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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **YOLLY A. GURBANMURADOV**,  
Governor of the Fund for **TURKMENISTAN**,  
at the Joint Annual Discussion

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Governor of the Fund for Turkmenistan,  
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Delegates to this Annual Meeting have made many proposals to improve the operation of the international monetary system. Understandably, many of these proposals are directed to improving the future operation of the system. However, in this short intervention, Turkmenistan wishes to emphasize that there is an urgent need to deal with the emerging contagion problems of the present crisis, particularly in CIS countries, before moving on to deal with desirable future changes to the system.

The Turkmenistan authorities' particular concern relates to the non-payment of inter-government arrears within the CIS countries. As at the end of 1997, Turkmenistan was owed US\$1.3 billion by other CIS countries, mainly in respect of non-payments for past gas shipments. Over recent years, Turkmenistan, with Fund encouragement, has agreed to reschedule payments of overdue amounts to facilitate orderly adjustment by our debtor countries such as Georgia and Ukraine. This rescheduling was made in good faith and at a considerable cost to Turkmenistan. However, with its own exports now under pressure from both falling commodity prices and political and other difficulties in transporting gas to traditional markets, Turkmenistan now finds itself in a very difficult external situation.

We are now no longer in a position, therefore, to provide what amounts to "forced" balance of payments, support to our neighboring countries, the more particularly so as our past actions of support have been badly abused by some of our debtors who now choose to spuriously dispute their debt obligations in the hope of delaying or avoiding repayment obligations.

Recently, we have seen the situation worsen considerably with debtors, such as for example Georgia, defaulting on agreed principal repayments despite the presence of a Fund program which should have required the countries concerned to meet debt obligations. In short, Turkmenistan is facing a clear case of financial contagion arising out of the failure of Fund programs to restore financial viability to our major trading partners within the CIS region. Whilst the Fund has sought to assist in resolving these problems by requesting the countries concerned to reschedule debt, it nevertheless approved a further extension of Georgia's ESAF loan agreement this year without requiring a resolution of its unpaid debt obligations to Turkmenistan. We fear that similar situations could arise with our other debtors, notably Ukraine, which now face severe strains as a result of the Russian crisis.

In our view, these unsatisfactory payment procedures require immediate attention in any discussions of reform of the international monetary system. Just as it has sought to assist the orderly rescheduling of debt for western bankers involved in lending to Asian countries, so the Fund must require debtor countries within the CIS region to sit down with their creditors,

such as Turkmenistan, and agree on firm repayments schedules. It should be a condition of these discussions that failure to adhere to such payments should incur sanctions in the form of programs suspension or some similarly severe punishment, such as penalty interest charges on Fund loans. If the Fund feels it necessary to overrule such sanctions, compensatory financing should be paid to the creditor country involved from the Fund's own resources.

It should also be recognized that these agreed repayments should receive priority over other debt payments, such as servicing of commercial loans from overseas banks. We have seen evidence that many of these commercial loans were based on speculative transactions rather than genuine trade or development financing. Moreover, we are most concerned that the cross default clauses often embodied in these loans add enormously to the financing of any rescheduling of debt (as for example has occurred in the case of Ukraine). The funds recouped by the insertion of such clauses by legally advantaged western bankers are then denied legitimate trade financiers, such as Turkmenistan. It would be most unfair to see relatively poor countries disadvantaged in this debt resolution at the expense of legally advantaged speculators.

Without such measures, we fear that there will be a collapse of the payments system within the CIS region and the problems seen in one country of the region will quickly spread to others leading the whole region to become immersed in economic crisis. Turkmenistan appeals to other delegates present at these meetings to give urgent attention to these crucial payment system issues in their discussions of desirable reform of the international system.