Russia and the IMF

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Introduction

The subject of this paper may seem to have been discussed too much in the past and it might be assumed that people would not be interested in such matters any more. However, I do not think that this issue has been studied satisfactorily. I would like to emphasize two problems in the discussions of the last ten years. The first problem is that we do not know what the IMF demanded from Russia in detail. The discussions have been conducted around vague images of the so-called "Washington consensus." The second problem is that the IMF has been criticized in a confusing way. In fact there have been two directions of criticisms of the IMF. On the one hand, the IMF has been criticized for compelling Russia to take monotonous neo-liberal measures without considering the specific historical and social features of Russia. On the other hand, it is criticized for failing to pursue the consistent "right" liberal policies under the political pressure of Russia.[1] Curiously both types of criticisms are sometimes unconsciously employed at the same time. These are the problems for which we have not yet reached answers.

1. Assignments of the IMF and Russia's Response

1-1. Programs and Documents

If we intend to examine the IMF's demands on Russia, we must inquire into official IMF documents such as the "Letter of Intent" of the programs and other confidential documents con-

1 One of the corollaries of the latter criticism is that a large amount of tax payments of the (American) people has been poured into the black box of Russia without any returns.

cerning the process of negotiations. However we cannot systematically obtain such documents for all the programs. We use here several documents named "(Joint) Statement (or Memorandum) of the Government of Russia and the CBR (Central Bank of Russia)" as proxy. The Statement has been published every year since 1992 and we can regard it as a pledge of the Russian government and the CBR to perform assignments that the IMF gave Russia in exchange for financial assistance.

Table 1 shows the IMF's financial assistance programs and their reference documents from 1992 through 1999. In the documents quoted in the table, there are many items of "assignments" from "price liberalization" to "pension reform." Table 2 shows that all the assignments given to Russia by the IMF can be divided into three groups: liberalization, stabilization and structural reforms. Michel Camdessus, managing director of the IMF at that time, referred to these three elements as "components of a policy strategy for the transition to a market economy" (Camdessus, 1994).[2] Therefore the IMF's demands on Russia matched the general policy line of that institution.

1-2. Three Stages of the Reform: Liberalization, Stabilization and Structural Reforms

By examining the contents of the statements or memoranda, we realize that the three groups of the assignments had been touched on at the same time from the beginning. For example, the Memorandum for the first program of 1992 referred to all the items in the liberalization group and included several items in the stabilization and structural reform groups. We can consider this as an apparent expression of the so-called "big-bang" approach of the IMF. Camdessus said in the above-mentioned statement, "First, and most important, the most appropriate course of action is to adopt a bold strategy. Many countries, including countries of the former Soviet Union, have by now proven the feasibility of implementing policies of rapid liberalization, stabilization and structural reform...

2 Camdessus's words are quoted from the html document and therefore the pages cannot be identified.

Table 1. IMF Loans to Russia

program	approval date	expiry date	amount approved	amount drawn	reference document			
			millions of US$		Document No.	name of document	source that the author used	formal date of the document
SBA(1)	Aug. 5, 1992	Jan. 4, 1993	1049.7	1049.7	1	Memorandum on economic policy of the Russian Federation	*Ekonomika i zhizn'*, No.10, 1992, p.4	Mar. 1992
STF(2)	Jun. 30, 1993		1574.3	1573.3	2	Statement on economic policy of the Russian government and the CBR	*Rossiiskie vesti*, 1 Jun. 1993, p.7	Jun. 1993
STF	Apr. 20, 1994		1574.3	1574.3	3	Memorandum on economic policy of the Russian Federation	*Interfax*, No.71, 1994	Apr. 1994
SBA	Apr. 11, 1995	Mar. 26, 1996	6411.4	6411.4	4	Statement of the Russian government and the CBR on medium-term strategy and economic policy for 1995	*Den'gi i kredit*, No.3, 1995, pp.3-15	Mar.1995
EFF(3), (4)	Mar. 26, 1996	Mar. 26, 1999	18990.4	8310.9	5	Statement of the Russian government and the CBR on medium-term strategy and economic policy for 1996	*Den'gi i kredit*, No.3, 1996, pp.3-19	Feb. 1996
					6	Statement of the Russian government and the CBR on medium-term strategy and economic policy for 1997	*Den'gi i kredit*, No.7, 1997, pp.3-12	Jul. 1997
					7	Statement of the Russian government and the CBR on economic and structural policy for 1998	*Vedomstvennoe prilozhenie Rossiiskoi gazety*, 16 May 1998, pp.4-5	May 1998
					8	Statement of the Russian government and the CBR on policy for economic and financial stability	*Vedomstvennoe prilozhenie Rossiiskoi gazety*, 22 Aug. 1998, pp.4-5	Jul. 1998
SBA	Jul.28, 1999	Dec. 27, 2000	4529.3	647.0	9	Statement of the Russian government and the CBR on economic policy for 1999	*Den'gi i kredit*, No.8, 1999, pp.3-15	Jul. 1999

Notes:
(1) = Stand-By Arrangement
(2) = Systemic Transformation Facility. This program was suspended in the fall of 1993, and re-started in the spring of 1994. I could not find sources that identify the expiry date.
(3) = Extended Fund Facility
(4) = During the program of the EFF, the IMF approved an increase of the EFF and decided to give loans of CCFF [Compensatory and Contingency Financing Facility = US$ 2.9 billion] and SRF [Supplemental Reserve Facility = US$5.9 billion] on July 20, 1998.

Sources:
IMF, 1995, p.109 [for the first three programs].
IMF, 2002, p.30 [for the latter three programs]. Though the original data were recorded in SDR, the author transferred them into US Dollars by using the annual average exchange rates published in ISF.
IMF, 1998 [for the note (4)].
On reference documents, the author made the data from the sources quoted in the table.

Table 2. "Assignments" of IMF Given to Russia

		Mar. 1992	Jun. 1993	Apr. 1994	Mar. 1995	Feb. 1996	Jul. 1997	May 1998	Jul. 1998	Jul. 1999
Liberalization	Liberalization of prices	○								
	Liberalization of trade (imports)	○		○	○	○				
	Export liberalization, export quotas, export licenses	○	○	○	○	○				
	Liberalization of currency and capital transactions	○	○							
	Tariff reduction	○		○		○		○		○
	Exchange rate regime	○	○	○	○	○	○			○
Stabilization	Inflation	○		○	○					○
	Credit extending of Central Bank, issue of money	○	○		○	○		○		○
	Net Domestic Assets				○					
	Incomes policy				○					
	Fiscal deficit		○		○		○	○		○
	Subsidy						○			
	Refinance rate	○		○	○					
	Current account	○				○				○
	International reserve			○	○		○	○	○	
Structural reform	Tax collection, budget consolidation, budgetary revenue transfer	○		○	○		○		○	
	Privatization	○				○	○			
	State procurement				○	○				
	Tax, VAT	○			○	○		○	○	○
	Monopoly, natural monopoly	○			○	○	○		○	
	Bankruptcy, bankruptcy of banks					○	○	○		
	Ownership of land					○	○			
	Pension system				○	○				
	Stock exchange				○					

Note: ○＝mention

The fact of the matter is that gradualism has not been found to be an effective presentation in any of the three major policy areas" (Camdessus, 1994). However we must note that everything cannot be done at the same time in this world. Therefore, as a matter of fact, the emphasis is to be shifted form one field of policy to another "gradually." As for the three groups of the policy assignments above, liberalization is easy to accomplish because it could be done only by lifting old restrictive legislation, whereas structural reforms need long-term mechanism design.

In April 1996, Camdessus made an address at the U.S.-Russia Business Council in which he emphasized the importance of three tasks at the beginning of the three-year IMF program for Russia (see Table 1) (Camdessus, 1996). The three tasks that Camdessus mentioned were (1) furthering deduction in inflation, (2) building up efficient institutions and effective policy tools, and (3) accelerating structural reform. He also touched on the problems of energy taxation, liberal trade regime, land registration, legal framework for full privatization, social protection programs, etc. In short, Camdessus thought that the tasks of the IMF and Russia at that time were stabilization and structural reforms with some liberalization measures (trade liberalization) not yet accomplished.

Seven months before the financial crisis of 1998, Stanley Fischer, former first deputy managing-director of the IMF, stated that the economic reform of Russia since 1992 had achieved much towards economic "normalization" and estimated that the "major policy challenges" still not achieved were fiscal and structural reforms (Fischer, 1998). The former includes tax reform, which would lead to a comprehensive Tax Code, improvement of tax collection, and strengthening of expenditure management and control, etc. The latter consists of transparent privatization, restructuring and pricing of natural monopolies, urban land and real estate reform, and continuing progress to open the economy to foreign trade and investment, etc. In this case Fischer talked much about structural reforms and little about liberalization.

The leaders of the IMF admitted the fact that the economic reform in Russia supported by the IMF has been proceeding from liberalization to stabilization and then to structural reforms. It is meaningless to criticize the IMF for forcing all the assignments on Russia at the same time because the IMF showed "bold pragmatism" (Camdessus, 1994) at the functional level of policies. Anyway, whether a series of reform policies is a "big-bang" or not depends on time scale. If we compare Russia with Hungary, where a radical economic reform had begun in 1968, Russia's reform is the big-bang approach. The important thing here is that the economic reform in Russia has its own stages although it can be estimated as "big-bang" in a comparative perspective.

1-3. Special Assignments to Russia

The IMF is often criticized for compelling its member countries to take the same policy regardless of specific conditions in each country. Is this the case with Russia? The above-mentioned fact that the reform measures are divided into three stages is not specific to Russia but common to the general line of the IMF. We must search for other features in the assignments expressed in Table 2. By examining the assignments, we can realize that there are several fields of items specific to Russia in the table.

One is the field concerning "export liberalization, export quota and export license." Usually the liberal oriented development strategy recommends "import" liberalization. Why "export"? This is connected with the fact that Russia is one of the biggest oil and gas exporting countries. The prices of oil and gas in Russia were extremely cheap in the world market even after the collapse of the USSR and the difference of the price had to be offset somehow. For example, the heavy fuel oil price of the Russian Federation[3] was only 12.88%[4] of that at Rotterdam[5] in 1992 (Considine and Kerr, 2002, p. 272). Therefore export duties on Russian oil and gas are justified to stabilize the world energy market. However, we must consider the other side of the situation. From a liberalist point of view, the export duties could distort the market structure of energy-related-goods at home and

3 Ex-refinery price.
4 Calculated by using Moscow Inter-Bank Auction Exchange Rates.
5 Spot market price (f.o.b.).

abroad and prevent oil and gas companies from developing effectively. Therefore the IMF had to take a subtle position on the problems of export liberalization and "appropriate" export duties in Russia.

The field of "monopoly, natural monopoly" in the group of "structural reforms" of Table 2 is also interesting. Monopoly is the problem that the IMF is always concerned with, because the dissolution of monopoly is a starting point of making a competitive market economy. However, the "natural monopoly" here means the oil and gas industry and other natural resource industries and it has special significance in Russia. Therefore this item is an assignment of the IMF special to Russia. It is also interesting because the price and trade policy of the oil and gas industry is closely connected with access to pipelines, which are also monopolized. Again, this is not a problem which can be solved from the general policy line of the IMF.

Thirdly, the field of "tax collection, budget consolidation and budgetary revenue transfer" has a special meaning to Russia. Russia is a federal country and the structure of tax collecting and budget spending among federal units is complicated. Therefore the IMF's concern with this field is special to Russia. Furthermore, the field bears an interesting relation to the oil and gas industry because the bulk of the tax revenue comes from it.

Table 3 shows how the IMF dealt with these items in the programs from 1992 through 1999. As for the field of "export liberalization, export quota and export license," it is interesting to note that the export duties were planned at the beginning of the new Russia to absorb the difference between domestic and foreign prices. This is related to the fact that oil, gas and their products were exempted from price liberalization in 1992, leaving their prices extremely low compared to the international standard. However Table 3 reveals that the IMF's concern was more with the problems of export quotas and centralized exports that lay at the center of the complicated structure of Russia's natural resource exports. This shows that the IMF had been eager to compel the Russian government to get rid of such a privileged system.

Table 3. Special Assignments to Russia

	Mar. 1992: (1*)	Jun. 1993: (2)	Apr. 1994: (3)	Mar. 1995: (4)	Feb. 1996: (5)
Export liberalization, export quota, export license	To introduce export duties to absorb the difference between domestic and foreign prices.	To phase out export quotas, not to expand centralized exports in 1993, to curtail centralized exports to one third of the level in 1993.	To abolish export quotas on all goods except crude oil, diesel oil, electric power, nickel, copper, aluminum on May 15. To abolish quotas on exceptional goods at the end of 1994. Export duties will be slashed by December.	To abolish export quotas except in the case of international agreements. To apply centralized exports only to the export of arms and defense-related equipment. Export duties will be only measures to regulate exports.	To abolish all export duties except export duty on oil from April 1. Export duty on oil will be reduced by 50% from April 1 and completely abolished from July 1.
Monopoly, natural monopoly	To abolish price regulations set by monopolist enterprises and withdrawal of the ceiling of earning rate, except in the field of natural monopoly.	(No mention)	(No mention)	To introduce a transparent, market-based system of non-discriminatory access to oil pipelines, effective from April 1. To monitor domestic oil prices.	To enforce anti-monopoly law. Plenipotentiary organs will be established to regulate natural monopolies.
Tax collection, budget consolidation, budgetary revenue transfer	To introduce additional tax on oil and natural gas after the liberalization of their prices.	To make a plan to receive additional revenue from tax on energy related goods.	To consolidate all operations with foreign loans, precious metals and non-budgetary funds into a single federal budget.	To consolidate all transactions related to foreign exchange, precious metals, and gems into the federal budget. Transition to the execution of the federal budget through the Treasury (Kaznacheistvo) by the end of 1995. Average monthly excise rate for oil will be indexed according to Ruble/US Dollar rates.	To increase budgetary revenue by imposing excise on oil, light oil, electric energy and natural gas. To strengthen inter-budgetary transfer system, to reduce inequality of budgetary spending among regions and in each region.

Table 3. Special Assignments to Russia (continued)

	Jul. 1997: (6)	May 1998: (7)	Jul. 1998: (8)	Jul. 1999 : (9)
Export liberalization, export quota, export license	To abolish all the decisions concerning export of oil and oil products for governmental needs on March 16. From January 1, 1998, oil export by governmental programs will be discontinued.	(No mention)	(No mention)	To introduce temporary export duties on oil, petrochemicals, timber, ferrous and non-ferrous metals and other commodities to increase governmental revenue.
Monopoly, natural monopoly	To publish orders on structural reform and new principles for price formation in the sphere of electric energy, the gas industry and railway transportation. Open auction for access to oil pipelines will be organized.	To enforce compulsory periodical reports of monopolized companies, including Gazprom. To curtail subsidies to the gas industry.	To take several measures to cut and then extinguish non-monetary payments in the field of natural monopoly. Accounting reports of Gazprom, EES Rossii, Transneft' will be audited by independent, certificated auditors. To reorganize Gazprom's regional enterprises for gas transportation.	To make efforts to reduce tax arrears in the energy sector including Gazprom. Not to permit access to pipelines for oil companies which have federal tax arrears.
Tax collection, budget consolidation, budgetary revenue transfer	To take measures to collect unpaid tax from 15 big companies. To raise excise on oil. By April 30, a new law project on interrelations among federal units and independent regional organs will be submitted to the Duma. A plan for the system of inter-budgetary transfer of tax revenue will be prepared by July 30.	To take strong measures against companies having much unpaid tax (including organization of special tax inspection).	To take decisive measures against big tax payers. To transfer all federal institutions into the system of budget enforcement through federal treasury organs. To enlarge the tax base of excise on gas. To define conditions for regional subjects to get transfers, loans and grants from federal funds.	To ensure the transfer of federal taxes collected in closed territories to the federal budget. To restore the implementation of the gas excise tax on an accrual basis.

Note:* = Document No. (see Table 1).

As for the field of "monopoly, natural monopoly," the dissolution of monopoly in Russia has been, of course, the main concern of the IMF, though any significant dissolution has not taken place until recently. The IMF was, if anything, interested in the problem of oil and gas price formation. Here we must pay special attention to the above-mentioned fact that the domestic prices of oil and gas were cheaper than the international standard even under the monopolistic structure. Therefore the IMF and the Russian government needed a special attitude toward the monopolies of Russia. This was related to the problems of domestic and export tax collecting. Table 3 further shows that the liberal system of access to oil pipelines also occupied the attention of the IMF.

Concerning the field of "Tax collection, budget consolidation, revenue transfers", most of the issues here are the problems of how to collect taxes (and unpaid taxes) from the oil and gas industry and how to re-distribute them among Federal units in Russia.[6] Here we must note that there are three grounds for the policy recommended by the IMF. One is to raise tax collection in order to ease the budgetary deficit. The second is to normalize the price structure of natural resources at home and in international transactions. The third is to reduce inequality among federal units in collecting taxes and spending revenues.

In short, the IMF had been very conscious of the specific conditions to Russia and endeavored to cope with them. It is unfair to criticize the IMF for neglecting Russia's special economic conditions in its programs. If so, we must investigate how the Russian government responded to the assignments offered by the IMF.

1-4. How Did Russia Respond to the Assignments?

Table 4 shows the policies that the Russian government carried out in the three fields of the assignments. By comparing

6 The budget consolidation means the unification of special purpose funds such as "road users' fund" and "pension fund" into the federal budget. Even such problems have an important relevance to the oil and gas industry, because crude oil producers were required to pay contributions for these funds (Considine & Kerr, 2002, pp. 259-261).

Table 4 with Table 3, we can see the relationship between Russia and the IMF in a very concrete way.

At first, it is important to note that the export duties, which were recommended by the program of 1992, immediately began to be reduced during the first year of the reform, but it is also interesting that they did not disappear until July 1996, although the IMF's programs demanded their reduction and abolishment in the 1995 program. Table 4 reveals that the export duties on goods other than oil and gas had been decreasing gradually, whereas export duties on oil and gas (especially oil) survived long through 1996. This may be connected with the government's needs for tax revenue that can be most easily attained from the oil and gas industry. That is why the export duties were re-introduced in 1999 after the currency crisis of 1998.

The second problem evoked from the comparison of the two tables is how to understand the policy on quota and license. We see curious notions like "strategically important goods," "centralized exports" and "special exporter status" in Table 4. These are the words to explain the system in which some exporters are given a license to deal with "strategically important goods" (for example, oil and gas) and get quotas to export their products in a centralized administrative way. This system was established in July 1992 but had its historical antecedents in the socialist era when the so-called state monopoly of trade was functioning (Considine & Kerr, 2002, p. 249). What made the situation more complex was the fact that local authorities had a special interest in selecting enterprises in their region as special exporters. Such a system is not a favorite way of the IMF and, in fact, it was eager to diminish and abolish it since the program of 1993, though the Russian government could not thoroughly extinguish it until the end of 1997. Under the parallel controlled price system of oil, in which the export prices were higher than domestic prices, it is understandable that to get a quota is "a matter of life and death" for the oil and gas industry in Russia: "The abolition of export quotas would have diverted most of the oil production in the Russian Federation to the international non-CIS market, leaving the domestic consumers bereft of supplies" (Considine & Kerr, 2002, p. 248).

Table 4. Russia's Response to the IMF Assignments

Export liberalization, export quotas and export licenses	Monopoly and natural monopoly	Tax collection, budgetary consolidation, budgetary revenue transfer
Jan. 1992: Export duty introduced for exports including crude oil exports. Quota and license system is introduced for exports.	Jan. 1992: State regulations are introduced on the activities of monopolies.	
Feb. 1992: The export duty is reduced and the coverage of tax imposed goods is widened.	Feb. 1992: A special regulation on monopolies is introduced.	Feb. 1992: Royalty payments are introduced for use of the subsoil with some exemptions. 40% of the revenue goes to the Federal government, 30% to the regional government and 30% to the local authorities.
		Feb. 1992: A geology fee is introduced. Oil producers are exempted from the levy in some cases.
Mar. 1992: The export duty is reduced.		
May 1992: The export duty is reduced.		May 1992: A price regulation tax is introduced.
	Jun. 1992: United system of gas supply is verified to be of Federal ownership.	
Jul. 1992: A system of registration of exporting companies, which deal with "strategically important goods", is introduced.		
	Aug. 1992: A price control on monopolies is introduced.	
		Sep. 1992: The price regulation tax is reduced.
Sep. 1992: The export duty is reduced.		Sep. 1992: Excise is introduced on some types of fuel and energy.
		Nov. 1992: The excise is differentiated according to production costs. Exemptions were granted to foreign capital participating companies.
Jan. 1993: A centralized export system to meet state needs is established. The quota is provided by competitive bidding. The export duty is increased with exemptions provided for centralized exports and exports under intergovernmental agreements within the CIS etc.		

Export liberalization, export quotas and export licenses	**Monopoly and natural monopoly**	**Tax collection, budgetary consolidation, budgetary revenue transfer**
	Feb. 1993: The state regulated price of natural gas is changed.	Feb. 1993: Transfer of revenues into the Price Regulation Fund from oil and gas companies is abolished. Price regulation tax is reduced.
Mar. 1993: Oil exports to meet state needs are granted an exemption from mandatory currency conversions.	May. 1993: A price-freeze policy on oil products (retail price) is lifted [the freeze policy was introduced in April].	
		Jul. 1993: The price regulation tax is abolished.
		Jul. 1993: The average excise on oil increased.
		Sep. 1993: The average excise is reduced with differentiation from zero to 42% according to production costs.
Nov. 1993: The export duty is reduced.		
Dec. 1993: The exemption from mandatory currency conversions for exporters for state needs is extended until 1 Jul. 1994. Exporters of oil, gas and other related products for state needs are exempted from export duty from 1 January 1994.		Dec. 1993: The geology fee is differentiated.
	Mar. 1994: A resolution of the government is issued "On State program for demonopolization of the economy and development of competition in the market of the Russian Federation" in which a system to observe natural monopolies is planned.	
		Apr. 1994: The excise is changed from a percentage as valorem tax to an equivalent Rbl./t tax.
May 1994: A decree on the cancellation of quotas and licensing for exports including quotas imposed on “strategically important goods” is issued.		
Jul. 1994: The system of export quotas and licenses is abolished. The introduction of new regulations on crude oil and petroleum products is delayed until 1 Jan. 1995.		

Export liberalization, export quotas and export licenses	Monopoly and natural monopoly	Tax collection, budgetary consolidation, budgetary revenue transfer
May-Oct. 1994: Mazut (Heavy oil) exports are duty free [tax holiday].		
Dec. 1994: A resolution is issued to abolish export quotas, while retaining a measure of control over the oil industry through the maintenance of the "special exporter" status.		
Dec. 1994: Mazut (Heavy oil) exports are banned until Mar. 1995.		
Jan. 1995: The export duty on oil is reduced and that on gas is increased. The system of quotas and licenses on oil and oil products is lifted.		
	Feb. 1995: The principal of equal access to pipelines is established with some priorities for identified oil producers and joint ventures.	
	Mar. 1995: The profitability ceiling is abolished for crude oil and petroleum products.	
	Mar. 1995: Presidential decree "On measures for state regulation of natural monopolies in the Russian Federation" is issued. A federal institution is planned to be established with the authority to supervise access to pipelines and other activities.	
Mar. 1995: A decree is issued for disbanding the institution of special exporters.		Mar. 1995: The excise on gas provided by Gazprom is increased.
Apr. 1995: Yeltsin announced that the export duty will be gradually reduced and abolished.		
	Oct. 1995: Price-freezing for some goods and services including gas is introduced and planned to continue until 1 Jan. 1996.	
Jan. 1996: All export duties except those on oil, gas and other materials are abolished.		

Export liberalization, export quotas and export licenses	**Monopoly and natural monopoly**	**Tax collection, budgetary consolidation, budgetary revenue transfer**
Jan. 1996: The centralized export system is replaced by a system of "export for State needs".		
	Feb. 1996: A ceiling for prices of natural monopolies is introduced and planned to be effective until the end of 1996.	
	Feb. 1996: A resolution is issued to make a list of economic units which have a market share of 35% or more.	
Apr. 1996: The export duty on oil is reduced. Other export duty is abolished.		Apr. 1996: The excise on oil is increased.
		Jun. 1996: The maximum rate of the excise is raised.
		Jun. 1996: The excise is reformed and differentiated further according to new field categories.
Jul. 1996: All export duties are abolished.		Jul. 1996: The average default rate of excise is raised.
	Jan. 1997: Gas prices are differentiated according to transportation costs of different places.	
		Apr. 1997: The maximum rate of the excise is raised.
	Jul. 1997: Gas companies other than Gazprom become able to use Gazprom's pipelines.	
Jan. 1998: The system of "exports for State needs" is abolished.		
Jan. 1999: The export duties on several goods including crude oil, heavy oil, liquefied natural gas and petroleum products are re-introduced.	Jan. 1999: Regulations on monopolized prices are introduced.	Jan. 1999: The excise on natural gas is reduced.
Jan.-Dec. 2000: The export duties on oil and oil products, are increased several times during 2000.	Jan.-Dec. 2000: Prices of gas and tariffs for (gas) pipeline transportation are increased several times during 2000.	Jan. 2000: The excise on oil is unified.

Sources: Considine and Kerr, 2002, pp.252-263; *ROTOBO Research Monthly* and other legal materials.

In the field of “Monopoly and natural monopoly,” we can find much evidence that the government tried to hold the reins of the monopolized oil and gas industry and keep prices within acceptable limits. Here Russia is facing a well-known dilemma that a liberal price policy would lead to free activities of monopolized companies and high prices for their products. It is also interesting to see that the government allowed the retail prices of oil and gas to be raised faster than wholesale prices. Table 5 shows the process of price leveling between Russian and world market prices. This suggests the slowness of price leveling of wholesale prices.

Table 5. Russian Oil Prices Compared with World Prices (%)

	Crude Oil	Heavy Fuel Oil	Gasoline	Diesel
	Russian Federation Producer Prices* Expressed as a Percentage of UK Brent Blend	Russian Federation Heavy Oil Prices* Expressed as a Percentage of Spot Market Prices at Rotterdam	Russian Federation Gasoline Prices* Expressed as a Percentage of Spot Market Prices at Rotterdam (unleaded gasoline)	Russian Federation Diesel Fuel Oil Prices* Expressed as a Percentage of Spot Market Product Prices at Rotterdam
1990	0.74	1.71	1.50	1.41
1995	38.99	53.05	76.05	73.20
1997	47.93	80.13	81.54	95.98

Note: * = Calculated in US$ by using Moscow Interbank Auction Exchange Rates.
Source: Considine & Kerr, 2002, pp. 267-273.

As for the domestic tax, there were several kinds of taxes and other deductions on the oil and gas companies including price regulation tax, royalties, geology fees and excises. Generally speaking, there has been a tendency that taxes other than excises have been disappearing, but geology fees and royalties still existed even in 2001. It must be noted that the geology fees and royalties are revenues of regional budgets (Tabata, 2002, p. 620).

It is important to note that there was a shift of the policy from export duties to domestic excises in April 1996, which was prescribed in the program of 1996. This shift had a special meaning for the oil and gas industry, because the export duties have been mainly paid by oil companies whereas the gas companies, including subordinate organizations, paid many excises (Tabata, 2002, p. 619). This shift must be in line with the IMF’s consideration that taxes on the border would disturb the rational and liberal system of trade. However, it also had a concrete influence on the profitability of individual companies that would bring the government and the IMF into the muddle of political-economic interests.

1-5. Dilemmas Faced by the Government and the IMF

The examination above leads us to the conclusion that there were some dilemmas in the policy decisions of the Russian government and the IMF. Firstly there was the dilemma of "***Price control on monopolies vs. liberal price policy.***" This is a well-known dilemma of economic policy, but in the case of Russia the IMF was obliged to consider some special conditions. That is, the prices of oil and gas were exempted from price liberalization at the beginning of 1992 and were kept under government control. Furthermore, the oil and gas companies were semi-governmental organizations and some IMF-oriented leaders of the government were involved in their management. Therefore if monopolized prices are to be controlled against genuine liberal thinking[7], the negotiations will not be held between the government and the monopoly but within the government. Although the IMF tried to reduce the extra-profits of the oil and gas companies through price policies, its efforts were not enough to settle the problems.

The second dilemma is closely and confusingly connected with the first one. That is, the dilemma of "***To raise oil and gas prices to international standards vs. to keep cheap energy prices for the people***." As explained above, the prices of oil and gas were much cheaper than those of the international market and the government was to raise those prices to the international standard not to disturb the order of the price system of the world energy market. In contrast, the Russian people were accustomed to cheap energy prices and could not have put up with higher energy prices without some structural price and wage reforms. According to one report, Gaidar refused to include oil prices in the price liberalization on January 2, 1992 because the freed oil prices

7 According to genuine liberal thinking, a monopoly has a right to settle its prices freely and those prices cannot be controlled by the government.

would have compelled the government to pay a huge sum of subsidies to farmers and municipal citizens in order to counterbalance the increased prices of fuel for tractors and family heating, which would have destroyed the purpose of stabilization in the "Shock Therapy program."[8] Gaidar's worry was a clear expression of this dilemma. One solution to this dilemma is to introduce export duties, which would have no influence on domestic prices; however this would generate another dilemma.

The third dilemma is "***Tax on the border vs. inland tax.***" Tax on the border is a solution to settle the second dilemma above. However, it is inconsistent with the general policy line of the IMF. From the liberal point of view, any tax on the border, even if it is not an import tariff but an export duty, would isolate the domestic from the international market and distort the resource allocation of a country. Therefore the IMF recommended a shift from export duties to excises even though it would lead to an increase in domestic energy prices. But here appeared another problem. There still existed the system of export quotas and export licenses and, compared with that system, the export duty was more transparent and would have generated a lesser extent of corruption. The export duty was more recommendable in this regard. Furthermore, the export tax is easier to collect than various inland taxes. This was why the government could not abolish the export duty completely. The IMF's standpoint has wavered among these considerations.

The fourth dilemma is "***Dissolution of Monopolies vs. tax revenues.***" Some of the above-mentioned dilemmas can be resolved by dissolution of monopolies. However this is the most delicate political and economic problem in Russia. At least, from an economic point of view, the dissolution of a monopoly would break the most profitable tax base of the country. In spring 2000, Rem Viakhirev, the chairman of the Gasprom group, suggested dissolution of his group but it is said that he was only bluffing. He wanted to emphasize that the government would lose its large tax revenues by the dissolution of Gasprom (Shiobara, 2001, p. 15).

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8 Kotz & Weir, 1997 (Japanese version), p. 275.

The dilemmas that the Russian government and the IMF faced reveal that the situation in Russia was much more complicated than that expected by the IMF. The IMF could not reconcile the problems in a consistent way. However the complexity led to one simple result.

2. Russia's Macro-economy and the IMF

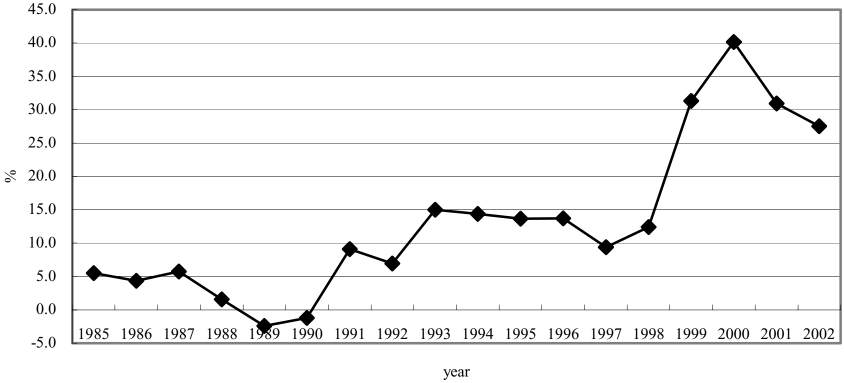
2-1. Current Account Surplus and the IMF

Here is one simple fact that we must pay special attention to. That is, the current account of the balance of payments of Russia has recorded surplus every year except 1997.[9] The only factor contributing to the continuing surplus of the current account was the surplus in the goods trade, which recorded surpluses from 1991 through 2002 including 1997. Fig. 1 shows how big the goods trade surplus of the Soviet Union/Russian Federation was until 2002. The ***surplus rate*** in the graph means "exports minus imports" divided by "exports plus imports." This rate had been fluctuating around 5% during the period of Perestroika and fell into deficit in the last years of the Soviet Union. After entering the new period of independent Russia, the rate jumped to around 15%. Though the rate showed a downward trend in 1997 and 1998, it received an upward momentum again in 1999 and reached a tremendous rate of 40% in 2000. These figures can be regarded as historically high considering the fact that the average ***surplus rate*** of Japan was 13.90% in the 1980s (1981-90) and 18.97% in the 1990s (91-99),[10] at a time when the trade surplus of Japan was criticized by many trading partners as evidence of "unfair" trade policies.

9 The latest revised version of the balance of payments (on 5 Jan. 2003) shows a deficit of US$80 million in 1997, though the earlier version (for example, on 2 Oct. 1998) recorded a considerable surplus (US$3,335 million).

10 Calculated by the author by using *IFS*.

Fig. 1. Surplus Rate (%)



Surplus rate = (Export -Import)/(Export +Import) [%]

Table 6 shows the significance of current account surpluses and net exports in the Russian macro economy. The percentages of current account surplus in GDP in 1999-2002 and net exports in 1998-2001 are, of course, very high, but the figures in 1994-1996 are not so low by international standards. The percentage of current account surplus in the GDP of Japan in 1986 was 4.42%, which was the highest level in the postwar period.

Table 6. Significance of Net Export and Current Account Surplus* (% of GDP)

	1994	1995	1996	1997	1998	1999	2000**	2001**	2002
[1] Net export of goods and services	4.6	3.5	4.1	2.9	7.2	17.1	20.1	12.9	
[2] Current account surplus		2.1	2.6	-0.1	0.1	13.2	18.4	11.3	9.41

Note: * : [2] = [1] + Net reception of Income (Compensation of employees and Investment income) and Current Transfer.
** : According to the estimate of the IMF, [2] was 17.2% in 2000 and 10.5% in 2001 (IMF, 2003b, p.14).

Sources: [1] = NSR, 1994-2001, p.58.
[2] = Calculated by the author from the data of *NSR, IFS, Tseny v Rossii*, and *Web page of Bank Rossii*.

A macro economic analysis of this situation would lead to a conclusion that private savings in Russia could not find the opportunity for domestic investment in 1994-96 and 1998-2001. As for the years 1992-93, though an accurate analysis cannot be conducted because of the lack of reliable data, we can envisage a similar picture if we take account of the large trade surplus and stagnated domestic economy at the time.

The important thing for us is the fact that at the core of the structure exists the oil, gas and petroleum industry. The surplus of the goods trade, and therefore the surplus of the current account, can be attributed to oil, gas and petroleum exports. Their profits have not been re-invested in their own industries but poured into the trade and transportation sector (see the last part of this section). Did the IMF have a sufficient understanding of this situation?

There is much evidence which leads us to suspect that the IMF did not expect such a large current account surplus in Russia. The Memorandum of March 1992 [Document No. 1] reads "these changes of the currency and foreign trade system with appropriate macroeconomic policy will considerably improve the perspective of the Russian balance of payments. However, in 1992 the situation of balance of payments remains very serious mainly because of the solvency crisis in 1991 and the bewilderment of the economic and financial system... A further decrease in exports is expected, because the absence of key productive resources – raw materials and equipment – will bring large costs not only for production but also for export. Even if any increase of gross imports is not expected, demand for foreign financing will be considerable" (*EZh*, No. 10, 1992, p. 5). Here is expressed a worry about decreasing exports because of the destruction of production. In reality, exports did not decrease as much as expected, whereas imports decreased drastically. Therefore the trade and current account balance maintained a good relationship in 1991 and 1992 (see Fig. 1).

The Statement of March 1995 [Document No. 4] referred to international reserves. It asserted that the Central Bank of Russia would manage the volume and the structure of official net international reserves in line with the general objectives of credit and financial policies. According to the Statement, "the Gross International Reserves of Monetary Authorities"[11] must not be less than US$11 billion at the end of 1995 (*DK*, No. 3, 1995, p. 7). In reality the Gross Reserves were US$17.2 billion on 1 January 1996 (*VBR*, No. 62, 1996, pp. 57-58). As the increase of international reserves is a result of the surplus of current account, this reveals that the IMF and the Russian government/CBR underestimated the problem of the Russian current account surplus.

The same document argued that the government would take measures to stimulate exports and the inflow of foreign capital, especially in the form of portfolio investment (*DK*, No. 3, 1995, pp. 7-8). Of course foreign investment, especially direct investment, is necessary even when the current account is in surplus. However, the policy mix of export stimulation and the introduction of foreign portfolio investment is a result of an understanding that the trade balance was in danger and domestic saving was insufficient. Again this was not the case.

In the Statement of February 1996 [Document No. 5], the current account balance was said to have become worse because of the revival of investment and the drop of the private saving rate in the environment of lower inflation and the slower rate of value erosion of real assets (*DK*, No. 3, 1996, p. 4). Here the writers of the Statement anticipated that the stabilized economy would increase imports of investment goods under the circumstance of the shortage of domestic private saving. The year 1996 did not experience such events. The current account in 1996 recorded far more surplus than in 1994 and 1995.[12]

The Statement of July 1997 [Document No. 6] anticipated the Gross International Reserve of Currency Authorities would reach about US$19 billion at the end of 1997 (*DK*, No. 7, 1997, p. 6). This target was already achieved at the beginning of June when the Reserve was more than US$20 billion. The figure increased to US$24.5 billion by July 1 and kept a high level until the begin-

11 Central Bank of Russia and Ministry of Finance.

12 As for the Gross International Reserve of Currency Authorities, the Statement anticipates US$20 billion, which is more than in reality. This might be connected with the intervention of the CBR in the Ruble-Dollar market.

ning of November.[13] The sudden decrease of the Reserve occurred in November, caused by the international financial disorder starting from Eastern Asia. Since 1996, the Russian government had been taking measures to introduce foreign portfolio investment and by the middle of 1997 the Russian financial market was deeply involved in world financial competition. Much short-term capital fled the country and the CBR had to make efforts to keep the currency band (Corridor) using its Reserve. In only one month the Reserve decreased to the level of US$16.8 billion. In fact, in 1997 the current account fell into deficit and the Reserve decreased. However the reasons for this were not in line with what the IMF expected.

Right before the August Crisis of 1998, two Statements [Documents No. 7 and No. 8] were issued in which tax collection and budgetary expenditure were the key issues. As for the international reserve, both documents referred to the sensitive problem of the relation between the reserve assets and the domestic currency circulation, which would have an influence on the interests' structure of the domestic financial market. The documents considered the very technical problem of whether "to resort or not to resort to the so-called sterilization policy." This reveals that the Russian Federation was in a delicate position in the international financial arena.

Surprisingly the current account itself was not mentioned in either document, though the current account deficit grew rapidly for the first time since 1992. It is widely believed that one of the main reasons for the current account deficit at the time was the overvalued Ruble under the "Corridor" system. However the documents insisted on a stabilized Ruble and refused to allow the Ruble to be depreciated (*VPRG*, 16, May 1998, p. 4, 22 Aug. 1998, p. 4). Here we see an overly stylized thinking pattern in which emphasis was put on the problems of financial mechanisms and the real economy with its strong oil and gas industry and weak light industry was ignored.

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13 The data on international reserves are available at the Website of the Bank of Russia [http://www.Cbr.ru/].

The IMF was afraid of a current account deficit when the Russian Federation was accumulating much surplus, whereas it ignored the problem when the current account was falling into deficit. To begin with we must understand that the IMF was an organization that would help a country in a temporary payments crisis. After it shifted its focus to middle/long term structural reforms, it maintained its main policy stance in which it will help a country with a large external debt which cannot be repaid because of current account deficit. The IMF recommends that such a country tighten the fiscal balance and abandon ineffective industries. According to the IMF, protective measures must not be taken to cut the current account deficit. Rather the country must open up its borders, expose its industries to international competition and introduce foreign investment. In order to introduce foreign investment, the country must liberalize its international financial system to the effect that capital could move freely through the border.

However, Russia is not a country that the IMF had been accustomed to dealing with. Especially we must note the fact that after the opening of the financial borders, capital did not so much come in but rather fled from the country.

2-2. Revenues of the Oil and Gas Industry and the Liberalized International Financial System

Kuboniwa (2001, 2002) and Tabata (2002) found an interesting fact by using I-O tables of the Russian Federation. According to them "most oil and gas export revenues are registered in Russian statistics as trade and transportation margins," and "half of the value added originating in the oil and gas industry was recorded in statistics outside of this production sector" (Tabata, 2002, p. 614). More interestingly, they argue that the oil and gas sector "has not contributed to the state budget proportionally." Tabata posits that the oil and gas companies succeeded in evading tax payments by changing their organizational structure and transferring a substantial amount of profits to their subsidiaries in the trade and transportation sectors (Tabata, 2002, p. 622). Kuboniwa sets up a hypothesis that the trade activity in oil and gas exports is one of the main sources of capital flight from the Russian Federation (Kuboniwa, 2001, p. 157).

The problem is very sensitive and may have some relation with criminal activities. Therefore foreign researchers face information secrecy and could not follow the real route of money flows. Nevertheless, we must note the important fact that these money flows have a close connection with the liberalization of the international financial system strongly recommended by the IMF.

As is widely known, the liberalization of an international financial system proceeds in two stages. The first stage is liberalization of current transactions and the second is liberalization of capital transactions. If a country does not impose any restrictions on current transactions, it is deemed that it accepts Article VIII of the IMF Agreement. Many students of international finance and development economics think that acceptance of Article VIII is only a starting point and that the problem is whether to go beyond Article VIII or not.

Also in Russia, the IMF recommended acceptance of the conditions of Article VIII from the beginning. The Memorandum of 1992 [Document No. 1] refers to the new law named "Currency Regulations and Currency Controls," which enables Russia to secure convertibility of the Ruble on current transactions for residents and non-residents. It is very important that banks were allowed to open foreign currency accounts (*EZh*, No. 10, 1992, p. 5). In fact the law was issued in June 1992. In the Statement of 1993 [Document No. 2], participation of non-residents in the foreign currency markets was to be made more liberal (*RV*, 1 Jul. 1993, p. 7). The Statement of 1995 [Document No. 4] said that the Government of Russia and the CBR would talk with the IMF on acceptance of Article VIII (*DK*, No. 3, 1995, p. 7). Russia fully achieved Article VIII status of the IMF on June 1, 1996 (Sapozhnikov, 1999, p. 81).

In the series of discussions there is one striking feature. That is, free transactions of foreign and national currencies for non-residents are repeatedly mentioned, but those for residents have no special reference except in general expressions. This does not mean that the IMF would like to restrict transactions by Russian residents, but rather that it was only indifferent to the matter, at least for the first half of the '90s. This is in line with the attitudes of the IMF toward developing countries. In the case of developing countries, the key problem is how to leave non-residents free to have foreign and national currencies in the accounts of resident banks and repatriate them to the home countries. The foreign currency account of residents is out of the IMF's interest because residents with much foreign currency are few in developing countries. However in Russia there are big companies that have considerable foreign currency in the form of cash or deposits in resident and non-resident banks. These are oil and gas companies and their affiliates.

As for the capital transactions, the government began to take measures to introduce foreign capital into the Russian market in 1996. Here again the freedom of residents to "export capital" was not the main concern of the IMF and the Russian government. It is true that there have been many restrictive decrees and laws on the free transformation of capital in Russia and many business persons criticized Russia for not opening up the country fully to the international financial market. However, the residents' freedom of capital transactions was not a matter of concern of the IMF. Besides, it is not necessary to have full freedom for people who are eager to make fortunes using the slightest weakness of the legal institutions. This is different from the bureaucratic problems that foreigners *in good faith* face when they try to transfer dollars or bring back Rubles to their home countries. Layard and Parker wrote,

> In theory dollars were not to be bought as an investment (for "capital-account" purchases) and certainly not held outside the country or invested in property overseas. But in practice this rule was never enforced strongly. In any case, an exporter was always allowed to retain half of his export earnings in foreign exchange. Thus Russia had close to full currency convertibility (for current and capital purposes) from the beginning of the reform. Moreover, banks today are explicitly allowed to adopt an open position in dollars up to specified limits. That is the position for Russians (though they do not all fully understand it) (Layard & Parker, 1996, p. 63).

These words are interesting because they were not written by those who are critical of the liberal strategy of Yeltsin but those who are highly praising it. It is especially important that they are unconsciously talking about *residents'* freedoms. Here we see a freedom that the Russian oil and gas industry has been enjoying.

Conclusion

The IMF did not ignore the particular nature of Russia, in which the oil and gas industries play a tremendously important role in its economy. However, its recognition was too simplistic to understand the complexity of the matter. Especially the IMF did not properly relate the problems of revenue flows of the oil and gas industries with the macro economy and international financial system of Russia. That was a big mistake.

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Abbreviations of Periodicals and Statistics

DK [*Den'gi i kredit*]
EZh [*Ekonomika i zhizn'/ Ekonomicheskaia gazeta*]
NSR [*Natsional'nye scheta Rossii*]
RTs [*Rossiia v tsifrakh*]
RG [*Rossiiskaia gazeta*]
RSE [*Rossiiskii statisticheskii ezhegodnik*]
VPRG [*Vedomstvennoe prilozhenie Rossiiskoi gazety*]
VBR [*Vestnik Banka Rossii*]