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"Russia and the IMF: Pseudo Lending for Pseudo Reforms"

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RUSSIA AND THE IMF:

PSEUDO LENDING FOR PSEUDO REFORMS[1]

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Abstract

This paper argues that the IMF financial and good technical assistance to Russia in the 1990s has been less than generous. Not only the size of the assistance might have not been adequate but also the timing and actual disbursements of these funds were in sharp discord with pledges. More importantly, the IMF made a number of serious policy mistakes in both design and the implementation of the reforms, which significantly contributed to a delay in stabilisation of the economy and were thus costly in terms of the loss of welfare to the society.

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1. Introduction

Between the end of Czarist Russia in 1917 and early 1950s, about one third of the world population in various ways made transition from market economy to central planning. In the late 1980s, the final demise of Soviet empire, a leading and the most resourceful member of this group, set in motion a reverse process for most of the former socialist countries: transition from planned to market economy. A very long legacy of central planning made assistance of international financial institution to transition economies a necessity. This assistance was anticipated to be both financial and consultative.

Having had a considerable experience with structural reforms in Latin America, the Bretton Wood institutions, guardians of international financial system, the World Bank and the International Monetary Fund IMF), were the obvious choice for assistance to transition economies in their endeavour. These two institutions, particularly the IMF, had been involved with unequal extent and a various degree of success in Central and East European (CEE) transition economies, including Russian Federation for the most part of transition process. Given the considerable pain and protraction of Russian transition efforts, many issues related to the role of the IMF in Russia remain controversial. This paper analysis the role of the IMF in Russia within global financial architecture, and particularly in the context of transition. It is claimed that, the IMF, as a main guide and a coordinator of the Western assistance to Russia, has performed less than optimally in Russia. IMF's positive effects of provider of credibility to this major transition economy in 1990s were, in general, annulled by the lack, not so much of pledges, but of sufficient lending disbursement at critical times for a successful transition, particularly at the beginning of its involvement. In addition, the shortcomings of the IMF guided stabilisation programs in the first few years of transition (Nikolic, 2000b; 2001), were coupled with the consistent disregard for institutional building (Kolodko, 1999), not to mention disrespect for equitable growth of Russian economy. Furthermore, the IMF made a number of policy errors, which have contributed to the delay of macro stabilisation of the Russian economy.

The reminder of this paper is organized as follows. Sections 2 and 3 discuss briefly the role of the IMF in the present global financial architecture and the Washington consensus, respectively. Section 4 analyses the general policy consideration of the IMF involvement in Russia, while section 5 outlines the quantitative indicators of capital flows in European transition economies and Russia. Section 6 is devoted to the common criticism of the IMF programs while section 7 outlines specific policy consideration of the IMF involvement in postcommunist Russia. Section 8 elaborates the reason for a developing country to seek the IMF assistance while section 9 concludes with the summary of the findings.

2. IMF in the Present Global Financial Architecture

The Bretton Woods institutions, the World Bank and particularly the IMF have been the corner stones of the global financial system for more than five decades. During this time the results of the Bank/ Fund involvement in various stabilisation experiences has been mixed. The Bank has responded to the

financial crises with recommendations to strengthen policy regimes and financial support. Although the Bank is not intended to act as a lender of last resort and is not primarily designed to fight crises, its participation has been required because of the important structural origins of the crises and the enormous impact the crises has had on income distribution and poverty.

Having had macro-economic stability as its chief aim, the IMF had a leading role in creation and execution of these programs. Over time it became possible to identify the main characteristic of these programs. Despite differences related to country-specific characteristic, most IMFs programs have three common but complement elements: (i) securing sustainable external financing; (ii) adoption of demand restraining measures - especially in the early stages of a program; and (iii) implementation of structural reforms.

The availability of external financing determines the magnitude and pace of the necessary adjustment process. At the outset of the program a country that experiences balance of payment difficulties typically can borrow only a meagre funds. IMF guidelines require that the country does not show an ex ante external financing gap, that it remain current in its debt service commitments, and that it eliminates external debt arrears it may have accumulated prior to program approval (Mussa and Savastano, 1999).

Demand restraining measures, typically understood as tightening monetary and fiscal policies, are best known but controversial elements of a typical Fund program. The intention of the architects of such programs is to bring aggregate demand in line with the prospective output and available external financing and, thus, with a sustainable current account. In order to facilitate external adjustment, program creators may, in addition, opt for the alteration of the nominal exchange rate. In recent times, the IMF tends to stress tightening of monetary rather than fiscal policy in countries with weak financial systems when investors loose their confidence. The aim is to prevent currency crises, but the IMF record in this area is not impressive.

The endeavour in a typical program to alleviate structural and institutional rigidities is aimed to facilitate an efficient allocation of resources and in doing so to smooth the progress of economic growth. Structural reform may include changes to a variety of activities and vary from a country to country. Typically, the key structural priorities for transition economies are privatisation and building of market institutions.

3. Washington Consensus for Transition Economies

The IMF involvement in steering former planned economies of Central and East Europe to market economy was biggest and unprecedented challenge of its existence. The IMF took the lead in assistance efforts of Western donor organisations and countries to transition economies. The starting point for the policy advice to these countries was the so-called Washington Consensus, a body comprised of the US Treasury, the IMF, and the World Bank. The consensus was the product of the Latin America's structural crises in the 1980s, and operated under following slogan: 'liberalise and privatise as quickly as possible, and be tough in fiscal and monetary matters'. Restructuring would follow in the later phase. Since the

starting assumption was that transition economies were in macroeconomic disequilibrium, much like Latin American economies, the stabilisation was the priority. Demand rather than supply side management was the preferred order of the day. External and internal liberalisation coupled with privatisation and stabilisations were expected to transform transition economies into fully-fledged market economies.

The Washington consensus motto was to a large extent promoted in Russia via the IMF guided reforms. The main components of the Russian reform included: a fast price liberalisation, the liberalisation of the foreign exchange market and the convertibility of the ruble, a considerable foreign trade liberalisation, macroeconomic stability, privatisation and, to a lesser extent, other systemic, structural, and institutional reforms. Safety nets and external assistance were additional, supportive features (Gomulka, 1995). The discussion about reforms usually centres on the issues of rapid or shock versa gradual pace of reforms or the gradation of these two. Since the chief concern of the IMF has traditionally been macroeconomic stability in the short and medium term, we concentrate on this issue. Subsequently, the results of the macro-stabilisation efforts would be a way of judging the degree of the IMF's success in Russia by its own criteria.

4. *General Policy Consideration of the IMF Involvement in Russia*

The role of the IMF in developing economies has been scrutinised particularly by the structuralist theoreticians during seventies and eighties (Taylor, 1988 among others). Inevitably, the IMF role in the Russian transition to market economy received a particular attention in the wake of financial crisis of August 1998. These articles, usually critical for their own ends, distinguish between structural deficiencies of the IMF within the global financial architecture (Soros, 2000) and the IMF's specific policy mistakes made in Russia (Sachs, 1997 among others).

The IMF involvement in Russia began after some experimentation with the early reformers in early 1990s. The Fund, together with the Russian government, devised a stabilisation plan for the biggest and most important transition economy. The first official Fund-supported programme for Russia was unveiled in June 1992, the same month the country formally rejoined the Bretton Wood institutions. Half-hearted stabilisation efforts were already enacted since autumn 1991 but with poor results. In this period the IMF position in general was that (i) the Soviet ruble should continue to be common currency for the successor states of the Soviet Union, (ii) Russia should have balanced budget deficit, and (iii) since inflation was viewed as a pure monetary phenomenon, money supply should be kept under tight control. Various monetary targets were imposed and inflation rate was supposed to decline below 5 percent per month. Conspicuously, in stabilisation efforts in the first few years neither exchange rate or wage rate target served as a nominal anchor. Hence, orthodox money based stabilisation strategy was chosen by the IMF for Russia. The poor results of the June 1992 Fund-supported stabilisation led to another programme in June 1993. Since the latter had a similar fate as the former, it was succeeded by the more ambitious "March 1994 program". Annual inflation rate of 1526.0 percent in 1992 preceded 875.0, and 311.4 percent in the following two years (EBRD, 1998) giving little credit to each of these stabilisation efforts, even though

inflation trend was downwards. In addition, on 'Black Tuesday' on 11 October 1994, Russia suffered the first full-fledged financial crises in post-communist times. Consequently, it was clear that stabilisation doctrine had to take a new shape. After thorough preparation, the new, exchange rate based stabilisation programme, with heterodox elements, was finally implemented in June 1995. This programme was relatively successful but only in the short to medium run.[1] Macroeconomic stability is always fragile in transforming economies like the Russian Federation in which the fiscal deficit has not been brought under control and has averaged close to 8 percent per annum up to 1998 (Nikolic, 2000a). The dire position of government finances and the economy as a whole was undermined further by the other internal and external factors. The most prevalent among the former were macroeconomic and structural weaknesses, particularly over-dependence on short term capital inflows, while the latter were dominated by the fall of oil and other commodity prices and the fall in confidence on the part of the international capital investors to invest in trouble ridden countries like Russia. The failure of the policymakers to address these issues in the relatively favorable investment climate of 1997 led Russia, in August 1998, into the worst financial crises of its transition period and contributed to the global financial turbulence. The ruble was effectively devalued and left floating while the government defaulted on its own maturing short-term securities - Gosudarstvennye Kratkosrochnye Obligatsii (GKO).[2]

Failure to regain macro-economic stability during the first years after liberalisation attracted sharp criticism of the IMF from various quarters. This is not to say that the successive Russian governments are immune of criticism. Their chief fault lies in the chronic refusal to reform. In addition, reluctance of the G7 to get involved in reforms and provide financial assistance to Russia when most needed is equally to blame. Moreover, a snail pace of the World Bank involvement also contributed to failure. Even so, both, the Russian government and the IMF, were accused of squandering one after another opportunity to stabilise Russia with disastrous consequences for the welfare of the Russian people. Critics charged that these two, of which the IMF was a typical representative of the West, have never missed opportunity to miss opportunity in Russia (Sachs, 1997). During this time, a common understanding between the West and the Russian government, via the IMF, was maintained. The West would pretend to aid the Russians while they would pretend to stabilise (Granvile, 1995). Likewise, IMF promised loans and Russian government promised reforms. This turned out to be a pseudo lending for pseudo reforms.

The end result of Russian transformation endeavour in 1990s may well conform to the criticism of the IMF designed programs. Between 1992 and 1995, Russia's GDP fell 42 percent and industrial production fell 46 percent - far worse than the contraction of the U.S. economy during the Great Depression. Critics points out that, the basic results of the IMF prescriptions for the decontrol of prices, radical economic and financial liberalization, and indiscriminate opening of markets to imported products, has been to transform Russia into a raw materials producer, rather than an agro-industrial country

[1] The summer 1995 stabilisation programme is described elsewhere i.g., Bofinger et al (1997) and Nikolić (2000a).

[2] In 1998, the official exchange rate went from R5,96/$ to R20,65/$, a depreciation of 246 per cent. From August 1998 to end-March 1999, the ruble has depreciated 287 per cent, from R6,24/$ to R24,16/$. For details see Nikolić (2000a).

(LaRouche, 1999). Soros (2000) argues that the IMF has not been in Russia as having goal in economic development but merely as bill collectors for the world financial community. The critics further charges (Sanders, 1998; Soros, 2000) that, much of the IMF loans has gone to bail out international creditors, creating what is now recognised as moral hazard. The rest has mainly gone to corrupt government officials, bureaucrats, and connected businessmen.

The effect of the Russian economic policy guided by the IMF has been devastating on the Russian people. Between 1991 (time of Soviet Union collapse) and 1995, real income plummeted 40 percent. A quarter of all Russians were living below the subsistence level. Nearly one-third lived below the poverty level. Three-quarters barely survived on an average income of $100 per month. The average life expectancy for men has declined by seven years, to 59, since 1990. One-quarter of Russia's labour force receives its wages late, in kind, or not at all (Sanders, 1998).

Finally, the last strand of criticism ought to be directed at the political economy of the IMF involvement in Russia. Yet, literature is not very forthcoming with this issue. More specifically, given a large gap between promised and delivered funds, as well as timing of some deliveries, one cannot help thinking that both the IMF and the United States Treasury, which calls the tunes at the IMF, were used to spoon-fed Russia to the point of no return. No more, no less. Throughout transition period Russian ex-president Yeltsin and his administration received just enough aid and just at the right time to remain in power and insure that Russia passes the benchmark beyond which would be highly unlikely to return to the central planning and autarky. The support for the Yeltsin's kind of reforms may not only include financial aid, but also keeping a blind eye, if not the open support, to those who misappropriated a large chunk of Russian economy but were instrumental in Yeltsin's re-elections. Similarly, the coincidence between Russian concessions at the turning points in the Balkan wars and the timing of the IMF support to Russia is thought provoking. In this case the IMF's involvement might have gone beyond financial policies. In the worst case the IMF involvement in Russia, and in Ukraine for that matter, might have been in function of geopolitical interests of major donors. USA in particular, might have used its own Treasury to advance its geopolitical interests via the IMF. A recent analysis (Thacker, 1999) confirmed that, contrary to expectations that the IMF has become less politicised since the end of the cold war, the influence of politics has actually increased since 1990. Thacker (1999) claims that political realignment toward the United States, the largest power in the IMF, increases a country's probability of receiving an IMF loan. The study concluded that the behaviour of multilateral organizations is still driven by the political interests of their more powerful member states.

5. Quantitative Indicators of Capital Flows and the IMF Involvement in the European Transition Economies and the Russian Federation

Positive effects of foreign capital inflows[3] into developing countries are well known. These inflows, among other things, can supplement domestic savings and foreign exchange reserves, improve allocation of resources, and facilitate access to a solid business practices and know-how. Foreign Direct Investment (FDI) in particular, in addition to providing finance, helps promote growth in developing economies by facilitating transfer of technology, increasing labour force skill, promoting competition, and increasing exports. These "spillover effects" translate into greater productivity growth in the economy as a whole. Meagre domestic savings, depleted foreign exchange reserves and excessive debt burden as well as the pursuit of systemic transformation made a quest for the foreign capital in transition economies one of the main aims of economic policy. In order to gain access to financial resources, policy advice and to reassure foreign investors priority was put on the accession to the IMF and World Bank. Additionally, for countries in default, the normalization of relations with commercial (London Club) and official (Paris Club) creditors was also required. London and Paris Clubs agreements were central to potential restructuring and debt forgiveness.[4] International financial community coordinated by the European Union (EU), through the G-24 programs, pledged grants, emergency aid and new bilateral loans. In order to assist the transformation with equity and loans a new institution European Bank for Restructuring and Development (EBRD) was created. The IMF on its part, created the Systemic Transformation Facility (STF), which provided additional funding under simplified conditions.

Capital flows from 1989 to 1993 were shaped by Western governments' determination to make the transition "stick", coupled with a wait-and-see approach by private sources of funds. In addition to the financing provided by the IMF and the World Bank, bilateral credits were extended to Russia mostly from seven major industrial countries. Moreover, official creditors, under the auspices of the Paris Club, and debt deferrals by commercial bank creditors offered a comprehensive debt relief package for Russia. When economic performance improved and the transition progressed, private capital began to enter the market, first tentatively, then with great speed. Hence the sequence was as follows: official financing, FDI, non-guaranteed bank loans, dedicated equity funds, and lastly international bond issues and direct local stock and money market investments (EBRD, 1998).

Despite the fact that by 1993, virtually all of the East European economies and Russian Federation were IMF members, overall they received smaller and declining share of financial resources relative to the developing countries in the first quinquennium of the 1990s (UN/ECE, 2000). Although many transition

[3] Definition of capital inflow throughout this article refers to the acquisition of domestic assets by non-residents (plus grants). Sales of domestic assets are defined as a negative capital inflow. Thus the term net capital inflow denotes acquisitions minus sales of domestic assets by non-residents. Conversely, capital outflow refers to the acquisition of foreign assets by residents. Sales of foreign assets are defined as a negative capital outflow. Thus the term net capital outflow denotes acquisitions minus sales of foreign assets by residents.

[4] Transition economies including Albania, Bosnia and Herzegovina, Bulgaria and Poland all have received debt relief from commercial banks and Bosnia and Herzegovina and Poland from official creditors as well.

economies attracted capital inflows of the order of 5 per cent of GDP in line with developing economies between 1990 and 1998, a significant number including Russia failed to do so (UN/ECE, 2000). In fact, despite substantial volatility, net capital inflows, including "errors and omissions", were negative in Russia between 1993 and 1998.[5] Table 1 demonstrates the size of the Russian net capital flows relative to other east European transition economies.

TABLE 1 APPROX. HERE

The variation in the size of capital flows among transition economies reflects their degree of economic reforms. In effect, an access to official funds is often conditional on the implementation of structural reforms and sound macroeconomic policies. Table 1 shows that most of the foreign capital (about 60 per cent) have been attracted by the early reforming countries – the Czech Republic, Hungary and Poland. In contrast, although the exact size of the volatile Russia's capital flows is uncertain, Figure 1 indicates that inflow of capital per capita has been negligible while outflows were substantial. While the former represents reported financial inflows, the latter is calculated as the sum of recorded flows and "errors and omissions". This latter item is generally considered to include unrecorded capital flows, which is a synonym for capital flight. Russian total capital outflows, including unrecorded capital, averaged about 3 per cent of GDP in 1993-1998 (UN/ECE, 2000). Such a large outflow of capital has been made possible by a large current account surplus and foreign borrowing.

FIGURE 1. APPROX. HERE

The increase in the growth of capital inflows into transition economies during 1990s has been associated with the change in their composition (Table 2). While the five leading Central European Transition Economies (CETE-5)[6] have steadily decreased official financing and even repaid the IMF debts by 1996, Russian Federation increased the size of official funds after 1994. These official funds were mostly comprised of IMF credits and grant aid and accounted for the most of official financial inflows into transition economies. A large share of the official capital flows were on account of German transfers to the former Soviet Union, as part of the German unification agreement. As the transition got underway private flows (FDI, long-term debt and short term debt) began to dominate capital market. An important proportion of private inflows has taken the form of so-called non-debt creating inflows, notably FDI. On average, the

[5] "Errors and omissions" stands for unrecorded capital flows, mainly capital flights.

[6] Czech Republic, Hungary, Poland, Slovakia, and Slovenia.

share of FDI in total net inflows was higher in transition economies than in developing countries though this does not apply to Russia.[7]

TABLE 2 APPROX. HERE

Despite being among the top 10 recipients, the group of developing countries that receive more than 70 per cent of FDI flows, FDI per capita in Russia has been disappointingly low. The FDI in Russia rose significantly with opening of its economy, but political instability and the poor business climate deterred many foreign investors. Figure 2 indicates that, even though the trend of FDI was upward during 1990-98 period, it was much more significant in the five Central European Transition Economies (CETE-5) and in Central and East European (CEE) transition economies cumulatively than in Russia. This difference is much more pronounced if FDI per capita were considered instead. While all European transition economies received $439 in forms of cumulative FDI-inflows per capita between 1989 and 1997, Russia received only $63 for the same period (EBRD, 1998). That is many times less than any other European transition economies, except FYR Macedonia, and even less than an average ($84) of a country from the Commonwealth of Independent States (CIS). At the end of 1997 the total FDI stock in Russia was only half of the sum invested in Hungary between 1989 and 1997.

FIGURE 2 APPROX. HERE

The inflow of capital in Russia peaked in 1997. This was a result of the improvement in economic policy environment and financial position, together with successful rescheduling agreements with Paris and London Clubs creditors in 1996 and 1997 respectively. However, as most of these inflows were directed to short-term investment in government securities and equities, Russia became increasingly vulnerable to shifts in market sentiment. This weakness was forcefully manifested in the form of increase in the already sizeable capital outflows after the onset of the Asian crises in the late 1997. The widening of the gap between inflow and outflow of capital in Russia has culminated during and immediately after August 1998 crises and Russian default on the GKOs.

[7] Between 1990 and 1998, FDI accounted for 34 per cent of capital inflows into the developing economies. Conversely, from Table 2 it can be calculated that between 1993 and 1998 FDI accounted for 43 per cent of capital inflows in CETE-5 and 26 per cent in the Russian Federation.

The analysis of the flow of capital in Russia during transition would be incomplete without considering external debt and its implication for stabilisation of economy. Table 3 demonstrates external debt and debt indicators for economies in transition in comparison to Russia in the 1990s.

TABLE 3 APPROX. HERE

Notably, the total external debt of Russia equalled the corresponding debt for all other European transition economy in 1994, and surpassed it in 1998. In addition, Table 3 implies that in contrast to other transition economies the role of official creditors and the IMF has become more important over time. However, again in contrast to the rest of European transition economies, the official financing was not significant in the first years at the beginning of transition. Arguably, that was the time when Russia most needed it. Furthermore, one can argue that the size of IMF lending to transition economies has been hardly excessive (Table 4).

TABLE 4 APPROX HERE

As demonstrated in Table 5 actual foreign currency disbursements relative to either Gross National Product (GNP) or to Total External Debt (TED) are not particularly high, even in the period when these achieved their peak. Moreover, as far as Russia is concerned, the size of official disbursements rarely matched promised finances (see section 7). The total IMF foreign currency disbursements to Russia from the beginning of transition until the end of 1998 had been just over $20 billion (IMF, 1999, and author's calculations).

TABLE 5 APPROX. HERE

Nevertheless, it is not only IMF credits that were important for Russian financial consolidation. As mentioned above, one has to consider the growing role of private financing and other sources of official financing, particularly bilateral and multilateral credits as shown in Table 3. This might not have come had Russia not received the green light for her reforms by the IMF. In addition, prior to August 1998 crises Russia had reached key rescheduling agreements with Paris and London Clubs creditors.

TABLE 6 APPROX. HERE

The agreements shown in Table 6 allowed a substantial lengthening of the maturity structure of sovereign debt[8] and reduced debt service pressures. Moreover, after two years London Club wrote off one third of the debt due in February 2000, as well as accepted an interest service reduction (Hishow, 2001). Consequently, the real payments amounted to just 40 percent of the due payment as shown in Table 7.

TABLE 7 APPROX. HERE

The reduced debt service expenditures, totalling $80 billion, which is about a half of the Russian GDP for 2000, are claimed to be significant contribution of the West to the balance of payments (Hishow, 2001). Moreover, Hishow (2001) argues that the size of the Russian external debt may allow Russia to misuse her monopoly position as a debtor and default on her external obligation as it did with the internal debt in the wake of August 1998 crises. The worry for the West is that Russia may impose either a unilateral moratorium or try to achieve an infinite debt restructuring, which in the end may result into the same. It could be argued that continuing lending to Russia despite unsustainable policies may be based in part on expectations of support of international financial community. In other words, there is an implicit moral hazard where creditors continue investing in Russia led to believe that Russia is too big to be allowed to fail. Reportedly, in the wake of Russian financial 1997-98 crises the IMF's sceptical officials were persuaded by the United States Treasury to provide a loan package on the ground that Russia was "to nuclear to go bust" (Hale, 1998). It is therefore always difficult to determine the optimal level of financial assistance for any country and particularly for Russia given her military might and vast economic resources.

The IMF faced the same dilemma when determining the size of the rescue package for the financial crises of 1997-98. On one hand sufficient financing was necessary to meet anticipated foreign exchange needs, restore market confidence, and ensure the success of the program. On the other hand the provision of very large amount of finance risked moral hazard. From July 1997 to October 1998 the international community pledged about $187 billion to support Indonesia, Korea, Russia, and Thailand. However, due to the performances under IMF-agreed reform programs the disbursements amounted to about one third of the pledged funds for all countries. In the event, due to the disappointing results of the Russian reforms only the first tranche of the IMF loan ($4.5 billion) was disbursed. That represented about seven percent of the total disbursements, and was about a quarter of the pledged sum to Russia. Following

[8] The sovereign debt alone makes Russia one of the most indebted emerging markets in the world. Only Brazil ($220 bn.), Korea ($170 bn.) and Indonesia ($169 bn.) run bigger debts (Hishow, 2001).

mounting fiscal and financial difficulties, August 1998 ruble devaluation, unilateral restructuring of the GKO debt and the declared 90-day moratorium on private debt repayments, and ongoing weakness in oil prices, the flow of financing was cut off for a period of time.

Looking at Table 8 one cannot help noticing that the funds pledged to Russia are considerably smaller than the funds designated for any other country except Thailand. Moreover, the disbursed funds to Russia are much smaller than for any other country under consideration. This observation led Hale (1998) to claim that the Russian package was too small to be effective. According to Hale (1998), had the $22 billion package for Russia been similar to the Mexico one of $40 billions in 1995 investors would probably not fled? Furthermore, had more of these fund been disbursed the investors would have been less sceptical? In the event, investors judged that, given the delicate finances of Russia, the pledge of $22 billions and even considerable smaller actual commitments, was not enough to bail Russia out.

TABLE 8 APPROX. HERE

The evidence presented here give credence to claims that Western aid to Russia was not sufficient to enable Russia to go through the pains of transition smoothly (Sachs, 1997; Hale 1998). In fact the Western contribution to Russia could hardly be qualified as "aid". It is clear that those were credits which Russia needs to repay sooner or latter. Though these credits seem cheaper than those taken on the financial markets, the Russian government had to accept the conditions formulated by IMF ideologues and policy-makers.

6. Common Criticism of the IMF Programs

Although every society has it own priorities, broad objectives of economic policy are usually not in dispute. These should include a high rate of growth, low rate of inflation, alleviation of poverty, social stability, adequate supply of public goods and services, and not too wide income inequality. Criticism of the IMF takes various form and along several lines. In most general form, the critics finds the three elements of a typical IMF program outlined above in dissonance with the broad objectives of economic policy.

One of the strides of this line of criticism is the view that the macroeconomic underlying the IMF approach to stabilisation is fundamentally wrong (Taylor, 1988). Taylor's criticism is rooted in the contrasting view about the nature of inflation, the relative importance of fix-price and flex-price markets, the role of forced saving and output adjustment, dynamics of economic growth, and the sensitivity of specific balance of payments and financial linkages to various policy measures.

Another line of criticism views the Fund as a hermetic institution whose standard stabilisation package is not sufficiently responsive to the ever-changing conditions in the global economy and the

evolution of professional thinking. More specifically, the 'financial programming' based on the Polak (1957) model is viewed as to some extent dogmatic, somewhat outdated and rather ill suited for the diverse crises such as collapse of central planning and the financial crises in Asia and Latin America in the 1990s (See Taylor, 1998 for more details).

Other strand of criticism aims at the structural elements of a reform package. The critics charges that the Fund's staff lacks expertise and mandate to convey advice and design conditionality on structural issues.[9] It is argued (Feldstein, 1998) that the legitimate political institutions of the country should determine the nation's economic structure and the nature of its institutions rather than the IMF via conditionality provisions. As argument goes, the IMF role should be limited to providing technical advice and limited financial assistance. Subsequently, the desperate need of financial assistance does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process (Feldstein, 1998).

Yet another thread of criticism identifies two major interconnected asymmetries of the IMF operating practices (Soros, 2000). One is a disparity between crises prevention and crises intervention; the other is disparity in the treatment of lenders and borrowers. The first disparity stems from the fact that the IMF cannot provide any debt relief to the debtor countries during the crises since that could have devastating effects on the financial markets (Soros, 2000). Only after the crisis is weathered, can any debt relief follow. The second disparity is explained by the political economy of the IMF. Namely, Soros (2000) asserts that international financial architecture is skewed towards centre. It implies the countries at the centre of the global financial system control the IMF; therefore it would go against the national interest of controlling shareholders if the IMF penalised lenders. The net effect of this approach is to place the burden of adjustment mainly on the borrowing countries by compelling them institutionally to service their debt, which usually stretches them to the limits of their capacity. This feature of the IMF reportedly had an important role in shaping investors expectations in Russia in 1998 (Soros, 2000). Namely, many investors kept buying Russian treasury bills (GKOs) despite the fact that fiscal and monetary indicators were clearly indicating a possible crisis. Their actions were influenced by the view that Russia was too important not to be allowed an IMF bail out. In the event, according to Soros (2000), the very recognition of the moral hazard inherent in the IMF method of operation made the bail out politically unacceptable. Subsequently Russia was doomed for the default and the GKOs holders for the financial disaster.

7. Specific Policy Consideration of the IMF Involvement in Postcommunist Russia

The themes 'what went wrong' and 'who lost Russia' have been prominent in the literature for several years. The answers on these questions may be a useful lesson for policy analysts and many others

[9] See Mussa and Savastano (1999) for the references of the critics.

on both sides of the Atlantic but it's beyond scope of this study.[10] Instead we proceed with enlisting specific potential errors on the part of the IMF in Russia. We however, make no differentiation between errors in design and implementations.[11]

Error 1. IMF policies contributed to short-termism in policymaking and diverted attention from strategic policy making. The priorities for the IMF, irrespective of changes in conditionality, seem to be short-term financial performance criteria. More precisely, the IMF tends to impose (quarterly) ceilings on the nominal value of the fiscal deficit, (quarterly or even monthly) ceilings on the expansion of net domestic credit of the central bank and (quarterly) floors on net international reserves. Such policies tend to keep the time horizon of policy makers fixed on the very short term.

Error 2. A huge underestimation of corrective inflation after liberalisation of prices in January 1992. While the IMF and the Russian Prime Minister estimated the size of monetary overhang about 50 per cent (Gros and Steinherr, 1995) and price jump of not more than 100 percent (Rossiiskaya Gazeta, 1992), respectively, the prices jumped as much as 245 percent in January 1992. One of the probable causes of this miscalculation should be sought in the use of sophisticated models of the demand for financial assets that give quite good results over the long run in developed market economies (Gros and Steinherr, 1995). However, these models proved inadequate in Russia and other transition economies, were households had essentially only three assets: cash, saving deposits and foreign currencies. Another probable cause for the miscalculation of price jump was reliance on the velocity of saving deposits rather than the velocity on cash, because the former proved to be much more variable than the latter (Gros and Steinherr, 1995). The error regarding the corrective inflation was not incurable, but it clearly helped to undermine the credibility of the Gaidar's government budget for the first quarter of 1992.

Error 3. The IMF initial support for the Ruble zone, an arrangement for 15 former Soviet Republics (FSR) to continue to use a common, unconvertible currency, the Soviet ruble, upon the break up of the USSR in December 1991, was a costly mistake. This poor advice was intended to minimize dislocation of central planning's organic enterprise links between these states. That implies smaller trade shocks and lower fall in output. In addition, the IMF considered other non-Russian republics unfit to manage their own currencies (Sachs, 1997). The IMF's explanation is that it tried to limit the inflation rate by providing a 'set of rules for a coordinated monetary policy' (Hernández-Cata, 1995). The Ruble zone probably not only did absorb some of the trade shocks between these states, but also safeguarded some of the non-Russian industries from immediate collapse. These industries were able to obtain unauthorized credits ('non-cash' rubles) from the Central Bank of Russia via national central banks. The dual money system, characterized on one hand, with unlimited supply of non-cash credits and a hard constraint on the delivery of cash on the other, was particularly costly to Russia in the first year of transition. Credits to other FSRs amounted in 1992 to at least 8.5 per cent of Russian GDP if delivery of cash is excluded, and 11.6 per

[10] Interested reader is referred to various articles edited by the former Russian adviser like Anders Åslund; Gros and Steinherr (1995); and Soros (2000).

[11] Gomulka (1995) argues that most of the errors were in implementation rather than in design. Apparently, the same members of the IMF team had much more success in Poland than in Russia.

cent otherwise, in terms of the CBR credits alone (Granville, 1997). Needless to say, such substantial increase in money supply inevitably fed into higher prices and much aggravated stabilization efforts. Although it has four distinct phases, the destabilizing effects of the Ruble zone prevailed until November of 1993. In July of 1993, the CBR suddenly withdrew pre-1993 ruble notes, which together with the collapse of negotiations between Russia and Kazakhstan in November 1993 effectively sealed the fate of the old Ruble area.

Error 4. Financial support for Russia was inadequate for the successful stabilisation in the early stages of reforms. This point is not however, shared unanimously among economists. Sachs (1997) for example argued that the West should have financed Russian budget deficit of the order of 5 per cent of GDP. Instead, the IMF maintained that Russia should aim for a balanced deficit. According to Sachs (1997), the expectation that, amidst deep transformation crises, Russia could slash budget deficit below levels observed in almost all OECD countries, were utterly unrealistic. Along similar lines Portes (1994) argued that the main policy error was in the ever-emphasis on macroeconomic policy itself. Gomulka (1995) holds that Portes assessment is an exaggeration and that in fact, while helpful, external financial support is not essential for the successful stabilisation. Similarly, since the financing of budget deficit should be mostly repayable, Hernández-Cata does not recommend such course of action.

Whatever merits for the larger or smaller external assistance may be, the fact remains that the West, principally via the IMF, has consistently failed to live up to their promise from the very beginning of its involvement in Russia. At the beginning of 1992, Russian reformist government was promised US $ 24 billion of Western aid, to be disbursed in the second part of that year. The implications of a sophistic use of term aid were rendered obsolete since hardly anything of the promised assistance was delivered in 1992. More precisely, neither $ 0.719 billion IMF stand by arrangement, or $ 6 billion exchange rate stabilisation fund, or an official debt rescheduling deal materialised except an interim IMF credit of $ 1 billion disbursed in August 1992 for the reserve purpose only (Granville, 1995). In addition, the $ 670 million assistance approved by the World Bank in 1992, was not disbursed until the end of 1993. This assistance failed to be materialised at the time of the adverse political climate for the reformist government, so that at the end of 1992 the reformist Prime Minister was forced to resign. Subsequently, the reforms lost an appeal and a slowdown of the momentum of the reform was unmistakeable at the beginning of 1993 (Granville, 1995).

The $28 billion 'aid' package announced in July 1993 had a similar fate to the $24 billion announced in April 1992. None of these two packages were ever properly elaborated or delivered (Sachs, 1997). Sachs (1997) further argues that both G7 and the IMF failed to understand Western financial assistance for the Russian budget was a conditio sine qua non to achieve financial stabilisation.

In July 1997 the IMF pledged yet another "aid" package of $22 billion to Russia. In the event only $4.7 billion of this package was disbursed. Investors seem to have viewed this package to small to bail Russia out, so they fled. As mentioned above, Hale, (1998) argued that had this package been as large as the $40 billion package for Mexico in 1995, investors probably would have not fled.

IMF's advocates would argue that the reason for the discontinuity of disbursement of the pledged funds by the IMF was the failure of the Russian government to consistently hit agreed targets. The counter

argument however is that the targets were unrealistic i.e., balanced budget (Sachs, 1997), and government was never likely to achieve them.

Error 5. Contrary to its positive experience with the two stage Polish debt cancellation, the West has failed to write off at least a part of old Soviet debt. Instead, Russia inherited all of the old era ex Soviet debt and was expected to duly service it. Consequently, the debt obligation added substantial strain to the long-suffering and deteriorating government finances. The issue of forgiveness of debt always critically hinges on the prevalence of a good will. Advocates of the IMF policies usually argue that the public opinion in the Western democracies did not rise to this historical opportunity and were not willing to bail Russia out of the hole (Hernández-Cata, 1995)!

Error 6. Sachs (1997) argues that, in addition to the failure to provide a significant financial assistance to Russia, the IMF failed to incorporate in the programme non-monetary means of financing the budget deficit. These could have included Treasury bills and bonds. The trouble with these instruments is that their rate of return needs to be very high to make them attractive. This in turn increases the interest burden on government finances and enlarges the deficit in the long run. Unless the rate of return comes down significantly, the government finances may be seen as unsustainable, prompting a run on currency, or even a default. Despite this unpleasant arithmetic, non-monetary financing of a budget is largely perceived as less detrimental to a national economy than a monetary one. Yet, there was not significant non-inflationary financing of deficit in Russia in the first years of transition.

Error 7. Failure to recognise prevalence of both inflation inertia and inflationary expectations before summer of 1995, on the part of the IMF, led to adoption of classic money based stabilization. This proved not to be the wisest policy choice (Nikolić, 2000b; Nikolic, 2001). Instead, pegged exchange rate based stabilization coupled with heterodox elements would have been more likely to break both the inertia and the expectation, as experience after Jun 1995 has shown. Admittedly, such a policy option would have required sizable foreign exchange reserves, which Russia was lacking at the time. However, this is exactly where external financial support ought to have played its role. After all, one of defining roles of the IMF ought to be to provide a short-term liquidity to countries with ailing finances.

Error 8. The existence of bilateral causality between inflation and broad money in post communist Russia may also imply that the latter may not be an effective intermediate target for the former (Nikolic, 2000b). In other words, the existence of feedback or bilateral causality between inflation and broad money supply makes latter unsuitable for monetary targeting. This is because the target cannot provide an unambiguous signal of where policy actions are headed Yet, monetary targeting was a central piece of early stabilisation efforts guided by the IMF. In effect, monetary targets were imposed in the non-monetary economy (Soros, 2000). Consequently not only monetary target were bound to be pervasively missed, but also even when they were met, that did not imply that inflation was under control.

The policy errors outlined above significantly contributed to a delay in stabilisation efforts. According to Sachs (1997), succeeding efforts to stabilise the economy were made more difficult and more costly. Primarily, having lost credibility in the ruble, the Russian public engaged in massive capital flights throughout 1990s (Table 9). In addition, this loss of confidence made it more difficult to finance the budget

deficit by non-monetary means. In particular, the public was unwilling to buy Russian treasury bills except at enormously high interest rates. Likewise, the decline of the broad money to GDP ratio increased inflationary consequences for any given level of financing of the budget deficit by the Central Bank of Russia. Secondly, Sachs (1997) argue that as a result of the delay in stabilisation, tax evasion and tax exemption have swelled a great deal contributing to a significant decline in the tax collections. That made the aggravated budget predicament even graver. The third consequence of the delay in stabilisation according to Sachs (1997) is that the regional governments have managed to capture an ever-growing share of total revenue on expense of the federal government. Hence, this too further aggravated the financing of the budget deficit.

TABLE 9 APPROX. HERE

8. ***Alternative Medicine of the IMF: More prescriptions, Less Injections***

Given these specific policy mistakes and the controversial role of the IMF in Russia, one wonders why a developing country needs the IMF support. Literature offers three important reasons for the IMF role in today's economy (Hale, 1998). First, the IMF offers macroeconomic and other policy advises that politicians can sell as their own. Even though the public is aware that the US Treasury and other G-7 countries heavily influence the Fund, it still offers impression of autonomy so that the Funds highly specialised and renowned officials make policy advise more politically acceptable to borrowers. Second, in the present global financial environment the Fund acts as a lender of last resort, similar to the role of central bank during domestic banking crises. Consequently, the Fund can step in the time of financial crises to help the troubled economy bridge short-term liquidity problems and restore investors' confidence. Third, the IMF could also initiate microeconomic reforms that might otherwise be politically unacceptable. The emphasis of this kind of microeconomic reforms is supposed to be on the non-inflationary economic growth.

In addition to these three standard roles of the Fund in today's economy, its role of a provider of credibility could not be over-emphasised (Cottarelli and Giannini, 1998). Instead of delegating monetary policy to domestic entity, the alternative way of enhancing credibility of adjustment policies in developing countries is to surrender those policies to approval of a supranational organisation such as the Fund. The growing role of the Fund as the provider of credibility, rather than lender of resource only, is supported by the three pieces of evidence given by Cottarelli and Giannini (1998). First, the share of net IMF credit over total net external financing (including FDI) to developing countries dropped from $4^{1/4}$ percent during the 1980s to less than 1 percent during 1990-96. Second, the number of precautionary programs has increased in recent years: at the end of 1996 one third of the stand-by and Extended Fund Facility (EFF) arrangements were precautionary, that is, they had been undertaken without any intention of drawing.

Third, the ratio between actual and potential borrowing in all outstanding IMF arrangements has declined since 1980s, while the number of countries with programs has risen to historical peaks. Overall, the Fund's stamp of approval has been in demand to enhance the authorities' credibility and to give a clear signal to investors that a country is relatively safe for investing.

Conclusion

Transformation of a world super power into a market economy, after three quarters of century of central planning, represented an unprecedented task with an unpredictable outcome. This process in the Russian Federation turned out to be long-drawn-out and agonizing with a less than desirable outcome. Yet, despite being characterised as a country of 'robber capitalism' rather than market economy, Russia is nowadays well away from the central planning and the kind of autarky most people dreaded of. The Russian style capitalism was brought about by Russian reformers supported by the West and guided by the IMF. The IMF prescribed medicine and the West seems to have spoon-fed Russia just enough to pass the benchmark of no return to the previous system.

The downside of the process, as argued in this paper, was that prescription has often been inappropriate and the medicine quite inadequate. Even when the prescription might have been right, the patient was usually nourished too little too late.

One should bear in mind that the great share of responsibility for less than desirable outcome of the reforms should be sought within leading political forces in the country at the time. Not only were they errant but also they found their own interest in consistently postponing the true reforms. Reformers sins aside, this paper argues that the IMF has been less than generous as far as the financial and good technical assistance is concerned. More precisely, as a represent of the West, the IMF has consistently underestimated the size of the assistance needed for the successful stabilisation in Russia. In addition, on account of conditionality, the IMF disbursed by a long way fewer resources than pledges, not to mention lack of desire for debt forgiveness. Furthermore, all of the Russian stabilisation programmes had an IMF approval and all of them failed. Moreover, the IMF has arguably made a significant number of specific policy mistakes that have inevitably aggravated long suffering Russian economy exposed by the pains of transition. Admittedly, transition process was a unique process and errors were inevitable. Nevertheless, given the reputation and enviable resources of the IMF, one cannot help thinking that they could have done much better and that at least part of the Russian socio-economic pains during transition were not inevitable.

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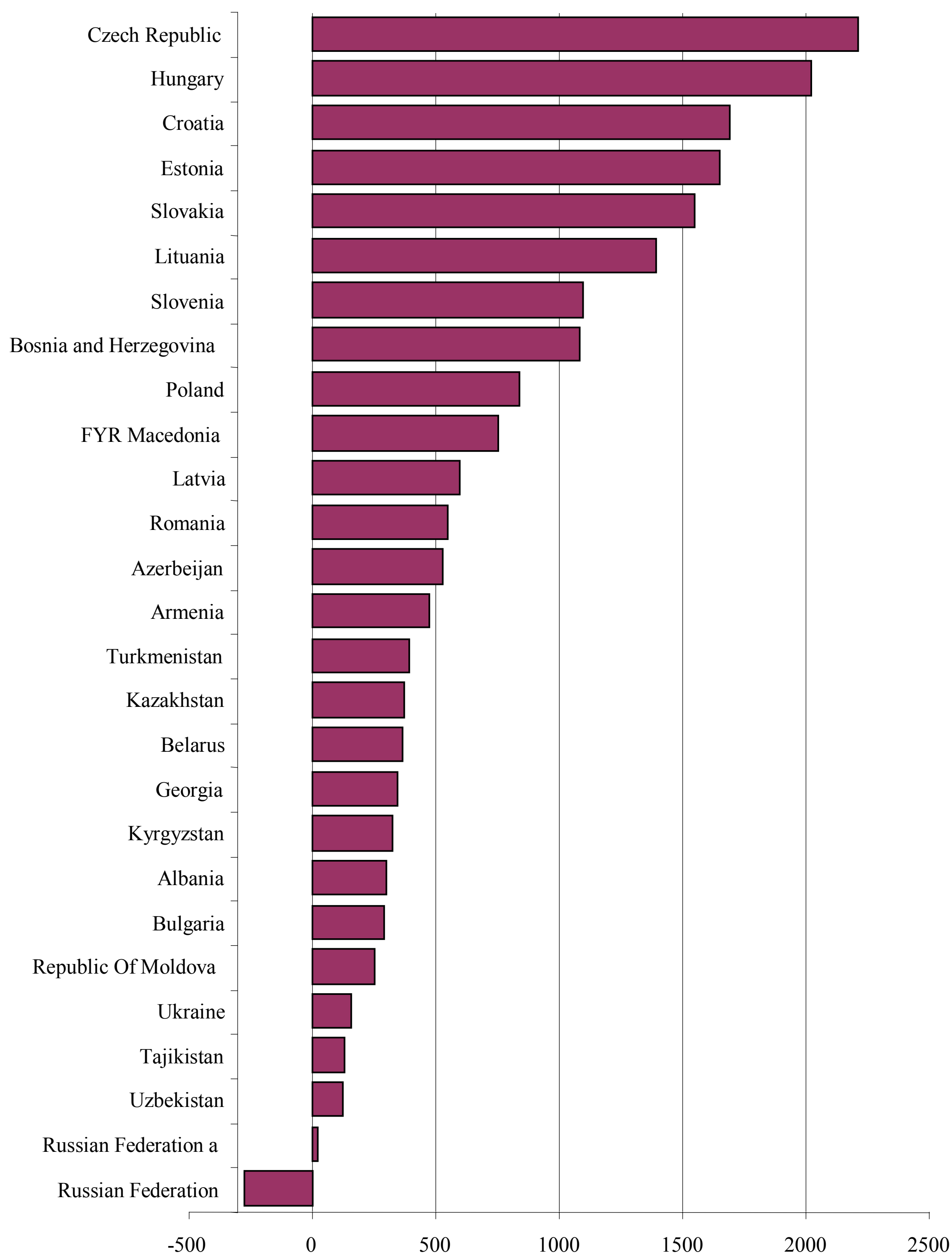
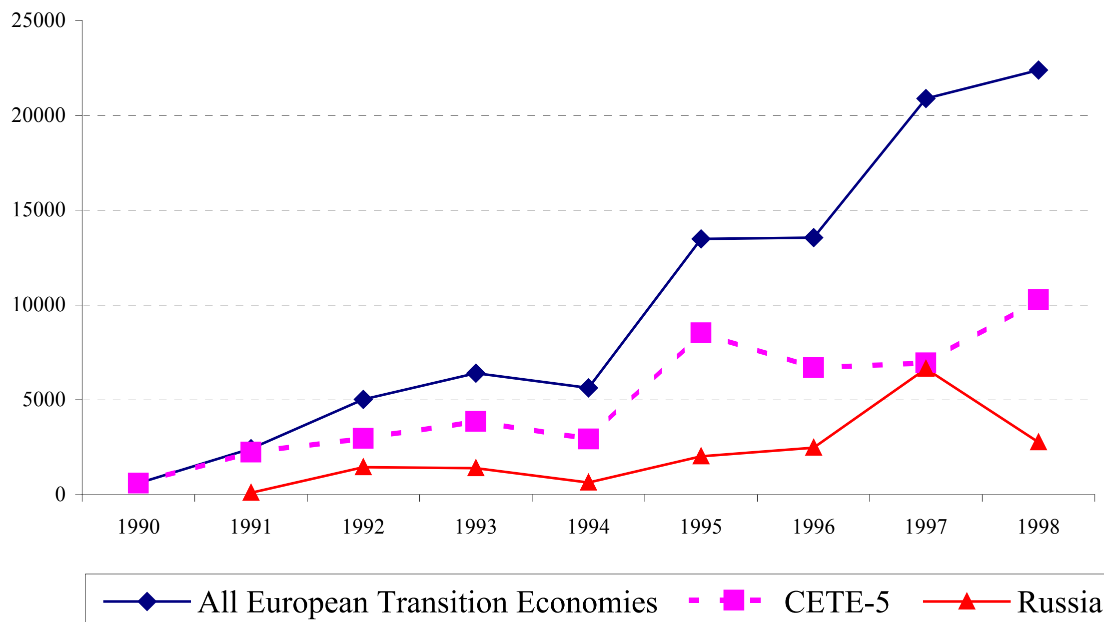
Figure 1. Capital Flows into Transition Economies (1993-1998) US $ Per Capita



Source: UN/ECE, 2000 (See Table 1).

Figure 2. Inflows of FDI in ECE Transition Economies, 1990-1998 ($US millions)



Source: UN/ECE, 2000 and author's calculations.

Table 1. Net Capital Flows Into Eastern European Transition economies, by Type and Flow (1993-1998)

	Trade Flows 1993-98			Private Flows (per GDP)[a]	
	US $ (billions)	Per capita	Per GDP[a]	Total	Long-term
Albania	0.9	298	111	26	39
Bosnia and Herzegovina[c]	3.8	1082			
Bulgaria	2.5	292	62	47	-1
Croatia	7.6	1686	250	159	137
Czech Republic	22.7	2208	169	154	112
Hungary	20.5	2017	204	207	160
Poland	32.4	837	112	80	61
Romania	12.4	550	87	44	42
Slovakia	8.3	1547	163	148	73
Slovenia	2.2	1094	78	108	108
FYR Macedonia	1.5	748	175	20	5
Estonia	2.4	1646	218	131	100
Latvia	1.5	595	106	109	103
Lituania	5.1	1389	223	63	55
Armenia	1.7	473	229	14	12
Azerbeijan	4	528	256	99	99
Belarus	3.8	366	62	14	10
Georgia	1.8	348	105	6	6
Kazakhstan	6.1	372	77	76	71
Kyrgyzstan	1.5	325	141	26	23
Republic Of Moldova	1.1	252	113	43	40
Russian Federation	-40.8	-277	-40	21	17
Tajikistan	0.8	129	136	29	23
Turkmenistan	1.7	392	148	156	110
Ukraine	8	156	47	23	17
Uzbekistan	2.9	124	59	39	30
Total Above[b]	91.9	231	39	56	43
Russian Federation[d]	2.6	18	3	21	17

Source: UN/ECE, 2000 No. 1, pp. 149.

Note: Total flows are the sum of the capital and financial accounts and errors and omissions as reported in the national balance of payments statistics. Total private flows include FDI, long-term private guaranteed and non-guaranteed debt, short-term debt and portfolio equity flows.

[a] Per $100 GDP in 1997. These are Purchasing Power Parity (PPP) estimates of GDP

[b] Excluding Bosnia and Herzegovina

[c] 1994-1998

[d] Excluding errors and omissions from total flows

Table 2. Net Capital Flows into the Five Central European Transition Economies (CETE-5) and Russia, by type of finance, 1993-1998 (per cent of GDP)

	CETE-5		Russian Federation	
	1993-95	1996-98	1993-95	1996-98
Capital transfers[a]	1.8	0.1	0.2	-0.1
FDI	2.3	2.6	0.4	0.7
Long-term debt	0.9	0.3	-0.7	-0.3
External bonds	1.4	0.4	-0.1	1.5
IMF	-0.5	-0.1	1.1	0.9
Short -term funds	1.3	2.3	-2	-2.4
Portfolio investment[b]	0.6	0.6	-0.2	4
Short -term flows	0.3	0.9	0.1	-3.9
Errors and omissions	0.4	0.8	-1.9	-2.5
Total net flows	6.2	5.2	-2.1	-2.1
Total flows (US$ bn)	40.5	45.3	-16.5	-24.3

Source: UN/ECE, 2000 No. 1, pp. 151.

[a] Includes debt write-offs under debt restructuring agreements, especially important for Poland during 1993-1995.

[b] Excludes external bonds

Table 3. External Debt and Debt Indicators for Economies in Transition, 1990-1998, ($US billions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Russia/FSU (before 1992)									
Total external debt (TED)	59.8	67.8	78.4	111.7	121.5	120.3	124.9	126	183.6
Long term debt	48	55.2	65.2	103.4	111.6	110	112.8	120	165.2
Concessional	0	0.7	1	2.1	2.5	2.5	2.5	2.3	2.3
Bilateral	0	0.7	1	2.1	2.5	2.5	2.5	2.3	2.3
Multilateral	0	0	0	0	0	0	0	0	0
Official non-concessional	**5.9**	**8.8**	**10.8**	**54.6**	**64.5**	**64.3**	**72.9**	**74.2**	**85.3**
Bilateral	5.5	8.4	9.3	50.8	58.8	52.7	57.6	55.7	59.4
Multilateral	0.4	0.4	0.5	1.3	1.5	2	2.8	5.3	6.6
IMF credit	**0**	**0**	**1**	**2.5**	**4.2**	**9.6**	**12.5**	**13.2**	**19.3**
World Bank credit					**0.6**	**1.5**	**2.6**	**5.3**	**6.4**
Private creditors	**42.1**	**45.6**	**53.4**	**46.7**	**44.6**	**43.2**	**37.4**	**43.5**	**77.6**
of which									
Bonds[a]	1.9	1.9	1.7	1.6	1.8	1.1	1.1	4.6	16
Commercial banks[a]	17.9	16.8	18.5	15.9	16.4	16.7	15.6	29.3	29.3
Short-term debt	11.8	12.6	13.1	8.3	9.9	10.4	12.1	6.1	18.4
Memorandum Item									
IMF credits/TED (in per cent)	0	0.0	1.3	2.2	3.5	8.0	10.0	10.5	10.5
CEE									
Total external debt	109.3	117.7	113	116.8	121.5	138.3	139.8	141	156.3
Long term debt	91.1	102	99.9	104.1	109.5	120.8	121.7	116.5	127.8
Concessional	5.2	4.9	14.3	13.6	12.1	13.6	12.8	10.5	11.5
Bilateral	5.1	4.7	14.2	13.4	11.9	13.3	12.5	10.1	11
Multilateral	0.1	0.2	0.1	0.2	0.2	0.3	0.3	0.4	0.5
Official non-concessional	**36.6**	**47.6**	**38.6**	**39.6**	**41.9**	**42.3**	**40**	**37**	**36.5**
Bilateral	28.7	34.7	24.3	24.9	25.1	26.9	25.9	23.5	23.5
Multilateral	6.6	7.9	8.9	9.3	11.1	12.3	11.9	11	10.6
IMF credit	**1.3**	**5**	**5.4**	**5.4**	**5.7**	**3.1**	**2.2**	**2.5**	**2.4**
Private creditors	**49.3**	**49.5**	**47**	**50.9**	**55.5**	**64.9**	**68.9**	**69**	**79.8**
of which									
Bonds[a]	5	6.7	7.4	11.7	28.1	30.9	29.1	26.1	28.3
Commercial banks[a]	34.7	33.6	30.8	29.1	14.4	16.6	20.2	21.1	21.4
Short-term debt	18.2	15.7	13.1	12.7	12	17.5	18.1	24.5	28.5
Debt Indicators (percentage)									
	1990	1991	1992	1993	1994	1995	1996	1997	1998
Ratio of external debt to GNP									
Russia/FSU (before 1992)	10.3	12.5	18.6	29.1	37.9	35.3	29.6	28.8	69.4
CEE	38.8	65.1	58.2	50.9	47.3	43.5	41.7	44.4	44.2
Ratio of external debt to exports									
Russia/FSU (before 1992)	73.8	124.8	143	169.8	156.7	129.5	119.3	121.4	207.1
CEE	179.4	214.9	165.5	141	121.8	103.3	98.3	100.2	103
Ratio of debt service to exports									
Russia/FSU (before 1992)	14.6	42.8	2.5	3.3	4.4	6.4	6.7	6.4	12.1
CEE	20.9	19.5	16.8	11.7	14.4	13.6	13.5	14.1	15.9

Source: UN 2000; IMF, 1999

[a] Government or government-guaranteed debt only

Table 4. Net IMF Lending to Transition Economies, By Facility, 1990-98, ($US billions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Regular facilities	0.1	2	1.9	0.1	0.2	4.4	3.8	2.2	3.1
Repayment terms									
3-5 years (Credit tranche)	0.4	1	1.8	0.1	0.5	4.9	1.2	0	-0.8
3.5-7 years (SFF/EAP)	-0.3	0.2	0	0	-0.3	0	0	0	0
4-10 years (EFF)		0.8	0.1	0	0	-0.5	2.6	2.2	3.9
Concessional facilities (ESAF)						0.1	0.2	0.2	0.2
Additional facilities									
Compensatory financing	0	1.5	-0.1	0	-0.7	-0.6	-0.2	0.1	2.9
STF				2	2.8	0.9	0	0	-0.5
Total	0.1	3.5	1.8	2.1	2.3	4.7	3.6	2.3	5.5
Memo items:									
Selected characteristics of higher conditionality lending agreements									
Number initiated during year	3	5	6	9	8	12	12	7	6
Average length (months)	12	12	12	18	18	13	28	21	32
Total amount commited	1.6	4.9	1.5	1.6	2.1	9.2	13.2	2.1	3.4

Source: UN, 2000.

Table 5. Foreign Currency Disbursements to the Russian Federal Government, 1994-98

($US millions)

Creditors	1994	1995	1996	1997	1998	Total (1994-98)
Multilateral	1,931	6,319	4,940	4,777	7,519	25,486
IMF[a]	1,544	5,450	3,758	2,019	6,240	19,011
World Bank	280	826	1,107	2,699	1,219	6,131
EBRD	6	43	75	59	60	243
Other	101	0	0	0	0	101
Bilateral	2,057	1,554	3,280	1,375	2,110	10,376
Tied	2,057	1,554	1,090	1,375	2,110	8,186
Untied	0	0	2,190	0	0	2,190
Bonds[b]	0	0	1,000	3,549	9,615	14,164
Suppliers/other commercial	507	93	0	1,136	156	1,892
Total	4,496	7,966	9,220	10,836	19,399	51,918
(excludng IMF)	2,952	2,515	5,462	8,817	13,160	32,907
Memorandum Items						
GNP	320,580	391,784	472,297	489,583	225,216	
Total External Debt (TED)	121,500	120,300	124,900	126,000	183,600	
IMF disbursment/GNP	0.48	1.39	0.80	0.41	2.77	
IMF disbursment/TED	1.27	4.53	3.01	1.60	3.40	
Multilateral/GNP	0.60	1.61	1.05	0.98	3.34	
Multilateral/TED	1.59	5.25	3.96	3.79	4.10	

Source: IMF, 1999, author's calculations

[a] Full amount of Fund purchases. In 1998 part of this amount was disbursed directly to the CBR.

[b] Figure for 1998 includes $3,700 of Eurobonds purchases by residents. Data on resident purchases in other years were not available.

Table 6. Multilateral Debt Relief Agreements with Official Creditors, 1990–98.

Date of Agreement	Contract cutoff date	Consolidation period for current maturities: Start date	Consolidation period for current maturities: Length (months)	Arrears included	Share of debt consolidated (percent)	Amount consolidated (mill. $US)	Repayment terms[a]: Maturity (years/ months)	Repayment terms[a]: Grace (years/ months)
2-Apr-93[b]	1-Jan-91	1-Jan-93	12	Y	100	14497	10/0	6/0
2-Jun-94	1-Jan-91	1-Jan-94	12		100	7100	15/2	2/9
3-Jun-95	1-Jan-91	1-Jan-95	12		100	6400	15/4	2/10
15-Apr-96	1-Jan-91	1-Jan-96	Stock		100	40200	21/5	2/11
6-Oct-97	1-Jan-91	1-Jan-97	N/A		N/A	32500	25	6

Sources: IBRD/The World Bank, 1999; Hishow, 2001.

Note: The figures in this table are commitment values (amounts of agreed debt relief). They should correspond to the disbursement figures (minus debt forgiveness, when applicable). All agreements shown in this table were negotiated through the Paris Club, except those indicated by asterisk, which are negotiated through the London Club.

[a] Maturity is measured here from the end of the consolidation period to the date of the final amortisation payment; the grace period is the time between the end of the consolidation period and the date of the first amortisation payment. The secretariat of the Paris Club measures the grace and maturity from the midpoint of the consolidation period.

[b] Agreement follows the deferral signed in January 1992 by the former Soviet republics.

Table 7. Financial Relief Through Restructuring and Payment deferrals, ($US billions)

Year	Debt service		Saving	Debt-service ratio (%)		Saving, percentage points
	Due	Real	Due-real	Due	Real	Due-real
1993	20.7	3.6	17.1	31.8	5.5	26.3
1994	20.2	4.6	15.6	29.8	6.8	23
1995	20.2	7.1	13.1	24.4	8.6	15.8
1996	18.1	7.1	11	20	7.8	12.1
1997	13.7	7.4	6.3	15.4	8.3	7.1
1998	13.1	7.8	5.3	17.5	10.4	7.1
1999	17.5	11	6.5	25	15.7	9.3
2000	17.5	13	4.5	23.3	17.3	6
Total	141	61.6	79.4	-	-	-

Source: Hishow, 2001.

Table 8. Rescue package in East Asia, Russia, and Brazil, July 1997- Oct. 1998 ($US billions)

	Funds pledged					Funds disbursed			
Country	IMF	Multilateral[a]	World Bank	Bilateral	Total	IMF	World Bank	Others	Total
Indonesia	11.2	10	5.5	26.1	47.3	6.8	1.3	1.4	9.5
Korea, Rep. Of	20.9	14	10	23.3	58.2	18.2	5	4	27.2
Thailand	4	2.7	1.5	10.5	17.2	3	0.8	8.9	12.7
Russia	11.2	1.5	1.5	9.9	22.6	4.5			4.5
Brazil	18	9	4.5	14.5	41.5	4.6[b]		4	8.6
Total	65.3	37.2	23	84.3	186.8	37.1	7.1	18.3	62.5

Source: IBRD/The World Bank, 1999.

[a] World Bank, Asian Development Bank, and Inter-American Bank.

[b] Package was approved in Dec. 1998. First IMF disbursement was in January 1999.

Table 9. Capital Flight (Net Errors and Omissions) in Russia, 1994-98

1994	1995	1996	1997	1998
-273	-8,751	-5,674	-8,030	-9,237

Source: IMF, 2000.

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