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Statement by the Hon. **ANATOLY CHUBAIS**,
Governor of the Bank for the **RUSSIAN FEDERATION**,
at the Joint Annual Discussion

**Statement by the Hon. Anatoly Chubais ,
Governor of the Bank for the Russian Federation
at the Joint Plenary Session of the Annual Meeting of the
Board of Governors of the IMF and the IBRD**

Mr. Chairman, esteemed colleagues, Ladies and Gentlemen:

On behalf of the Government of the Russian Federation, it is my pleasure to welcome the participants and guests of the Annual Meetings. The past year has been interesting and complicated, full of important events. Our opinion is that the Bretton Woods institutions have been quite successful in addressing the challenges they have faced. A great deal has been done to maintain stability in the international monetary system and to strengthen the foundations for a healthy balanced growth worldwide, including developing countries and transition economies.

The **world economy** is to an ever increasing extent characterized by **globalization** that is a growing integration of markets for goods, services, and capital. On the one hand, it enhances the efficiency of allocation of resources globally and thus promotes economic growth. On the other hand, growing interdependence of national economies and financial markets provides for stronger requirements for the quality of domestic economic policies and sharply increases the cost of wrong decisions.

Globalization of financial markets has raised the risk of **financial and currency crises** in developing countries and transition economies. Private capital inflows have substantially boosted these countries' economic potential, but at the same they have demonstrated the vulnerability of their banking systems and the shortcomings in domestic financial regulations. Increased openness of the economy has certainly played a role too. The true causes and the mechanism of the unfolding of currency crises still remain to be analyzed. Apparently, it was not so much the actions by international foreign exchange speculators, but rather actual mistakes in economic policies that have caused crises. Thus, practically all countries whose currencies came under speculative attacks, had been running a substantial current account deficits financed by short-term private capital inflows.

It becomes increasingly important to choose the right **exchange rate arrangement** which should allow to avoid misalignments and thus prevent the national currency from turning into an attractive target for speculators. I am referring not only to the shortcomings of a unilateral peg to just one of the leading currencies, but also to the risk of excessively rigid exchange rate regimes. While the use of pegged exchange rates as nominal anchors is justified at the stage of curbing high inflation -- and Russia's own experience is a good proof -- a more flexible policy is preferable for open economies where financial stabilization has already been accomplished and economic growth has resumed. Nevertheless, too much of a generalization

is counterproductive here, and the choice in favor of one or another exchange rate regime must depend on the specific circumstances of each country.

Among other issues of the world economy I would like to mention the forthcoming inception of the Economic and Monetary Union in **Europe** and the introduction of the Euro. It is too early to discuss the exact place and role of the Euro in the international system, but in any case this event will certainly influence the development of the world economy a great deal. Russia's objective interest is to see a stable and dynamically growing Europe, so let me sincerely wish success to the European countries in their integration efforts. Probably, at the stage of introduction of the Euro the industrial countries will need to enhance coordination of their foreign exchange policies in order to avoid sharp volatility.

In the modern world, the role of **Fund surveillance** tends to increase, and I note with satisfaction that the Fund has been able to cope with the new challenges. The new focus on the soundness of banking systems was fully warranted. As for new modalities of operation, this year the IMF has already used the recently adopted emergency financing mechanism twice in its efforts to minimize the effects of currency crises.

Should the International Monetary Fund play a substantial role, it will need additional resources. In this context I welcome the compromise reached on the **Eleventh General Review of Quotas**. However, I consider the formulae used in quota calculations to be highly unfair and not reflective of the relative country positions in the world economy. Therefore, I would strongly urge the Fund members to revise these formulae as soon as possible and certainly before the next quota review.

I congratulate my colleagues for the decision on the **Special One-Time Allocation of the SDRs**. Several dozens of countries will now be able to join the SDR system. I hope that the decision taken will come into effect before too long, and members will start enjoying their new rights in the foreseeable future.

It gives me pleasure to note the progress achieved under the **IMF and World Bank's Initiative to reduce the external debt burden of poorest countries**. The first few beneficiaries to receive unprecedented international support have been identified. While welcoming a certain degree of flexibility with regard to the specific conditions of countries, I would still consider it important to maintain the basic principles and to prevent an excessive watering down of the criteria for participation in the Initiative. We presume that the costs of implementation should be shared proportionally by all groups of creditors. We are slightly concerned by the ongoing upward revision of the cost estimates and by the lack of clarity about the sources of funding.

Russia is prepared to contribute constructively to the success of the Initiative, and even to admit that in a number of cases our share in the reduction of the external debt burden will be substantially greater than the relative contribution by other creditors.

Allow me also to inform you of the Russian Government's decision to participate in the financing of the ESAF/HIPC Trust bilaterally. We agree to transfer the resources from the SCA-2 account as a grant and to make further contributions the size of which will be proportional to Russia's quota in the IMF and to the participation of other donors.

We agree that the Bretton Woods institutions should pay more attention to the issues of **good governance and corruption**. Sustained growth and social progress are impossible in the absence of an efficient and honest state which sets simple, stable and equal rules for all market participants and maintains law and order. Having made this issue one of their priorities, the Fund and the Bank must take into consideration all its aspects, ranging from promotion of economic liberalization and sound macro policies to combatting incidents of corruption and abuse of public funds. These are very delicate matters, and I hope that they will be addressed in a balanced and responsible way by treating all members equally on the basis of trust and respect for their sovereignty. The Fund and the Bank should by no means become instruments of political pressure or even competition for individual countries' markets, and it might seem that such a danger cannot be completely ruled out.

Before I conclude, let me say a few words about **Russia's** economy. We estimate that the situation has begun to improve. The protracted decline in output -- that had lasted for almost ten years -- was finally arrested, and next year we expect a resumption of economic growth. This year the rate of inflation is expected to be at the level of about 13 percent, and in 1998 -- 5-7 percent. The exchange rate of the rouble has stayed within a pre-determined band and has positively influenced inflationary expectations. A decline in interest rates is another important feature of financial stabilization. The yield on government bonds, which used to "crowd out" resources from the real sector, is now just slightly above the level of inflation.

Nevertheless, Russia's economic situation remains quite complicated. I am first of all referring to public finance. We are dissatisfied with tax collection, and on this front no sustainable turnaround has been achieved yet. Certain hopes are associated with an expeditious adoption of a new Tax Code which is meant to streamline the tax system and alleviate the tax burden on businesses. Another important area where we put great efforts covers structural reforms, especially privatization, enterprise restructuring, housing and communal services, social infrastructure, regulation of natural monopolies, and establishment of institutions of a law-governed state.

Russia is successfully implementing a three-year EFF arrangement supported by the IMF. We appreciate our fruitful relations with the Fund which greatly contribute to the success of reforms in Russia and improve investors' confidence in the Russian economy.

Russia has decided to adopt the Fund's Special Data Dissemination Standard. Of course, we will take advantage of the transition period. Hopefully, investors will give us credit for increasing the transparency of the Russian economy.

Cooperation between Russia and the World Bank has significantly improved and has good prospects. We are satisfied with the Fund-Bank interaction in the area of structural reforms. In particular, the Bank is rendering helpful assistance to us in the regulation of natural monopolies, and resolution of acute social problems. It is carrying out a number of important pilot projects in enterprise restructuring, education, health, and enhancing the Government's economic analysis capacity. We believe that the structural reforms worked out in coordination with the Bank will, in the longer run, help to restore economic growth and to maintain macroeconomic stability, as well as to improve the situation of those groups of the population who have been facing major economic hardships since the early 1990s.

Thank you for your attention.