

## **Letters to the Editor: IMF should sustain support of Russian recovery**

Financial Times; Feb 1, 1996

Sir, In 'Russia steps backwards' (January 26), you raise legitimate concern about the continuation of the 1995 'macroeconomic reins' in view of the increased budgetary outlays announced by President Yeltsin for payment of overdue wages and salaries to government employees and increased pensions.

The problem is even more acute because the president has sanctioned more allocations for rebuilding war-ravaged Chechnya than than allowed in the 1996 budget. The projected revenues of the budget are also as problematic as the anticipated increases in outlays. Revenue from the sale to investors of government stock in Russia's 20,000 large factories on the 'federal list', expected to raise up to Dollars 3bn for the 1995 budget, will certainly fall short. The Communists and agrarians in the pre-election Duma had opposed the programme in June 1994. The new Duma, with its increased strength, can be expected to be more intransigent. The 1996 targets adopted by the previous Duma of a monthly inflation rate of 1.9 per cent and a projected budget deficit of 3.9 per cent of gross domestic product are then in jeopardy. The options facing the International Monetary Fund, which is currently negotiating a Dollars 9bn credit with the Russian government, are the following:

Stick to the 1996 inflation and budget deficit targets and the promised support;

revise these targets down as unrealistic;

maintain the targets but increase the support temporarily to offset the added budgetary shortfall.

The first option is likely to force the Russian government into abandoning monetary and fiscal discipline as a political necessity, reversing the steady stabilisation gains of 1995. The second option sends the wrong signal that the IMF is willing to give up on these gains.

The third option seems to offer the wisest course. Under the IMF's persistent prodding and strict monitoring, the economy's management has changed from bureaucratic controls to market-type instruments. Most prices are free, the quantitative trade restrictions have been done away with, the export taxes have been removed, and energy prices are moving closer to world levels. The inflation rate has steadily come down from a whopping 2,600 per cent in 1992 to 873 per cent in 1993, 335 per cent in 1994 and an estimated 120 to 130 per cent in 1995. Surely, it is advisable for the IMF to remain engaged in the process and to push it forward by financially supporting the fulfilment of the 1996 macroeconomic targets especially at a time when the Russian economy is showing signs of recovery.

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