

Pissulla, Petra

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## CIS: A New Challenge for the IMF

There is no doubt that since the second half of the seventies the experience of Western banks and governments with lending to the state-trading nations of Eastern Europe has been poor. Loans trickled away in the morass of socialist economies without bettering their international efficiency or competitiveness. At the beginning of the eighties, Western creditors began to make further funding to Poland and Hungary contingent on membership of the International Monetary Fund so as to be sure of a closer control over the debtor countries by means of the economic conditions the Fund attaches to its loans.

For its part, the Fund's experience with its structural adjustment programme for Romania, its only East European member at that time, could not have been worse, because the Fund's indirect instruments of monetary, fiscal and exchange-rate policy can only be effective in market economies. The Fund accordingly ties its lending to the five East European countries that have meanwhile become members not only to the usual adjustment programmes to stabilize the overall economy, but also to their consistent implementation of economic reforms.

For Western creditors, cooperation between the Fund and Eastern Europe would appear to furnish a sort of guarantee for faster and successful economic reforms. Since these have turned out to be far more costly and far slower than expected, potential lenders in the Western industrialized countries are beginning to have visions of the proverbial bottomless pit – a fear fuelled by the looming reform costs for the successor states to the USSR. Banks and governments stress the need to flank the reform processes with funding by the international community, but at the same time they want to compel the IMF to shoulder greater responsibility. Like a rabbit hypnotized by a snake, Western banks and other creditors are staring at the Fund as the spiritus rector of system transformation.

But what can the Fund realistically actually do in future especially for the successor states to the USSR? Without their membership, the IMF can do little, at least as far as financial assistance is concerned. Meanwhile, all 15 former Soviet republics (including the Baltic states) have applied for membership of the Fund, which examines each application individually on its merits. Each republic must meet the membership requirements, i. e. must amongst other things divulge to the IMF all documents and information relating to economic development and policy as well as the necessary statistics and it must above all lay the foundation for a successful implementation of economic reforms. Even though all the Western industrialized nations now advocate rapid IMF membership for the Commonwealth of Independent States (CIS) and even though the IMF seems to be very prompt in dealing with the applications, it is unlikely that all the applicant republics will actually be granted membership this year. It would also be surprising if Russia were to join already next month, as expected by its Central Bank President. For the interim period, the IMF is preparing a "shadow programme" especially for Russia, modelled on the "Special Association" previously concluded with the USSR, which is to expedite economic reforms, but which will at present have to manage without financial Fund support.

Even after successful accession to the Fund, however, the short-term loans granted by the Fund for the domestic and external stabilization of the economies will remain within narrow bounds. With a probable quota for the entire CIS of 4.25% or some SDR 3.8 billion as presently under discussion in the G7, the best that the ex-Soviet republics could hope for via standby or extended arrangements would be an annual credit of 110% of the quota

over three years. In three years then, the CIS republics could avail themselves of some SDR 12.5 billion (approx. US\$ 17 billion) at most. Assuming the Russian Republic accounts for some 60% of aggregate CIS output, Russia alone could be accorded about US\$ 3.3 billion a year, some US\$ 10 billion over the three-year period – much less than estimated by the Harvard programme as the West's necessary financial contribution to stabilize the Russian economy (some US\$ 18 billion a year for 5 years). Even in the case that the Fund's overdue Ninth General Review of Quotas increased the potential maximum amount of IMF credits to the CIS by 50% to some US\$ 7.8 billion and to Russia to almost US\$ 5 billion per annum respectively, the IMF could still cover only a limited part of the expected stabilization costs. After all it must also be remembered that the Fund rarely draws on all the credit available.

Therefore far more important for the CIS than direct lending by the Fund is the contingent propensity of the other Western creditors to grant loans on the one hand and on the other the acquisition of the Fund's know-how in transforming economic systems so as to bring the reform programmes on the right course. This know-how of the Fund is of particular importance when it is accepted that the West most likely will neither be willing nor able to finance the transformation processes of the former Soviet republics up to the estimated necessary amount, but will try to provide "help for self-help" by technical assistance and to foster market-oriented behaviour on the macro as well as on the micro level of the economies. However, the CIS republics – not least Russia – pose the IMF with an almost impossible task.

Yeltsin has drawn up a far-reaching reform plan for the Russian Republic, but so far all that has actually been effected by Deputy Prime Minister Gaidar is the abolition of price fixing. Virtually none of the overall institutional and legal mechanisms needed for a transformation of the system are in place. Russia is still a long way from achieving the planned inner convertibility of the rouble, let alone full convertibility – viewed by the Fund as essential preconditions for a successful transformation process. There is still a split rate of exchange. Instead of aiming at a uniform rate of exchange for the sake of convertibility, a fourth rate was even added in February this year to the three different rates existing so far – the market rate (at present some 110 roubles/dollar), the so-called special commercial rate (55 roubles/dollar) and the auction rate (some 210 roubles/dollar) – which is to be applied "to a number of foreign trade transactions" and has been fixed at 5.40 roubles/dollar.

Doing away with fixed prices with unchanged monopolistic structures on the supply side has so far done nothing but quadruple the cost of living. The population is already shocked before the IMF has even started work. The measures demanded in the IMF programmes, i.e. the restrictive monetary and fiscal policy to contain inflation, the rolling back of subsidies and the above-mentioned standardization and devaluation of the rouble exchange rate for the sake of achieving external equilibrium will – as in Eastern Europe – lead to further massive setbacks in the Russian economy, which has already been in recession for several years. Of necessity, this will for the time being be attended by a further decline in the standard of living, exacerbating the danger of social unrest.

It would appear far from certain that the population is willing to accept the hardships inevitably associated with the Fund's adjustment programmes. But not only the population may become less and less willing to accept Western reform concepts. A growing aversion to Western advisers can also already be observed amongst Russian governmental advisers and academics.

Western creditors, on the other hand, place high hopes in the Fund's disciplinary measures as part of its adjustment programmes – but will these be able to prevent the governments of Russia and the other CIS republics in their almost desperate predicament from placating the population by taking populist, though economically dubious, compensatory action? Under the present circumstances, the IMF cannot perform stabilization miracles either, but however painful a thorough transformation of the system may be, there is no alternative.

*Petra Pissulla*