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External Borrowing by the Baltics, Russia and Other Countries of the Former Soviet Union: Developments and Policy Issues

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Abstract

Many countries among the Baltics, Russia and other CIS states are increasingly borrowing on international capital markets, a development that generally reflects their success in achieving financial stabilization. In view of the low level of domestic saving and large capital requirements, recourse to foreign borrowing may of course generate significant benefits for these economies in transition. However, the rapid increase in external debt suggests that consideration also needs to be given to the risks from too high a dependence on foreign saving, including *inter alia* risk of the postponement of needed structural reforms.

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Summary

The different stages of transition have largely determined the nature and amount of external financing provided to the Baltics, Russia and other CIS countries during the past five years. Several characteristics of the debt of these countries stand out. First, at the end of 1996 the debt burden was not high in most of the countries. Second, the rate of increase in debt has been very high. Third, most of the outstanding stock of debt is owed by the government and is thus a budgetary liability. Fourth, sovereign external borrowing in several countries has increasingly taken the form of financing raised on private capital markets.

In addition to assessing the economy's external capacity to service debt, an analysis of the burden on the government budget for servicing total public debt, including contingent liabilities, is also required since much of the debt is public and in order to determine whether the capacity to repay external debt may be jeopardized by developments in the budget. Although external financing has significant benefits, it also entails risks. Since in many cases the funds borrowed have been used to finance current budget expenditure or to clear arrears, the increase in foreign debt often does not imply an improvement in the capacity to repay. Moreover, the ad hoc nature of borrowing may result in unanticipated large and lumpy debt-service payments, which in turn could lead to exchange rate pressures and increased costs of servicing debt.

External borrowing by the countries in this study has taken place at very low levels of domestic saving. Unless structural transformation is significantly accelerated and financial stabilization continued, domestic saving will not rise fast enough to handle simultaneously the servicing needs of foreign debt and the funding requirements for domestic investment. Coherent external borrowing strategies could ensure that the use of foreign resources is consistent with maintaining or achieving fiscal sustainability and external viability.

I. INTRODUCTION

This paper highlights some issues surrounding the sustainability of the external borrowing strategies of the Baltics, Russia and other CIS countries (B-CIS) with the aim of drawing lessons for debt management by these countries and, in particular, for future borrowing on the international capital markets. Section II reviews the amounts and sources of external financing for the fifteen B-CIS countries during 1993-96, while Section III discusses the characteristics of their external debt position at the end of 1996—five years after the break-up of the Soviet Union and roughly two years after the beginning of serious stabilization efforts in most of these countries. Section IV presents some factors that should be taken into account in evaluating the external borrowing strategies of the B-CIS countries, particularly the fiscal aspects. Section V examines some possible policy conclusions from the analysis.

A broad cautionary note should be struck at the outset: there continue to be major problems regarding the economic data available for most of the fifteen countries, although the quality varies considerably among them. Both the paucity and poor quality of the data, notably regarding external debt in the 1992–93 period, indicate that any analysis has perforce to be relatively limited in scope and interpreted with caution; in general, data for the earlier years should be seen more as indicators of broad magnitudes with an emphasis on the direction of change rather than on absolute levels.[2]

II. SOURCES OF EXTERNAL FINANCING

The different stages of transition and relative success in achieving macroeconomic stabilization have largely determined the nature and amount of external financing which has been provided to the Baltic and CIS countries during the past five years. For the countries most advanced in the transition process, significant private capital inflows generally reflect the consistent and credible progress that has been made toward financial stabilization and the introduction of structural reforms, especially the early liberalization of prices and the trade and exchange systems, as well as the privatization of land and enterprises. Countries less advanced in the transition process continue to rely much more on official disbursements and grants to meet their external financing requirements in contrast to mobilizing private capital flows, whether portfolio investments or foreign direct investment.

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[2]To start with, the data on debt obligations in 1992 are sparse and unreliable for most B-CIS countries, in part because intra-CIS obligations are generally not treated in a comprehensive or consistent manner; there are also other definitional problems with data in later years. These statistical difficulties are compounded by "guarantees" given by individual government ministries to enterprises (in 1992–93) enabling them to borrow abroad, which subsequently led to sizable budgetary payments on called–in loans and limitations on such practices in some B-CIS states.

Following the adoption by the B-CIS countries of the "zero option" agreement in 1992–93, most B-CIS countries—except Russia, which de facto inherited the external debt obligations of the USSR[3] —were left with little or no external debt.[4] Moreover, the few external debt obligations of the B-CIS countries, except Russia, consisted almost entirely of government or government-guaranteed loans; in most cases, the single largest component was debt to Russia resulting from the conversion of correspondent account balances with the Central Bank of Russia. Russia, which took over the USSR's obligations to the commercial banks of the London Club, had the only significant debt to non-official creditors. As indicated in Table 1, at end-1993—the first year for which reasonable data are available for most countries—all B-CIS countries had debt/GDP ratios at or under 20 percent, except Russia (61 percent) for the special reasons cited above, Belarus (28 percent), Kyrgyz Republic (44 percent), and Tajikistan (75 percent); in the case of the latter two countries, the ratios are high partly because of sizable obligations to Russia and, in the Kyrgyz case, borrowing from the IMF to support an early move to reforms.

During 1993–96, these countries obtained an estimated US$163 billion in total external financing (equal to less than 1.5 percent of industrial countries' exports), with Russia accounting for nearly three-fourths of this total (Table 2). On an individual basis, the countries' gross external financing requirements as a percent of GDP ranged from a peak of nearly 50 percent in Armenia to a low of about 10 percent in the Baltic states.[5] Excluding debt relief and arrears accumulation, but including foreign direct investment and drawings from the IMF, total gross capital inflows to these countries during 1993–96 amounted to around US$70 billion.

Largely owing to the substantial debt relief obtained by Russia (and Ukraine), about 40 percent of the total external financing is accounted for by debt rescheduling (Figure 1).[6] Official disbursements (excluding the IMF) and grants accounted for an estimated 21 percent of total financing. With net disbursements of US$16 billion, the IMF was the single largest

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[3]Under the "zero-option" agreement, Russia assumed all the external assets and liabilities of the USSR, although not all CIS states have so far ratified this agreement.

[4]Strictly speaking, this is not completely accurate since monetary obligations to the Central Bank of Russia resulting from the net position in the correspondent accounts of ruble area central banks were converted into government debt to Russia for most countries, usually at the time of their departure from the ruble area.

[5]Defined as the sum of the current account (excluding grants), amortization, reduction in arrears, gross capital outflows, negative errors and omissions, and increase in official reserves.

[6]In April 1996, the Paris Club agreement with Russia covered US$39 billion in debt to be repaid over 25 years with a six–year grace period. As a result, Russia's debt servicing obligations to official creditors in 1996 were reduced from US$8.5 billion to US$2 billion.

provider of new funds, representing 10 percent of total external financing received over the four year period. Total Fund credit outstanding at end-1996 amounted to SDR 12 billion and on average accounted for 22 percent of the B-CIS countries total external debt (Tables 3 and 4).[7] Private capital, including foreign direct investment, which has increased significantly over the last two years, accounted for 16 percent of the external financing for the fifteen B-CIS countries combined.

If Russia is excluded from the aggregated figures presented above, the relative importance of the various sources of financing becomes significantly different (Table 6). In particular, the share of official disbursements and grants and private capital (including foreign direct investment) in the total sources of external financing rises to 32 percent and 24 percent, respectively. It is worth noting that drawings from the Fund remain a substantial source of external financing, representing 10 percent of the total; moreover, agreements between the Fund and these countries on a financial and structural reform program have been a catalyst for mobilizing other financial flows. Finally, the combination of debt relief and the accumulation of arrears accounts for one-fourth of total financing to the B-CIS countries.

For historical reasons, during the early part of the period, notably in 1992–94, Russia was an important creditor to several CIS states in two ways. First, as mentioned earlier, for most countries the monetary obligations to the Central Bank of Russia were converted into medium-term government debt following the departure of these states from the common currency zone. Second, Russia extended trade credits to a number of CIS countries during this period to facilitate the maintenance of trade and production links. In several cases, as the debtor countries had difficulty in meeting the relatively short maturities and high interest costs, Russia swapped the repayment obligations of CIS states on outstanding credits (or on arrears) for equity in major state enterprises, notably in the energy sector.[8]

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[7]As a percent of the country's quota, the Fund's exposure at end-1996 ranged from 202 percent in Russia to 25 percent in Tajikistan; Turkmenistan is the only one among the B-CIS countries which has not received any financial support from the IMF to date (Table 5).

[8]These operations further complicate the availability of comparable data on outstanding debt and debt service for a number of CIS states. Moreover, in some cases bilateral debt issues with Russia are still not fully settled.

Box 1. Official Bond Issues

On the international capital market, six B-CIS countries have issued bonds in the past two years, either by private placement or by floating a public issue. An issue of US$75 million in October 1994 was the first bond placement by a Russian or for that matter B-CIS borrower; however, this was guaranteed by the London affiliate of Moscow Narodny Bank. Through a private placement, Russia raised about US$350 million in the third quarter of 1995. In November 1996, Russia raised US$1 billion in bonds, its first international issue since the 1917 revolution. The issue was heavily oversubscribed, with bids in excess of US$2 billion; the bonds mature in 5 years and pay an interest rate of 9.25 percent. In June 1997, the City of Moscow issued Russia's first municipal eurobond with an amount of US$500 million, a three-year maturity, and an interest rate of 9.5 percent; bond issues by the cities of St. Petersburg and Nizhny Novgorod are also expected shortly. By end-1996, the total amount of bonds outstanding issued by Russian official borrowers had risen to US$1,385 million, and is expected to rise further to reach around US$4,500 million by the end of 1997. In December 1996, Kazakstan launched a US$200 million Euronote issue, the second CIS country to float bonds in the world market. The issue was twice oversubscribed and the proceeds were used to pay overdue wages and pensions. In Estonia, the city of Tallinn issued a US$40 million bond in 1996, with a maturity of 3 years. Following the banking crisis in mid-1995, Latvia made a private placement equivalent to US$41 million in August 1995 in order to finance general government expenditure and retire some domestic debt; the bonds, which were issued in yen, mature in two years and yield an interest rate of 4.5 percent per annum. In Lithuania, the government issued two-year bonds equivalent to US$60 million in 1995 for general financing of the budget. More recently, in the third quarter of 1996, Lithuanian bonds equivalent to US$50 million were issued with a maturity of only 6 months. At the end of 1996, Moldova raised US$30 million through a private placement; much of the proceeds of the bonds, which mature in three years, were used to retire short-term debt. In June 1997, Moldova finalized a five-year eurobond for US$75 million at a margin of 340 basis points over U.S. Treasury notes.

As of now, five out of the fifteen countries have received a sovereign credit rating: Kazakstan, Latvia, Lithuania, Moldova, and Russia, although only Latvia's rating is investment grade. Estonia is shortly expected also to receive a rating.

III. Characteristics of the External Debt Burden

By the end of 1996, the combined external debt of the B-CIS countries had reached about US$150 billion (Table 7). Four characteristics of this debt merit particular attention:

First, at the end of 1996 the debt burden was not very high in most B-CIS countries either in absolute terms or when compared with other economies at similar income levels.

Only four B-CIS countries (Armenia, Kyrgyz Republic, Moldova, and Tajikistan) had external debt-to-GDP ratios in excess of 35 percent by the end of 1996; Georgia and Turkmenistan had ratios in excess of 25 percent as of the same date; and of all remaining B-CIS countries only Russia, at 21 percent, had an external debt-to-GDP ratio greater than 20 percent (Table 1 and Figures 2 and 3).[9] This compares with an external debt-to-GDP ratio of some 40 percent over the period 1994–96 for the "countries with recent debt servicing difficulties" and a ratio of 71 percent in 1996 for the heavily indebted poor countries.[10]

Second, the rate of increase in debt has been extremely high in recent years as the magnitude of borrowing relative to GDP for a number of countries has been large. While the debt/GDP ratios (or debt/exports ratios) of B-CIS countries are not out of line with those in other countries with similar incomes per capita, the short time period within which these countries have reached these ratios is remarkable. For example, over a three year period (1993–96), the debt/GDP ratio for Armenia rises from 15 to 38 percent, for Azerbaijan from 3 to 15 percent, for Georgia from 4 to 30 percent, and for Moldova from 19 to 43 percent. Another indicator worth considering is the ratio of gross external debt to exports: in 1993, only Russia (182 percent), Georgia (144 percent), and Tajikistan (112 percent) exceeded 100 percent; three countries—Armenia, Kyrgyz Republic, and Moldova—had ratios between 50 and 100 percent; the remaining nine out of the fifteen B-CIS countries were well below 50 percent (Table 8). By end-1996, six countries—Armenia, Georgia, Kyrgyz Republic, Moldova, Russia, and Tajikistan—had debt/exports ratios substantially in excess of 100 percent.[11] Reflecting the increase in the stock of external debt, the average debt service as

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[9]It is worth noting that if the stock of domestic debt is added to external debt, the ratios of total debt to GDP in 1996 rise by around 12 percent of GDP for the Kyrgyz Republic and Russia, and by 5–10 percent for Belarus, Georgia, Latvia, Moldova, Tajikistan, Ukraine, and Uzbekistan. In general, the ranking of the B-CIS countries' by debt burden is not materially influenced by adding internal debt (Figure 4).

[10]The debt/GDP ratio for developing countries as a whole declined from 38 percent in 1992 to 32 percent in 1996 (and an estimated 30 percent in 1997), while the transition countries' ratio fell from 59 percent in 1992 to 26 percent in 1996 (and an estimated 21 percent in 1997);IMF, *World Economic Outlook*, May 1997. It has been argued that a "warning" threshold of 40 percent of GDP for external debt can be justified based on the historical experience which shows that countries exceeding this level have run into debt problems (Cline, 1995).

[11]The World Bank defines a "moderately indebted country" as one that has a debt/exports ratio in excess of 132 percent. In general, the debt/exports ratio has some significant drawbacks: first, in any one year it tends to be more volatile than the debt/GDP ratio since export earnings can fluctuate sharply; second, in transition countries the high levels of managed trade and barter makes the ratio weaker as an objective indicator of the debt burden.

a percent of exports for the B-CIS countries rose from 4 percent in 1993 to 12 percent [12] in 1996 (Table 9), and as a percent of GDP, the average debt service increased from 1 percent to 5 percent over the same period (Table 11).

Third, in most B-CIS countries the nature of the external debt is different from that in most East European, Asian or Latin American economies in that so far the outstanding stock is almost entirely owed by the government (i.e. a direct budget obligation). The composition of the official external debt of B-CIS countries is heavily weighted by debt to multilateral lending institutions instead of banks or foreign governments (with the notable exceptions of Russia and Turkmenistan), and this proportion has increased over the period as the relative share of the initial debt to Russia has declined. This is especially true for those countries with the highest official debt/GDP ratios. This factor is of concern because this form of debt cannot normally be rescheduled and much of this debt—in particular to the Fund—begins to fall due within the next five years.

Fourth, as overall debt levels have increased, the governments of a number of B-CIS countries have recently shifted their external borrowing towards private market financing, particularly through Eurobond issues. In fact, a remarkably broad range of external debt instruments has been used across B-CIS countries, including public bond issues, medium-term notes, private placements, individual bank borrowing, official loans, export credits, and equity placements, but little or no syndicated bank lending to official borrowers. Access to market borrowing by regional governments, municipalities, state and private enterprises is increasing at a rapid pace in some B-CIS countries, notably Russia and the Baltic states.[13]

IV. CONSIDERATIONS IN EVALUATING EXTERNAL DEBT STRATEGIES

Although with different degrees of success, the fifteen B-CIS countries have made considerable progress towards the goal of macroeconomic stabilization with the financial and technical support of the international community. After falling on average by 12–13 percent in 1993-94, real GDP turned positive in 1996 and is projected to increase on average for the B-CIS countries by 3 percent in 1997 (Table 12). The median rate of inflation for the B-CIS countries fell from about 1,100 in 1993 to 22 percent in 1996; a further significant reduction is expected in 1997 (Table 13). Behind these favorable macroeconomic developments is the fact that the mean fiscal deficit for the region as a whole fell from 11 percent of GDP in 1993 to

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[12]At the same time, export earnings have been rising at a rapid pace (Table 10). In the early years of transition, traded goods prices can rise to world levels rather rapidly which may lead to increasing export earnings but without any assurance that this process of improving terms-of-trade will continue.

[13]In Russia, at least three city governments and ten regional authorities are preparing to issue eurobonds in the near future; *Agence France-Presse*, May 8, 1997.

less than 5 percent of GDP in 1996 (Table 14). However, in contrast, the external current account deficit has remained high and broadly unchanged, on average at about 9 percent of GDP for the region (Table 15); although current account deficits would normally be expected to be significant in the early years of transition, it is worth noting that the equivalent ratio for all developing countries has been under 2 percent for several years.

Given the present levels of external current account deficits, the B-CIS countries will continue to require significant levels of external financing for several years to come. A few of these countries will, for various reasons—including existing large and relatively short-term debt stocks, relatively poor direct investment opportunities, low domestic savings rates—need to rely on concessional borrowing from official sources for balance of payments financing through the medium term.[14] In some countries, the reform process has not yet advanced to a point where creditors are likely to be forthcoming with substantial financing unrelated to the development of natural resources.[15] Most of the remaining B-CIS countries are likely to increasingly tap international capital markets for significant portions of their external financing needs, as suggested by the recent moves in this direction by the Baltic states, Kazakstan, and Russia. In broad terms, this development reflects the successful achievement of a major goal of adjustment programs supported by official international financing, namely to ultimately allow countries to regain normal access to capital markets. Having regained access to these markets, these B-CIS countries can strengthen the development of borrowing strategies for the medium term by drawing lessons from their experience to date and carefully assessing the many risks associated with borrowing on private markets.[16]

Traditional debt indicators do not suggest that the B-CIS countries face an immediate debt problem of major significance, despite signs of servicing difficulties being faced by several of them at present. On the other hand, any substantial improvement in the debt ratios over the medium-term, or even the avoidance of a deterioration, implies implementation of tight demand management policies accompanied by relatively rapid export growth for several years to come. Although it is true that early experience in Eastern Europe and the Baltic states

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[14]These countries are likely to include Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

[15]In the absence of appropriate macroeconomic policies, a substantial natural-resource endowment—in hydrocarbons, for example—has seldom protected a country from an external debt crisis or serious liquidity problems (e.g. Mexico, Nigeria, Indonesia, Venezuela); in fact, the presence of vast natural resources has, on several occasions, resulted in an excessive dependence on easily available external financing and postponed economic adjustment.

[16]A rough idea of the relative scale of market borrowing by the B-CIS countries can be gathered from the size of their gross liabilities to BIS Reporting Area banks in 1996, US$55 billion, compared to the total liabilities of all developing countries, US$763 billion. *International Banking and Financial Market Developments*, Bank for International Settlements, Basle.

suggests that real rates of growth of exports can be remarkably high following the initial reform period, it is not obvious that the B-CIS countries as a whole—and certainly some among them—can continue to expect high and sustained export growth of the kind recorded during the past few years; the median rate of growth of exports for B-CIS countries was 20 percent in 1995 and 14 percent in 1996. Unless structural reforms are vigorously speeded up and private sector investment accelerates, such export growth rates may not continue to materialize.

High rates of export and output growth will thus require the early and vigorous implementation of measures by the B-CIS countries to improve productivity and increase investable resources. As structural reforms proceed, notably to improve the performance of the still-large and obsolescent state enterprises, the external current account deficits may well widen. In this context, recourse to external financing should not be used as a substitute for implementing the necessary structural reforms.[17] At the moment debt service payments tend to be projected on the basis of the present composition of external debt obligations which, as noted earlier, are unusually heavily weighted in favor of borrowing on concessional terms from official and multilateral sources; if the levels of market borrowing continue to rise at the rates of the recent past, the debt service profile will worsen rapidly—as was the case in Asia and Latin America some decades ago. Over the medium-term, domestic saving rates need to rise, as a complement to foreign saving, and adjustment policies need to be in place to generate the needed saving rates instead of depending excessively on additional external financing.

Against this background, it is clear that a well thought out debt management policy in each country must include a thorough evaluation of debt sustainability based on an analysis of past and future borrowing as well as detailed medium-term fiscal and balance of payments projections. It is also apparent that the B-CIS countries already encompass a reasonably wide range of economic situations and that the external borrowing policy of each of them must be tailored to its particular circumstances. The analysis in this paper is not intended to be a substitute. It highlights the common features of the external borrowing by the B-CIS countries and draws attention to some stylized conclusions which apply, to a very large extent, to all these countries.

Risks of Foreign Borrowing

Prior to outlining some of the risks of official market borrowing for the B-CIS countries, it is worth reiterating briefly that external borrowing may of course generate significant benefits for any economy, and perhaps be even considered as being indispensable for the

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[17]One of the reasons for concern about the relatively high current account deficits is that, at least so far, they have been financed by a very low level of non-debt creating capital flows; as Table 2 shows, although rising fast, direct investment has represented only 5 percent of total external financing to the B-CIS states during 1993–96.

economies in transition. First, in view of the initial low level of domestic savings, recourse to foreign capital makes it possible to have higher investment rates, thus enhancing growth prospects. Moreover, given the expected high rates of future growth, foreign borrowing allows for a smoothing of consumption over time, not a negligible consideration in transition countries facing (or having recently faced) significant income declines. Second, in view of the lack of a well-developed domestic capital market in the initial stages in most transition economies, recourse to foreign borrowing will supplement the indigenous market, particularly since medium- to long-term investment finance is notably absent in the earlier stages of transition. Third, provided that the exchange rate is not expected to depreciate (or at least not in excess of the interest rate margin), foreign borrowing may substantially lower the cost of borrowing given the large interest rate differential. Fourth, private economic agents' ability to tap international capital markets may be hindered initially by the lack of a track record of external borrowing or by credibility concerns on the part of creditors. In such cases, official foreign borrowing will help to open access for foreign financing by private firms. Ultimately, the overall stance of economic policies and the efficiency with which foreign savings are utilized will determine whether the extent of foreign borrowing has been advantageous, as well as whether it is sustainable and consistent with external viability and macroeconomic stability.

Fiscal aspects

To assess more broadly the indebtedness of B-CIS countries and their ability to incur new debt it is useful to calculate two additional ratios that capture the burden on the government budget of servicing the total public debt.[18] These are the public debt-service to government revenue (PDSR) ratio and the public debt-service to government expenditure (PDSE) ratio.[19] The PDSR ratio is a measure (admittedly limited since it combines above and below the line items) of the government's ability to service its total debt out of current income without taking into account domestic financing or foreign disbursements to the budget. The PDSE ratio measures the burden of servicing public debt vis-à-vis other government expenditure and thereby provides an indicator of the extent of discretionary spending that is available.

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[18]The city of Moscow has just issued Russia's first non-sovereign bond on international capital markets. Commenting on this development, analysts noted that this eurobond "will probably perform better than the Russian eurodollar bond [since] Moscow has a much healthier budget situation than the Russian government and other large cities...." *The Financial Times*, May 6, and June 2, 1997.

[19]It is desirable to calculate the public debt-service to revenue ratio at each level of government in order to expose fully potential debt servicing difficulties, e.g., a default on external debt by (for example) local governments would probably impose significant externalities—including higher borrowing costs—on other potential borrowers. Due to limited information, this paper only provides aggregate figures for each B-CIS country.

Tables 16 and 17 show the PDSR ratios and PDSE ratios for B-CIS countries between 1993 and 1996. Starting from a base of close to zero, the median for the B-CIS countries of the ratio of government debt service to government revenue was 9 percent by 1995. Even in such countries as Armenia and the Kyrgyz Republic, which have borrowed largely on concessional terms, the debt service/revenue ratio approximates 25 percent. A similar picture is found with respect to the ratio of government debt service to government expenditure, namely over a short period of time many governments now find that 10 percent or more of their expenditure is used to service debt. Finally, from the perspective of future GDP growth rates, it should be noted that in several cases debt service payments far exceed investment spending (Table 18). With both the revenue to GDP and expenditure to GDP ratios declining, constant or rising debt service due will inevitably place a greater fiscal burden.[20]

The ratio of debt service to both budgetary revenues and expenditures remains high in most B-CIS countries with the notable exception of the Baltic states and Kazakstan. Unless there is a significant pick-up in revenues—which is more likely over the medium-term than in the near future—external debt service payments will continue to put pressure on budgetary policies; this will be exacerbated by the demands of domestic debt service and arrears reduction. In addition, quasi-fiscal deficits could prove large in several instances.[21] As discussed below, these explicit budgetary constraints could be compounded by several other factors, such as currency denomination of the borrowing, maturity, and exchange rate movements.

While these ratios focus on the burden of servicing the total public debt, they allow by extension a determination of whether forthcoming external debt service payments may be jeopardized by developments in the budget. This is particularly relevant to B-CIS countries for several reasons. First, in many of these countries—the possible exceptions being borrowing abroad by the major Russian energy enterprises—almost all external debt is either government debt with direct budgetary implications or it is guaranteed by the government and is therefore a contingent liability of the budget. Even borrowing by municipalities and regions, which may not have an explicit government guarantee, is likely to be backed by the implicit notion that the central government will not allow a default to take place and may be forced to intervene in such an eventuality.[22] Second, government or government-guaranteed external debt to private lenders is increasing rapidly in some of the larger B-CIS countries; in cases such as Uzbekistan

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[20]For the B-CIS countries, the median revenue/GDP ratio declined from 36 percent in 1993 to 24 percent in 1996; the median expenditure/GDP ratio fell from 42 percent to 31 percent over the same period.

[21]For example, in Turkmenistan where virtually all reported external debt is contracted by public enterprises, and carries either an explicit or implicit government guarantee, the ratio of total external debt service to government revenue increased from 23 percent in 1995 to 78 percent in 1996.

[22]Which would, of course, raise serious moral hazard issues.

and the Baltic states it is also an increasing proportion of the total. A significant default by a B-CIS government (or by a large borrower with government guarantees) on private external debt could raise borrowing costs substantially, and possibly also limit near-term access to international capital markets, for countries throughout the B-CIS region as well as some transition countries in Eastern Europe. Third, in some states an increasing proportion of government debt denominated in domestic currency is being sold to nonresidents. Although detailed data are not available, there are indications that in some countries—notably Russia, Ukraine, Kazakstan, and the Baltic states—there have been substantial purchases by nonresidents of treasury bills and other short-term government securities through the domestic banking system.

Although complete data are not available—and, of course, financing is fungible—the overwhelming bulk of the official borrowing has been used to finance current budgetary outlays, i.e. public consumption rather than investment.[23] Available evidence suggests that the a substantial proportion of market borrowing by public (or publicly-guaranteed) debtors is intended primarily to finance current budget outlays, including the payments of arrears on wages and pensions, and not investment expenditures.[24] As a result, many B-CIS countries now have large amounts of short-term foreign debt that is not reflected in an increased capacity to repay (except possibly, in the political economy sense, that this borrowing allowed governments to generate public support for reforms at a time when that would not otherwise have been forthcoming in an environment of stronger adjustment policies). Moreover, in most of these countries the pace of structural reforms, notably privatization and enterprise reforms, in the public and other sectors has been notably lagging behind the progress with financial stabilization. One consequence of borrowing for the purposes of public consumption while, at the same time, not moving forward with structural reforms in a meaningful manner is that budgets are likely to remain under considerable pressure in the medium term. Looking ahead, the funds borrowed from private capital markets must be used to support policies that can be expected to increase growth prospects.[25]

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[23]Loans undertaken for consumption purposes may still result in increased welfare as long as the existing stock of net liabilities is matched, in terms of present discounted value, by a stream of future primary surpluses; of course, "the need to maintain intertemporal solvency" can be applied equally to the government budget as to the country's external position (Buiter, Lago and Stern, 1997).

[24]Kazakstan is likely to borrow US$280 million through a dollar-denominated eurobond issue this year to help pay off government budget debts to pensioners; *Reuters*, May 6, 1997.

[25]It has been argued that in Russia the difficulties in collecting taxes result in both domestic savings and foreign capital going excessively to meet the government borrowing requirement which, in turn, keeps working capital scarce and investment finance even more so (Leijonhufvud and Ruhl, 1997).This crowding-out problem, of course, is not unique to Russia and exists in several CIS countries.

Although the basic problem applies to most developing countries, in B-CIS countries the danger such dynamics pose to fiscal sustainability is exacerbated by the very limited room in the budgets of these countries for discretionary expenditure. In this environment, domestic pressures could emerge for money creation or short-term borrowing at high cost; these would simply feed the breakdown in the fiscal position and endanger broader gains made through stabilization and reform. The budgets in many B-CIS countries are characterized by limited room for maneuver with regard to discretionary expenditure. In addition to low revenue levels, this limited flexibility results in part from very large entitlement programs that reflect the lack of structural reforms in the budget in the bulk of these countries.[26] In some cases, it also reflects continuing and inappropriate subsidies to inefficient sectors and potential realization of contingent liabilities of the budget. These factors all endanger prudent financial policies over the medium term and could contribute to significant problems in servicing external debt in a timely manner. It is thus critical that B-CIS countries redouble their efforts in the areas of enterprise and financial sector reforms to reduce the risks emanating from quasi-fiscal deficits or contingent liabilities of the budget, but also vigorously implement reforms in the structure of the fiscal position itself so as to improve receipts and reduce nonessential demands on budget resources.

Despite considerable progress in macroeconomic stabilization, the fiscal position in many B-CIS countries will remain under significant pressure for the foreseeable future due, inter alia, to poor revenue performance, inefficient pension and other entitlement programs, continuing demands for subsidies to inefficient producers, and sizable contingent liabilities related to the restructuring of pension funds and banking systems. These pressures could be exacerbated by rising domestic and external debt-service obligations for most B-CIS governments over the medium term, and by the risk that an ad hoc (or worse, an incoherent) external borrowing strategy could jeopardize the fragile stabilization gains and delay structural reforms. Given concerns on debt sustainability, primarily but not exclusively from the fiscal perspective, it is imperative that governments develop a comprehensive mechanism for monitoring debt—both internal and external, including contingent liabilities—and conduct on a regular basis an analysis on the capacity to service debt based on conservative assumptions.[27]

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[26]In some countries, sizable borrowing on international capital markets by state enterprises specifically with a view to making tax payments to the budget is a symptom of structural problems with the tax administration system as well as partitioned domestic capital markets. Such non-sovereign borrowing does, of course, imply an ultimate sovereign liability and it postpones the needed structural changes for both the enterprise and the state.

[27] In a prudent move, the Russian government has recently announced that regional or local governments receiving transfers or subsidies from the federal budget will not be allowed to borrow directly on international capital markets.

Market and exchange risk

In the recent past, several B-CIS countries have publicly declared their desire to substantially diversify their sources and types of external financing, in particular away from multilateral lending operations that are generally linked to the implementation of specific policy actions by the country. In general, the increased autonomy in financing government deficits that will result is appropriate. However, this diversification also implies, first, that international capital market conditions in general will have an increasing influence on the domestic economic policies of the B-CIS countries and, second, the judgements formed on the credibility of policy performance of the borrowing countries by the markets will be a critical factor in determining the availability of external financing.[28] Although these developments are to be welcomed (and encouraged) as a normal consequence of the closer integration of the B-CIS countries in the international economy, risks for individual countries can be made more manageable if external borrowing strategies are carefully mapped out while maintaining a margin of prudence.

B-CIS countries must carefully balance the more favorable interest rates available on foreign debt against the direct exchange rate risk to the budget from such borrowing and the reduced flexibility in exchange rate policies that is attached. While foreign debt may lower short-term borrowing costs, this benefit must be balanced against the potentially large exposure the budget faces from the associated exchange rate risk. This risk is often increased by the ad hoc and sometimes haphazard manner in which B-CIS borrowers are entering the private capital markets and the relatively short maturity (i.e. under three to five years) of much of this debt. The combination of these two elements, in conjunction with the fact that many of these countries already face large increases in debt-service payments by the budget over the next few years, could lead to the bunching of large debt-service obligations. Even in the absence of a default, some countries may be exposed to additional risk from speculative activity in their relatively unsophisticated and narrow exchange markets if international reserves decline sharply as a result of large, lumpy debt payments. Any associated exchange rate pressures could lead to further unanticipated increases in the domestic cost of servicing external debt.

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[28]To an important extent, for some years to come the ability of B-CIS sovereign borrowers to raise substantial financing on international capital markets on acceptable terms will also continue to depend upon the existence of appropriate and credible macroeconomic policies supported by the Fund, whether or not the Fund provides its own financial support through an adjustment program. The establishment of an independent track record on the markets by the B-CIS countries will invariably take time. Moreover, in other regions experience has shown that the "conditionality" applied through market decisions can be broader and harsher (or, to put it another way, less forgiving) than official conditionality.

Domestic financial institutions and enterprises

The fragile (in some cases, poor) state of health of many banks, nonbank financial institutions, and enterprises in all B-CIS countries also creates significant risks for the budget and for debt servicing. First, in some B-CIS countries (e.g. Ukraine, Latvia, Kazakstan) commercial banks act by law as agents and depositories for nonresident purchases of treasury bills. Moreover, in a number of countries (e.g. Russia, Kazakstan, Ukraine, the Baltic states), commercial banks have borrowed substantial amounts abroad through loans or lines of credit for on-lending domestically, thereby taking advantage of a substantial interest rate spread. A narrowing of interest rate differentials between these countries and international markets may result in large capital outflows, which could jeopardize the external reserve position and place a tight squeeze on bank liquidity. In some states, large capital inflows have masked the underlying fragility of the banking system. Given the poor financial positions of many banks, limited availability of collateral and weak banking supervision, some capital inflows are channeled into loans of dubious quality and banks are more prone to engage in riskier transactions than otherwise would be the case. The failure of a commercial bank with many nonresident clients (or even a major liquidity crisis) would seriously undermine investor confidence. This would likely lead to exchange rate pressure and its associated costs for the budget; domestic borrowing costs would also probably rise. Second, there have been sizable private bond issues by firms in several B-CIS countries over the past two years, and this activity can be expected to increase. A delay in interest payments, or an outright default, on foreign debt by a firm or commercial bank could adversely affect all borrowers regardless of whether they were private or public (not only in those countries, but probably also across the B-CIS states).[29]

In general, the government budget and other borrowers face potential risk, including increased borrowing costs, from the failure of commercial banks or firms that either service foreign debt or have direct debt to nonresidents.[30] In addition to highlighting the need for B-CIS countries to implement well designed plans for restructuring their banking systems, it also makes clear the importance of strictly limiting government guarantees. If called, these guarantees can unexpectedly increase debt-service payments by large amounts and make

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[29]There is no *a priori* reason to suppose that, as far as the judgements of capital markets are concerned, the B-CIS countries will be less susceptible to contagion effects than borrowers in other regions in recent years.

[30]The combination which causes concern is the prevalence of high current account deficits in an environment where the Lawson thesis is not likely to be valid owing to a blurring of the distinction between private and public savings-investment balances in most transition economies, i.e. relatively low fiscal deficits do not imply that current account deficits resulting "purely" from private sector imbalances will be self-correcting through movements in real interest rates.

budgetary management difficult; this occurred in some B-CIS countries during the 1993–95 period with adverse consequences for financial stabilization policies.

Apart from the above risks, heavy borrowing on foreign capital markets may impede the development of domestic currency debt markets in the B-CIS states through a siphoning of potential demand away from domestic debt instruments and inadequate attention being paid towards building a domestic securities market. On the presumption that access to foreign borrowing will not be unlimited, over time this would result in higher domestic borrowing costs than would otherwise be the case.

V. CONCLUSIONS

Many B-CIS countries have begun to increasingly borrow on private international capital markets, a development that generally reflects their success in achieving financial stabilization. Clearly, there are considerable advantages for transition economies from such foreign borrowing, but the rapid increase in external debt of the B-CIS countries in the past five years suggests that some consideration also needs to be given to the risks from too high a dependence on foreign saving—including the possibility that it will encourage the postponement of difficult (but necessary) structural reforms. In evaluating this situation, the analysis in this paper points to the following broad conclusions.

First, by the end of 1996, all B-CIS countries held significant stocks of official (or officially-guaranteed) external debt. These stocks resulted primarily from borrowing from multilateral and bilateral creditors over the period 1992–96, although in the case of Russia large debt obligations already existed at the beginning of this period.

Second, conventional external debt indicators do not suggest—at this stage—that most B-CIS countries face or will shortly face major problems with regard to the level of their debt burden. This is valid both in absolute terms as well as compared with other countries at similar income levels.

Third, the rate of growth of debt has been very rapid over a fairly short period of time and sizable repayment obligations are due within the next five years. Moreover, the rise in debt has taken place during a period of sharply appreciating exchange rates and rising export earnings within the B-CIS countries and an accommodating monetary stance in the creditor countries, which have together provided an unusually favorable environment for the terms and amounts of financing. This is unlikely to continue indefinitely; there are already signs that interest rates in industrial countries are rising. As the interest rate differential between the B-CIS countries and international capital markets narrows, at some stage capital is likely to flow out (or at least the inflow will slow down) as private external creditors will want to reduce their highest–risk exposure in these countries.

Fourth, the external debt obligations of the B-CIS countries are largely (in most cases, entirely) budgetary liabilities of the central or local (or regional) governments; in many cases, nongovernment borrowing is guaranteed by the state, or implicitly is a contingent liability of a government which could be unwilling to see a major state enterprise or official entity default on its obligations. As a share of government revenues or expenditures, debt service payments are rapidly becoming burdensome.

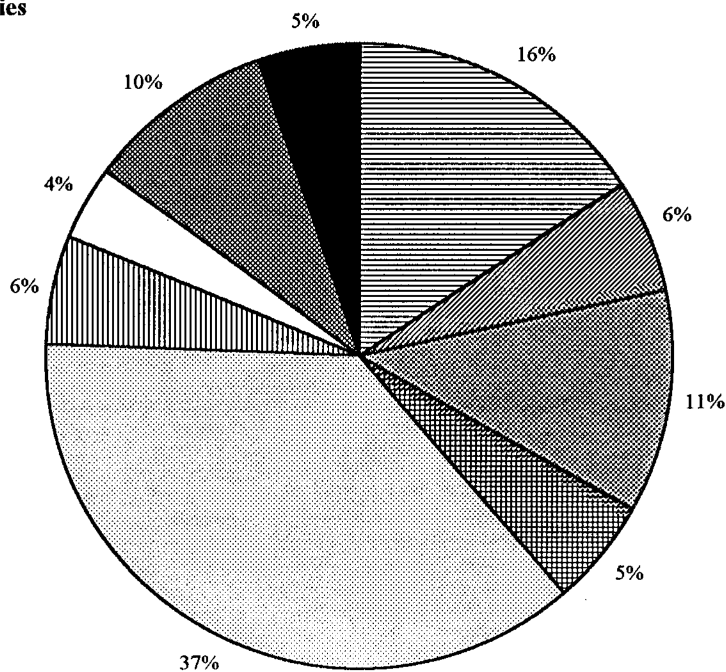
Fifth, for the external debt burden to decline, or even to prevent a deterioration, export growth in coming years will need to continue at a relatively brisk pace for most B-CIS countries. However, in many countries the key issue of debt sustainability is likely to be in relation to the budgetary position, where the outlook may be much less sanguine in the face of recent experience with falling revenue/GDP ratios. Moreover, there may well be a need to increase the proportion of budgetary expenditures on areas such as bank restructuring, enterprise reform, infrastructure maintenance, social security liabilities, etc. which leaves less room for debt service payments. This latter problem has already arisen in Russia and in some other CIS states.

Sixth, the external borrowing in the B-CIS countries has taken place at very low levels of domestic saving rates. Unless structural transformation is significantly accelerated, and financial stabilization continued, domestic savings rates may not rise fast enough to handle simultaneously the servicing needs of foreign debt and the funding requirements for domestic investment, i.e., a problem similar to that in many African and some Latin American states where financing replaced the needed domestic adjustment. If large-scale external borrowing leads to a postponement of vigorous structural reforms to raise productivity and increase investable resources in these economies, debt servicing difficulties will become more likely.

Finally, the ad hoc nature of the external borrowing on the capital markets is a source of concern since it has often not been part of a coherent long-term strategy. The absence of a large existing debt has possibly encouraged some borrowers (and creditors) to be less prudent than otherwise in their financing. In the circumstances, in most countries there is a need for (a) well-thought out medium-term borrowing strategies, (b) institutional structures to monitor both the borrowing and the debt-service from the point of view of the budget, and (c) serious limitations on the guarantees (explicit or otherwise) being given by state or quasi-state entities for all external loans, but particularly those from the capital markets. A multitude of risks associated with the composition of public debt and the fiscal sustainability of the borrowing strategies pursued to date by B-CIS countries highlights the need for these countries to assess carefully future plans for external borrowing by the public sector. These external borrowing plans must be consistent with a country's medium-term fiscal adjustment strategy and be based on a careful, even conservative assessment of repayment capacity by the budget.

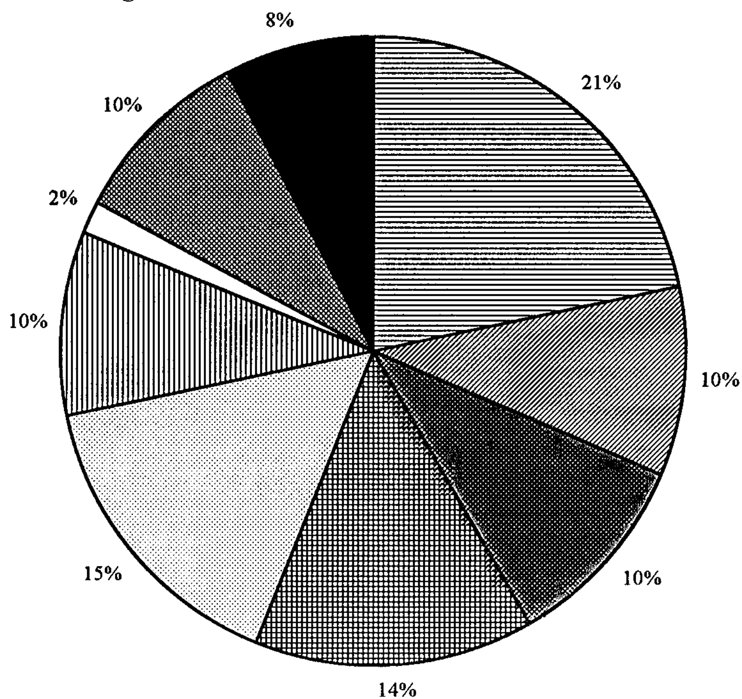
Figure 1. Baltics, Russia and Commonwealth of Independent States:
Sources of External Financing, 1993-96
(In percent of total)

All Countries



1. Official disbursements
2. Grants
3. Private capital
4. Foreign direct investment
5. Debt rescheduling
6. Accumulation of arrears
7. Draw-down of official reserves
8. Use of Fund credit net
9. Errors and omissions

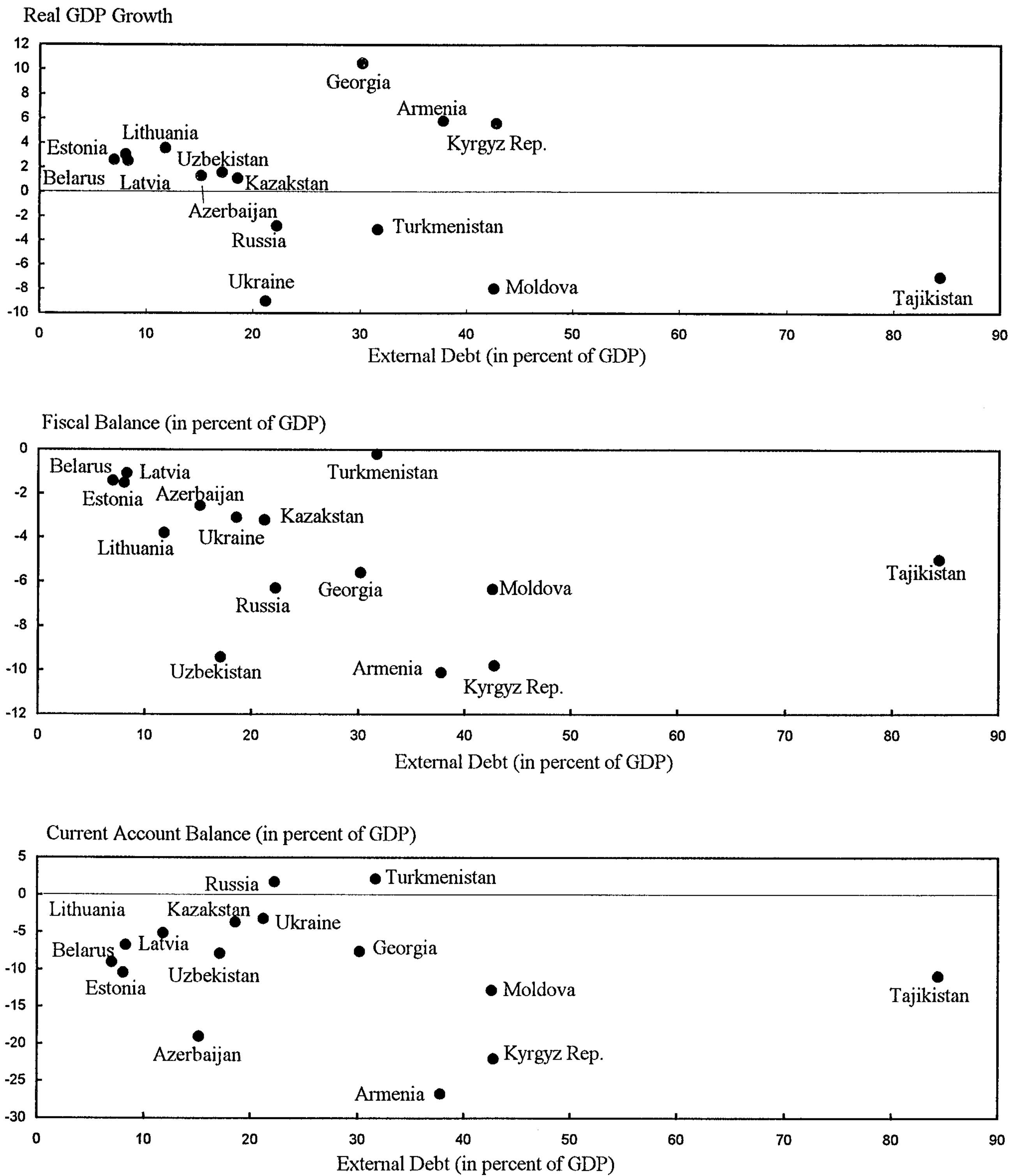
All Countries, excluding Russia



1. Official disbursements
2. Grants
3. Private capital
4. Foreign direct investment
5. Debt rescheduling
6. Accumulation of arrears
7. Draw-down of official reserves
8. Use of Fund credit net
9. Errors and omissions

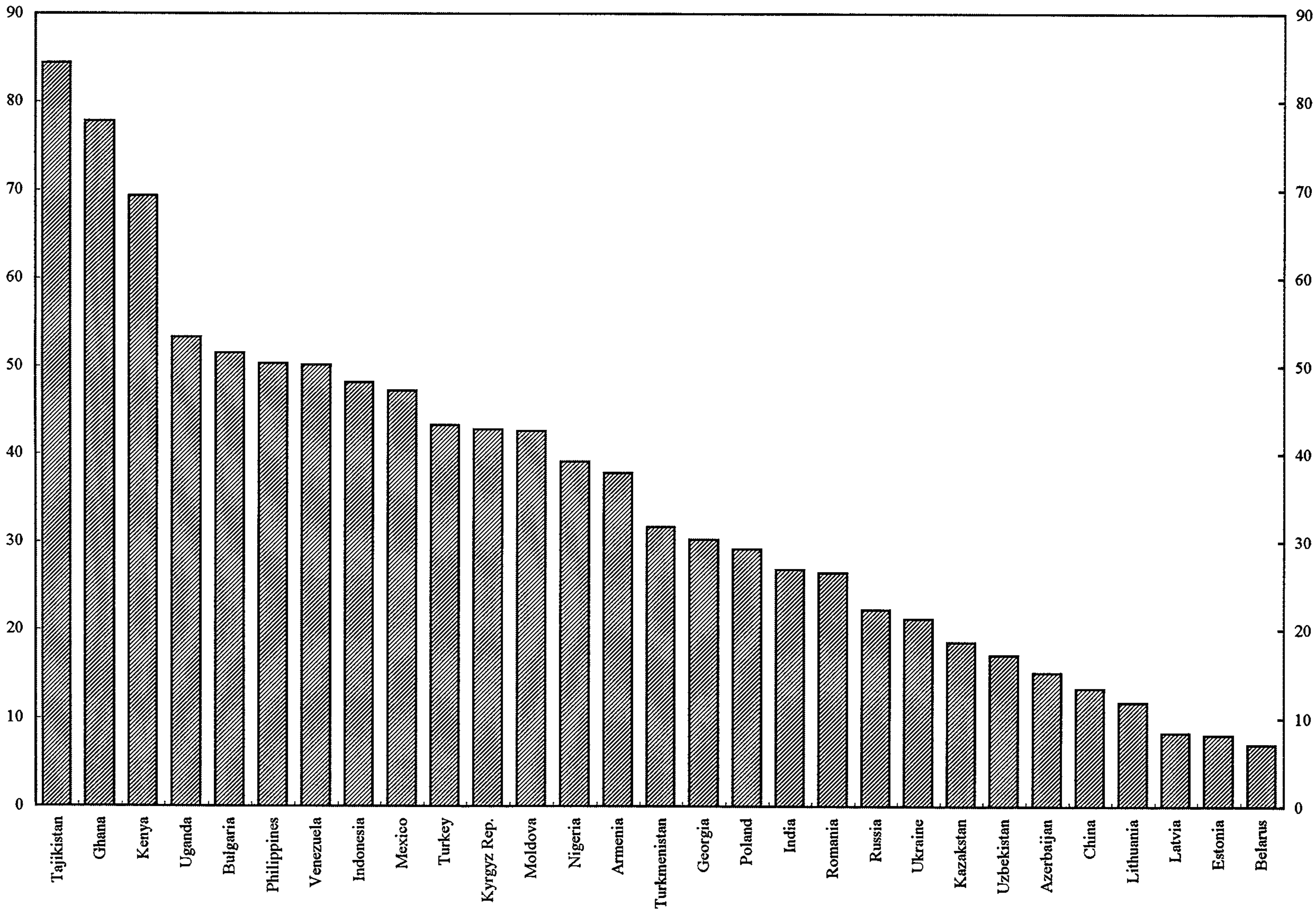
Sources: Data provided by national authorities; and Fund staff estimates.

Figure 2. Baltics, Russia and Commonwealth of Independent States: Indicators of Indebtedness, 1996



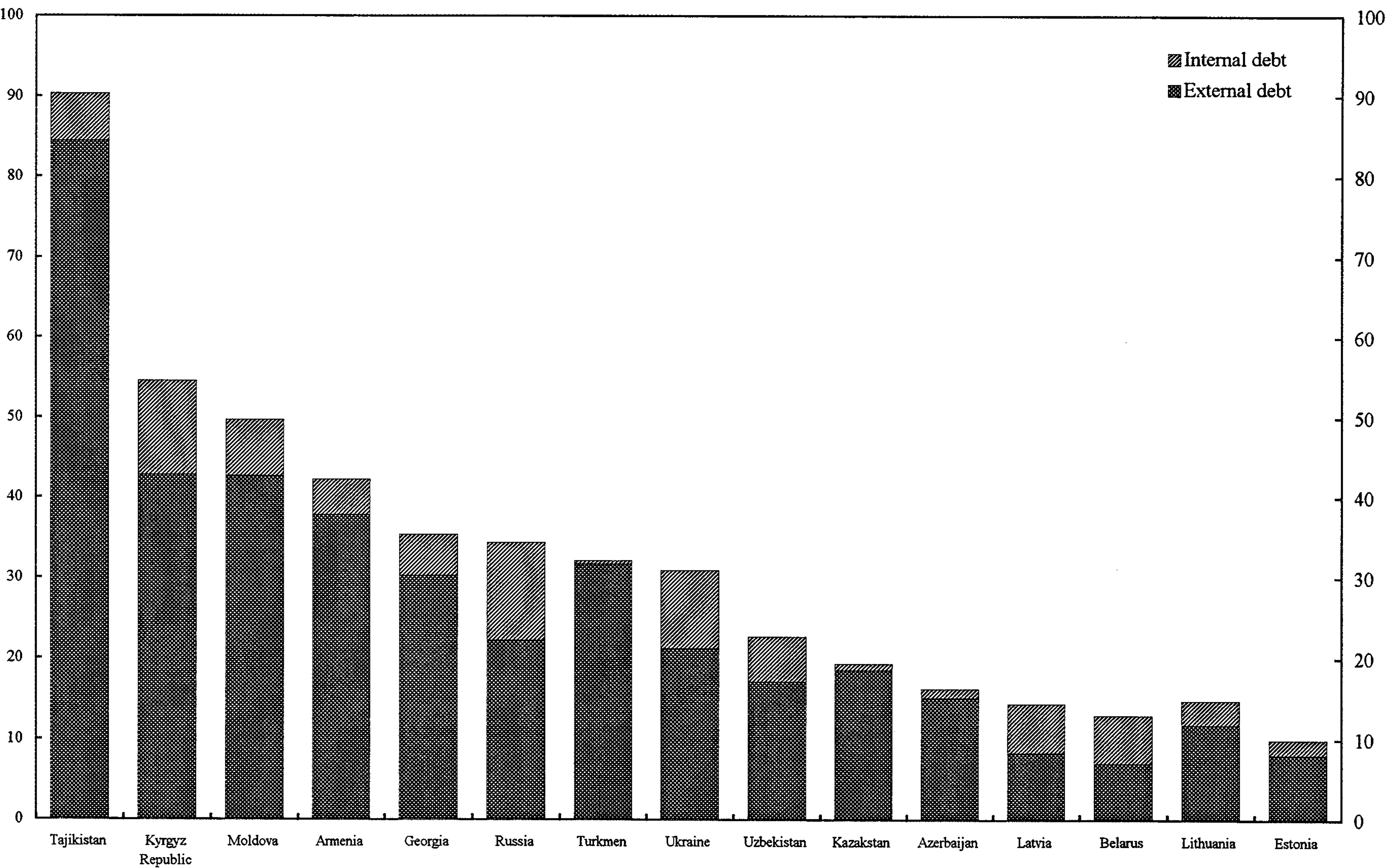
Sources: Data provided by national authorities; and Fund staff estimates.

Figure 3. Selected Countries: External Debt/GDP Ratio, 1996
(In percent)



Sources: Data provided by national authorities; Fund staff estimates; and World Economic Outlook.

Figure 4. Baltics, Russia and Commonwealth of Independent States: Total Debt, 1996
(In percent of GDP)



Sources: Data provided by national authorities; and Fund staff estimates.

Table 1: Baltics, Russia and Commonwealth of Independent States: External Debt, 1993-96
(In percent of GDP)

	1993	1994	1995	1996
Armenia	14.5	30.8	29.0	37.8
Azerbaijan	3.3	13.0	15.1	15.2
Belarus	27.9	25.9	14.7	7.0
Estonia	9.8	8.5	7.5	8.1
Georgia	3.6	79.2	42.1	30.2
Kazakstan	11.7	25.2	20.6	18.6
Kyrgyz Republic	29.7	40.5	36.4	42.8
Lithuania	11.3	9.3	10.6	11.8
Latvia	10.4	9.8	8.9	8.3
Moldova	19.0	36.0	39.4	42.6
Russia	61.3	43.0	28.2	22.2
Tajikistan	75.3	104.0	142.7	84.4
Turkmenistan	4.4	9.0	29.7	31.7
Ukraine	12.9	27.7	23.6	21.2
Uzbekistan	18.9	19.5	17.8	17.1
Mean	20.9	32.1	31.1	26.6
Median	12.9	25.9	23.6	21.2
Poland	56.4	43.8	33.5	29.1
Hungary	63.6	68.7	67.8	64.3
Bulgaria	120.5	113.8	85.7	52.3
Romania	16.7	18.3	18.0	22.4

Sources: Data provided by national authorities; Fund staff estimates; and World Econ

Table 2: Baltics, Russia and Commonwealth of Independent States: Total Sources of External Financing, 1993-96 (In millions of US dollars)

	1993	1994	1995	1996	1993-96
TOTAL	**28,350**	**38,079**	**56,399**	**39,732**	**162,560**
1. Official disbursements	4,984	4,822	7,173	8,873	25,852
2. Grants	3,140	2,750	2,862	843	9,595
3. Private capital	2,176	1,314	7,559	7,374	18,423
4. Foreign direct investment	316	1,439	1,830	5,135	8,720
5. Debt rescheduling	10,222	13,974	26,561	9,522	60,279
6. Accumulation of arrears	1,617	5,905	1,157	494	9,173
7. Draw-down of official reserves	0	4,135	353	1,786	6,274
8. Use of Fund credit net	1,822	2,373	7,503	4,144	15,842
9. Errors and omissions	4,073	1,367	1,401	1,562	8,403

Total Sources of External Financing (As percent of total)

	1993	1994	1995	1996	1993-96
TOTAL	**100**	**100**	**100**	**100**	**100**
1. Official disbursements	18	13	13	22	16
2. Grants	11	7	5	2	6
3. Private capital	8	3	13	19	11
4. Foreign direct investment	1	4	3	13	5
5. Debt rescheduling	36	37	47	24	37
6. Accumulation of arrears	6	16	2	1	6
7. Draw-down of official reserves	0	11	1	4	4
8. Use of Fund credit net	6	6	13	10	10
9. Errors and omissions	14	4	2	4	5

Sources: Data provided by national authorities; and Fund staff estimates.

Table 3: Baltics, Russia and Commonwealth of Independent States: Fund Credit and Loans Outstanding, 1993-96
(In millions of SDRs)

	1993	1994	1995	1996
Armenia	0.0	16.9	47.3	81.0
Azerbaijan	0.0	0.0	67.9	121.7
Belarus	70.1	70.1	190.2	190.2
Estonia	58.4	58.4	89.7	78.4
Georgia	0.0	27.8	77.7	133.2
Kazakstan	61.9	198.0	290.8	383.6
Kyrgyz Republic	43.9	53.3	83.6	97.1
Lithuania	88.0	134.6	176.0	189.5
Latvia	78.0	110.0	108.1	90.6
Moldova	63.0	112.5	154.9	172.3
Russia	1,797.3	2,875.6	6,469.8	8,698.2
Tajikistan	0.0	0.0	0.0	15.0
Turkmenistan	0.0	0.0	0.0	0.0
Ukraine	0.0	249.3	1,037.2	1,573.1
Uzbekistan	0.0	0.0	160.8	243.8
Total	**2,260.6**	**3,906.4**	**8,953.9**	**12,067.6**

Source: IMF International Financial Statistics.

Table 4: Baltics, Russia and Commonwealth of Independent States: Outstanding Use of Fund Credit, 1993-96
(In percent of total external debt)

	1993	1994	1995	1996
Armenia	...	12.1	19.2	19.5
Azerbaijan	...	0.0	24.6	33.6
Belarus	9.6	8.0	19.1	27.9
Estonia	50.6	43.1	49.9	32.9
Georgia	...	4.0	9.7	13.9
Kazakstan	4.7	10.2	12.9	14.2
Kyrgyz Republic	...	17.0	23.3	18.8
Lithuania	38.0	37.3	32.3	23.1
Latvia	48.4	43.9	38.7	29.5
Moldova	34.4	31.6	35.0	30.4
Russia	2.2	3.4	8.2	10.0
Tajikistan	0.0	0.0	0.0	2.5
Turkmenistan	...	...	...	...
Ukraine	...	5.0	19.3	24.7
Uzbekistan	...	...	13.7	15.1
Mean	23.5	16.6	21.9	21.2
Median	22.0	10.2	19.3	21.3

Sources: Data provided by national authorities; Fund staff estimates; and IMF International Financial Statistics.

Table 5: Baltics, Russia and Commonwealth of Independent States: IMF Credit and Loans Outstanding, 1993-96
(In percent of quota)

	1993	1994	1995	1996
Armenia	0.0	25.0	70.1	120.0
Azerbaijan	0.0	0.0	58.0	104.0
Belarus	25.0	25.0	67.8	67.8
Estonia	125.6	125.6	193.0	168.6
Georgia	0.0	25.0	70.0	120.0
Kazakstan	25.0	80.0	117.5	155.0
Kyrgyz Republic	68.1	82.6	129.6	150.5
Lithuania	85.0	130.0	170.0	183.1
Latvia	85.2	120.2	118.1	99.0
Moldova	70.0	124.9	172.1	191.4
Russia	41.7	66.7	150.0	201.7
Tajikistan	0.0	0.0	0.0	25.0
Turkmenistan	0.0	0.0	0.0	0.0
Ukraine	0.0	25.0	104.0	157.7
Uzbekistan	0.0	0.0	80.6	122.2
Mean	35.0	55.3	100.1	124.4
Median	25.0	25.0	104.0	122.2

Source: IMF International Financial Statistics.

Table 6: Baltics and Commonwealth of Independent States, Excluding Russia: Total Sources of External Financing, 1993-96
(In millions of US dollars)

	1993	1994	1995	1996	1993-96
TOTAL	**2,644**	**12,835**	**16,347**	**14,732**	**46,558**
1. Official disbursements	684	2,522	3,473	3,473	10,152
2. Grants	340	1,150	1,262	1,693	4,445
3. Private capital	376	1,314	1,359	1,744	4,793
4. Foreign direct investment	316	1,439	1,830	3,135	6,720
5. Debt rescheduling	222	1,574	4,161	1,262	7,219
6. Accumulation of arrears	17	3,105	857	494	4,473
7. Draw-down of official reserves	0	235	353	126	714
8. Use of Fund credit net	316	829	2,051	1,244	4,440
9. Errors and omissions	373	667	1,001	1,562	3,603
Total Sources of External Financing (As percent of total)					
TOTAL	**100**	**100**	**100**	**100**	**100**
1. Official disbursements	26	20	21	24	22
2. Grants	13	9	8	11	10
3. Private capital	14	10	8	12	10
4. Foreign direct investment	12	11	11	21	14
5. Debt rescheduling	8	12	25	9	16
6. Accumulation of arrears	1	24	5	3	10
7. Draw-down of official reserves	0	2	2	1	2
8. Use of Fund credit net	12	6	13	8	10
9. Errors and omissions	14	5	6	11	8

Sources: Data provided by national authorities; and Fund staff estimates.

Table 7: Baltics, Russia and Commonwealth of Independent States: External Debt, 1993-96
(In millions of U.S. dollars)

	1993	1994	1995	1996
Armenia	...	200	373	600
Azerbaijan	52	240	418	522
Belarus	1,015	1,253	1,513	985
Estonia	161	194	273	344
Georgia	...	987	1,214	1,381
Kazakstan	1,846	2,781	3,428	3,890
Kyrgyz Republic	299	448	543	746
Lithuania	324	516	825	1,182
Latvia	225	359	423	444
Moldova	256	509	671	818
Russia 1/	113	120	120	125
Tajikistan	509	760	817	863
Turkmenistan	168	418	550	668
Ukraine	4,214	7,167	8,142	9,186
Uzbekistan	1,039	1,108	1,782	2,331
Total	**122,808**	**136,740**	**141,372**	**148,958**
Poland	4,868	4,092	3,966	3,892
Hungary	24,538	28,521	30,121	29,247
Bulgaria	13,051	10,976	11,119	11,381
Romania	4,413	5,515	6,416	7,953

Sources: Data provided by national authorities; Fund staff estimates; and World Economic Outlook.
1/ In billions of US dollars.

Table 8: Baltics, Russia and Commonwealth of Independent States: External Debt, 1993-96

(In percent of exports of good and non-factor services)

	1993	1994	1995	1996
Armenia	76.3	77.9	122.5	164.6
Azerbaijan	6.0	29.3	49.1	51.6
Belarus 1/	36.1	47.4	32.7	19.7
Estonia	12.3	9.2	8.8	9.3
Georgia	4.4	204.4	258.8	255.5
Kazakstan	38.6	74.9	59.8	62.0
Kyrgyz Republic 1/	89.3	131.8	132.9	140.4
Lithuania 1/	18.9	26.9	29.3	34.6
Latvia 1/	14.5	22.6	19.0	15.9
Moldova	56.7	82.3	90.8	102.5
Russia	181.6	152.6	122.6	126.4
Tajikistan 1/	111.6	136.1	124.4	186.0
Turkmenistan 1/	6.2	12.7	26.4	39.5
Ukraine	32.9	59.2	59.6	58.6
Uzbekistan 1/	36.1	37.6	46.2	62.6
Mean	48.1	73.7	78.9	88.6
Median	36.1	59.2	59.6	62.0
Poland	276.1	183.8	122.7	111.5
Hungary	267.2	319.8	206.1	201.4
Bulgaria	78.5	77.7	72.8	82.4
Romania	261.5	208.0	171.7	162.2

Sources: Data provided by national authorities; and Fund staff estimates.

1/ Exports of goods only.

Table 9: Baltics, Russia and Commonwealth of Independent States: External Debt Service, 1993-96
(In percent of exports of goods and non-factor services)

	1993	1994	1995	1996
Armenia	...	3.0	20.5	19.7
Azerbaijan	...	0.4	7.9	9.3
Belarus 1/	0.5	4.4	3.0	2.0
Estonia	1.4	0.4	0.5	0.8
Georgia 2/	...	...	7.4	8.7
Kazakstan	1.4	2.9	8.0	5.4
Kyrgyz Republic 1/	0.6	5.3	21.7	17.9
Lithuania 1/	0.7	1.0	2.9	6.7
Latvia 1/	2.0	5.0	3.0	5.0
Moldova	0.6	4.0	10.0	6.3
Russia	28.2	26.0	19.6	15.1
Tajikistan 1/	4.1	6.3	19.6	52.5
Turkmenistan 1/	0.2	1.8	16.1	17.9
Ukraine	1.2	12.1	9.3	6.0
Uzbekistan 1/	5.5	10.5	16.8	8.9
Mean	3.9	5.9	11.1	12.2
Median	1.3	4.2	9.3	8.7

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Exports of goods only.
2/ Debt service numbers assume debt restructuring.

Table 10: Baltics, Russia and Commonwealth of Independent States: Exports Growth, 1993-96 1/
(Percentage change)

	1994	1995	1996
Armenia	...	19.0	12.2
Azerbaijan	...	4.1	15.3
Belarus 1/	-6.3	75.0	13.9
Estonia	60.9	48.4	15.9
Georgia	...	-2.8	15.2
Kazakstan	-22.4	54.4	9.5
Kyrgyz Republic 1/	1.5	20.3	29.9
Lithuania 1/	14.8	68.0	13.7
Latvia 1/	3.1	42.4	25.7
Moldova	44.3	32.8	6.5
Russia	56.8	17.1	8.2
Tajikistan 1/	22.4	17.6	-29.4
Turkmenistan 1/	-19.2	-4.2	-18.9
Ukraine	-7.2	11.7	23.2
Uzbekistan 1/	2.2	29.5	-0.7
Mean	12.6	28.9	9.4
Median	2.6	20.3	13.7
Poland	26.2	45.2	7.9
Hungary	-2.9	63.8	-0.6
Bulgaria	5.7	22.7	8.3
Romania	26.3	24.2	9.5

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Exports of goods only.

Table 11: Baltics, Russia and Commonwealth of Independent States: External Debt Service, 1993-96
(In percent of GDP)

	1993	1994	1995	1996
Armenia	...	1.0	4.3	3.7
Azerbaijan	...	0.1	2.5	2.6
Belarus	0.4	2.4	1.5	2.1
Estonia	0.7	0.3	0.2	0.4
Georgia 1/	...	3.5	4.6	1.4
Kazakstan	0.4	1.0	2.8	1.6
Kyrgyz Republic	0.3	1.6	5.9	6.6
Lithuania	0.4	0.3	0.9	0.9
Latvia	0.9	1.4	0.9	1.3
Moldova	0.2	1.8	4.8	3.3
Russia	10.5	7.3	4.5	2.7
Tajikistan	2.7	5.2	22.8	28.8
Turkmenistan	0.1	3.8	12.1	13.5
Ukraine	0.5	5.7	3.7	2.2
Uzbekistan	2.9	5.4	6.5	3.1
Mean	1.7	2.7	5.2	4.9
Median	0.4	1.8	4.3	2.6

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Debt service assumes debt restructuring.

Table 12: Baltics, Russia and Commonwealth of Independent States: Real Gross Domestic Product, 1993-96
(Percentage change)

	1993	1994	1995	1996
Armenia	-15	5	7	6
Azerbaijan	-23	-18	-11	1
Belarus	-11	-12	-10	3
Estonia	-8	0	4	3
Georgia	-25	-11	2	11
Kazakstan	-10	-18	-9	1
Kyrgyz Republic	-15	-20	1	6
Lithuania	-24	1	3	4
Latvia	-16	2	0	3
Moldova	-1	-31	-3	-8
Russia	-12	-13	-4	-3
Tajikistan	-11	-22	-13	-7
Turkmenistan	-10	-19	-8	-3
Ukraine	-14	-23	-12	-9
Uzbekistan	-2	-4	-1	2
Mean	-13	-12	-3	1
Median	-12	-13	-3	2

Sources: Data provided by national authorities; and Fund staff estimates.

Table 13: Baltics, Russia and Commonwealth of Independent States: Inflation, 1993-96
(End of Period)

	1993	1994	1995	1996
Armenia	10,896	1,885	32	6
Azerbaijan	1,294	1,788	85	7
Belarus	1,994	1,959	244	39
Estonia	36	42	29	15
Georgia	7,484	6,474	57	14
Kazakstan	2,169	1,160	60	29
Kyrgyz Republic	767	96	32	35
Lithuania	189	45	36	13
Latvia	35	26	23	13
Moldova	836	116	24	15
Russia	842	203	131	22
Tajikistan	7,344	1	2,135	41
Turkmenistan	...	1,328	1,262	446
Ukraine	10,155	401	181	40
Uzbekistan	885	1,281	117	63
Mean	3,209	1,120	297	53
Median	1,089	401	60	22

Sources: Data provided by national authorities; and Fund staff estimates.

Table 14: Baltics, Russia and Commonwealth of Independent States: Fiscal Balance, 1993-96
(In percent of GDP)

	1993	1994	1995	1996
Armenia	-61.4	-28.3	-13.6	-10.1
Azerbaijan	-11.0	-11.4	-4.3	-2.6
Belarus	-1.9	-2.6	-1.9	-1.4
Estonia	1.5	2.8	-0.9	-1.5
Georgia	-5.0	-20.1	-7.2	-5.6
Kazakstan	-1.4	-7.2	-2.5	-3.1
Kyrgyz Republic	-12.2	-11.6	-17.2	-9.8
Lithuania	-4.9	-4.7	-3.0	-3.8
Latvia	1.1	-1.7	-2.7	-1.1
Moldova	-7.2	-8.2	-5.7	-6.3
Russia	-6.5	-11.4	-4.8	-6.3
Tajikistan	-23.4	-5.4	-11.9	-5.0
Turkmenistan	-0.8	-1.4	-1.6	-0.2
Ukraine	-28.1	-8.8	-4.8	-3.2
Uzbekistan	-10.4	-6.1	-4.1	-9.4
Mean	-11.4	-8.4	-5.7	-4.6
Median	-6.5	-7.2	-4.3	-3.8

Sources: Data provided by national authorities; and Fund staff estimates.

Table 15: Baltics, Russia and Commonwealth of Independent States: Current Account Balance, 1993-96
(In percent of GDP)

	1993	1994	1995	1996
Armenia 1/	-14	-36	-34	-27
Azerbaijan	-10	-7	-11	-19
Belarus	-31	-12	-2	-9
Estonia	1	-7	-5	-10
Georgia	-47	-36	-14	-8
Kazakstan	-3	-8	-4	-4
Kyrgyz Republic	-12	-11	-18	-22
Lithuania	-5	-3	-5	-5
Latvia	7	-2	-4	-7
Moldova	-13	-7	-9	-13
Russia	3	4	1	2
Tajikistan	-31	-23	0	-11
Turkmenistan	20	2	1	2
Ukraine	-3	-5	-4	-3
Uzbekistan	-8	2	0	-8
Mean	-10	-10	-7	-9
Median	-8	-7	-4	-8

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Excluding current transfers.

Table 16: Baltics, Russia and Commonwealth of Independent States: Budgetary Debt Service, 1993-96
(In percent of government revenue)

	1993	1994	1995	1996
Armenia	1.4	5.0	29.4	27.6
Azerbaijan	...	...	0.6	1.8
Belarus 1/	1.9	1.0	4.7	2.4
Estonia	...	...	...	...
Georgia 2/	...	...	9.6	12.6
Kazakstan	0.0	0.0	0.8	0.8
Kyrgyz Republic	1.1	6.2	25.9	21.7
Lithuania	0.0	0.4	1.2	3.0
Latvia	2.5	3.8	2.5	3.5
Moldova 3/	0.7	2.4	10.3	5.7
Russia	5.5	5.7	10.5	18.2
Tajikistan	7.2	7.5	120.6	119.9
Turkmenistan	0.6	2.4	4.6	1.9
Ukraine	1.1	12.0	8.8	5.7
Uzbekistan 4/	6.8	16.8	18.5	7.8
Mean	2.4	5.3	17.7	16.6
Median	1.3	4.4	9.2	5.7

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Excludes debt cancellation.
2/ Debt service assumes debt restructuring.
3/ Defined as official debt service.
4/ Includes government guaranteed debt.

Table 17: Baltics, Russia and Commonwealth of Independent States: Budgetary Debt Service, 1993-96
(In percent of government expenditure)

	1993	1994	1995	1996
Armenia	0.4	1.8	16.0	17.0
Azerbaijan	...	...	0.5	1.6
Belarus 1/	1.8	1.0	4.5	2.3
Estonia	...	...	...	...
Georgia 2/	0.0	0.0	9.8	7.5
Kazakstan	0.0	0.0	0.7	0.7
Kyrgyz Republic	0.8	4.2	14.8	15.3
Lithuania	0.0	0.3	1.1	2.6
Latvia	2.6	3.7	2.4	3.4
Moldova 3/	0.6	1.9	8.8	4.8
Russia	4.6	4.4	8.9	14.4
Tajikistan	4.4	6.8	71.8	95.5
Turkmenistan	0.6	2.2	4.1	1.8
Ukraine	0.7	10.0	7.8	5.2
Uzbekistan 4/	5.5	14.2	16.8	6.3
Mean	1.7	3.9	12.0	12.7
Median	0.7	2.2	8.3	5.0

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Excludes debt cancellation.
2/ Debt service assumes debt restructuring.
3/ Defined as official debt service.
4/ Includes government guaranteed debt.

Table 18: Baltics, Russia and Commonwealth of Independent States: Government Investment, 1993-96
(In percent of government expenditure)

	1993	1994	1995	1996
Armenia 1/	...	21.7	22.7	15.5
Azerbaijan	...	1.7	3.3	2.6
Belarus	...	...	4.0	3.9
Estonia	7.6	10.6	11.4	12.2
Georgia	...	1.2	14.6	8.8
Kazakstan	11.0	5.8	3.2	3.3
Kyrgyz Republic 2/	...	15.1	14.1	14.9
Lithuania	9.6	10.3	10.6	7.6
Latvia	3.3	2.8	2.3	4.5
Moldova	7.6	4.8	4.5	4.0
Russia	6.7	10.6	6.0	4.7
Tajikistan	10.4	24.3	8.2	12.0
Turkmenistan	18.0	9.5	14.6	15.2
Ukraine	3.8	6.8	6.0	2.5
Uzbekistan	4.3	9.0	16.1	17.9
Mean	8.2	9.6	9.4	8.7
Median	7.6	9.3	8.2	7.6

Sources: Data provided by national authorities; and Fund staff estimates.
1/ Includes foreign financed investment on the budget.
2/ Includes Public Investment Project.

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