

Russia and the IMF

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Final version appearing in *International Affairs* 75:1 (January 1999) 1-22.

Abstract:

Russia's economic crisis of summer 1998 has renewed debate as to whether the International Monetary Fund (IMF) has helped, hindered or been irrelevant to economic transition in the core of the former Soviet Union. We examine the relationship between the Fund and Russia over the past ten years, highlighting a mixed record of successes, failures and the limits of the Fund's role. We argue that the institution may well also have inadvertently facilitated the rise of political forces which are today opposed to the second phase of reforms which Russia so desperately needs. Our conclusions question whether the IMF ought to continue to lead Western attempts to foster stability and growth in Russia.

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`In these situations [the authorities] must [have the right to lie]. They **absolutely** must. so now in the international financial institutions, despite everything we have done with them - we conned (*kinuli*) them out of US\$20 billion - there is an understanding that we had no other way out.'

Anatoly Chubais, Chief Russian negotiator with international financial institutions,

Kommersant 8 September 1998

In August 1998, Russia's economic policy collapsed and with it many Western hopes for stability and economic reform in Russia. An eight-year Western strategy of assistance and advice seemed to have come to naught. In the words of a prominent free-market Russian economist: `the largest financial assistance package in the IMF history has failed in less than a month, international and domestic investors have borne multibillion losses, while Russia has fallen into one of the sharpest and deepest financial, economic and political crises in history'.⁽¹⁾ The collapse of Russia's exchange rate and its default on debt and bond obligations has dragged the country into even deeper economic crisis, raising profound questions about the role of external assistance.

The West became deeply involved in Russia's domestic economic and political transition at the end of the Cold War, when the West's worst fear was that domestic weakness would breed political extremism and disorder in the nuclear superpower. A successful transition to a market democracy would be the best guarantor of a benign and stable partner. And so a strategy of economic advice and assistance emerged with many strands to it, including bilateral, multilateral and private institutions' assistance in the areas of trade, debt management, investment, credit and aid. However, the IMF soon emerged in a leading role.

The IMF became the spearhead of Western support for several reasons. First, such a position was in the interests of the United States, which had enormous influence in the institution - well beyond its 18.5% portion of votes and contribution to the IMF budget. The United States was keen for the IMF to take a lead in Russia, because the Group of Seven (G7) had chosen the European Union to coordinate aid to Eastern Europe. Yet, bilateral assistance from the United States would be costly and require politically

difficult agreement from Congress. The IMF, by contrast, provided both a less controversial and less expensive route. The institution's assistance is highly leveraged since successful negotiations with the IMF are almost always a prerequisite for agreements with the World Bank, the London Club, and the Paris Club. It was also believed that, as an international organization, the Fund would be less likely to evoke concerns in Russia about infringement of sovereignty than any direct US assistance would.⁽²⁾ Finally, the IMF itself was actively searching for a new role and so was eager to take the lead in policy towards transition economies. In the four decades since its creation, the Fund had lost much of its *raison d'être*. Its responsibility to manage a fixed but adjustable exchange rate regime had come to an end in the early 1970s. Its other major role, to provide assistance to states facing temporary balance of payments imbalances, had brought the institution centre-stage as the international lender of last resort in the first phase of managing Latin America's debt crisis in the early 1980s. However, by the mid-1980s, the debt crisis had been redefined leaving the IMF with a less central role.⁽³⁾ The IMF's Managing-Director Michel Camdessus was quick to seize the new opportunity afforded by Russia's need - and indeed to cast it as a historical imperative, even in face of the obvious risks.⁽⁴⁾

There were, however, problems inherent in the IMF's new role from the outset. The Fund had no more experience than any other institution in supporting transitions from communism to capitalism, raising the question as to how well suited the IMF's intellectual capital would be to this task, and how quickly it could adapt and learn from the novel challenges of systemic reform in Russia. Furthermore, the strength of the Fund's claim to do the job - its technical capacities and mandate, its strict adherence to purely economic expertise, research and indicators - would be brought into potential conflict with the larger political concerns driving Western policy towards Russia. Finally, the IMF's effectiveness would depend not only on its own policies but also on domestic conditions in Russia.

The subsequent IMF-led strategy towards Russia has generated a much wider debate as to whether the West has helped or hindered transition.⁽⁵⁾

This debate has crystallized around three positions. First there is the 'we lost Russia' view: that reform has failed in Russia because the West has done too little to help it. This assumes that the West could have exerted a beneficial influence on Russian development but failed to do so.⁽⁶⁾ A second view argues that 'we messed up Russia', by pressuring successive governments too rapidly to adopt radical measures ill-suited to local conditions.⁽⁷⁾ Finally, there is the view that 'there was little we could do', that Russia's problems are primarily of its own making, and that foreign assistance can have little influence on domestic outcomes, especially if poor policy choices are made. In other words, Russia was simply not the West's to lose.⁽⁸⁾

In this article we define five phases of Russia's relationship with the IMF 1988-1998 and find some evidence for each of the above views. In the early phases, we argue that the IMF could have done more to assist reforms and reformers in Russia. However, the Fund was constrained both by its own objectives and mandate, and by the policies and preoccupations of its principal shareholders. At the same time, in

both these early phases as well as in later periods, we find some evidence that the IMF's policy advice was at times poorly suited to Russian conditions and failed to foresee longer-term effects of advocated reforms. Finally, the analysis highlights the limits to external influence, especially on a sovereign super-power, since in every phase Russia's domestic political and institutional context have greatly influenced the country's receptivity to, and implementation of, IMF recommendations.

Phase 1: Advice but no money (1988-July 1991)

The last years of the Soviet Union were marked by political liberalization with only halting and partial attempts at economic reform. In spite of being presented with as many as a dozen different reform programs and a clear need for reform, Gorbachev was unsure and indecisive about how best to proceed. At the same time, as Russia's foreign debt mounted in 1988, the Soviet leadership began to discuss membership of the IMF.⁽⁹⁾ Yet the West were very reluctant to grant the USSR full membership: it was clear that the country would want to draw heavily on the organization's resources, and it was argued that the USSR had not met the necessary criteria of membership. Thus in October 1991, 'associate membership' was granted limiting the Soviet Union to technical assistance and advice but no call on the IMF's funds.⁽¹⁰⁾

Nevertheless, in this early period, the IMF became closely involved in constructing a program of reform for the USSR. In mid-1990, the Managing-Director of the IMF flew into Moscow to launch a major study for the G-7 on how to reform the Soviet economy and the criteria under which western economic assistance could effectively support such reforms.⁽¹¹⁾ The report advocated a radical programme to be implemented in close coordination with the IMF. This included immediate and rapid stabilization through spending cuts, tax increases, and price liberalization. It also recommended the privatization of small and, after reorganization, large enterprises. Many of these recommendations were later included in the Russian government's own reform programme launched at the end of 1991. In the meantime though, the retreat from reform by the government of Prime Minister Valentin Pavlov from January 1991 made it unlikely that a Soviet administration would satisfy the criteria for admission to the Fund.

The USSR finally applied for full membership of the IMF in July 1991, as its foreign debts spiralled, contrary to the express preference of the United States. The Bush administration feared that Congress would be reluctant to approve a 50% increase in IMF quotas (agreed within the IMF the previous year), if the USSR were eligible to take loans. In the event, full membership came through in June 1992 by which time the reticence of both Congress and the IMF board had been superseded by more immediate concerns.

Phase Two: First attempts at stabilization (August 1991-September 1993)

The failed coup attempt by hardliners in August 1991 marked a watershed in both the fate of the Soviet Union and the prospects of economic reform. His prestige greatly enhanced by his role in defeating the coup, the Russian President Boris Yeltsin moved decisively to seize the policy agenda from a discredited Gorbachev and a dying Soviet Union. On 28 October, in his address to the 5th Russian Congress of People's Deputies, Yeltsin laid out an ambitious programme of privatisation, liberalisation and stabilisation designed rapidly to create a full market economy. With it, there was an explicit role, and appeal, for external assistance: "We are prepared, in cooperation with foreign specialists, to immediately disclose the strategic data necessary for admission into international organizations and to accept the basic principles set forth in the charter of the International Monetary Fund. We

will make an official appeal to the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development, inviting them to work out a detailed plan for cooperation and participation in the economic reforms".⁽¹²⁾

By this time, the Soviet Union was descending into economic crisis which by December 1991 saw shortages of basic staples. Urgent action was needed and Yeltsin was mandated to undertake it. Four days after his 28 October 1991 speech, the Congress granted him broad powers to rule by decree for a year, and he promptly appointed a government of young reformers led by Yegor Gaidar as deputy prime minister with responsibility for economic policy. For the first time, Russia had a government fully committed to radical economic reform which, in the atmosphere of post-coup euphoria, enjoyed broad popular support. This was a propitious moment for the West to act and indeed by the end of 1991 Russia was pressing the IMF for large-scale support, suggested at \$15 billion a year, and a rouble stabilization fund.

At the time, many advisers in the West were arguing that the Soviet Union needed large-scale foreign assistance in order for reforms to succeed: Graham Allison, Grigory Yavlinsky and Jeffrey Sachs, for example, proposed a 'Grand Bargain' of \$100bn of support over four

years for reform of the Soviet Union, to be given alongside an orthodox IMF programme.⁽¹³⁾ By December, Sachs and Richard Layard, both advisers to the government, were calling on the West for massive and immediate aid to the new reformers. However, amidst many promises, little assistance was forthcoming, even though in the United States policy-makers were becoming increasingly worried about Russia's prospects.⁽¹⁴⁾ At this stage, the West's assistance was limited to a G-7 debt relief package which required the USSR to undertake economic reforms recommended by the IMF (even though the USSR was not yet a full member of the organization).

The ambitious programme of reform began on 2 January 1992 with a range of measures designed to liberalise the economy, including the decontrol of 80% of consumer prices and 90% of producer prices, the freeing of internal trade and the floating of the ruble. The immediate effects were a plunge in the value of the currency and the release of hitherto repressed inflation in an economy suffering chronic macroeconomic imbalance. The reformers then sought to achieve stabilisation by drastically cutting the budget deficit, estimated at 20% of GDP in 1991.

It was at this point that Yeltsin formally requested the \$6 billion ruble stabilisation fund mentioned above; the IMF began to act in response, and in late February the government approved a detailed Memorandum on Economic Policy which had been prepared with IMF assistance and sent it to the Fund in the hope that it would expedite their application for membership. Among the commitments set out by the document were the unification of the exchange rate by mid-April, the elimination of export quotas and licenses except on energy-related and strategic goods by July, and the reduction of inflation to 1-3% per month and the elimination of the budget deficit by the end of the year.

Meanwhile against a background of lavish but largely empty promises of Western aid,⁽¹⁵⁾

the government pressed on with the cutting and sequestering of expenditure to such an extent that a small budget surplus was recorded in the first quarter.⁽¹⁶⁾ Politically, however, opposition to reform was emerging, with nationalist voices calling on the government not to accept external assistance.⁽¹⁷⁾ The first skirmishes took place at the 6th Congress of People's Deputies in April 1992, which the government survived remarkably unscathed, boosted by the timely announcement of Russia's membership of the IMF with a quota larger than that originally offered. President Yeltsin at the time announced strong support for his new IMF-sympathetic team. But it could not resist the growing political pressure indefinitely.

In June 1992, a government reshuffle brought Viktor Chernomyrdin and Georgii Kizha, representatives of the industrial lobbies, into government. The following month Viktor Gerashchenko was appointed Chairman of the Central Bank of Russia (CBR). The significance of this latter move was twofold. First, this former head of the old Soviet Central Bank was far more ready to issue credit than was his predecessor, Georgii Matyukhin. Second, he was accountable to parliament rather than the government, and so constitutionally responsive as well as politically sympathetic to the industrial interests represented there. The consequence of the June-July developments was a larger budget deficit, financed by credits issued by the Central Bank - a highly inflationary means that derailed stabilisation.⁽¹⁸⁾

Ironically, over this period the IMF's involvement in Russia strengthened as the position of the reformers weakened. Following formal admission on June 1, a communique was signed between Gaidar and Camdessus in early July which led to the disbursement of Russia's first US\$1 billion of external support a month later. Fully seven months after the reforms had begun the IMF began its lending to Russia at the

moment when political events had put reforms under threat. Furthermore, this money could not be used to finance the budget deficit. The government did not even bother to draw it down until the end of the year.

Economic policy became the battle-ground of a series of struggles for supremacy between president and parliament with industrialists weighing in on the side of Parliament in order to press for more credits. The conflicts were exacerbated by an ambiguous Constitution. The result was an incoherent policy environment that made stabilisation impossible. Nonetheless, there was a brief opening for reform in April 1993 when Yeltsin succeeded in appealing directly to the population in a referendum which endorsed his presidency and, remarkably, the course of reform.

This new opening was seized upon by the West. In June, the IMF offered its second credit to Russia - a \$3 billion loan from a new Systemic Transformation Facility (STF). The STF was a new experiment for the IMF, created expressly for members "experiencing severe disruptions in their trade and payments arrangements due to a shift from significant reliance on trading at nonmarket prices to multilateral market-based trading". Unlike other facilities the STF carried no standard conditionality, merely requiring that the recipients not "intensify exchange or trade restrictions".⁽¹⁹⁾ Half of this STF credit was initially extended, with the remaining \$1.5 billion to follow after talks on providing more support through a stand-by arrangement.

On September 19 the IMF suspended its lending programme to Russia. Two days later Yeltsin dissolved the legislature by decree, precipitated a bloody showdown and then inaugurated a new political order. The emergence of this order, its policy consequences and their external implications marked a new phase in the relationship between Russia and the IMF.

The record of the IMF in this initial phase of post-Soviet Russian reform is at best mixed. In spite of requests for support from radical reformers of whose goals it could only approve; of the estimates of Russia's needs by foreign experts; and of the precedent for aid to transition economies in Eastern Europe (notably Poland, which received debt forgiveness and currency stabilisation support) the Fund was slow in giving meagre support on stringent terms.⁽²⁰⁾ By mid-1992, when the Fund finally began to engage Russia, the domestic political conditions for successful stabilisation had eroded. Furthermore, the Fund's technical advice to Russia proved wrong in some respects. Most notably, it urged Russia to retain the ruble zone rather than the creation of national currencies for the Soviet successor states, thereby exacerbating inflationary pressures.⁽²¹⁾ Furthermore, it failed to foresee the collapse in output or the erosion of fiscal revenues that would result from the first phases of reform.⁽²²⁾

The IMF did show some flexibility over this period, such as in releasing the first US\$1 billion before a standby agreement had been reached. It was unfortunate, however, that when the IMF did decide to innovate, it was too late. In creating the Systemic Transformation Facility (STF), the IMF recognized that the former Republics of the USSR needed more than tough stabilization measures. However, as mentioned above, by the time the STF was drawn upon the political conditions for reform had already begun to regress backwards.

The IMF's slowness to respond to Russia was undoubtedly constrained by the policies and interests of its main shareholders. Indeed, the organization's response broadly reflected that of the leading industrialized nations whose munificent promises were not, due to the a combination of recession, electoral cycles and weak leadership, for the most part honoured.⁽²³⁾ At the same time, however, in dealing with Russia, the IMF was limited by its narrow interpretation of its mandate: providing temporary balance of payments support for a country taking active measures to correct the imbalance, and ensuring currency stabilization. The institution was supposedly spear-heading Western assistance for transition, yet it had no experience of planning or implementing the kinds of deep structural reform which it would later admit were crucial to Russia's transition. Furthermore, as this second phase of assistance shows, it proved itself slow in adapting to these exigencies.

Phase Three: Reform and political change (October 1993-March 1995)

Yeltsin's dissolution of Parliament came after a year of simmering constitutional crisis, and was motivated above all by fiscal concerns. In his televised address announcing the measure, Yeltsin criticised "anti-people" decisions taken by the parliament: "The most flagrant is the so-called economic policy of the Supreme Soviet. Its decisions on the budget, privatisation and many other areas compound the crisis and inflict huge damage on the country".⁽²⁴⁾ This was a reference to the budget passed by the Supreme Soviet in July, with a projected deficit of 25% that would have led to hyperinflation. After crushing the parliamentary rebellion on 3-4 October, the government was briefly able to conduct an economic policy of its choosing, and to renew the impetus of reform. It brought the Central Bank under executive control; brought the deficit down to 10%; broke up the ruble zone; and finally abolished most export quotas and licenses that had been lucrative sources of rent.

To the shock of their Western supporters, the reformers suffered a major setback in the December elections. The burst of reform had led to a renewal of wage arrears which cost them dearly. Both ultra-nationalists and communists gained strongly, prompting a debate in the West about its strategy of its assistance. Ironically, the IMF had just suspended its lending and so was not available to offer support that might have mitigated the economic, and electoral, consequences of stabilisation. Having begun to provide assistance just as reform conditions were becoming less favourable in July 1992, the Fund had withdrawn it just as more propitious conditions were re-emerging.

The elections, though, were held concurrently with a referendum that narrowly approved a new semi-presidential constitution which gave enormous powers to the head of state. The Duma's role was not greatly diminished even though it still had to approve the annual budget. This high degree of executive insulation from legislative control represented a more favourable institutional environment for pushing through unpopular economic reforms; it was a design that most closely approximated the condition of "authoritarian transition" without wholly discarding democratic mechanisms. The new powerful executive, however, would take some months to begin such reforms.

Indeed, 1994 was a lost year for reform. By October, inflation had risen sharply from 4% to 15% a month, precipitating a 21% fall in the ruble on "Black Tuesday". By January 1995 inflation was up to 18%, the same rate as twelve months earlier. However, the economic ravages of 1994 carried important (albeit painful) lessons. The political centrists learnt the costs of using easy credit to resolve economic problems. The government became determined to find a non-inflationary way to finance the budget. This led to a new relationship with the IMF.

The Fund had been facing growing criticism for its Russia policy, which sharpened after the December 1993 elections. This came, most significantly, from its chief member, the United States. Vice-President Gore publicly called for a relaxing of conditionality in lending to Russia, and the Senate held hearings out of an explicit concern that conditionality policies may have been adversely affecting Russia's economic stability and transition to democracy.⁽²⁵⁾ Among the most potent critics of the IMF was Jeffrey Sachs, one of the principal foreign advisers to Russia until his resignation in January. While his earlier "Grand Bargain" proposals had embodied orthodox IMF prescriptions, he had now developed a critique of the Fund's demands for drastic budget cuts. Sachs argued that IMF credits should be used not just to build up reserves, but to assist in the non-inflationary financing of the deficit.⁽²⁶⁾

The political pressure and technical critique was not without effect: the STF of May 1993 had been provided, on easier terms, to assist budget financing, and the delayed second tranche of it was finally dispensed in April 1994 - paradoxically, just as the country was returning to inflationary policies.⁽²⁷⁾ And there was merit to the IMF's own response that Russia's failure to meet its promises on macroeconomic performance ruled out external assistance. Nonetheless, even the leading reformer Yegor Gaidar, who was both ideologically sympathetic to the IMF's principles and had worked with it while in the Russian government acknowledged that `the IMF was only a passive onlooker in the polemics on the crucial issue of choosing the 1994 economic and political course.'⁽²⁸⁾

By the end of the year, the Russian government's resolve to pursue a stricter fiscal and monetary policy

had been strengthened by the failures of year. At the same time, the IMF was searching for more effective ways of helping Russia. For the first time, internal and external conditions had emerged for a more stable and effective relationship.

Phase Four: Stabilization and the rise of the oligarchs(March 1995-November 1997)

This period marked the high tide of Russia's economic policy success and of its collaboration with the IMF. Having attempted a new form of lending with less conditionality 1993-94 (STF), without much success, to some degree the Fund recoiled back to its more traditional approach i.e. to strict, non-concessional standby arrangements aimed at stabilization with tight monitoring. However, the amounts involved in loans 1995-7 were much larger and there were important innovations in the conditions and monitoring of the drawings. As a result, the relationship between Russia and the IMF, although naturally not without friction, was closer, more stable and continuous, more financially significant and more politically attuned than before. At the same time though, this period also saw the consolidation of a new political and economic order in Russia which created problems of its own for economic policy and, by extension, relations with the IMF, whose weaknesses would be exposed by the crisis that erupted in summer 1998.

The first manifestation of the new Russia-IMF relationship was the one-year US \$6.8 billion standby agreement announced on 11 April 1995. This was the largest IMF loan to date with the exception of the Mexican bailout. The agreement not only set targets for typical indicators -inflation was to fall to 2% a month by December and the budget deficit to 8% of GDP, but also commitments reflecting the IMF's new focus on institutional or 'Second Generation' reforms (see Table 1). Some measures - 'prior commitments' - were required of Russia before any money was disbursed. And overall the monitoring of the standby arrangement would be closer and tighter than ever before: monitoring was conducted on a monthly rather than quarterly basis, by a Working Group (comprising representatives from the Russian Ministries of Finance and Economy, and the Central Bank, as well as IMF staff) and their conclusions would also be reviewed by the IMF's Executive Board. Finally, in this period the loan itself could be used to help cover the budget deficit in accordance with the government's new strategy of non-inflationary financing. Overall, in effect, the IMF was in effect doing what Sachs had been advocating in his increasingly trenchant polemics against the institution.

Russia's new relationship with the IMF was made possible in part due to the strong insulated executive which had been created by the 1993 constitution. The President now had much greater powers. During the course of negotiations with the IMF, when the Parliament tried to double the minimum wage (thus raising expenditure) and introduce tax exemptions on energy exports (thus reducing revenue), the President simply vetoed the bills. He also issued a decree forbidding the government to spend off-budget funds without presidential authorisation. Not until the summer of 1998 would the government encounter

effective legislative resistance to its fiscal policy, and thus to its attempts to meet IMF conditions.

Table One: First and Second Generation Reforms

First Generation Reforms include:

- aim at macroeconomic stabilization
- tight monetary policy and control of inflation
- privatization
- price liberalization
- removal of subsidies and protection within economy
- trade liberalization

Second Generation Reforms include:

- aim to produce equitable growth
- appropriate regulation and oversight of financial sectors
- transparency of fiscal policy
- professional and independent judicial system to uphold the rule of law and property rights
- positive role of state in the economy
- improved quality of public expenditure
- flexible labour markets

With a powerful Presidency, the political commitment and external incentives to do so, the government attained considerable success in achieving macroeconomic stabilisation of the economy in 1995. A ruble corridor was established in the summer, preserving the value of the currency within a target band set by the Central Bank. Tight monetary policy cut inflation to only 5% a month by the end of the year. And the government succeeded in covering the deficit with internal and external borrowing. In addition, large rent-seeking opportunities were eliminated, completing a process repeatedly urged by the IMF but rather haltingly begun in 1993. Principally this involved cutting back on the provision of subsidised credits and trading subsidies and privileges, had been enormously costly to the Russian economy: one informed estimate valued gross rents in 1992 at 80% of GDP.⁽²⁹⁾

The IMF applauded these achievements. Russia, it would seem, was finally moving away from its old political economy dominated by Soviet-era enterprises, in which inflationary demands for cheap credits were channelled through a powerful parliament. Critically, however, the new political economy it was moving to was not quite as the IMF had planned. Beneath the happy results of tighter efforts at

stabilization, a new order was emerging, in which a small number of oligarchical financial-industrial groups (FIGs) exerted influence through the 'court' politics of a powerful Presidency. Nearly all were based around banks that had sprung up in the late-Soviet or after and were engaged in a range of highly profitable activities, none of which resembled the intermediation of private savings and commercial investment that are the core of traditional banking practices. They had no need for industrial or agricultural credits (though their handling of them as "authorised banks" was handsomely profitable).

The results of stabilization greatly benefited this new economic and political elite. The stable exchange rate, while cutting profits on currency speculation, allowed them to offer forward contracts in the dollar market to foreign investors hedging against currency risk. Most important of all, the positive real exchange rate, which first appeared in November 1993, made lending to the government extremely lucrative at precisely the time when the government was looking for alternative sources of deficit financing to monetary expansion.

Like the rent-seeking enterprise economy, this oligarchical capitalism had its own deleterious consequences. As their position became stronger, the privilege the oligarchs sought and defended with growing ferocity was not the provision of credits, but avoidance of taxes and this put new pressure on the budget - from the revenue side. For example, in the "shares-for-loans" scandal of November-December 1995, the banks gained control of many of the most valuable raw-material companies for a pittance in rigged auctions that the banks themselves had in many cases organised. Among its many flaws, this scheme led to a once-for-all loss of potential state revenue that a competitive procedure would have netted. More serious over time were the demands for tax exemptions and non-payment of those taxes for which the FIGs were liable. Gazprom, for example, was continuing to hold billions of roubles in a tax-free 'stabilization fund' for investment.⁽³⁰⁾ These flaws in Russia's emerging political economy would be revealed in due course.

By the end of 1995, the IMF were largely satisfied with Russia's progress. Despite strong political pressures leading up to the Duma elections in December 1995, and some policy relaxation in the last months of the year, Russia was considered to be meeting all its program targets. The reward was a still larger drawing on the Extended Fund Facility (EFF) of \$10.2 billion agreed in March 1996 which would be disbursed monthly over the period 26 March 1996-25 March 1999. The loan conditions required Russia further to reduce its fiscal deficit (to 4% of GDP in 1996 and 2% in 1998) and inflation (to 1% a month by the end of the year), to undertake structural reforms in privatisation and agriculture, and finally to eliminate all export duties. Significantly, it also demanded banking reform, proper auditing of the largest enterprises and improvements in tax collection. The leverage associated with IMF approval was particularly great at this point, as the agreement paved the way for a comprehensive restructuring of Russia's \$38.7 billion debt with the official creditors of the Paris Club in April, which in turn led to the country's return to international capital markets as a sovereign borrower and the eventual floating of several successful Eurobond issues. However, although the Fund had leverage at this time, it also bears noting that progress with the institutional reforms it was demanding of Russia would be difficult both to

implement and for the IMF to measure and monitor.

In addition to providing more money and support to Russia over this period, the IMF responded to strong Western concerns about a hostile government coming to power. Under Western pressure, the Fund showed sensitivity to the political needs of the Yeltsin government. In the December 1995 elections to Parliament, the communist and nationalist forces had made further gains. However, under the 1993 constitution the President was not unduly weakened by this. The presidency itself, however, was up for election in the spring of 1996, with Yeltsin facing a strong challenge from the communist leader Gennady Zyuganov. Here, in campaigning for the Presidency, Yeltsin ignored several of his government's promises to the IMF. Not only did he tour the country doling out promises of largesse, but even during the campaign itself the government resorted to various devices to evade fiscal and monetary commitments so recently made to the IMF.⁽³¹⁾ The Fund was not unaware of what was going on. Indeed, just before the IMF Executive Board met in June to decide on the release of that month's credit tranche, it was informed by the government of a transfer of CBR profits to the budget, yet approved the disbursement nonetheless.⁽³²⁾ The first tranche was not withheld until July -after the elections had taken place. As the newspaper *Sevodnya* put it: "Both the Fund experts who conducted the monthly review in Moscow and officials at IMF headquarters in Washington were well aware that too much was at stake at that particular time to raise an international commotion over "net domestic assets".⁽³³⁾

Paradoxically, however, the Presidential election had influenced the political system in Russia in a way that would counter IMF efforts to influence reform. The funding for Yeltsin's campaign was provided largely by a group of seven leading oligarchs who, for all their differences, shared a common fear of a Zyuganov victory. Their support conferred a massive (and illegal) financial advantage on the incumbent, one that was not expected to go unrewarded. Consequently, the position of the oligarchs became further entrenched in the political order. Two of their number, Boris Berezovsky and Vladimir Potanin, were appointed Deputy Secretary of the Security Council and Deputy Prime Minister respectively.

More significantly still, tax collection fell precipitously during the campaign and was never to recover fully (see Table 2). The IMF became increasingly concerned about this problem and on occasion withheld tranches because of inadequate government efforts to improve it. Yet the problem was inherently more politically difficult, and attempt to solve it more easily portrayed as intrusive, than the earlier one of excessive credits. For the preponderance of tax revenue* was withheld by a very small number of oligarch-owned companies who had not only become highly influential within the powerful executive but had gained control over most of the print and broadcast media outlets. The World Bank would later estimate that had Gazprom (formerly headed by Victor Chernomyrdin) been required to pay all of its tax obligations in 1995, these would have gone some way towards shrinking Russia's budget deficit (by contributing somewhere between 2 and 3% of GDP).⁽³⁴⁾ However, any move by the government, and by extension any pressure exerted on the government by the IMF, to challenge these interests would inevitably evoke both direct resistance from the oligarchs and efforts to mobilise opinion in their favour- as the Kiriyenko government was to find out in 1998.

Table 2: Russian government revenue and expenditure 1992-1998 (as % GDP)

	1992	1993	1994	1995	1996	1997	1998 (first half)
Federal Government Revenue	15.6%	13.7%	11.8%	12.2%	13%	11.9%	10.2%
Federal Government Expenditure (%GDP)	26%	20.2%	23.2%	17.6%	22.1%	18.9%	16.1%

(compiled from IMF, *World Economic Outlook*, May 1998, p.100 & October 1998 p.70)

The problem became increasingly obvious to the IMF. In April 1997, whilst praising Russia's achievements at cutting inflation, stabilizing the exchange rate and reducing the government deficit, Michel Camdessus noted that there were still core problems to be addressed, one of which was 'the exceedingly close relationship between the government and a number of large enterprises, which allows many to benefit from explicit or implicit tax exemptions, to exploit flaws in the tax system to avoid paying taxes - ;and even to engage in tax evasion.'⁽³⁵⁾ In 1998 the Managing-Director would in strikingly outspoken terms refer to this as 'crony capitalism'.⁽³⁶⁾ Overcoming Russia's crisis, as Fund staff recognized, required deep institutional reforms. This fitted within a more general view growing within the Fund that 'modernizing the state', introducing accountability, transparency, the rule of law, and an effective judiciary, at the same time as rooting out corruption, are all vital elements of ensuring growth and the efficient functioning of a market economy.⁽³⁷⁾

The real conflict between politicians and oligarchs began to emerge after Yeltsin, determined to prove his vigour and commitment to reform after his recovery from heart surgery, appointed Anatoly Chubais* and Boris Nemtsov as First Deputy Prime Ministers in March 1997. Nemtsov, a popular and reforming provincial governor, set about challenging the oligarchs' interests on a range of issues: the elimination of insider privatisation, the reform of natural monopolies and the punishment of tax debtors. With the encouragement and support of the IMF, this new reformist government's conflicts with the oligarchs -whose election-time unity had now dissipated- escalated. The battle was to become more serious still, and generate growing hostility to the IMF, as global financial instability exposed the fragility of the new Russian political economy. It is the interaction of the two, and their culmination in crisis, that defines the fifth and final phase of the Russia-IMF relationship.

Phase Five: The Crash (October 1997-September 1998)

In economic terms 1997 has been the most successful year to date since Russian independence. Output actually rose slightly (by 0.8%) for the first time, and the stock market continued to grow impressively. The budget deficit remained worryingly high at 7% of GDP, but the domestic and foreign attractiveness of government bonds encouraged officials to predict that Russia would need no further IMF funds after the full disbursement of the current loan.⁽³⁸⁾ But in October contagion from the East Asian financial turmoil forced Russia to defend the ruble by raising interest rates. This in turn increased the already heavy burden of interest repayments on loans and so began a slow spiral into a debt trap. The problem of financing the deficit redoubled government efforts at revenue collection, including the formation of a Temporary Extraordinary Commission on Strengthening Tax and Budget Discipline, which was empowered to seize and sell off the assets of tax debtors. Such actions, and IMF support for them, provoked a furious response from the oligarchs. One of those most threatened, the head of the LogoVAZ group Boris Berezovsky, had close ties to Yeltsin's family. The newspaper *Nezavisimaya Gazeta* which he owned printed excerpts of letters from the IMF and World Bank to the Prime Minister Viktor Chernomyrdin under the headline "Why Does Russia Need a Government of its Own?"⁽³⁹⁾ Less than two weeks later the powerful mayor of Moscow, Yuri Luzhkov, weighed in on the same theme of national dependence on the IMF, describing it as a "national disgrace".⁽⁴⁰⁾ Powerful voices were now openly arguing that the Fund was a threat to Russia's sovereignty.

These voices were to grow stronger. In March 1998 Yeltsin once again tipped the balance of the struggles over policy in favour of reformers by dismissing the Chernomyrdin government and replacing it with one led by Sergei Kiriyenko. The new administration brought a zeal and determination to reform unmatched since the early months of 1992. Its concerted campaign of tax collection, in particular, brought it into a confrontation with Gazprom and other oligarchical interests, whose inconclusive outcome revealed the limits to the power even of committed reformers backed by the IMF.⁽⁴¹⁾

The continuing revenue shortfalls, exacerbated by falling oil prices due to the East Asian crisis and combined with the high debt service burden which absorbed 36% of revenues by July, finally led to crisis in the summer of 1998. Fear of Russia's inability to maintain the

high interest payments on foreign debt and to defend the ruble exacerbated the international "flight to quality" triggered by turmoil in financial markets. Faced with sharp falls in its reserves the government appealed for foreign assistance on 19 June, one day after the IMF withheld yet another monthly tranche.⁽⁴²⁾ After difficult negotiations the IMF agreed to provide \$11.2bn of new funds for currency support which, with contributions from the World Bank and Japan, made a package of \$17.1bn of new loans. The IMF part of the package envisaged an unprecedented use of resources for the organisation. Indeed, when the Press reminded Stanley Fischer that he had previously said that \$10bn was too much

for a single country to draw, the First Deputy Managing Director replied: "Ten billion was too much for us, and we have had to draw on the GAB".⁽⁴³⁾ The General Arrangements to Borrow, activated for the first time since 1978, provided an \$8.2 billion augmentation of Russia's Extended Fund Facility, with the remainder of the new loan coming in the form of a \$2.9 billion credit under the IMF's Compensatory and Contingency Financing Facility, which exists to provide temporary compensation for a shortfall in export earnings. The final package was approved by the Executive Board on 20 July in a non-unanimous vote.⁽⁴⁴⁾

In return the government committed itself to further tax-raising and collecting measures aimed at reducing the budget deficit from 12% in June 1998 to 2.8% in 1999. These commitments prompted a fresh outburst of collective criticism from oligarch interests. More importantly, the Duma balked at key tax-raising provisions of the government's anti-crisis package, which were subsequently imposed, contrary to constitutional norms, by presidential decree. This is not the only legal question raised by the new IMF loan, which still has not, at the time of writing, been submitted to the Duma for ratification as required by Russian law. Consequently, the country is still not formally bound by its terms.⁽⁴⁵⁾

The massive loan package could not stave off the banking and currency crisis. In the last weeks of July, as Treasury bill rates rose and equity prices fell, massive capital outflow put irresistible pressure on the ruble. Only three days after President Yeltsin announced that such a measure would not be taken, Prime Minister Kiriyenko announced on 17 August a 34% devaluation of the currency that soon became a de facto float, a 90-day moratorium on some commercial foreign debt and a forced restructuring of short-term ruble debt. The entire \$4.8bn first tranche of the new loan had been used up in a failed attempt to support the ruble that served only to assist capital flight.

Within another six days Yeltsin had dismissed the Kiriyenko government and brought Chernomyrdin, the preferred candidate of the oligarchs, back as Prime Minister-designate. Three days later Camdessus flew to Crimea to enter into urgent talks with Chernomyrdin and make clear the dire consequences of populist measures like the printing of money or the

reimposition of prices and foreign exchange controls. Camdessus argued instead that Russia must maintain monetary discipline and re-establish exchange rate stability in order to receive any further assistance from the international community.⁽⁴⁶⁾ As it turned out, Camdessus was talking to the wrong man.

In a move that confirmed both the resurgence of the Duma and the decline of oligarch power during the crisis, the parliament refused to endorse Chernomyrdin as Prime Minister. Yeltsin was forced instead to propose the Foreign Minister Yevgeny Primakov, who was popular with the Parliament. Primakov formed a government of Soviet-era survivors like himself, notably Yuri Maslyukov, the former head of

the state planning agency Gosplan, who became First Deputy Prime Minister in charge of economic policy. Viktor Gerashchenko, who had resigned as Central Bank Chairman in October 1994 after the last ruble crash, returned to his old position in place of Yuri Dubinin.

Concluding thoughts: The prospects for the IMF and Russian economic reform

This paper began by asking whether external assistance, and in particular the IMF, has helped or harmed Russia, or indeed whether it has been irrelevant. The answer is somewhat mixed. In terms of the narrow mandate of the IMF (its goal to influence macroeconomic stabilization in Russia) there have been some successes. Within the various phases analyzed in this paper, inflation has at times been controlled, and government expenditure and monetary policy have been tightened. However, in the early phases of reform, the IMF was too slow in offering assistance to help leverage and consolidate the position of reformers sympathetic to macroeconomic stabilization: partly of course due to the ambivalence of the Fund's major shareholders. At the same time, the record of the Fund's staff and technical expertise, even within their narrow mandate, has not been impeccable. Early on the institution failed to foresee the dangers of insisting on a common rouble zone, and also consistently failed to foresee or to take into account in its programmes the dramatic collapse in Russian output. More fundamentally, the Chief Economist of the World Bank now argues that giving foremost priority to achieving very low inflation - the Fund's traditional emphasis - may in many cases have been 'misguided'. Indeed, in propounding solutions, he writes that today 'a greater degree of humility is called for' in both the IMF and the World Bank.⁽⁴⁷⁾

Likewise, other economists (including several Nobel Laureates) have criticized the overall priorities and objectives of the reforms which have been so strongly advocated by the IMF.⁽⁴⁸⁾

The Fund, by its own admission, must now move beyond its traditional mandate and expertise which have focussed on 'stabilization'. It has recognized that Russia needs deeper, institutional reforms including strengthened banking supervision, regulation, and a stronger judicial system, rule of law, and property rights.

However, while the Fund's mandate, intellectual capital and shareholder pressure influence their programmes, implementation has largely been determined by the political and institutional environment within Russia. Ironically, however, the IMF's involvement in the country may have shaped the evolution of some adverse domestic conditions. In particular, the real (if temporary) successes of the 1995-97 stabilization, achieved with large financial assistance and close co-operation from the Fund, contributed to the growth and entrenchment of the position of oligarchs. And it is these interests which have proven inimical to necessary reforms. In other words, the very reforms which the IMF now see as crucial are being blocked by the financial-industrial groups which so benefited from the successes of 1995-7.

The broader question raised is whether the IMF should continue to lead the West's effort to provide assistance and advice to Russia. The IMF is not an institution endowed with expertise about `reforming' or `modernizing the state', even if it recognizes that this is what Russia needs. When it took a lead on Russia in 1991, it was stepping into a mine-field of Western interests and aspirations - a situation which took it well beyond its traditional mandate. It must now try to stay deeply involved in Russia, not least because the country owes it so much. Yet, the Fund has not, and perhaps can not, radically adapt to the challenges of advising and promoting requisite institutional reforms in transition economies. It has tried, with very limited success. While it remains stuck predominantly within its traditional mandate, it is difficult to see a relevant positive role for it in Russia today.

So where does this leave the IMF? The mega-package of assistance lent to Russia earlier this year failed to stabilize the currency or to avert the crisis of confidence in the Russian economy, furthermore, the Fund's policies are now blocked by the oligarchs and rejected by the government. In other words, in 1998 the Fund failed on two counts: both in the narrow and immediate aim to stabilize, as well as in the long-term goal of fostering the right conditions for reform in Russia. Unsurprisingly the institution came under blistering criticism for its failure, coming so close on the heels of what has been widely perceived as a failure to deal appropriately with the East Asian crisis.⁽⁴⁹⁾ Yet it would seem that the institution will survive. As the fear of global recession, plummeting currencies, and a spreading global financial crisis is reminding politicians of when and why the IMF was created, and why they might need such a global institution, the US Congress have finally approved the IMF's quota increase and payment of their share of it, and world leaders are talking about a role for the IMF in containing financial crises and using resources to prevent contagion. In deploying resources in this way, however the IMF must still answer to the challenges exposed by its involvement with Russia. If it cannot focus on `second generation reforms' itself, it must work much more closely and cooperatively with other better placed institutions that can - at both the regional and the global level.

Meanwhile, Russia's economic situation is bleak. The failure to restructure the economy, and its fiscal consequences, remain a long-term problem. This is exacerbated by chronic state weakness that is manifested in widespread corruption: predatory mafias, tax evasion and illegal capital outflows. The total cost of corruption has been estimated at \$15 billion a year, and officials have acknowledged the misappropriation even of foreign assistance.⁽⁵⁰⁾ The consequences of this dismal picture are clear: the resumption of output decline and inflation, the growth of wage arrears and barter, and the demonetisation of what has been described as a "virtual economy".

The new Russian government is not opposed to the renewal of foreign assistance on principle, but it is playing a dangerous game. On the one hand, it desperately needs such help to cover the budget deficit. On the other hand it has been far more critical of the Fund than previous Russian governments and its

tactics rather more aggressive than those of a traditional demandeur.⁽⁵¹⁾ Its threat to default on loans unless international funding is restored have been described as "a form of blackmail" by IMF officials.⁽⁵²⁾ Its proposals for tackling the economic crisis have been criticised by the IMF and the United States. With no new reform ideas, few available policy choices and foreign lenders deeply wary, this picture is in some respects worse than in 1992.

Nonetheless, it is possible that the crisis may have had unexpectedly beneficial consequences that in the long term assist the country's recovery. Most of the bank-based oligarchs were made technically insolvent by the events of August 1998. Furthermore, until now their political influence has been exerted through the Presidency which is now drastically weakened. Russia's prospects will now depend to a large degree on whether or not the new government takes advantage of this situation. While the instincts of the Primakov government are not radically reformist, neither does it seek a return to communism. The government has yet to re-establish a lending relationship with the IMF, after the Fund suspended its loans in August 1998. Should the present government resist the temptation to bail out the oligarchs, it may well both help rid the economy of what are essentially parasitic structures, and lay the ground for a new relationship with the IMF.

Endnotes

1. Andrei Illarionov, *Testimony* before the General Oversight Subcommittee Hearing to Examine the Russian Economic Crisis and the International Monetary Fund ("IMF"), 10 September 1998.
2. Of course, the IMF does provoke nationalist reactions and criticism that it infringes on its members' sovereignty. Nevertheless, it has a defence against such criticisms, in the words of Managing-Director Michel Camdessus (to the Russian Press): 'We don't impose conditions on governments. Russia is a great country, but if you were a small country, my attitude would be the same. If a program were to be imposed from outside, its chances to be fulfilled, to be implemented, would be minimal. For a program to have its chances, it has to be seen as really the program of the country, elaborated by the country. But it also has to be credible to the international community'. Michel Camdessus, *IMF Survey* 22 Feb 1993, p.51.
3. Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford, Oxford University Press, 1996).
4. In his words: 'our role at the IMF is not to wait for all such risks to be eliminated before taking action, but even in chaotic circumstances of history to sit down with the authorities of a member country and see how we can help...': Michel Camdessus, 'Russia's Transformation Efforts at a Turning Point', Address to the US-Russia Business Council, *IMF Press Release* 95/5, 29 March 1995.
5. For an overview of the transition see: European Bank for Reconstruction and Development, *1997 Transition Report* (London, EBRD, 1997); Anders Aslunch, *Russia's Economic Transformation in the*

1990s (London, Pinter, 1997). For the IMF's account of the 1998 crisis and its roots see: IMF, *World Economic Outlook: Financial Turbulence and the World Economy* (October 1998) pp. 66-78.

6. See, for example, Jeffrey Sachs, "Why Russia Has Failed to Stabilize" in Anders Aslund ed., *Russian Economic Reform at Risk* (London: Pinter Publishers, 1995); Jeffrey Sachs, *New York Times* January 23, 1994.

7. As Russian economist Oleg Bogomolov put it, "The policy of the West was mistaken and in part it will have to pay. It gave recommendations that didn't work and it gave credits that went to prolong a political regime rather than solve our economic problems": *New York Times* September 15, 1998. See also Georgii Arbatov, "Neo-Bolsheviks of the IMF", *New York Times* May 7, 1992.

8. Vladimir Yevstigneyev, "Russia and the Credit Policy of the IMF and IBRD", *Mirovaya Ekonomika i Mezhdunarodnye Otnosheniya* no. 6 (1996); Peter Rutland, "The IMF: Savior or Sinner?", *OMRI Analytical Brief* 10 (1996). Stanislav Glumlka argues both that external assistance can only play a marginal role, and that the IMF's policies have on balance benefited transition economies: 'The IMF-Supported Programs of Poland and Russia, 1990-1994: Principles, Errors and Results', *Journal of Comparative Economics* 20:3 (June 1995).

9. Between 1986 and 1989 the Soviet Union's foreign debts rose from US\$30.7 billion to US\$53.8 billion: World Bank, *World Debt Tables* (1990) pp.92-93.

10. The 'IMF Institute' was expanded to provide courses for officials concerned with transition to the market, and staff in the Monetary and Exchange Affairs Department, Legal Department, Fiscal Affairs Department, and the Statistics Department were made available to provide technical assistance. By December 1991, it was estimated that between 120 and 130 (or one in six) IMF economists were now working on countries in transition and the IMF announced it was creating a new Department to deal with the former USSR: *Financial Times* 14 December 1991 p.2: 'IMF creates section to deal with Soviet republics', by Michael Prowse.

11. Later published as IMF, World Bank, European Bank for Reconstruction and Development, and Organization for Economic Cooperation and Development, *A Study of the Soviet Economy* (Vols 1 & 2) (IMF, Washington DC, 1991).

12. *Current Digest of the Soviet Press* vol. 43 no. 43 p. 5 (1991).

13. Jeffrey Sachs, "The Grand Bargain", in Anders Aslund (ed.), *The Post-Soviet Economy: Soviet and Western Perspectives* (London: Pinter Publishers, 1992). The figure of \$100bn was calculated as the equivalent per capita value of aid to Eastern Europe from 1989 to 1991. By extension, assistance to Russia alone would be about \$48bn. At the end of 1991 Sachs called for \$15-20bn in assistance to Russia the following year. "Goodwill is not enough", *Economist* December 21, 1991. For a critique of Sachs' view see Peter Reddaway,, Prepared Statement to the Hearing before the Committee on Banking, Housing and Urban Affairs, United States Senate, *Impact of IMF/World Bank Policies Toward Russia and the Russian Economy* (8 February, 1994: S. HRG. 103-508) pp 76-78.

14. The US Secretary of State James Baker was warning of a possible 'fall toward fascism or anarchy': *Financial Times* 13 December 1991 p.18.

15. See Appendix and Table A.1 to Jeffrey Sachs, 'Prepared Statement' to United States Senate, *Impact*

of IMF, pp, 74-75; *New York Times* 2 April 1992, 28 April 1992.

16. *Russian Economic Trends* vol. 1 no. 1 (1992), p. 10.

17. As early as April 1992 Chairman of the Supreme Soviet Ruslan Khasbulatov was dismissing the potential of IMF help and calling for "adjustments" to economic policy: *Current Digest of the Post-Soviet Press* vol. 44 no. 14, p. 12. Gaidar cited the need for IMF funding when defending unpopular budget proposals: Keith Bush, *RFE/RL Research Report*, 10 April 1992.

18. The Central Bank should not be held solely responsible for the inflation. The government also significantly expanded off-budget credits: see Jerry F. Hough, Evelyn Davidheiser and Susan Goodrich Lehman, *The 1996 Russian Presidential Election* (Washington DC: Brookings Institution, 1996).

19. IMF, *Annual Report 1993*, p.60.

20. Such complaints were made even by Russian reformers. See Yeltsin's criticisms of the Fund in July 1992: *Current Digest of the Post-Soviet Press*, vol. 44 no. 27, p. 3 (1992); the comments of Economics Minister Alexei Nechayev, cited in *RFE/RL Research Report no. 36*, p. 67

21. Anders Aslund, *How Russia Became a Market Economy* (Washington DC: The Brookings Institution, 1995), chapter 4; Marshall I. Goldman, *Lost Opportunity: why economic reforms in Russia have not worked* (New York: Norton, 1994), pp. 108-112; and Philip Hanson, *RFE/RL Research Report no. 30*, 1992.

22. The Managing-Director of the IMF later admitted: 'No one foresaw the scale of the collapse in output that occurred in these economies, or the extent of the erosion of fiscal revenues that stemmed partly from it': IMF, 'Supporting Transition in Central and Eastern Europe: An Assessment and Lessons from the IMF's Five Years' Experience', *Second Annual Francisco Fernandez Ordez Address*, by Michel Camdessus (delivered in Spanish), Managing Director of the International Monetary Fund, Madrid, December 21, 1994.

23. See the Appendix of Jeffrey Sachs, "Statement to the Committee on Banking, Housing, and Urban Affairs" (1994).

24. *Economist*, 25 September, 1993, p. 41.

25. This concern was explicit in the introductory remarks of Chairman Donald W. Riegle, 'Impact of IMF/World Bank Policies Toward Russia and the Russian Economy', Hearings before the Committee on Banking, Housing, Urban Affairs, February 8, 1994.

26. "Betrayal", *The New Republic*, 31 January 1994; Statement to the Committee on Banking, Housing, Urban Affairs, February 8, 1994.

27. See IMF Press Releases 94/29 and 95/21 (11 April 1995): by the end of the year inflation was twice as high as had been envisioned in the programme, the net international reserve target was missed by a wide margin, and fiscal policy had moved 'significantly off track'.

28. Yegor Gaidar, "The IMF and Russia", *American Economic Review* (May 1997).

29. Anders Aslund, *Transition*, 26 January 1996, vol 2 no 2.

30. World Bank, *World Development Report 1998* (Washington D.C.; World Bank, 1998).
31. *Economist*, 13 July 1996. Other devices are described in *OMRI Daily Digest*, 28 May 1996.
32. *Current Digest of the Post-Soviet Press*, vol. 48 no. 23 (1996) pp. 9-10.
33. *Current Digest of the Post-Soviet Press*, vol. 48 no. 30 (1996), p. 24.
34. World Bank, *World Development Report* (Washington DC, 1998), Box 7.1.
35. *IMF Press Release 97/5*.
36. IMF, *Press Release 98/17*, Address by Michel Camdessus, 'Crisis in Emerging Market Economies: the Road to Recovery', New York 15 September 1998.
37. See IMF, *World Economic Outlook 1998* (IMF, Washington D.C., 1998); IMF, *Good governance: the IMF's role* (Washington D.C.; IMF, 1997).
38. See, for example, Yeltsin's statement reported in RFE/RL Newsline, 18 September 1997.
39. *Nezavisimaya Gazeta* December 18, 1997, in *Current Digest of the Post-Soviet Press* vol. 49 no. 51 p. 8 (1997).
40. RFE/RL Newsline, 30 December 1997.
41. *Tribuna*, April 28, 1998 cited in RFE/RL Newsline April 30, 1998. *Tribuna* is owned by Gazprom.
42. The tranche was approved on 25 June.
43. Transcript of Press Briefing on Russia by Stanley Fischer at IMF Headquarters, 13 July 1998.
44. *IMF Press Release 98/31*.
45. The key provision is Article 5 of the December 1994 law, "On state foreign borrowing of the Russian Federation and state credits granted by the Russian Federation to foreign states, their juridical persons and international organisations". We are grateful to Dmitri Gusev for help in finding the text of this law. The government in July 1998 argued that ratification was unnecessary because the loan was to be added to reserves rather than used in the budget.
46. Transcript of IMF Press Conference of Michel Camdessus (28 August 1998).
47. Joseph E. Stiglitz, *More instruments and broader goals: Moving toward the Post-Washington consensus* (Helsinki, WIDER/United Nations University, 1998).
48. Michael Intriligator, 'Round table on Russia: A new economic policy for Russia', *Economics of Transition* 5:1, 1997, pp. 225-227.
49. See Martin Feldstein, 'Refocusing the IMF', *Foreign Affairs*, 77:2 (March/April 1998) pp. 20-33.

50. For example, at least \$240m of a World Bank loan for restructuring the coal industry is unaccounted for. Baltimore Sun, July 19 1998. (reproduced in Johnson's Russia List no. 2272). Venyamin Sokolov, the head of Russia's Chamber of Accounts, has included foreign funds and credits in his catalogue of corruption cases. See the interview in "Russia's Fiscal Whistleblower", *Mother Jones*, 16 June 1998; and also *Daily Telegraph* 21 September 1998.

51. For example, Yuri Maslyukov has said of the Russian crisis that "We did not just fall into this pit by ourselves -it was also thanks to our 'skilful' partners in the International Monetary Fund...[T]here is only one way out -we must be understood, and we need help. We demand that help". Reuters, 5 October 1998.

52. *New York Times*, 4 October 1998.