in Russia's transition to a market economy. Progress is being made on several fronts, although the task remains immense. The staff is impressed with the determined efforts of the Russian Government to push ahead with the privatization program. The staff supports the objective of trying to privatize quickly a significant number of state enterprises. It would note, however, that the privatization process needs to be seen by the population as being fair so as to maintain its support for the reforms. The beginning of the corporatization of state enterprises and the commencement of the mass privatization program with the distribution of vouchers are milestones in the urgently needed task of imposing a hard budget constraint on state enterprises and stimulating in general more market-oriented behavior and greater efficiency. In addition to the authorities' willingness to expose enterprises to market forces, including divesting them of their traditional social responsibilities, other reforms of the legal system, including commercial and property law, are necessary to ensure that ownership changes are accompanied by efficient managerial behavior. The staff would stress that broad systemic reforms are the main instrument for returning Russia's economy to a path of sustainable growth.

The staff regrets that its access to data--particularly in the monetary area--has not been greater as it has sought to assess performance under the first credit tranche arrangement. Furthermore, the reluctance of the authorities to engage in comprehensive discussions of fiscal and credit policy has also been regrettable. The staff has, on several occasions, called on the authorities to improve its access to data and to officials, reminding the authorities of their obligations under the Articles of Agreement and the terms of the stand-by arrangement and noting that unless the situation is improved greatly, negotiations on any successor arrangement would be affected.

In the staff report prepared for the discussion by the Executive Board in August, 1992 of the first credit tranche arrangement, the staff noted that "the authorities have little choice but to pursue the policies outlined in the Economic Memorandum". In the meantime, while some of these policies have indeed been pursued, the implementation of certain key measures has lagged seriously or been incomplete, and the financial targets of the program have been exceeded by wide margins. This has resulted in a sharp widening of macroeconomic imbalances which has placed in jeopardy the entire reform program. Measures need to be taken immediately, starting with those that remain to be implemented under the stand-by arrangement, in order to avert a hyperinflation with all of the severe hardships and disruptions that it would entail.

Clearly, performance under the program has been affected by the unprecedented magnitude of the challenge of structural transformation of the economy, the lack of a recognition among a sufficiently broad segment of society of the necessity of passing through a difficult transitional period, and a division of economic policymaking responsibilities which has made it difficult always to follow a consistent policy line. Implementation of policy has also been made difficult by the incomplete ability of the federal authorities to ensure the compliance of various sectoral and regional interests with their policies. These problems are unlikely to be resolved overnight. In the meantime, in the opinion of the staff, what is crucial is not to lose the gains of the reform momentum generated in the past 12 months by allowing hyperinflation to take hold, thereby undermining the structural reforms and the willingness to continue to move towards a market economy. While the process of macroeconomic stabilization may take longer to complete than originally believed, its achievement remains absolutely critical and it is not yet too late to take decisive action.

Table 1. Russian Federation: Inflation Indicators, 1987-92

(Percentage change over the previous period)

	Industrial Producer Prices	Retail Price Indices: Goods and services, all trade	Retail Price Indices: Goods, state and cooperative trade	Retail Price Indices: Goods, kolkhoz markets	Services	Consumer Price Indices: "Hybrid CPI"	Consumer Price Indices: Urban CPI
1987	...	...	1.6	3.7	...	...	...
1988	...	...	0.2	2.5	...	...	...
1989	1.2	...	2.4	7.4	...	...	...
1990	3.9	5.6	5.2	34.3	...	...	...
1991	138.1	92.6	95.6	132.1	70.6	...	...
1991							
January	62.9	6.2	6.6	13.2	3.2	...	...
February	18.9	4.9	4.8	14.9	5.2	...	...
March	7.1	6.3	6.4	9.3	5.5	...	...
April	8.2	52.2	54.4	7.5	24.3	63.5	...
May	3.8	2.5	2.4	-5.3	3.5	3.0	...
June	2.8	0.2	--	21.2	2.9	1.2	...
July	17.5	-0.2	-0.7	-20.1	5.5	0.6	...
August	15.2	0.1	-0.2	-17.7	2.2	0.5	...
September	6.6	1.4	1.3	-4.8	2.2	1.1	...
October	5.8	4.2	3.9	13.5	2.1	3.5	...
November	9.4	8.6	9.0	33.2	3.8	8.9	...
December	11.3	12.0	12.6	39.3	4.3	12.1	...
Within 1991 1/	236.3	146.1	152.1	281.2	99.7	160.4	143.9
1992							
January	382	221	245	53	127	245	296.0
February	75	24	24	15	33	38	27.3
March	28	21	21	16	16	30	16.5
April	17	15	15	7	16	22	17.2
May	23	11	11	5	15	12	10.5
June	36	15	13	-2	31	19	13.9
July	17	7	8	-13	25	11	7.1
August	13	10	...	-15	12	9	8.6
September	14	12	...	12	11	12	15.2
October	27	...	...	...	...	...	31.1

Source: Goskomstat.

1/ December 1991 over December 1990.

Table 2. Russian Federation: Overdue Cash Payments to Individuals, 1992

(In billions of rubles)

	April 1	May 1	June 1	July 1	August 1	September 1
Total	31.8	78.5	149.9	221.6	114.0	...
Delayed wage payments in industry, construction and agriculture	14.6	22.2	54.4	65.1	47.6	28.2
Due to shortage of cash in banks	26.7	69.4	134.0	202.9	...	...
Overdue social allowances and wage payments in sectors other than industry, construction and agriculture	17.2	56.3	95.5	156.5	66.4	...

Source: Goskomstat.

Table 3. Russian Federation: Wages, 1987-92

(In current rubles per month)

	Average Wage in the National Economy	Average Wage in Industry	Minimum Wage
	(Period average)		(Beginning of period)
1987	216	230	80
1988	235	250	80
1989	259	275	80
1990	297	311	80
1991	552	604	80
October 1991	...	760	180
November 1991	...	860	180
December 1991	1,100	1,200	180
January 1992	1,438	1,801	342
February 1992	2,004	2,567	342
March 1992	2,732	3,464	342
April 1992	3,052	3,769	342
May 1992	3,675	4,296	342 1/
June 1992	5,067	5,948	900 1/
July 1992	5,452	6,305	900 1/
August 1992	5,870	...	900
September 1992	7,200 2/	...	900

Source: Goskomstat.

1/ The increase to rub 900 took place between May 1 and July 1, depending on the sectors.

2/ Preliminary estimate.

Table 4: Russian Federation: Registered Vacancies, Job-Seekers, Registered Unemployed and Recipients of Unemployment Compensation

			Registered Unemployed	
	Registered Vacancies	Job-Seekers	Total	Of which: receiving unemployment benefits
1991				
July	707.6	350.5	16.1	1.9
August	837.5	382.6	25.3	4.3
September	916.1	420.9	35.0	5.9
October	898.0	473.7	51.4	7.8
November	858.5	503.9	63.7	9.5
December	841.0	468.5	61.9	11.9
1992				
January	586.3	484.6	69.0	18.1
February	489.6	554.2	93.1	32.8
March	450.6	615.8	118.2	52.2
April	408.4	696.3	151.0	74.0
May	400.3	742.9	176.5	89.3
June	398.5	779.4	202.9	107.7
July	376.7	842.8	248.0	139.9
August	363.7	904.3	294.2	174.1
September	...	921.3	367.5	...

Source: Federal Employment Service.

Table 5. Russian Federation: 1992 Quarterly Cumulative Budget

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

	Jan.-June		July-Sept.	Jan.-Sept.	Jan.-Sept.	July-Sept.	July-Sept.
	Program Projection (1)	Preliminary Estimate (2)	Program (3)	Program (4)=(1)+(3)	Preliminary Estimate 1/ (5)	Preliminary Estimate 1/ (6)=(5)-(2)	Deviation from Program 1/ (7)=(6)-(3)
I. Revenue	1,046.5	1,003.0	1,346.5	2,393.1	2,241.7	1,238.7	-107.8
VAT	308.0	288.2	422.6	730.6	748.6	460.4	37.8
Excise taxes	60.2	44.1	55.2	115.4	96.1	52.0	-3.2
Domestic energy tax, oil	10.2	--	90.0	100.2	0.6	0.6	-89.4
Domestic energy tax, gas	--	--	100.0	100.0	...	...	...
Profit tax	383.8	396.5	319.2	702.9	789.0	392.5	73.3
Trend	389.5	396.5	404.1	793.5	789.0	392.5	-11.6
Net impact of energy price	-5.7	--	-84.9	-90.6	--	--	84.9
Household income tax	73.7	93.5	82.9	156.5	203.1	109.6	26.7
Tax on timber	4.7	2.7	6.6	11.3	60.1	57.4	50.7
Tax on natural resources	35.9	14.0	45.0	80.9	...	...	...
Tax on mineral extraction	22.6	6.7	28.4	51.0	...	...	...
Tax on excess wage increases	--	...	--	--	--	--	--
Foreign activity	56.3	41.8	176.5	232.8	151.5	109.6	-66.9
Export tax on oil	56.3	...	45.0	101.3	...	--	-45.0
Export tax on gas	...	...	...	--	...	--	--
Export tax on other raw materials	...	...	...	--	...	--	--
Import tariff	...	...	100.0	100.0	...	--	-100.0
VAT on imports	...	...	24.5	24.5	...	--	-24.5
Excise on imports	...	...	7.0	7.0	...	--	-7.0
Other	91.3	115.6	20.1	111.4	192.8	77.2	57.1
Of which: tax on stock revaluation	33.2	38.0	--	33.2	39.5	1.5	1.5
II. Expenditure, commitments basis	1,310.1	1,488.2	1,679.5	2,989.6	3,526.8	2,038.6	359.1
National economy, excluding investment	131.0	120.0	109.4	240.4	238.5	118.5	...
Operation, maintenance	108.4	...	81.0	189.4	...	...	...
Of which: conversion program	24.5	33.8	28.8	53.3	72.1	38.3	...
geological research	22.6	24.2	28.4	51.0	...	...	...
Total subsidies	182.7	233.5	291.0	473.7	486.2	252.7	...
Coal	81.8	...	61.1	142.9	...	...	...
Other producer subsidy	53.3	...	143.8	197.1	...	...	...
Food	18.6	...	8.5	27.1	...	...	...
Medicine	1.8	...	5.0	6.8	...	...	...
Housing	11.9	...	11.0	22.9	...	...	...
Transportation	1.1	...	3.0	4.1	...	...	...
Heating, gas of household	14.1	...	22.0	36.1	...	...	...
Consumer subsidies from surpluses of local government	--	...	36.6	36.6	...	...	...

Table 5 (Continued). Russian Federation: 1992 Quarterly Cumulative Budget

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

	Jan.-June		July-Sept.	Jan.-Sept.	Jan.-Sept.	July-Sept.	July-Sept.
	Program Projection (1)	Preliminary Estimate (2)	Program (3)	Program (4)=(1)+(3)	Preliminary Estimate 1/ (5)	Preliminary Estimate 1/ (6)=(5)-(2)	Deviation from Program 1/ (7)=(6)-(3)
Social-cultural expenditure	332.0	338.5	350.6	682.6	746.1	407.6	...
Of which: social benefits	68.3	...	68.0	136.3	...	...	...
Science	25.8	25.1	27.7	53.5	51.5	26.4	...
Internal security	66.7	59.7	...	143.0	133.3	73.6	...
Administration	19.4	21.2	22.7	42.1	49.9	28.7	...
Investment	97.0	111.5	144.9	241.9	254.6	143.1	...
Defense (total)	240.2	235.2	263.9	504.1	493.2	258.0	...
Reserve Fund of Government	4.3	8.0	4.0	8.3	8.0	--	...
Domestic debt service	38.6	22.8	40.0	78.6	35.0	12.2	...
Foreign expenditure	111.1	184.8	120.6	231.6	331.9	147.0	...
External debt service, net	97.7	162.8	108.0	205.7	341.8	...	...
Centralized imports (cash)	8.4	36.2	--	8.4	113.8	...	...
Other foreign expenditure	5.0	109.6	12.6	17.6	...	...	...
Minus: implied tax on exports	...	123.7	...	...	123.7	--	...
Transfer assistance with Chernobyl	14.5	17.7	12.1	26.6	50.3	32.6	...
Reserve Fund assistance with prices	--	--	--	--	...	...	...
World Bank loans	--	...	7.5	7.5	--	...	...
Rehabilitation loan	--	...	--	--	...	...	...
Agricultural loan	--	...	--	--	...	...	...
Oil	--	...	--	--	...	...	...
Other	--	...	7.5	7.5	...	...	...
Working capital increase	--	...	150.0	150.0	246.0	246.0	...
Other (includes transfer to Pension Fund)	46.7	110.1	58.9	105.6	402.3	292.2	...
III. Extrabudgetary funds	77.5	91.4	43.5	121.0	216.7	125.3	81.8
Of which: Pension Fund	73.2	73.2	66.1	139.3	168.7	95.5	29.4
IV. General government fiscal balance, excluding import subsidies, commitment basis	-186.0	-393.7	-289.5	-475.5	-1,068.1	-674.3	-384.9
(in percent of GDP)	-4.4	-9.7	-6.3	-5.4	-14.0	-19.0	...
V. Unbudgeted exchange rate subsidies	617.0	894.7	180.0	797.0	1,242.7	348.0	168.0
(in percent of GDP)	14.5	21.9	3.9	9.0	16.3	9.8	...
VI. Enlarged government sector balance	-803.0	-1,288.5	-469.5	-1,272.5	-2,310.8	-1,022.3	-552.9
(in percent of GDP)	-18.9	-31.6	-10.2	-14.4	-30.3	-28.7	...

Table 5 (Concluded). Russian Federation: 1992 Quarterly Cumulative Budget

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

	Jan.-June		July-Sept.	Jan.-Sept.	Jan.-Sept.	July-Sept.	July-Sept.
	Program Projection (1)	Preliminary Estimate (2)	Program (3)	Program (4)=(1)+(3)	Preliminary Estimate 1/ (5)	Preliminary Estimate 1/ (6)=(5)-(2)	Deviation from Program 1/ (7)=(6)-(3)
VII. Arrears (-: reduction)	47.7	275.0	-30.0	17.7	361.9	86.9	116.9
External interest payment	47.7	142.0	-30.0	17.7	231.9	89.9	...
Domestic	--	133.0	--	--	130.0	-3.0	...
VIII. Possible interest deferral	--	--	96.0	96.0	71.6	71.6	-24.4
IX. Fiscal balance, cash basis	-755.2	-1,013.4	-403.5	-1,158.7	-1,877.3	-863.9	-460.4
(in percent of GDP)	-17.8	-24.9	-8.8	-13.1	-24.6	-24.3	...
X. Financing need	755.2	1,013.4	403.5	1,158.7	1,877.3	863.9	460.4
XI. Foreign financing	697.2	905.0	180.0	877.2	1,265.8	360.8	180.8
XII. Grants to budget (excluding German grant)	--	23.2	24.0	24.0	42.4	19.2	-4.8
XIII. Disbursements	713.2	914.7	228.0	941.2	1,272.7	358.0	130.0
XIV. Net amortization Russia	-16.0	-32.9	-72.0	-88.0	-49.3	-16.3	55.7
Amortization (-)	-282.1	-412.8	-156.0	-438.1	-609.7	-196.9	-40.9
Principal deferral (+)	238.7	238.7	165.0	403.7	292.4	53.7	-111.3
Principal arrears (-:repayment)	16.4	130.2	-96.0	-79.6	239.0	108.8	204.8
Repayment by other governments	11.0	11.0	15.0	26.0	29.0	18.0	3.0
XV. Domestic financing (X-XI)	58.0	108.4	223.5	281.5	611.5	503.1	279.6
(in percent of GDP)	1.4	2.6	4.9	6.2	8.0	14.1	7.9
XVI. Domestic principal repayment (Commodity debt)	--	--	70.0	70.0	20.0	20.0	-50.0
XVII. Proceeds of privatization	...	3.3	...	...	19.0	15.7	15.7
XVIII. Domestic financing, including principal repayment	58.0	105.1	293.5	351.5	612.5	507.4	213.9
(in percent of GDP)	1.4	2.6	6.4	4.0	8.0	14.3	6.0

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

1/ The breakdown of expenditure at end-September 1992 is a preliminary staff estimate.

Table 6. Russian Federation: Summary of Fiscal Indicators 1/

(In percent of GDP)

	First Half of 1992	Q3		First Nine Months	
	Preliminary	Program	Preliminary estimates	Program	Preliminary estimates
I. Revenue	24.6	29.2	34.8	27.0	29.4
Of which:					
VAT (excl. on imports)	7.1	9.2	12.9	8.3	9.8
Domestic taxes on oil and gas	--	4.1	--	2.3	--
Profit tax	9.7	6.9	11.0	7.9	10.3
Household income tax	2.3	1.8	3.1	1.8	2.7
Export tax	1.0	1.0	--	1.1	...
Import tariffs	--	2.2	--	1.1	...
II. Expenditure	36.5	36.5	57.3	33.8	46.2
(Expenditure, including imp. subsidies)	58.4	40.4	67.1	42.8	62.5
Of which:					
Wage bill 2/ 3/	5.1	5.9	6.8	5.8	5.9
Producer subsidies 4/	5.7	5.3	...	4.9	...
Investment	2.7	3.1	...	2.7	...
Defense	5.8	5.7	7.3	5.7	6.5
Working capital allocation	--	3.3	6.9	1.7	3.2
Foreign expenditure	4.5	2.6	4.1	2.6	4.3
III. Balance of extrabudgetary funds	2.2	0.9	3.5	1.4	2.8
IV. General government deficit (I-II+III)	-9.7	-6.3	-19.0	-5.4	-14.0
V. Unbudgeted import subsidies	21.9	3.9	9.8	9.0	16.3
VI. Enlarged fiscal deficit, commitment (IV-V)	-31.6	-10.2	-28.7	-14.4	-30.3
VII. Enlarged fiscal deficit, cash	-24.9	-8.8	-24.3	-13.1	-24.6
VIII. Foreign Financing	22.2	3.9	10.1	9.9	16.6
IX. Domestic Financing (before commodity debt, privatization proceeds)	2.7	4.9	14.1	3.2	8.0
X. Domestic Financing (after commodity debt, privatization proceeds)	2.6	6.4	14.3	4.0	8.0
Memorandum items:					
Surplus of local governments 6/	1.7	2.5	2.4	2.4	2.0
Nominal (cumulative) GDP	4,077.0	4,604.0	3,557.0	8,848.0	7,634.0

Sources: Ministry of Finance; and staff estimates.

1/ Part of the economic classification of expenditures is only based on staff estimates, as official data are a mixture of (incomplete) functional and economic classification.
2/ Includes estimate for wage bill in the military sector.
3/ Includes social security contributions.
4/ Includes estimated producer subsidies in outlays on national economy.
5/ Pension Fund, Employment Fund, Social Support Fund of the Population, Social Insurance Fund, Military Fund for Resettlement, and Road Fund.
6/ Includes direct transfers from the federal to local governments.

Table 7. Russian Federation: Program Measures and Impact

(In billions of rubles and in percent of second half year GDP)

	Five-Month Impact (Program)	Projected Impact 1/
	(In billions of rubles)	
I. Revenue-enhancing measures		
Domestic tax on oil and gas 2/	480	60 6/
(Impact, net of compensation) 3/	(380)	(50) 6/
Increase in average import tariff from 5 percent to 15 percent	250	70 6/
Extension of VAT and excises to imports	63	-- 7/
Total impact of revenue measures	793	130
II. Expenditure controlling measures		
Reduction in unprotected expenditures in federal budget by 20 percent through use of sequestering mechanism 4/	200	230
Limiting outlays for working capital increases 5/	350	200 8/
Total expenditure savings	550	430
III. Total impact of fiscal package	1,343	560
(In percent of GDP)	(11.7)	(6.0)
Memorandum item:		
Nominal GDP in second half of 1992	11,482	9,371

Sources: Ministry of Finance; and staff calculations.

1/ Preliminary staff estimates.
2/ Simultaneously with moving to 35 percent of world market price, a domestic sales tax on oil of 35 percent, and on gas of 45 percent was to be introduced.
3/ It was assumed that a part of the revenue gain would be offset by higher expenditures reflecting higher energy prices (and higher inflation in general due to the energy tax measures).
4/ The unprotected areas are: investment, subsidies, and operations and maintenance.
5/ Indicates savings as compared to the initial government program.
6/ Introduction delayed by 1-1 1/2 months and only partially introduced.
7/ Measure annulled.
8/ Assuming no further outlays in November and December.

Table 8. Russian Federation: Accounts of the Monetary Authorities, 1991-92

(End of period; in billions of rubles)

	1991	1992				
	December 1/	March 1/	May	June	July	August
Net foreign assets	245.9	265.4	463.6	594.8	615.0	672.1
Net international reserves 1/	245.9	225.1	248.8	221.9	293.4	316.8
Gold 2/	279.7	221.9	235.4	224.3	277.6	301.1
Government foreign exchange	--	21.6	12.3	8.8	15.8	15.8
CBR foreign exchange (net)	1.6	8.5	25.7	11.1	...	...
Official short-term liabilities	-35.4	-26.9	-24.6	-22.3	...	...
Nonconvertible	--	40.2	214.8	372.9	321.6	355.3
Ruble area settlement balances (net)	--	40.2	214.8	372.9	321.6	355.3
Net domestic assets	241.4	512.2	757.9	1,093.3	1,707.4	2,755.0
Net domestic credit	47.8	218.1	421.8	682.1	1,148.2	2,026.5
Net credit to government	-101.3	-128.7	-66.1	53.2	228.7	452.5
Net credit to Federal Government	202.8	161.2	241.9	362.8	632.7	898.9
Federal Government securities	88.6	89.3	190.3	433.1	837.1	1,242.0
Cash execution of the budget (net)	75.6	-25.8	20.2	-59.1	-94.1	-249.6
Cash credit	--	59.2	39.9	39.9	19.9	10.1
Price subsidies account	51.7	54.9	55.1	55.7	56.0	56.5
Other federal accounts (net)	-13.1	-16.4	-83.7	-106.8	-186.3	-160.2
Counterpart to government gold 1/2/	-279.7	-173.6	-187.2	-188.6	-233.1	-231.2
Counterpart to government foreign exchange 1/	--	-21.6	-12.3	-24.7	-15.8	-15.8
Net credit to local government	-23.6	-49.0	-75.8	-62.3	-71.5	-78.5
Net credit to pension funds	-0.8	-45.6	-32.7	-49.8	-83.6	-120.9
Credit to rest of the economy	6.2	21.0	27.9	30.7	36.8	40.3
Of which: inter-enterprise arrears	--	--	--	--	2.7	4.2
Credit to banks	142.9	325.8	460.1	598.2	882.6	1,533.7
Credit to banks at penalty rate	1.5	27.1	27.3	24.3	27.8	36.4
Credit to banks at bank rate	133.8	285.8	427.5	568.0	848.4	1,060.7
Other credit to banks	7.6	13.0	5.3	5.9	6.3	6.1
Financing of inter-enterprise arrears (net)	--	--	--	--	0.1	430.4
Other assets (net)	193.6	294.1	336.1	411.2	559.2	728.6
Monetary base	487.3	777.5	1,232.3	1,689.9	2,322.0	3,438.0
Currency issue	173.4	250.1	356.8	441.0	605.0	786.5
Bankers' deposits	179.5	305.6	995.5	1,209.0	1,298.3	1,779.9
Minimum reserves	8.1	86.0	94.0	113.5	146.7	185.1
Correspondent accounts	171.4	219.6	901.4	1,095.5	1,151.6	1,594.7
Float 3/	112.2	187.2	-153.0	12.8	339.9	793.0
Deposits of rest of the economy	22.2	34.6	34.1	37.2	79.9	79.5
Blocked accounts for inter-enterprise arrears	--	--	--	0.1	0.2	1.2
Memorandum item:						
Currency issue to other central banks	98.6	120.4	160.4	186.5	223.7	267.9
Union accounts (net)	-1.1	1.7	10.8	10.8	-0.5	10.8
Union government securities (net)	14.8	14.8	14.8	14.8	14.8	14.8
Other union accounts (net)	-15.9	-13.1	-4.1	-4.1	-15.3	-4.1

Sources: Central Bank of Russia; and staff estimates.

1/ Net international reserves and the counterparts to government gold and foreign exchange are valued at an accounting exchange rate of rub 100 per U.S. dollar for December 1991, March, May and June and rub 125 per U.S. dollar for July and August. The definitions used in May-August 1992 differ from those used for December 1991 and March 1992 and hence float is not directly comparable.

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

3/ Provisional and preliminary.

Table 9. Russian Federation: Monetary Survey 1/, 1991-92

(End of period; in billions of rubles)

	1991	1992				
	December	March	May	June	July	August
Net foreign assets 2/	438.5	697.0	1,040.0	1,210.4	1,406.1	1,473.7
Net international reserves	245.9	225.1	248.8	221.9	293.4	316.8
Gold 3/	279.7	221.9	235.4	224.3	277.6	301.1
CBR foreign exchange	1.6	8.5	25.7	11.1	...	...
Net government foreign exchange	--	21.6	12.3	8.8	15.8	15.8
Short-term liabilities (-)	-35.4	-26.9	-24.6	-22.3	...	...
Banking system foreign exchange (net)	192.5	431.7	576.2	609.4	791.0	820.1
Net ruble balances	--	40.2	215.1	379.0	321.8	336.8
CCA settlement accounts (net)	--	40.2	214.7	373.2	321.7	357.2
Other ruble balances	...	...	0.3	5.9	0.1	-20.4
Domestic credit	614.9	1,109.7	1,198.2	1,728.0	2,659.5	4,047.5
Net claims on government	140.1	-129.5	-185.1	-73.5	71.9	135.3
Counterpart to government gold 2/3/	-279.7	-173.6	-187.2	-188.6	-233.1	-231.2
Counterpart to government foreign exchange 2/	--	-21.6	-12.3	-8.8	-15.8	-15.8
Net claims on federal government	177.0	189.4	164.2	274.4	533.4	651.1
Federal government securities	88.9	89.6	190.6	433.4	837.4	1,242.4
Net cash execution of budget	44.7	-0.5	-41.6	-96.2	-154.1	-332.0
Cash credit	--	59.2	39.9	39.9	19.9	10.1
Net price subsidies	51.7	54.9	55.2	55.8	56.2	56.6
Other federal accounts (net)	-8.2	-13.8	-79.9	-158.6	-226.0	-326.0
Net claims on pension funds	-0.5	-50.0	-41.9	-62.3	-97.7	-137.9
Net claims on local government	-36.9	-73.6	-107.9	-88.1	-115.0	-130.9
Claims on rest of the economy	755.0	1,239.2	1,383.3	1,801.5	2,587.6	3,912.2
Ruble credit	594.2	1,009.6	1,222.0	1,637.7	2,356.6	2,868.3
Foreign exchange credit	160.8	229.5	160.8	160.8	215.3	226.4
Credit for interenterprise arrears	...	--	0.5	3.0	15.7	817.5
Money	1,201.2	1,633.4	1,876.2	2,221.6	3,378.8	4,003.6
Currency outside banks	167.3	239.8	353.7	436.3	598.2	784.6
Currency issue	173.4	250.1	356.8	441.0	605.0	786.5
Less: currency in vaults	-6.1	-10.3	-3.1	-4.7	-6.8	-1.9
Ruble deposits	830.7	1,075.1	1,183.3	1,427.9	1,898.5	2,351.6
Foreign exchange deposits	203.2	318.5	339.2	357.5	882.1	867.5
Frozen interenterprise arrears deposits	...	...	1.3	1.7	2.1	230.8
Other items net	-147.8	173.2	360.8	715.2	684.6	1,286.7
Net equity 4/	109.7	139.9	-525.0	-649.8	-1,697.0	-2,033.2
Items in process of settlement 4/	362.2	472.1	1,075.3	1,402.0	2,295.0	2,959.5
Union accounts (net)	-770.4	-773.9	-782.9	-782.9	-771.7	-780.0
VEB net 4/	-270.6	-251.0	-365.6	-339.1	-380.2	-648.8
Frozen foreign exchange accounts	546.7	546.7	546.7	546.7	683.4	683.4
Off balance sheet adjustments 1/	9.3	194.8	368.2	521.8	517.5	1,048.1
Banking system net foreign exchange	130.2	175.0	263.8	197.0	118.5	195.9
Residents' foreign exchange deposits	120.8	19.8	115.2	397.8	453.4	992.5
Net valuation	-134.8	-194.3	-10.8	-73.0	-54.4	-140.4
Gold valuation	--	41.9	44.1	16.4	37.7	57.7

Source: Central Bank of Russia.

1/ Provisional consolidation of the CBR, commercial banks, Sberbank, Gosbank USSR, and the VEB excluding its former Union operations. The definitions used in May-August 1992 differ from those used for December 1991 and March 1992 and hence a number of the components of other items net are not directly comparable.

2/ Net foreign assets, the counterparts to government gold and foreign exchange, foreign exchange deposits and credit are valued at an accounting exchange rate of rub 100 per U.S. dollar for December 1991-June 1992 and rub 125 per U.S. dollar for July and August.

3/ Official gold valued at US$300 per troy ounce.

4/ Provisional and preliminary.

Table 10. Russian Federation: Interest Rates, 1992

(In percent, period average)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
CBR finance rate 1/	20	20	20	50	80	80	80	80	80
CBR overdraft rate 1/	35	35	35	100	160	160	160	160	160
Bank rate on loans to state enterprises 2/	20	29	32	37	54	63	82	...	...
Bank rate on loans to other enterprises 2/	26	36	45	50	71	89	98	...	...
Interbank loan rate 2/	27	33	39	47	69	81	92	...	...
Interbank auction rate 2/3/	32	47	64	79	94	102	105	...	...
Deposit rate 2/	15	20	25	39	44	57	59	...	...
Moscow region 4/									
Lending rate	28	37	50	57	72	85	99	104	125
Deposit rate	...	...	33	38	49	56	69	62	...

Sources: Central Bank of Russia; press reports.

1/ End-period interest rate.
2/ Averages from press reports.
3/ Three types of assets are traded in the interbank auction market: interbank loans, deposits of enterprises, and loans to enterprises. The rate given is only for interbank loans.
4/ Source: Commersant.

Table 11. Russian Federation: Balance of Payments (Excluding FSU Transactions), 1991-93

(In billions of U.S. dollars)

	1991	1992 Prog. 1/ Year	1992 Estimated First half	1992 Projected Second half	1992 Year	1993 2/
Current account	4.2	-9.8	-3.9	-5.0	-8.9	-15.5
Trade balance	6.6	-2.6	-1.3	-1.1	-2.4	-4.7
Exports	51.7	34.5	15.9	18.2	34.1	38.0
Oil	11.8	9.9	4.0	4.4	8.4	11.0
Natural gas	10.3	7.4	3.4	5.3	8.7	10.0
Other	29.5	17.1	8.5	8.5	17.0	17.0
Imports	-45.1	-37.1	-17.2	-19.3	-36.5	-42.7
Gold 3/	2.3	0.9	0.8	0.3	1.1	0.7
Services, net	-4.6	-8.1	-3.4	-4.2	-7.6	-11.5
Transportation and insurance	0.1	0.1	--	0.1	0.1	-0.4
Travel	-0.3	-0.3	-0.2	-0.1	-0.3	-0.3
Interest, net	-2.2	-5.4	-2.2	-3.1	-5.3	-5.9
Receipts	0.5	0.7	0.4	0.3	0.7	0.7
Payments	-2.7	-6.1	-2.5	-3.4	-5.9	-6.6
Other	-2.2	-2.5	-1.0	-1.1	-2.1	-4.9
Capital account	1.8	--	-4.5	-0.8	-5.4	-9.5
Grants	1.6	2.7	0.8	0.8	1.5	...
Medium- and long-term capital	3.9	2.3	4.3	-0.2	4.1	-13.3
Disbursements	7.8	10.5	8.4	4.0	12.4	...
Amortization	-5.0	-8.7	-4.4	-4.6	-9.0	-13.8
Repayment from abroad	1.1	0.5	0.3	0.4	0.7	0.5
Commercial banks	-0.7	-2.1	-3.3	-1.3	-4.6	1.0
Foreign direct investment	0.1	0.2	0.1	--	0.1	2.8
Errors and omissions	-3.1	-3.1	-6.5	--	-6.5	--
Overall balance	6.0	-9.8	-8.5	-5.9	-14.4	-25.0
Financing	-6.0	9.8	8.5	5.9	14.4	25.0
Net official international reserves	0.6	-0.6	0.4	-0.3	0.1	-3.5
Assets	1.5	-1.4	0.5	-0.5	...	...
Liabilities	-0.9	0.7	-0.2	0.1	...	...
Fund purchases	--	1.0	--	...	...	...
Other	-0.9	-0.3	-0.2	...	...	...
Arrears	1.4	-4.9	4.5	-9.4 5/	-4.8	-1.5 6/
Rescheduling/deferral 7/	0.2	15.3	3.6	...	3.6	...
Principal	0.2	...	3.6	...	3.6	...
Interest	--	...	--	...	...	...
Arrears	--	...	--	...	...	...
Interrepublican residual	-8.2	...	...	...	...	...
Financing requirement (100 percent)	--	--	--	15.6	15.6	30.0
Financing requirement (61 percent)	--	--	--	8.9	8.9	22.2
			(In percent)			
Memorandum item:						
Russia debt share	...	100	100	100	100	100

Sources: Goskomstat; Vneshekonombank; and staff estimates.

1/ Based on presentation in EBS/92/119, Sup. 3. The debt service and arrears reduction have been increased to show the larger debt share of 100 percent.
2/ Based on Scenario 1, which is described in the October 8 memorandum to the Executive Board.
3/ Excludes changes in gold holdings. Includes sales from current production and stocks.
4/ Includes estimated interest on foreign liabilities of Russian commercial banks.
5/ Assumes all arrears outstanding at end-June 1992 (except for arrears on barter transactions) are eliminated by the end of 1992 either through rescheduling or cash repayment.
6/ Repayment of arrears on barter transactions believed to be incurred in 1991.
7/ Deferral applies to 1991 and first-half of 1992; for second-half of 1992 and 1993, amounts to be rescheduled are included in the financing requirement.

Table 12. Former U.S.S.R.: External Debt in Convertible Currencies 1/

(In billions of U.S. dollars)

	1991	1992	
	Dec.	QI	QII
Total external debt	67.0	71.2	75.5
Medium- and long-term	54.3	59.7	62.8
Official creditors	21.9	25.3	35.8 2/
Untied	8.2	8.2	8.2
Tied	12.7	16.1	26.6
Non VEB guaranteed	1.0	1.0	1.0
Commercial creditors	24.7	26.0	18.3 2/
Untied	12.2	12.2	12.0
Tied	11.5	12.8	5.3
Non VEB guaranteed	1.0	1.0	1.0
Bonds	1.7	1.7	1.8
Suppliers	6.0	6.7	6.9
VEB guaranteed	5.9	6.6	6.8
Other	0.1	0.1	0.1
Short term	12.7	11.5	12.7
Financial	2.9	1.8	1.5
Suppliers guaranteed by VEB	0.4	0.4	...
Tied credits	0.1	0.1	0.1
Letters of credit	5.0	4.2	4.3
Overdue import payments	4.2	4.4	4.5
Overdue freight charges	0.1	0.1	0.1
Interest arrears 3/	--	0.5	2.2

Sources: Vneshekonombank; and staff estimates.

1/ Excluding debt to be settled in convertible currencies in clearing and barter accounts and debt to the former socialist countries.

2/ The change in debt owed to official and commercial creditors between the first and second quarter reflects a reclassification. Better information on the breakdown of the debt by creditor has been obtained from bilateral discussions between official creditors and the Interstate Council on External Debt. The composition has not yet been revised for end-1991 or end-March 1992.

3/ Includes estimate of interest arrears on suppliers' credits.

Table 13. Former U.S.S.R: External Debt Service Obligations 1/

(In billions of U.S. dollars)

	1992		1993	
	Principal	Interest	Principal	Interest
Total debt service	9.8	5.6	13.8	6.5
On debt outstanding as of June 30, 1992	9.8	4.9	13.1	4.8
Medium- and long-term	9.0	3.9	13.1	3.6
Official	4.7	2.3	7.9	2.1
Pre-cutoff 2/	3.0	1.1	3.1	1.0
Post-cutoff 2/	1.6	1.2	4.8	1.1
Private	4.3	1.5	5.2	1.3
Pre-cutoff 2/	4.0	1.4	4.7	1.2
Post-cutoff 2/	0.3	0.1	0.6	0.1
Bonds	--	0.1	--	0.1
Short term 3/	0.8	0.4	--	0.4
Arrears 4/	...	0.6	...	--
On disbursement after June 30, 1992 5/	--	0.7	0.7	2.5

Sources: Vneshekonombank; and Fund staff estimates.

1/ Principal and interest due before rescheduling.
2/ Based on cutoff date of January 1, 1991.
3/ Assumes interest rate of 7.5 percent per annum on short term financial, suppliers and trade credits and letters of credit not in arrears outstanding as of June 30, 1992.
4/ Assumes interest rate of 7.5 percent per annum on arrears outstanding.
5/ Includes interest on financing requirement in second half of 1992 and 1993.

Table 14. Former U.S.S.R.: External Payments Arrears

(In millions of U.S. dollars; end of period)

	1991	1992	
	Dec.	QI	QII
Overdue import payments, registered with VEB	4,247	4,419	4,458 1/
Overdue freight charges 2/	100	100	100
Arrears on debt service	52	1,352	3,167
Medium- and long-term	50	821	2,308
Official or officially guaranteed debt	--	142	665
Principal	--	12	20
Interest	--	130	645
Private	--	427	787
Principal	--	24	37
Interest	--	403	750
Suppliers 3/	50	703	1,544
Principal	...	...	...
Interest	...	...	...
Short-term	2	80	171
Bank deposits	--	51	118
Note issuance facilities	--	--	--
Trade credits	2	29	53
Letters of credit	421	1,328	1,693
Barter transactions 4/	1,500	1,500	1,500
Total	6,320	8,699	10,918

Sources: Vneshekonombank; and staff estimates.

1/ Of which about US$800 million was insured by official export credit agencies abroad.
2/ Information from the Ministry of Transportation; they relate entirely to transactions of the former U.S.S.R.
3/ Includes interest arrears.
4/ Assumed that 100 percent are owed by Russia.

Russian Federation: Basic Data

(Percentage change over same period one year earlier, unless otherwise specified)

	1990	1991	1992 January-September (Prel.)	1992 Year (Program) 2/	1992 Year (Projection)
Real GDP	...	-9	...	-14	-18
Real gross industrial output	-0.1	-8	-18	...	...
Production volumes of:					
Oil	-6.5	-10.7	-14	-14	-14
Natural gas	4	0.4	-1	-2	-4
Retail trade in comparable prices	7.4	-6	-39	...	...
Household money incomes	16.6	120 1/	...	...	...
Average wage (level, in rub per month)	311	580	7,200	5,548	5,768
Minimum wage (level, in rub per month)	80	130	900 3/	...	...
Consumer prices (RPI/CPI)					
Year average	5.6	92.6	...	1,459	1,314
Within-period	...	143.9	1,061	2,445	2,246
Industrial producer prices					
Year average	3.9	138	...	...	...
Within-period	...	236	3,102	...	...
Registered unemployed (end-period level, in percent of the labor force)	...	0.1	0.5	...	...
General government deficit (on a commitments basis, level in percent of GDP) 4/	...	19.9	14.0	7.5	...
Enlarged government sector 5/	...	...	30.3	11.3	...
Credit to the economy (end-period) 6/					
Nominal	...	127	418 9/	595	...
Real 7/	...	-7	-49	-73	...
Broad money (end-period)					
Nominal	...	77	233 9/	465	...
Real 7/	...	-27	-67	-78	...
Exports in US$ 8/	...	-30	-35	-32	-34
Oil exports (in volume) 8/	-16	-42	-12	-18	...
Natural gas exports (in volume) 8/	...	-4	-3	-3	...
Imports in US$ 8/	...	-46	-17	-18	-19
Trade balance (level, in billions of US$) 8/	-2	6.5	-2.2	-2.6	-2.4
Current account balance (including gold sales, level, in billions of US$) 8/	-4.5	4.2	...	-7.6	-5.4
Gross international reserves (end-period level, in billions of US$)	...	...	...	3.8	3.4
Of which: gold 10/	...	...	...	2.4	2.3
Total scheduled debt service (in billions of US$) 11/	14.0	10.4	...	9.2	9.1
Principal	11.1	7.8	...	5.6	5.5
Interest	2.9	2.6	...	3.6	3.6
Arrears (- decrease)	2.7	-0.5	...	-2.9	-2.9

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

1/ Including deposit compensation for the April 1991 price increases.
2/ See EBS/92/119, Sup. 3.
3/ Level in October 1992.
4/ In 1991, refers to the notional budget deficit. (See Annex II).
5/ General government, plus unbudgeted import subsidies associated with foreign disbursements.
6/ Excluding credit to government.
7/ Deflated by the within-period CPI.
8/ Excluding shipments to or from other states of the former U.S.S.R.
9/ Percentage change between January 1, 1992-September 1, 1992.
10/ Including gold of the former U.S.S.R.
11/ Assuming Russia services 61 percent of the debt of the former U.S.S.R., and before any debt deferral or rescheduling.

Russian Federation: Fiscal Deficit Concepts

A number of different fiscal deficit concepts are currently being used in Russia. This note explains these concepts and their relationships.

1. Coverage of fiscal accounts

There are four main levels of coverage of the fiscal accounts (starting from the broadest concept):

(i) general government, which includes the state budget and all the extrabudgetary funds;

(ii) state budget, which consolidates the budget of the republican (federal) government, and those of the local governments;

(iii) federal (formerly the republican level) budget;

(iv) local government budgets (15 autonomous republics, and 88 oblasts 1/);.

In addition, the staff has developed the concept of the enlarged government. This includes the general government and import subsidies mainly associated with foreign disbursements. 2/ During 1992, the government has secured foreign loans which (or the imported commodities) it sold to enterprises at an exchange rate well below the market rate in the first half of the year; this system was replaced by so-called import coefficients following the unification of the exchange rate. To the extent of the difference between the market rate and the exchange rate in the first half, or the extent to which the import coefficients actually used in the second half are less than unity, the budget has been providing subsidies to enterprises. 3/

Official information usually refers to the state budget or the federal budget. While detailed monthly reporting is available on revenues of the state budget (i.e., both federal and local levels), reliable information on monthly expenditures is available only for the federal budget. Revenue and expenditure data for the state budget are available at a quarterly frequency.

1/ Within the oblast, there are further layers: rayons and municipalities.

2/ Before the unification of the exchange rate, these were exchange rate subsidies.

3/ For further details, see EBS/92/119, Sup. 3 and Section III.2 of this report.

Lastly, for the purpose of fiscal developments in the Russian Federation in 1991, the staff developed the concept of a "notional" budget and deficit (SM/92/59, 3/13/92). The takeover by the Russian Government of U.S.S.R. budgetary activities on the territory of the Russian Federation took place in November 1992. The notional budgetary concepts are based on an estimation of what revenues and expenditures would have been had the takeover of union revenues and expenditures occurred at the beginning of 1991.

2. National versus Fund presentation

The following adjustments are made by the staff to the budget presentation of the Ministry of Finance of the Russian Federation:

Revenues

(i) the draw down of deposits by local governments is excluded from revenue.

(ii) proceeds from sales of assets (e.g., privatization) are excluded.

(iii) estimated counterpart funds associated with the sales of foreign exchange/imported commodities from foreign disbursements are excluded since import subsidy expenditure is recorded by the staff in net terms (i.e., the amount of foreign disbursement minus the counterpart funds);

In addition, the staff considers grants, other than those of Germany associated with withdrawal of troops, 1/ as budgetary financing rather than revenue.

Expenditures

(i) expenditures are adjusted to a commitment basis;

(ii) budgetary credits to enterprises for working capital increases are included;

(iii) domestic debt service that is considered as principal repayment (i.e., so-called commodity debt) is excluded;

(iv) foreign debt service associated with payments on principal is excluded;

(v) the staff includes in expenditures certain centralized credit and military conversion outlays, which are financed by separate CBR credits but which are excluded by the authorities from the budget.

Table 15 illustrates the above described adjustments that the staff makes to the reported figures.

1/ The staff records these earmarked grants, and their use, in an extrabudgetary fund, i.e., "above the line".

Table 15. Russian Federation: Comparison of Fiscal Data, 1992

(In billions of rubles)

	First Half of 1992 (Actual)	Jan.-Sept. (Preliminary estimates)
I. Official data, cash basis		
Federal government balance (a)	-301.3	-716.4
(in percent of GDP)	-7.4	-9.4
Local balance (b)	85.4	172.3
(in percent of GDP)	2.1	2.3
State budget balance (a + b)	-216.0	-544.1
(in percent of GDP)	-5.3	-7.1
Revenue	1,041.1	2,307.5
Expenditure	1,257.1	2,851.6
II. Adjustment by staff, cash basis: (-: incr. in deficit)	5.9	-307.5
A. Revenue (-: reduction)	-38.0	-65.8
(1) Exclusion from local revenue the drawdown of deposits	-14.7	-16.8
(2) Exclusion of privatization revenue	-3.3	-19.0
(3) Exclusion of counterpart funds	-20.0	-30.0
B. Expenditures (-: increase)	43.9	-241.7
(4) Inclusion of working capital transfer	--	-246.0
(5) Exclusion of servicing comm. debt	--	20.0
(6) Exclusion of principal debt service	43.9	78.3
(7) Inclusion of credit financed by centralized. investment and conversion	--	-94.0
III. State budget, IMF def., cash basis (I + II)	-210.1	-851.6
(in percent of GDP)	-5.2	-11.2
IV. Extrabudgetary funds (+: surplus)	91.4	217.0
V. General government, cash basis (III + IV)	-118.7	-634.6
(in percent of GDP)	-2.9	-8.3
VI. Adjustment to commitment basis (-: incr. in arrears, deferral)	-275.0	-433.5
External arrears	-142.0	-231.9
Domestic arrears	-133.0	-130.0
Interest deferral, rescheduling	--	-71.6
VII. State budget balance, commitment basis (III + VI)	-485.1	-1,285.1
VIII. General government, commitment basis (V + VI)	-393.7	-1,068.1
(in percent of GDP)	-9.7	-14.0
IX. Exchange rate subsidy (-: positive subsidy)	-894.7	-1,242.7
X. Enlarged government balance, commitment basis	-1,288.4	-2,310.8
(in percent of GDP)	-31.6	-30.3
Memorandum items:		
Revenue (from Table 5, I + IIA)	1,003.0	2,241.7
Expenditure (from Table 5, from I + IIB + VI)	1,488.2	3,526.8
Average exchange rate	108.5	179.0
GDP	4,077.0	7,634.0

Sources: Ministry of Finance; and staff estimates

Russian Federation: Fund Relations

(As of October 30, 1992)

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

II. General Resources Account:

	SDR millions	As percent of quota
Quota	2,876.00	100.0
Fund holdings of currency	2,876.00	100.0
Reserve position in the Fund	.54	--

III. SDR Department:

	SDR millions	As percent of allocation
	--	--

IV. Outstanding purchases and loans: None

V. Financial arrangements:

Type	Approval date	Expiration date	Amount approved	Amount drawn
			(SDR million)	
Stand-by	08/05/92	01/04/93	719.00	--

VI. Projected obligations to the Fund (SDR million; based on existing use of resources only):

Overdue	Forthcoming				
09/30/92	1992	1993	1994	1995	1996
--	--	--	--	--	--

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. Russia has restrictions on the purchases by residents of other states of the ruble area in the Moscow Interbank Foreign Currency Exchange, a multiple currency practice relating to the surrender requirement and a limit on the correspondent balances in the CBR which are subject to approval under Article VIII.

VIII. Article IV Consultations: None held yet.

IX. Technical Assistance Missions:

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

Dept.	Subject/ Identified Need	Action	Timing	Counterpart
FAD	Tax administration	Missions	April, June and October 1992	State Revenue Service
	Budget and Treasury Management	Missions and Resident Advisors	June and 4th quarter 1992	Ministry of Finance
	Tax policy	Mission	August 1992	Ministry of Finance
	Social safety net	Participation in IBRD courses	September 1992	Ministry of Labor
INS	Training in financial programming and policies	Courses/Seminars in Moscow, Vienna and Washington	Ongoing	Ministry of Finance
	Banking supervision	Seminar	November 1992	
LEG	Foreign exchange regulations, tax legislation			
MAE	Organizational structure, foreign exchange operations, monetary and b.o.p. analysis and research, public debt management, payments system, central bank accounting, monetary operations	Mission	May	Central Bank of Russia (CBR)

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

Dept.	Subject/ Identified Need	Action	Timing	Counterpart
MAE	Monetary operations and money market development, monetary analysis and research, foreign exchange issues	Mission	Sept./Oct.	CBR
	Monetary instruments and money markets, payments systems, central bank accounting, organizational structure	Mission	Oct./Nov.	CBR
	General operations	Posting of a resident advisor	October 1992	CBR
	Banking supervision	Posting of a resident advisor	October 1992	CBR
	Policy analysis and research	Posting of a resident advisor	October 1992	CBR
	Payments system	Study tour/ seminar	September 1992	
	Public debt management	Seminar	November 1992	CBR
	Banking supervision	Seminar	Nov./Dec.	CBR
		Coordination of technical assistance with BIS, OECD, IBRD, EBRD, EC, and central banks	Ongoing	CBR

Dept.	Subject/ Identified Need	Action	Timing	Counterpart
PDR	Reform of foreign exchange system	Missions	April, May, June, and July 1992	CBR, Ministry of Foreign Economic Relations, Ministry of Finance
STA	Compilation of monetary survey	Missions	April, May, June and November 1992	CBR
	Elaboration of a consumer price index	Missions	April, May, June and July 1992	Goskomstat
	Improvement of fiscal, monetary, and balance of payments statistics	Multitopic mission	June and November 1992, and April 1993 (plan)	CBR
	Balance of payments statistics	Mission	September 1992 and January 1993 (plan)	Goskomstat
	Elaboration of a producer price index	Mission	November 1992 and January 1993 (plan)	Goskomstat
	National accounts and trade statistics	Mission	November 1992, December 1992 and February 1993 (plan)	Goskomstat

X. Resident Representatives:

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

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

XI. Other

The authorities have agreed to the Third Amendment of the Articles of Agreement with Parliamentary approval. The authorities have consented to the increase in quotas under the ninth review. The increased quota for the Russian Federation is SDR 4,313.1 million.

Russian Federation: World Bank Lending Operations in 1992-93

The Bank's lending program is designed to support high-priority market-oriented reforms, to help arrest production declines in key sectors by financing critical imports, to finance specific priority investments, and to provide more general balance of payments support financing in conjunction with sectoral adjustment programs for key sectors. The Bank's first lending operation was a US$600 million rehabilitation loan; US$50 million is expected to be disbursed in 1992, with disbursement of the remainder in 1993. This loan is to finance critical import needs and supports key elements of a structural reform program that has been agreed with the authorities.

Other lending operations of the Bank in the period 1992-93 are:

- Employment Services Project (US$5 million expected to be disbursed in 1992 and US$50 million in 1993)--to help the Government in providing services needed to meet the unemployment expected as a result of privatization and enterprise closures.

- Privatization Implementation Assistance Project (US$40 million expected to be disbursed in 1993)--to finance technical assistance required to implement the privatization program.

- Portfolio Development Project (US$10 million expected to be disbursed in 1993)--to help build institutional capacity to channel foreign assistance and investment.

- Agriculture, oil and gas sector loans (respectively US$250 million, US$200 million and US$50 million expected to be disbursed in 1993)--to help the rehabilitation and modernization of these sectors, and the finance of needed imports.