Country Study
Russia

Nikola Spatafora

The Russian economy has undergone dramatic, sharp swings in the past decade. Output collapsed at the start of transition in 1991 and, while signs of recovery emerged in 1997, they were quashed by the August 1998 default and the ensuing financial crisis. During 1999 and 2000, a sharply depreciated real exchange rate and booming world prices for fuels (a key export) led to extremely high growth rates and unprecedented current account surpluses. Future growth prospects, however, will be closely tied to progress in key structural policy areas. Against this background, recent IMF research on Russia has focused on the policies needed to sustain rapid growth. This article summarizes this research, including some especially relevant cross-country studies dealing with the Baltics, Russia, and other countries of the former Soviet Union (BRO).

IMF involvement in Russia has centered on supporting the transition to a market economy through the adoption of appropriate macroeconomic and structural policies, and the creation of necessary institutions. While the IMF has concentrated on those areas critical to macroeconomic stability, sustained growth will remain elusive in the absence of continued, broadbased reforms. As a result, IMF staff research has dealt with a wide range of topics including: sources of output growth, strengthening public finances, developing financial markets and monetary-policy instruments, and key external-sector issues such as contagion and capital flight.

Focusing on output, several IMF studies, using a growth-accounting framework, found that the 40 percent contraction during 1992–97 reflected both falling investment and employment, and sharp declines in productivity, with productivity levels closely related to the pace of enterprise restructuring.[1] Survey data from the 1998 crisis suggest the adverse impact on income and consumption was mitigated through mechanisms such as intrafamily transfers and subsistence farming.[2]

For much of the 1990s, weak growth was accompanied by increasing nonmonetary transactions, including barter and offsets. Such transactions reflected firm-level liquidity problems, including arrears in particular, but also the government's use of tax and utility offsets to channel implicit subsidies to enterprises. The government's inability to change the culture of nonpayment (including its own expenditure policies) aggravated arrears in the utilities sector and inhibited enterprise restructuring.[3] A key to solving this problem lay in the improvement of the government's own finances, including the cessation of federal government nonmonetary operations such as arrears and offsets.[4]

Other research on growth includes a discussion in Buckberg (1997) of the importance of broad structural reforms to medium-term growth, focusing on the tax system, judicial system, capital-market infrastructure, and red tape.[5] Roaf (2000) documented the extent of corruption, its implications for growth, and necessary reforms, while Alexander and others (2000) discussed the banking crisis, the results of banking-sector restructuring efforts to date, and the remaining reform agenda.[6] Meanwhile, survey data suggests that whether individuals will indeed support continued reforms depends on personal circumstances, such as their economic well-being, education, and age, but also regional circumstances including the prevailing wage-arrears and crime levels.[7]

A second focus of IMF research has been the reorientation of public finances. Studies have analyzed the post-transition changes in revenues, as well as the current structure of and key issues in tax policy and tax administration.[8] For instance, revenues from the energy sector were found to be half the level predicted using international comparisons, reflecting an inappropriate tax structure, weak tax administration, infrastructure constraints on oil exports, and low statutory tax rates on gas.[9] As regards expenditure, studies have addressed: the appropriateness of the expenditure level and composition; weaknesses in the social-welfare system, including pensions; and the adequacy of fiscal management, including how to improve the budget process and eliminate noncash government transactions.[10] On this latter topic, the IMF devoted significant technical assistance to setting up treasury systems within the finance ministry to manage government financial resources, and, in particular, to provide payment processing, accounting, reporting, and financial management services for central government; Potter & Diamond (2000) describe the experience.[11] There has also been work on fiscal decentralization.[12]

A third important area of IMF work has involved setting up payments systems and developing monetary-policy instruments. Knight and others (1999) summarize the technical assistance provided to BRO central banks.[13] During 1992–95, Russian monetary policy was conducted entirely through direct credit flows from the Central Bank of Russia (CBR) to the budget, enterprises, and other ruble-area republics. Over time, in a major achievement, indirect monetary instruments started playing a key role.[14] Lybek (1999) found that in the BRO, greater central bank autonomy, if accompanied by accountability, was associated with lower inflation, higher growth, and greater reform of central bank operations.[15] However, the CBR still enjoyed relatively little autonomy. De Broeck and others (1997) analyzed changes in money velocity in the BRO and assessed likely future developments, including the pace of remonetization.[16]

Research on the external sector has focused on issues of sustainability, contagion, and capital flight. McGettigan (2000) discussed the evolution of BRO current accounts and the usefulness of key indicators of external sustainability.[17] Two precrisis studies warned that the rapidly growing external debt of many BRO, while useful in financing transition, could also help maintain wasteful expenditures or postpone needed reforms.[18] This was especially dangerous because rising debt stocks increased vulnerability to changes in perceived creditworthiness. Countries should therefore press ahead with structural reforms.

After the 1998 crisis, two studies examined its links with other emerging-market crises. The idea of "contagion" was broadly supported. However, it is unclear whether this reflected foreign investors generally panicking, or international institutional investors (including common bank lenders) engaging in a compensatory liquidation of assets.[19] On capital flight, cross-country evidence suggests that it can only be curbed through a medium-term reform strategy aimed at improving governance, enhancing macroeconomic performance, and strengthening the banking system.[20] In contrast, capital controls produce costly distortions and should be phased out.

Looking ahead, ongoing IMF research on Russia continues to focus on the macroeconomic and structural policies required to underpin stable and sustained growth.

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[2]Stephanie Eble and Petya Koeva, "The Distributional Effects of Macroeconomic Crises: Microeconomic Evidence from Russia," forthcoming IMF Working Paper, 2001.

[3]Hrant Bagratian and Emine Gürgen, "Payment Arrears in the Gas and Electric Power Sectors of the Russian Federation and Ukraine," IMF Working Paper 97/162, 1997; and Simon Commander, Irina Dolinskaya, and Christian Mumssen, "Determinants of Barter in Russia: An Empirical Analysis," IMF Working Paper 00/155, 2000.

[4]Gérard Bélanger and others, "Russian Federation—Recent Economic Developments," IMF Staff Country Report 99/100, Annex II, 1999.

[5]Elaine Buckberg, "Legal and Institutional Obstacles to Growth and Business in Russia," IMF Paper on Policy Analysis and Assessment 97/8, 1997.

[6]James Roaf, 2000, "Corruption in Russia"; and William Alexander, David Hoelscher, and Michael Fuchs, 2000, "Banking System Restructuring in Russia," available via the Internet at www.imf.org/external/pubs/ft/seminar/2000/invest.

[7]Stephanie Eble and Petya Koeva, "What Determines Individual Preferences Over Market Reform? Microeconomic Evidence from Russia," forthcoming IMF Working Paper, 2001.

[8]Augusto Lopez-Claros and Sergei Alexashenko, *Fiscal Policy Issues During the Transition in Russia*, IMF Occasional Paper No. 155, 1998; Liam Ebrill and Oleh Havrylyshyn, *Tax Reform in the BRO*, IMF Occasional Paper No. 182, 1999; Anderson and others, "Fiscal Adjustment after the Crisis," IMF Staff Country Report 00/150 Annex II, 2001; Victoria Summers, "Tax Policy for Russia," 2000; and Richard Highfield and Katherine Baer, "Tax Administration for Russia," 2000. The last two references are available via the Internet at www.imf.org/external/pubs/ft/seminar/2000/invest.

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[10]Lopez-Claros and Alexashenko, 1998; Marta Castello-Branco, "Pension Reform in the BRO," IMF Working Paper 98/11, 1998; and Jack Diamond, "Public Expenditure Management," 2000, available via the Internet at www.imf.org/external/pubs/ft/seminar/2000/invest.

[11]Barry Potter and Jack Diamond, "Setting Up Treasuries in the BRO: An Assessment of IMF Technical Assistance," IMF Occasional Paper No. 198, 2000.

[12]Era Dabla-Norris, Jorge Martinez-Vasquez, and John Norregaard, "Fiscal Decentralization in Russia: Economic Performance and Reform Issues," 2000, available via the Internet at www.imf.org/external/pubs/ft/seminar/2000/invest.

[13]Malcolm Knight, Arne Petersen, and Robert Price, eds., *Transforming Financial Systems in the BRO* (Washington: International Monetary Fund, 1999).

[14]Tomaás Baliño, "Evolution of Monetary Policy Instruments in Russia," IMF Working Paper 97/180, 1997.

[15]Tonny Lybek, "Central Bank Autonomy, and Inflation and Output Performance in the BRO, 1995–97," IMF Working Paper 99/4, 1999.

[16]Mark de Broeck, Kornélia Krajnyák, and Henri Lorie, "Explaining and Forecasting the Velocity of Money in Transition Economies: With Special Reference to the BRO," IMF Working Paper 97/108, 1997.

[17]Donal McGettigan, *Current Account and External Sustainability in the BRO,* IMF Occasional Paper No. 189, 2000.

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