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Statement by the Deputy Managing Director
Visit to the U.S.S.R.
Executive Board Meeting 91/171 - December 20, 1991

I should like to report to Executive Directors on my recent visit to Russia, Ukraine, and Belarus.

In each of the republics I had the opportunity to meet with senior officials; for example in Russia, with President Yeltsin and Deputy Prime Minister Gaidar; in Ukraine, with President Kravchuk and Prime Minister Fokin; and in Belarus, with Mr. Shushkevich--who, as Chairman of the Supreme Soviet, is the Head of State--and with the Head of the National Bank and also the Deputy Prime Minister in charge of economic policy.

In Ukraine and Belarus, I also met with the representatives of the parliaments. I should note that in each of the republics the parliament is an independent actor. In the new state of independence that each of the republics now enjoys, the parliaments wish to assert their own role and responsibility, including vis-à-vis the Government.

In the discussions I emphasized several major themes.

The first theme was that the Fund was working in each of the republics and was fielding missions to provide each republic not only general economic analysis and advice, but also technical assistance and training in our areas of responsibility--namely, central banking, fiscal policy, and statistics.

Second, I was very positive in my comments on the Commonwealth Agreement. I indicated in each republic that one of the fundamental roles of the Fund was to facilitate economic collaboration among countries, and I indicated that to the extent that the republics wished, the Fund could be helpful in facilitating any collaboration under its Commonwealth Agreement. In Russia, Mr. Gaidar, in particular, asked me whether the Fund would be prepared to provide an individual to each central bank if asked to do so by the republics. I said that the Fund would certainly entertain such a request, but that one of the difficulties in providing such assistance would be finding people who could be in residence, on a fulltime basis, to work within the central banks. I indicated that in the context of the Commonwealth effort, the Fund could facilitate exchanges among the republics, and I talked about the concept of multilateral surveillance, but without using the word "surveillance," because I found there was no way of translating that concept in the short period of time that I had. But I explained that the Fund conducts for every member in-depth economic reviews, and I said that we are doing that in each of the republics. I said that we also could undertake discussions with representatives of the republics for a cross-republic analysis of economic developments in the individual republics and their implications for other republics. I referred to the fact that the Fund conducts such multilateral reviews, for example, for the Group of Seven industrial countries and in the context of the WEO exercise.

The third issue was membership. Here, I indicated that the Fund would be prepared to take up the republics' membership applications, but that a first step would be their recognition as sovereign states by the international community. This requirement was understood. I also indicated that the work under way in each republic would facilitate the membership process, but that at this stage it is difficult to predict how quickly the membership process will go forward once applications are received. After we have taken stock of the results of all the missions in the field and the work that has been done to date, we will be in a better position to assess how quickly it would be possible to move toward membership.

A fourth element in my presentations focused on policies. Here, I stressed that it was important to put in place consistent and supportive policies in the areas of monetary policy, budget policy, and price liberalization, and to clarify laws and regulations as soon as possible concerning the role of private enterprises. In each republic I also stressed the importance of establishing a strong and professional central bank and a strong ministry to oversee budget and financial matters.

Let me make some general observations, although one has to be very careful here for a variety of reasons. For instance, there are difficulties in communicating with officials, who come from very different backgrounds and have a very different approach to economics and economic policies; achieving a complete understanding on issues requires considerable effort and repetition even when concepts and policies are put in the most straightforward and nontechnical terms as possible. That was most particularly a concern in the area of monetary policy.

There was a general recognition within each of the republics of the need for budget discipline. In Russia, President Yeltsin explicitly and vigorously indicated that he wanted to put in place a broad-based reform, including private markets, price liberalization, and a balanced budget. He has in place now under Mr. Gaidar a good but small economics team of relatively young Russians. A key question, though, is whether they can bring along the existing institutions as well as officials at other levels, and whether they will have full support from the parliament.

In Ukraine, I came away with a less clear picture. I found a more cautious attitude with respect to the pace of economic reform and the implications of the Commonwealth Agreement. President Kravchuk expressed the need to work with the Commonwealth members, given their mutual economic dependence and the very difficult economic circumstances they faced. In other discussions in Ukraine, I sensed a strong desire to have a much more independent approach to economic policies, but at the same time great anxiety about the impact of reform and economic developments in Russia. For example, concern was frequently expressed about the timing and degree of price liberalization--more time was needed to coordinate price liberalization and some way would need to be found to restrict price increases in the state monopolies. In Ukraine, I did not find a focal point among policymakers for bringing together the thinking on economic reforms.

In Belarus, I met with Mr. Shushkevich, the Head of State. I found his perceptions on some of Belarus' economic problems were quite interesting.

For example, in discussing price liberalization, he expressed the view that there was a need to liberalize prices and to move to some kind of a market-based system; but he talked about the problems of the economy being very dependent on links to Russia and the other republics, and about the fact that the industries are dominated by monopolies. He said that, given the effective prices that have existed within the U.S.S.R., many sectors of industry in Belarus are not competitive internationally. It is too dependent on energy because of the relatively low cost of fuel and on raw materials, such as metals, again because of the relatively low costs. They would need to find a way of making the transition to market-based prices and a more open economy that would not immediately shut down the existing industries or result in open-ended price increases. That same concern with respect to price liberalization was expressed in Ukraine.

The Commonwealth Agreement calls for collaboration in the area of pricing policy. But to date, discussions have not been extensive, and there was a lack of clarity within Ukraine and Belarus with respect to how Russia would proceed with its price liberalization. Those with whom I talked in these republics said it would be better to delay the implementation of price liberalization, but they recognized that with the announcement of price liberalization in Russia, there are already expectations of price increases, which were resulting in shortages of goods not only in Russia, but also in Ukraine and in Belarus.

In Russia, we are not aware of the full details of their price liberalization plans, but with respect to energy prices they appear to be thinking too conservatively. While I was there, they were thinking about a five-fold increase for oil, which would result in energy prices that were still low by world economic standards--about fifty cents a barrel for oil based on the current tourist exchange rate of somewhat over 100 rubles per U.S. dollar.

Whatever the pace and ultimate degree of price liberalization, I am concerned that the other policies in Russia and the other republics will not be sufficiently supportive. In each republic, the authorities recognized the importance of getting control of their budgets, and all spoke in terms of a balanced budget objective. Under the Commonwealth Agreement, the three republics had agreed that budget deficits would be restricted. In Ukraine, they felt that they could balance their budget, but they were concerned that Russia would not be able to achieve budget discipline and that that would create instability for Ukraine. The opposite concern was expressed in Russia. In my view, all three republics will have great difficulty in achieving a balanced budget during the course of the coming year, but we will have a better opportunity to assess the current status of the budget policies of these republics next week, when the missions currently in the field return to report on the budget question.

In the area of wage policy, the staff has been encouraging the authorities in each of the republics to find some way of restraining wage increases, and often the Polish approach--the taxation of excessive wage increases--was mentioned. There was, however, great reluctance to restrain wages in any way. The Russian authorities argued that if they were going to free up prices, they should also free up wages at the same time. They questioned how they could achieve efficiency if they controlled wages rather than allowing the wage structure to be determined by the market. I expressed the concern that particularly in the transition period, based on experience in other countries, it was very easy to lose control of wages, and that the authorities should consider some way, at least as an interim measure, to impose a cost on those enterprises that implement excessive wage increases.

It is in the area of monetary policy that I have the greatest concern. There is less familiarity with monetary institutions and policy instruments and most of the discussions tended to focus on the availability of currency.

In Russia, the respective status and roles of the Gosbank and National Bank of Russia were evolving. In Ukraine and Belarus, the national banks are in a formative stage of development.

In addition to changing institutional arrangements, there is the problem of the lack of skilled personnel to run a central bank in each of the republics. In each republic I was asked whether the Fund could provide technical assistance as well as individuals to help run the central bank.

In Ukraine the desire to introduce a national currency was frequently expressed, but there were different perspectives among high level officials on when that could be done. One view was that it can, and should, be done within a short period of time, say, six months, or as soon as the currency being printed in Canada becomes available. President Kravchuk of Ukraine was much more cautious and said that the introduction of an independent currency would have to be discussed with the other republics because of the impact that action would have on the other republics. Prime Minister Fokin of Ukraine said that because of the difficulties and logistical problems of printing money, it could be at least two years before Ukraine would be able to put in place its own currency. In response to the general perception in Ukraine that its own currency would give the country greater independence, I stressed that many conditions would have to be met in order for it to achieve a stable currency, and that there were practical limits on the degree to which they could conduct independent economic policies even with their own currency. I also observed that it was interesting that in Western Europe efforts were aimed at moving toward a single currency and achieving the benefit of having a unified monetary policy, at a time when Ukraine wished to have its own independent currency. Many reasons were expressed as to why Ukraine needed an independent currency. At the top of the list was the link between sovereignty and an independent currency. There is also a fear that Russia will use the management of the ruble to put pressure on Ukraine. In addition, there were doubts that Russia could manage the ruble in a stable manner. It was also suggested that given the major differences between republics, their economies, and their economic structures, it would be very difficult to establish and maintain a common ruble area. In sum, we will have to see over time how quickly Ukraine moves toward an independent currency.

Regarding other policy areas, there was a desire in varying degrees to create conditions for the development of the private sector. There also was great interest in putting in place the conditions, laws, and regulations that would enable the republics to attract foreign investment. In fact, when discussing external financing, President Yeltsin stressed that Russia would like to emphasize the opportunities for attracting investment.

Let me comment briefly on the work of the staff in the U.S.S.R. The staff has had many missions in the field over the last two months. Each of the three republics I visited had recently received a general economics mission, a fiscal mission, a central banking mission, a statistics mission, and an IMF Institute mission. It is not easy work for the staff, in part because there are so few people who are sufficiently involved in the reform process. Below that critical level of senior level officials, it is more difficult at times to engage in discussions, in part because officials at lower levels are either hostile or uncertain about the reform process, and thus tend to be reluctant to provide information, and in part because of the problem of communication--it takes time to establish a level of communication and a common language between the staff and the officials at lower levels. Because the number of officials involved in reform preparations is very small, we have to be careful to avoid too much overlap when we field our missions. For instance, during my visit to Ukraine, a statistics team from the Statistics Department was providing a week of seminars to officials, and as a result it was sometimes difficult for the team from the Fiscal Affairs Department to get some of the information that it needed.

Just a footnote on Ukraine, which probably applies to all the other republics as well. One of the largest departments in Ukraine is the Statistics Department, which has 30,000 staff members. The Fund statistics mission has learned that, as part of the central planning system, the republics reported to Moscow data on a real-time basis--for example, daily production data by enterprise. Consequently, a huge data base is available for Ukraine. Unfortunately, considerable work would be needed to transform that data into a useable framework. I should also note that while the statistics department is large in Ukraine, other financial economics departments are small, because basic decisions in the planning process were taken at the union level.

The difficulties in travel for the staff will also have to be taken into account in the future with regard to the amount of time that has to be made available for the missions, and in some cases, the making of special travel arrangements. There have been extensive reports about the difficulties of travel in the U.S.S.R., and that is certainly true in certain regions. Some of our staff missions have had difficulties in traveling, particularly in the Asian republics.

In sum, there is a good deal of work now being done by staff missions in the various republics. When the missions return to Washington, staff will have an opportunity to take stock of the situation in each of the republics and to reach some view on how developments might progress in the future, as well as on own policy advice in the region.