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RUSSIA UKRAINE CIS at the Beginning of the Year 2000

Hybrid Economies Benefit from Devaluation

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Contents

List of Tables and Figures

Russia

Ukraine

CIS

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Russia

Summary

The crisis that hit Russia in August 1998 turned out to be the major economic and political shock since the collapse of the Soviet Union in December 1991; it is having far reaching and lasting consequences. The country was thrown several years back and is again on the threshold of default. Moreover, the idea of liberal reforms and co-operation with the West has been largely discredited. Even after successful negotiations with the International Monetary Fund and the Paris and London Clubs of creditors on foreign debt restructuring, debt service payments will still constitute a substantial portion of federal spending in the coming years, thus reducing the ability of the state to provide public goods and weakening federal powers still further. At the same time, the economic damage of the crisis proved to be smaller than feared. Hyperinflation could be avoided, and the domestic economy has started to recover quite strongly, taking advantage of the weak rouble. Post-crisis Russian governments have pursued policies aimed at preserving the status quo until the parliamentary and especially presidential elections.

The potential of import substitution, combined with fairly tight fiscal and monetary policy, make short-term prospects not too bad. The government's projections underlying the restrictive budget draft for 2000 are accordingly optimistic: economic growth of 1-2%, and year-end inflation not exceeding 20%. At the same time, the complex institutional and structural ailments which are primarily responsible for the poor economic performance will not be cured easily. Corruption, poor law implementation, non-transparent corporate governance, an inefficient tax system, and the monopolistic structure of markets may not hamper the short term prospects, but are certainly serious obstacles for long-term sustainable growth.

In the medium and long run, a lot will depend on political developments, particularly the outcome of the presidential elections in the year 2000. Whatever political force comes to power (and Mr. Putin's chances are exceptionally good), its room for manoeuvre will be constrained by substantial debt service obligations and the need to co-operate with the left-dominated Duma. The resumption of radical reforms similar to those of 1992 is very unlikely, as there is a lack of popular support for such policies. Mr. Putin's 'liberal nationalism' and pragmatic policies may bring about the badly needed political stability. The climate for investment will gradually improve, allowing for moderate growth of the economy in the medium-term perspective.

1 Introduction

The continuous turbulence in financial markets during late 1997 and early 1998 and the dismissal of the Chernomyrdin government in March 1998 increased political risks in Russia. Moreover, the growing inability of the government to service its rapidly accumulating internal debt was compounded by falling world prices for major commodities of Russian exports. Facing strong pressures on the rouble and deteriorating hard currency reserves, the Russian government of 'young liberals' headed by inexperienced S. Kiriyenko and the Central Bank of Russia (CBR) announced on 17 August 1998 three simultaneous measures:

– revising the rouble exchange rate corridor from 5.25-7.15 to 6-9.5 roubles per US dollar,
– declaring default on some RUB 280 bn rouble-denominated short-term government debt (GKO/OFZ) with its subsequent restructuring,
– imposing a three-month moratorium on foreign debt service by Russian companies by restricting their access to foreign exchange for this purpose.

These moves marked the abrupt end of the ill-conceived and over-ambitious anti-inflationary policies pursued during the previous two years and have had a profound and lasting impact on current economic policy thinking in Russia. Past policies had been narrowly focused on restricting the money supply and on the stability of the exchange rate, with 'non-inflationary' financing of the chronic budget deficit by issuing short-term high-yield government bonds instead of introducing fiscal reforms. Though temporarily successful in bringing down inflation even to single-digit annual figures in early 1998, this combination of tight monetary and loose fiscal policies failed, and has subsequently caused a deep financial crash which clearly indicated that the country had been living beyond its means. In addition, with a clearly overvalued exchange rate, the trade surplus diminished and the current account turned into a deficit in the first half of 1998. The first disbursement of USD 4.8 bn from the hastily arranged July 1998 IMF stabilization package vanished rapidly as the Central Bank attempted to support the rouble in vain while investors lost confidence in the sustainability of the GKO/OFZ pyramid.[1] As a result, after the August 1998 financial crash the rouble devalued far beyond the lower boundary of the new corridor, thereby creating an upward pressure on prices and causing insolvency of nearly half of Russian banks who were heavily involved in unhedged transactions with GKOs. Furthermore, the credit squeeze and a sharp devaluation have led to a de facto default on the government's external debt.

[1] In total, the CBR spent USD 9.1 bn during July-August 1998 in order to support the rouble – see interview with CBR Chairman V. Geraschenko, 15 October 1999, Russia Today Internet Homepage.

Table 1

Russia: Selected Economic Indicators

	1995	1996	1997	1998 [1]	1998 January-September	1999 January-September	1999 estim.	2000 forecast	2001 forecast
Population, th pers., end of period	147976	147502	147105	146714	.	.	146000	145500	145000
Gross domestic product, RUB bn, nom.	1540.5	2145.7	2521.9	2684.5	1850.7	3119.0	4500	6200	8000
annual change in % (real)	-4.1	-3.4	0.9	-4.6	-3.0	1.5	3.2	2	3
GDP/capita (USD at exchange rate)	2255	2835	3011	1882	.	.	1252	1253	1379
GDP/capita (USD at PPP - WIIW)	6605	6586	6804	6574	.	.	6812	.	.
Gross industrial production									
annual change in % (real)	-3.3	-4.0	1.9	-5.2	-3.7	7.0	8.1	3	3
Gross agricultural production									
annual change in % (real)	-8.0	-5.1	1.5	-12.3	-7.4	-2.0	2.4	.	.
Goods transport, bn t-kms	3533	3370	3256	3147	.	.	.	.	.
annual change in %	-1.0	-4.6	-3.4	-3.3	.	.	5.2	.	.
Gross fixed investment, RUB bn, nom.	267.0	376.0	408.8	402.4	262.9		.	.	
annual change in % (real)	-10.0	-18.0	-5.0	-6.7	-6.0	1.7	1	5	7
Construction output total									
annual change in % (real)	-9.0	-14.5	-6.4	-8.0	-3.6	0.5	3	.	.
Dwellings completed, th units	602.0	481.5	430.3	388.0	.	.	.	.	.
annual change in %	-1.5	-20.0	-10.6	-9.8	.	.	6	.	.
Employment total, th pers., average	66441	65950	64639	63642	63400	64333	65000	.	.
annual change in %	-3.0	-0.7	-2.0	-1.5	-1.5	0.9	2	.	.
Employment in industry, th pers., average	17182	16366	14893	14132	.	.	.	.	.
annual change in %	-7.5	-4.7	-9.0	-5.1	.	.	.	.	.
Unemployed reg., th, end of period [2]	6539	7280	8133	9728	8585	8650	8700	.	.
Unemployment rate in %, end of period [2]	9.0	9.9	11.2	13.3	11.9	11.7	12	12	12
Average gross monthly wages, RUB	532.6	790.2	950.2	1049.3	1058.9	1464.7	1575	.	.
annual change in % (real, gross)	-28.0	6.0	5.0	-13.0	-0.8	-32.4	-23.2	.	.
Retail trade turnover, RUB bn	554.2	763.8	887.2	1068.2	689.4	1214.2	1722.8	.	.
annual change in % (real)	-7.2	-2.8	4.0	-4.6	-0.8	-14.1	-7.7	.	.
Consumer prices, % p.a.	197.5	47.8	14.8	27.6	13.1	105.4	85.7	22	20
Producer prices in industry, % p.a.	236.5	50.8	15.0	7.1	3.4	54.6	59.8	45	30
General government budget, RUB bn									
Revenues	437.0	558.5	711.6	657.1	.	.	.	.	.
Expenditures	486.1	652.7	839.5	753.0	.	.	.	.	.
Deficit (-) / surplus (+)	-49.1	-94.2	-127.9	-95.9	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-3.2	-4.4	-5.1	-3.6	.	.	.	.	.
Money supply, RUB bn, end of period									
M1, Money	151.3	192.4	298.3	342.8	274.1	431.0	.	.	.
M2, Money + quasi money	275.8	357.3	457.2	628.6	520.0	823.5	.	.	.
Refinancing rate of NB % p.a., end of per.	160	48	28	60	60	55	55	.	.
Current account, USD mn	7736	12116	3924	2056	-4438	14579	17000	15000	10000
Gross reserves of NB, incl. gold, USD mn	17207	15324	17784	12223	12700	11212	12456	.	.
Gross external debt, USD mn	120500	125000	130800	145000	.	.	150000	.	.
Exports total, fob, USD mn [3]	81096	88599	88252	73871	54800	50800	73000	78000	82000
annual change in %	20.1	9.3	-0.4	-16.3	-13.3	-7.3	-1	7	5
Imports total, cif, USD mn [3]	60945	68828	73460	59573	49400	29500	42000	46000	55000
annual change in %	20.6	12.9	6.7	-18.9	-4.8	-40.3	-30	10	15
Average exchange rate RUB/USD	4.55	5.12	5.79	9.71	7.11	24.07	24.62	34	40
Average exchange rate RUB/EUR (ECU)	5.89	6.63	6.54	11.06	7.88	25.89	26.24	.	.
Average exchange rate RUB/DEM	3.18	3.41	3.34	5.62	4.00	13.24	13.42	.	.
Purchasing power parity RUB/USD, WIIW	1.58	2.21	2.52	2.78	.	.	4.53	.	.

1) Preliminary. - 2) Based on Labour Force Survey data. - 3) Including estimate of non-registered trade.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Perhaps more important from a longer-term perspective, the crisis discredited liberal reforms and their proponents in Russia, including western economic advice; it brought left-leaning political forces to power. In this political and economic environment, many observers predicted a coming major revision of the austere monetary policies pursued by the previous governments, excessive monetary emission, large-scale re-nationalization of privatized property, a ban on hard currency circulation and hyperinflation. However, none of this really happened. Instead, the new post-crisis government headed by Ye. Primakov pursued a pragmatic and stability-oriented policy, and its course was reform-oriented enough to convince the IMF to give Russia another USD 4.5 bn loan in July 1999 – if only in order to avoid a formal default on previous IMF credits. The long-awaited industrial recovery started already in autumn 1998, just two months after the outset of the rouble crash, and has been proceeding with impressive rates since then. The trade balance improved substantially. The share of barter transactions and wage payment arrears has decreased, inflation rates have been moderate and declining, and, quite unexpectedly, the federal government has probably exceeded its primary budget surplus target of 1.6% of GDP set for 1999.

In their combination, these macroeconomic developments represent a remarkable progress which had been targeted at – but never achieved – in the years prior to the 1998 crisis. At the same time, these achievements are to be considered against the background of still weak investment and falling living standards, a fundamental mistrust to the domestic banking system, the virtual inability of Russia to service its external debt, and the political uncertainties on the eve of the presidential elections. The emergence of Mr. V. Putin as a new political star in Russia can largely be attributed to his tough handling of the crisis in Chechnya. But his pragmatic and energetic actions during the first weeks of the new century as acting Russian president give at least some hope for an improvement in stability and economic environment in the future.

The present paper provides an overview of economic developments in the period following the August 1998 crisis. It analyses the current economic situation and the country's short- and medium-term political and economic prospects. Dependent on this, tentative scenarios of Russia's economic developments and its ability to meet foreign debt obligations are discussed as well.

2 Domestic industry recovers in response to rouble devaluation

Initially, the 1998 financial crisis severely hit the real economy. Already the credit crunch in early 1998 had damaged the existing fragile economic equilibrium. After signs of stabilization and even faint recovery during late 1997 – early 1998, GDP growth ceased by March 1998 and, starting from May 1998, production renewed its decline. The collapse of the payments system as well as wide-spread inflationary expectations following the devaluation initially fuelled output decline still further. In 1998 as a whole, gross industrial production fell 5.2%, and GDP 4.6% year-on-year (Table 1). On top of this, a severe drought affected Russian agriculture: the 1998 grain harvest reached only half of the previous year's level, and gross agricultural production contracted by 12.3%. Western fears (largely unfounded and selfishly motivated) about impending food shortages resulted in the USA and the European Union providing emergency food assistance in early 1999.

Table 2

Russia: Industrial output by branches

percentage change against previous year

	1998	1999
Fuels	-2.5	2.4
Electricity	-2.5	0.2
Ferrous metals	-8.1	14.4
Non-ferrous metals	-5.0	8.5
Industrial machinery and metal cutting	-7.5	15.9
Chemicals and petrochemicals	-7.5	21.7
Building materials	-5.8	7.7
Logging, woodworking, pulp-and-paper	-0.4	17.2
Glass, china and ceramics	-0.7	19.5
Light industry	-11.5	20.1
Food processing	-1.9	7.5
Microbiological industry	-9.1	29.2
Flour-grinding and mixed-fodder	-5.0	-0.3
Medical and pharmaceutical industry	-4.5	11.1
Printing	-1.9	6.8
Others	-5.4	9.1
Total industry	-5.2	8.1

Source: Russian Statistical Agency, January 2000.

An immediate consequence of the crisis was a pronounced rouble devaluation and a subsequent upsurge of inflation which substantially worsened the living standards of the population, thus limiting aggregate demand. However, the negative income effect has been partly offset by positive substitution effects, with demand shifting from more expensive imports to cheaper domestically produced goods. Indeed, while the rouble devalued by 220% in nominal terms between July and December 1998 (the average exchange rate fell from RUB 6.2 per USD in July 1998 to RUB 20 per USD in December 1998), consumer price inflation in this period amounted to only 77%, meaning a devaluation in real terms by about 80% (Figure 1).[2] The devaluation led to a sharp drop in imports, which contracted by

[2] In the course of 1999, the rouble has been appreciating (especially if deflated by producer price index) in real terms – see Figure 1.

almost 20% in the course of 1998 and by another 30% in 1999 (in US dollar terms, year-on-year),[3] making room for the domestic industry to recover.

This effect was first noted in the food industry, which fell in 1998 as a whole by a mere 1.9% (compared to a decline of all industrial production by 5.2%). Foodstuffs typically constituted a large part (about a quarter) of Russian imports, and they also represent the major spending item of the Russian population. However, in the course of 1999 nearly all branches of industry started catching up, increasingly benefiting from the weak rouble (see Table 2). Overall, in January–November 1999 industrial production grew already by 7.8% year-on-year and by more than 8% in 1999 as a whole. Generally, branches oriented mostly towards the domestic market (e.g. machine building and the light industry), which were initially hit hardest, were recovering more strongly in the course of 1999.

Somewhat different developments were observed in fuels and electricity, which experienced a smaller decline in 1998 (of just 2.5%), but also a smaller upswing in January–November 1999 (2.3% and 0.7% growth, respectively). Both are suffering from supply bottlenecks, non-payments and stiff government regulations. At the urging of the government, fuels and electric power were supplied to several categories of domestic consumers (including the army and agricultural producers) at much lower prices or even for free. Besides, exports of crude oil are constrained by the conditions of the OPEC agreement,[4] on the one hand, and technical limitations of oil pipelines, on the other.

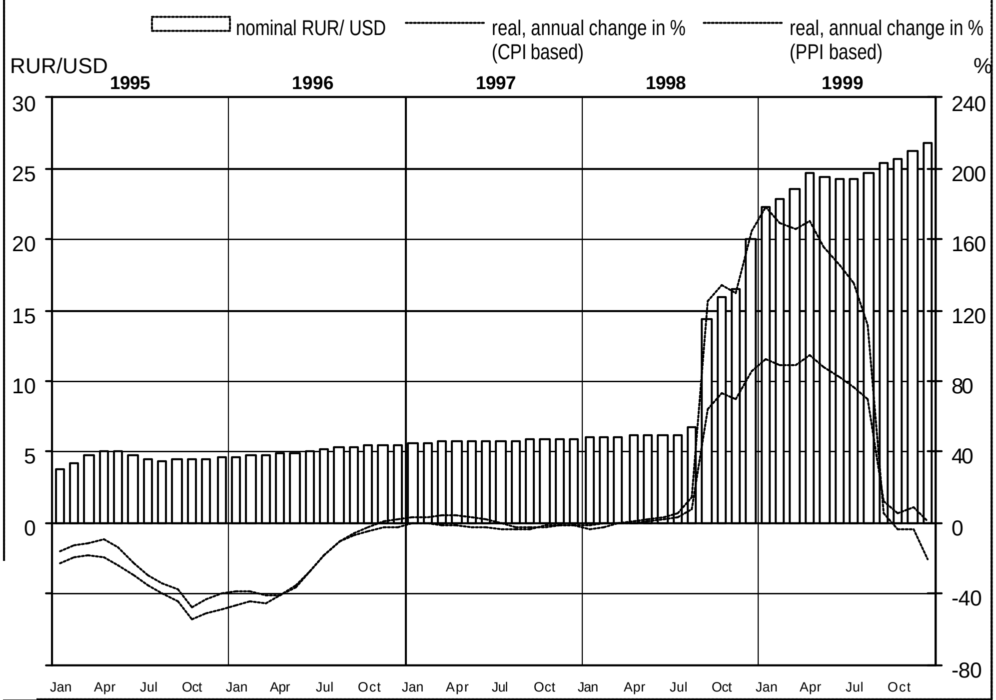
Monthly data (see Figure 2 and Statistical Annex, Tables A/2 and A/3) show that industry started to recover already in October 1998. In March 1999, the annual industrial production ceased to fall and exceeded for the first time the previous year's level: it was 0.4% higher than in March 1998 and 2.9% above the level of March 1997. Though the extremely high year-on-year growth rates in the subsequent months (double-digit annual increases from July 1999) are explained by the low output levels in the respective months of 1998, they also imply that industrial production has responded to higher domestic demand and was higher than in the corresponding months of 1997 – an encouraging sign. Therefore, whereas the industrial recovery before March 1999 can be roughly referred to as a compensation for output drops during 1998 (caused by the credit crunch before the crisis and the collapse of the payments system immediately after the crisis), the growth since March 1999 can be interpreted as a positive supply-side response of the real sector to a change in the real exchange rate which, as is obvious now, had been overvalued in the pre-crisis period. An important implication of this is that the current industrial recovery

3 The latter is, however, partly due to a marked 13% rise in the first half of 1998, reflecting a growing overvaluation of the rouble in pre-crisis months.

4 Russia is not a formal member of OPEC, but is attending its meetings and has also reportedly participated in the cartel agreement of March 1999 which underlies the recent world price increase for oil.

Figure 1

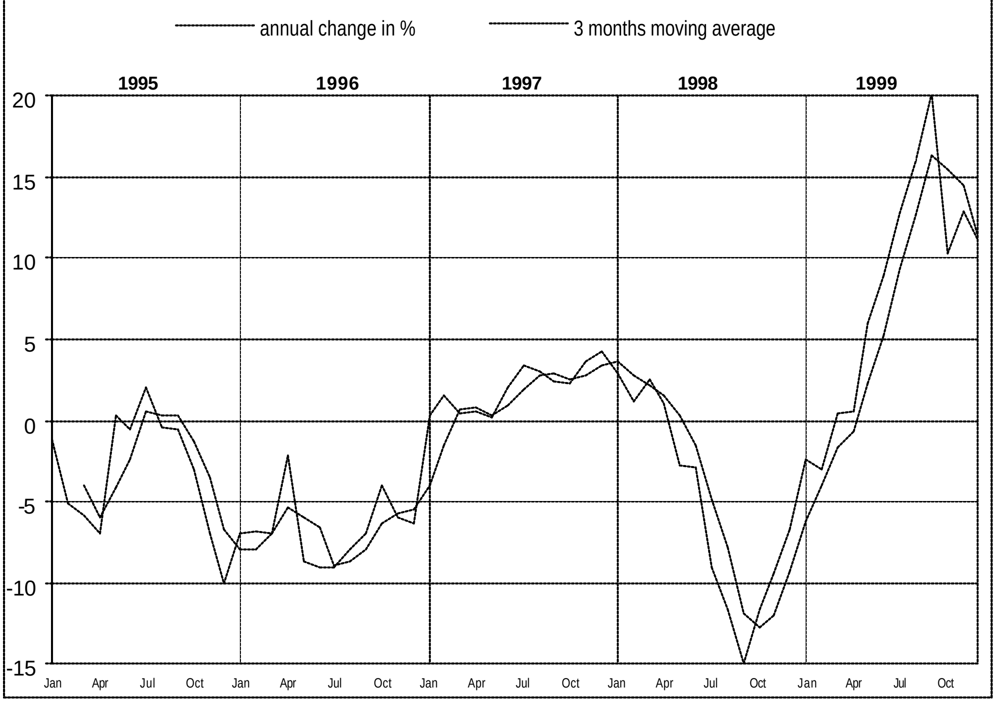
Russia: Exchange rates



Declining line means real appreciation.

Figure 2

Russia: Industrial production



seems to be led solely by import substitution while domestic demand is still depressed. Nevertheless, growing rouble revenues are improving the financial situation of enterprises, alleviating the problem of non-payments and reducing the share of barter transactions and wage arrears. The latter fell in the period December 1998 to September 1999 alone by about one third. The industrial recovery may also have prevented a further increase in unemployment.[5]

Nevertheless, sustained economic growth will require at least some degree of political stability, further restructuring and, last but not least, substantial investments. Until very recently, the latter was not the case. Gross fixed investment fell by 6.7% in 1998. True, in 1999 gross fixed investment was slightly up (by 1%) year-on-year, which could point to a coming reversal of the decade-long decline. Theoretically, the fact that the August 1998 crash has put an end to speculative financial market transactions could promote investments in the real sector. However, the latter will hardly happen soon, not only due to the persisting unfavourable institutional and legal environment, but also to the apparent shortage of domestic savings and the persisting capital flight. Conditions for foreign direct investment have not improved either, the recent widely publicized money laundering scandals in the USA and Switzerland, and property disputes in Russia, add to the existing disincentives to invest in Russia. During January–September 1999, less than USD 2 bn FDI inflows were registered.

Data on the dynamics and structure of national accounts are illustrative (see Statistical Annex, Table A/4). The share of net exports in GDP increased sharply as a reaction to devaluation: from 2.9% of GDP in 1997 to 7.5% in 1998 as a whole and 16.3% in 1999.[6] The share of gross fixed investment in GDP plunged from 19.4% in 1997 to 17.6% in 1998 and as low as 14.8% in 1999. This implies an even sharper decline of investment if measured as a percentage of (falling) domestic demand. The lack of investment is also inherently linked to the problem of political instability and capital flight (see below).

The upturn in industrial production has helped to alleviate the drop of GDP which declined by about 1% in the first half of 1999, much less than expected. Accordingly, virtually all projections of GDP for the year as a whole were subsequently revised upwards (the IMF originally expected a 7% GDP decline in 1999). The WIIW's latest projection was a nearly 2% GDP growth in 1999, while industrial output is expected to increase by more than 8% (Table 1). Meanwhile agricultural output fell by another 2% in January–September 1999, but an increase of 2.4% is reported for the year as a whole.[7] The services sector was

[5] Official statistics (revised data) suggests that the unemployment rate climbed from 11.3% in June 1998 to 14.1% in February 1999 and then fell below 12% from July 1999. But since much of unemployment has the form of unpaid leave, enterprises can increase their output without hiring new labour force. Nevertheless, the number of employed grew by nearly 2 million persons between August 1998 and August 1999.

[6] Preliminary Goskomstat data published in January 2000.

[7] See *Ekonomika i zhizn*, No. 4, January 2000, p. 30.

declining; in 1999 the retail trade turnover fell by 7.7% year-on-year. Before the 1998 crash a considerable share (about 50%) of trade had been involved in sales of imported goods which ceased to be affordable for the majority of consumers after the crisis. But the volume of goods transport grew by 5% in 1999 and housing construction increased as well. The latest official reports put the 1999 growth of GDP at 3.2%.

3 Inflation and living standards

One of the most dramatic immediate consequences of the August 1998 crisis was the jump in consumer prices triggered by the rouble devaluation. The latter had been long overdue as the rouble was clearly overvalued from early 1998 at the latest, but the scope of devaluation finally exceeded even the most pessimistic forecasts made before August 1998. After nearly two years of relative stability, the rouble fell from an average rate of 6.2 roubles per US dollar in July 1998 to 20 roubles per US dollar in December 1998 and over 26 in December 1999. Between August and September 1998 alone, the rouble fell by more than half in nominal terms (see Figure 3 and Statistical Annex). Accordingly, consumer price inflation soared in September 1998 to 38.4% (against the previous month), provoking high inflationary expectations and contributing to wide-spread shortages of basic consumer commodities, not seen since the collapse of the Soviet Union in 1991. However, after the September peak, monthly consumer price inflation slowed down considerably. It was somewhat higher in December 1998 (11.6%), reflecting a seasonal trend and also some softening of monetary policy, but since then has been continuously declining. Since March 1999, the consumer price inflation has been running at some 2% to 3% per month, with a declining trend. A further slowdown below 2% per month since August 1999 was initially attributed to the seasonal changes in prices of fruits and vegetables; it could be sustained in subsequent months.

In December 1999 consumer prices were 36.6% higher, and producer prices 76% higher than in December 1998. Unlike consumer price inflation, producer price inflation only recorded a moderate and delayed slowdown, fuelled by rising prices of gasoline. One reason for the lower than expected consumer price increases is that monetary emission has been fairly limited as well. In the period between July 1998 and May 1999, the monetary base grew by only 59%. The rouble M2 (currency in circulation plus rouble and foreign exchange deposits) reached RUB 910 bn at the end of November 1999, about 65% more than in November 1998. In fact, the real money supply was nearly constant (CPI-deflated), respectively, even declined (PPI-deflated). The money multiplier fell somewhat against 1998, probably as a result of reduced lending by banks, many of which are insolvent and face difficulties in attracting deposits. Contributing to monetary stability was also the fact that indexation of both wages in the public sector and pensions was done with a big delay and did not compensate for the price increases. The Central Bank

Figure 3

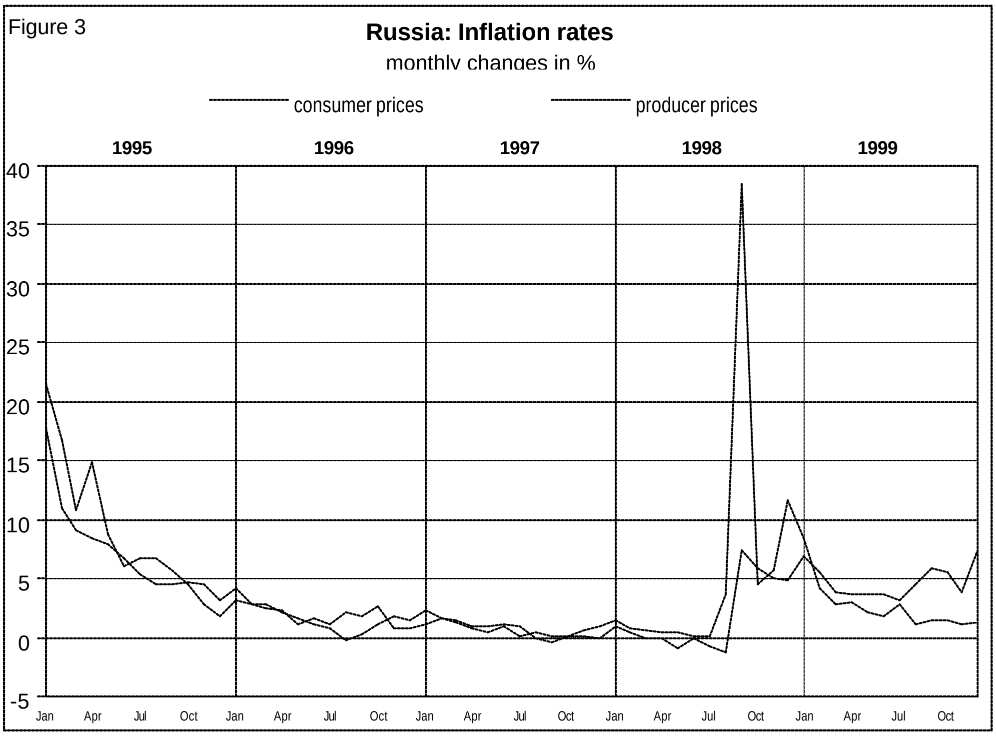
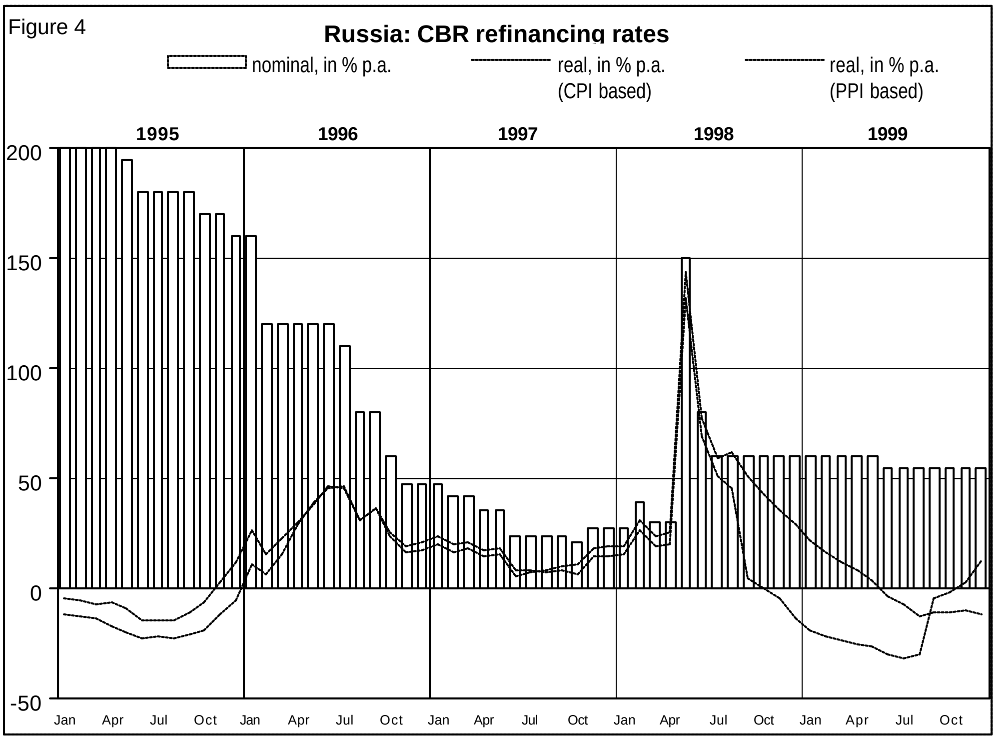


Figure 4



refinancing rate was kept at 60% p.a. from July 1998 and was cut to 55% only in June 1999, whereas real interest rates (deflated by the producer price index – see Figure 4 and Statistical Annex) gradually declined, from June 1999 even to negative values. On 10 June the Central Bank of Russia raised reserve requirements from 5% to 5.5% for private rouble deposits and from 7% to 8.5% for hard currency deposits and rouble deposits of legal entities (less than three months after raising it from 5% to 7% on 19 March), apparently in a move to ease the pressure in the foreign exchange market.[8] In January 2000, the refinancing rate was cut to 45%.[9]

The joint statement of the government and the Central Bank from November 1998 and the budget law for 1999 targeted, in particular, a 12-month consumer price inflation rate for 1999 below 30% (the latter target was revised to 50% in mid-1999).[10] With the reported inflation dynamics during 1999, the annual inflation was quite near the initial target – even below 40% (December over December). However, in future it might be undermined by the costs of bank restructuring which, in fact, has not started yet (see special section below). Moreover, the forthcoming presidential elections, possibly escalating costs related to the conflict in Chechnya and the planned break-up of the 'cartel agreement' between Russia's 'natural monopolies' (Gazprom, United Energy Systems and Railways) from June 1999 on a price freeze for deliveries to public sector consumers may trigger new price increases.[11] On the other hand, slightly higher than projected inflation has been instrumental in collecting more tax revenues (see below).

As already mentioned, inflation has had an adverse impact on the living standards of the population. In January to November 1999, real disposable money incomes were 13%, and real monthly wages 26% lower year-on-year, although they were slightly improving from February onwards. The average dollar wage stood at USD 68 per month in November 1999 (as compared with pre-crisis USD 180 in July 1998), with the official minimum wage only slightly exceeding USD 3 per month. Income distribution has become even more unequal in the aftermath of the crisis: the richest 10% of the population are earning 15 times more than the poorest 10% (against 13 times in 1998), and 37.5% have incomes below the official subsistence level (22% in 1997) which is only RUB 960 (some USD 38 per month).[12] The minimum pension amounts to less than half of it (RUB 450).[13] In fact, the

8 *Ministerstvo finansov Rossiyskoi Federatsii. Obzor ekonomicheskikh pokazatelei*, 12 August 1999.

9 It should be noted at this point that the applied calculation technique may give a wrong impression of real interest rates. The low and negative values are caused by the high producer price inflation *in the past*. However, with *current* annual inflation projected at 20-40%, a nominal refinancing rate of 45% would still imply positive real interest rates, as they were typical in Russia during 1997 and before the August 1998 crisis (see Figure 4).

10 See *Ekonomika i zhizn*, No. 52, December 1998, p. 3, *Dengi i kredit*, No. 12, 1998, pp. 3-35 and the Internet webpage of the Ministry of Finance (www.minfin.ru/Sdds/sep.htm).

11 See *Izvestiya*, 10 September 1999, p. 3.

12 See *Ekonomika i zhizn'*, No. 34, August 1999, p. 5.

13 *Russia Today*, 21 September, 1999.

relative financial stability after the August 1998 crisis was achieved largely at the expense of falling living standards – and remarkable, as before, has been the virtual lack of any wide-spread popular protests.

4 External sector shows growing surpluses since late 1998

The external balance of Russia traditionally shows a high trade surplus, a somewhat smaller current account surplus, a deficit in services, and high estimated capital flight. Both trade and current account deteriorated in the course of 1997-98, the current account even turned into a deficit by mid-1998 (USD -5 bn). The pronounced devaluation of the rouble following the August 1998 financial crisis brought about an improvement in the trade balance, with imports falling sharply (by 18.9% for 1998 as a whole and by 30% in 1999). Exports were declining as well (by 16.3% in 1998 and 1% in 1999), in spite of the devaluation and the strong recovery of world oil prices. Exports to the CIS countries suffered most (a decline by about 30% in January to September 1999), exports to non-CIS countries started to recover in the second half of 1999. This reflects partly supply bottlenecks and lagging price adjustments, as well as low prices for many other Russian export commodities (such as metals and chemical products). Price effects have thus been only partly compensated by growing export volumes.

The devaluation did not induce any new manufactured exports – most Russian products with higher value added are not competitive at any price. The composition of Russian trade remains unfavourable, with fuels and metals accounting for more than 60% of exports (see Statistical Annex).[14] The bulk (80%) of trade (and the related trade surplus) is conducted with non-CIS countries. While recent months have witnessed the introduction of a number of new or higher export duties (see details below), the Russian trade regime for imported goods remains largely liberalized, and negotiations over Russian accession to WTO are reportedly to be continued.[15]

As mentioned above, the traditionally positive current account turned into a deficit in the first half of 1998 (USD 5.1 bn), but improved radically after the devaluation, recording a modest surplus of USD 2 bn already for the year 1998 as a whole. In the first three quarters of 1999, the current account surplus reached almost USD 15 bn (more than 9% of GDP).[16] The strongly positive current account and nearly constant value of foreign exchange reserves (around USD 12.5 bn as of end-1999) point to continuous capital flight.

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14 *Ministerstvo finansov Rossiyskoi Federatsii. Obzor ekonomicheskikh pokazatelei*, 12 August 1999; *Ekonomika i zhizn*, No. 38, September 1999, p. 1.

15 Russia is also a member of the (poorly functioning) customs union with Belarus, Kazakhstan, Kyrgyzstan and Tadjikistan, which might complicate its accession to WTO.

16 The joint statement of the government and the Central Bank envisaged a current account surplus of some 8% of GDP for the year as a whole – see the Internet webpage of the Ministry of Finance (www.minfin.ru/Sdds/sep.htm).

In the aftermath of a series of financial crises which hit emerging markets in recent years, the reliability (as compared to the profitability) of assets is enjoying a much higher priority than before in investors' preferences – and this is not the strong point of most Russian assets. Besides, investments in longer-term papers have also been hampered by the widespread fears of a renewed rouble devaluation and default. The Russian stock market recovered slightly in spring 1999, mainly due to rising world oil prices, but it is still worth less than a fifth of its peak at the end of 1997.[17] The Skate Moscow Times Index, calculated on the basis of 30 stocks (blue chips), indicates a depreciation of 21% in US dollar terms over the five years of its existence (September 1994 through September 1999), implying that the long-term investment strategy proved wrong.[18] Characteristically enough, Russia's battered financial markets hardly reacted to the recent governmental crises provoked by the dismissals of either Mr. Primakov in May or Mr. Stepashin in August 1999. However, there was a strongly positive reaction to the Duma elections in December and, especially, to the resignation of President B. Yeltsin at the end of 1999. In sum, the Russian share prices index (RTS) increased by 195% during 1999, making Russia one of the best performing markets in the world.[19]

Domestic assets in the real sector continue to be undervalued due to the low transparency of corporate governance and weak shareholder rights, widespread corruption, the discouraging tax system and, last but not least, the general mistrust concerning the economic outlook of the country. The pitiful state of the stock market regulation has been underlined by the recent resignation of the head of the Russian securities commission, Mr. D. Vasilyev, who has been unable to stop the violations of shareholder rights.[20] As before, foreign direct investments only play a minor role: after an inflow of USD 2.2 bn in 1998 and about USD 2 bn in 1999, the total FDI stock in Russia stands at around USD 15 bn and is lower than the estimated annual outflow of capital from Russia (USD 15 to 20 bn). The latter is largely illegal and is carried out through a number of channels such as fake import contracts, non-repatriation of export revenues, tax evasion, etc.[21] In a move to curtail capital flight, the government has repeatedly tried to tackle the problem. In July 1999, regulations concerning hard currency transfers by foreigners were tightened. From now on, non-residents are only allowed to export an amount equal to that previously transferred to Russia or imported to Russia in cash. Residents may not export sums

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17 *Russia Economic Trends*, 7 October 1999, p. 17.

18 *Russia Today,* 7 September 1999.

19 *Russian Economy. The Month in Review*, No. 12/1999, BOFIT, Bank of Finland, Helsinki, January 2000.

20 Several recent highly publicized cases of such violations (Yukos AO, Lomonosov porcelain factory and Vyborg paper mill) may be related to Mr. Vasilyev's resignation – see *International Herald Tribune*, 16/17 October 1999, p. 9. The new head of the Securities Commission, Mr. I. Kostikov from St. Petersburg, was appointed in January 2000.

21 See *Handelsblatt*, 3-4 September 1999, p. 3. Russian exporters have to convert 75% of export revenues to roubles and a 100% surrender of export revenues is being considered (see below).

exceeding USD 10,000, unless they have a special permission of the Central Bank. Besides, the origin of all exported currency exceeding USD 500 is to be confirmed.[22]

One of the economic policy fields that witnessed a major change following the August 1998 crisis was the exchange rate policy. The exchange rate anchor, which had been pursued in various modifications ('sloping corridor', later 'horizontal corridor') for several years prior to the crisis, was replaced by a managed float. The Central Bank of Russia (CBR) committed itself to alleviating only sharp exchange rate fluctuations. A number of considerations stood behind this choice. First, the small volume of foreign exchange and gold reserves – around USD 12 bn at the end of 1999 – does not allow the Central Bank to actively intervene in the foreign exchange market. Another point is that a commitment to an exchange rate peg would considerably reduce the room for manoeuvre for a more expansionary monetary policy. Facing the lack of sufficient reserves, the CBR introduced several administrative restrictions, including segmentation of the foreign exchange market (separating importers and exporters from other actors), introducing a surrender requirement of 75% of export proceeds, and later setting a deposit requirement for prepayment of imports. These measures proved helpful in stabilizing the exchange rate early 1999. After most restrictions had been lifted in late June in line with IMF demands, the exchange rate still remained surprisingly stable (Figure 1). In accordance with the commitment of CBR chairman V. Geraschenko to 'hold the rouble until the end of the summer', the exchange rate was below 25 roubles per US dollar until 1 September. However, pressures on the rouble increased subsequently, probably reflecting expectations of growing instability in view of the forthcoming elections and leading to a jump of the exchange rate to nearly 26 roubles per US dollar in early September. To ease the pressure, on 17 September a new measure was announced by the Central Bank, according to which banks must deposit with Moscow Interbank Currency Exchange (MICEX) an amount of roubles equal to that held in foreign-owned domestic debt S-accounts.[23] The effective 'freezing' of rouble balances contributed to a slight nominal appreciation of the rouble in the subsequent period (to around 25.2 roubles per US dollar at the end of September). Although the rouble appreciated in the course of 1999 in real terms (the real appreciation is higher if the producer price index is used as a deflator – see Figure 1), its value is still very low. Furthermore, in view of the lack of structural reforms in the economy and the reluctance of foreigners to invest in Russia, the potential for further real appreciation is fairly limited. Thus it is likely that the nominal exchange rate will largely follow the pace of inflation, at least until the presidential elections in March 2000. If the monetary policy remains fairly restrictive, the

[22] See *Ekonomika i zhizn'* , No. 36, September 1999, p. 27.

[23] *Russia Today*, 17 September 1999.

official forecast of an average rate of 32 roubles per US dollar in 2000 underlying the budget draft appears realistic (though we reckon with a slightly higher exchange rate).[24]

5 Improved fiscal performance

The years prior to the August 1998 crisis witnessed persisting high deficits of the federal budget, with revenues accounting for some 10-13% of GDP, and expenditures for 15-20% of GDP. The huge gap between revenues and expenditures was largely due to the erosion of the tax base following the dramatic contraction of the economy and the worsening tax morale while it was not accompanied by an adequate spending adjustment. From 1995, direct CBR credits were discontinued and the fiscal gap was financed through short-term borrowing in the domestic government securities market at exceptionally high interest rates, leading to the formation of the debt pyramid which ended in the financial crash of August 1998. With often prohibitively high tax rates and weak enforcement, the blurred tax system has been narrowly-based, concentrating on top corporations rather than on small businesses and individuals, and its reform has long been overdue. However, the tax code reform has been effectively blocked by the political stalemate between the Duma and the government. Furthermore, the problem about the reform has been that the badly needed lowering of the tax rates, while simultaneously increasing the tax compliance in the medium term, would inevitably lead to a shortfall in revenues in the short run, thus adding to the pressure on the budget.

In the aftermath of the August 1998 financial crash, and facing the lack of external finance, the government was compelled to draft a restrictive 1999 budget, envisaging a primary surplus of 1.65% of GDP (as compared to a primary deficit of 1.3% which the federal budget recorded in 1998). The budget was quickly adopted, though nobody really believed it to be realistic. Especially strong criticism was raised regarding the assumptions of only a modest GDP decline, year-end inflation not exceeding 30%, and an average exchange rate of 21.5 roubles per US dollar. Further fears were related to the planned reduction of VAT rates, which could further undermine federal tax revenues (this measure was postponed at the insistence of the IMF). However, the fiscal performance in the course of 1999 proved better than expected: during the first ten months of the year, federal revenues amounted to 12.5% of GDP (of which 10.6% were tax revenues with a rising share of cash payments), and expenditures to 14.2% of GDP. Almost a quarter of budget expenditures was used for servicing domestic and foreign debts, defence absorbed another 17% of expenditures. The primary surplus reached around 1.7% of GDP while the consolidated deficit was 1.7% of GDP.[25] The improved fiscal performance results from both higher

[24] However, a draft project of CBR's monetary and credit policy for 2000 reckons with the possibility of a more expansionist monetary policy in order to stimulate economic growth – see *Expert*, 1 November 1999, pp. 10-11.

[25] *Russian Economy. The Month in Review*, No. 12/1999, BOFIT, Bank of Finland, Helsinki, January 2000.

revenues generated by the general industrial upswing and rising rouble profits of oil exporters who benefit from soaring world oil prices. To some extent, rising revenues reflect also the impact of a higher than projected inflation, but also new efforts of the government to raise tax compliance. The powers of tax authorities were enhanced, and higher fines and penalties for outstanding tax payments were introduced. Besides, as an extraordinary short-term measure, oil companies having tax payment arrears were cut off from their access to pipelines until their outstanding tax obligations were fulfilled. In order to strengthen the fiscal position (and taking into account windfall profits from higher world market energy prices), new or higher export duties were imposed on oil, petrochemicals, timber, metals, seafood and a number of alcoholic beverages. In December 1999, oil export duties were doubled (to EUR 15 per tonne), export tariffs on copper, zinc and nickel were raised to 10%. Improved revenue collection permitted the government to revise its initial primary surplus target for 1999 upwards. The latter was also in line with IMF demands and was one of the major prerequisites for the new USD 4.5 bn credit agreed on in late July 1999.

On 25 August 1999, the government submitted to the Duma the draft budget for the year 2000. Against 1999, the draft envisaged higher revenues, higher expenditures and a higher primary surplus. After several readings and minor corrections in the parliament, the budget was adopted in December and finally signed into law by President Yeltsin as one of his last acts on 31 December. The adopted budget targets spending of RUB 855 bn and revenues of RUB 797 bn, a primary surplus of 3.1% of GDP and a consolidated deficit of 1% of GDP (see Table 3).[26] The budget revenues reckon with new foreign borrowing of almost USD 6 bn, mostly from the IMF (USD 2.6 bn) and the World Bank (USD 2.2 bn). The budget also relies on debt rescheduling since only less than USD 7 bn were earmarked for debt service (total debt service due in the year 2000 is

Table 3

Russia: Federal budget laws for 1999 and for 2000

per cent of GDP

	1999	**2000**
Total revenues	12.2	14.9
of which tax revenues	10.0	12.6
Non-interest expenditures	10.2	11.8
Primary balance	2.0	3.1
Interest expenditures	7.1	4.1
Overall balance	-5.1	-1.0

Sources: *Kommersant Vlast'*, No. 34, August 1999, pp. 38-39; *Statement of the Government of the Russian Federation and Central Bank of Russia on Economic Policies; Izvestiya*, 4 December 1999, p. 5; own calculations.

26 See *Izvestiya*, 4 December 1999, p. 5.

more than USD 15 bn). Other assumptions underlying the budget are an average exchange rate of 32 roubles per US dollar, 1.5% real growth of GDP (nominal GDP of RUB 5350 bn), and a year-end inflation of 18%.

The budget law envisages important changes in the tax system. The key ideas behind the changes are, first, to lower the tax burden on producers (partly at the expense of consumers) and, second, to raise the transparency of the tax system through its simplification. In particular, the 2000 budget is based on the following measures:[27]

– reorganizing personal income taxes: the number of tax rates applied is to be reduced from six to just three, and the tax rate on the highest annual incomes (above RUB 150,000, some USD 6,000) is to be reduced from 45% to 30%, apparently in a move to discourage tax evasion;[28]

– introducing a new 15% tax on interest incomes from government securities and private deposits;[29]

– raising excise taxes on cigarettes, alcohol and alcoholic products, as well as on low-quality gasoline, diesel fuel and fuel oils;

– reducing the number of commodities enjoying a preferential value added tax rate of 10%;

– imposing a 5% export duty on natural gas;

– redistributing revenues between the regional and the federal budgets: the share of regions in total revenues is to be cut from 50% to 42%.[30]

A number of particularly inefficient taxes is to be eliminated, and an end should be put to the widespread use of tax offsets as well as to repeated tax amnesties. The government has also announced its intention to revoke numerous tax exemptions. The formerly planned cuts of value added tax (from 20% in 1998 to 15 in 1999 and 10 in 2000) were already several times postponed and will reportedly not be on the agenda until tax compliance shows sustained improvement. And, as mentioned above, in view of the rising world energy prices, export tariffs on oil products and gas were raised in September and December 1999. The new tax code should take effect from 1 January 2001.

On the expenditure side, the joint memorandum of the government and the Central Bank released in summer 1999 envisaged marked spending cuts for the rest of the year. In view of the improved revenue situation, these were apparently relaxed in late 1999. The

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27 See *Ekonomika i zhizn'*, No. 35, August 1999, p. 3, and *Kommersant Vlast'*, No. 36, September 1999, pp. 22-23.

28 The new personal income taxation scale will be as follows: a 12% rate for incomes under RUB 50,000, a 20% rate for incomes between RUB 50,000 and 150,000, and a 30% rate for incomes above RUB 150,000.

29 This measure is strongly criticized though, given the negative real interest rates for the time being.

30 The proposed redistribution was scrapped during the second reading in the Duma.

2000 budget is projecting a further increase in expenditures (as per cent of GDP) – again obviously in anticipation of improved tax collection. Spending for military purposes and social spending are to be raised (the former by 50%). The scheduled nominal indexation of pensions and wages in the public sector, to be effective from 1 February and 1 April 2000 respectively, represents at best a partial adjustment to inflation only. However, the final expenditures may be much higher as a result of politically motivated pressures in the pre-election period and owing to the ongoing conflict in Chechnya. At the same time, the transparency and efficiency of federal spending is to be enhanced through a transfer of all federal budgetary entities (including the Employment Fund, the Road Fund and the Ministry of Defence) to the treasury system. So far, state expenditures have been largely channelled through big banks whose heads ('oligarchs') are said to have close ties to the top Russian officials and who reportedly made huge profits by delaying the payments due. The treasury system is first to be introduced in the 22 regions of Russia which are the major recipients of federal subsidies.[31] This measure is intended to put an end to the chaos prevailing in the present system of intergovernmental financial transfers based on individual, often politically motivated and non-transparent relations between the federal and regional authorities, rather than on a solid and stable legislative basis. From now on, the value of transfers to each region will be calculated on the basis of its respective per capita income. However, the precise technique of such calculations is still unclear.

6 Bank restructuring: facing lack of funding and political will

The financial crisis of August 1998 also hit hard the Russian banking system, most notably the biggest banks, many of which had substantial assets in 'frozen' GKOs and liabilities in foreign currency. The present banking system in Russia is dominated by the state-owned Sberbank (accumulating around 80% of private deposits), which is benefiting from the general mistrust of the population to private banks. Large foreign banks are present in the market but play only a minor role, not least because of their high requirements to depositors (such as a high minimal value of a deposit). While many big Russian banks have collapsed following the crisis, small and medium-sized banks have generally survived and even strengthened their positions. An important political implication of this is that the formerly powerful oligarchs in charge of big banks may not be able (or willing) to support the current ruling elite in the forthcoming elections, thereby effectively contributing to a change of power in Russia.

To revive the banking system, the Central Bank outlined a bank restructuring programme, the costs of which were estimated in March 1999 at RUB 100 bn (USD 4.2 bn). The programme aimed at the rehabilitation of a core group of banks (to be identified by transparent and objective criteria) and at the liquidation of a large number of non-viable

[31] See *Ekonomika i zhizn',* No. 34, August 1999, p. 4.

banks.[32] As a result of the programme, some 400 (out of nearly 1500) banks were supposed to close their doors. For this purpose, the Agency for Restructuring Credit Organizations (ARCO) with a charter capital of RUB 10 bn was established in March 1999. Simultaneously, CBR announced the founding of a committee for structural reform of the banking system. The committee comprised representatives from the government, CBR, parliament and the office of the president, as well as IMF, EBRD and World Bank representatives. Its tasks included the development of banking legislation, prudential supervision, and accounting regulations. On 15 July, a self-standing Bank Restructuring Law was adopted. It stipulates that banks can be referred to ARCO only by a directive of the CBR on the basis of specific criteria. ARCO was empowered to decide whether the insolvent bank would be restructured or liquidated. Insolvent banks which do not have the potential to prepare and implement successful restructuring plans are deprived of their licences.

However, the efforts undertaken so far within the framework of the restructuring programme have been fairly limited due to both the lack of funding and of political will. The Central Bank of Russia announced in August 1999 that the number of registered credit organizations had declined since January from 1476 to 1390.[33] At the beginning of the year 2000, there were 1349 registered credit institutions of which only 21.9% had a share capital more than RUB 40 mn.[34] Banking consolidation did not proceed very far. Besides, in a number of ways, the treatment of insolvent banks by the authorities has been non-transparent and unequal. In the course of 1999, the licences of six large insolvent banks (among them Inkombank and UNEXIM Bank) were revoked, largely at the urging of the IMF.[35] SBS-Agro was closed on 14 November 1999, leaving creditors and depositors in the cold (in September, the CBR offered depositors the opportunity to transfer their deposits to Sberbank). Before that, nearly all of SBS-Agro's assets were transferred to new owners. Real estate went to the SBS Group, the computer centre, data networks, and accounting system went to the STB-kard Company, and the bank's 70 branches and 1,250 banking service points were divided between SBS Bank employees and Zolotoplatinabank. Eventually, SBS-Agro ended up leasing back its former premises and other assets from these new owners. After SBS-Agro's remaining assets, which mainly consist of unsecured loans, have been liquidated, the insolvency is expected to amount to RUB 60 to 70 bn (USD 2.5 bn).[36] Inkombank was declared bankrupt by court in January 2000. One more bankrupt bank, which is not recognized as nationally important but has

[32] Statement of the Government of the Russian Federation and Central Bank of Russia on Economic Policies.

[33] See *Ekonomika i zhizn',* No. 35, August 1999, p. 1. For a detailed analysis of the banking sector see L. Makarevitsch, 'Financial sphere and real economy in Russia towards the middle of 1999', *Obschestvo in Ekonomika*, Moscow, No. 6, 1999, pp. 182-201.

[34] *Agence France Presse*, 20 January 2000.

[35] However, recently CBR Chairman V. Geraschenko hinted that the CBR might return licences to UNEXIM Bank and the medium-sized Mezhkombank, provided creditors agree to restructure their debts.

[36] *Russian and Baltic Economies*, No. 45, BOFIT, Bank of Finland, Helsinki, November 1999.

nevertheless received a substantial financial injection soon after the crisis, is the Most-Bank of Mr. Gusinsky, who is also a major shareholder of the NTV television channel. The recent loan provided by ARCO to the well-standing Alfa-bank for the purpose of developing its regional branch network is another example of inappropriate use of ARCO's resources.

7 Foreign debt restructuring cannot be avoided

Perhaps the most dramatic consequence of the August 1998 financial crash was the fact that Russia's external debt burden became unsustainable, forcing the government to seek debt restructuring in talks with the IMF as well as with the Paris and London Clubs of creditors. Due to the combined effects of devaluation and renewed economic plunge, the Russian dollar GDP fell by almost 40% in 1998, and total government debt (rouble-denominated and external) rose from 52% of GDP to more than 120% of GDP. The debt burden has become unsustainable sooner than expected and the country has been technically in default.[37] As far as the short-term rouble-denominated debt is concerned (RUB 280 bn GKO/OFZ falling due before end-1998, worth about USD 40 bn in August 1998 before the devaluation),[38] holders of the frozen debt were offered to receive 10% of their investment in cash, 20% in three-year non-interest-bearing investment bonds and the remaining 70% in new interest-bearing paper. Foreign investors reportedly held about RUB 100 bn (USD 15 bn at the pre-crisis exchange rate) of short-term GKO/OFZ bonds.[39] After protracted negotiations, Deutsche Bank, Chase Manhattan and Credit Lyonnais accepted the Russian offer at the beginning of March 1999, splitting the bank committee representing other foreign GKO holders.

Another issue of even graver concern with severe political consequences and involving potentially greater financial loss is the looming default on the country's external debt (85% of the total debt). Default seems to be virtually inevitable unless the government succeeds in negotiating a long-term restructuring deal with fairly long grace periods. The total government foreign debt, including some USD 103 bn of debts inherited from the Soviet Union and taken over by Russia, amounted, as of end 1998, to USD 158.2 bn.[40] The sum due to be repaid by Russia to foreign lenders in 1999 totalled more than USD 17 bn, most of which represented payments of interest on previously rescheduled Soviet-era debt (USD 3.9 bn), Eurobonds (USD 1.7 bn) and the settlement of the debts to the IMF and the

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[37] Even our most pessimistic forecast projected this level of debt only for after the year 2001. For the looming debt problem and economic policy challenges see P. Havlik, 'Russia: The endless wait for recovery', *The Vienna Institute Monthly Report*, No. 4, April 1998, pp. 34-40.

[38] The total nominal value of outstanding GKO/OFZ was close to RUB 400 bn – see *Russian Economic Trends*, February 1999.

[39] See *International Herald Tribune*, 12 January 1999, p. 12. A major part of this money is allegedly flight capital reinvested by Russians via foreign intermediaries – see *Finansovye Izvestiya*, 23 February 1999, p. 5.

[40] According to IMF data as quoted in 'Die wirtschaftliche Lage Rußlands', *Kiel Discussion Paper*, No. 355, December 1999, p. 33. Data on Russian debts vary according to different sources.

World Bank (USD 4.6 bn).[41] The Russians have openly and repeatedly admitted that the country is not in a position to meet the external debt service in full while priority is clearly given to the service of Russian debts (incurred after 1 January 1992) and of Eurobonds. After the Russian government (in a joint memorandum with CBR) had committed itself to continue macroeconomic austerity policies and to foster structural reforms, a new loan worth USD 4.5 bn was agreed with the IMF in late July 1999. The loan was given with the purpose of repayment of an earlier loan to the Fund and was to be disbursed over the next 18 months (only USD 640 mn were disbursed in 1999). But the deal with the IMF was also decisive in negotiations with the Paris Club on the restructuring of USD 8.1 bn of Soviet debt payments falling due in 1999-2000. On 1 August 1999 a restructuring agreement with the Paris Club was signed, according to which debt payments were rescheduled over the next 15 to 20 years, with USD 170 mn due till the end of 1999, and another USD 430 mn in 2000. To find the 'final solution' to the Soviet debt, talks were to be resumed in autumn 2000, after the scheduled presidential elections in Russia.[42] With the resignation of B. Yeltsin at the end of 1999 and setting the presidential elections already for 26 March 2000, the prospects for an earlier start of debt rescheduling talks increased as well. Disbursement of further IMF credit tranches (which has been on hold since late-1999 because of insufficient progress in the implementation of structural reforms) might resume after the March presidential elections as well.

The Russian side hopes that the 'final solution' might involve a partial write-off (at least 40%) of Soviet debts. Talks with the London Club of commercial creditors (comprising USD 32 bn of credits granted by western banks with Deutsche Bank at the head) were commenced in August 1999, but were postponed to September, and not finalized in 1999 as no accord was achieved. Outstanding debt service payments to the London Club amounted to USD 1.3 bn in 1999. Russia's tactics in debt negotiations with the London Club creditors has been similar to its stance towards the Paris Club: to ensure its readiness for the timely service of Russian financial obligations incurred after 1992, and to insist on a new restructuring or even on cancelling at least a part of the Soviet part of the debt.[43] In mid-November 1999, the Finance Minister M. Kasyanov asked the London Club banks to write off USD 12 bn of Soviet debt (that is a reduction of about 40%) and suggested that the remaining USD 20 bn of the debt could be converted into a new Eurobond-like paper with lower interest.[44] Outstanding debt service was not paid in 1999 as it has been seen as a 'part of the whole restructuring deal'.

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41 *Financial Times*, 18 January 1999, p. 3.

42 See *Kommersant Vlast',* No. 31, August 1999, p. 26.

43 Finance Minister M. Kasyanov (at that time deputy finance minister) indicated already at the beginning of 1999 that the Polish debt restructuring scheme from 1992 would not be the 'worst possible option' for Russia – see *Moscow News*, 17-23 February 1999, p. 7.

44 *International Herald Tribune*, 16 November 1999, p. 15.

Table 4a

Russia: GDP growth and debt service scenarios: Muddling through

Year	actual **1995**	actual **1996**	actual **1997**	actual **1998**	preliminary **1999**	projection **2000**
GDP, Rbl bn	1540.5	2145.7	2522	2684.5	4500.0	5737.5
GDP, USD bn	338.6	419.1	435.6	276.5	182.8	186.4
Population, mn	148.0	147.5	147.1	146.7	146.0	145.5
GDP deflator index	2.706	1.438	1.166	1.088	1.65	1.25
GDP growth index, RUB	0.959	0.966	0.991	0.954	1.017	1.02
GDP growth index, USD	1.225	1.238	1.039	0.635	0.661	1.02
Exchange rate, RUB/USD	4.55	5.12	5.79	9.71	24.6	30.8
Fed. Budget revenue, RUB bn	201	253.8	311.6	273	562.5	854.9
in % of GDP	13.05	11.83	12.36	10.17	12.5	14.9
Fed. Budget expenditure, RUB bn	286.2	427.1	494.8	407.2	652.5	912.3
in % of GDP	18.58	19.90	19.62	15.17	14.5	15.9
of which: debt service paid, RUB bn	54.60	124.50	117.80	106.80	163.125	228.1
debt service paid, USD bn	6.40	6.90	5.90	7.80	6.6	7.4
Fed. Deficit, % of GDP	-5.53	-8.08	-7.26	-5.00	-2.00	-1.0
Primary balance in % of GDP	-1.99	-2.27	-2.59	-1.02	1.63	2.98
Primary balance in USD bn	-6.73	-9.53	-11.30	-2.82	2.97	5.5
Gross debt total, USD bn	128	136.1	134.6	158.2	160.0	167.8
of which: Russia, USD bn	17.4	27.7	35.6	55.4	57.2	65.8
Debt service due, USD bn	19.2	17.9	11.8	13	17.1	15.2
of which interest payments	6.5	6.3	5.9	7.3	9.04	8.31
Debt service paid, in % of current account	82.3	57.4	145.7	318.9	39.0	33.2
Current account, USD bn	7.778	12.011	4.049	2.446	17.000	22.323
Current account in % of GDP	2.30	2.87	0.93	0.88	9.30	11.97
Trade balance, BoP, USD bn	11.074	17.212	12.752	14.156	31.500	31.890
Exports (goods&services), USD bn	93.23	103.555	103.196	87.688	87.000	89.610
Export growth index	1.223	1.111	0.997	0.850	0.992	1.030
Exports in % of GDP	27.54	24.71	23.69	31.72	47.60	48.07
Imports (goods&services), USD bn	82.156	86.343	90.444	73.532	55.500	57.720
Import growth index	1.263	1.051	1.047	0.813	0.755	1.040
Imports in % of GDP	24.27	20.60	20.76	26.60	30.36	30.96
Gross debt per capita, USD	865	923	915	1078	1096	1153
Gros debt in % of GDP	37.8	32.5	30.9	57.2	87.5	90.0
Debt service due ratio, %	20.6	17.3	11.4	14.8	19.7	17.0
Debt service due in GDP, %	5.7	4.3	2.7	4.7	9.4	8.2
Debt service paid ratio, %	6.9	6.7	5.7	8.9	7.6	8.3
Debt service paid in GDP, %	1.9	1.6	1.4	2.8	3.6	4.0

Sources: WIIW Database; Central Bank of Russia; IMF; own projections.

Assumptions (after 2000):

moderate inflation, constant real exchange rate, debt service paid = 25% of budget expenditures

GDP deflator index	1.25 after 2000 and declining after 2005
GDP growth index	1.02 after 2000
ER appreciation index	1.00 none until 2005, slight afterw ards
Export growth index	1.03
Import growth index	1.04

projection **2001**	projection **2002**	projection **2003**	projection **2004**	projection **2005**	projection **2006**	projection **2007**	projection **2008**	projection **2009**	projection **2010**
7315.3	9327.0	11892.0	15162.2	19331.9	24648.1	31426.4	40068.6	51087.5	65136.5
190.2	194.0	197.8	201.8	205.8	211.6	219.4	229.3	241.6	256.7
145.1	144.6	144.2	143.8	143.3	142.9	142.5	142.0	141.6	141.2
1.25	1.25	1.25	1.25	1.25	1.24	1.23	1.22	1.21	1.2
1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
1.02	1.02	1.02	1.02	1.02	1.03	1.04	1.05	1.05	1.06
38.5	48.1	60.1	75.1	93.9	116.5	143.2	174.8	211.5	253.7
1122.7	1474.4	1936.2	2542.7	3339.2	4385.2	5758.9	7562.9	9932.0	13043.2
15.3	15.8	16.3	16.8	17.3	17.8	18.3	18.9	19.4	20.0
1198.0	1573.3	2066.2	2713.4	3563.3	4679.6	6145.4	8070.5	10598.6	13918.5
16.4	16.9	17.4	17.9	18.4	19.0	19.6	20.1	20.7	21.4
299.5	393.3	516.5	678.3	890.8	1169.9	1536.4	2017.6	2649.6	3479.6
7.8	8.2	8.6	9.0	9.5	10.0	10.7	11.5	12.5	13.7
-1.0	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3
3.06	3.16	3.25	3.35	3.45	3.55	3.66	3.77	3.88	4.00
5.8	6.1	6.4	6.8	7.1	7.5	8.0	8.6	9.4	10.3
174.6	181.0	192.9	198.6	205.0	211.4	217.6	223.4	228.8	233.3
72.9	79.8	92.1	98.2	105.1	112.0	118.9	125.5	131.9	137.6
14.58	14.61	20.49	14.72	15.9	16.4	16.9	17.4	17.9	18.3
8.03	7.72	7.32	6.71	6.25					
34.5	35.8	37.2	38.7	40.3	42.3	44.7	47.8	51.5	56.0
22.589	22.846	23.094	23.333	23.560	23.775	23.977	24.165	24.337	24.492
11.88	11.78	11.67	11.56	11.45	11.23	10.93	10.54	10.07	9.54
32.270	32.637	32.992	33.333	33.657	33.965	34.253	34.521	34.767	34.989
92.298	95.067	97.919	100.857	103.883	106.999	110.209	113.515	116.921	120.428
1.030	1.030	1.030	1.030	1.030	1.030	1.030	1.030	1.030	1.030
48.54	49.01	49.49	49.98	50.47	50.56	50.23	49.51	48.39	46.91
60.029	62.430	64.927	67.524	70.225	73.034	75.956	78.994	82.154	85.440
1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040
31.57	32.19	32.82	33.46	34.12	34.51	34.62	34.45	34.00	33.28
1203	1252	1338	1381	1430	1479	1527	1573	1615	1653
91.8	93.3	97.5	98.4	99.6	99.9	99.2	97.4	94.7	90.9
15.8	15.4	20.9	14.6	15.3	15.3	15.3	15.3	15.3	15.2
7.7	7.5	10.4	7.3	7.7	7.7	7.7	7.6	7.4	7.1
8.4	8.6	8.8	9.0	9.1	9.4	9.7	10.2	10.7	11.4
4.1	4.2	4.3	4.5	4.6	4.7	4.9	5.0	5.2	5.3

Table 4b

Russia: GDP growth and debt service scenarios: Appreciation

Year	actual 1995	actual 1996	actual 1997	actual 1998	preliminary 1999	projection 2000
GDP, Rbl bn	1540.5	2145.7	2522	2684.5	4500.0	5562.0
GDP, USD bn	338.6	419.1	435.6	276.5	182.8	192.0
Population, mn	148.0	147.5	147.1	146.7	146.0	145.5
GDP deflator index	2.706	1.438	1.166	1.088	1.65	1.2
GDP growth index, RUB	0.959	0.966	0.991	0.954	1.017	1.03
GDP growth index, USD	1.225	1.238	1.039	0.635	0.661	1.05
Exchange rate, RUB/USD	4.55	5.12	5.79	9.71	24.6	29.0
Fed. Budget revenue, RUB bn	201	253.8	311.6	273	562.5	828.7
in % of GDP	13.05	11.83	12.36	10.17	12.5	14.9
Fed. Budget expenditure, RUB bn	286.2	427.1	494.8	407.2	652.5	884.4
in % of GDP	18.58	19.90	19.62	15.17	14.5	15.9
of which: debt service paid, RUB bn	54.60	124.50	117.80	106.80	163.125	265.3
debt service paid, USD bn	6.40	6.90	5.90	7.80	6.6	9.2
Fed. Deficit, % of GDP	-5.53	-8.08	-7.26	-5.00	-2.00	-1.0
Primary balance in % of GDP	-1.99	-2.27	-2.59	-1.02	1.63	3.77
Primary balance in USD bn	-6.73	-9.53	-11.30	-2.82	2.97	7.2
Gross debt total, USD bn	128	136.1	134.6	158.2	160.0	166.0
of which: Russia, USD bn	17.4	27.7	35.6	55.4	57.2	65.8
Debt service due, USD bn	19.2	17.9	11.8	13	17.1	15.2
of which interest payments	6.5	6.3	5.9	7.3	9.04	8.31
Debt service paid, in % of current account	82.3	57.4	145.7	318.9	39.0	41.8
Current account, USD bn	7.778	12.011	4.049	2.446	17.000	21.935
Current account in % of GDP	2.30	2.87	0.93	0.88	9.30	11.42
Trade balance, BoP, USD bn	11.074	17.212	12.752	14.156	31.500	31.335
Exports (goods&services), USD bn	93.23	103.555	103.196	87.688	87.000	89.610
Export growth index	1.223	1.111	0.997	0.850	0.992	1.030
Exports in % of GDP	27.54	24.71	23.69	31.72	47.60	46.67
Imports (goods&services), USD bn	82.156	86.343	90.444	73.532	55.500	58.275
Import growth index	1.263	1.051	1.047	0.813	0.755	1.050
Imports in % of GDP	24.27	20.60	20.76	26.60	30.36	30.35
Gross debt per capita, USD	865	923	915	1078	1096	1141
Gros debt in % of GDP	37.8	32.5	30.9	57.2	87.5	86.5
Debt service due ratio, %	20.6	17.3	11.4	14.8	19.7	17.0
Debt service due in GDP, %	5.7	4.3	2.7	4.7	9.4	7.9
Debt service paid ratio, %	6.9	6.7	5.7	8.9	7.6	10.2
Debt service paid in GDP, %	1.9	1.6	1.4	2.8	3.6	4.8

Sources: WIIW Database; Central Bank of Russia; IMF; own projections.

Assumptions (after 2000):

low inflation and appreciation, debt service paid=30% of budget expenditures

GDP deflator index	1.2 after 2000 and declining after 2005
GDP growth index	1.03 after 2000
ER appreciation index	1.02 until 2005, more afterwards
Export growth index	1.03
Import growth index	1.05

projection **2001**	projection **2002**	projection **2003**	projection **2004**	projection **2005**	projection **2006**	projection **2007**	projection **2008**	projection **2009**	projection **2010**
6874.6	8497.0	10502.3	12980.9	16044.4	19830.9	24511.0	30295.5	37445.3	46282.4
201.7	212.0	222.7	233.9	245.8	260.4	278.2	299.8	325.8	357.2
145.1	144.6	144.2	143.8	143.3	142.9	142.5	142.0	141.6	141.2
1.2	1.2	1.2	1.2	1.2	1.19	1.18	1.17	1.16	1.15
1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03
1.05	1.05	1.05	1.05	1.05	1.06	1.07	1.08	1.09	1.10
34.1	40.1	47.2	55.5	65.3	76.2	88.1	101.1	114.9	129.6
1055.0	1343.2	1710.0	2176.9	2771.4	3528.2	4491.7	5718.2	7279.8	9267.7
15.3	15.8	16.3	16.8	17.3	17.8	18.3	18.9	19.4	20.0
1125.9	1433.3	1824.7	2323.0	2957.4	3765.0	4793.1	6102.0	7768.4	9889.7
16.4	16.9	17.4	17.9	18.4	19.0	19.6	20.1	20.7	21.4
337.8	430.0	547.4	696.9	887.2	1129.5	1437.9	1830.6	2330.5	2966.9
9.9	10.7	11.6	12.6	13.6	14.8	16.3	18.1	20.3	22.9
-1.0	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3
3.88	4.00	4.12	4.24	4.37	4.50	4.64	4.78	4.92	5.07
7.8	8.5	9.2	9.9	10.7	11.7	12.9	14.3	16.0	18.1
170.7	174.6	183.5	185.6	187.9	188.2	186.9	183.7	178.1	169.5
71.2	75.9	85.7	88.8	92.1	93.6	93.8	92.4	89.0	83.0
14.58	14.61	20.49	14.72	15.9	15.04	15.05	14.95	14.70	14.25
8.03	7.72	7.32	6.71	6.25					
45.5	49.7	54.4	59.8	65.8	73.3	82.6	94.4	109.2	128.2
21.777	21.573	21.321	21.016	20.655	20.233	19.747	19.192	18.562	17.853
10.79	10.18	9.57	8.98	8.40	7.77	7.10	6.40	5.70	5.00
31.110	30.819	30.459	30.023	29.507	28.905	28.210	27.417	26.517	25.505
92.298	95.067	97.919	100.857	103.883	106.999	110.209	113.515	116.921	120.428
1.030	1.030	1.030	1.030	1.030	1.030	1.030	1.030	1.030	1.030
45.75	44.85	43.97	43.11	42.27	41.09	39.62	37.87	35.89	33.72
61.189	64.248	67.461	70.834	74.375	78.094	81.999	86.099	90.404	94.924
1.050	1.050	1.050	1.050	1.050	1.050	1.050	1.050	1.050	1.050
30.33	30.31	30.30	30.28	30.26	29.99	29.47	28.72	27.75	26.58
1177	1207	1272	1291	1311	1317	1312	1293	1258	1200
84.6	82.4	82.4	79.4	76.5	72.3	67.2	61.3	54.7	47.5
15.8	15.4	20.9	14.6	15.3	14.1	13.7	13.2	12.6	11.8
7.2	6.9	9.2	6.3	6.5	5.8	5.4	5.0	4.5	4.0
10.7	11.3	11.9	12.5	13.1	13.9	14.8	16.0	17.3	19.0
4.9	5.1	5.2	5.4	5.5	5.7	5.9	6.0	6.2	6.4

Earlier than expected, Russia reached an agreement with its London Club creditors on 11 February 2000.[45] Under the agreement on the debt's second rescheduling, Russia will offer the creditors new 30-year Eurobonds in exchange for the PRINS (principal Soviet-era loans), 36.5% of whose nominal value will be written off in the swap deal. The IANS (interest arrears notes) will also be exchanged for 30-year Eurobonds, with 33% of the debt written off in the deal. During the first six months after the date of release of these two Eurobond issues, they will carry a 2.25% coupon; over the following six months, they will yield 2.5% annually; during the next six years after that, the annual yield will be 5%; beginning from the eighth year of circulation to their full retirement, they will provide a 7.5% annual yield. The grace period is seven years. The PDIs (past due interest, as calculated for 31 March 2000) will be exchanged for ten-year Eurobonds, with a six-year grace period and an 8.25% coupon. On the date the swap deal takes legal effect, a cash payment will be made amounting to 9.5% of the nominal value of the ten-year Eurobonds. Russia plans to submit to its London Club creditors an official proposal to make the swap in April. The deal should take legal effect in May 2000.

Russia’s ability to service its external debts was seriously hampered by the August 1998 financial crash. Due to devaluation, Russian GDP (in US dollar terms) dropped by more than 50% since 1997 – to less than USD 200 bn in 1999 (Table 4). The outstanding debt service (USD 17 bn in 1999 – almost 20% of GDP) could not be met in full. But even the debt service actually paid (USD 6.6 bn in 1999) amounted to some 3.6% of GDP, or 25% of federal budget expenditures and to about 35% of the current account surplus in 1999 (Table 4). Unless rescheduled, the outstanding debt service would amount to around USD 15 bn annually during the 2000-2005 period (with a peak of USD 20.3 bn in 2003 – see Table 4).

The problem with meeting the debt service obligations is illustrated by two schematic development scenarios for the next decade which are outlined in Table 4. The 'muddling through' variant (Table 4a), which assumes a gradual consolidation of the Russian economy and modest (2% per year) GDP growth with an inflation of 25% annually, is accompanied by a constant real exchange rate until 2005. The share of budget revenues and expenditures in GDP is growing by 3% per year as a result of the gradual consolidation of the state's ability to collect revenues. After 2005, inflation is expected to decline and the real exchange rate to slightly appreciate which results in an accelerated growth in dollar GDP. Imports are growing 1 percentage point faster than exports and the current account surplus (70% of the trade balance) exceeds 10% of the GDP for most of the period. Debt service paid amounts by assumption (as it was in 1999) to a quarter of budget outlays over the whole period; it rises from USD 7.4 bn in the year 2000 to USD 9.5 bn in 2005. The latter is only 60% of the scheduled debt service due (assuming

[45] *Moscow News*, 16-22 February 2000, p. 4.

no rescheduling), though it would represent 4.6% of Russian GDP and require a primary budget surplus of nearly 3.5% of GDP every year. The 'muddling-through' variant would thus not lead to a reduction of the total debt; basically only interest due could be paid in full.

In a more optimistic 'appreciation' scenario (Table 4b), the projected GDP growth is higher, inflation lower and the rouble appreciates in real terms by 2% per year until 2005, and even more afterwards. The stronger rouble leads not only to faster growth of imports, but also to higher growth of dollar GDP (still, the latter would surpass the 1995 level only by the year 2010). Besides, it is assumed that a bigger proportion of fiscal revenues (starting from 30% in the year 2000 and growing by 3% per year as a share of GDP afterwards) is spent on the debt service. In this case, there would be a higher primary budget surplus (rising from 3.8% of GDP in 2000 to 5% of GDP at the end of the decade), and also more room for servicing the debt. Gross debt could be stabilized (both in absolute and per capita terms), it would even gradually decline as a share of GDP. But even in this highly optimistic scenario, the outstanding debt service would not be met in full, at least until the year 2005.

8 Early presidential elections improve prospects for stability and growth

The summer 1998 crisis brought about far-reaching political changes. The reform-oriented government of S. Kiriyenko was sacked soon after the outset of the crisis, the Chairman of the Central Bank S. Dubinin had to go as well. Although the economic policies pursued by the governments of both Chernomyrdin and Kiriyenko between 1993 and 1998 resembled a stop-and-go policy rather than a consistent and radical market-oriented reform strategy, their drawbacks and failures were typically identified in the eyes of the public as disadvantages of the 'liberal model' imposed by the IMF, not least because of the prevailing reform rhetoric of the president and several other leading government officials. The widespread popular disappointment with 'liberal' (free market) values and the general shift of sentiments towards the left was fostered even more by the August crisis. This resulted in the strengthening and a certain consolidation of the leftist factions in the parliament (State Duma) during autumn 1998. The latter felt strong enough to face the threat of dissolution by the president and to reject the initially proposed re-appointment of Viktor Chernomyrdin as the new prime minister. Finally, as a result of a compromise, the former foreign affairs minister and previously also head of the KGB, Ye. Primakov, was accepted in September 1998 by the overwhelming Duma majority as the new prime minister instead. Most notable were the gains of left-leaning politicians in the economic sphere, with the appointment of communist Duma deputy Yu. Maslyukov as the first deputy prime minister in charge of economic affairs, and of Viktor Gerashchenko as the chairman of the Central Bank.

The hopes that Mr. Primakov's authority, experience and pragmatism would ensure political accord in Russia, at least in the short run, proved justified. Indeed, Primakov's government enjoyed a much stronger popular support than its predecessors, and at the same time it refrained from excessive monetary emission, large-scale nationalization of privatized property and a ban on hard currency circulation feared by many of its critics. Instead, it showed a balanced approach to economic issues and was actively seeking further co-operation with international financial organizations. The relative political stability, fuelled by subsequent economic recovery, was not seriously undermined even by the sacking of Mr. Primakov in May 1999, as he was replaced by the younger and admittedly more liberal-oriented former interior minister S. Stepashin. The sudden dismissal of Mr. Primakov against the background of improving economic news looked quite inexplicable: it was interpreted as another proof of the unpredictability of Russian President B. Yeltsin. According to one version which appears probable, Mr. Yeltsin decided to get rid of an independent and increasingly popular left-leaning prime minister who was seen as a serious future contender for the presidency. Abundant were also rumours of an intrinsic struggle for power between the most powerful oligarchs – the struggle was accompanied by a new outbreak of 'propaganda war' between two major privately owned Russian TV channels: ORT and NTV.

The next new prime minister candidate Mr. S. Stepashin was, however, not directly associated with unpopular 'young reformers'. As one of the key initiators of the first Chechen military campaign in 1994-1996, he had been at that time also strongly criticized by Russian liberals. Mr. Stepashin's neutral image, in combination with the reluctance of the Duma to face the threat of dissolution in case of non-acceptance, helped him to be easily approved. Generally, the government of Mr. Stepashin proved somewhat more reform-oriented, though no new notable reform actions were initiated. Committing itself to pursue austerity fiscal and monetary policies and to foster structural reforms, it succeeded in August 1999 to finalize negotiations with the IMF on a new USD 4.5 bn loan, and with the Paris Club on restructuring the Soviet-era foreign debt (for details, see above).

However, by early August 1999 the period of relative political stability came once more to an end. This was partly caused by the approaching Duma and presidential elections (due in December 1999 and June 2000, respectively), which both were expected to result in highly unfavourable outcomes for the ruling elite in the Kremlin, and the liberal right-wing forces in general. The chances of the latter to overstep the 5% threshold in order to get to the Duma in the December elections were perceived as rather slim as these forces had been widely blamed for the misfortunate Russian reforms in general and the 1998 financial crash in particular. Making things even worse, the liberals failed to form a broad coalition under the leadership of former prime minister Stepashin who finally joined the opposition bloc Yabloko of Grigory Yavlinsky. The two major right-wing blocs 'Our Home Russia' (NDR) of Viktor Chernomyrdin and the Union of Right Forces led by 'young reformers' were sharing a limited electorate consisting primarily of well-being bourgeoisie and liberalminded urban intelligentsia.[46] The newly created Unity bloc led by Minister for Emergencies Mr. S. Shoigu initially faced the same problems, but enjoyed rapid gains thanks to the support of Mr. V. Putin. The Yabloko party of Mr. Yavlinski as well as the nationalistic and largely populist Liberal Democratic Party of Vladimir Zhirinovsky were expected to retain their presence in the Duma, though they were unlikely to get a substantially larger number of votes. The two big 'favourites' of the Duma elections were the Communist Party led by G. Zyuganov (whose positions have been traditionally strong in recent years), and another newly created 'Fatherland-All Russia' (OVR) led by the former prime minister Ye. Primakov and Moscow mayor Yu. Luzhkov. Both parties expected to receive at least 20% of votes, ensuring the domination of left-leaning politicians in the new Duma. The OVR bloc was rightly seen by the Kremlin administration as its major rival, which instigated a new propaganda attack against its leader Mr. Luzhkov. Political instability was also fuelled by an outburst of the conflict in the North Caucasus in August, and by the September wave of terrorism across Russian cities which was widely attributed to this war. Furthermore, grandiose international corruption and money laundering scandals involving Russian top officials added to political tensions as well.

In these circumstances, the reportedly soft and compromise-leaning Stepashin was increasingly viewed by the Kremlin administration as incapable of adequately responding to the new challenges. On 9 August 1999 he was sacked; instead, the former chief of Security Council Vladimir Putin was proposed as the new prime minister and simultaneously declared as Yeltsin's preferred successor for presidency. However unjustified the dismissal of Mr. Stepashin seemed, Mr. Putin was promptly accepted by the Duma, which did not see much difference between the former and the new prime minister, on the one hand, and was eager to avoid dissolution, on the other. Even more than in the case of Mr. Primakov, the August 1999 government change was not economically motivated and could be explained solely by Kremlin political intrigues on the eve of the twin elections. Characteristically enough, the cabinet underwent only minor changes, and nearly all ministers in charge of the economy initially retained their posts. Mr. Putin, known as a tough administrator, has always been loyal to President Yeltsin. So far, the tough policy of the government in the North Caucasus seems to confirm this reputation.

The parliamentary elections of 19 December 1999 confirmed the lead of the Communists (24.3% of the vote) and brought unexpectedly strong support for 'Unity' (23.3%) supported by V. Putin as well for the Union of Right Forces (8.5%). On the other hand, both the Primakov–Luzhkov's OVR (13.3%) and Yavlinski's Yabloko (5.9%) were disappointed with lower than expected voters' support. Mr. Zhirinovski's 'Liberal Bloc' got 6% of the vote.[47] The Communist Party will thus have the strongest fraction in the new Duma

[46] The Union of Right Forces expected, however, to attract additional votes by leaving in the shadow the names of unpopular Yegor Gaidar and Anatoly Chubais, who had been widely believed to be organizers of the bloc.

[47] See http://www.nns.ru/Elect-99, 4 January 2000.

(113 deputies), followed by Unity (72), OVR (66), Union of Right Forces (29), Yabloko (21) and the Zhirinovski Bloc (17). Though the final voting distribution is yet to be determined (since more than 100 deputies from one-seat districts run as independent) one can generally expect a slightly more co-operative, pragmatic and reform-oriented parliament than in the past. In its first session on 18 January 2000, the Unity bloc joined with Zhirinivski's Liberals the Communist Party and elected G. Seleznyev as the new Duma Speaker while the other parties walked out in protest.

The resignation of B. Yeltsin on 31 December 1999 was the most spectacular Y2K event worldwide. Though not completely unexpected – it had been discussed since early autumn as one of the speculative variants of how the Kremlin's family could hold on power[48] – it further improved the chances of increasingly popular Prime Minister V. Putin. After the disappointing performance of Primakov–Luzhkov OVR bloc at the Duma elections, the new acting President V. Putin is now almost sure to win the contest on 26 March 2000 and to become the next Russian president. The early presidential elections will help not only Mr. Putin, whose star rise from obscurity can be attributed largely to his perceived efficiency and the tough dealing with Chechen 'terrorists'. The belated departure of Mr. Yeltsin and a shorter pre-election period will also help to reduce the political uncertainty which is an essential prerequisite for the recovery of investments as well.

9 Medium-term economic prospects: modest improvements, at best

The medium-term scenarios of the development of the Russian economy and society strongly depend first of all on the outcome of the presidential elections. This view has been shared by most observers and was reflected *inter alia* also in the temporary character of last year's debt rescheduling agreements with the Paris Club (as well as by the wait-and-see approach of London Club creditors). According to the Russian constitution adopted in 1993, presidential powers exceed by far those of the parliament or of the prime minister. Acting President V. Putin seems to have the best chances to win: his poll ratings in January 2000 are close to 60%.[49] Indeed, the present situation is very much different from that in 1996 when initially grossly unpopular Mr. Yeltsin (only 5% support in spring 1996) narrowly defeated his communist opponent G. Zyuganov in the second round of elections, largely thanks to the support of powerful oligarchs who then financed his electoral campaign and feared a communist backlash. Unless something unpredictable happens, it is fairly realistic to expect that the acting president V. Putin will win by a comfortable margin in the 26 March 2000 presidential contest.

48 *Kommersant-Vlast'*, 28 September 1999, pp. 7-8.

49 *Izvestiya*, 17 January 2000, p. 3.

Acting President V. Putin has inherited a bunch of difficult problems. As far as the economy is concerned, he has to deal first of all with widespread corruption and crime, capital flight and with various disincentives for investments. The current economic recovery remains fragile, largely based on the temporary effects of devaluation and increased world market energy prices. The structure of the Russian economy is heavily distorted and domestic demand deeply depressed. Especially the existing structural deficiencies are not going to be changed easily and soon. Government institutions hardly function and the society is disappointed with a decade of reform experiments which brought hardships for most. As illustrated by the above-mentioned unholy coalition of Communists and Unity Bloc at the first Duma session on 18 January 2000 and the election of the communist G. Seleznyev as the new Duma speaker, the parliamentary elections resulted in a more coherent and less obstructive (from the Kremlin's point of view), though not necessarily more 'reform-oriented', assembly. The likely new president, Mr. V. Putin, is enjoying growing support and will certainly be more efficient and less erratic than his predecessor. In the period before the parliamentary elections there were virtually no economic policy discussions, but it seems that after the August 1998 financial crash a new broad 'Moscow consensus' (replacing the earlier 'Washington consensus') regarding economic policy is emerging in Russia. This new economic policy consensus appears to be less liberal, but still pragmatically pro-market, and it stresses Russian specifics as far as the role of the state and individual freedoms is concerned.

Mr. Putin's economic programme, drawing on the conclusions of a newly established 'Strategic Reform Centre' think tank, was disseminated at the government web page at the end of December 1999.[50] It acknowledges Russia's current backwardness and structural problems which result from both the past communist heritage and from mistakes of the last reform decade. Mr. Putin sees the way out of the current malaise not in a new radical reform push ('people would not withstand it'), but in gradual and sustained efforts without imposing additional economic hardships on the population. There should be no copying of foreign abstract models. Instead, Russia should follow its own way along the lines pursued during the past two years (here Mr. Putin voices both an indirect criticism of the IMF and Western advice as well as a praise of the post-August 1998 pragmatic and centrist course initiated by Ye. Primakov). Mr. Putin has no quick fixes at hand and underlines the necessity of a broad political and social consensus for the required changes – the consensus that started emerging after the August 1998 crisis. The Russians accept ideas of private property and free enterprise, but have their own traditional values as well. These specifically Russian values include 'patriotism and national pride', belief in the 'greatness of

[50] See http://www.pravitelstvo.gov.ru, 27 December 1999. The non-profit fund 'Strategic Reform Centre' is headed by German Gref (first deputy minister of State Property) and staffed with experts from the Higher School of Economics, the Institute of Economic Forecasting of the Academy of Sciences, the Institute of Law and Comparative Legal Studies by the government, the Working Centre for Economic Reforms by the government and the Institute of Economic Analysis – see *Ekonomika i zhizn*, No. 2, 2000, p. 2.

Russia' and in a 'strong state', as well as 'paternalistic' sentiments. According to Mr. Putin, these are factors which – whether one likes it or not – make Russia 'special' and have to be reckoned with.

After the identification of the 'Russian idea', the first priority for Mr. Putin is to establish a strong (not totalitarian, as he explicitly says) state. Here his aim is to streamline the government apparatus, to intensify the struggle against corruption and crime, to increase the authority of law and to improve the federative relations. The state must efficiently co-ordinate the economic and social policies and be more deeply involved in the economy. In order to foster economic growth, there is a need for more investment and for foreign investments in particular. The future industrial policy should focus on virtually everything: on high technology sectors, domestic-market oriented branches of the manufacturing industry and on export industries (energy and raw materials) as well. The structural policy should focus on the development of large, medium-size and small enterprises and on the regulation of national monopolies. In the financial sphere, the budget, the tax reform and the non-payments problem should be addressed while maintaining low inflation and the stability of the exchange rate. Finally, the shadow economy and organized crime should be combated and Russia should be integrated into the world economy. Last but not least, a modern agricultural policy should combine state involvement and regulation with market and ownership reforms in the countryside.

This ambitious and general programme appears indeed as a reflection of the recently emerged Russian political and economic consensus. It is not exactly what the IMF would subscribe to, but – if (and there is a big if) implemented – it could in principle form the foundation for a revival of the Russian state and economy. The starting conditions, including the person of Mr. Putin, are currently more favourable than in the past, but a sustained and robust economic recovery would indeed require substantial improvements in the complex of factors which affect the investment climate; their implementation will definitely need time. Official projections for the Russian economy reckon with growth of GDP by 1.5-2% per year until the year 2004 as the most likely variant.[51] Even this moderate growth would require the implementation of a number of structural reforms, fairly restrictive monetary and fiscal policies and new external financing. A more optimistic scenario, elaborated by the Economic Institute of the Russian Academy of Sciences, assumes better capacity utilization of consumer goods and food industries in the initial period (1999-2000) stimulated by growth of private demand with the temporary help of more deficit spending.[52] This would make it possible to achieve GDP growth of 4-6% per year during this period. Subsequently, an increase of investments would facilitate an acceleration of GDP growth to more than 6% per year. Realistically, for the coming years,

[51] See Ekonomika i zhizn, No. 2, January 2000, p. 5.

[52] See *Ekonomika i zhizn*, No. 4, January 2000, pp. 2-3.

WIIW expects only modest economic growth in the range of 2-3% per year, as the current effects of better capacity utilization cum devaluation will gradually dry out before an investment-led recovery may set in. With continued modest disinflation and strengthening of the rouble, domestic demand is expected to recover somewhat. The projected, gradually declining current account surplus will not be sufficient to meet the outstanding debt service obligations in full – a debt restructuring is definitely needed.

Stability is crucial for Russia, as the persistent stalemate between the executive and legislative branches over the last decade has been one of the principal reasons for the 'failure of the state' and for other misfortunate outcomes of Russian reforms. Although no new start of radical liberal reforms similar to those attempted by the first Russian government headed by Mr. Gaidar at the beginning of 1992 is to be expected after March 2000, more political stability would still be instrumental in improving the climate for investments which will also be encouraged by the still low real value of the rouble. The undervalued rouble will also reduce pressures to pursue protectionist policies, making economic isolation of Russia rather unlikely. Within the framework of this relatively optimistic scenario, the Russian economy could grow moderately in the medium-term perspective.

Whatever forces come to power in future Russia, they will be severely constrained, financially, by debt service obligations and, politically, by the nearly inevitable co-operation with the left-dominated Duma. These two circumstances make a radical change in the economic policy course quite unlikely. Also, much will depend on the policies of Western governments and international financial organizations. In our view, the right approach in this respect would be to minimize politically motivated lending to Russia, limiting it to the finance of concrete investment projects. The multibillion IMF loans given to Russia in recent years were either unproductively consumed, or simply embezzled, which exacerbated further the problem of foreign indebtedness. The loans not only seem to be excessive for a country having a strong external surplus for many years; a decision to stop such lending would also be politically fruitful, as soon as economic reforms implemented by the authorities are longer be viewed as a dictate from abroad.

Moreover, even a moderate economic improvement would require a considerable strengthening of the government's regulatory role – one of Mr. Putin's declared priorities – which should be able to provide basic public goods such as legal protection and a more stable business environment. The current weakness of the state authorities is one of the lasting consequences of the collapse of the old system. The weak central government, together with mounting economic difficulties, requires (and enables) regional authorities to act alone, frequently contrary to the policies pursued by the centre. While the break-up of the ethnically relatively homogenous Russian Federation should not be feared, it is effectively moving into confederation with powerful regional governors who act increasingly independently of the centre (Moscow's mayor Yu. Luzhkov is an egregious example of the trend towards regional autonomy, Chechnya is a tragic one).[53] Overcoming such tendencies could become a substantial political asset for any political force in power (this strategy is currently also being used by Mr. Putin). At the same time, the prospects for post-Soviet integration are to be viewed sceptically. Whereas the CIS remains in a mess, a plethora of sub-regional customs arrangements and technical and military co-operation agreements remains largely on paper.[54] Even the formal economic and monetary union between Russia and Belarus, though accompanied by encouraging rhetoric on both sides, has not advanced much in practice due to differing approaches to integration, but also because of the contrasting economic systems in the two countries. Neither economic developments (with the volume of intra-CIS trade continuously declining), nor the political ambitions of the CIS leaders point to a likelihood of reunion in the foreseeable future.

53 Another alarming sign has been the recent resolution of the parliament of Tatarstan to suspend recruitment to the federal army from its territory.

54 For an overview of integration steps in the economic field undertaken by the CIS countries, see *Izvestia,* 23 September 1999, p. 4.

Statistical Annex

Source of Tables A/1 to A/9: WIIW Database.

Table A/1

Russia: Selected monthly data on the economic situation in 1997

		1997											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PRODUCTION													
Industry, total	real, CMPY	0.3	1.5	0.4	0.5	0.2	2.0	3.4	3.0	2.4	2.3	3.7	4.2
Industry, total	real, CCPY	0.3	0.4	0.7	0.6	0.5	0.8	1.2	1.4	1.5	1.5	1.7	1.9
Industry, total[1)]	real, 3MMA	-1.1	-0.9	-1.1	-0.9	-0.2	1.9	3.8	5.0	4.8	4.0	3.6	3.4
Construction, total	real, CMPY	-10.0	-11.5	-9.5	-11.3	-10.1	-6.0	-4.1	-3.5	0.8	-0.6	-5.7	-3.6
LABOUR													
Employment total	th. persons	65200	65000	64800	64700	64600	64600	64600	64600	64500	64400	64400	64400
Unemployment, end of period[2)]	th. persons	7290	7490	7600	7780	7880	7900	7900	7900	7990	8000	8100	8133
Unemployment rate[2)]	%	10.1	10.3	10.5	10.7	10.9	10.9	10.9	10.9	11.0	11.1	11.2	11.2
WAGES, SALARIES													
Total economy, gross	RUB	812.2	821.2	902.9	901.1	919.7	993.2	999.1	982.3	1026.2	1006.0	997.8	1214.8
Total economy, gross	real, CMPY	3.6	1.4	3.8	4.7	3.0	3.6	3.4	2.9	6.0	5.6	7.1	7.6
Total economy, gross	USD	145	145	158	157	159	172	173	169	176	171	169	204
Total economy, gross	ECU[*)]	120	125	138	137	139	152	156	158	160	154	148	184
PRICES													
Consumer	PM	2.3	1.6	1.4	0.9	0.9	1.2	0.9	-0.1	-0.4	0.2	0.7	0.9
Consumer	CMPY	19.7	18.3	16.7	15.3	14.5	14.6	14.7	14.9	14.1	12.9	11.6	11.0
Consumer	CCPY	19.7	19.0	18.2	17.5	16.9	16.5	16.2	16.0	15.8	15.5	15.1	14.8
Producer, in industry	PM	1.1	1.7	1.3	0.8	0.4	0.9	0.2	0.4	0.2	0.1	0.2	0.0
Producer, in industry	CMPY	23.0	21.7	20.2	18.3	17.6	16.7	15.6	13.7	11.9	9.1	8.4	7.6
Producer, in industry	CCPY	23.0	22.4	21.6	20.8	20.1	19.5	18.9	18.2	17.5	16.6	15.8	15.0
RETAIL TRADE													
Turnover[3)]	real, CMPY	-0.4	1.6	0.0	1.6	1.4	-0.2	-0.5	1.1	3.7	4.0	5.6	9.7
Turnover[3)]	real, CCPY	-0.4	0.5	0.4	0.7	0.8	0.6	0.5	0.6	0.9	1.2	1.6	2.4
FOREIGN TRADE[4)]													
Exports total, cumulated	USD mn	7000	13800	21200	28100	34800	41700	49200	56100	63200	71200	79400	88400
Imports total, cumulated	USD mn	4800	9900	15600	21800	27300	33200	39200	45700	51900	58800	65300	73600
Trade balance, cumulated	USD mn	2200	3900	5600	6300	7500	8500	10000	10400	11300	12400	14100	14800
FOREIGN FINANCE													
Current account, cumulated	USD mn	.	.	4141	.	.	4198	.	.	3505	.	.	3924
EXCHANGE RATE													
RUB/USD, monthly average	nominal	5.601	5.654	5.704	5.747	5.770	5.780	5.787	5.812	5.847	5.875	5.903	5.941
RUB/ECU, monthly average	nominal	6.778	6.564	6.530	6.560	6.604	6.541	6.393	6.211	6.406	6.553	6.739	6.610
RUB/USD, calculated with CPI[5)]	real, Jan98=100	101.2	100.9	100.7	100.6	100.1	99.2	98.5	99.2	100.5	101.0	100.8	100.4
RUB/USD, calculated with PPI[5)]	real, Jan98=100	103.8	102.0	100.6	100.4	100.7	99.8	99.5	99.8	100.4	101.0	101.2	101.1
RUB/ECU, calculated with CPI[5)]	real, Jan98=100	112.3	107.3	105.4	105.1	105.1	103.0	100.0	97.4	101.0	103.3	105.7	102.9
RUB/ECU, calculated with PPI[5)]	real, Jan98=100	110.5	105.3	103.4	103.2	103.7	101.8	99.5	96.6	99.4	101.7	104.4	102.3
DOMESTIC FINANCE													
M0, end of period	RUB bn	96.3	102.1	105.2	115.2	120.4	136.9	140.4	141.6	134.9	135.8	128.8	130.4
M1, end of period	RUR bn	186.3	192.5	197.8	208.2	217.8	242.5	249.8	251.2	252.8	260.7	252.2	298.3
M2, end of period	RUB bn	361.0	371.1	378.0	391.9	398.9	423.3	430.1	432.5	434.7	445.5	435.9	457.2
M2, end of period	CMPY	29.7	28.7	28.2	29.7	28.8	28.4	29.0	27.6	30.0	32.0	26.9	28.0
Refinancing rate (p.a.),end of period	%	48.0	42.0	42.0	36.0	36.0	24.0	24.0	24.0	24.0	21.0	28.0	28.0
Refinancing rate (p.a.),end of period[6]	real, %	20.3	16.7	18.1	14.9	15.7	6.3	7.3	9.0	10.8	10.9	18.1	19.0
BUDGET													
Central gov.budget balance, cum.	RUB bn	-13.3	-27.2	-48.9	-63.1	-71.1	-96.9	-116.5	-133.5	-141.9	-157.9	-165.4	-183.2

1) Seasonally adjusted.
2) According to ILO methodology.
3) Including estimated turnover of non-registered firms, including catering.
4) Cumulation starting January and ending December each year, incl. estimates of non-registered imports.
5) Adjusted for domestic and foreign (US resp. ECU) inflation. Values less than 100 mean real appreciation.
6) Deflated with annual PPI.

Table A/2

Russia: Selected monthly data on the economic situation in 1998

		1998											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PRODUCTION													
Industry, total	real, CMPY	2.9	1.2	2.5	1.1	-2.8	-2.9	-9.0	-11.6	-15.0	-11.7	-9.4	-6.7
Industry, total	real, CCPY	2.9	2.1	2.2	1.9	1.0	0.4	-1.0	-2.3	-3.7	-4.5	-5.0	-5.2
Industry, total[1)]	real, 3MMA	2.6	2.2	1.6	0.3	-1.5	-4.9	-7.9	-11.8	-12.7	-12.0	-9.3	-6.2
Construction, total	real, CMPY	-6.2	-4.8	-5.3	-0.8	-1.2	-1.2	-1.6	-3.0	-7.5	-9.3	-10.4	-8.1
LABOUR													
Employment total	th. persons	64200	64000	63800	63700	63700	63800	63700	63500	63400	63300	63300	63300
Unemployment, end of period[2)]	th. persons	8267	8433	8466	8472	8282	8100	8146	8293	8585	8876	9395	9728
Unemployment rate[2)]	%	11.4	11.6	11.7	11.7	11.5	11.3	11.3	11.6	11.9	12.3	13.9	13.3
WAGES, SALARIES													
Total economy, gross	RUB	988.0	1000.0	1059.0	1040.0	1047.0	1122.0	1110.0	1052.0	1112.0	1123.0	1164.0	1482.0
Total economy, gross	real, CMPY	10.4	11.4	8.1	6.9	5.9	6.2	5.3	-2.2	-28.8	-29.7	-30.0	-33.8
Total economy, gross	USD	165	165	174	170	170	182	179	156	77	71	71	74
Total economy, gross	ECU[*)]	151	152	160	156	153	165	163	141	67	59	60	63
PRICES													
Consumer	PM	1.5	0.9	0.7	0.4	0.5	0.1	0.1	3.7	38.4	4.5	5.7	11.6
Consumer	CMPY	10.1	9.3	8.5	8.0	7.5	6.4	5.6	9.5	52.2	58.8	66.7	84.4
Consumer	CCPY	10.1	9.7	9.3	9.0	8.7	8.3	7.9	8.1	13.1	17.7	22.3	27.6
Producer, in industry	PM	0.9	0.5	-0.1	0.0	-0.9	0.0	-0.8	-1.2	7.4	5.9	5.1	4.8
Producer, in industry	CMPY	7.3	6.1	4.6	3.8	2.6	1.6	0.6	-1.0	6.1	12.2	17.6	23.2
Producer, in industry	CCPY	7.3	6.7	6.0	5.4	4.9	4.3	3.8	3.2	3.5	4.4	5.6	7.1
RETAIL TRADE													
Turnover[3)]	real, CMPY	0.7	-0.5	-1.4	-2.6	-1.3	-1.0	0.4	3.5	-4.4	-11.4	-12.4	-18.3
Turnover[3)]	real, CCPY	0.7	0.1	-0.4	-1.0	-1.0	-1.0	-0.8	-0.3	-0.8	-1.9	-2.9	-4.5
FOREIGN TRADE[4)]													
Exports total, cumulated	USD mn	5800	11600	18300	24500	30500	36900	43100	48800	54800	60900	66900	74100
Imports total, cumulated	USD mn	5700	11700	18200	24400	30200	35900	41300	46400	49400	52400	55400	58900
Trade balance, cumulated	USD mn	100	-100	100	100	300	1000	1800	2400	5400	8500	11500	15200
FOREIGN FINANCE													
Current account, cumulated	USD mn	.	.	-1569	.	.	-5235	.	.	-4438	.	.	2056
EXCHANGE RATE													
RUB/USD, monthly average	nominal	5.997	6.051	6.090	6.124	6.149	6.180	6.216	6.752	14.408	15.909	16.474	19.993
RUB/ECU, monthly average	nominal	6.528	6.586	6.619	6.686	6.825	6.818	6.829	7.440	16.607	19.086	19.274	23.462
RUB/USD, calculated with CPI[5)]	real, Jan98=100	100.0	100.2	100.4	100.8	100.9	101.5	102.1	107.0	165.3	175.0	171.5	186.5
RUB/USD, calculated with PPI[5)]	real, Jan98=100	100.0	100.1	100.6	101.3	102.9	103.1	104.6	114.4	226.4	236.6	232.2	267.2
RUB/ECU, calculated with CPI[5)]	real, Jan98=100	100.0	100.3	100.4	101.4	103.3	103.1	103.1	108.3	175.1	192.5	183.9	200.8
RUB/ECU, calculated with PPI[5)]	real, Jan98=100	100.0	100.4	100.9	102.0	104.9	104.7	105.5	116.1	240.7	260.2	249.3	289.0
DOMESTIC FINANCE													
M0, end of period	RUB bn	116.7	120.4	119.1	128.6	129.9	129.8	129.3	133.4	154.2	166.4	167.3	187.8
M1, end of period	RUR bn	272.7	270.4	266.0	269.5	271.8	270.3	261.6	252.4	274.1	289.2	302.8	342.8
M2, end of period	RUB bn	429.4	436.4	436.2	444.1	449.0	447.9	437.8	434.3	520.0	521.8	552.9	628.6
M2, end of period	CMPY	18.9	17.6	15.4	13.3	12.5	5.8	1.8	0.4	19.6	17.1	26.9	37.5
Refinancing rate (p.a.),end of period	%	28.0	39.0	30.0	30.0	150.0	80.0	60.0	60.0	60.0	60.0	60.0	60.0
Refinancing rate (p.a.),end of period[6]	real, %	19.2	31.0	24.2	25.3	143.8	77.1	59.0	61.6	50.8	42.6	36.1	29.9
BUDGET													
Central gov.budget balance, cum.	RUB bn	-7.5	-13.9	-27.7	-36.1	-47.2	-62.4	-73.7	-77.6	-83.4	-94.0	-103.8	-134.2

1) Seasonally adjusted.
2) According to ILO methodology.
3) Including estimated turnover of non-registered firms, including catering.
4) Cumulation starting January and ending December each year, incl. estimates of non-registered imports.
5) Adjusted for domestic and foreign (US resp. ECU) inflation. Values less than 100 mean real appreciation.
6) Deflated with annual PPI.

Table A/3

Russia: Selected monthly data on the economic situation in 1999

		1999											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PRODUCTION													
Industry, total	real, CMPY	-2.4	-3.0	0.4	0.6	6.0	9.0	12.8	16.0	20.2	10.3	12.9	11.1
Industry, total	real, CCPY	-2.4	-2.7	-1.6	-0.5	1.5	3.1	4.5	5.9	7.0	7.5	7.8	8.1
Industry, total[1]	real, 3MMA	-4.0	-1.7	-0.7	2.3	5.1	9.2	12.6	16.3	15.5	14.4	.	.
Construction, total	real, CMPY	-7.7	-6.0	-2.6	-2.0	-0.7	0.8	0.4	8.9	14.2	15.4	10.3	.
LABOUR													
Employment total	th. persons	63200	63200	63600	64100	64600	64900	65100	65200	65100	65100	65100	.
Unemployment, end of period[2]	th. persons	10108	10405	10049	9590	9141	8800	8700	8600	8650	8650	8650	8700
Unemployment rate[2]	%	13.8	14.1	13.6	13.0	12.4	12.0	11.8	11.7	11.7	11.7	11.7	12.0
WAGES, SALARIES													
Total economy, gross	RUB	1167.3	1199.4	1384.5	1423.0	1472.0	1626.0	1618.0	1608.0	1684.0	1717.0	1785.0	2272.0
Total economy, gross	real, CMPY	-40.0	-41.0	-37.0	-35.7	-35.1	-34.3	-35.6	-30.8	-6.5	-2.7	1.9	12.2
Total economy, gross	USD	52	52	59	58	60	67	67	65	66	67	68	85
Total economy, gross	ECU*)	45	47	54	54	57	64	64	61	63	62	66	84
PRICES													
Consumer	PM	8.4	4.1	2.8	3.0	2.2	1.9	2.8	1.2	1.5	1.4	1.2	1.3
Consumer	CMPY	96.9	103.2	107.6	112.9	116.5	120.5	126.3	120.9	62.0	57.2	50.5	36.6
Consumer	CCPY	96.9	100.1	102.6	105.2	107.5	109.7	112.1	113.2	105.4	98.8	92.6	85.7
Producer, in industry	PM	6.9	5.6	3.9	3.7	3.6	3.7	3.1	4.6	5.9	5.5	3.9	7.5
Producer, in industry	CMPY	30.5	37.2	42.5	47.8	54.3	60.1	66.4	76.4	73.9	73.4	71.5	76.0
Producer, in industry	CCPY	30.5	33.9	36.8	39.5	42.5	45.4	48.4	51.8	54.4	56.5	58.0	59.8
RETAIL TRADE													
Turnover[3]	real, CMPY	-19.2	-14.3	-12.2	-14.4	-13.8	-12.5	-14.4	-14.9	-11.3	-2.1	-0.1	7.0
Turnover[3]	real, CCPY	-19.2	-16.8	-15.2	-15.0	-14.8	-14.4	-14.4	-14.5	-14.1	-13.0	-11.8	-10.2
FOREIGN TRADE[4]													
Exports total, cumulated	USD mn	4700	9700	15600	22100	27200	32400	38500	44500	50800	57600	64800	73400
Imports total, cumulated	USD mn	2900	5900	9400	13100	16100	19500	22900	26100	29500	33100	36800	40800
Trade balance, cumulated	USD mn	1800	3800	6200	9000	11100	12900	15600	18400	21300	24500	28000	32600
FOREIGN FINANCE													
Current account, cumulated	USD mn	.	.	5370	.	.	8829	.	.	14578	.	.	.
EXCHANGE RATE													
RUB/USD, monthly average	nominal	22.285	22.910	23.500	24.730	24.460	24.289	24.303	24.711	25.455	25.727	26.308	26.795
RUB/ECU*), monthly average	nominal	25.830	25.694	25.611	26.500	26.027	25.220	25.158	26.221	26.708	27.538	27.243	27.117
RUB/USD, calculated with CPI[5]	real, Jan98=100	192.1	190.1	190.3	195.8	189.5	184.6	180.2	181.6	185.3	185.0	187.0	188.0
RUB/USD, calculated with PPI[5]	real, Jan98=100	278.9	270.2	267.5	273.7	263.1	253.2	246.5	242.0	237.7	227.5	224.8	213.0
RUB/ECU*), calculated with CPI[5]	real, Jan98=100	203.6	194.9	189.5	191.2	183.9	174.9	169.9	175.1	176.1	179.4	175.6	172.5
RUB/ECU*), calculated with PPI[5]	real, Jan98=100	297.0	279.5	268.7	269.1	255.4	239.1	232.3	232.2	224.2	219.6	209.9	194.3
DOMESTIC FINANCE													
M0, end of period	RUB bn	178.0	180.8	174.2	195.3	205.3	216.4	218.2	216.2	212.8	222.0	219.3	.
M1, end of period	RUR bn	330.0	340.3	344.8	371.8	404.0	418.1	429.4	432.9	431.0	454.3	.	.
M2, end of period	RUB bn	637.4	658.0	675.3	717.6	755.5	786.1	792.0	812.7	823.5	868.2	909.8	.
M2, end of period	CMPY	48.4	50.8	54.8	61.6	68.3	75.5	80.9	87.1	58.3	66.4	64.5	.
Refinancing rate (p.a.),end of period	%	60.0	60.0	60.0	60.0	60.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0
Refinancing rate (p.a.),end of period[6]	real, %	22.6	16.6	12.2	8.3	3.7	-3.2	-6.9	-12.2	-10.9	-10.6	-9.6	-11.9
BUDGET													
Central gov.budget balance, cum.	RUB bn	-11.5	-18.1	-38.5	-47.3	-60.5	-63.6	-64.9	-65.1	-64.7	-61.0	-59.1	.

*) Euro (EUR) from 1 January 1999.

1) Seasonally adjusted.
2) According to ILO methodology.
3) Including estimated turnover of non-registered firms, including catering.
4) Cumulation starting January and ending December each year, incl. estimates of non-registered imports.
5) Adjusted for domestic and foreign (US resp. EU) inflation. Values less than 100 mean real appreciation.
6) Deflated with annual PPI.

Table A/4

Russia: Foreign trade in USD, by regions

(exports, imports and trade balances, current prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Exports, fob, USD mn									
Total exports [1)]	.	.	53605.0	59646.0	67542.0	81096.0	88599.0	88252.0	73870.5
annual growth rate in %	.	.	.	11.3	13.2	20.1	9.3	-0.4	-16.3
Total exports [2)]	.	.	53605.0	59177.0	66862.0	79869.1	86889.0	86627.0	72537.5
annual growth rate in %	.	.	.	10.4	13.0	19.5	8.8	-0.3	-16.3
Exports, excl. CIS	71148.0	50911.0	42376.3	44297.4	53001.0	65607.0	70975.0	69959.0	58936.8
annual growth rate in %	.	-28.4	-16.8	4.5	19.6	23.8	8.2	-1.4	-15.8
Developed countries	25584.0	28764.0	25326.0	26906.0	35739.0	40097.0	41678.7	42519.1	36675.6
annual growth rate in %	.	12.4	-12.0	6.2	32.8	12.2	3.9	2.0	-13.7
EU (15)	.	.	20781.0	19639.0	23977.0	26202.0	27179.6	28614.7	23939.7
annual growth rate in %	.	.	.	-5.5	22.1	9.3	3.7	5.3	-16.3
CEEC	.	.	7755.3	7136.7	6596.0	9088.6	10114.3	9690.4	7812.0
annual growth rate in %	.	.	.	-8.0	-7.6	37.8	11.3	-4.2	-19.4
Other countries	.	.	20523.7	25134.3	24527.0	30683.5	35096.0	34417.5	28049.9
annual growth rate in %	.	.	.	22.5	-2.4	25.1	14.4	-1.9	-18.5
Imports, cif, USD mn									
Total imports [1)]	.	.	42971.0	44304.0	50518.0	60945.0	68828.0	73460.0	59572.9
annual growth rate in %	.	.	.	3.1	14.0	20.6	12.9	6.7	-18.9
Total imports [2)]	.	.	42971.0	36055.0	38661.0	46710.0	47373.0	53568.0	44078.2
annual growth rate in %	.	.	.	-16.1	7.2	20.8	1.4	13.1	-17.7
Imports, excl. CIS	81751.0	44473.0	36983.9	26806.7	28344.0	33117.0	32798.0	39365.0	32791.2
annual growth rate in %	.	-45.6	-16.8	-27.5	5.7	16.8	-1.0	20.0	-16.7
Developed countries	32480.0	25857.0	23512.0	16685.0	20119.0	23276.0	22885.6	27453.6	22685.6
annual growth rate in %	.	-20.4	-9.1	-29.0	20.6	15.7	-1.7	20.0	-17.4
EU (15)	.	.	16525.6	11198.0	15383.0	17944.4	16931.0	19861.7	16149.5
annual growth rate in %	.	.	.	-32.2	37.4	16.7	-5.6	17.3	-18.7
CEEC	.	.	4625.2	2192.0	2837.0	3499.1	2964.1	3654.7	2722.0
annual growth rate in %	.	.	.	-52.6	29.4	23.3	-15.3	23.3	-25.5
Other countries	.	.	14833.8	17178.0	15705.0	19934.9	21523.3	22459.7	18670.6
annual growth rate in %	.	.	.	15.8	-8.6	26.9	8.0	4.4	-16.9
Trade balance, USD mn									
Total [1)]	.	.	10634.0	15342.0	17024.0	20151.0	19771.0	14792.0	14297.6
Total [2)]	.	.	10634.0	23122.0	28201.0	33159.1	39516.0	33059.0	28459.3
Total excl. CIS	-10603.0	6438.0	5392.4	17490.7	24657.0	32490.0	38177.0	30594.0	26145.6
Developed countries	-6896.0	2907.0	1814.0	10221.0	15620.0	16821.0	18793.1	15065.5	13990.0
EU (15)	.	.	4255.4	8441.0	8594.0	8257.6	10248.6	8753.0	7790.2
CEEC	.	.	3130.1	4944.7	3759.0	5589.5	7150.2	6035.7	5090.0
Other countries	.	.	5689.9	7956.3	8822.0	10748.6	13572.7	11957.8	9379.3

1) Including non-officially registered trade.
2) Officially registered trade, valid as well for all other country groups.

Table A/5

Russia: Exports to the top thirty partners

(current prices, per cent of total)

		1990	1991	1992	1993	1994	1995	1996	1997	1998
Total exports, fob, USD mn [1]		.	.	53605	59177	66862	79869	86889	86627	72538
Ranking in 1997							(% of total)			
Ukraine	1	.	.	.	.	10.30	8.74	8.69	8.38	7.57
Germany	2	.	.	11.10	8.57	9.54	7.57	7.67	7.90	8.85
USA	3	.	.	1.42	3.37	5.33	5.68	5.83	5.50	6.96
Belarus	4	.	.	.	.	4.48	3.68	4.05	5.39	6.37
Netherlands	5	.	.	4.30	1.65	3.70	4.01	3.81	5.28	5.43
China	6	.	.	5.34	5.18	4.32	4.30	5.47	4.64	4.34
Italy	7	.	.	5.53	4.44	4.46	4.25	3.18	4.17	4.57
Switzerland	8	.	.	1.62	2.72	5.56	4.45	4.33	4.10	4.29
Japan	9	.	.	3.18	3.39	4.22	4.54	3.88	3.62	3.09
United Kingdom	10	.	.	4.34	5.67	6.37	3.88	3.73	3.33	4.05
Finland	11	.	.	2.98	2.30	2.83	2.96	2.90	3.28	3.06
Poland	12	.	.	3.11	2.22	2.11	2.51	2.72	2.99	3.25
Ireland	13	.	.	0.07	1.02	1.38	3.14	3.33	2.89	0.89
Kazakstan	14	.	.	.	.	2.90	3.08	2.94	2.86	2.64
Turkey	15	.	.	1.23	1.82	1.52	2.08	1.94	2.29	2.66
Hungary	16	.	.	3.00	3.55	2.11	2.26	2.25	2.16	2.09
Czech Republic	17	.	.	.	2.33	1.91	2.39	2.23	2.11	1.92
Slovak Republic	18	.	.	.	1.58	1.85	2.20	2.06	2.01	1.89
France	19	.	.	3.73	2.63	1.98	1.93	1.82	1.89	2.00
Lithuania	20	.	.	0.81	0.51	1.08	1.35	1.30	1.55	.
Latvia	21	.	.	0.27	0.35	0.94	0.98	1.20	1.42	.
Sweden	22	.	.	1.33	1.32	1.28	0.94	1.27	1.18	0.93
Korea Republic	23	.	.	0.50	0.66	0.85	1.15	1.54	1.09	0.72
Bulgaria	24	.	.	2.22	1.59	1.17	1.11	1.35	1.06	0.83
India	25	.	.	1.12	0.80	0.57	1.25	0.91	1.06	0.80
Uzbekistan	26	.	.	.	.	1.12	1.03	1.25	1.01	0.77
Belgium	27	.	.	1.69	1.79	2.06	1.83	1.59	1.01	0.93
Romania	28	.	.	1.13	0.80	0.71	0.92	1.03	0.85	0.78
Austria	29	.	.	1.24	2.37	1.32	1.07	0.94	0.85	0.81
Spain	30	.	.	1.05	0.65	0.30	0.39	0.47	0.74	0.73

1) Officially registered trade.

Table A/6

Russia: Imports from the top thirty partners

(current prices, per cent of total)

		1990	1991	1992	1993	1994	1995	1996	1997	1998
Total imports, cif, USD mn [1]		.	.	42971	36055	38661	46710	47373	53568	44078
Ranking in 1997							(% of total)			
Germany	1	.	.	16.33	14.26	14.68	13.88	12.15	12.63	13.02
Belarus	2	.	.	.	.	5.42	4.47	6.39	8.92	10.33
USA	3	.	.	6.74	6.39	5.35	5.67	6.24	7.70	9.20
Ukraine	4	.	.	.	.	11.39	14.17	13.30	7.35	7.41
Kazakstan	5	.	.	.	.	5.16	5.73	6.45	5.14	4.41
Italy	6	.	.	7.18	3.07	4.13	3.96	5.17	4.97	4.19
Finland	7	.	.	2.93	2.01	4.21	4.37	3.86	3.56	3.44
France	8	.	.	3.06	2.49	2.60	2.30	2.75	2.99	3.62
United Kingdom	9	.	.	1.40	1.81	2.32	2.35	2.44	2.80	2.77
Poland	10	.	.	3.14	1.47	2.45	2.83	2.28	2.59	2.56
China	11	.	.	4.17	6.48	2.46	1.85	2.14	2.36	2.62
Netherlands	12	.	.	0.92	1.20	4.17	3.52	2.22	2.28	2.09
Uzbekistan	13	.	.	.	.	2.20	1.90	1.38	1.90	1.19
Japan	14	.	.	3.95	3.79	2.88	1.63	2.13	1.87	1.86
Hungary	15	.	.	2.59	1.73	1.97	1.80	1.47	1.74	1.41
Sweden	16	.	.	1.53	0.87	0.80	1.17	1.22	1.66	1.59
Korea Republic	17	.	.	1.81	0.85	1.11	1.07	1.79	1.65	2.30
Moldova	18	.	.	.	.	1.23	1.36	1.75	1.57	1.14
Belgium	19	.	.	0.72	1.29	1.59	1.86	1.46	1.51	1.58
Turkey	20	.	.	1.12	1.83	1.04	1.16	1.26	1.51	1.18
India	21	.	.	1.98	1.75	1.52	1.31	1.29	1.50	1.51
Austria	22	.	.	2.42	2.37	2.53	2.10	1.43	1.33	1.15
Denmark	23	.	.	0.46	0.53	0.84	1.03	0.98	1.12	1.18
Czech Republic	24	.	.	.	1.28	1.11	0.94	1.14	1.10	1.19
Spain	25	.	.	0.99	0.49	0.63	0.52	0.82	1.00	0.96
Switzerland	26	.	.	1.15	1.82	1.39	1.43	1.03	0.98	0.95
Brazil	27	.	.	0.24	0.32	0.50	0.77	0.43	0.87	1.49
Lithuania	28	.	.	0.38	0.15	0.71	0.83	0.54	0.86	.
Norway	29	.	.	0.63	0.24	0.29	0.38	0.60	0.80	0.46
Ireland	30	.	.	0.27	0.23	0.65	0.69	0.68	0.77	0.67

1) Officially registered trade.

Table A/7

Russia: Exports by commodity groups

(current prices, per cent of total)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total exports, fob, USD mn [1]	.	.	53605	59177	66862	79869	87629	86098	72538
Exports, excl. CIS, fob, USD mn [1]	71148	50911	42376	44297	53001	65607	70975	69959	58937
HS commodity groups [1]					(% of total) [2]				
Live animals, animal products	.	2.1	1.9	3.2	3.4	2.0	2.1	1.6	.
Vegetable products	.	0.3	0.2	0.1	0.3	0.6	0.8	0.6	.
Oils, fats and waxes	.	0.1	0.0	0.0	0.1	0.0	0.1	0.0	.
Prep. foodstuffs, beverages, tobacco	.	0.5	0.4	0.5	0.5	0.7	0.8	0.6	.
Mineral products	.	55.7	51.2	46.7	42.9	42.0	48.1	47.7	.
Chemicals and related products	.	5.6	5.3	5.1	6.8	8.0	6.8	6.6	.
Plastics, rubber and rubber products	.	0.5	0.7	0.9	0.9	1.9	1.7	1.6	.
Raw hides and skins, leather, furs	.	0.2	0.2	0.2	0.7	0.4	0.4	0.4	.
Wood & products, charcoal, cork	.	3.9	2.6	3.1	2.9	2.6	2.2	2.3	.
Paper and paper products	.	1.1	0.8	1.1	1.3	2.9	1.9	1.7	.
Textiles and textile products	.	1.3	0.6	0.4	1.7	1.4	1.0	0.9	.
Footwear, headgear, etc.	.	0.0	0.0	0.0	0.0	0.1	0.1	0.1	.
Stone, cement, ceramic, glass, etc.	.	0.1	0.2	0.1	0.1	0.4	0.4	0.4	.
Pearls, prec. stones & metals, etc.	.	.	.	.	.	.	.	.	.
Base metals and products	.	11.2	10.5	17.0	19.8	19.4	18.8	20.0	.
Machinery and electrical equipment	.	3.7	3.4	2.9	2.6	4.6	4.2	5.0	.
Means of transport	.	4.3	5.0	3.5	2.2	5.1	4.9	5.3	.
Optical, med. instruments, clocks etc.	.	0.2	0.7	0.2	0.1	0.3	0.3	0.4	.
Arms and ammunition	.	.	.	.	.	.	.	.	.
Miscellaneous manufactured prod.	.	0.1	0.2	0.2	0.1	0.2	0.1	0.1	.
Works of art, antiques etc.	.	.	.	.	.	.	.	.	.
Other non-mentioned groups	.	9.0	16.0	14.9	13.5	7.5	5.4	4.6	.

1) Officially registered trade, unrevised data in 1996, 1997.
2) Up to 1994 shares in exports excluding CIS.

Table A/8

Russia: Imports by commodity groups

(current prices, per cent of total)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total imports, cif, USD mn [1]	.	.	42971	36055	38661	46710	46355	53441	44078
Imports, excl. CIS, cif, USD mn [1]	81751	44473	36984	26807	28344	33117	32798	39365	32791
HS commodity groups [1]					(% of total) [2]				
Live animals, animal products	.	3.5	1.8	1.3	5.4	6.4	5.9	6.9	.
Vegetable products	.	13.1	14.0	7.9	7.2	5.4	6.0	5.3	.
Oils, fats and waxes	.	0.4	0.9	0.4	0.8	1.5	1.0	1.3	.
Prep. foodstuffs, beverages, tobacco	.	10.9	8.6	12.6	17.0	14.9	12.1	11.7	.
Mineral products	.	3.3	2.7	4.0	2.9	6.4	6.8	5.9	.
Chemicals and related products	.	9.5	7.2	4.6	8.8	8.1	11.1	11.0	.
Plastics, rubber and rubber products	.	3.4	2.1	1.6	2.2	2.8	3.3	3.4	.
Raw hides and skins, leather, furs	.	0.7	1.6	2.6	0.6	0.4	0.4	0.3	.
Wood & products, charcoal, cork	.	0.1	0.1	0.1	0.3	0.4	0.4	0.5	.
Paper and paper products	.	1.0	1.1	0.5	1.4	1.9	2.8	3.0	.
Textiles and textile products	.	5.0	7.1	9.8	5.3	4.5	3.6	3.7	.
Footwear, headgear, etc.	.	2.2	3.6	4.1	2.3	1.1	1.2	0.9	.
Stone, cement, ceramic, glass, etc.	.	0.3	0.6	1.1	0.9	1.2	1.6	1.4	.
Pearls, prec. stones & metals, etc.	.	.	.	.	.	.	.	.	.
Base metals and products	.	6.2	3.2	3.1	3.9	7.5	8.5	7.0	.
Machinery and electrical equipment	.	26.4	27.1	23.1	27.6	23.7	21.8	22.5	.
Means of transport	.	7.1	7.9	9.0	4.7	5.8	6.2	9.2	.
Optical, med. instruments, clocks etc.	.	1.3	2.1	2.0	5.4	4.3	3.7	3.3	.
Arms and ammunition	.	.	.	.	.	.	.	.	.
Miscellaneous manufactured prod.	.	1.1	1.2	1.4	3.2	2.7	2.1	2.3	.
Works of art, antiques etc.	.	.	.	.	.	.	.	.	.
Other non-mentioned groups	.	4.4	7.3	11.0	0.1	0.9	1.6	0.2	

1) Officially registered trade, unrevised data in 1996, 1997.
2) Up to 1994 shares in imports excluding CIS.

Table A/9

Russia: Balance of payments, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998
					(USD mn)				
I. Current account [1)2)]	**-4300**	**7100**	**4179**	**12792**	**8870**	**7778**	**12011**	**4049**	**2446**
A. Goods and services, net	**-3600**	**6700**	**3132**	**14215**	**10959**	**11074**	**17212**	**12752**	**14156**
a. Trade balance, net	**-2000**	**9100**	**5509**	**15590**	**17675**	**20476**	**22933**	**17440**	**17306**
Commodity exports, fob	80900	54700	42374	59724	67826	82663	90563	89038	74751
Commodity imports, fob	-82900	-45600	-36865	-44134	-50151	-62187	-67630	-71598	-57445
b. Services, net	**-1600**	**-2400**	**-2377**	**-1375**	**-6716**	**-9402**	**-5721**	**-4688**	**-3150**
1. Transport, net	-300	100	-297	1185	.	.	.	.	.
2. Travel, net	-300	-300	-400	-969	.	.	.	.	.
3. Other, net	-1000	-2200	-1680	-1591	.	.	.	.	.
Credit	.	.	.	8174	8424	10567	12992	14158	12937
1. Transport	.	.	.	.	.	.	.	.	.
2. Travel	.	.	.	.	.	.	.	.	.
3. Other	.	.	.	.	.	.	.	.	.
Debit	.	.	.	-9549	-15140	-19969	-18713	-18846	-16087
1. Transport	.	.	.	.	.	.	.	.	.
2. Travel	.	.	.	.	.	.	.	.	.
3. Other	.	.	.	.	.	.	.	.	.
B. Income, net	**-2500**	**-2100**	**-1990**	**-2302**	**-1782**	**-3368**	**-5339**	**-8411**	**-11359**
1. Compensation of employees, net	.	.	.	.	-114	-303	-406	-342	-164
2. Investment income, net	.	.	.	-2302	-1668	-3065	-4933	-8069	-11195
Credit	400	400	3490	2908	3500	4278	4333	4366	4300
1. Compensation of employees	.	.	.	.	108	166	101	226	301
2. Investment income	.	.	.	2908	3392	4112	4232	4140	3999
Debit	2900	2500	5480	-5210	-5282	-7646	-9672	-12777	-15659
1. Compensation of employees	.	.	.	.	-222	-469	-507	-568	-465
2. Investment income	.	.	.	-5210	-5060	-7177	-9165	-12209	-15194
C. Current transfers, net	**.**	**.**	**3037**	**879**	**-307**	**72**	**138**	**-292**	**-351**
Credit (to Russia)	.	.	.	1346	237	810	765	349	223
Debit (abroad)	.	.	.	-467	-544	-738	-627	-641	-574
					(USD mn)				
II. Capital and financial account	**3100**	**-5400**	**447**	**-6540**	**-8538**	**1**	**-3380**	**3766**	**5469**
A. Capital account	**.**	**.**	**.**	**-283**	**2410**	**-347**	**-463**	**-796**	**-382**
1. Capital transfer	.	.	.	-283	2410	-347	-463	-796	-382
2. Acquisition of non-financial assets	.	.	.	.	.	.	.	.	.
B. Financial account	**3100**	**-5400**	**447**	**-6257**	**-10948**	**348**	**-2917**	**4562**	**5851**
1. Direct investment	-400	-100	-112	1069	538	1658	1708	3640	1156
1.1 Abroad	.	.	-1566	-142	-101	-358	-771	-2603	-1027
1.2 In Russia	.	.	1454	1211	639	2016	2479	6243	2183
2. Portfolio investment	.	.	175	-374	36	-2408	8757	45433	7779
2.1 Assets	.	.	196	-489	114	-1705	-172	-156	-256
2.2 Liabilities	.	.	-21	115	-78	-703	8929	45589	8035
3. Other investment	1900	2900	7106	-4132	-11574	10408	-14739	-42556	-8339
3.1 Assets	.	.	.	-15331	-17684	5042	-29067	-26621	-16123
3.1.1 Trade credits	.	.	.	-2400	-3698	8043	-9501	-6789	-6810
3.1.2 Loans	.	.	.	7913	9536	8641	9499	7004	5345
3.1.3 Currency and deposits	.	.	.	-7457	-5578	4461	-9669	-12466	1916
3.1.4 Other assets	.	.	.	-13387	-17944	-16103	-19396	-14370	-16574
3.2 Liabilities	.	.	.	11199	6110	5366	14328	-15935	7784
3.2.1 Trade credits	.	.	.	0	-978	-8050	-799	-64	321
3.2.2 Loans	.	.	.	5857	2242	8508	10256	12690	5806
3.2.3 Currency and deposits	.	.	.	1193	1361	2855	1317	-4732	-2766
3.2.4 Other liabilities	.	.	.	4149	3485	2053	3554	-23829	4423
4. Reserve assets (increase: -)	1600	-8200	-744	-4354	1896	-10386	2841	-1936	5305
4.1 Gold, SDR, reserve pos. in IMF	.	.	.	.	.	-122	110	.	.
4.2 Foreign exchange	.	.	.	.	.	-10264	2731	.	.
5. Adjustments to reserves	.	.	-5978	1534	-1844	1076	-1484	-19	-50
III. Errors & omissions	**1200**	**-1700**	**-4626**	**-6252**	**-332**	**-7779**	**-8631**	**-7815**	**-7915**

1) In 1990-1991 excluding FSU, in 1992 excluding CIS.
2) In 1990-1991 current account includes gold sales.

Table A/10

Russia: Balance of payments for nine months of 1999

USD million

	Q1 1999	Q2 1999	Q3 1999	9 months 1999
CURRENT ACCOUNT	**5370**	**3459**	**5749**	**14579**
Goods and services	**6044**	**5766**	**7799**	**19609**
Export	17550	19276	20936	57763
Import	-11506	-13511	-13138	-38154
Goods	6531	6448	8348	21327
Export	15601	16907	18093	50601
Import	-9070	-10459	-9745	-29274
Services	-487	-682	-549	-1718
Export	1949	2369	2844	7162
Import	-2436	-3052	-3393	-8880
Investment income and compensation of employees	**-629**	**-2399**	**-2251**	**-5279**
Receivable	2267	710	413	3390
Payable	-2896	-3109	-2664	-8669
Compensation of employees	62	65	55	181
Received	102	111	111	324
Paid	-40	-47	-56	-143
Investment income	-691	-2463	-2306	-5460
Receivable	2166	598	302	3066
Payable	-2856	-3062	-2608	-8527
Current transfers	**-45**	**93**	**202**	**249**
Received	51	220	326	596
Paid	-96	-127	-124	-346
CAPITAL AND FINANCIAL ACCOUNT	**-3821**	**-1500**	**-2845**	**-8166**
Capital account	**-97**	**-33**	**-81**	**-211**
Capital transfers	**-97**	**-33**	**-81**	**-211**
Received	198	208	192	597
Paid	-295	-240	-273	-808
Financial account	**-3724**	**-1468**	**-2764**	**-7955**
Direct investment	**277**	**224**	**116**	**617**
Abroad	-365	-498	-497	-1359
In Russia	642	722	613	1976
Portfolio investment	**-393**	**-120**	**105**	**-408**
Assets	-23	-202	306	81
Liabilities	-370	82	-201	-489

(Table A/10 continued)

Table A/10 (continued)

	Q1 1999	Q2 1999	Q3 1999	9 months 1999
Other investment	**-4681**	**147**	**-4062**	**-8596**
Assets	-5818	523	-3872	-9167
Cash foreign currency	319	1515	13	1846
Current accounts and deposits extended	-1095	-1524	-562	-3182
Trade credits and advances extended	-1819	1841	-2040	-2018
Loans extended (excluding arrears)	1791	2188	126	4106
Arrears	-4065	-1307	-277	-5648
Change in the stock of non-repatriated export and non-repatriated import advances	-1009	-2071	-1065	-4145
Other assets	60	-119	-66	-126
Liabilities	1137	-376	-190	571
Cash domestic currency	-28	-14	-1	-43
Current accounts and deposits received	-249	645	-376	19
Trade credits and advances received	104	77	48	229
Loans received (excluding arrears)	-1159	-2207	2518	-848
Arrears	2437	1300	-2351	1386
Other liabilities	33	-177	-28	-172
Reserve assets	**969**	**-1611**	**1091**	**449**
Adjustment to reserve assets*	**104**	**-107**	**-14**	**-17**
Net errors and omissions	**-1549**	**-1959**	**-2904**	**-6413**
Overall balance	**0**	**0**	**0**	**0**

* The methodology of international reserves statistics differs from that of the balance of payments: the former is supposed to include liquid assets in resident banks into foreign exchange reserves of the Bank of Russia and Finance ministry as well as the exclusion from the Bank of Russia foreign exchange reserves starting from 3-d quarter, 1999 an amount equivalent to the sum of its obligations to resident banks which are not involved in the foreign debt servicing. Therefore a national adjustment is entered to the 'reserve assets' item.
Last update on 31 December 1999.

Source: http://www.cbr.ru/eng/dp/P_balance99.htm

Helen Boss

Ukraine

Summary

Ukraine entered the first quarter of the 21st century with a newly re-elected president, a new cabinet of ministers led by the country's main reform politician, and a considerably less obstructionist parliament. President Kuchma appears to have gambled and won. Ukraine's 'dinosaur' left lost the presidential election in October/November, and the referendum scheduled for 16 April will further weaken its ability to block economic legislation. The post-Yeltsin Russian elite appears to have accepted Ukraine's independence and its 'European orientation' as a fact of life. The political conditions for tackling urgent economic problems appear to be in place.

The number of 'young reformers' in Leonid Kuchma's new government, its need for outside technical and financial capital, and new insights into real vs. 'virtual' reform give further cause for optimism. The country in mid March 2000 passed an important hurdle in restructuring over USD 2 bn of foreign-currency debt to non-IFIs due in 2000 and 2001. Failure would have plunged the country into a humiliating and messy default.

The IMF, under pressure from contributors over its record in the FSU and elsewhere, has not yet resumed the programme of lending to Ukraine which was frozen in September 1999. It has insisted that parliament pass laws cancelling various tax exemptions, and it and the World Bank await results of audits into possible misuse of funds in 1997-98. All other IFI and most concessional lending from bilateral donors is contingent on resumption of the IMF EFF programme.

The Russian economic crash of August 1998 woke citizens of the CIS states up to the fact that cosmetic, market-mimicking, 'virtual' or schein reforms had been, one, inadequate, and two, possibly dysfunctional, in that they may have fostered the growth of monopoly forces strong enough to block genuine reform in future, no matter how wise the government's policies. WIIW rejects the second view as defeatist. However for Ukraine to avoid permanent relegation to the margins of the global economy, it must use its present window of opportunity and begin to carry out structural change, reward enterprise and sanction non-payment. All these structural measures will weaken the forces of corruption.

Ukraine's early 'virtual' successes in stabilizing inflation and the currency lost their lustre with the Russian débâcle of August 1998. Non-payment soared, and the hryvnia lost over 60% of its value between 30 June 1998 and early March 2000, falling from 2.06 to 5.5 to the USD. It is now officially floating, without a pre-set 'band' or major

reserves to support it. Useable NBU reserves at the turn of the millennium stood at a paltry USD 1.16 bn (USD 1.01 bn as of 31 January 2000).

The government has admitted that its 'Soviet' habits are part of the problem. On 17 February 2000 parliament passed a zero-deficit budget for 2000 in which expenditure not including the pension fund was planned to increase only slightly on 1999 execution levels, and to fall nearly a fifth in real terms, assuming inflation in 2000 is 20%. Many of the government's economic proposals inflict short-term losses on people comfortable under the hybrid economic system, not least central government employees and members of parliament. The government must yet convince skeptics it has the strength to implement unpopular decisions. Administrative, agricultural and energy-sector reform are among the litmus tests of their credibility.

If Ukraine does not keep some of its current promises, the prognosis is a depressing one. The country could stagnate for decades on the edge of Europe, at the same time as its neighbours to the west are revitalized by progressive integration into the European Union. Accession by the Czech Republic, Poland, Hungary, the Czech Republic and, eventually, Slovakia will reduce Ukrainians' opportunities for shuttle trade and casual labour - the more onerous visa regime announced by the Czechs (which has an open border with Slovakia) in January 2000 is the first of probably numerous measures which may harden the emerging division of Europe into a new set of haves and have-nots, with Ukraine in limbo.

Nearly a decade has been wasted. There are no quick fixes for the economy: only slow, steady commitment to budget-hardening, fairness-enhancing measures can attract investment for growth and bring the shadow economy out of the shadows. It may take years to see the benefits of proposals to disband collective farms, reduce energy consumption and impose market-economy type sanctions such as bankruptcy workouts on enterprises who fail to pay wages, energy bills or taxes on time or in cash. But after eight years of 'fake' reform, there is at last some evidence that the government's top economy ministers understand what must be done, and that only the market can do it.

1 Recent economic performance

During the 1990s, the recorded economy of Ukraine experienced one of the worst output declines ever recorded in peacetime. Measured GDP in 1999 stood just under 45% of the 1991 official level (39% of the 1989 level; 37% of the 1992 level according to UEPLAC)[1].

[1] Ukrainian-European Policy and Legal Advice Centre (TACIS-UEPLAC), *Ukrainian Economic Trends*, *December 1999*, Kiev, February 2000, table 1.1.

The causes are many and the proposed solutions, unpopular. The main reason for Ukraine's poor performance is the country's Soviet legacy of an inappropriate, energy-inefficient, uneconomic capital stock, and the scale of investment needed to scrap it and replace it with one suited to Ukraine's comparative advantage going forward. This investment has not been forthcoming because of weak progress on both financial stabilization and enterprise reform in industry and agriculture. Reasons include attitudes and beliefs left over from the Soviet and indeed pre-Soviet economic and political history of the country, which have proved negative for rule of law and effective implementation of state decisions.

There have now been two years in which early-month forecasts of positive GDP growth were not borne out. Despite the 'runway' provided by several years' near-stability of the nominal exchange rate and a GDP that had remained just below flat, upticks in GDP in late 1997 and early 1998 were overwhelmed in the second half of 1998 by effects on demand and expectations from the Russian crisis. In the event, 1998 GDP was down 1.7%. Since the demise of the USSR in December of 1991, there were only five quarters of year-on-year growth (Q3 1997 - Q1 1998 and Q3 - Q4 1999),[2] and, so far, no annual GDP growth. (Tables 1 and 3)

1999 was a turning point for just about all the CIS states, but again Ukraine (with Moldova) was the laggard among those reporting.[3] Ukraine's 1999 GDP fall decelerated to almost nil, but the positive annual growth forecast by economy ministers in the run-up to the presidential elections did not materialize in the end. Ukraine's official recorded GDP growth went from minus 4.8% in January–March year-on-year to -3% in the first half, -1.7% in January–September, and -0.4% for the year. Preliminary nominal 1999 GDP is given as UAH 127,126 bn, some USD 30.78 bn at the average annual exchange rate for 1999, or USD 619 per capita. In purchasing power terms that figure would be worth 3-4 times as much.

Investment plummeted in real terms and foreign direct investment was of marginal importance to the Ukrainian economy in 1989-1999, totalling some USD 3.248 bn (USD 65 per capita) on a cumulative basis - about the same as in Russia (USD 74.4) but far below levels in e.g. Hungary. USD 775 mn allegedly flowed in in 1998, presumably before August; this was 23% of 1997 domestic investment converted at the UAH-USD exchange rate; USD 437 mn was attracted in 1999. There has been very little 'greenfield' investment. The low level of FDI has deprived middle managers of the chance to learn marketing,

2 According to UEPLAC's series, ibid.; the Derzhkomstat (State Statistics Committee) official series shows just one quarter of year-on-year growth, Q2 1998, ibid.

3 Statkomitet SNG, Osnovnye Sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG, Moscow, January 2000, p. 367. H. Boss, 'The CIS at the dawn of the century: hybrid economies benefit from devaluation', Vienna Institute for International Economic Studies Monthly Report, February 2000.

accounting, IT systems and other skills through contact with people from major international companies.

On preliminary evidence, industry gets all the credit for the ever-smaller declines in overall output quarter-by quarter in 1999. There is no data on government or private-sector services, but agriculture's contribution was again either sharply or modestly negative, depending on the price weights used. Both domestic industry and the trade deficit benefited from the over 60% devaluation of the hryvnia–dollar exchange rate that began with contagion from Russia's August 1998 débâcle.

The new century has begun well. The date change proved benign in the transport and power systems. Data for January 2000 show a continuation of the improvements that first impacted the quarterly figures in mid-1999: estimated recorded GDP was up 3.4%, and industrial production, up 5.3% compared to January 1999. Notably however, the government's GDP growth forecast for 2000 as incorporated into the budget passed on 17 February remained extremely modest at 0.5%; it may be raised to 1%. Much could still go wrong in the measured economy in 2000, in agriculture, in trade relations with Russia, and in implementation of the budget, but a new optimism pervades the land.

2 The price of slow reform: Ukraine as a 'hybrid' or 'virtual' economy

The economics of transition: the two-stage strategy

The transition strategy sponsored by western donors 1992 ff. was based on financial stabilization in a first instance, and almost as a logical prior to enterprise reform. Financial stabilization had priority because of the mega-inflation which raged in Ukraine in the first years of statehood. Both stabilization and enterprise reform were seen as preconditions for GDP to stop falling. Though stabilization is still perceived as a necessary step in progressing on the road away from post-Soviet hyperinflation and output collapse, and though the 'Washington consensus' is still intact in that sense, unfortunately very little of the enterprise reform part of the programme was realized, for a variety of reasons, during the period October 1994 to the August 1998 crisis in Russia. Indeed the stabilization achieved was partly 'fake' or 'illusory' because of the scale of non-payment. The strict monetary policies pursued to break the inflation cycle were fairly successful in repressing inflation and preserving exchange-rate stability, but in the absence of true enterprise reform, they generated some perverse side-effects, which must now be dealt with.

The failure of the 'stabilization-first' strategy either to get GDP to stop falling or to harden enterprise budgets has forced re-think of the nature of the post-Soviet economic system itself. Reform proved so elusive, and the leftovers of the old system so tenacious, protean and 'stable', that some analysts ceased describing the economy as 'in transition' at all, preferring the terms 'hybrid'[4] or 'virtual economy'[5]. These described 'low-level equilibrium traps' which did not generate or imply movement, however slow, along a path to a mixed market system. The hybrid system was characterized by high levels of corruption and even 'capture' of the state by powerful business lobbies.[6]

Soft budget constraints and their consequences

The 'hybrid' analysis stresses that hard and soft budget constraints may coexist indefinitely in a post-Soviet economy, even though some hardening of enterprise and state budgets may have occurred in some parts of the system. The hybrid analysis notes that budgets in Ukraine's vast shadow economy are at least partly hard, in that there is entry and exit and workers and e.g. imports may be paid for in cash or close substitutes among the array of monetary instruments. However shadow firms do not pay for energy or work space in full, and do not pay taxes by definition.

In the recorded sector of a hybrid economy, results that would be self-limiting in a market economy persist literally for years. For example, over half of industrial enterprises and 88% of agricultural ones were loss-making in 1998; as of the end of the first quarter of 1999, 58.2% of industrial enterprises were loss-making. Eighty-six percent of agricultural enterprises were forecast to be loss-making in 1999.[7] Despite this, they were able to carry on, rather than being forced into bankruptcy or obligatory 'chapter-11'-type workouts involving automatic firing of top management and implementation of a business plan that reallocates assets including labour during an agreed time frame.

Non-equivalent exchange

The virtual analysis stresses non-equivalent exchange, a fundamentally non-economic behaviour. The key to the mystery is that firms and the state accept overpriced barter goods as offsets to receivables like energy bills or taxes due. These would never be accepted in a market economy except at a discount.[8] Firms appear to be operating normally, producing at least some output, and they may even declare a profit. But since

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4 H. Boss, 'The K2/R4 Completion Decision in light of Ukraine's recent history of and prospects for economic transition', ch. 2C of Austrian Federal Environment Agency, 'NPP Khmelnitsky 2 / Rivne 4, Public Participation Procedure, Report to the Austrian Government,' Vienna, November 1998.

5 C. Gaddy and B. Ickes, 'Beyond a Bailout: time to face reality about Russia's Virtual Economy', Brookings Institution, 16 June 1998, and 'Russia's Virtual Economy', Foreign Affairs, 77, September-October 1998.

6 EBRD, Transition Report 1999, passim, but esp. chs. 5 and 6 and the results reported therein of the EBRD-World Bank sponsored 'Business Environment and Enterprise Survey'.

7 Agro-industrial Complex Minister Supikhanov in Ukrainian News Agency Business Week, 8-15 February 1999, p. 18; Statkomitet SNG, 'Ekonomika Stran Sodruzhestva nezavisimykh gosudarstv v yanvare-sentiabre 1999 goda', p. 22.

8 H. Boss, Theories of Surplus and Transfer, Unwin Hyman, 1990, ch.1.

both the tax authorities and e.g. the energy utilities accept overpriced manufactured goods in barter settlement, the firms do not get into trouble or at the limit, go bankrupt. This is so even though at ordinary market prices (not to speak of social-accounting prices) their activities subtract rather than add value in the sense that their costs in labour and energy (plus their profits' tax obligations if they make profits) exceed the value of their output. In a virtual economy, output, energy and government services appear to be produced and paid for, but the payments are apparent, for show, *schein*, as in the notorious Potemkin villages of 18th century Russian history.

The virtual economy in the Gaddy-Ickes analysis is semi-immune to reform because everyone is better off maintaining it rather than struggling to eliminate its virtual features in the short run, though all would be better off with genuine, productivity-based growth over a longer time horizon. The government is better off in the short term since it would otherwise have to admit taxes were not being paid even as much as they appear to be, and would therefore have to slash expenditures on wages and pensions or otherwise slim down. The unofficial, opaque nature of transactions in a virtual system means many opportunities for bribery and corruption, as firms lobby the state constantly for special treatment, exemptions, forgiveness of tax penalties, etc.

In Russia, RAO Gazprom for example would prefer this system to a market system, since in the latter it would be revealed plainly as an egregious tax delinquent. Manufacturing firms would show up as openly loss-making, and would have to restructure or close their doors. Under market conditions workers would be made redundant instead of being paid partly in cash and partly in IOU's.

Not surprisingly, there is only a tiny constituency for reform in this system; attempts to harden budgets or to reduce settlement of energy and tax bills in kind rather than cash are resisted tooth and nail.

Interestingly, the virtual-economy analysis implies that *ceteris paribus* Ukraine's recorded GDP, which stood at 44% of the 1991 level in 1999, may be *overstated* rather than understated, as was found in studies of the shadow economy. (The classic World Bank study by Kaufman and Kaliberda found Ukraine's unrecorded GDP to be 96% as large as recorded GDP in the second quarter of 1996, effectively doubling the size of 'true' output; the shadow sector is still thought to be about the same size as recorded GDP.[9])

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9 D. Kaufman, 'The Missing Pillar of a Growth Strategy for Ukraine: reforms for private sector development', in Ukraine: Accelerating the Transition to Market, IMF, eds P.K. Cornelius and P. Lenain, 1997; Kaufman and A. Kaliberda, HIID discussion paper 558, 1996, cited in EBRD, Transition Report 1997, p. 74. World Bank, Ukraine – Restoring Growth with Equity, 1999, p. xvi.

Non-payment and non-cash payment in Ukraine

The scale of non-payment in Ukraine is truly staggering. Payables of non-budget organizations owed to other non-budget organizations and the state stood at UAH 137.6 bn as of December 1998, 134% of GDP and up from 109% of GDP at the end of 1997. Nor did firms' arrears decline in either nominal or real terms in 1999, despite greater awareness of the problem. As of November 1999 (the latest data available), the stock of enterprise payables at UAH 195.6 bn came to 168% of January-November GDP. Assuming the stock was about the same in December, that would be 153% of GDP for the year. Deflated by the UEPLAC GDP deflator, enterprise payables grew nearly 10%.

Even though there is a lot of circularity in these arrears, they indicate how firms have reacted to efforts urged by western advisers to promote stabilization and development of a modern financial sector. The idea was to promote budget-hardening both among banks and among non-financial firms by discontinuing the practice of 'directed credits' by banks, which at present provide almost no credit to the economy. Banks had better things to do with deposits prior to the crash of 1998, such as investing them in treasury bills at lucrative interest rates. The ratio of commercial bank credit to enterprise payables fell from 125% in 1992 and 30.6% in 1993 to 3% in November 1999. Trade credit has always been a staple of finance in market economies, especially for small businesses, who survive on the 'float'.[10] The problem in hybrid economies is that credit is taken beyond standard trade credit terms.

The share of payables classified as 'overdue' has fallen since 1997 but did not budge in 1999 vs. 1998, while the total soared 34% in nominal terms. Seventy-eight percent of payables were overdue in December 1997, twice the fraction in Russia; 59% were overdue in Ukraine in December 1998 and 56% in November 1999. The stock of overdue payables stood at UAH 109.2 bn in November 1999; GDP for the year was UAH 127.1 bn.

Tax arrears of enterprises are both enormous and rising. In 1998 overdue enterprise payables to all levels of the budget corresponded to 24% of state revenue. In nominal amount, the stock of firms' overdue payables to the state grew by leaps and bounds, rising 41%, 32% and 52% year-on-year in 1997-99, to UAH 13.6 bn as of November 1999. The government received only 19.5 billion hryvnias (USD 4.2 bn) of tax revenues in 1999 out of a targeted UAH 23.9 bn, and spent only UAH 21.4 bn hryvnias out of a planned UAH 25.1 bn.[11]

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10 This point was stressed by Paul Gregory in his presentation to a session on 'Restoring the Role of Cash and of Market Discipline' at a conference sponsored by the government of Ukraine, the IMF and the World Bank on Structural Reforms for Economic Growth in Ukraine, Kiev, 3 December 1999.

11 Y. Kulikov, 'Ukraine passes zero-based 2000 budget', Reuters, 17 February 2000.

Economy-wide wage arrears stood at UAH 6518 mn in December 1998 (6.3% of GDP), of which UAH 960 mn (14.7%) was owed by budget organizations; pension arrears owed by the government stood at UAH 1974 mn. By end 1999, they had barely budged in toto, though overdue wages owed by public-sector institutions had fallen nearly 40% as the government paid them off in the lead-up to the presidential elections. Wage arrears at end 1998 were some 1.65 months of wages due (nachisleny) at the average wage of the last quarter of 1998, up from 1.3 months' worth in late 1997; by end 1999, the size of the problem was reduced to 1.36 month's wages. The minister of Social Policy and Labour admitted in March 1999 that about 70% of workers were paid with some degree of lateness.[12]

Non-payment and the state budget

Before 1992, enterprises and individuals in the USSR did not pay taxes in the modern sense, and setting up a functioning fiscal system to fund public institutions in a non-inflationary manner has not been an easy task. Because so many enterprises were loss-making at post-Soviet prices, and because the Ukrainian government was both unprofessional and *dirigiste*, the state itself has been at the heart of the non-payment syndrome, trying to collect too much revenue, failing to do so but committing it anyway. As in 'taut planning' under socialism, in Ukraine's present hybrid economic system the enterprise sector is dependent on centrally-distributed resources and concessions. Exemptions, amnesties for tax arrears and negotiated *ad hoc* tax rates are the norm for the recorded economy, while enterprises, entrepreneurs and workers in the shadow economy do not pay taxes at all.

Even though the state does not collect all the revenue contractual to it in the budget because of late or non-payment by firms and individuals, its take of GDP is excessive: consolidated expected revenue including the pension fund was about 35-36% of GDP in 1998-99. This share is much higher than that found to be conducive to rapid GDP growth in successful middle-income countries in Asia and elsewhere, where about 30% was the limit. The tax system punishes foreigners and other high-profile businesses less able to work out special treatment - the playing field is the opposite of level. According to Economy Minister Tyhypko the value of tax exemptions was comparable in magnitude to the central government's entire revenue in recent years, over UAH 30 bn.

The Ukrainian government thus has been part of the problem, not part of the solution, generating many of the arrears percolating through the economy. Government wage and pension arrears together came to 2.9% of GDP in 1998, vastly exceeding the *ex post* consolidated budget deficit, which was 2.1%. In December 1999, the state's overdue

[12] Eastern Economist Daily, 2 March 1999, via Reuters.

wages and pensions, though reduced from their peaks, still amounted to 1.5% of GDP, vs. a 1.4% budget deficit.

The state's non-payments culture is inimical to the establishment of rule of law. Since the state itself sets a bad example, that of a scofflaw or deadbeat, the very set of institutions which ought to be at the centre of efforts to instill respect for contract and the rule of law instead encourages a different, more dysfunctional, dare we say 'Soviet' culture, that of connections, *blat* (strings), personal favours, priorities decided at the centre, and citizens kept at the mercy of arbitrary official whim.

The reasons are many, principally bureaucrats' unfamiliarity with modern budgeting and accounting and the traditional czarist-Stalinist 'mercantilist' view of the state's role to shape, protect and control resources available to the enterprise sector, just as it allocated investment and intermediate goods in the socialist 'shortage economy'.[13]

Corruption is the dark side of bureaucrats' possibly benevolent if misguided protectionist, *dirigiste* instinct. The tight, taut, unrealistic state budgets mean recipients must lobby to get their funds, giving bureaucrats ample opportunities for rent-seeking. The according of favours and the payment of bribes is thereby built in to the budget execution system of the state.[14]

According to the EBRD-World Bank Business Environment and Enterprise Performance survey reported on in the autumn of 1999, over 16% of Ukrainian managers' time is spent negotiating with government officials, 35% of firms pay bribes 'frequently or always', and the bribes average 6.5% of the firms' revenue. Ukraine tied for 75th place, down from 69th in 1998, on Transparency International's 1999 Corruption Perceptions Index. The EBRD describes the state as to a large degree 'captured' by vested interests.[15]

Budget offsets, which numbered over 10,000 per annum, were 17% of central government budget revenue and 23% of local government budget revenue in 1998-99 according to the IMF. Many of these involved offsetting taxes for bartered goods and services, particularly energy; or, in the opposite direction, offsetting the state's arrears on pensions against pensioners' arrears on utility bills and apartment rent.

Another factor keeping the hybrid system of non-payment in place has been fear of unemployment. Workers in public institutions, as elsewhere in the economy, have

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13 H. Boss, Theories of Surplus and Transfer, Unwin Hyman, 1990, chs 2 and 6.

14 UEPLAC, 'Hardening Budget Constraints for the State: Ukraine's financial outlook for 1999', Ukrainian Economic Trends, January 1999.

15 Transparency International, The Corruption Perceptions Index, October 1999 www.transparency.de/cpi/index.html; EBRD, Transition Report 1999, ch. 6.

preferred late wages to no wages at all. The dearth of opportunities in small business has contributed to their risk aversion. Poland with a population over a fifth smaller than Ukraine's has created over 2 mn small businesses since 1989 vs. Ukraine's 200,000.

Pension arrears were feared to become a major issue in the 1999 presidential elections, and the government made efforts to clear about half the arrears owed during the course of 1999. Army personnel and other 'deserving' categories received priority treatment. The deficit ended the year at 1.5% of GDP, rather than the 1.0% agreed with the IMF as a consequence. Inflation was also higher by year-end than forecast in September.

The state's poor record on passing and implementing its budget has made the issue the top priority of the IMF for the year 2000. Originally the donors insisted on a surplus, to help repay the foreign debts coming due, but that draft was rejected by parliament. The budget passed on February 17th 2000 projects a zero balance, with expenditures and revenues of UAH 33.4 bn. Attention is on non-incurring of further arrears and a reduction in the size of the government administration, plus implementation of some 70 conditions. Some 300,000 state employees are to be made redundant, though it is not clear within what time frame. A decree of 15 December announces a halving of the number of ministries and state regulatory bodies from 89 to 35, abolishing the Ministry of Industrial Policy, the Ministry of External Economic Relations and Trade, the State Investment Clearing Committee, the National Agency for Development and European Integration, the State Export Control Service, and the Agency on Free Economic Zones and consolidating their functions in the Ministry of Economy and Trade under Tyhypko.[16]

Non-payment and non-cash payment in the energy sector

Ukraine has suffered a gigantic price and supply shock on energy since 1994, and despite some respite in 1997-98 thanks to the (temporary) plunge in world prices, because of weak restructuring it imports more oil and gas than it can pay for or finance in real money. Both enterprises and budget organizations are chronically in arrears on their energy bills, many of which are regularly forgiven.

The state oil and gas company Naftohaz said it was paid for only about 45% of its supplies in 1998 (UAH 2.8 bn out of UAH 6.2 bn); including debts from earlier years, enterprises and households owed it UAH 11.8 bn, or nearly 12% of GDP. Only about a third of gas supplied by Naftohaz in the first 7 months of 1999 was paid for by domestic consumers in some way, and the share of cash payments in the amount charged was about 10%. The collection rate for household gas payments steadily improved, to a reported 70% in late 1999, of which 55% in cash. Provincial utilities owe literally tens of millions of dollars to

[16] Financial Times, 16 February 2000, p. 2.

producers such as the western joint venture JKX; its plans to increase output are therefore in abeyance. In mid 1998 some 20% of electricity was delivered to users without expectation of payment. Official data indicate that debts to the energy sector were some UAH 7.3 bn (USD 1.32 bn) at the beginning of 2000.[17]

Heavy industry, agriculture and underfunded public sector institutions are the main culprits: 70% of the debts belonged to villages and municipalities, mines and engineering works. The collection rate for electricity tariffs from all sources, which stood at 60% in 1994, had risen to 80% by 1997, according to the IMF. The situation in the gas sector is so opaque that prime minister Yushchenko in January 2000 commissioned an inventory going back to 1991 to find out what was imported and what was consumed at what price and by whom.

Non-cash payment: barter and use of vouchers

'Payment' for goods received or services rendered in Ukraine by no means implies settlement via liquid cash or the typical cash equivalents used in market economies, such as cheques, money orders, wire transfers or credit card payments.

Barter goods are widely accepted in lieu of cash. Barter transactions grew as a share of Ukraine's industrial output from about 35% of sales in early 1997 to over 40% in late 1998, falling back somewhat to 32.9% in the autumn of 1999. In January-November 1999, barter accounted for 86.6% of sales by the cement industry, about 80% of tires and sugar, 71%-77% of bricks and other wall materials, silk and glass-earthenware, almost 70% of mine engineering products, and of wood construction components and wood-based boards.[18]

According to President Kuchma in February 1999, 85% of energy was paid for in goods; according to the chief economist of the World Bank in Kiev in December 1999, cash collection in the electricity sector was 10-15%. A high if declining fraction of federal tax obligations were settled not in cash but in goods (26.3% in 1997 and 11.5% in 1998).[19]

Barter is both non-transparent and very costly. For example, auditors from the Ministry of Finance found in August 1998 that the Ukrainian nuclear power station management company Enerhoatom was paying middlemen 30% commissions over the world market

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[17] IMF staff, 'Reforming the Energy Sector', background paper to December conference, op. cit.; EBRD, Transition Report 1999, London, November 1999, p. 280; IMF, Second Review under the Extended Arrangement…, EBS/99/79, 20 May 1999, p. 22; BBC Monitoring online, 'Free Power to Blame for Fuel Crisis, Minister Says', 5 August 1998.

[18] IMF, Recent Economic Developments, 16 March 1999, p. 18; Eastern Economist Daily, 29 October 1999; Interfax, 11 February 2000.

[19] UEPLAC, 'Hardening the Budget Constraints of the State', UET, December 1998.

price for nuclear fuel, and commissions of 23% of the value of spent fuel sent to Russia for reprocessing.[20]

Vouchers and IOUs (*vekseli*) giving the bearer claim to future production or to a future cash payment are widely used to settle tax and other obligations. These money substitutes circulate in a roundabout series of transactions at implicitly non-market prices, to the enrichment of taders, financiers and brokers. The stock of such money surrogates is estimated by the IMF at 3% of GDP.[21]

Though barter remains rampant in the domestic economy, its importance in foreign trade has been falling. Barter accounted for 3.9% of goods exports in January-November 1999, compared to 7.5% in 1998 and 10.4% in 1997; it was 3.1% of goods imports in January-November 1999 vs. 7.1% in 1998. The barter share is orders of magnitude greater in certain types of goods. For instance, 58% of exports of tyres and rubber goods in the first 11 months of 1999, and 34% of their imports, were made as part of barter deals. Thirty-five percent of textiles were imported in kind, and 8% of vehicles. Though Ukraine is known as an importer, not an exporter of fuels and mineral products, 10% of its exports of such products were in connection with barter deals in 1-11.1999, down from about 30% in 1998.[22]

3 Background to Ukraine's transformation problem: population and resources

Despite a decline in official GDP of over 55% during 1989-1999, Ukraine is potentially a wealthy country, having some of the world's best agricultural land, ferrous and non-ferrous minerals including coal, waterways, Black Sea coastline, part of the Danube delta, and a densely settled, educated industrial labour force. In population, population density and area Ukraine is comparable to France. Ukraine is Europe's second biggest country in area (603 700 sq. km) after Russia, and its sixth largest in population, after Russia, Germany, the UK, France and Italy. Population density at 84 inhabitants per square km (1998) is comparable to that of Spain, France or Turkey (a third of Germany's and Britain's).

Human resources: a declining, ageing population with a depressed birth rate

Ukraine's population peaked at 52.24 million at the end of 1992, after growing during the 1980s at the slowest rate of all the former Soviet republics. It fell by some 2.5 mn persons

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20 'Damning Report Costs Energoatom Boss Job', Kiev Post, no. 7, February 2000.

21 IMF staff, 'Restoring the role of money and of market discipline', background paper for December 3-4, 1999, conference.

22 Derzhavnyi Komitet Statystyky Ukrayiny, Zovnishnia torhivlia Ukrayiny tovarami ta posluhami za 9 misiatsiv 1998 roku, Kiev, 25 December 1998; Ukrainian News, V. Yarosh, 27 January 2000, via Reuters.

from the 1992 peak to 1999, as the birth rate plunged, the death rate increased, and emigration became net. This trend is set to have long-term consequences: population in the year 2015 is projected by the UN Population Agency to be 48.1 mn but to fall to 39.3 mn by 2050.

Life expectancy at birth for males born in Ukraine in 1997 stood at 63.8, a figure somewhat above the figure for Russia. Ukraine's peak life expectancy for men was however achieved over 3 decades ago, in 1965-66. The number of Ukrainian men between aged 30 and 69 who died violent deaths (accidents, homicides, suicides) rose 76% between 1985 and 1996; for men aged 50-59, the increase was 96%. Female life expectancy at birth has been less affected by the traumas of the post-Soviet period, falling from a peak of 75 achieved in 1989-90, to 73.7 years in 1997, again about a year ahead of the comparable figure for Russia. A chilling statistic is the UNDP's finding that in 1997 24.1% of the Ukrainian population were not expected to survive to age 60.[23]

Infant mortality, which was 15.7 per thousand in 1985, troughed in 1990 at 12.8; it rose to 14.9 in 1993 but by 1997 had fallen to 14.0. This seems quite creditable for an economy and medical system in such dire straits and with no indigenous pharmaceutical industry of its own, the 60% currency devaluation vis-à-vis the USD between August 1998 and December 1999 having affected capacity to import.

According to Russian statistics, 1.25 million people immigrated to the Russian Federation from Ukraine in 1992-98, and analysis of Russian demographic data apparently suggests that some 10 million mostly young people left Russia in the 1990s for temporary or permanent, illegal or legal work abroad.[24]

The EU accession process in candidate countries with Ukrainian borders (Poland, Hungary and Slovakia) are already tightening travel restrictions on Ukrainians wishing to engage in shuttle trade or casual labour in those countries. The speed of phase-in of the freedom of movement provisions for the east European candidates is a sensitive political issue, especially given Schengen and the electoral successes in 1999 of anti-immigrant parties in Austria and elsewhere. The candidate countries are hastening to prove they control population flows across their own eastern borders. The Czech Republic for example in January 2000 announced its intention to require costly visas for citizens of Russia, Ukraine and other CIS states after e.g. apparently 100,000 Ukrainian 'visitors' failed to return home. The others may hold off as long as they can, as they profit both from the cheap labour and

[23] UNDP, Human Development Report 1999, table 5.

[24] Gosudarstvennyi Komitet Rossiiskoi Federatsii po statistike, Rossiia v tsifrakh: kratkii statisticheskii sbornik, Moscow 1999, p. 75; cohort data and interpretation from JMIS, Quest Economics Database, 'Russia – Population Trends', 1 July 1999.

sales to shuttle traders, but keeping Brussels happy will likely take precedence in the end.[25]

Ukraine is one of the 15 most geriatric countries in the world, with a median age of about 35. People above the statutory working age (60 for men, 55 for women) represented 22.9% of the population in 1997. There were 14.5 mn pension and disability recipients at the beginning of 1998, cf. a labour force of some 22.5 mn. There is a notable male-female imbalance of over 53 women to every 47 men that originated in the demographic losses of Stalin's purges and World War II and which has persisted owing to the recent swathe of 'premature' deaths among working-age males. Labour force participation by women in Ukraine was one of the highest in the world during the Soviet period, as in other western USSR republics, (some 85%). However in recent years enterprise behaviour has been such as disproportionately to mark women for labour shedding, with the result that e.g. in late 1998, 63.4% of the registered unemployed were women.

As is the case in many of the newer large modern states (and some older ones, e.g. Canada), the principal nationality and language group account for a large part but by no means the totality of the population. People professing Ukrainian 'nationality' made up under three-quarters of the population, 37.4 mn out of 51.9 mn at the time of the 1989 USSR census; some 11.4 mn ethnic Russians lived in Ukraine, mostly in urban areas, and 6.8 million ethnic Ukrainians resided elsewhere in the USSR, mostly in Russia. Russians and Russian speakers were concentrated in eastern, heavily-industrialized areas bordering Russia, like Kharkhiv, the Donbass and Donetsk, in the Crimea, and in the capital, Kiev. Some 33-34% of adult ethnic Ukrainians living in Ukraine in the early 1990s were sufficiently russified linguistically to prefer to be interviewed in Russian rather than Ukrainian when offered the choice. Some 25-26% of the adult population consider themselves in some way both Ukrainian and Russian. Ukrainophone ethnic Ukrainians are thus only some 40% of the adult population, a minority in their own country. Their share may also fall over time, as the western regions may suffer faster depopulation and inferior economic prospects, and 'hard' ukrainization is unpopular among bilingual people and Russian speakers in the centre and east: the linguistic future of the country is very fluid.[26] The large Russophone population was perceived as a threat to independence long-term. However support for independence appears very solid despite the traumas of the past decade. President Kuchma's easy win over his reintegrationist communist opponent Symonenko, who said he personally favoured Ukraine's voting to join the Russia-Belarus 'Slavic Union', and Kuchma's relatively good showing in the eastern oblasts and Crimea, indicate that ethnicity and language are by no means good proxies for support for

[25] V. Sych, 'Czechs pull visa curtain on Ukraine', Kiev Post, no. 7, February 2000.

[26] V. Khmel'ko research discussed in A.L. Wilson, Ukrainian Nationalism in the 1990s: a minority faith, Cambridge U.P., 1997, pp. 22 and 180; A.L. Wilson, personal communication, 8 March 2000.

‘communist’ values such as reunification with Russia or state ownership and allocation of economic assets.

Despite forced industrialization under Stalin and his successors, Ukraine still had a large fraction, 33.0%, of the population living in rural areas in 1990, and this fraction has remained almost unchanged through 1998, at 32%. Thanks to collectivization, World War II, and generations of rural-urban differences in living standards, the countryside is populated with old people, so that a do-nothing solution to the stalled reforms in agriculture might simply be to wait about a decade. There are already many villages with only old people left.

Ukraine had 1.9 million fewer Jews after World War II than before. Of 632,000 Jews listed in 1979, about 470,000 remained in 1989, and less than 300,000 in 1998. Emigrés are playing an important role in technology transfer and the implantation of western business culture.

Unsophisticated measures of educational levels are high, though Ukraine’s stock of ‘social capital’, the beliefs and practices which underlie economic behaviour, is now said to be rife with dysfunctional attitudes to bribe-taking, tax evasion and the sanctity of contract. Ukraine scored 91st in the world in 1997 on the United Nations Human Development Index, considerably better than per capita income at the then-estimate of PPP would have suggested[27] - indicating that health, education and social services were in some sense still functioning. The adult literacy rate has been stable for years at 99%. Mean years of schooling were 9.1 in 1989, slightly below the average of 10 years found in western industrial countries, but above the 8.1 year average for the main countries of eastern Europe. The combined primary, secondary and tertiary enrolment ratio in 1997 stood at 77.[28] Of the employed population over the age of 15, 93% had secondary or higher education in the early 1990s. In 1989 there were roughly 3 million 'specialists' in the economy with higher education or training, and 83,000 people with postgraduate 'candidate' or higher degrees. The number of secondary school students in the 10th and 11th or 12th years fell slightly, from 940,000 in 1990/91 to 893,000 in 1997/98, but the number of graduates of the more elite institutions of higher learning (universities, institutes, graduate schools) boomed, from 136,900 in 1990/91 to 186,700 in 1997/98, possibly reflecting poor employment opportunities.

[27] The GDP per capita at PPP in 1997 used in the HDR workings is USD 2190; the latest Eurostat calculations going via Austria as benchmark involves a substantial upward revision to that figure.

[28] UNDP, Human Development Report 1999, table 1.

Geography and natural resources

Ukraine's territory boasts some of the best agricultural land in the world, the pipelines that carry much of Russia's oil and some 90% of its gas exports to central and western Europe, part of the Danube delta, borders with Belarus, Poland, Slovakia, Hungary, Romania, Moldova and Russia; the Dnieper River basin, and the important Black Sea warm-water ports of Odessa, Mykolaiv, and Sevastopol. Ukraine's 18 marine ports handled about 45% of sea shipments to the former Soviet Union in 1995, though frequent bottlenecks are reminders of the dearth of productive investment since 1991.[29]

Ukraine has a range of hydrocarbons and minerals, particularly coal (60% of the former Soviet Union's reserves, 15 bn tonnes of coke and 32 bn tonnes of brown coal), graphite and iron ore (an estimated 28 bn t). However much of the coal is of extremely low quality, with the effect that a large portion of the gas, and to a lesser extent fuel oil, which is imported at vast expense from Russia is required only to make the coal burn ('co-firing'). Gas imports came to USD 5 bn in 1997, on a total goods import bill of USD 17.1 bn (USD 9.9 bn from the CIS). A rationalization of the coal and power industries will require closing up to 200 out of 250 mines and importing more high-BTU coal from e.g. Poland and Russia but less gas from the latter, at substantial cash savings.[30]

In 1991 Ukraine produced 277 bn kWh of electricity, 4.9 mn t of oil including gas condensate, 24.0 bn cu m of natural gas, and 108.7 mn t of washed coal. These figures are significantly below peak levels of the 1980s, and have since fallen much further (Table 2). Thermal power stations in 1995 provided 55.5% of electricity generated; nuclear, including the other blocks at Chernobyl, 36.6%. The nuclear share rose sharply in the 1990s, to e.g. 45% in 1997 and even 50% in some months of 1998. In early 2000, 9 out of 14 nuclear reactors at 5 power stations were working, producing some 40% of total electricity; when all 11 are up and running, the nuclear share is closer to 50%.

In the late Soviet period, though Ukraine was considered rich in some important minerals and raw materials, it was highly dependent on imports for others: timber and wood (49% of domestic use at 1990 output and trade levels), paper (77%), mineral fertilizer (39%), cotton (100%).[31] Significantly, though it at the end of the Soviet period claimed an oil refining capacity in excess of 62 mn t, Ukraine in the 1990s imported about half its fuel

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29 'Ukrainian exports thwarted by poor infrastructure', Reuters, 24 November 1998.

30 Economic Assessment of the Khmelnitsky 2 and Rovno 4 Nuclear Reactors in Ukraine: Report to the EBRD, the EC and the US AID by an international panel of experts chaired by Prof. John Surrey, 2 vols., SPRU, University of Sussex, February 1997, summarized in ch. 2A of Austrian Federal Environment Agency, NPP Khmelnitsky 2 / Rivne 4 Public Participation Procedure, Vienna, November 1998, op. cit. ; World Bank, Ukraine – Restoring Growth with Equity, 1999, pp. 42 ff.

31 H. Clement and Jiri Slama, 'The Structure of the Ukrainian Economy', OstEuropa Institut research paper, Munich, 1993, p. 99.

requirements, measured in oil-equivalent terms, the vast part from Russia and, in the case of gas, also from Turkmenistan.

Despite the Chernobyl nuclear disaster of 1986, Ukraine has the largest supply of rich, well-watered agricultural land in the former Soviet Union. Some 55% of the territory was under cultivation at independence. The wind after the Chernobyl accident blew most of the fallout north, affecting 30% of the land of neighbouring Belarus, but largely sparing Ukraine's fabled black earth zone (chernozem) to the south. As a cereals producer Ukraine averaged 47.4 mn t 1986-90, about 8th in the world, after Canada and ahead of Brazil. In the late 1980s Ukraine produced 24.3% of the Soviet Union's grain, 54.2% of the sugar beets, 44.4% of the sunflower seeds, 30.2% of the flax, 24.5% of the potatoes, 26.2% of the vegetables, 26.5% of other fruits and berries, and about 22% of the milk and meat.[32]

Several of the above-mentioned sectors, particularly animal products, would never have developed to their Soviet extent under market conditions: they exhibited negative value added at world prices, with the non-labour inputs (including losses) worth more than the outputs – in the case of Ukraine's food industry in the late 1980s, 121% more (*sic*).[33]

A mis-developed, energy-intensive industry: the Stalin legacy

Ukraine's economy began the task of transformation with daunting structural problems that were the legacy of 60 years of ill-conceived over- , under- and just plain mis-investments in industry, agriculture and services. Ukrainian industry in 1991 was highly concentrated, highly defence- and intermediates-oriented, energy-inefficient and polluting.

Between 1990 and 1998 energy consumption fell from 4601 to 2646 kilos of oil equivalent per capita, a drop of 45%, but productivity plunged much further, owing to the catastrophic drop in dollar GDP, from USD 285.6 bn to USD 42.4 bn, a drop of 85%; this caused productivity to fall to a mere 32 cents of GDP per koe. That figure compared to USD 3.00 of GDP per koe in Finland, 2.00 in Canada, 2.70 in Iceland, 5.40 in Austria, 90 cents in Slovakia, 80 cents in Poland, and 50 cents in Russia.[34] At purchasing power parity the drop is not so drastic, but steep nonetheless. (Tables 1, 3 and 9)

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32 IMF et al., A Study, op. cit., 1991, vol. 1, p. 218, 'USSR: republican share of output of major agricultural products, 1986-89 (average)'.

33 C. Senik-Leygonie and G. Hughes, 'Industrial Profitability and Trade among the former Soviet republics', Economic Policy, 15, October 1992, table 1.

34 World Bank, Ukraine: Restoring Growth with Equity – a participatory country memorandum, Washington, 1999, table 3.4; UNDP, Human Development Report 1998, table 42.

Structural change in industry since independence: 'differential output collapse'

Much of Ukraine's industrial output proved to be unsaleable when price and export controls were relaxed and defense procurement slashed at home and in Russia in 1992 ff. The State Committee on Statistics' index of real industrial production for 1999 stood at 43.2% of the 1990 level. Tacis-UEPLAC, using production data for 249 main industrial products but valuing them at 1990 world prices, finds industrial output down 74% 1990-1999. Whatever the price weights used, the machine-building sector and light industry were hardest hit. Structural change via 'differential output collapse' is all too evident in Table 6.

The share of the machinery sector so beloved of Soviet planners in total industrial output in 1998 (UEPLAC weights) fell from nearly 30% of industry in 1990 to 8.3% of a much smaller total in 1999. With rises in raw materials prices and regulated utility rates, the share of power generation, oil and gas in total industrial output rose from 16.8% to 26.4% in the same interval. Steel, Ukraine's most saleable export, increased its share from 14.4% to 26%. Light industry (footwear, textiles, clothing etc.) was literally decimated by import competition, the fall in incomes and their own dreadful reputation for design and quality: output of the branch in 1999 stood at 7% of the 1990 level. The picture with respect to individual products, particularly 'black' and 'white goods', is even more stark. For example, Ukraine's output of television sets and tape recorders in 1998 stood at less than one percent of the 1990 level. (Tables 2 and 4)

Net investment in the economy as a whole has been negative since the late 1980s, failing to cover either physical or economic depreciation. Gross investment including investment in inventories in 1999 stood at 20.7% of the 1990 level, having fallen in huge decrements until 1998. (Table 1) It was not however low as a share of GDP, but rather, similar to levels in other middle-income countries. The problem was that it produced no growth: a good fraction was in unsaleable inventories or in value-subtracting activities, rather than in e.g. energy conservation. Though Ukraine silenced the doomsayers by getting through the Y2K millennium date-change without major problems in the power or transport sectors, doomsday scenarios of blackouts, broken-down equipment and collapsing roads, bridges and mines must inevitably come true someday if net investment is never positive: the only question is when.[35]

[35] G. Seliunin in 1988 famously warned that the USSR economy would grind to a halt in the near future (ie. the early 1990s) if nothing was done to reform the stimuli to real, as opposed to schein, inflated, misallocated investment. He may have cried 'wolf' too soon, but in logic unmaintained equipment and infrastructure eventually breaks down. Acting Russian Prime Minister Putin in his mission statement in December 1999 noted that in the case of Russia lack of investment had produced a situation in which over 70% of cars and equipment were over 10 years old. (Pravitel'stvo.gov.ru, summarized in Johnson's Russia List 4002, 1 January 2000.)

The energy sector, its suppliers and debtors

To Ukraine's advantage as a USSR republic while energy was cheap, the Soviet legacy of subsidized oil and gas negatively affects all aspects of economic life now that the subsidies are officially gone. Border prices charged by Russia for oil reached world levels in 1994, and prices for gas in 1996, though when actual payment is taken into account, Russia has not received anything like world prices from its CIS partners. For example, in January-November 1999, Russia earned USD 105 a tonne for crude oil exported to the far abroad, but only USD 64.40 for oil exported to the CIS. Meanwhile the CIS oil price achieved in November 1999 represented a year-on-year drop of 19% vs. the rise of 38.5% Russia earned on sales to world markets (January-November), giving it more incentive than ever to sell outside the FSU and to impose harsher terms on customers like Ukraine. The CIS accounted for only 14% of Russia's crude oil exports in the first 11 months of 1999, though its share for oil products like gasoline was closer to 24%. If we assume that Russia's gas exports totalled 190 bcm (they were 182.5 bcm in January-November), estimated deliveries to Ukraine including transit gas accounted for nearly 27% of Russia's 1999 exports of natural gas – an important customer indeed.[36]

Despite falling prices for both Russian oil exports to the CIS (-19% January-November) and gas (-3.1% November year-on-year, all destinations), Ukraine's apparent energy import bill amounted to USD 7.55 bn, on a total goods import bill of USD 10.38 bn in January-November 1999.

Gas received by Ukraine from Russia as a transit fee in 1999 bore an accounting price of USD 50 per thousand cu m, cf. the price of USD 59.9 reported in Russian statistics as the November 1999 export price. According to the IMF the *de facto* economic cost of Ukraine's imported gas was much lower. Private traders imported gas from Russia at around USD 20-25 per th cu m if paid in cash and at USD 30-60 under non-cash terms. Turkmen gas was nominally priced at USD 80 per th cu m but only about 40% was paid in cash. The auction price for gas in Ukraine, on which all minimum price restrictions were supposedly lifted in the first half of 1999, fluctuated between USD 20-30; even so, a substantial portion of gas recorded as purchased at the auctions was apparently never paid for.[37]

As noted in section 2.2.4., only about a third of gas supplied through Naftohaz in the first half of 1999 was paid for, and the share of cash payments was about 10%.[38] The barter phenomenon pervades the energy sector and corruption is rife in it, since to be allowed to pay late for energy, or to settle in unsaleable industrial goods, confers valuable rents.

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[36] Gosudarstvennyi Komitet Rossiiskoi Federatsii po statistike, Sotsial'no-Ekonomicheskoe Polozhenie Rossii 1999 god, Moscow 2000, pp. 99-101.

[37] IMF staff, 'Reforming the Energy Sector', background paper to 3-4 December 1999 conference in Kiev, op. cit.

[38] IMF, Ukraine – Request for Extended Arrangement, EBS/98/144, 22 October 1998, att. 1, para. 43, and p. 39; IMF Staff, 'Reforming the energy sector', December 1999, op. cit.

Ukraine's non-payments culture suggests how despite financing from Russia, RAO Gazprom and international financial institutions, and despite a decline of possibly 28% in energy consumption since independence[39], Ukraine incurred billions of dollars worth of energy payments. The country had acknowledged energy debts of some USD 1.41 bn as of February 2000. Ex-number two in the Hromada Party headed by Lazarenko and present Deputy Prime Minister for the energy complex Yulia Tymoshenko made the astonishing admission in January 2000 that Ukraine's total energy debt to Russian entities, including debts of commercial importers and an imputed value for estimated illegal siphonings, would come to USD 2.8 bn. National gas company head Bakai admitted debts to Russia of USD 778 mn; the Russian side claims USD 2.3 bn. Prior to the formal hard-currency debt exchange, Ukraine was due to pay FSU energy suppliers USD 380 mn in amortization and USD 100 mn in interest in the year 2000, for 'old' debts to Gazprom due between 2000 and 2007. Russia's chief energy negotiator, deputy prime minister Kasyanov, has increased the pressure on Ukraine to pay up in either 'crown jewels' or lower transit fees, but as of early March his Ukrainian counterpart was refusing point-blank. How long they can stonewall depends for the time being on Ukraine's near-total control of Russia's gas export routes.

The electricity sector suffers from domination by regional mafias, lack of payments discipline and extreme underpricing. According to the World Bank, in July 1999 the cost of thermal power was 2.95 US cents per kwh, but the local distribution companies sold it for 1.86 cents/kwh.

The coal sector is in a catastrophic situation, with falling output and a large, traditionally high-wage labour force with few alternative employment opportunities owing to red tape on small business; the sector suffers from low and declining physical and economic productivity, because of an ever lower quality of coal. In the late 1990s the sector supplied only about 58 mn t to the market, down from 130 mn t in 1990, and of that, about 30% was waste rock. Subsidies to the coal sector amounted to about 7% of budget revenues and 40% of the budget deficit in 1997.[40]

The former military-industrial complex

A major structural legacy from the Soviet socialist period was the economy's high dependence on the military-industrial sector for both output and employment. The number of Ukrainians in uniform at independence stood at some 700,000, the second largest in

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[39] Extrapolated from IMF, 'Ukraine - Recent Economic Developments', 16 March 1999, p.64, who report a decline of 26% 1992-1997.

[40] World Bank, Ukraine – Restoring Growth with Equity: a participatory country memorandum, Washington, 1999, pp. 40-50.

Europe after Russia.[41] The former Soviet defence sector was estimated by the IMF as accounting for 10% of GDP in 1990, and for a larger share of inter-republican exports. According to the UN, Ukraine produced almost 25% of all Soviet military goods.[42] Notwithstanding some export potential[43] most of this production has now disappeared forever.

According to the implementation data on the 1998 consolidated state budget, national defense constituted 4.5% of total outlays, but its allocation was sequestered compared to other positions, getting only 83% of its announced funding. By end 1998 numbers in uniform had been slashed to 320,000 people, and another 100,000 staff workers, making Ukraine's army the third largest in Europe (Turkey is now second); this represented 1.5% of the official labour force and 6.4% of the official industrial labour force.

Defence conversion has been a failure so far. Consumer appliances and electronics ('white' and 'black' goods) are either out of reach of the impoverished population, or imported from Asia, much as they are in other countries. The latest Sea-Launch satellite launched on a Ukrainian rocket has just failed in the Pacific and no more launches are scheduled. Production of domestic TV sets in 1999 stood at 2% of the 1990 level, a poor performance even given the fact that the domestic stock per thousand of population dropped by over half. The Arsenal Works, a factory that used to produce advanced precision optics for military use, switched production to photographic cameras; however these had design faults and the enterprise was stuck with a huge inventory of unsaleable product.[44] The stock of passenger cars per thousand has risen 54% since 1990, but this has largely been thanks to imports of used, and some new western cars, and not e.g. Daewoos from a revamped Ukrainian car factory. (Table 2)

An unreformed and unprofitable agriculture

Notwithstanding its considerable potential in crop if not animal production (section 3.2 above), Ukrainian agriculture has seen a colossal regression since independence. Real output in 1999 stood at about half the 1990 level and nearly 15% below the 1997 level, in 1996 hryvnia prices.[45] At those prices, the share of agriculture in GDP fell by more than

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41 Not including border guards, the national guard or other paramilitary divisions. A. Sluchinsky, HIID, 'Behind the Figures of the Official Labour Statistics', in UEPLAC, UET December 1998, p. 34, n. 4.

42 Clement and Slama, op. cit., p. 99; UNDP, Human Development Report for Ukraine, 1995, p. 6.

43 Recorded military exports in 1998 came to USD 300 mn, up from USD 237 mn in 1997, ITAR-Tass, 2 February 1999, in Reuters online.

44 M. Downey, 'Tax Breaks in Ukraine: the case for and against their withdrawal', Ukrainian Economic Trends, December 1999, p. 53.

45 These do not favour animal production as much as the old 1983 Soviet prices, but still do so more than FAO world prices. (Ukrainian Economic Trends, December 1999, p. 19)

half (nearly 13 percentage points) 1990-1998, to only 11.4% of GDP, even though over 30% of the population live in the countryside. (Tables 7 and 8)

1999 brought no respite. Derzhkomstat's January-November 1999 data show a 3% drop in gross output of agriculture, but UEPLAC using Derzhkomstat data and 1996 prices show results for the year to be down 5.7%. From being the breadbasket of the former Soviet bloc, Ukraine's vast collective farms have seen their production of cereal crops halve cf. the harvests normal in the late 1980s. The 1998 harvest was down a quarter and the weather was blamed, but the 1999 harvest was 9% lower still, at 24.4 mn tonnes (13.5 mn t of wheat). Yields have also fallen sharply, by e.g. some 45% in grain production (1989 to 1997) and by 40% in sunflower seed production (1986/90 to 1998).[46] Fertilizer and pesticide use has plummeted, and the fabled 'black soil' is being degraded. If the trend should continue, Ukraine will soon be a major food importer, not an exporter.

The only 'successful' crops have been sunflower seeds and potatoes, the former because they are in demand abroad and serve as a sort of currency in cash-starved rural areas, and the latter because the population relies on them for survival. Animal production in 1999 accounted for 45.5% of the total (1996 hryvnia prices), 36% at the wheat-favouring FAO world prices. Production of animal products fell 55% in real terms 1990-1999, as costs soared and real consumer and export demand fell.

Poor policies are almost totally to blame. According to the German Advisory Group advising the government on reform, under 'normal market conditions' but with the seed and techniques of the Soviet period, Ukraine could produce some 63 mn t of grain on the 14 mn hectares which were under cultivation in the late 1980s, i.e. 25 mn t more per annum than in 1991-95 and 35 mn t more than in 1998-99. At average world market prices of the mid-1990s, the 25 mn t represents an annual USD 4 bn in e.g. export earnings foregone, and the 35 mn t, potential earnings in the region of USD 5.6 bn.[47]

Ukraine's second major field crop has traditionally been beets, but harvests have fallen nearly 70% since the late 1980s. Sugar production and exports are under threat from much lower-cost producers such as Brazil, as well as from beggar-thy-neighbour protectionism on the part of Russia and Kazakstan; this problem was at its most severe however in 1997; Russia's sugar imports from all sources, including imports of raw sugar, rose 44% in January-November 1999 vs. the comparable level of 1997. Foreign interest has not been aided by e.g. the treatment of Tate and Lyle, who gave up their large investment in the Odessa sugar refinery after legislation was altered in their disfavour. According to the German Advisory Group, beet-growing land might more profitably be used for wheat.

[46] ibid., pp. 81, 89.

[47] S. von Cramon-Taubadel and L. Striewe, eds, Die Transformation der Landwirtschaft in der Ukraine, German Advisory group, Wissenschaftsverlag Vauk, Kiel, 1999, p. 75, table 6.1.

Ukraine is also traditionally an oilseed producer, mainly sunflower, but increasingly rapeseed, which has grown fast from a low base and is better for the soil in rotation with wheat. 1999 sunflower-seed production actually exceeded 1990 levels, having risen by a fifth over 1998 thanks to an increase in sown area. Yields have fallen well below Soviet levels and will fall off much further if fertilizer does not become economic to apply, however. The state rewarded the output increase by slapping a 23% export duty on sunflower-seed exports in the autumn of 1999 in order to keep supplies at home for local mills, which are operating at low capacity; domestic prices promptly fell by a third. The IMF was so upset at the 'mercantilist' measure that it was prominently cited as a reason for freezing disbursements under the EFF loan.

Reforms in the agricultural sector have been risibly cosmetic, typified by the renaming of Soviet-era collective farms KGSPs, "collective agricultural enterprises". According to laws and regulations in place prior to the agricultural reform decree of December 1999, land could not be bought or sold freely by either ex-kolkhozniki or Ukrainian citizens, nor pledged as collateral. This has starved the sector of resources, especially cash resources.

Budgets are very soft: 88% of agricultural enterprises claimed to be loss-making in 1998 and about the same fraction in 1999. In December 1999 collective agricultural enterprises had debts of UAH 15 bn, of which UAH 6 bn to the state, UAH 2 bn to their own workers, and UAH 6.8 bn to trading and marketing entities. Tax forgiveness for agricultural producers, their protection from bankruptcy legislation until 2003, their exemption from VAT until 2004 did little to help output or encourage restructuring, while being anathema to the IMF.

Many people in rural areas never see cash money, and some had no knowledge of the hryvnia several years after its introduction. The lion's share of plot production is consumed in the household or bartered. A vast part of ex-kolkhoz and -sovkhoz output is also traded in kind. Barter operations amounted to 55% of sales of sunflower seeds, 42% of sugar, 40% of sugar beets and 33% of cereal crops in 1999. CAEs deliver in kind and at a discount to clear debts to the State Committee on Material Reserves which advanced them the diesel and fertilizer, to what used to be Bread of Ukraine for storage and distribution, and to the Leasing Fund for machinery payments. They therefore rarely pay electricity bills or even wages in cash.

State meddling has kept prices received down, worsening unprofitability. Moves towards world prices disfavoured agriculture in a 1920s-like 'scissors', as prices for fuel, fertilizer and other industrial inputs increased faster than those of agricultural products in the 1990s. The price structure at independence reflected the underpricing of energy and the corresponding sizeable relative overpricing of agricultural goods in the late Soviet period (resulting in the "negative value added at world prices" mentioned above.) Its present reversed pattern also reflects poor payments' discipline: if farmers do not pay on time for inputs, it is understandable that input prices should be inflated to reflect that risk, as input suppliers often came last after a long list of other claimants. For example the '*kartoteka*' system that allowed bank accounts of tax debtors on the black list to be blocked pending arrears clearance – a sort of primitive bankruptcy procedure - affected thousands of CAEs, who could not then pay commercial suppliers including some foreigners, who lost millions. According to the IMF, input prices are typically twice the world price, because of this risk of non-payment.[48]

Though some 36,000 private "fermerskie" farms have been established, they account for only about 2-3% of land and output respectively.[49] Together with the 12 million private plots cultivated by individuals since Soviet times, the private agricultural sector holds about 15% of the total cultivable area; former kolkhozes have 65% and former sovkhozes (state farms), 17%.[50] In 1997 households produced 97% of the potatoes, 60.6% of the milk, 62.5% of the meat and eggs. This was not all for own consumption, but provided a small (2.9% in 1997) if fast-growing fraction of household money income. (Table 2)

The share of the population living in the countryside has barely changed at about 30% since independence, as people have stayed on the land but gone over to private food production to an even greater extent than in Soviet times. Through attrition and migration, the rural population is expected to fall sharply by the year 2015 however, to 22% of the total.[51] Agriculture's share of employment remained constant during the 1990s at around 22%. The share of foodstuffs produced by households on Ukraine's over 12 million private plots, as opposed to 'organized' production in what used to be kolkhozes or sovkhozes, surged in the immediate post-Soviet crisis period to about 60% of total farm output. Self-supply more than doubled its share of meat and milk production. Individuals produced 71% of potatoes in 1990, but an astonishing (to western eyes) 97% in 1997, keeping the total more than constant.[52]

A likely explanation of the stability of the political system and the reasonably creditable numbers on infant mortality is that people have been able to make ends meet by increasing the amount of food they produce for themselves.

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48 IMF Staff Note, 'Development of a competitive agricultural sector,' November 1999.

49 IMF Staff Note, ibid.; Cramon-Taubadel and Striewe, op. cit., p. 227.

50 Zvi Lerman and Csaba Csaki, Land Reform in Ukraine: the first five years, World Bank discussion paper no. 371, August 1997, p. 2. However the new minister of agriculture appointed in January 1999, while repeating his opposition to outright sales of farm land, left open the loophole of sales of non-agricultural land and buildings on the territory of former kolkhozes and sovkhozes, which could, if implemented, enable collective agricultural enterprises to raise money. The World Bank's long-awaited land cadastre project is still not completed.

51 UNDP, Human Development Report 1999, table 16.

52 IMF, 'Recent Economic Developments', 16 March 1999, p. 14.

It remains to be seen how the 4 December 1999 decree 'On Urgent Measures To Accelerate Reform of the Agricultural Sector of the Economy' will be turn out. Government and local executive bodies are instructed to disband CAEs in accordance with the 'principles of land ownership' by the end of April 2000, and to give members the right to freely leave [their collective farms] with land and property shares with which they may create private enterprises, private farms, and agricultural cooperatives. Private ownership certificates are to be issued by end 2002. The right to pledge land as collateral is not mentioned, and the fate of earlier tax exemptions and protections against bankruptcy is not yet clear.

Agriculture is so unproductive that it cannot sufficiently supply the sector where Ukraine ostensibly has the greatest comparative advantage: the food industry. Food industry output increased at last in 1999 after being down on average some 60% on 1990 levels. It rose in 1999 over 1998 by 7.8%, thanks to rises of 48% in fruit and vegetable processing, 30% in brewing, 23% in cooking oil, 21% in bakery products, 13.8% in industrial meat production, 5.9% in dairy, 23.4% in distilling, and 9% in wine-making. Exports of food-industry products accounted for 9.7% of total goods exports in 1996, but 4.8% in 1997 and a mere 2.3% of same in the first 9 months of 1999, though figures for the year may be better than that. A free-trade agreement with the CIS countries would aid this development, but there is no prospect of that, given the Putin government's strong opposition to it as a sop to the republics inimical to the interests of Russian energy and food producers as well as to the Russian treasury.

An underdeveloped service sector

Ukraine's service sector, especially retail trade but also finance, insurance and real estate, remained undeveloped under socialism compared to those of capitalist economies enjoying roughly similar levels of GDP per head (Tables 1 and 7) The service sector was barely recognized as contributing to output or welfare during the Soviet period. Many services were however provided by enterprises formally recorded as engaged in the production of goods.[53]

Services excluding transport, communications and trade accounted for 16.2% of GDP in 1990 according to Derzhkomstat, and 25.5% of employment. The so-called modern private-sector services of banking, finance, insurance and real estate accounted for just 0.4% of employment in 1990. Including trade and transport and communications, the service employment share has been practically stable, going from 40.1% in 1990 to 39.4% in 1997, in an official total that dropped by about a tenth.

[53] H. Boss, Theories of Surplus and Transfer, 1990, ch. 6.

Output of ‘paid’ services fell some 70% in 1991-99, hit by price liberalization and by IMF-mandated rate increases towards cost recovery. Relative prices charged for passenger transport and communal services (utilities) have risen from near-negligible to about 80% of cost-recovery. Do-it-yourselfers or grey-market professionals handle the quasi-totality of plumbing, electrical and other repairs; hairdressing and tailoring which in part used to take place in ‘ateliers’ in the Soviet ‘paid’ sector have also gone underground. The volume of recorded retail trade including registered bazaars and markets in 1999 stood at 36% of the 1991 level.

Employment, soft employment and unemployment

On official Derzhkomstat figures, which do not adjust for under-payment of contractual wages or forced temporary leave, the reduction in total employment during 1991-98 came to minus 2,628,000 persons out of a 1991 labour force of 24,500,000 (i.e. a decline of 10.7%). The net employment drop was the combination of a huge drop of 3,826,000 workers officially counted as full-time in industry and construction, and the rise, from zero to 2,395,000, in the numbers engaged in ‘other activity’ (1997). Interestingly the share of government administration in the official total about doubled, from 1.6% to 3.1% 1990-97. However the central government share remains low given government’s vast remit.

The real drop in recorded employment is greater still: for example UEPLAC’s calculations corrected for the number of days actually worked in 1998 yields a ‘true’ industrial labour force of 2.476 mn persons, two-thirds the number counted as employed (3.710 mn) and half the total according to Derzhkomstat. (Tables 1 and 8) Many of those no longer full time in industry are making ends meet in the shadow economy. Only 1,175,000 were officially registered as unemployed at the end of 1999, a far lower percentage than in Russia, 5% vs. 12%.

4 Foreign trade: new and old problems in new and old markets

Changes in relative prices since independence have wrought strong changes in Ukraine’s trade pattern, but its longer-term comparative advantage may not lie in the goods and services it exported in the late 1990s either to Russia, its traditional market, or to new countries. Exports to non-traditional markets did well in 1994, 1995 and 1997, but slipped into the minus column in 1998, as Ukraine’s new Southeast Asian and Middle Eastern customers fell into recession and cut back on imports of Ukrainian metals, chemicals and agricultural products. (Tables 1, 4 and 5) China for example had looked promising for Ukraine, but goods exports to China slipped nearly two points in 1998 to 5.8% (they recovered to 7.1% of total goods exports in 1999).

Ukraine's reorientation to the rest of the world should continue, given the stimulus of the 63% devaluation vis-à-vis western currencies between August 1998 and March 2000. Still, hybrid-economy problems threaten to put spanners in the works of this diversification. The European Union, the US, the Czech Republic and scores of other countries, including Mexico, Turkey, India, Taiwan and Tanzania have accused Ukraine of dumping steel and/or chemical products, citing non-payment of fuels and taxes in their briefs. Thus the dilemma: under-payment for many inputs made exports competitive, but importers and domestic producers in third countries became wise to the deadbeat practices of Ukraine and other FSU producers, and took their protests to international fora.

Ukraine's trade with Russia is dying a slow death. Russia has turned inward thanks to its devaluation, and wishes to protect its food industries from e.g. Ukrainian competition. Turnover was already deteriorating strongly in several categories well before August 1998, mainly because of disputes but also just on price, during the period when Ukraine's devaluation was smaller than Russia's. Russian oil and gas exporters naturally wished to sell elsewhere than in CIS markets, where recorded prices were vastly inferior, e.g. 39% lower in the case of crude oil in the first 11 months of 1999, as noted in section 3.3.2.

By product, for example Ukraine's food industry exports to all destinations in 1998 were down 52% on the previous year's level and over three-quarters below 1996, though they recovered well in 1999. Within the food category, exports of sugar and confectionery products to all destinations in 1996-98 fell 84% thanks to Russia and Ukraine's 'sugar war'. In 1996-98 steel exports fell 36%, chemicals as a whole, 24%, fertilizers, 43%. The vast proportion of these declines occurred in 1998 itself. Merchandise exports fell 11.2% and exports to the CIS, 23.7% in 1998, and 10.4% and 24.9% respectively in 1999. (Tables 1, 4 and 5)

Measurement remains a problem. Unlike Russia's statistics committee, Derzhkomstat does not offer a series with imputations for the value of shuttle trade and smuggling. There are thus huge discrepancies between its estimates based on customs statistics plus Naftohaz gas data and those of the National Bank on a balance-of-payments basis. The latter suggest the former understated goods imports in e.g. 1998 by USD 1.6 bn.

There are many problems accounting for 'give-and-take' (tolling) production in which e.g. Russian raw materials such as crude oil are processed in Ukraine and then re-exported to Russia without changing ownership, so they did not count as export sales for either country. Tolling is a vast practice affecting not only e.g. Ukrainian aluminium production but also apparel and much else. One reason it became so prevalent was lack of cash: alumina was imported from Russia and processed on a tolling basis because e.g. the Mikolaiv plant had no cash to buy the raw material.

The practice of producing goods on a tolling basis (raw materials processed for a fee on a return basis, whether domestically or imported and then exported) accounted for 81%-93% of all production of coke, PVC resins, coke and chemical fibers and threads in 1999, 62%-72% of all gasoline, diesel, heating oil, phosphate fertilizers, chemical additives for polymers and polypropylene. Much light industry output was tolled, including 33%-93% of all sown clothing, 60% of all knitted items and 22%-39% of all hosiery and footwear. In the food industry, almost three-quarters of all granulated sugar, 64%-68% of all butter, groats and flour and 35%-56% of all canned meats, formula feed, margarine products and pasta was produced by tolling.[54]

Whatever the true picture after correction for data problems, Russia was on all estimates by far Ukraine's most important partner in 1999. Russia accounted for 20.6% of Ukrainian goods exports and 47.4% of goods imports according to Derzhkomstat. That is, Ukraine's merchandise trade deficit with Russia was USD 3.3 bn even though turnover dropped 19.7%. Though the weight of Russia diminished since the late Soviet period, it remained in a category of its own.[55] Including the (mainly pipeline) services which Russia imports from Ukraine and on which the former had a USD 1.97 bn deficit in 1999, Russia's surplus was lower but still significant at USD 1.25 bn. Ukraine's service exports plunged in 1998 but this was not so much a volume effect as a renegotiation of the gas package deal which involved Ukraine giving Russia a 28.8% discount on the fees charged per km in return for Russia forgiving debt and making higher direct cash allocations to Ukrainian commercial importers. The transit gas remains a bone of contention, both its rate and its fate. Russia's deputy prime minister Kasyanov wants the kilometer rate lowered as the price of debt forgiveness. The IMF wants the fee paid into the budget by Russia in cash and the actual gas sold on by the state for cash either at auction or at otherwise transparent prices.

The WTO has not granted Ukraine membership, and its application is being held up by alleged instances of non-MFN-style favoritism. The most egregious, best-publicized example is the 1997 granting of *ad hoc* protectionist measures forbidding the import of used cars over 5 years old (virtually the entire car market) and setting a very high minimum value on younger cars of USD 5000 as a basis for calculating import duty. This was done to attract FDI from Daewoo, who were negotiating a USD 1.3 bn 10-year investment to refurbish the near-defunct Zaporizhe factory Avto-ZAZ. Daewoo got its legislation, the deal was inked in March 1998, and the first millions were spent to import assembly kits, essentially finished cars with the wheels and seats taken out. The EU and WTO voiced strong protests on most-favoured nation grounds. Ironically, the *ad hoc* restrictions proved far from sufficient to ensure the venture's success: the used European cars preferred by Ukrainian consumers continued to flood in, even if their numbers nearly halved in 1998

[54] Interfax Ukraine, 11 February 2000, via Reuters.

[55] Derzhavnii Komitet Statystyki Ukrayini, Zovneshnia torhivlia Ukrayini tovarami ta posluhami za 9 misiatsiv 1998 roku; Statkomitet SNG, 'Ekonomika stran sodruzhestva nezavisimykh gosudarstv v ianvare-sentiabre 1999 goda'; Reuters.

because of the currency devaluation, and the joint venture was able to sell only 7000 of the 13,000 Daewoos produced in 1998, mainly on account of their high price (USD 8-10,000 apiece), but also because Ukrainian consumers distrust Asian goods. The factory all but stopped production for the first half of 1999 and produces for only a few days a month. Daewoo, facing near-bankruptcy in Korea, has tried to renegotiate the terms of the venture. The World Bank estimated that each job protected at the Avto-Zaz factory cost the economy several thousand dollars per month in lost welfare, when the average wage in Ukraine was under USD 70 per month (1998).[56]

5 Foreign debt: sigh of relief as exchange offer succeeds

Unlike Russia, Ukraine was not credit-worthy enough to get deep into debt in the late 1990s; the debt proposals of early 2000 were mainly ways of getting through about 12 months of payments. Nevertheless at UAH 5 to the USD, interest and principal payments of USD 3.04 bn originally due for repayment in 2000 would have taken up about 30% of budget revenues and 6.3% of projected 2000 GDP. Of the original total due, USD 800 mn was payable to eurobond lenders in January, February and March 2000; USD 480 mn in interest and principal to Russia and Turkmenistan was due on earlier-year restructured energy debts, in quarterly instalments, and USD 1.1 bn was due to IFIs in 2000, plus an additional DEM 1.5 bn payable to private creditors in February 2001. Ukraine was caught out because the shock of August 1998 meant that new credits to repay the old turned out to be unobtainable; also slow reform meant IFI funding was considerably below its theoretical maximum.

Hence the negotiations with commercial creditors under way since the summer of 1999 formally to exchange the non-IFI obligations due in 2000 and 2001 into longer-dated paper. On 20 January 2000 Ukraine did not make a USD 18 mn payment on a USD 74 mn Chase Manhattan note, and on February 25 it did not make a payment of DEM 246 mn on the DEM 1.5 bn bond series, half of which is held by German retail investors. A EUR 500 mn bond due for repayment in March is also in the exchange offer. The offer accepted by 15 March replaced those obligations with 7-year paper denominated either in euros at 10% or in USD at 11%. Amortization is to be paid semi-annually, with rates rising from 3% in 2001 to over 9% in 2007. Coupons will be paid quarterly. Interest arrears totalling USD 260 mn, over a quarter of NBU reserves, have been offered in cash.

In addition to the large euro and DEM bonds, the deal covers USD 258 mn in zero-coupon Merrill Lynch bonds due in September 2000, a 16.75% USD 74 mn Chase bond due in October 2000 and some USD 280 mn in 8.5% RAO Gazprom bonds due in 2000 and

[56] 'AvtoZAZ-Daewoo: on the rocks?' Kyiv Post, 15 January 1999; Reuters, 26 February 1999; J. Hansen and D. Cook, Economic Growth with Equity: which strategy for Ukraine?, World Bank discussion paper no. 408, 1999.

2001. In addition, USD 735 mn in 8.5% Gazprom debt maturing between 2002 and 2007 is eligible for exchange at a discount.[57] Acceptance is virtually assured.

6 'Normal' relations with Russia and the west

Ukraine's population remained calm and resigned during a decade of economic slump, disruption and disappointed expectations. For example, miners went unpaid and have suffered horrendous death rates from accidents, but did not go on strike as in e.g. Romania, perhaps because they realized nothing would change without investment, which had to be attracted to the region. The less-than-dramatic changes in per capita recorded consumption of some foodstuffs, even 'luxury' ones like fruits and berries, may also underpin the population's stoicism. Ukrainians fended for themselves, staying at home (passenger-kms fell by over half during 1990-98, train journeys by a fifth) to produce their own food and entertainment. They found new jobs in the shadow economy, and reduced risk and pressure on their depressed money incomes by not having children.

The country's political stability has been attributed to the fact that people in Ukraine, and also e.g. in Belarus and Russia, expected so little of their governments and of the future, that they accepted slow progress and hybrid-economy phenomena, with bitterness and cynicism, but also with resignation. A majority of respondents from the 'Slavic republics' in the 1994 New Democracies Barometer survey admitted they thought the state would take literally years to turn the economy around.[58]

'Worst-case' scenarios involving eastern Ukraine voting to rejoin Russia, having to fight a civil war to do so, and Russia being drawn in under a red-brown reintegrationist leader, frightened westernizers in the mid-1990s; they appear totally fanciful in early 2000. The fading from the Russian national political scene, first of Vladimir Zhirinovsky and then in mid 1999 of Moscow's mayor Yuri Luzhkov, further stabilized Russian-Ukrainian political relations, as both would-be successors to Boris Yeltsin had threatened to make the return of Crimea to Russia a major bone of contention. By January 2000 Ukraine's communist and agrarian left appeared outvoted and outmaneuvred. Kuchma's campaign speeches in the autumn of 1999 had contained fairly scathing dismissals of the idea that Ukraine might discuss joining the Russia-Belarus union, and he subsequently won by a mile. That union is without real substance, and Belarus's president Lukashenka has lost the bid to be its figurehead. Russian commentators have begun to write in terms of Ukraine having sided definitely with the west.[59] A top-level NATO mission held meetings in Ukraine in February

57 ING Barings Ukraine Exchange website; World Bank, Kiev, kindness of A. Storozhuk; C. S. Remond, DJ newswires, 25 February 2000.

58 Richard Rose, William Mishler and Christian Haerpfer, Social Capital in Civic and Stressful Societies', Studies in Comparative International Development, Fall 1997.

59 Y. Albats, Moscow Times, 3 February 2000, in Johnson's Russia List 4087.

2000 since parliament approved a bill on cooperation with it, and Russian Prime Minister Vladimir Putin in March 2000 made friendly noises about Russia itself being willing to consider joining NATO if the deal were right. Putin, however much his popularity depended on the hawkish stance over Chechnya, has said nothing to sabre-rattle over e.g. the territorial integrity or political independence of Ukraine, and Russia is likely to uphold the Russian-Ukrainian bilateral friendship treaty, which recognizes existing land borders and thus e.g. Ukrainian sovereignty over Crimea.

Russia has appeared to be somewhat more protectionist and statist since its August crisis. That in the author's view was mainly a matter of emphasis, the reading of devaluation as intentional protectionism, and misperception of the fact that a stronger, more competent state may be required if it is to implement its own laws. It does not necessarily imply a turning away from electoral democracy and transition to a mixed market economy. Neither Boris Yeltsin's several economy ministers 1992 ff. nor Vladimir Putin have had anything to say in favour of handouts to CIS neighbours as the price of empire. At the summit in January 2000 Putin and his aides dismissed calls from e.g. Ukraine to negotiate a free trade arrangement for the CIS.

Ukraine's remarkable stability given the traumatic economic developments of the 1990s is said to have roots in citizens' apolitical tradition, gentleness of character (said to be a legacy of exporting dynamic go-getters to Petersburg, Vienna and Moscow for three centuries), in Ukrainians' shared historical memory with Russians of suffering and victory in WW II, and their genuine, unforced feelings of community with Russian speakers and RF citizens. Intermarriage and bilingualism remain uncontroversial. Popular culture in Ukraine is mainly Russian-language, especially in urban areas, with an overlay (as elsewhere in eastern Europe) of Hollywood movies and mainstream pop music, and on TV hours of voiced-over North and Latin American soap operas. The 'language issue' has not raised political temperatures anything like might have been expected on e.g. the Canadian model, though there is likely to be some tension going forward. Russian newspapers have complained about a post-electoral wave of 'forced Ukrainization' owing to the new government's statements about a need to shore up implementation of the policy of Ukrainian only in the budget sector. There has indeed been a halving in the proportion of pre-school children being educated in Russian since independence. [60]

Like other foreign investors in the Ukrainian economy, Russia was quite rightly not pleased with the pace of Ukrainian privatization in the 1990s, which dragged not just because of the strength of the communists in Ukraine's parliament, but because nationalists in Rukh who

[60] According to First Deputy Information Minister Oleh Bai in a report to parliament on the media, 2/3 of all publications available in Ukraine were still in Russian in 1998, Reuters, 10 February 1999; according to data available in early 2000, 49.7% of all periodicals (definition vague) were in Russian, R. Solchanyk, 'The Russian Language in Ukraine: a look at the numbers and trends', Ukrainian Weekly, 5 March 2000, repr. in D. Arel, Ukraine List UKL 76.

would otherwise have been thought friendly to business did not want to give Russia a chance to buy back what 'it' lost in 1991. The Privatization Committee earned the budget only UAH 355 mn in 1998 (about USD 100 mn at the yearend exchange rate) and well below half that in 1999. This issue came up again in early 2000, as Russian deputy prime minister Kasyanov reiterated Russia's gracious offer to accept shares in Ukrainian 'crown jewels' in settlement of debts.

FDI suffered. Foreign direct investment was of marginal importance to the Ukrainian economy in 1989-1999, totalling some USD 3.248 bn (USD 65 per capita), about the same as in Russia (USD 74.4 per head) but far below levels in e.g. Hungary. USD 775 mn allegedly flowed in in 1998, presumably before August; at the exchange rate this came to 23% of 1997 domestic investment; USD 437 mn was attracted in 1999. There was very little 'greenfield' investment. The fate of the Daewoo investment has already been mentioned. The low level of FDI has deprived middle managers of the chance to learn marketing, accounting, IT systems and other skills through contact with people from major international companies.

The key for Ukrainian and Russian citizens to building a good future economic relationship is the transition problem more generally: stabilization, i.e. a reduction in economic uncertainty including that affecting relative prices; enterprise reform, i.e. an increase in hard-budget, economic behaviour, which will reduce waste, attract capital and stimulate growth; and reductions in tariff and non-tariff barriers to trade, which will stimulate comparative-advantage-based regional specialization.

7 Where might the economy be in ten years' time?

A 1999 EBRD study concluded that Ukraine's comparative advantage as revealed in the performance of its net exports to OECD countries during 1993-97 was strongly positive and increasing in 'agriculture', and positive but on a declining trend in 'capital-intensive' sectors like steel and automobiles. Ukraine was found to have a comparative disadvantage in 'labour'- and 'skills-intensive' production (a strong disadvantage in the latter), but the degree of disadvantage was found to diminish during the period. Russia was found to have a strong advantage in resource-based production and a correspondingly strong disadvantage in agriculture and everything else.[61]

Combining those insights with more detailed microeconomic insights from e.g. the German Advisory Group's agriculture study, WIIW thinks Ukraine's best long-term comparative advantage may lie in cereal crops, including wheat, in oil seeds, especially rape, but also sunflower seeds in the proper fertilizer environment, and in all manner of food processing.

[61] EBRD, Transition Report 1999, annex 9.1. 'Recent trends in revealed comparative advantage'.

The more Russia's own reforms are market-based and non-protectionist, the more the new Putin government admits Russia's disadvantage in food, the greater the potential opportunity for Ukraine.

Some Ukrainian manufacturing, though probably not car production, also has a chance to survive foreign competition, were normal market incentives to obtain. How much domestic plus foreign investment this may require is an open question. Some hard cash must be spent to reduce losses in gas transit and electricity generation, transmission and use, but quite large increases in value added (and decreases in value subtracted) are to be expected from policy measures which 'merely' improve the incentive structure in industry and agriculture.

The domestic economy requires all manner of financial and personal services: banking, insurance, advertising, telephony, computing, hotels and restaurants, private health care and so on. Thousands of small businesses including car and apartment repair need to be created or drawn out of the shadows by a less punitive tax regime. What remains of collectivized agriculture has grossly underperformed and is presently the focus of an ambitious, if long-term, policy effort.

The central government has promised to slim down and change its role to one of 'facilitating' rather than 'controlling' the economy, in the World Bank's felicitous phrase. The IFIs have persuaded Prime Minister Yushchenko's new government to announce precise numbers of bureaucrats to be made redundant and reductions in the number of central ministries and state committees. The experience of other countries suggests that if growth is ever to be rapid, it is imperative to get the state take of GDP down by 5-10 percentage points.

The success of the eurobond swap offer saves the country's honour, encourages potential future lenders, and increases the political strength of 'young reformer' economy ministers Yushchenko, Tyhypko, Mitiukov et al. It should improve the chances of renewed IFI funding. Since the Russian crisis the IMF et al. have explicitly stated that moral hazard had exceeded bounds, and commercial institutions would have in future to share the risks as well as the rewards of lending to countries in transition. Resumption of Ukraine's IMF's programme is not a sure thing yet, because there are multiple criteria: parliament has insisted on keeping tax holidays for imported fuel, and the IMF and World Bank await results of audits into the government's possible misuse of funds in 1997-98. If there is no IMF tranche despite the successful exchange, reserves would fall below USD 740 mn, which could impact on expectations for the value of the currency, UAH 5.465 to the USD in mid-March 2000 - especially since consumer price inflation picked up sharply to 8.1% year-on-year in the first two months. But since the fuel import tax holidays are 'temporary' and 'just for the sowing season', the IMF will probably see fit to disburse a tranche by April 2000.

Ten years of GDP decline have produced structural change through differential output collapse and reduced the effective labour force in recorded industry by at least 3.5 mn people. But GDP still declined in 1999, and exports did not respond in market-economy fashion to the 63% devaluation of the currency between August 1998 and the turn of the millennium. Until the syndrome of massive non-payment by firms, individuals and the government is tackled more effectively, the economy will slump along at a low level, people will produce poor-quality goods and services inefficiently at home or in the vast shadow sector, steel and chemicals exporters will be accused of dumping, Russia will lay claim to Ukrainian industrial assets to settle gas debts, and the capital stock will not be renewed.

Continued involvement from the IMF and other IFIs remains both crucial and likely, unless their whole mandate is altered. The IFIs constituted just about the only important constituency for faster progress until Viktor Yushchenko miraculously became prime minister after Leonid Kuchma's trip to Washington in December 1999. Given Ukraine's poor record in attracting commercial lending or FDI, the IFIs have provided essential leverage on policy-makers, from the president on down; they have provided both the carrots and the sticks. The IMF et al.'s insistence on budget-hardening and on the state withdrawing from day-to-day oversight of industry and agriculture is still counter-intuitive to many mid-level bureaucrats and ex-red directors.

If the new government is able to keep vested interests at bay and e.g. stick to the budget, however, things could begin to get much better. It is a law of arithmetic that if x grows at 3.5% per annum it takes about 20 years for it to double; at 7% doubling-time is reduced to 10 years. Assuming Ukraine's recorded GDP is 41% of the 1990 level, it will take about 26 years to regain the lost ground back to 100% of 1990 (about 13.5 years if growth is twice as fast). However this exercise is misleading in that it assumes all 1990 output was welfare-related, when much of it either rotted in the fields, was grossly overpriced for the quality, or reflected planners' preferences for e.g. military goods.[62] It is also misleading because adding in an estimate of shadow activity raises measured current output by 75-190% depending on the mode of calculation.

The World Bank has published a set of scenarios to underline the costs of do-nothingism vs. the benefits of strong budget-hardening and administrative reform.[63] Their high-case scenario has growth accelerate to 8% p.a. by 2006-09, which yields an 85% increase over 1999 recorded GDP levels by 2009, still an output nominally below 1990 levels but one of

[62] H. Boss, Theories of Surplus and Transfer, chs 1 and 10.

[63] World Bank, Ukraine – Restoring Growth with Equity, 1999, pp. 89 ff.

completely different structure and 'economic meaning', since it would be demand- and democratic-government-driven. The World Bank's base-case scenario has Ukraine's measured GDP about 43% above 1999 levels by end 2009, with 4.5% p.a. growth in the last four years of the period; they point out that 12 years of 4% growth based on internationally-competitive production would likely put many citizens ahead of where they stood in 1990. The low-case scenario paints a dreary Belarus-like picture of continued soft budgets, inflation-financed government deficits, minimal FDI, falling exports and imports and, ultimately, regression: GDP falls 2.5% p.a. in 2006-09 in real terms, and ends the decade 4% below the 1999 level.

At present the base-case scenario appears quite achievable. The government would have to carry out its recent promises and harden its own budget constraint. It would have to stop incurring arrears, disallow offsets, and remove *ad hoc* tax privileges which raise the tax burden on part of the economy while driving another part into the shadows. Prospects are brightened by the fact that industrial growth accelerated in 1999 and early 2000 in both Ukraine and Russia. If the exchange rate were not to erode, under the base-case scenario GDP in 2010 would recover to USD 44 bn, up from USD 30.8 in 1999, though that is not very different to its dollar level in 1998, before the heavy devaluations kicked in.

What might shift Ukraine from a base-case path to a high-growth path depends mostly on policies adopted and implemented. These will determine how fast the shadow sector is reintegrated into the measured economy, how fast the gas burden on the trade balance is reduced, and how much flight capital and FDI are invested.

Ukraine may qualify for membership in the WTO in the next tow to three years. This would considerably increase the benefits it derives from its geographical proximity to the EU, to EU applicant countries, and to the Middle East. The PCA with the EU could be implemented better, boosting export prospects. Membership in the EU might then be formally revived as a prospect, however distant, to serve as a beacon for policy and reward the population for its efforts.

Table 1

Ukraine: Selected macroeconomic indicators
1990 - 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998	1999	1999	2000	2001
										January-September		prelim.	forecast	forecast
Population, th pers., end of period	######	######	######	######	######	######	######	######	######	.	.	49700	49500	49200
Gross domestic product, UAH mn,	2	3	50	1483	12038	54516	81519	93365	103869	70333	92324	127126	153314	189500
annual change in % (real)	-4.0	-8.7	-9.9	-14.2	-22.9	-12.2	-10.0	-3.0	-1.7	-0.5	-1.7	-0.4	1.0	3
GDP/capita (USD at exchange rate)	5499	3294	463	626	734	721	876	993	846	.	.	619	516	550
GDP/capita (USD at PPP - WIIW)	6190	5790	5500	4900	3900	3560	3340	3330	3340	.	.	.	.	
Gross industrial production														
annual change in % (real)	-0.1	-4.8	-6.4	-8.0	-27.3	-11.7	-5.1	-1.8	-1.5	-0.3	2.3	4.3	3.5	5.0
Gross agricultural production														
annual change in % (real)	-3.7	-13.2	-8.3	1.5	-16.5	-3.6	-9.5	-1.9	-8.3	1.8	-2	-5.7	0	
Goods transport, bn t-kms	1039.3	947.1	794.5	674.1	593.2	544.0	450.3	402.3	392.3	289	272.5	.	.	
annual change in %	-2.6	-8.9	-16.1	-15.2	-12.0	-8.3	-17.2	-10.7	-2.5	-0.1	-6.0	-0.3	.	
Gross fixed investment, UAH mn, n	0.3	0.5	8.7	283.8	2280	9378	12557	12437	11543	7296	8890	14799	.	
annual change in % (real)	1.9	-7.1	-36.9	-10.4	-22.5	-35.1	-22.0	-8.6	4.8	6.0	-4.1	2.9	2	8
Construction output total														
annual change in % (real)	-3.1	-6.0	-35.7	-9.7	-38.0	-31.9	-34.0	-11.7	1.5	.	.	-9.9 7)	.	
Dwellings completed, units	290300	232000	226600	188900	145400	118200	88100	80000	67100			.	.	
annual change in %	.	-20.1	-2.3	-16.6	-23.0	-18.7	-25.5	-9.2	-16.1	. [2]	17 [2]	.	.	
Employment total, th pers., average	######	######	######	######	######	######	######	######	######	22200	22100	22000	21500	21000
annual change in %	-0.5	-1.2	-2.0	-2.3	-3.8	3.0	-2.1	-2.7	-1.1	.	.	-1.6	.	
Employment in industry, th pers., av	7829.8	7768.0	7400.8	7017.1	6300.0	5800.0	5300.0	4882.2	4700.0	.	.	.	.	
annual change in %	.	-0.8	-4.7	-5.2	-10.2	-7.9	-8.6	-7.9	-3.7	.	.	.	.	
Full-time employment in industry					3855	3448	3027	2727	2476			2293		
hours worked; change in %						-10.6	-12.2	-9.9	-9.2			-3.5		
Registered unemployed, ths, end o	.	6.8	70.5	83.9	82.2	126.9	351.1	637.1	1003.2	866.5	#####	1175	.	
Unemployment rate in %, end of pe	.	0.0	0.3	0.4	0.4	0.5	1.5	2.7	4.3	3.7	4.8	4.99	6	8
Average gross monthly wages, UAH	0.0	0.0	0.1	1.7	15.3	80.6	137.8	156.2	167.5	164.4	187	194.3	.	
annual change in % (real, gross)	9.6	19.0	-31.7	-54.7	-9.0	10.1	-5.1	-2.3	-3.0	-0.3	-8.4	-5.4	.	
Wage arrears, stock, end of latest quarter, mn UAH						575	3739	4908	6518	6423	6830	6462		
Wage arrears, in months of latest-quarter monthly wages due						0.21	1.06	1.30	1.65	1.70	1.54	1.36		
Retail trade turnover, UAH mn 3)	0.8	1.3	14.6	438.2	3370	11964	17344	27300	29200			.	.	
annual change in % (real)	12.0	-9.7	-18.0	-35.0	-13.6	-13.9	-5.1	2.2	-4.0		-6.8	-3	.	
Consumer prices, % p.a.	4.8	91.2	1210.0	5371.0	891.0	376.8	80.2	15.9	10.6	8.1	24.2	22.7	20	20
Producer prices in industry, % p.a.	4.5	125.4	2340.6	4667.3	1134.4	488.8	52.1	7.7	13.2	6.7	36.9	31.1	20	20
General government budget, UAH mn														
Revenues	.	.	17.0	568.3	5314	20425	30142	36890	37398	25367	30531	32340	33433 6)	
Expenditures	.	.	23.3	661.0	6453	24443	33759	43086	39417	27606	31556	34266	33433 6)	
Deficit (-) / surplus (+)	.	.	-6.3	-92.7	-1140	-4018	-3617	-6196	-2018	-2239	-1025	-1926	0	
Deficit (-) / surplus (+), % GDP	.	.	-12.5	-6.3	-9.5	-7.4	-4.4	-6.6	-1.9	-3.2	-1.1	-1.5	0	
Money supply, UAH mn, end of period														
M0, Currency outside banks	0.2	0.3	4.8	127.7	793	2623	4041	6132	7158	6310	9008	.	.	
Broad money	1.3	2.6	25.2	481.5	3216	6930	9364	12541	15719	14325	20468	.	.	
Refinancing rate of NB % p.a., end	.	.	80.4	240.0	268.8	110.4	39.6	34.8	74.2	82.0	45.0	45	35	
Current account, USD mn	.	.	-621	-854	-1163	-1152	-1185	-1335	-1296	-1467	767	900	300	-500
Gross reserves of NB excl. gold, US	.	.	469	162	651	1051	1960	2341	761	1044	1332	1160	1800	
Gross external debt, USD mn	.	.	3513	4214	7167	8217	8840	9555	11483	10966	12891	12600	13600	
Goods exports, fob, USD mn 5)	.	.	11308	10841	10272	13128	14401	14232	12637	8990	8151	11582	12000	13000
annual change in %	.	.	.	-4.1	-5.2	27.8	9.7	-1.2	-11.2	-13.1	-9.3	-9.3		
Goods exports to non-CIS, USD	.	4791	3296	3223	4653	6168	6460	8422	8204			7473.1 7)		
annual change in %	.	.	-31.2	-2.2	44.4	32.6	4.7	30.4	-2.6			-3.3 7)		
Goods exports to CIS, USD mn			4118	4594	5619	6960	7601.8	5810.2	4433.1			2859.6 7)		
annual change in %				11.6	22.3	23.9	9.2	-23.6	-23.7			-24.9 7)		
Services exports, USD mn							4747	4738	3820					
Goods imports, cif, USD mn 5)	.	.	11930	12669	10745	15484	17603	17128	14676	10695	8433	11846	12000	13000
annual change in %	.	.		6.2	-15.2	44.1	13.7	-2.7	-14.3	-14.6	-21.2	-19.3		
USDmn	.	6655	2049	2652	2908	5488	6427	7249	6779			4378.9 7)		
annual change in %	.	.	-69.2	29.4	9.7	88.7	17.1	12.8	-6.5			-29.4 7)		
Goods imports from CIS, USD mn			4843	6881	7838	9996	11176	9879	7897			6006.5 7)		
annual change in %				42.1	13.9	27.5	11.8	-11.6	-20.1			-15.1 7)		
Imports of fuels and electricity, USD mn							8407	7807	5230 7)			4659 7)		
Services imports, USD mn							1205	1418	1431					
Trade deficit on goods, USD mn				-1828	-473	-2356	-3202	-2896	-2038	-1704	-281	-53		
Average exchange rate UAH/USD	0.000	0.000	0.002	0.045	0.317	1.473	1.830	1.862	2.450	2.124	3.933	4.1304	6	7
Average exchange rate UAH/DEM	0.000	0.000	0.001	0.027	0.203	1.029	1.216	1.076	1.407	1.189	2.160	.	.	
Purchasing power parity UAH/USD,	0.000	0.000	0.000	0.006	0.060	0.298	0.480	0.555	0.622	.	.	.	.	

Notes: 1) Preliminary. - 2) Square meters. - 3) To 1996 officially registered only. - 4) End of period, useable. - 5) Derzhkomstat based on customs statistics (not bop basis). - 6) passed 17 Feb. 2000. - 7) January-November.

Sources: Derzhkomstat Ukrayini, bulletins, press releases, 1997 yearbook; Tacis-UEPLAC, *Ukrainian Economic Trends*, December 1999; Statkomitet SNG, bulletins and yearbooks; IMF, SM/99/77 of 16 March 1999; Reuters; WIIW forecasts.

Table 2

Ukraine: Selected physical indicators
1985 - 1999

	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998 (1990 = 100)	1999	1999 (1990 = 100)
Indicator:													
Electricity, bn KW years	272	298.5	279	253	230	203	194	183	176	172.4	*57.7*	171	*57.3*
of which nuclear	53.3	76.2					70.5	79.6	79.4	75.2	*98.7*		
of which thermal	208	211.6					113.3	94.6	88.5	81.3	*38.4*		
of which hydro		10.3					10.1	8.8	10	15.9	*154.4*		
Domestic oil production, mn t	5.8	5.3	4.93	4.47	4.2	4.2	4.0	4.1	4.1	3.8	*72.5*	3.791	*71.5*
Oil imports, mn t		54.3	49.6	35.3	19.7	15.5	13.2	9.2	8.9	9.9	*18.2*		
Domestic gas production, bcm	42.9	27.8	24.3	20.9	19.2	18.3	18.1	18.4	18.1	17.9	*64.4*	18	*64.7*
Gas imports, bcm		87.3	89.5	89.1	79.8	69.1	66.3	71	62.4	53.5	*61.3*		
Coal, mn t	189	165	135.6	133.6	116	94.6	83.8	70.5	75.6	77.0	*46.7*	62.7	*38.0*
Iron ore, processed, mn t	120	105					50.7	47.5	53.4			47.8	*45.5*
Pig iron, mn t	47.1	44.9					18	17.8	20.6			23	*51.2*
Steel, mn t	55	52.6					22.3	22.3	25.6			27.4	*52.1*
Rolled steel (prokat), mn t	37.7	38.6	32.8	29.55	24.2	16.9	16.6	17	19.5	17.8	*46.1*	19.3	*50.0*
Steel pipe, mn m	615	599					191	240	215	198	*33.1*	152.9	*25.5*
Aluminium, th t									90.73	106.7			
Alumina, th t									1214.5				
Gasoline, mn t		8.4	7.6	5.4	3.5	3.0	3	2.74	2.8	3.1	*36.8*	2.5	*29.5*
Diesel, mn t	14.6	12.7	11.2	8.1	6.1	5.2	4.3	3.87	3.8	4.0	*31.5*	3.3	*25.8*
Heating oil (mazout), mn t	25.5	25.6	24.8	17.7	10.3	8.0	6.8	5.1	3.6				
Synthetic fibres, 1000 t	165	179	136	119	76.3	38.9	41.3	33.2	26	4.0	*2.2*	22.8	*12.7*
Calcium carbonate soda, mn t	1.161	1.12	1.1	1.1	0.8	0.61	0.475	0.376	0.368	0.390		0.460	*41.1*
Caustic soda, mn t	0.5	0.445					0.213	0.157	0.156	0.121		0.099	*22.3*
Sulphuric acid, mn t	4.6	5	4.2	3	1.8	1.6	1.6	1.6	1.4			1.393	*27.9*
Mineral fertiliser, th t	5074	4815					2221	2449	2376	1941	*40.3*	2318	*48.1*
Electric Motors, ths		3100	2533	2096	1896	1300	1056	338.9	242				
Locomotives, sections	1029	703	732	434		.	146	171	149				
Vehicles, 1000s		196	192.7	176.7	175	.	.						
Cars, 1000s	168	156	156	135	140	93.6	58.7	6.9	1.8	25.4	*16.3*	19.192	*12.3*
Trucks, 1000s		27.7	25.1	33.4	23.1	11.7	6.5	4.2	3.4	*5.0*	*18.1*		
Tractors, 1000s	136	106	90.2	71.2	55.5	16	10.4	5.4	4.6	3.2	*3.0*	4.984	*4.7*
Excavators, 1000s	10	11.2					2.3	0.5	0.328				
Metal-cutting tools, 1000 units	35	37	37.7	33.9	27.5	9.2	6	3	2.3	2.0	*5.4*		
Particle board, mn cu m equiv.		.	36	32.5	30	.	.					0.218	
Plywood, th cu m	190	169	100	.	.	.	37.9	31.5	29.7			44.2	*26.2*
Paper, 1000 t	299	369	353	279	181	94.1	98	95.2	87.6	103.0	*27.9*	82.8	*22.4*

(Table 2 ctd.)

Table 2

Indicator:	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998 (1990 = 100)	1999	1999 (1990 = 100)
Cardboard, 1000 t	520	543					206	198	177	187.5	*34.5*	227	*41.8*
Cement, mn t	22.4	22.7	21.7	20.1	15	11.4	7.6	5.0	5.1	5.6	*24.6*	5.828	*25.7*
Sheet rock, mn sheets	1361	1463	1484	1491	1278	.	531	383	453	524		603	*41.2*
Window glass, mn sq m	50.5	52.3	45.9	.	.	.	22.9	26.5	18.6	17.7		18.9	*36.1*
Tyres, 1000 units	9439	11203					5786	6383	7544	8423.4	*75.2*	7945	*70.9*
Textiles, all types, mn sq m	1160	1212	1031	926.4	597	283	169	109	80.5	89.2	*7.4*	49.1	*4.1*
Cotton textiles, mn sq m	534	565	466.9	234	126	.	78	51	33				
Linen textiles, mn sq m	95.6	98	91.9	.	.	.	20	20	18				
Woollen textiles, mn sq m	65	72	65.2	.	.	.	15	9	11				
Silk textiles, mn sq m	283	283	190.2	.	.	.	19.3	8.8	6.7				
Knitwear, mn pieces	320	351	293	243	147	54.3	27	13.1	9.3			7.62	*2.2*
Socks and stockings, mn prs	388	443	393	381	290	145	119	66.8	44.8	37.4	*8.4*	35.2	*7.9*
Footwear, mn pairs	186	196	177	144	104	39.1	20.6	13.1	10	8.3	*4.2*	9.562	*4.9*
Toothpaste, mn tubes	27.5	45.1					12.7	5.0	1.0				
Household cleaning products, th t	104	131					43.9	35.1	19.9				
Toilet soap, th t	36.7	47.3					9.4	4.9	3.2	3.4		6.9	
All grains, processed wt., mn t	*47.431*	51.009	38.674	38.537	45.623	35.497	33.939	24.571	35.472	26.8	*52.5*	24.4	*47.8*
of wh. wheat, mn t	18.095	30.374	21.155	19.507	21.831	13.857	16.273	13.547	18.404	14.9	*49.1*	13.5	*44.4*
of wh. maize (corn), mn t	6.51	4.737	4.747	2.851	3.786	1.539	3.392	1.837	5.34	2.3			
Flax, 1000 t	*110*	108	106	105	73	49	48	18	9	10.0	*9.3*		
Sunflower seed, 1000 t	*2602*	2571	2311	2127	2075	1569	2860	2123	2308	2260	*87.9*	2750	*107.0*
Sugarbeets, mn t	*43.845*	44.265	36.168	28.783	33.717	28.138	29.65	22.812	17.663	15.33	*34.6*	13.9	*31.4*
Raw milk, 1000 t	*24059*	24508	22409	19114	18376	18138	17274	15821	13768	13739	*56.1*		
Whole milk products, milk equiv., 1000 t	5687	6432	5709	4112	2801	2220	1293	923	661	545.9	*8.5*	564	*8.8*
Per capita cons. of milk and dairy products, kg	350	373	346	285	264	256	244	230	210				
Fish and products, 1000 t		.	905	547	365	218	393	371					
Canned fish and seafood, mn cans	292	352	320	197	90	80	86	111	106				
Eggs, all types of farm, mn	*17215*	16287	15188	13496		11794	9404	8763	8246	8270	*50.8*		
Potatoes, all types of farm, 1000 t	*17965*	16732	14550	20277	21009	16102	14729	18410	16701	15336	*91.7*		
of which by private households	*13582*	11939	11349	17235.5	17857.65	14813.8	14111	17552	16204				
Per capita annual cons. of potatoes, kg	139	131	116	133	150	136	124	128	133				
Vegetable oil, 1000 t	846	1070	1004	858	803	634	696	705	509	422.4	*39.5*	505	*47.2*
Vegetables excl. melons, 1000 t	*7449*	6666	5932	5310	6547	5142	5880	5070	5168	5456			
Per capita annl.cons. of vegetables and melons, kg	*124*	103	114	102	128	101	114	99	102	108.0	*104.9*		
Fruits incl. grapes, 1000 t	*3376*	3738	1537	2122	2798	1153	2355	2423	3113	1180	*31.6*		
Per capita cons. of fruits and berries, kg	*50*	47	29.6	40.7	53.6	23	37	38.4	54.4				
Non-alcoholic beverages, mn dl	97.2	151					37	35.7	43.6				
Bread and products, 1000 t	7348	6701	6685	6458	.	.	4114	3452	2707				
Macaroni, 1000 t	330	360	364	351	340	.	223	172	124				
Flour, mn t	8.157	7.671	7.4	6.6	5.7	4.5	5.319	4.963	4.203				
Per capita cons. of cereal products, kg	138	141	143	143	145	135	128	124	128				
Granulated sugar, total, 1000 t	6247	6791	4786	3647	3993	3368	3857	3296	2034	1986.0	*29.2*	1858	*27.4*

(Table 2 ctd.)

Table 2

Indicator:	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998 (1990 = 100)	1999	1999 (1990 = 100)
of wh from sugar beet, 1000 t	4366	5388	3844	3527	3854	3354	3500	2702	2032				
Per capita cons. of sugar, kg	47	50	50	45	39	33	32	33	28				
Animal fat, butter, 1000 t	390	444	376	303	312	254	222	162	117	107.2	*24.1*	108	*24.3*
Meat, slaughter wt., all types of farm, 1000 t	*4309*	4358	4029	3401	2815	2678	2294	2113	1875	2635	*60.5*		
Industrial meat production, 1000 t	2357	2762.8	2488	2050	1487	1291	957.4	748	558	240	*8.7*		
Per capita annual meat consumption, kg	66	68	66	53	46	44	39	37	34				
Wool, 1000 t	28.7	29.8	27	23	21	19	14	9.3	6.7	5.0	*16.8*		
Alcoholic beverages, mn dl	27.4	21					20.5	14.4	14.8				
of which vodka and spirits, mn dl	29.2	30.9	34	37	40	36	37.5	24.3	25.7				
of which beer, mn dl	148	138					71	60.3	60.9				
of which wine, mn dl	49	27	27	21	14	12	14	12	7				
Tobacco products, bn pcs.	82	69.4					48	44.9	54.4				
Output of television sets, 1000s	3067	3774	3616	2570	1919	806	315	118	42.8	71.1	*1.9*	76.6	*2.0*
Tape recorders, 1000s	1573	1795	2028	1828	1246	218	105	43.7	24.7	12.8	*0.7*	10.5	*0.6*
Refrigerators, 1000s	743	903	883	838	757	653	562	431	382	389.2	*43.1*	409	*45.3*
Washing machines, 1000s	372	788	830	805	643	422	213	149	147	137.5	*17.4*	127	*16.1*
Vacuum cleaners, 1000s	789	1073	1044	888	920	405	285	114	128	113.5	*10.6*	127	*11.8*
Main telephone lines per 1000 inhabs.		136	142	147	152	157	161	181	185				
Television stock per 1000 inhabs.	295	331					234	209	186				
No. of intercity and intl. phone calls, mn	447	657					798	914	1080				
Registered telex machines, 1000s							1367	1350					
Number of personal computers in enterprises and organizations, 1000s						132	156.6	173.3	259.1	326.80	*246.8*		
Registered fax machines, 1000s							16.4						
Private car ownership per 1000 inhabs.	46	63				82	87	93	97				

Notes: Figures in italics in the 1985 column are 1986-1990 averages. Other figures in italics are linear extrapolations from less than full year results.

Sources: Derzhavnyi Komitet Statistiki Ukrayiny, Statistichnii Shchorichnik Ukrayini za 1996 rik, Kiev 1997, Ukrayina v tsifrakh 1997, Kiev 1998; Ekspress-Informatsiya no. 16, 14 January 1999; IMF, Recent Economic Developments, 16 March 1999; World Bank, Ukraine, Restoring Growth with Equity, 1999; EBRD, Transition Report 1999; Interfax Statistical Report, 27 January 2000.

Table 3

Ukraine: GDP, industrial production and electric power generation
1990 - 1999

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Indicator:										
GDP per capita in USD at exchange rate	5500	3300	480	590	734	721	876	993	846	619
GDP, official, annual % change	-3.4	-8.7	-9.9	-14.2	-22.9	-12.2	-10	-3.2	-1.7	-0.4
Index, 1990=100	100	91.3	82.3	70.6	54.4	47.8	43.0	41.6	40.9	40.7
Industrial production, annual % change	-0.1	-4.8	-6.4	-8	-27.3	-11.7	-5.1	-1.8	-1.5	4.3
Index, 1990=100	100	95.2	89.1	82.0	59.6	52.6	49.9	49.0	48.6	50.7
Electric power generation, bn KW years	298	279	253	230	203	194	183	176	172.6	171.146
Index, 1990=100	100	93.6	84.9	77.2	68.1	65.1	61.4	59.1	57.9	57.4

'*Sources:* Minstat Ukrayiny, Narodne Gospodarstvo Ukrayiny 1991 and 1992; Derzhkomstat Ukrayiny, Ukrayina v tsifrakh 1997; Statkomitet SNG, Sodruzhestvo Nezavisimykh Gosudarstv v 1997 g.; IMF, Staff Report, August 1997; Ukrainian Economic Monitor, various issues to December 1998; Statkomitet SNG, Statisticheskii Biulleten', various issues to January 1999; Derzhkomstat 1999 data via Interfax, 11 February 2000.

Table 4a

Commodity structure of Ukraine's trade in goods

Exports

		1996		1997		1998			1-8.1999
		Value in th USD	*Share in %*	*Value in th USD*	*Share in %*	*Value in th USD*	*Share in %*	*1998 value as % of 1996 value*	*Share in %*
	EXPORTS TOTAL	14400806.04	100	14231905.98	100	12637422.44	100	*87.75*	
I	Animal products	593567.98	4.12	438662.31	3.08	272828.07	2.16	*45.96*	
II	Plant products	867613.77	6.02	553592.68	3.89	642853.28	5.09	*74.09*	6.3
10	of which: grains	375696.73	2.61	127826.39	0.90	313823.21	2.48	*83.53*	
12	of wh: oil seeds and products	375696.73	2.61	127826.39	0.90	241876.56	1.91	*64.38*	
III	Oils and animal fats	185641.81	1.29	121767.37	0.86	131895.97	1.04	*71.05*	
IV	Food industry products	1401963.73	9.74	686667.91	4.82	331781.16	2.63	*23.67*	2.33
16	of which: meat and fish products	85844.2	0.60	131935.28	0.93	53647	0.42	*62.49*	
17	sugar and confectionery products	675909.78	4.69	314570.92	2.21	108536.59	0.86	*16.06*	
22	alcoholic and non-alcoholic beverages	1244597.69	8.64	112593.34	0.79	52370.5	0.42	*4.21*	
V	Mineral Products	1244597.69	8.64	1282951.98	9.01	1163569.77	9.2	*93.49*	
26	of which: ores, tars	495399.1	3.44	538865.18	3.79	502388.52	3.97	*101.41*	
27	fuels, crude oil and petroleum products	626008.87	4.35	603172.31	4.24	520681.52	4.12	*83.17*	?6.1
VI	Chemical Products	1674724.24	11.63	1504452.1	10.57	1278797.96	10.12	*76.36*	
28	of which: inorganic	597729.54	4.15	537916.7	3.78	508165.78	4.02	*85.02*	
29	organic	168855.14	1.17	217900.8	1.53	159622.2	1.26	*94.53*	
31	fertiliser	572344.21	3.97	432712.4	3.04	328651.56	2.6	*57.42*	
VII	Plastics, rubber etc.	402023.98	2.79	369350.41	2.59	316346.1	2.5	*78.69*	
40	of wh. rubber products incl. tyres	310488.54	2.16	301855.67	2.12	242294.87	1.91	*78.04*	
VIII	Hides and skins and products	121166.34	0.84	141764.44	1.00	97942.8	0.78	*80.83*	
IX	Wood and products	55134.97	0.38	61083.29	0.43	100208.81	0.79	*181.75*	
X	Pulp, paper, wood fibre, publications	138776.68	0.96	147702.87	1.04	137945.07	1.09	*99.40*	
48	of wh.: paper and cardboard	100730.58	0.70	106043.94	0.75	106309.25	0.84	*105.54*	
XI	Textiles and products	382809.37	2.66	449685.77	3.16	501594.29	3.97	*131.03*	
62	of which: clothing from woven textiles	244526.9	1.70	286341.59	2.01	342078.49	2.71	*139.89*	
XII	Footwear, hats, umbrellas	70176.83	0.49	59254.63	0.42	61882.4	0.49	*88.18*	

(Table 4a ctd.)

Table 4a ctd.		1996		1997		1998			1-8.1999
		Value in th USD	*Share in %*	*Value in th USD*	*Share in %*	*Value in th USD*	*Share in %*	*1998 value as % of 1996 value*	*Share in %*
XIII	Products of stone, gypsum, cement, glass, asbestos	172769.83	1.20	133697.11	0.94	108538.01	0.86	62.82	
XIV	?		0.00						
XV	Non-precious metals and products	4763239.63	33.08	5904250.7	41.48	5335655.73	42.22	112.02	
72	of wh.: ferrous metals	3416974.13	23.73	4495676.98	31.59	4204356.9	33.27	123.04	33.2
73	ferrous metal products	1008337.19	7.00	957902.01	6.73	644930.56	5.1	63.96	3.5
74	copper and products	69270.44	0.48	145773.78	1.02	131241.09	1.04	189.46	
76	aluminium and products	161878.08	1.12	221599	1.56	282045.11	2.23	174.23	
XVI	Machinery, mechanical and electrical equipment	1406666.93	9.77	1370057.45	9.63	1104749.21	8.74	78.54	
84	machinery and equipment	936650.9	6.50	909442.04	6.39	761379.29	6.02	81.29	
85	electrical equipment	470016.03	3.26	460415.41	3.24	343369.92	2.72	73.05	
XVII	Vehicles, aircraft, watercraft	635420.35	4.41	540371.38	3.8	616951.06	4.88	97.09	
86	of wh. locomotives, railcars, trams, etc.	210834.28	1.46	142803.42	1	134632.62	1.07	63.86	
87	of wh. vehicles (cars, trucks, buses, etc.)	234451.32	1.63	192981.21	1.36	130330.42	1.03	55.59	
88	aircraft, rockets, etc.	51472.57	0.36	113241.67	0.8	153137.11	1.21	297.51	
89	ships, boats, watercraft	138662.18	0.96	91345.08	0.64	198850.91	1.57	143.41	
XVIII	Medical and surgical equipment, watches, musical instruments	61714.14	0.43	62148.84	0.44	64062.89	0.51	103.81	
XIX	Other manufactures	55033.56	0.38	55229.03	0.39	44407.84	0.35	80.69	
94	of wh. furniture	43929.51	0.31	42351.52	0.3	11263.89	0.25	25.64	
XX 97	Works of art	20.41	0.00	8.59	0	17.59	0	86.18	
	Goods for which Customs Declarations not required	134.5	0.00	3549.98	0.02	5725.26	0.05	4256.70	
XXI 99	Other	167609.3	1.16	345657.23	2.43	319669.16	2.53	190.72	

Table 4b

Commodity structure of Ukraine's trade in goods

Imports

		1996		1997		1998			1-8.1999
		Value in th USD	*Share in %*	*Value in th USD*	*Share in %*	*Value in th USD*	*Share in %*	*1998 value as % of 1996 value*	*Share in %*
	IMPORTS TOTAL	17603353.65	100	17127962.70	100	14675564.35	100	83.37	
I	Animal products	316131.93	1.80	190784.88	1.11	221004.68	1.51	69.91	
II	Products of plant origin	246833.07	1.40	167067.56	0.98	184749.04	1.26	74.85	
III	Oils and animal fats	36938.93	0.21	39828.41	0.23	93575.65	0.64	253.33	
IV	Food industry products	848268.85	4.82	500249.28	2.92	551890.5	3.76	65.06	
24	of wh. tobacco	154998.85	0.88	175446.73	1.02	205906.29	1.40	132.84	
V	Mineral Products	8781357.86	49.88	8152899.07	47.60	6320817.95	43.07	71.98	
26	of which: ores, concentrates, tars	212362.11	1.21	161103.77	0.94	229074.62	1.56	107.87	
27	of wh. fuels	8406650.83	47.76	7807371.06	45.58	5940685.32	40.48	70.67	?44.3
	of wh. coal	.		.		371013.6	2.53		
2709	crude oil	.		1011858.64	5.91	1054613.78	7.19	*104.23*	
	petroleum products	.		1200737.46	7.01	847634.56	5.78	*70.59*	
	natural gas	.		5059857.19	29.54	3523817.43	24.01	*69.64*	
	electricity	.		136644.94	0.80	143605.95	0.98	*105.09*	
VI	Chemical Products	1025865.52	5.83	1241831.63	7.25	995090.38	6.80	97.00	
30	of wh. pharmaceuticals	255520.19	1.45	423511.88	2.47	305892.31	2.08	119.71	
38	of wh. other	242677.6	1.38	263762.82	1.54	203700.61	1.39	83.94	
VII	Plastics, Rubber etc.	768526.82	4.37	724914.54	4.23	674757.16	4.6	87.80	
VIII	Hides and skins and products	51609.52	0.29	51796.81	0.30	52001.4	0.35	100.76	
IX	Wood and products	119842.49	0.68	90435.24	0.53	75691.09	0.51	63.16	
X	Pulp and wood fibre	392134.42	2.23	409735.83	2.39	397379.61	2.71	101.34	
48	of wh. paper and cardboard	305339.53	1.73	327215.92	1.91	307878.85	2.1	100.83	
XI	Textiles and products	495931.89	2.82	491574.75	2.87	541669.63	3.69	109.22	
XII	Footwear, hats, umbrellas	69198.71	0.39	50398.23	0.29	39360.74	0.27	56.88	

(Table 4b ctd.)

Table 4b ctd.

		1996		1997		1998			1-8.1999
	IMPORTS ctd.	*Value in th USD*	*Share*	*Value in th USD*	*Share*	*Value in th USD*	*Share*	*1998 value as % of 1996 value*	*Share in %*
XIII	Stone, gypsum, cement, ceramics, glass, asbestos	159613.06	0.91	202556.69	1.18	161284.49	1.1	101.05	
XV	Non-ferrous metals and metal products	791890.38	4.50	665415.04	3.88	628806.28	4.28	79.41	
XVI	Machinery, mechanical, electrical and electronic equipment, recording equip., telecom equip.	2407937.59	13.68	2594896.16	15.15	2284738.42	15.57	94.88	8
84	of which machinery	1781136.44	10.12	1961029.9	11.45	1614338.71	11.00	90.64	
85	of which electrical machinery	626801	3.56	633866.26	3.70	670399.71	4.57	106.96	
XVII	Vehicles, aircraft, watercraft	570377.32	3.24	860972.5	5.03	887310	6.05	155.57	3.7
87	of wh. vehicles (cars, trucks, buses, etc.)	448503.12	2.55	639344.03	3.73	752716.1	5.13	167.83	
XVIII	Optical and photo equipment, medical equipment, musical instruments	207275.29	1.18	237826.69	1.39	242013.89	1.65	116.76	
XIX	Other manufactures	152294.17	0.87	157565.73	0.92	112810.02	0.77	74.07	
XX 97	Works of art	100.86	0.00	107.24	0.00	161.45	0	160.07	
	Goods for which Customs Declarations not required	44704.38	0.25	175127.3	1.02	133111.39	0.91	297.76	
	Other	116520.59	0.66	121979.12	0.71	77339.86	0.52	66.37	

Sources: Derzhavnii Komitet Statystyki Ukrayiny, Zovnishnia Torhivlia Ukrayiny tovarami u 1997 rotsi, Kiev 1998; Zovnishnia Torhivlia tovarami u 1997 rotsi tom III; Tovarna struktura zovnishnoi torhivli Ukrayiny u 1998 rotsi, Ekspress-informatsiia no. 58, 11 February 1999; partial data for 1-8.1999 from Interfax, BBC Monitoring, 22 October 1999.

Table 5a

Ukraine: Geographical composition of merchandise trade

Exports (share in %)

Country or Area		*1924*	*1987*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1-9.1998*	*1998*	*1-9.1999*	*1999*
Russia		66.9	60.7	41.3	45.2	43.1	43.3	38.1	26.16	23.9	23.0	20.2	20.6
All other FSU republics		16.8	25.5		29.6	14.7	11.0	16.0	13.1	13.0	16.8		
of wh.	Turkmenistan			0.4	2.5	2.2	2.1	1.9	1.2	1.1	0.96		
	Belarus			5.2	4.5	5.3	4.1	5.0	5.8	4.6	4.3	3	
	Baltics	2.8	4.2					1.4	1.6	1.9	1.8		
EU		13.8	3.8		8.2	12.8	11.5	12.6	12.4	15.8			
of wh.	Germany			1.9	2.2	2.8	2.6	2.9	4.0	5.1	5.1	5.1	
	France			0.7	0.4	0.4	0.3	0.8	0.7	0.8	0.9		
	Britain							0.8	0.6	0.8	0.9		
	Italy			1.8	1.8	1.9	3.2	2.4	2.8	4.4	4.4	4.0	
USA		0.8	0.1	0.4	2.1	3.5	2.1	2.6	2.1	3.8	4.0		
Eastern Europe		0.2	5.4					8.2	11.0	12.1			
of wh.	Poland			1.2	1.6	1.5	2.1	2.5	2.7	2.6	2.5		
	Hungary			1.7	2.3	1.7	2.3	2.6	2.2	2.2	2.1		
Other Countries		1.5	4.5					25.1	34.4	30.3			
of wh.	China			9.8	3.5	4.9	5.7	5.3	7.7	6.1	5.8	7.1	
	Turkey			4	1.8	1.1	3.4	2.8	4.7	5.8	5.5	6.0	
Total		100	100					100	100	100.8			

Sources: A. Vavilov and O. V'iugin, 'Trade Patterns of former Soviet republics after integration into the world economic system', conference paper, Laxenburg, Austria, April 1992; C. Michalopoulos and D. G. Tarr, ch. 1 of *Trade in the New Independent States* , World Bank, 1994*;* TACIS-UEPLAC, *Ukrainian Economic Trends,* March 1998, *p. 72;* Derzhkomstat Ukrayini, *Zovnishnia torhivlia Ukrayini tovarami u 1997 rotsi* and *Zovnishnia torhivlia Ukrayini tovarami* i *posluhami za 9 misiatsiv 1998 roku; Press-Informatsiia no. 116* of 16 March 1999; Interfax, 11 February 2000*.*

Note: For 1924 and 1987, data in 1987 domestic prices; for 1993 ff. in current prices.

Table 5b

Geographical composition of merchandise trade

Imports (share in %)

Country or Area		***1924***	***1987***	***1992***	***1993***	***1994***	***1995***	***1996***	**1997**	**1-9.1998**	**1998**	**1-9.1999**	**1999**
Russia		83.9	53.7	54.8	52.4	59.1	51.4	50.1	45.8	47.7	48.1	46.8	47.4
All other FSU republics		6.9	18.0		36.9	17.2	15.9	20.4	11.9	5.4	8.3		
of wh.	Turkmenistan			3.2	14.0	6.4	4.2	8.8	5.7	0	0	8.3	
	Belarus			5.4	3.0	3.2	3.3	2.2	2.3	2.3	2.4	2.9	
	Baltics	0.1	3.7	3.2	14.0	6.4	4.2	8.8	2.3	2.9	2.6		
EU		4.1	8.0		9.8	16.9	15.6	17.4	19.9	22.4			
of wh.	Germany			4.2	4.8	6.1	6.0	6.1	7.6	8.7	8.6	7.5	
	France			0.6	1.6	0.6	1.2	1.4	1.8	2.2	2.1	1.8	
	Britain							1.0	1.4	1.3	1.4		
	Italy			3.4	1.0	1.2	1.7	1.8	2.3	2.7	2.8	2.3	
USA		2.5	0.7	1.5	2.3	2.0	2.6	3.2	3.8	4.4	4.0		
Eastern Europe		0.8	13.1					6.5	8.8	8.7			
of wh.	Poland			1.5	0.8	1.1	3.0	2.9	3.2	3.4	3.3	2.2	
	Hungary			1.7	1.2	0.9	1.1	1.4	1.2	1.4	1.3		
Other Countries		1.7	6.5					5.7	6.7	7.7			
of wh.	China		0.7	1.3	0.6	0.3	0.5	0.5	0.7	0.8	0.8		
	Turkey		1.0	0.4	0.1	0.1	0.4	0.6	0.9	0.9	0.9		
Total		100	100					100	100	100			

Sources: A. Vavilov and O. V'iugin, 'Trade Patterns of former Soviet republics after integration into the world economic system', conference paper, Laxenburg, Austria, April 1992; C. Michalopoulos and D. G. Tarr, ch. 1 of *Trade in the New Independent States* , World Bank, 1994*;* TACIS-UEPLAC, *Ukrainian Economic Trends,* March 1998, *p. 72;* Derzhkomstat Ukrayini, *Zovnishnia torhivlia Ukrayini tovarami u 1997 rotsi* and *Zovnishnia torhivlia Ukrayini tovarami* i *posluhami za 9 misiatsiv 1998 roku; Press-Informatsiia no. 116* of 16 March 1999; Interfax, 11 February 2000*.*

Note: For 1924 and 1987, data in 1987 domestic prices; for 1993 ff. in current prices.

Table 6

Ukraine: Structure of industry

shares in per cent, international prices, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1999 output as % of 1990 output
Electric Power	7.3	7.7	8.5	9.8	12.7	14.4	15.9	15.8	16	16.2	*57.9*
Oil & Gas	9.5	9.9	8.4	7.7	9.1	10.4	10.8	10.7	11.3	10.2	*28.0*
Coal	7.0	6.6	7.8	8.3	10.2	10.3	10.1	11.5	12.1	11.6	*43.3*
Metals	14.4	13.6	15.0	14.6	15.6	18.3	21.8	25.1	24.5	26	*47.1*
Machinery	29.9	30.3	28.7	27.8	18.8	14.1	10.0	9.1	9.6	8.3	*7.2*
Food	14.0	14.0	13.4	14.4	17.0	17.5	17.0	13.6	12.7	13.3	*24.8*
Other*	17.9	17.9	18.1	17.3	16.1	14.9	14.3	14.2	13.8	14.4	*21.0*
Industrial Output Index	100	97.9	73.0	57.6	39.2	32.9	28.1	27.5	26.5	26.1	

*incl. chemicals and petrochemicals, forest products, construction materials, light industry and the medical industry.

Source: UEPLAC, *Ukrainian Economic Trends, December 1999* , table 1.4.

Table 7

Ukraine: Structure of GDP, 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Change in Share, 1990-98
GDP	100	100	100	100	100	100	100	100	100	
of which:										
Industry	34.5	45.8	44.6	27.6	35.0	31.0	27.5	24.6	24.6	-9.9
Construction	8.1				7.4	6.9	5.9	5.2	4.9	-3.2
Agriculture incl. forestry	24.5	24.4	20.8	16.0	14.6	13.8	12.2	12.5	11.8	-12.7
Services, of which	28.6				32.7	37.7	42.9	44.6	44.4	15.8
Transportation and Communications	7.3				8.1	12.0	13.2	12.6	13.5	6.2
Trade	5.3				7.3	6.9	7.0	9.2	7.7	2.4
Other	16.2				23.0	21.1	24.0	23.9	24.9	8.7
Financial intermediation indirectly measured	-0.2				-5.7	-2.3	-1.3	-1.1	-1.7	

Sources: WIIW, *Countries in Transition 1999,* p. 131; EBRD, *Transition Report 1999*, p. 281; Derzhavnyi Komitet Statistiki, *Ukrayina v tsifrakh 1997*, p. 14.

Note: Columns sum to less than GDP because taxes on products and imports, plus subsidies on products are first subtracted.

Table 8

Ukraine: Structure and levels of employment, 1990-1997

A. Shares in Total Official Employment:	**1990**	**1995**	**1996**	**1997**	***Change in % points, 1997 over 1990***
Industry	31	24.5	22.8	22.1	*-8.9*
Construction	9.6	6.3	6	5.8	*-3.8*
Agriculture, incl. plots	19.4	22.4	22	22.1	*2.7*
Services	40.1	40.3	38	39.4	*-0.7*
of which Transport and Communications	7.1	6.3	6	5.8	*-1.3*
of which Trade	7.5	6.7	6.5	6.6	*-0.9*
of which Other	25.5	23.9	25.5	27	*1.5*
incl. Communal Services	3.9	3.4	3.4	3.6	*-0.3*
Health and Social Welfare	5.9	6.3	6.5	6.6	*0.7*
Education and Culture	11.8	11	10.8	10.6	*-1.2*
Finance, Insurance, RE	0.4	0.8	0.9	0.9	*0.5*
Government Administration	1.6	0.3	3	3.1	*1.5*
Other	2.0	2.1	0.9	2.2	*0.2*
Other kinds of economic activity [incl. mixed]	0.0	5.9	9.9	10.6	*10.6*
B. Total Official Employment, full or part time, ths.	25400	23726	23232	22598	
of which in Industry, ths	7768	5800	5300	5016	
UEPLAC adjusted full-time employment in industry		3448	3027	2727	
Total official unemployment, ILO methodology, ths, reg.,	0	126.9	351.1	637.1	

Sources: Derzhkomstat Ukrayini, Ukrayina v 1997 g.; Pro sotsial'no-ekonomichne stanovishche Ukrayini za 9 m. 1998; WIIW, Countries in Transition 1998; UEPLAC, Ukrainian Economic Trends, Sept. 1998, p. 28 and June 1999, p. 22.

Note: percentage shares are calculated on Derzhkomstat official labour force survey data, which count as employed persons on enterprise payrolls working 4 or more hours, irrespective of wages actually paid (vyplacheny); also employed are plot workers working 30 hours or more, and the self-employed.

Table 9

Ukraine: the Energy Sector

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total primary energy supply, mtoe, IEA		252.6	250.6	219.9	193.7	165.1	161	150.9			
Index (1990=100)		100	99.2	87.1	76.7	65.4	63.7				
Primary energy production, mtoe, WB		116.8	116.8	97	88.4	78.8	73.1	69.8	70.9	71.5	
Energy equiv. of mineral production in conventional fuel units of 7000 Kkal	*190.6 in 85*	163.1					90.8	81.2			
Primary energy import, mtoe, WB		150.6	145.1	121.9	98.1	84.8	87.2	81.1	72.3	64.5	
Primary energy export, mtoe, WB		28.3	18.8	11.5	3.2	4.3	3.6	3.5	3.5	3.5	
Primary energy consumption, mtoe		239	228.4	207.5	183.4	159.3	156.6	147.3	139.8	132.6	
Index of primary energy cons., 1990=100		100	95.6	86.8	76.7	66.7	65.5	61.6	58.5	55.5	
Primary energy consumption, mtoe, govt projection 'Energy 2010'		530.5					174				
Energy use in production (excl. households), mtoe		325.9					186.1	168.3	160.9		
Crude and condensate production, mn t	5.4	5.3	4.9	4.5	4.2	4.2	4.0	4.1	4.1	3.9	3.8
Crude oil consumption, mn t, WB etc.		61.1	62	58.9	50.9		20.3	13.31169	13	13.8	
Crude oil imports, mn t, WB		54.3	49.6	35.3	19.7	15.5	13.3	9.2	8.9	9.9	
Crude oil imports from Russia, mn t		51	45	33.5	19	15					
World price of FSU crude, $/t	112.5	133.2	125.8	119.4	105.7	94.7	101	131	143	75.9	105.1
Value of import volume at price, redo!!	5.2	6.36	7.15	5.8	4.07	2.08	1.486				
Russian export price to CIS, $/t, RET								89.85	102.7	79.63	64.4
Import price charged, $/t	2.8	3.4	4	6.5	80.7	92	101.1	106			
Unit price of imported crude, $/t, IMF data							85.6	100.5	112.4		
Value of imported energy, Derzhk. Data, $ bn								8.407	7.27		7.55j-nov
Value of imported crude oil, IMF data, $ bn						1.422	0.95	0.935	1.012		
Imports of petroleum products, mn t, WB		11.5	13.1	5	6.2	6.5	9.5	6.0	5.9	5.0	
Import price charged, $/t					98.4	142.1	192.8	192.6			
Value of imported refinery products, IMF, $ bn						1.365	0.837	0.963	1.201		
Natural gas production, domestic, bcm		27.8	22	20.9	19.2	18.3	18.2	18.4	18.1	17.9	18
Natural gas imports, bcm		87.3	89.5	89.1	79.8	69.2	64.5	71.2	62.4	53.5	62
Gas imports from Russia, bcm				67	54.3	57.2	53.5	51.2	49.4	47	50
Gas imports from Turkmenistan, bcm					25.5	12.0	12.9	20	11	6.5	11
Natural gas consumption, bcm		115					82.7	89.6	80.5	71.4	80
World price of FSU gas, $/th cm	.	77.5	77.5	75.1	83.5	69.2	66.3	71.2			59.9 nov
Russian export price to CIS, $/tcm, RET								72.3	71.0	64.15	
Import price charged, $/th cm			2.5	9.3	49.8	50.8	54.9	80	82.4	65.8	
Average import price, UAH/th cm								146.35	147.65	170.3 jan-sep avg	

(Table 9 ctd.)

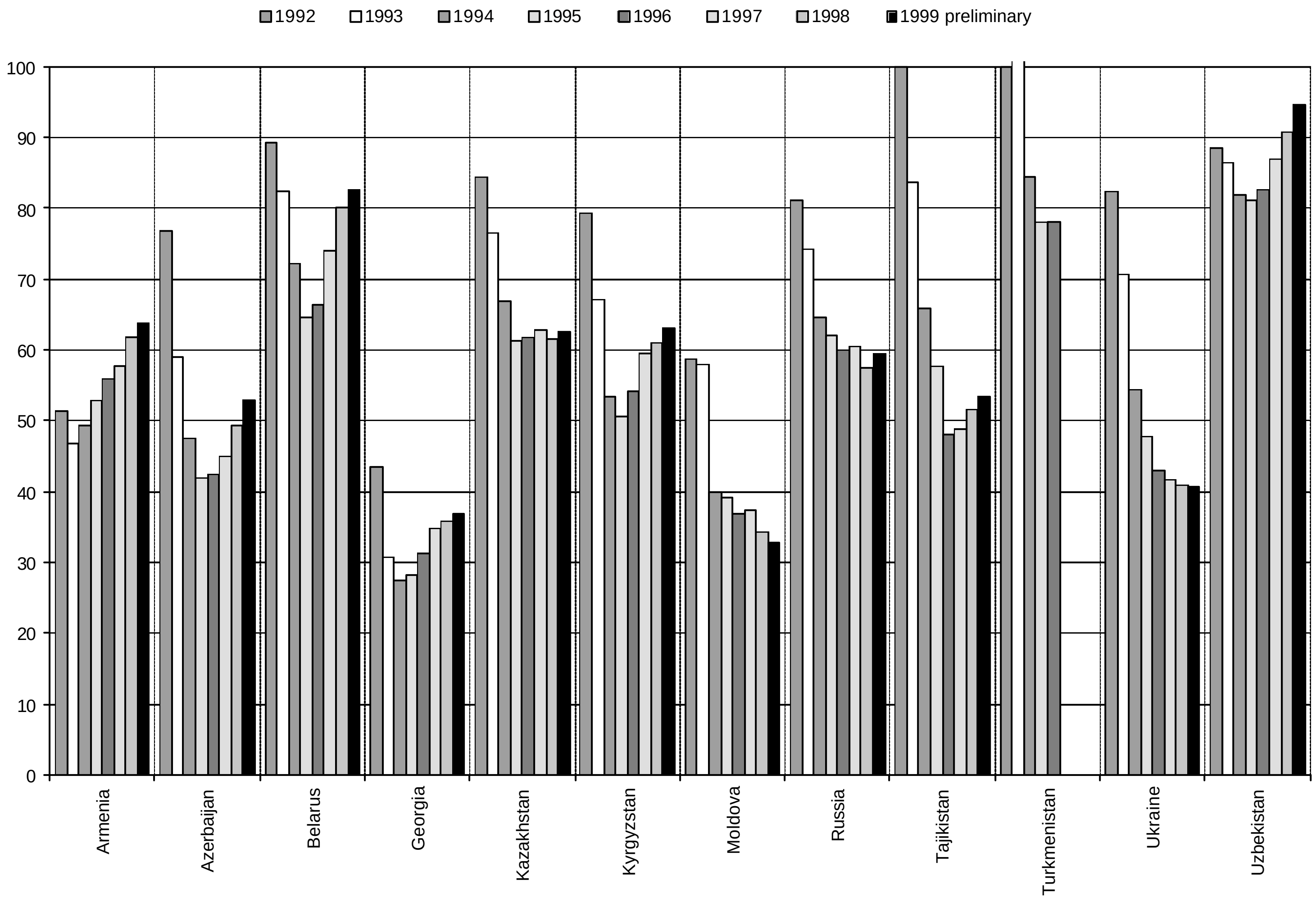
Table 9

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Value of gas import volume at world price, $ bn		6.8	7.1	6.73	6.67	5.22					
Fuel import volumes at world prices, $ bn		13.9	12.9	23.7	8.75	6.7					
Value of imported gas, IMF data, $ bn						3.518	3.544	5.707	4.989		
Volume of gas transit, bcm									108	114	124
Pipeline fees earned, $ bn	. .	.	.	.		1.25	1.32	2.96		30bcmworth	31.5 bcm
Value of energy imports from CIS, fob, bop statistics, $ bn	.						6.707	8.068	7.714	5.801	
Oil + gas imports, US$ bn, Derzhkomstat statistics (customs basis)											7.55 JaNov
Import prices charged				1.78	1.08	5.9 5.64	5.27				
Oil and gas imports at prices charged as % of exports											
as % of total goods exports			3.8	12	52	47	51.1	56	54.2	68.5	
Non-FSU goods exports, $ bn		13500	4800	3774	3223	4686	5531				
Total goods exports, $ bn	.	.		11308	10481	11305	12289				
Electricity generation, TWh, CIS data		296.3	279	253	230	203	194	183	178	173.0	171
of wh. from nuclear power plants		76.2					70.5	79.6	79.4		
Electricity consumption, TWh		268.3	262.5	246.3	227.2	200.6	190	178	175.6		
Index (1990=100)		100	97.8	91.8	84.7	74.8	70.8	*66.8*		*61.0*	
Electricity production, TWh		298	279	253	230	203	194	183	176	172.4	
Washed coal production, mn t	.	130.7	108.7	105.4	91	75.9	65.6	54.3	58.5	60.6	62.7
Coal imports, mn t								9.9	7.01		

Sources: World Bank, Kyiv, February 1996, Part II, 'The Energy Sector'; IMF, International Energy Agency, Survey of Energy Policies in Ukraine, 1996; SPRU Report to the EBRD (Surrey Report), Feb. 1997; IMF, Recent Economic Developments, 16 March 1999; Derzhkomstat, Zovnishnia torhivlia tovarami u 1997 rotsi, Kiev 1998.

Figure 1

Real GDP in the CIS, 1990 - 1999
(1990 = 100)



Helen Boss

Commonwealth of Independent States (CIS)

Summary

The financial crisis that began with the crash of the Russian rouble in August 1998 had severe contagion effects in the rest of the CIS, but they appear to be abating. Most states achieved positive GDP growth in 1999. Political developments in Russia, Ukraine and elsewhere augur well for a new if unspectacular effort at budget-hardening reform, necessary to prevent further marginalization of the region. Caspian oil and gas projects may pick up steam in 2000-01, given the turnaround in energy prices.

1 Political developments generally favourable at century's end

To worldwide relief, the millennium bug did not plunge the CIS into darkness, cause trains to derail or missiles to be launched at midnight on 31 December 1999. Instead, Russia's President Boris Yeltsin scored a brilliant PR coup by announcing his resignation to the world, stepping down voluntarily in favour of his dynamic, tough-talking and healthy prime minister/designated heir-apparent, Vladimir Putin. It was a dramatic, legal, popular and highly statesmanlike gesture that gave Russians, and by extension citizens of neighbouring CIS states, something to celebrate at the end of a hard decade.

The mainly positive political achievements of Russia and the other CIS states appear secure at the dawn of the new century. These include greatly diminished hostility to the west, an end to the Cold War, peaceful establishment of inter-republican borders as state boundaries (with a few exceptions, and the war over Chechnya within territorial Russia), contested elections whose results if not campaigns have been passed as more or less fair by the OSCE (again with some fairly egregious exceptions in Turkmenistan, Uzbekistan and Belarus), control of political terrorism, and much increased freedoms of speech, movement, association and enterprise.

The economic achievements are mostly negative. The financial crisis that began with the crash of the Russian rouble in August 1998 had severe contagion effects in the rest of the CIS, which are still being felt. However the severity, suddenness and embarrassment of the economic setback appears to have woken up a new swathe of public opinion to the need for real as opposed to 'virtual' reform, and this is bearing political fruit. Communists, agrarians and even Yevgeni Primakov made a poor showing in Russia's December parliamentary elections, and Vladimir Putin is expected to win by a landslide over his communist challenger Zyuganov in March thanks to the Chechen 'victory' and some possibly cosmetic but popular moves against Yeltsin's 'family'. Unpopular incumbent

Leonid Kuchma trounced the old-style head of the Ukrainian communist party in the run-off for the presidency in November 1999, and celebrated by appointing leading reformers to key economic posts and announcing a referendum designed to end the stalemate with parliament. Kazakstan's long-term strongman Nazarbayev easily won a third term in January 2000, as did Uzbekistan's Karimov. Azerbaijan's ageing strongman Aliyev has just fired top energy barons for corruption. The need to satisfy Vladimir Putin rather than Boris Yeltsin may push Belarus's pariah slavophile Lukashenka, who is no longer welcome as head of state in the west since his mandate expired in July 1999, towards adopting some more respectable economic and human rights' policies. Uzbekistan too may finally be forced to abandon its Soviet-style industrial policy *cum* exchange controls, after several years of promising to do so. Particularly Russia and Ukraine, but also several of the other CIS states, thus appear to have entered the new century led by politicians with increased constitutional strength and/or parliamentary support, which will be useful in beginning to deal with the accumulated mass of old and new economic problems. If they do not make something of the new chances, their economies will be ever more marginalized in the new Europe and Asia of the 21st century.

2 Output stabilizes in 1999 after 40% fall

The CIS economic record since 1991 is that of the deepest economic depression and peacetime fall in living standards ever recorded. Poor initial conditions combined with weak and ill-considered policies to produce a toxic mixture. The falls in output, industrial production and interstate trade were far deeper and more intractable than just about anyone but the worst 'elasticity pessimists' predicted at the time of the breakup of the USSR. Though the lion's share of the declines occurred in the first three years of CIS existence, flat to down results 1995 ff. and the additional shock of the August 1998 financial crisis made for a situation in which CIS 1999 GDP was only a shade above 40% of the 1991 level, and industrial production just over half of it.

The people have been patient. Before the Russian devaluation lowered real incomes still further, 142 million people in the CIS, half the population, lived on less than USD 4 per day, the World Bank definition of poverty, cf. 10 million in the late 1980s. Inequality rose sharply.

But as Pigou remarked, economies do not fall to zero. The year 1999 looks to have marked a turning point in the CIS. Of countries which have reported preliminary economic results for 1999, only Moldova and Ukraine have minuses in the GDP column. In all member states GDP and industrial production turned out considerably stronger than forecast at the start of the year, when the Russian financial crisis weighed heaviest on expectations and output. Year-on-year comparisons will not look so favourable in 2000 owing to the higher base, however, and several prominent Russian economists are warning that Russian industry's strong recovery could be a one-off unless budgets are hardened and flight capital and foreign investment begin to return.

On the EBRD's transition indicators index published in November 1999, Russia, Kyrgyzstan, Uzbekistan, Kazakhstan and Belarus regressed cf. their scores in the previous year, mainly because of new trade restrictions, but in Russia's case, on account of worse performance on corporate governance and enterprise restructuring.

Massive devaluation is the favourite explanation for the improved output and industrial production figures for 1999. Between August 1998 and January 2000, the Russian rouble fell against the US dollar by over 75%, the Ukrainian hryvnia by 64%, the Kazak tenge 45%; in Uzbekistan the black market rate fell 80% and widened its spread over the official rate to 5.5 to 1.

Recovery in Asia, OPEC production cuts, and growth in Europe boosted export volumes and helped double the price of oil during the course of 1999, pushing Russia's current account back into strong surplus. The soaring cost in domestic prices of imported food and consumer goods helped local industries regain market share, though it remains to be seen how competitive these industries will be should real exchange rates creep back up and/or should producers have to pay their energy bills and taxes in full. The short-term effect on demand for locally-made cars, appliances and food has nevertheless been positive. CIS factories insofar as they have not rusted away mostly have vast excess capacity. According to a McKinsey report on Russian industry published in September 1999, given freedom from government interference, output could rise a good deal further in many sectors with only modest investments.

Recorded agricultural production has yet to benefit much from import substitution, being too unreformed to respond. The 1999 grain harvest was good in Kazakstan and up 13% in Russia thanks to weather factors, but disastrously bad in Ukraine for a second year running. Agricultural enterprises are charged up to twice world prices for inputs because of the high risk of non-payment, and get below-world prices for their outputs because they are in hock to monopsonist para-state trading organizations. Many rural areas rarely see cash money, surviving on produce grown on private plots and bartering with state bodies for fuel and fertilizer. Sale of agricultural land in CIS states is prohibited either de facto or de jure. Ukraine in December 1999 announced ambitious plans to reform its agro-industrial complex by disbanding kolkhozes and distributing assets to members 'on the basis of private land ownership', though so far without mentioning the right to pledge land as collateral, the key to attracting finance to the sector.

Russia's comparative advantage is decidedly not in food production, yet it puts myriad restrictions on Ukrainian and Belarusian exports of sugar and other products. Russia has shown disinterest in lowering trade barriers with CIS partners on the argument that import duties, VAT on exports and the various export duties on energy products are keys to balancing its budget. However that may be, Russia's food producers derive extra protection from this regime at its trading partners' expense, over and above that provided by the fallen rouble.

3 Corruption as a factor in poor economic performance

The Russian débâcle of August 1998 led to soul-searching and finger-pointing among transition economists and politicians. Though macro stabilization remains a necessary if not sufficient condition for structural reform, analysis has shifted towards factors which sabotaged the latter and fed back negatively on stabilization itself. Budgets of central and local governments and of factories and energy utilities failed to harden adequately despite tightish monetary policies, sequestration, nominal privatization of many state assets, nominal laws on sale of land and on bankruptcy, and promises to eliminate 'directed credits' and subsidies to the 'national economy'. In spite of IMF-mandated increases in apartment rents and utility rates in the direction of full cost recovery, households' payment discipline also stayed weak, in part because they did not receive cash wages or pensions on time from factories or budget organizations. Many new firms operated entirely in the 'shadows', paying neither taxes nor rates but rather bribes to inspectors. Non-payment and non-cash payment (payment in goods [barter], vouchers or tax offsets) sprang up in place of the cross-subsidies that were the essence of price-formation and investment policy under socialism. The typical CIS economy was less 'liberalized' than it claimed or looked on paper – it was a stagnating 'hybrid' of the system built up under Stalin and Brezhnev, rather than an economy 'in transition to' a mixed market economy.

Explanations of the failure to undertake or implement budget-hardening policies have focused on the notion of 'social capital'. CIS states were said to be poorly endowed with growth-enhancing varieties of social capital at the start of their transitions; their social capital was of necessity marked by history, by the countries' religious, tsarist-authoritarian or communist-totalitarian past; events since 1991 had been too few or too unradical to 'devalue' it. In the old kind of social capital in an authoritarian shortage economy, 'connections' were everything and one was mad not to try to negotiate special treatment.

Policies adopted in the first years of transition were said to have left many transition countries with the worst of both worlds. Agents with vested interests in rust-belt industries, oil and gas, and agriculture managed to solidify control over monopoly rents without acquiring concomitant feelings of duty or fear of sanction if they failed to fulfil contracts or pay workers, bills or taxes. These business groups then spent some of their monopoly rents on 'capturing' the state. Many functionaries remained the same communist bureaucrats who had run the planning system. Even the uncorrupt ones tended to see their role as trouble-shooting resource bottlenecks (the shortage economy's 'shortages') and the handing out of favours and exemptions to priority firms, rather than letting the market do that. The more corrupt ones just wanted their cut of the rents.

Many CIS states thus find themselves in the bottom decile worldwide on Transparency International's 1999 corruption index. The EBRD-WB Business Environment and Enterprise Performance Survey of over 3000 enterprise directors in 20 transition countries finds CIS states have a high degree of 'capture': 'oligarchs' and 'red directors' have been able to 'buy' favours such as exemptions from taxes, customs and excise duties, as well as non-tariff regulations such as certification requirements which protect them from foreign competition. In Ukraine in the first nine months of 1999 the value of tax exemptions was estimated by the then-head of the national bank, now prime minister Yushchenko to be equal to actual tax revenue. These practices complicate tax collection and stabilization whilst skewing taxes to fall hardest on firms least able to resist, such as start-ups and multinationals, reducing public support for reform and alienating foreign investors. The BEEPS survey found for example that the 'bribe tax' averaged 6.6% of annual firm revenues in Azerbaijan and 8.1% in Georgia, vs. 2.5% in Poland.

Estimates of capital flight from Russia range from USD 5-22 bn per year, vs. a cumulative FDI of under USD 11 bn. Cumulative capital flight in the CIS may exceed cumulative FDI by as much as 10 to 1.

4 Interstate trade plunges as centrifugal forces accelerate

The rouble's precipitous over 70% devaluation against western currencies after August 1998 and the subsequent drying-up of trade and bank finance led to a sharp drop in Russia's imports not only from the west but also from its ex-Soviet neighbours, who devalued much less initially in efforts to protect their economies and reputations from the Russian contagion. The negative impact on intra-CIS trade turnover continued to be felt throughout 1999. Russia's imports from the CIS were about half their comparable 1998 level in the first half of 1999. Naturally the other states' exports reflected this, Kazakstan's and Moldova's the most. As of August, the latest date for CIS-wide numbers, year-to-date merchandise trade turnover of the CIS as a whole was down 33% year-on-year.

These depressing results became somewhat less miserable as the year progressed, as other states which had lost Russian sales began to devalue more radically in consequence, and as stronger industrial demand in Russia, much higher oil and gas earnings and a rouble that strengthened a bit in real terms boosted Russia's purchasing power over CIS goods. Russia has reported its official, non-shuttle imports from the CIS for the year to be down 23%; Ukraine's results for January-November 1999 to the CIS were down about a quarter cf. January-November 1998.

This represents an acceleration of a general pattern of reorientation to the rest of the world visible since 1992. The chance to be paid in real money in the far abroad continues to disrupt the old Soviet inter-industrial links, many of which involved value-subtraction. Barter transactions that cross borders have diminished as fractions of Russian and Ukrainian exports, though Ukraine's export of transit services to Russia for pumping Russian oil and gas to the west was paid to state trading organization Naftohaz in gas, not money, in 1999. Russia's reorientation is the most striking: the other republics provided 57.6% of Russian merchandise imports in 1990, but only 27.8% in 1999. Russia has sent over 80% of its goods exports to the far abroad since about 1994, vs. 39% in 1990 (at commercial exchange rates). The other states have also reoriented to the far abroad, though their ROW trade shares are much lower than Russia's on account of the weight of oil and gas trade with big Brother.

5 The CIS and other regional institutions remain ineffective

The CIS has maintained its reputation as a toothless institution designed to provide a forum for a 'civilized divorce' between the states. In 1999 given the bomb attacks in Tashkent, Moscow and other Russian cities, the hostage incident in Kyrgyzstan, the machine-gun assassinations of the Armenian PM and other members of the government in the national assembly, and Russia's 'final solution' in Chechnya, it more or less ceased dealing with economic matters and became a talk shop on terrorism for top officials. Kazakstani president Nazarbayev complained at the Astana summit in September 1999 that out of 3000 documents signed within the CIS framework since 1991, a mere 5% to 10% were being implemented. Acting Russian president Putin focused on the terrorist theme at the January 2000 summit in Moscow, barely touching upon economic matters except to record Russian disinterest in free trade.

The reason for Russia's hesitation is the same one that motivated the disintegration of the USSR: money. In 1992 the former Soviet unified economic space and rouble zone broke down because Russia took measures to prevent the republics' buying Russian products on the cheap with bogus credit roubles. Russia of course did not get all that tough; it has continued to tolerate the republics' late, non- or rescheduled payment for energy, despite e.g. cutting off Moldova in 1999. Russia's deputy minister for CIS affairs in November 1999 said free trade with the CIS could cost Russia USD 300 mn and conceivably as much as USD 2 bn per annum, owing to the extra smuggling.

However a more liberal line on tariffs and quotas would play well with the WTO, which all the CIS states desire to join. Bilateral and regional agreements are discouraged under WTO rules as they tend to violate MFN principles by being ad hoc, non-transparent and discriminatory. Some Russian analysts have argued that Russia should change its tune on free trade with the CIS to help its WTO application and improve its reputation in the international community, still much tarnished by the scandals surrounding the August 1998 default.

Movement of persons is subject to increasing restriction within the region and between it and Europe. EU accession countries like the Czech and Slovak Republics and Poland have stepped up visa requirements for visitors and shuttle traders from the CIS, in a bid to reassure Brussels. Demographic analysis suggests that up to 10 million Russians may have left to work abroad legally or illegally. The CIS countries are following up the visa theme, against each other, citing terrorism and organized crime. Uzbekistan in January 2000 announced that transit visas would be needed by citizens of the Customs Union, to combat drug and other smuggling; Russia has announced similar restrictions.

Russia is by no means the only protectionist in region. Uzbekistan's regime is one of the most restrictive in the world (but similar to Turkmenistan's), with the government aiming to preserve total control over access to foreign exchange in order to avoid 'wasting' it on consumer goods and to keep it for Daewoo electronics factories and other 'critical' imports. Official promises to repeal the system 'next year' have been heard since 1996, and IFIs and foreign investors have lost patience.

Of the CIS-wide and bilateral institutions, only the Customs Union involving Russia, Belarus, Kazakstan, Kyrgyzstan and Tajikistan had much operationality, but it never could agree on a common external tariff, and the whole agreement almost disintegrated under beggar-thy-neighbour restrictions in 1999. A 'problem' was that CU member Kyrgyzstan was accepted into the WTO in late 1998, having made major concessions on trade restrictions affecting goods and services. Foreign consumer goods flooded into Kyrgyzstan and thence via the free-trade agreement with Kazakstan into the latter, which at the time was attempting to insulate the tenge against the Russian contagion, and thus was also seeing its industries out-competed by Russian imports. Kazakstan parried the double blow by erecting a slew of barriers to imports despite the CU agreement, including an import ban on selected Russian foodstuffs and durables and 200% tariffs on similar items from Kyrgyzstan and Uzbekistan; those against Uzbekistan remain in place.

Though Moldova was described as on the point of being accepted in December 1999, the other CIS states are not expected to negotiate their way through the mammoth list of WTO conditions any time soon. Subsidies to agriculture, both explicit and implicit via tolerance of arrears, are a major stumbling block. Restrictions on foreign firms' rights to compete on local markets for services such as telecoms, banking and insurance, and to compete for government procurement contracts are among the others. That the removal of local restrictions would enable better firms to raise output sharply at low capital cost, and the others to exit, is a key conclusion of McKinsey's 1999 study of Russian industry, surely valid for the rest of the CIS.

The Russian-Belarusian Union Treaty was finally signed in December 1999, but again, what it may mean in terms of economic policy is far from clear. The document was finalized, after some humiliating delays during which Yeltsin met Kuchma but was too busy or sick with pneumonia to see Lukashenka, on the eight-year anniversary of what to the latter is the infamous Belovezhkoe accord which disbanded the USSR. However the poor showing of communists in Russia's mid-December parliamentary elections and Yeltsin's surprise resignation on New Year's Eve has left the project without strong sponsors on the Russian side, even though acting president Putin on 26 January signed it into force.

The treaty is a statement of mutual intent to harmonize, over a 7-10 year period, the two states' currencies, tax and banking systems, and laws on FDI, and to create 'common' energy and transport systems, without infringing on either nation's 'sovereignty'. But as in earlier years, Russia has little interest in subsidizing unreformed and inflation-ridden Belarus, in return for not much more than another two sets of parliamentarians, Slavic pride and easier access to the Polish border. Leonid Kuchma ridiculed the suggestion that Ukraine might wish to consider joining such a project; his opponent was forced to water down his own statement of interest in it. The election outcome appears to confirm Ukrainians' satisfaction with their independent statehood, their wish not to harm chances for closer ties with Europe whenever economic reforms allow, and their low expectations of benefits to be had from 'Slavic associations'.

6 Ongoing marginalization of Central Asia and the Caucasus as resource projects lag

A pattern discernible since 1992 has been marginalization of the former Soviet 'south': Central Asia and the Caucasus. Tiny Moldova has also done abysmally and suffered greatly in the Russian crash. The smaller, more remote states such as Kyrgyzstan, Georgia, Armenia and, unsurprisingly, land-locked and war-torn Tajikistan have suffered devastating cumulative GDP drops. Uzbekistan had high hopes of a boom in investment from Korean and Malaysian multinationals, but these were shelved in the Asian crisis, which brought many high-profile sponsors like Daewoo to near-bankruptcy.

With oil prices at USD 10 a barrel and the Chechen and other conflicts making infrastructure look vulnerable throughout the region, many projects were put on the back burner. But with oil closer to USD 29 in January 2000, interest is reviving in the various exploration, production and pipeline projects in the Caspian Sea and the onshore fields around it. The 'early oil' rail and pipeline routes from Azerbaijan to Supsa and Poti on Georgia's Black Sea coast are sufficient for current volumes, and could link up with the Ceyhan pipeline if it is ever built. Both the US and the EU support multiple export routes from the Caspian oil and gas basin to western markets, i.e. alternatives to the present Russian-dominated routes: the pipeline terminating in Novorossiisk (which used to supply the Grozny refinery), and the expensive rail route across Russia from Astrakhan to the Baltic ports. The present US government remains adamant about excluding Iran from any long-term solution, though the southern route to the Persian Gulf is obviously the shortest and cheapest. Export capacity on the route across Russia is due to increase from mid-2001, when the CPC consortium of Chevron, other western majors, the Kazakstani national company and Lukoil-Arco are scheduled to open a long-awaited 35 mn t/yr capacity pipeline linking the giant Tengiz field in northwest Kazakstan to a new port in Novorossiisk on Russia's Black Sea coast. Turkey is concerned about the extra traffic through the Bosphorus and is lobbying hard for an alternative to the CPC that would bypass the straits and go overland to the southern Mediterranean. Negotiations are being held on funding and security for a 1730-km pipeline from Baku through Tbilisi to Ceyhan. Turkey has tried for decades to begin EU membership negotiations, and may get brownie points towards that end if it shoulders a higher fraction of the cost of the Ceyhan project. BP Amoco and other oil companies have said the pipeline could cost up to USD 3.7 bn to build and to be commercially viable would need to carry one million barrels per day of crude oil. The Azeri international oil consortium is presently predicted to achieve a maximum output of no more than 800,000 bpd, raising the question of whether e.g. Kazakstan will have enough to make up the difference, given that it plans to use the CPC.

Turkmenistan is also dreaming of new routes to world markets, namely a trans-Caspian undersea gas pipeline to Turkey via Azerbaijan and Georgia. At present it is almost entirely dependent on Russia's pipeline system, and deadbeat Ukraine is its main customer. Though the USD 2.5-3 bn project is feasible assuming Turkey develops rapidly, financing is not in place. Russia could also get there first, its proposal being the 'Blue Stream' pipeline under the Black Sea from Novorossiisk to Turkey. The finding of additional gas reserves in Azerbaijan may also mean that the trans-Caspian Turkmen section of the line would be superfluous.

Islamic fundamentalism remains a potentially serious threat in the traditionally muslim areas of Central Asia and the Caucasus, though the Chechen war can be seen as evidence of Russian determination to prevent it whatever the cost. High birth rates and millions of unemployed young men have been the traditional recipe for problems, and Turkmenistan and Uzbekistan are additionally vulnerable in that there are no succession mechanisms in place for the time when ageing dictators Niyazov and Karimov pass from the scene. However more than a century of Russification has made vodka-drinking by men and 'European-style' labour force participation by women into basic features of the culture, especially in urban areas. Both are known for their power to inoculate against fundamentalism.

7 Demographic trends will reduce Russia's weight in coming decades

Labour forces in the CIS states shrank by some 16.2 million workers from 1991 to 1998. Electricity generation and natural gas output declined by much less than has the output of industry as a whole, down 22% and 12% vs. 50%, in the same period, evidence that the shadow economy is providing employment and generating goods and services. However small and medium-sized enterprises have not formed nearly fast enough to absorb the surplus labour, because of slow reform. This is prompting population movements.

There have been mass migrations of ethnic groups within the CIS: according to the UN High Commission for Refugees, since 1989 more than 9 mn people in the FSU have left their home cities for 'ethnic' or other reasons. At least 2 and possibly 3 million people have migrated out from one or another of the five Central Asian states since 1991, mostly to Russia. Hundreds of thousands of Russians have quit the company towns of northern and eastern Siberia. Russian demographic data indicates not only millions of 'missing' middle-aged men, due to premature deaths (though life expectancy at birth for males is up from its 1994 low), but also that over 10 million mostly young people, but also unemployed scientists from the military-industrial and medical complexes, may have left for legal or illegal employment abroad. Adding in emigration from the other republics would raise that estimate.

Low birth rates (except in Central Asia) and emigration means the already-high dependency ratios will probably worsen as the 'European' populations age and decline. According to the UN Population Division's intermediate variant, the CIS population is projected to decline by 10 mn people between 1998 and 2050, but that is because of the growth in Central Asia: Russia's population is forecast to fall by 25 mn, and Ukraine's by 11 mn.

Sources

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Table 1

Commonwealth of Independent States: Selected economic indicators 1991-1999

	Armenia	*Azerbaij.*	*Belarus*	*Georgia*	*Kazak.*	*Kyrgyz.*	*Moldova* without Dnestr	*Russia*	*Tadjik.*	*Turkmen.*	*Ukraine*	*Uzbek.*	*CIS*
Population, mn, 1 Jan. 1999	3.8	7.7	10.2	5.4	15.5	4.7	3.6	146.7	6.2	5.0	50.1	24.2	283.2
Percentage change since 1 Jan.1991	6.3	7.1	-0.3	-0.4	-7.4	7.0	-2.8	-1.2	15.0	34.3	-4.3	17.0	2.4
Population projection for 2050, UN	4.0	10.0	8.3	5.2	18.7	7.4	.	121.3	11.3	7.7	39.0	40.6	273.3
Male Life Expectancy at birth, 1997, years	67.2	65.5	62	68.5	62.8	63.3	63.5	61.8 [1998]	64.2	61.9	63.8	64.3	.
GDP at exchange rate, USD bn, 1997	1.6	3.9	13.3	5.0	22.2	1.8	1.9	436	0.9	.	50	15	551
GDP at exchange rate, USD bn, 1998	2.2	3.9	42.7	5.4	24.0	2.0	1.9	277	3.1	.	42	25	429
GDP per capita, PPP USD, 1997, UN est.	2360	1550	4850	1960	3560	2250	1500	4370	1126	2109	2190	2529	
GDP index, 1998, 1991=100, CIS est.	70.0	49.7	80.2	45.5	69.0	65.9	40.6	60.6	51.5 [4)]	.	44.8	91.1	59.5
GDP index, 1998, 1997=100, CIS est.	107.2	110	108	102.9	97.5	101.8	91.4	95.4	105.3	.	98.3	104.4	96.5
GDP index, 1999, 1998=100, CIS est.	103.1	107.4	103	103	101.7	103.6	95.6	103.2	103.7	.	99.6	104.4	102.9
GDP index, 1999, 1991=100, official forecast or estimate	72	53	84	47	70	69	57[1)]	63	53[6)]	.	45	95	.
'Non-State' incl. private sctivity as % of recorded GDP, mid-1999, EBRD est.	60	45	20	60	55	60	45	70	30	25	55	45	.
Non-State % of employment, 1998	67	54	36	72	72	76	74	62	57	55[10)]	64	72	.
State intervention index, avg. % reporting intervention across range of indicators, BEEPS	9	18	43	14	23	24	26	18	.	.	29	30	
Rank out of 99 (worst), Corruption Perceptions Index, Transparency International, October 1999	80	96	58	85	86	87	76	83	.	.	77	95	
Unrecorded GDP, % of recorded plus unrecorded, 1995, WB est.	.	60	20	62	35	.	36	33 [Ac of Sci for 9]	.	.	48	7	35
CPI change in %, 1998 over 1997 avg.	9	-1	73	4	7	12	8	28	43	.	11	.	.
CPI change in %, 1999 over 1998	0.6	-8.5	293.7	19.2	8.3	35.9	39	85.7	26.3	.	22.7	.	181

(Table 1 cont'd)

	Armenia	Azerbaij.	Belarus	Georgia	Kazak.	Kyrgyz.	Moldova without Dnestr	Russia	Tadjik.	Turkmen.	Ukraine	Uzbek.	CIS
Industrial Production, 1998, 1991=100	50	44	81	25	49	58	42	50	36	.	51	111	50
Industrial Production, 1998, 1997=100	97.5	102.2	111.0	97.3	97.9	108.3	89.0	94.8	108.1	.	98.5	105.8	97.5
Industrial Production, 1H 1999, 1H 1998=100	102.8	102	107	100.6	95.9	90	74.8	103.1	107.9	.	100.2	105.6	102.3
Industrial Production, 1999, 1998=100	105.2	103.5	109.7	104.8	102.2	98.3	91	108.1	105	.	104.3	106.1	107.0
Electric Power, 1999, bn KWh	*6.2*	*17.9*	*23.5*	*8.1*	*49.8*	*11.6*	*1.2*	*826*	*14.4*	113 [9)]	*173*	*45.9*	*1178*
Natural Gas, 1999, bn cu metres	*na*	*5.6*	*0.3*	*na*	*8.2*	*0.02*	*na*	586	*0.03*		18	*54.8*	*673*
Oil incl. condensate, 1999, mn t	*na*	*11.4*	*1.8*	*0.1*	*25.9*	*0.1*	.	305	*0.02*	.	3.8	*8.1*	*356*
Sectoral Production Indices, 1998, 1991=100:		[5)]		[5)]	[5)]					[2)]			[5)]
Electricity Generation	*53*	63	61.5	*56*	58	75	60	76	90	*93*	66	87	*74*
Fuel industry	na	62	20.9	*7*	61	25	na	69	9	*48*	49	120	*64*
Ferrous Metals	na	11	124	*13*	55	na	na	56	na	7	53	66	*60*
Non-Ferrous Metals	*65*	11	117	.	84	560	na	57	53	.	70	*100*	*59*
Chemicals and petrochemicals	*45*	17	92	*13*	12	4	na	42	8	*44*	45	67	*45*
Machinery and vehicles	*33*	32	90	*22*	20	*15*	22	38	24	*284*	32	294	*43*
Forest products	*33*	14	138	*13*	21	9	26	37	4	*56*	50	150	*41*
Building materials	*42*	40	66	*9*	10	25	27	31	5	*61*	21	56	*30*
Light industry	*41*	29	93	*5*	19	23	19	13	51	*179*	24	144	*31*
Food industry	*43*	23	100	*21*	61	26	51	51	23	*70*	46	164	*51*
Agricultural Production, all types of farm, 1998, 1991=100	127	52	75	100	55	92	63	60	59 [4)]	.	61	92	64
Agricultural Production, 1998, 1997=100	113	104	100	92	81	104	89	88	107	.	92	104	91
Cereals Production, 1997, mn t	.	1.1	6.4	.	12.3	1.7	3.2	88.5	.	.	35.4	3.8	152.4
Cereals Production, 1998, mn t	.	0.9	5.9	0.6	6.4	1.7	2.5	47.8	0.5	.	26.5		
Cereals Production, 1999 est.			6.3		15			54			24.4		
Industrial Meat Production, 1998, 1997=100	.	105	105	89	90	102	.	95	102	.	89	101	.
Freight Shipments, common carrier, excl. pipelines, mn t, 1998	12.8	35	121	24	565	13.8	8.5	1547	4.4	.	425	284	3041
Freight Shipments 1998, 1991=100	4	19	22	13	30	8	10	19	7	.	19	*68*	22
Freight Shipments, common carrier, excl. pipelines, mn t, 1H 1999	2.4	18	56	11	216	5.6	2.8	744	3.6	.	185	141	
Investment, all sources of financing, 1998, 1991=100	4 [3)]	256	49	50	13	31	14	26	33 [3)]	.	21	75	28
Investment, all sources of financing, 1998, 1997=100	.	145	116	200	113	47	99.8	93	.	.	105	115	97
Investment, all sources of financing, 1999, 1998=100	104	97	95	43	108	98	75	101	.	.	103	102	100.7
Housing Construction, sq m, 1998, 1997=100	118.7	102.2	108.3	49.9	84.9	159.9	90.6	92.7	73.7	.	90.8	118.8	.
Housing Construction, sq m, 1999, 1998=100	65.8	69.5	81.2	213.8	96.9	69.9	71.1	104.3	59.8	.	107.5	98	.
Cumulative Foreign Direct Investment 1989-late 1999, USD mn	478	2962	643.8	621	6461	396	500	10900	157	862	3100	815	27896

(Table 1 cont'd)

	Armenia	Azerbaij.	Belarus	Georgia	Kazak.	Kyrgyz.	Moldova without Dnestr	Russia	Tadjik.	Turkmen.	Ukraine	Uzbek.	CIS
Exports to Far Abroad, 1996, USD mn	157	341	1888	70	2732	112	252	70975	439	610	6996	3321	87893
Exports to CIS, 1996, USD mn	133	290	3764	129	3179	393	543	15914	331	1072	7405	890	34043
Exports to Far Abroad, 1997, USD mn	138	403	1922	102	3515	285	266	69959	473	300	8646	2688	88696
Exports to CIS, 1997, USD mn	95	378	5739	137	2982	319	608	16668	273	451	5586	1338	34574
Exports to Far Abroad, 1998, USD mn	140	374	1910	84	3239	283	203	58883	394	442	8435	2425	76812
Exports to CIS, 1998, USD mn	81	232	5160	105	2100	231	429	13667	203	152	4202	793	27355
Exports to Far Abroad, Jan.-May 1999, yoy	131	149	138	138	88	97	103	96	95	.	91	.	
Exports to CIS, Jan.-May 1999, yoy	52	58	60	59	45	84	37	61	125	.	57	.	
Exports to Far Abroad, 1999, USD mn								61000					
Exports to CIS, 1999, USD mn								10700					
Exports to Far Abroad, 1999, 1998=100						96		103.6			96.7 [8]		
Exports to CIS, 1999, 1998=100						79.6		81			75.1 [8]		
Imports from Far Abroad, 1996, USD mn	568	621	2369	416	1296	351	420	32798	286	450	6427	3195	49197
Imports from CIS, 1996, USD mn	288	340	4570	271	2945	487	652	14575	384	561	11176	1517	37766
Imports from Far Abroad, 1997, USD mn	593	443	2872	600	1969	274	567	39364	268	531	7249	3047	57777
Imports from CIS, 1997, USD mn	299	351	5817	340	2307	436	604	14203	482	652	9879	1139	36509
Imports from Far Abroad, 1998, USD mn	672	672	2995	676	2240	401	584	32703	265	530	6779	2256	50773
Imports from CIS, 1998, USD mn	230	405	5554	379	2002	440	440	11277	446	478	7897	869	30417
Imports from Far Abroad, 1999, USD mn								22600					
Imports from CIS, 1999, USD mn								8700					
Imports from Far Abroad, Jan.-May 1999, Jan.-May 1998=100	91	111	71	106	88	102	41	57	107	.	56	.	
Imports from CIS, Jan.-May 1999, Jan.-May 1998=100	87	80	65	106	76	54	49	53	89	.	57	.	
Imports from Far Abroad, 1999, 1998=100						76.4 [7]		69.1			70.6 [8]		
Imports from CIS,1999, 1998=100						57.9 [7]		77.1			84.9 [8]		

(Table 1 cont'd)

	Armenia	*Azerbaij.*	*Belarus*	*Georgia*	*Kazak.*	*Kyrgyz.*	*Moldova* **without Dnestr**	*Russia*	*Tadjik.*	*Turkmen.*	*Ukraine*	*Uzbek.*	*CIS*
'Statistical' Real Incomes, 1998, 1991=100	25	26	67	.	.	16	17	62	.	.	.	.	.
Statistical Real Incomes, 1H 1999, 1H 1998=100	114	114	93	.	.	100	76	77	.	.	87 ja-may	.	
USD wages at official exchange rate, 1998 avg., 1997=100	5200	5200	110	131	114	101	98	69	127	.	82	114	.
USD wages, June 1999	33	45	74			22	27	67	10	.	46	69	
Passenger cars per 100 families, 1998	*31*	17	36	.	23	18	19	37	14	.	31	.	
Passenger car ownership, 1998, 1991=100	*80*	106	190	.	121	86	127	195	82	*104*	155		
Change in Employment, 1991-98, ths	-320	-137	-633	-269	-1416	-35	-445	-10158	-171	.	-2695	477	-16279
Registered Unemployed, Dec.1998, ths	134	42	106	99	252	56	32	1929	54	.	1003	33	3140
Exchange Rates, national currency to USD, official, 1997 avg.	490.7	3987	26378	1.30	75.4	17.4	4.6	5.785	561	4143	1.862	66.4	.
Exchange Rates to USD, 1998 avg.	504.9	3869	48651	1.39	78.3	20.9	5.4	9.708	778	4941	2.450	94.8	.
Exchange Rates to USD, 30 June 1999	543.0	3975	259000	1.94	131	42.2	11.46	24.22	1270	.	3.950	123.6	.
Exchange Rates to USD, 7 January 2000	518.9	4373	320000	2.0	138.8	45.43	11.59	27.88	1436 [10)]	5200	5.42	140	.

Notes: n.a. means not applicable, . means no data; data in italics are for year prior to one stated. 1) 1993=100. - 2) 1996. - 3) 1994. - 4) 1992=100. - 5) 1997. - 6) 1992=100. - 7) January-October. - 8) January-November. - 9) January-December. - 10) November.

Sources: CIS Statistical Committee, Statisticheskie Biulleteni, various issues through Dec. 1999; Sodruzhestvo Nezavisimykh Gosudarstv v 1998 g.: Statisticheskii Ezhegodnik, Moscow, 1999; UN, *Human Development Report 1999;* EBRD, *Transition Reports 1997-99;* Transparency International*;* EBRD and World Bank, Business Environment and Enterprise Performance Survey, in EBRD *Transition Report 1999*; UN Population Division, 'Population of All Countries in 2050'; Reuters; Bloomberg.

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