ASSESSING STABILISATION AND STRUCTURAL REFORM IN A POST-COMMUNIST WORLD (1995 RUSSIA)

IMF - BATHMUN 2024

Message from the Chairs

Dear Delegates,

Congratulations on finding yourself in **the best committee** BathMUN 2024 has to offer. This is a very well-known fact that will be reiterated across this weekend.

In this committee, we look forward to diving into the economic turmoil resulting from the dissolution of the Soviet Union in late 1991 and leading to the 1998 Russian financial crisis. In line with BathMUN's unique emphasis on historical committees, we ask the question, was the 1998 financial crisis inevitable? Or did the IMF fail its duties as a lender of last resorts?

The IMF can be challenging, with a nuanced mandate and heaps of fun economic terminology. However, since its establishment, the IMF's intervention has had a very real-world impact, with varying degrees of success, hence, it is paramount to understand it as a cornerstone of the global economy.

As the Managing Directors (aka Chairs), our role is to provide the support you need for a great conference weekend of debate. We hope this study guide is the initial springboard you need, and would therefore heavily encourage you to read through it. We are always here to support you and if you have any queries you can contact us at: imfchairsbath2024@gmail.com

With that, we hope all delegates look forward to immersing themselves in a post-soviet world and we look forward to welcoming you to Bath in November!

See you soon and dress warm!
Phia, Rico and Harry

Chair Introduction

(Harry and Rico having a great time after BathMUN 2023)

Phia

Hihi, I'm Phia! I study Economics at the University of Bath but am currently undertaking a placement year in the finance sector. I'm from the "sunny sunny" city of Manchester, which makes me one of three northerners you'll meet at this conference.

BathMUN has a special spot in my heart for being one of the warmest conferences, at the coldest time of year. So wrap up and I look forward to welcoming you all to Bath in November to hopefully make this committee one for the history books.

Harry

Good Morning/Afternoon/Evening, my name is Harry, a 3rd year Economic History student at the LSE. One of my specialisms is the history of extractive industries, hence why I'm helping chair this committee.

BathMUN was quite good last year (despite having quite a lacklustre deputy sec-gen (Phia)) so I'm hoping our committee can go some of the way to making the conference quite good again this year.

While doing research if you want to get into the (depressive) mood of Russia in the 1990s like I have, I would recommend listening to any music by the Russian band 'Kino' ['Кино'], particularly 'Summer is ending', 'The Last Hero', or 'The Star'; they helped me greatly with researching for this study guide and so I hope they can do the same for your position papers.

Rico

Hiya everybody, I'm Rico and I am studying Politics and Economics in LSE. Originally from Hong Kong, I enjoy the lovely weather, economic stability and good food this nation has to offer :)

BathMUN is a fresh addition to the ever-evolving landscape in the British MUN community, bringing you the loveliest friendships and most fascinating topics to explore. Despite its unfortunate proximity to Wales, I had the fortune to return to this wonderful conference and hope to share the festive joys we all will find. Hope to see you soon!

Introduction to the Committee

The International Monetary Fund: Modern-Day Perspective[1]

In the modern day, the International Monetary Fund (IMF) is undeniably a contentious institute, having developed an infamous reputation for interventions that have often been tied to eventually worsening the economic situation of the nations it sought to help.

In Latin America, the economic issues and prevalence of IMF intervention, has meant the institute has turned into a natural enemy and focus for protesting Western interference[2]. However its unique role in being the sole global body to provide loans aimed at nations on the brink of (or in) financial crisis, has given it the title of "the lender of last resort" and ensured relevancy throughout time as nations are often left with no other option apart from bilateral agreements.

The IMF's modern-day mission statement is "working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world[3]". Working with 190 member states as a forum for ensuring the global economy is protected and prosperous.

However, the IMF's unpopularity relates to the conditionality of lending, as these tend to involve structural adjustment involving privatisation, deregulation and additional bureaucracy rail guards. Fundamentally the failures of the IMF are widely publicised in comparison to their successes, and the rigid structure in which the IMF provides support is an easy target for discontent.

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[1] Image taken from Pérez, Santiago, and Erica Canepa. 2019. "Argentina's National Pastime: Hating on the IMF." Wall Street Journal, December 26, 2019, sec. World.
[2] Cepr, "The Destructive Legacy of US Economic Statecraft in Latin America and the Caribbean," Center for Economic and Policy Research, March 26, 2020, https://cepr.net/out-of-the-ashes-of-economic-war/.
[3] "About the IMF," IMF, October 1, 2024, https://www.imf.org/en/About.

History of the Committee

Establishment until the fall of the Soviet Union

The great depression was one of the most devastating economic events in modern history, with the global GDP falling by 15%. In America, GDP fell by 30% over this period (1929 to 1939)[4] in the aftermath of the 1929 stock crash, and many nations did not recover until the large-scale industrial investment of WW2. To put the impact of this crisis into perspective, Covid-19 led to a 3.4% in global GDP, whilst the 2008 Subprime mortgage crisis resulted in a 1% decrease, both over an one year period.[5]

The Bretton Woods passed a system that indexed the US dollar to gold, and through the creation of the IMF aimed to ensure that the Great Depression would never repeat[6]. It was officially founded in 27th December 1945 with a focus on Balance of Payment (BoP) imbalances[7] resulting from the multitude of tariffs imposed by nations trying to protect their currency. Its goal was to unify the global monetary system and improve cooperation, however, its toolkit was limited and its mandate and focus were nations in need of payment support.

The first major example of the IMF's success was the 1956 Suez Crisis, where the nationalisation of the Suez meant there was severely restricted assess for foreign companies. Leaving many nations at risk of not assessing a vital trade route. The IMF lent over 850 million euros over a 2 year period to stabilise balance of payments.

Since its creation, the IMF has carried out numerous interventions and has had to adapt to the ever-changing global economy. In 1971 President Nixon dropped the gold standard[8], leading to many nations switching to floating or flexible exchange rates, where the exchange rate is determined by currency markets.

In 1982, the Mexico debt crisis led to several Latin American countries defaulting on their IMF loans[9], driven by oil shocks and the growing foreign debt in the 1970s. In total 27 nations (16 of which were Latin American) defaulted and rescheduled debts, totalling $239 billion[10]. This led to the IMF taking steps to adapt how they lent to less developed economies (LDCs), by trying to avoid debt-trap diplomacy, where bad debt unnecessarily burdened nations[11].

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[4] Brian Duignan, "Causes of the Great Depression," Encyclopedia Britannica, n.d.,
[5] "Topic: Coronavirus: Impact on the Global Economy," Statista, July 3, 2024,
[6] "The Bretton Woods System," World Gold Council, n.d., https://www.gold.org/history-gold/bretton-woods-system.
[7] Poul Hϕst-Madsen, "Balance of Payments Problems of Developing Countries," Finance & Development 0004, no. 002 (June 1, 1967), https://doi.org/10.5089/9781616352868.022.a005.
[8] "About the IMF: History: The End of the Bretton Woods System (1972–81)," October 1, 2008, https://www.imf.org/external/about/histend.htm.
[9] By Jocelyn Sims, "Latin American Debt Crisis of the 1980s," Federal Reserve History, n.d., https://www.federalreservehistory.org/essays/latin-american-debt-crisis#:~:text=The%20spark%20for%20the%20crisis,at%20that%20point%20totaled%20%2480.
[10] "Volume I : An Examination of the Banking Crises of the 1980s and Early 1990s", Federal Reserve Bank: St Louis, 1997
[11] Aaron Onyango, "Debt Trap Diplomacy: How Financial Hegemony Hinders Trade and Development," Trade Finance Global, July 4, 2024, https://www.tradefinanceglobal.com/posts/debt-trap-diplomacy-how-financial-hegemony-hinders-trade-and-development/.

The Fall of the Soviet Union

The dissolution of the Soviet Union in 1991 led to 20 former soviet nations joining the IMF in the following years, the single biggest expansion since the 1960s[12]. These nations hoped that the IMF would be able to help with the difficulties related to transitioning to a capitalist free market state. Hence the IMF faced a new challenge in how to go about aiding the mass transition of these states.

The IMF established the Systematic Transformation Facilities in 1993 to outline the terms by which and when they would aid these nations, which delegates can find as “Systemic Transformation Facility Decision No. 10348-(93/61) STF, adopted April 23, 1993” online.

However around this time period, there are a variety of crisis in other emerging states, as Mexico faces it’s second crisis in recent years, resulting from the sudden devaluation of the Mexican peso against the American Dollar. The IMF combated this with a $50 billion programme to stabilise Mexico in 1994, which took some of the attention away from the post-soviet transition.

Mandate: Limitations of the IMF

The IMF’s Article of Agreements (which can be found online) still remain largely the same as they were at the time of founding, although it has expanded to include more emphasis on lending in a more sustainable way. However across this weekend, delegates should consider how the IMF’s role differs to that of the World Bank.

The IMF’S Articles of Agreements stipulate that the IMF can only lend in a short-term capacity and in a sporadic manner. This is ultimately what gave the IMF it’s common name of “lender of last resorts” due to the short term focus of it’s interventions. The emphasis of the IMF’s duties, particularly in the 1995 where this committee is set, has always been minimising the impact of Balance of Payment difficulties, where the import/export habits or situation of a country is not sustainable.

[12] “IMF-Timeline,” n.d., https://www.imf.org/external/about/timeline/index.htm.

Hence, the conditionality of given loans is ultimately the means by which it can implement progress towards themes such as governance and anti-corruption. In the modern day, this can be seen by the general structure an IMF loan follows:

1. Providing conditional financial lending after receiving a request from the member state in question. This involves laying out the terms and conditions of the loan and can often take time to finalise.
2. Providing advice on policy implementation and maintenance, often based on monitoring the policy conditionality as of stage 1.
3. Periodic reassessment of the overall situation to ensure the IMF loan is repaid and the conditions have been adhered to.

We will be focusing primarily on stage 1, the terms and conditions of the actual loan. However, delegates may want to consider what stages 2 and 3 may look like.

Special Rules of Procedure

Unlike the United Nations General Assembly, where delegates draft, vote on and pass resolutions, the IMF only really creates annual reports on progress, projections for individual member states or issues executive statements on the direction of IMF policies. Additionally the main role of the IMF, as you would expect, is to draft the loan agreements for individual member states.

Additionally, the simulation for this Historical IMF committee is of the **Executive Board of the International Monetary Fund**, rather than the main IMF body (which doesn't really exist either but that's neither here nor there).

Executive Statements

To keep this simulation as close to how the IMF actually operates rather than producing working papers and a draft resolution at the end of committee, delegates will draft 'Executive Statements' - which are normally referred as "The Chair's Summing Up". These will work exactly the same as ordinary Working Papers or Draft Resolutions so delegates need not fret about formatting or trying to do a new style of writing.

Executive Statements are often issued, for the purposes of:

1. Giving a brief overview/analysis of the success/failure of Stabilisation and Reform policy in the transitional economies of Eastern Europe since the collapse of the Eastern Bloc. (preambulatory clauses)
2. Outlining new or continuing policies of the IMF in relation to the committee topic. (operative clauses)

Like ordinary MUN, **multiple 'Executive Statements' can be passed** (they will simply be combined) unless any clauses are contradictory, if even a single clause in either Executive Statement contradicts one in the other only one of the Executive Statements can be passed, and the first one to be passed will go through. [Time permitting, this can be circumvented by dividing of the question]

Structure of a Chair's Summing-Up:

The Chair's Summing-Up
[agenda item]
Executive Board Meeting [meeting code]
[date]

Executive Directors *[preambulatory phrase]*…

Directors *[preambulatory phrase]*...

Directors *[operative phrase]*...

Stand-By Arrangements

Delegates can also choose to draft and attempt to pass a Stand-By Arrangement (SBA) for the Russian Federation - which is why this meeting was initially called. This Stand-By Arrangement should be a shorter document outlining the amount of money the IMF is additionally allocating to the Russian Federation, and the list of fiscal and economic conditions of this loan, ideally taking the policies outlined in the draft Executive Statements in mind.

The Stand-By Arrangement will be based on the Request for Stand-by Arrangement made by the Russian Federation to the IMF's Executive Board between 22 March and 10 April 1995. These can be found in the IMF archives by searching 'EBS/95/46'[13]. Additionally, Russia has an effective veto over the stand-by arrangement as they can reject any proposal brought to them by the IMF, and so delegates must keep in mind that Russia should accept **all conditions** in any stand-by arrangement

Structure of a Stand-By Arrangement (This section can be read now or post topic introduction depending on delegate preference)

For the purposes of this Committee, we would encourage delegates to focus only the highlighted or underlined sections. Details of each section will be stated below:

1. **Lending Obligation**: Paragraph 1 and 2 will specify the amount of loan to be approved, thus setting out the dates in which the credits will have to be repaid. The Board can opt to release the loans on separate occasions to the Russian Federation.
2. **Performance Criteria (Conditionalities)**: Paragraph 3(a) and (b) prescribes any quantitative or structural criteria imposed by the SBA. In a real-world situation, conditionalities of a loan would have been negotiated and finalised prior to the meeting, between members of staff in the IMF and member states, thus to be specified in a request letter. For the purposes of this simulation, the conditionalities should be specified in the agreement itself, subject to the same formatting. Further references can be found in this page. It is also noted that paragraph (d) should **NEVER** be modified under any circumstances.
3. **Periodic Reviews**: Paragraph 3(c) designates the timing of review for the progress of implementing the SBA. As this will be done by staff members in the IMF, it is usually set out in a recurring manner (i.e. monthly/quarterly).

[13] e.g. finding Archives | Details (imf.org) via Archives | Simple search (imf.org)

Please also note that the exchange rate of SDR:USD is 1:1.560500 at 31 March 1995.

Russian Federation: Stand-By Arrangement

Attached hereto is a letter from the Chairman of the Government of the Russian Federation dated March 14, 1995, with annexed Statement on Economic Policies for 1995 ("Statement") from the Chairman of the Government of the Russian Federation and the Acting Chairman of the Central Bank of the Russian Federation, requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of the Russian Federation intend to pursue for the period of this stand-by arrangement;

(b) understandings of the Russian Federation with the Fund regarding [a] review[s] that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Russian Federation will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period _______, the Russian Federation will have the right to make purchases from the Fund in an amount equivalent to SDR _______ million, subject to paragraphs 2, 3, 4, 5 below, without further review by the Fund.

2.
   (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR _______ million, provided that purchases shall not exceed the equivalent of SDR _______ million until ____________, and the equivalent of SDR _______ million until ____________.

(b) The right of the Russian Federation to make purchases during the remaining period of this stand-by arrangement shall be subject to such phasing as shall be determined.

(c) None of the limits in (a) or (b) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of the Russian Federation's currency subject to repurchase beyond 25 percent of quota.

3. The Russian Federation will not make purchases under this stand-by arrangement that would increase the Fund's holdings of the Russian Federation's currency subject to repurchase beyond 25 percent of quota:

(a) if, during any period in which the data at the end of the preceding period indicate that:

(i) [the limit on net international reserves of the Central Bank of Russia, specified at ___], or

(ii) [the limit on net domestic borrowing of the public sector , specified at ___], or

(iii) [the limit on the net domestic assets of the the Central Bank of Russia, specified at ___], or

(iv) [(other quantitative or structural performance criteria) monitored at the end of the preceding period],

(v) ...

is not observed; or

(b) if, at any time during the period of the arrangement, the Russian Federation incurs any external payments arrears;

(c) after ____, …, ____ and ____, until the review[s] is/are completed; or

(d) if, at any time during the period of the extended arrangement, the Russian Federation

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices; or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When the Russian Federation is prevented from purchasing under this extended arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and the Russian Federation and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. the Russian Federation will not make purchases under this extended arrangement during any period in which the Russian Federation: (i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842- (84/165) on the Guidelines on Corrective Action; (ii) is failing to meet a repayment obligation to the PRG Trust established by Decision No. 8759-(87/176) PRGT, as amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument; or (iii) is failing to meet a repayment obligation to the Resilience and Sustainability Trust (RST) established by Decision No. 17231-(22/37), or a repayment expectation to that Trust pursuant to the provisions of Appendix II to the RST Instrument.

5. The Russian Federation's right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the Russian Federation. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and the Russian Federation and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of the Russian Federation, the Fund agrees to provide SDRs at the time of the purchase.

7. The Russian Federation shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

8.

   (b) The Russian Federation shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as the Russian Federation's balance of payments and reserve position improves.

   (c) Any reductions in the Russian Federation's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the extended arrangement the Russian Federation shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to the Russian Federation or of representatives of the Russian Federation to the Fund. The Russian Federation shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of the Russian Federation in achieving the objectives and policies set forth in the attached letter and annexed Statement.

10. In accordance with paragraph March 14, 1995 of the attached letter, the Russian Federation will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while the Russian Federation has outstanding purchases under this arrangement, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning the Russian Federation's balance of payments policies.

Additionally here is an example of agreements that would be made by a Stand-By Arrangement as seen by this Stand-By Arrangement for Ukraine as agreed by Ukraine and the Executive Board 07/04/1995:
Archives | Details (imf.org)[14].

[14] https://archivescatalog.imf.org/Details/archive/125122524

Voting Procedures

IMF voting works very differently to ordinary GA in the UN, both because it is an organisation with formal operational independence from the United Nations and because it operates largely as an investment bank exclusive to nation states that acts only as a lender-of-last-resort for fiscal stability.
In committee, voting on all procedural matters will occur in the same way as ordinary MUN GA:
That is 1 state; 1 vote.

This will change, however, when we come to vote on the final 'Executive Statements' and Stand-By Arrangement. When doing final voting, we will move to a vote based on quota (which can be found here[15]) requiring a simple majority of quotas to pass. When dividing the question or doing amendments we will continue with 1 state 1 vote. Only the final vote on any Executive Statement or Stand-By Arrangement will require 50% of quotas to pass. Additionally, any Executive Statement that attempts to change the fundamental mission statement, organisation or voting structure of the IMF will require an 85% quota majority to pass (thereby giving the US a veto on any major changes).

[15] https:://www.elibrary.imf.org/display/book/9781451953121/ann02.xml

The allocation of quota can be found here (modified based on quota as in 31 March 1995)[16]:

Country	Voting Share[17]	Country	Voting Share
Argentina	2.35%	Libya	2.35%
Bulgaria	3.78%	Lithuania	2.09%
Canada	3.73%	Mongolia	3.30%
China	2.49%	Netherlands	2.86%
Croatia	2.02%	Poland	2.39%
Czech Republic	2.23%	Romania	2.02%
Egypt	2.05%	Russian Federation	2.91%
Estonia	2.07%	Saudi Arabia	3.46%
France	5.00%	Spain	2.35%
Germany	5.55%	Turkey	2.41%
India	2.69%	Ukraine	2.02%
Japan	5.55%	United Kingdom	5.00%
Kazakhstan	3.25%	United States	15.59%
Kyrgyzstan	2.04%	Uzbekistan	2.04%
Latvia	2.02%	Venezuela	2.37%

[16] IMF Annual Report 1995 pg. 216-219
[17] If you are curious as to how we got to these values (considering they do not represent the exact IMF voting structures), feel free to email Harry at imfchairsbath2024@gmail.com (they are still fair and proportional)
These votes are subject to change depending on who is present at final voting so we will update you each day.

Topic Introduction

Summarised Timeline of Events

October 1990:
The IMF makes an official trip to the USSR to lay out an initial programme of technical assistance in the transition to a market economy.

25 December 1991:
Russia officially leaves the Soviet Union, leaving Premier Mikhail Gorbachev unemployed and Boris Yeltsin as Russian President.

3 January 1992:
Russia applies for membership of the IMF.

30 March 1992:
The Executive Board of the IMF meet to give blessing to the Russian Economic Reform Programme - The MEP (Memorandum on Economic Policies)

1 June 1992:
Russia becomes a full IMF member with 3% quota.

5 August 1992:
The first approved lending from the IMF to Russia occurs in the form of a Stand-by Arrangement of $1B

15 December 1992:
Russian PM Gaidar, a prominent market reformer, is fired by Yeltsin and replaced by Chernomyrdin, former head of Soviet Gazprom.

March/April 1993:
Yeltsin survives an attempted impeachment by the Russian parliament and a following presidential confidence referendum - beginning the process of strengthening the Russian presidency.

Misc 1993:
The IMF creates the Systemic Transformation Facility (STF) mechanism to lend quickly to countries in economic transition - without the need for length approval and means-testing periods.

22 May 1993:
A $1.5B STF is offered to Russia, without restrictions on the use of proceeds for budget adjustment.

4 October 1993:
Russian political turmoil reaches a head as Yeltsin approves military shelling of the parliament to force them to dissolve.

12 December 1993:
Russian parliamentary election bolsters the nationalist movement and strengthens the powers of the presidency.

January 1994:
Yeltsin re-shuffles the cabinet, removing reform leaders Gaidar and Fyodorov.
April 1994: The second $1.5 B STF from the IMF to Russia is approved.

11 October 1994:
'Black Tuesday' sees the Russian ruble fall 21% against the US dollar.

October 1994:
Yeltsin's hand is forced on reform by Black Tuesday. Reformers Chubais and Paramov are promoted to deputy Prime Minister for the Economy and Governor of the Central Bank.

3 March 1995:
IMF moves from quarterly to monthly compliance checks on the use of Russian STFs.

11 April 1995:
A meeting of the IMF's Executive Board is scheduled for April 11th with the hope of providing Russia with a much larger and more comprehensive STF, although many delegates enter negotiations with reservations over Russia's sincerity due to previous condition violations. Where we find ourselves in this exciting committee today.

Russian Economic and Fiscal History since the collapse of the USSR

1990-1992: Reform and Disregard

As the liberalisation of the USSR got underway towards 1991 the IMF, as the chief organisation responsible for the fiscal assistance the USSR would receive, laid out its priorities for said technical assistance during a trip in 1990:

- Firstly, Gosbank would be converted into a true central bank, with the ability to stabilise the supply of money and credit through indirect controls such as open market operations and reserve requirements;
- Secondly, foreign exchange operations would be put on an efficient and market-determined basis;
- Thirdly, the administration of tax collection would be strengthened, with a reformed tax policy and modernised customs office - something the USSR was particularly unaccustomed to;
- Fourthly, developing a national bureau of statistics in line with international [Western] standards;
- Finally, improving economic forecasting with respect to the data required for financial programming, to allow for a much more predictable and, most importantly, tradable, Russian economy/currency.[18]

These 5 priorities formed the backbone of the IMF's approach to Russia after the dissolution of the USSR, and it would be the extent of compromise on these priorities that would dominate IMF negotiations over the next decade.

Less than a week after the Russian Federation withdrew from the Soviet Union, and Boris Yeltsin became its President, Russia applied for membership of the IMF[19]. It did this in the context of an inheritance from the USSR of only a $2B stock of net gold and foreign exchange reserves compared to a rising stock of $66B external debt - which was rapidly rising[20]. Among the G7 and particularly in the higher echelons of the US administration the attitude towards Russia was highly optimistic, with the Executive Board giving wholehearted (albeit informal) approval to Yeltsin's Memorandum on Economic Policies in March.
Through this, Russia became a full working member of the IMF on June 1st 1992, with 3% of Fund quota.

[18] Memorandum from L. Alan Whittome to relevant department heads, "USSR—Technical Assistance" (October 11, 1990), with attachment by Ter-Minassian; IMF archives, Accession 91/118, OMD files, "USSR Mission and Reports by Mr. Whittome," Box 4.
[19] "Russian Federation: Application for Membership," EBD/92/4 (January 7, 1992).
[20] Russian Federation—Use of Fund Resources—Request for First Credit Tranche Stand-By Arrangement" (EBS/92/119, Suppl. 3, July 24, 1992), Table 6; and Letter of Intent (EBS/92/119, July 10, 1992), p. 16

It is important to note that this quota proportion was opposed by the vast majority of IMF Directors who preferred a proportion above that of China (2.5%) but below that of Italy (3%) to keep Russia below the levels of all G7 countries. This was circumvented with shrewd diplomacy from the Russian negotiator Kagalovsky who spoke 1-on-1 with each G7 Director and Yeltsin taking the issue up with Bush.

A standard IMF Stand-by arrangement of $1B was arranged in August, although this saw much dispute over the conditions between Russian and Fund officials: "The delays and slippages of the past few months show how difficult it will be in practice to implement the program in full. However, if it is fully implemented, the program would represent a marked tightening of financial policies which deserves the support of the Fund."[21].

Even within Western countries there was much opposition to stringent conditions, namely the high floor on international reserve assets which were preventing the Russian authorities from spending any proceeds from the arrangement and even limited their ability to invest. This opposition was so deep that 32 US Senators wrote to the IMF director comparing the economic crisis to the Great Depression encountered by the West during the 1930s[22].

These stringent conditions imposed on the Russian Stand-by arrangement meant the Russian authorities had no incentive to draw on the Fund's allocation. If the authorities attempted to withdraw any of the allocated funds to use for investment, any income would be wiped out by interest charges. Only by October did the Central Bank begin procedures for withdrawing, out of desperation due to the ever-widening fiscal imbalance, which saw them borrow the maximum instalments for November and December[23]. This was against the advice of the IMF, who believed Russia was using the excuse of economic decline to withdraw and spend the money on fiscal balancing rather than investment[24].

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[21] "Russian Federation—Use of Fund Resources—Request for First Credit Tranche Stand-By Arrangement," EBS/92/119, Suppl. 3 (July 24, 1992), p. 37.

[22] IMF archives, C/Russian Federation/1760, "Stand by Arrangement 1992.",

[23] "Russian Federation— Staff Report for the 1993 Article IV Consultation," SM/93/66, Suppl. 1 (April 16, 1993), p. 8.

[24] See, for example, letter from Camdessus to Gaidar (November 19, 1992); IMF archives, EU2 files, R-130, "Use of Fund Resources."

The deterioration of economic conditions and pace of reform at the end of 1992 led Yeltsin to fire his Prime Minister Gaidar, due to his attraction to the more radical western reform movements and replaced him with Chernomyrdin. Chernomyrdin, by contrast to Gaidar, had no formal experience in macroeconomics and was more theoretically rooted in the old Soviet system as former head of the Soviet gas monopoly, Gazprom. Chernomyrdin allowed Yeltsin to engage in a moderate economic recovery without overt political pressure[25].

Yeltsin (L) and Chernomyrdin (R) in Moscow c.1993

A political crisis in the early months of 1993 saw Yeltsin survive an impeachment from the parliament in March and win a referendum on the extent of presidentialism in April which focused his attention away from reform and laid the groundwork for further conflict between him and the parliament.

1993: Initial Agreement and Political Turmoil

In 1993, with consideration of the transition economies of Eastern Europe and Central Asia the IMF created the Systemic Transformation Facility (STF) which provides temporary but immediate assistance to countries in the transition from centrally planned to market economies facing balance of payments squeezes by "providing financial assistance" to developing countries with severe balance of payments disruptions, such as rising import costs or fall in export[26]. The Facility allowed approval for funding with nascent policies and without the ordinary formal procedures of detailed action plans for the use of these funds - instead intending to serve as foreign reserve bulwarks to prevent the collapse of a currency in the event of a balance of payments crisis.

In May 1993 the IMF offered a USD 1.5 million STF loan with immediate effect and without restrictions on using the proceeds to finance the budget[27], unlike the previous Stand-by arrangements with stringent conditions on use for investment. In June, it was agreed that Russia would receive a one-year credit of total USD 3 million, half of which had already been negotiated in May and the other half which would be made available when Russia appropriately met the conditions of the first half.

[25] "Yeltsin", 1994, pp. 197-201
[26] Minutes of EBM/95/38 (April 11, 1995), p. 37
[27] "Russian Federation—Purchase Transaction—Systemic Transformation Facility (STF)," EBS/93/91, Suppl. 2 (June 29, 1993). Also see Hernandez-Catá (1994), pp. 15–16

These conditions were intended to increase the supply of credits without further monetary injection from the Central Bank, thus undergoing significant anti-inflationary reforms such as:

1. Eliminating subsidised credits by raising the Central Bank of Russia's (CBR) lending rate to the market-determined Moscow interbank rate.
2. Raising interest rates by reducing the growth of base money, via printing less money, and domestic credits.
3. Restraining subsidies and tax exemptions made to state enterprises.

'Air Drop', by satirical liberal cartoonist Herblock

It was hoped these conditionalities of restraining monetary policy would establish financial stability and certain, thereby accelerating structural transformation.

At first, the Russian authorities took immediate steps, including further liberalisation in the coal prices and reduced its budget deficit, hence lowering the need of borrowing; the Central Bank also raised the base rate and removed undervalued credits.

The ruble appreciated by more than 10% between June and July 1993. However, the short-term success was overshadowed by policy disorientations. The Russian STF itself had allowed for larger budget deficits, creating little to no incentives for the government to strengthen fiscal discipline. Even though subsidies and price controls were lifted, additional spending have been allocated into the same areas due to the lobbying of energy and agricultural stakeholders[28]. The IMF suspended the second tranche of STF in September 1993, citing their concerns over Russia's failure to meet deflationary commitments.

[28] E. Hernández-Catá, "Russia and the IMF: The Political Economy of Macro-Stabilization," IMF Policy Discussion Papers, vol. 1994, no. 020, Oct. 1994, doi: https://doi.org/10.5089/9781451963939.003.A001.

The latter half of 1993 saw the previous bubbling political resentment explode as the parliament attempted to depose Yeltsin leading him to dissolve them. As the parliament continued to sit on October 4th Yeltsin mobilised the army in Moscow and shelled them into dissolving. December 12th saw extreme nationalists and communists gain great influence in the parliamentary elections, bolstering the power of Yeltsin's presidency. Prior to the second tranche being released, the Russian parliament passed legislation that essentially restricted privatisation and foreign exchange, whilst limiting the government's ability to slash social security spending. Chernomyrdin was not willing to pursue meaningful reforms, rendering the collective efforts useless[29].

Russian soldiers outside the shelled Russian 'White House' that housed the Supreme Soviet of Russia and the Congress of People's Deputies.
State security, civilians, and retired military personnel were organised in the defence of the building but they were helpless against the 6 tanks of the Taman Division which shelled the 12th and 13th floors causing a fire.

Western opposition to the way loans were being issued to Russia, particularly from American Vice-President Gore criticising the conditions on multilateral resistance forced the IMF's hand in laying down the law on Russian reform through a joint statement between them and the IMF that stated that "by financing the retention of the status quo, increasing capital flight, and prolonging the period of reduced living standards... The [IMF and World Bank] have been insisting on policy conditionality, which Russia's reformers generally welcome."[30].

This approach highlighted Russia's lacklustre progress but stipulated that policy conditionality was necessary to prevent the Russian authorities hostile to faster reform from using funds for short-term payments balancing, rather than long-term investment programmes. A Russian-Jewish economist Chussudovsky additionally argued that the loan arrangement was enlarging Russia's dependence on foreign debt; rather than conducting credit contraction, he believed that deregulating the monetary market had made the Federation more vulnerable to expensive credits[31].

Pro-parliamentary protestors face Russian state police militia on the streets, many in the crowds carry Soviet/socialist flags/banners indicating the continuity in support for the 'Supreme Soviet'

[29] A. Friedman and J. Gage, "Russia Outlook: Hyperinflation, Falling Output and Reform Paralysis,", Jan. 31, 1994.
[30] "Economic Reform in Russia: Lessons from Experience," EBD/94/3 (January 5, 1994), p. 5.
[31] M. Chossudovsky, "Russia: Towards Economic Collapse on JSTOR," Economic and Political Weekly, vol. 29, no. 3, pp. 91–93, Jan. 1994, Available: https://www.jstor.org/stable/4400659

1994: Rejuvenated Effort, Economic Collapse and Despair

By 1994, it became clear that the STF failed to achieve its initial objective - achieving price stabilisation. Instead, the continued loosening in fiscal and monetary policies have caused another hyperinflation and sharp depreciation in the Russian rubles, followed by the depletion in its foreign exchange reserves and growing poverty rates. In addition, the Russian government is facing a bigger budget deficit following its costly involvement in the Chechen War, despite that they previously committed to reverse it.

As a result of this in January 1994 Yeltsin re-shuffled his cabinet to remove the reform leaders Gaidar and Fyodorov completely from frontline Russian economics, with Fyodorov calling it "an economic coup d'état" by "red managers" (Communist-background bureaucrats) and warning: "If the International Monetary Fund bends the rules, if some people continue 'rethinking policy,' Russia is in for major trouble that will inevitably affect the whole world"[32].

April 1994 saw the IMF's second USD 1.5 million STF loan approved, despite the obvious political and economic danger signs of doing so owing to the Russian authority's failure to follow conditionality and unwillingness to use funds for investment. The approval of this loan was almost entirely down to the efforts of the IMF's Managing Director, Camdessus, due to his cultural integration with Russian ministers and infectious (albeit unfounded) optimism[33]. This did not alleviate Russia's economic woes, however, as the fiscal deficit and real central bank lending goals were only half reached to what was expected in the programme[34]. This fiscal weakening saw consumer inflation accelerate sharopy, bridging forward a loss of confidence in the reform effort and a panic on Russia's foreign exchange markets.

October 11th 1994, Russia experienced 'Black Tuesday' as the ruble dropped 21% against the dollar forcing Yeltsin's hand on reform. As a result, he promoted top reformers Chubais and Paramanova to First Deputy Prime Minister in charge of the economy and Governor of the Central Bank. Only a week after Black Tuesday an IMF delegation arrived in Russia to design a new policy approach with 2 key ideas:

- Firstly, Russia would stop relying on spending cuts to temper fiscal imbalances and would instead attempt to reform the inefficient and corrupt taxation system so tax rises could be implemented.
- This had been previously resisted as not suited to the Russian economy, due to its absence in a centrally planned economy, the transition for a market economy required tax reformation.
- Secondly, Russia would abandon the floating exchange rate and instead peg the ruble at a new, devalued rate, in order to bolster exports.

[32] Fyodorov 1994
[33] Declaring himself an optimist in a speech before the Moscow Finance Academy on March 21, Camdessus enthused, "A country with such human and natural resources as yours will overcome its temporary problems."
[34] "Russian Federation—Request for a Stand-by Arrangement," EBS/95/46, Suppl. 1 (March 29, 1995), Table 1.

This suggestion was heavily resisted by Russian authorities who believed currency reform should only occur after the fiscal situation and Balance of Payments had been stabilised[35].

Legislative resistance to tax reform was incredibly strong in Russia's nationalist parliament.


IMF Managing Director Camdessus (L) meets Russian First Deputy PM Chubais (R) in Moscow

Fund staff advocated building an effective system for levying and collecting taxes in order to get the fiscal deficit under permanent control, but Chubais argued the government could not possibly get strong tax legislation passed and so the only practical way to control the deficit was to sequester a large part of the spending parliament approved. Neither Yeltsin nor Chernomyrdin were prepared to invest political capital into forcing a showdown in parliament and were instead content with allowing Chubais to take the heat for any spending cuts. Under the pressure of a looming Russian political, economic and financial crisis the Fund caved and pulled back on its previous suggestions[36].

On March 3rd the Fund moved to heavy monitoring of Russian fiscal activity with compliance checks every month rather than every quarter. A meeting of the IMF's Executive Board was arranged for April 11th 1995 to debate a Stand-By Arrangement for Russia and outline the protocol for future fiscal and economic relations with the transitioning economies.


The IMF's official portrait for Marc-Antoine Autherman c.1995

[35] Back-to-office report from Hernandez-Catá to the Managing Director (November 2, 1994); IMF archives, C/Russia/1720.

[36] On February 9, Odling-Smee warned management that "a crisis could unfold fairly quickly" in Russia, owing to the Chechnya conflict, doubts about the breadth of commitment to reform in the government, and the possibility that Russian banks could switch quickly out of rubles into dollars. Memorandum from Odling-Smee to the Surveillance Committee, February 9, 1995; IMF archives, Accession 1998-0106-0008, OMD/AD (Fischer), "Russia 1995."

Many on the Board express doubts that Russia will carry out its promises, and many indicate they are only supporting the Managing Director's recommendation only because the costs to Russia and the world of doing nothing are so much greater than the costs of improper use of funds by Russian authorities. As the representative for France, Autherman, put it, "We know that Russian programs go back on track in the winter, that we reach agreement in spring, that we congratulate each other at the end of June, and that everything falls apart in summer." Without "a summer and a fall of success... the conclusion of this agreement will not raise confidence in private markets."[37].

[37] Minutes of EBM/95/38 (April 11, 1995), p. 37

Economic Progression of Russia after 1995

Note: The following events represent an accurate depiction of our real-world history. As this historial committee would take place right before the 1995 SBA decision were to be ever made, delegates should refrain from commenting or referencing any of these 'predictions' from Earth-616 (Doctor Strange does not exist here). However, do take insights and develop solutions from these 'speculated events', strictly coming from another universe.

The 1995 Stand-By Arrangement

Initially, the IMF was hesitant to grant extra loans due to Russia's inconsistency in clapping down its budget deficit, thus halting negotiations altogether in early February. However, President Yestin has committed to take more extreme, unpopular decisions in preventing another economic turmoil. Considering the negative spillover effects should the Russian economy continue to fail, the IMF Executive Board has approved a USD 6.8 billion bailout package in April 1995, citing the importance of building confidence and maintaining liquidity. In this arrangement, Russia must comply with several strict conditionalities:

- fully-liberalising international trade
- reducing the fiscal deficit via raising tax revenues from the oil industry and issuing treasury bonds, instead of quantitative easing measures
- halting Central Bank's direct financing schemes
- undergo comprehensive reforms in the social security system
- strengthening regulation and fair competition in the banking sector
- accepting periodic oversight and consultation from IMF staff

The SBA acknowledged the importance of structural changes in delivering stability, whilst concentrating efforts on non-inflationary financing. In hindsight, the IMF directorship believed that it could build up momentum for genuine reforms.

<u>Benefits and Successes</u>

Indeed, the introduction of SBA has eased off the inflationary pressures within Russia. With a successful contractionary monetary policy and fiscal grip, inflation rates in consumer prices have substantially reduced by more than 40% in 1995, and rubles have successfully appreciated for the first time. The Central Bank of Russia has maintained a stable exchange rate, ranging between 4300 to 4900 rubles per US dollar, which was widely believed to encourage foreign trade. Subsequent credit crunch has also reduced the speculative operations in the monetary market, offering more liquid borrowing to the private sector to stimulate entrepreneurship.

Both private enterprises and international investors have slowly regained some confidence in the Russian economy, following the SBA implementation. Privatisation and monetary reforms were proven to be somewhat successful in generating growth in the private sector, yielding higher returns and improving its own credentials[38]. Studies have also shown that more foreign firms are willing to take on more high-risk investment projects compared to half a decade ago.

Drawbacks and Challenges

In reality, liberalisation and privatisation policies have also accelerated the de-industrialisation which was already occurring in Russia. By removing price controls and raising exchange rates, manufacturing firms were soon outpriced by foreign competitors abroad and eventually closed down their production lines. Economists have been placing emphasis on the inefficient scale of industrial production, arguing that it hinders economic transformation in Russia. However, unemployment rates have also increased amongst manual workers, which in turn suppresses median wages and enlarging impoverishment. Alarmed by the pressures to reduce social benefits, it is understandable to question whether long-term growth will be undermined by the shortage of productive labour and capital.

It was noted that institutional reforms continued to stall in the following year, since the establishment continued to oppose further liberalisation policies. This is primarily because in the 1996 presidential election, then President Boris Yeltsin pandered towards the oligarchs in an attempt to secure campaign funds and political gains. Prior to the election, Yeltsin introduced the "Loans for Shares" scheme where oligarchs have acquired shares of state-owned firms through offering loans to the government, which will thereafter being purposely defaulted[39]. In spite of its "aim" towards privatisation, it also increased market concentration in key strategic industries. President Yestlin might have secured business support and subsequently won a second-term, but it also allowed oligarchs to yield greater political influence. On occasions, they have lobbied for monopolistic powers and favourable conditions, which creates further anti-competitive practices and hampering opportunities of change. It was later proven that it has only created economic disorientation and disrupted the process of restructuring in the long run[40].

[38] M. Ratinov, "Investing in Russian Securities: Analysis of Capital Market Development," Fordham International Law Journal, vol. 21, 1997, Available: https://core.ac.uk/download/pdf/144226651.pdf
[39] G. Rosalsky, "How 'shock therapy' created Russian oligarchs and paved the path for Putin," NPR, Mar. 22, 2022.
[40] N. Vanteeva, "In the absence of private property rights: Political control and state corporatism during Putin's first tenure," Russian Journal of Economics, vol. 2, no. 1, pp. 41–55, Mar. 2016, doi: https://doi.org/10.1016/j.ruje.2016.04.003.

Another issue that arose was the potential corruption and financial mismanagement committed by the Russian authorities. During the 1996 presidential election, President Yestlin allegedly transferred around USD 10 million into offshore subsidiaries, in which not less than USD 4.8 million of IMF funds were laundered. Despite that, some of that money was later channelled back to the Russian credit market and indirectly eased the budget deficit, it was also seen to be spent on Yestlin's campaign. These allegations were first revealed in 1999, when IMF officials also admitted having knowledge of such fraudulent activities yet did not take further action on such matter[41].

Most importantly, the IMF has recognised its limitations in delivering the actual institutional and structural reforms in the Russian Federation. One of its goals was to deliver macroeconomic stability in pursuit of monetary and fiscal policy changes, such that staff from the Fund has little expertise on other important areas including governance, law and order, and social programs. Ineffective tax structures and property rights protection has also made it impossible to implement the necessary austerity measures. Whilst the international community holds the Fund to account on Russian matters, other actors such as the World Bank or the European Bank for Reconstruction and Development are no less important in resolving this particular crisis.

1996 Extended Fund Facility

Since Russia has met most of its targets set out in the 1995 bailout agreement, the IMF leadership was confident that the authorities could finally deliver resounding fiscal and monetary contractions. In light of the slow progress on privatisation and institutional reform, the Executive Board agreed to allocate an additional USD 10 billion loan under a three-year Extended Fund Facility (EFF) program, in March 1996. Fun fact, the EFF was approved just months before the presidential election in 1996.

The EFF has listed out more ambitious goals in the pursuit of macroeconomic stability, like achieving a single-digit inflation rate and a stable exchange rate by 1999. In return, the Russian government committed to cutting the fiscal deficit, strengthening financial regulatory frameworks and eliminating all corporate subsidies.

Most of the content of the EFF were similar to the 1995 SBA, yet it could be argued that the former arrangement exemplified the effects of the program executed by the latter.

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[41] P. Farrelly and S. Pirani, "IMF knew about Russian aid scam," The Observer, Oct. 17, 1999. Available: https://www.theguardian.com/world/1999/oct/17/russia.business

1998 Russian Currency Crisis

In 1997, the Asian Financial Crisis caused many Southeast Asian and East Asian economies to grind to a halt, in which the burst of financial bubbles had rippled effects across the global economy. Not only did consumers and investors lose confidence in Asian markets, but also generated a negative supply shock due to the lower demand of natural energy sources. Russia was not affected by the speculative attacks, as it was shielded by its still-weakened credit market. Yet remains to be an important crossroad in Russia's economic history.

In August 1998, Russia defaulted on its national debts for the first-time in history. The Central Bank had announced it can no longer defend its original exchange rate and allowed the ruble to depreciate freely. Financial markets collapsed immediately, where the stock market lost 75% of its value; major banks became insolvent and the annual output level fell by 4.9% in that year[42].

However, it should be noted that economic growth was recaptured two years later, which can be argued that the scale of such turmoil has been contained due to the previous successful reforms. On the other hand, it also marked the downfall of reformists. The support of liberalisation quickly evaporated amongst the general public, where President Yestlin conceded and replaced his loyal ministers with communist-background technocrats. Investors and the international community no longer had any more faith in the economic management of Russia, resulting in a more hostile working relationship between the authorities and IMF. Global interventions were no longer welcomed by subsequent administrations, marking the final nail of the coffin in Russia's openness and market reforms.

The IMF faced significant criticism for allegedly contributing to the collapse of Russia's economy. After direct financing from the Central Bank was halted, the government increasingly relied on short-term bonds to fund its fiscal deficit. However, a sharp decline in tax revenues—driven by falling oil and gas world prices—exacerbated the risk of sovereign default. Foreign reserves also dwindled as a result of maintaining the currency peg, a problem that might have been avoided had the ruble remained free-floating prior to the 1995 bailout program. Ultimately, while structural and institutional weaknesses were the underlying causes, the perception of economic failure further eroded the Fund's credibility.

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[42] A. Chiodo and M. Owyang, "A Case Study of a Currency Crisis: The Russian Default of 1998 A Case Study of a Currency Crisis: The Russian Default of 1998," 2002. Available: https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=14310&context=ypfs-documents

Current Economic Situation

Economic Factsheet in 1994

Economic Indicators		
GDP		USD 285 billion
	Consumption	*41%*
	Gross Investment *(Net Investment + Depreciation)*	*26.5%*
GDP per capita		USD 1926
Inflation Rate		224%
Labour Market		
Unemployment Rate		7.1%
Average Monthly Nominal Wage		USD 25.7
Public Finance		
Federal Budget Deficit		10.4% of GDP
Public Debt		42% of GDP
Foreign Trade		
Net Export		26.1% of GDP
Net Import		22.7% of GDP
Foreign Reserves		USD 2.3 billion
Average Exchange Rate (RUB:USD)		2203:1
External Convertible-Currency Debt		31.8% of GDP
Financial Balances		
Public Sector		-7.2% of GDP
Private Sector		7.4% of GDP
External		-0.2% of GDP

By the end of 1994, Russia was facing the looming macroeconomic instability and fragile public services. Since 1990, the GDP has fallen by more than 50%, most of which seen from major losses in agricultural and manufacturing production. Despite this, the energy and raw material sectors have continued to thrive, due to its price advantage derived from economies of scale and government subsidies, even though such competitiveness is diminishing. Disruption of trade links between post-Soviet countries has further undermined its export performance.

Credit markets remain a critical factor towards the prospects of a functioning Russian market. Back then, the popular belief of both the Central Banks and politicians was to pursue expansionary monetary policies, in which expanding the credit market can stimulate growth and production. Mainstream economists have argued against this philosophy, stating that the unregulated and unassessed leverage only amplified financial fragility and wasted resources on unproductive economic activities. Domestic interest rates and exchange rates remained undervalued compared to world levels, which such return- gap also fuelled a mass "capital flight" spearheaded by Russian oligarchs. On average, more than USD 20 billion of energy commodities and financial assets have been transferred out of the country each year[43]. This underpins a bigger picture of how weak monetary regulations have started to undermine the productive potential of Russia.

Another problem remains with the lack of investment, from both the state and private sector. By 1994, the share of investment of GDP fell by 5% when compared to 1990. Interestingly this was not caused by the prolonged recession, but by a fragile financial system, lack of current assets and major cuts on crucial social programs[44].

Currently, the civil war in Chechnya is placing further budgetary strain on the Russian Federation. Ever since Moscow has sent military troops to quash the local rebels, the military operations has already costed around USD 2 to 5 billion by January 1995[45]. Studies have shown that the war destroyed essential capital stock in the region, where the rebuilding efforts will cost more than 4 billion afterwards. International investors and politicians are wary about the implications towards Russia's fiscal imbalance, especially as it showcasts greater uncertainty in producing substantial growth in repaying the debts[46].

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[43] P. Lounging and P. Mauro, "Capital Flight from Russia - PDP/00/06," International Monetary Fund, Jun. 2000. Available: https://www.imf.org/external/pubs/ft/pdp/2000/pdp06.pdf

[44] I. Y. Volossov, "The Russian Economy: Stabilization Prospects And Reform Priorities," NATO Colloquium 1996, 1996. https://www.nato.int/docu/colloq/1996/96-1-3.htm.

[45] L. Hockstader, "CHECHNYA DRAINING RUSSIAN ECONOMY," Washington Post, Jan. 09, 1995. Available: https://www.washingtonpost.com/archive/politics/1995/01/09/chechnya-draining-russian-economy/675a46a4-f429-4497-b59d-a93323aff93d/

[46] P. A. Goble, "THE COSTS FOR MOSCOW OF ITS WAR IN CHECHNYA ARE HIGH AND CONTINUING," Prism, vol. 1, no. 8, Jun. 1995, Accessed: Oct. 06, 2024. [Online]. Available: https://jamestown.org/program/the-costs-for-moscow-of-its-war-in-chechnya-are-high-and-continuing/

Points of Discussion

The experience of transition from state-planned to market economies has been almost unanimously negative. Real wages have fallen in every one of the former Warsaw Pact and USSR nation-states without exception 1990-95 and deindustrialisation has occurred across these nations 1989-95. The real effects of gradual vs radical reform in transition economies is yet to be seen, but there are early indicators of which side of the transition debate is coming out the wiser. Through this, the main point of discussion in committee should be ***whether a more gradual or radical transitional approach should be taken, and how the IMF can facilitate this through conditionality and technical advice***. The IMF has not yet taken a solid stance in this debate and so now could be the time to present a united comprehensive policy to the international community.

While this topic is incredibly divisive on paper, as discussion over economic policy at international organisations usually is, in reality the IMF usually reaches decisions with almost complete **unanimity**. The IMF, unlike the World Bank or other UN organisations, has to be used by all countries - particularly those on the fringes of political and economic orthodoxy. Through this delegates should constantly strive to ensure that, even if there are dissenting nations on specific clauses, all nations present are able to broadly agree on any final document it drafts. This does **not** mean we discourage bloc building/division, it simply means we encourage all blocs to consider seriously the views and perspectives of others.
The IMF's principal concern is global economic stability is best served by consensus.

Questions to Consider for any Executive Statement or Provisional Stand-By Arrangement

Executive Statement:

- What technical advice will the IMF be providing to countries undergoing stabilisation going forward?
- Does stabilisation in transitioning economies mean a fast pace of reform to emerge out of the tunnel quicker at any cost, or a slow pace of reform that will ensure stability but may leave a country in the dark for far longer than it needs to be?
- Should the IMF allow using allocations on budget rectification or purely fiscal reformation?
- To what extent should the trade patterns of the old USSR try to be preserved to ensure Balance of Trade stability and is it the IMF's role to intervene in preserving these trade routes or purposefully break them through conditionality?

Stand-By Arrangement:

- What quantity of allocation should Russia receive?
- What restrictions will there be on the quantity of withdrawal of allocations and what restrictions on frequency of withdrawals should there be?
- What conditions regarding import restrictions should Russia follow?
- What currency restrictions should be placed on the Russian Federation?

Key Blocs and Stakeholders

Post-Soviet Bloc

After the collapse of the Soviet Union, the newly independent states have pursued a steadfast economic liberalisation by various degrees, such as Ukraine, Belarus, and several Central Asian nations. Despite embracing trade globalisation and open markets, these infant market-driven economies are heavily reliant on Russian economic and political stability in their own pursuit of liberalisation policies.

Starting off on trade, Russia remains one of the largest economies and trading partners among most nations in the Commonwealth of Independent States (CIS), most notably on commodities and merchandise. In 1994, intra-CIS trade still accounted for up to 33% within the trading bloc, highlighting the strong economic vulnerabilities between these nations[47]. On the other hand, the Federation remained their biggest energy and credit supplier throughout the 1990s, in which these former Soviet governments, apart from those in the Baltic States, tended to ignore the calls of protectionism but instead, reached out to deepen bilateral relations with Russia[48].

Post-soviet nations are also taking reference to the Federation's attempts at economic and political reforms, some of which have displayed a similar pattern in shifting towards autocracy and struggling in economic restructuring, thus having already negotiated bailout programs with the IMF. Therefore, any conditionalities that might affect Russia's protectionism on international trade and energy production has become a grave concern when considering their strong interdependencies.

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[47] K. Elborgh-Woytek, "Of Openness and Distance: Trade Developments in the Commonwealth of Independent States, 1993-2002," SSRN Electronic Journal, 2003, doi: https://doi.org/10.2139/ssrn.880865.

[48] I. Bremmer, "The Post-Soviet Nations after Independence," in After Independence: Making and Protecting the Nation in Postcolonial and Postcommunist States, L. W. Barrington, Ed., The University of Michigan Press, 2006, doi: https://doi.org/10.3998/mpub.126246

Key Blocs and Stakeholders

Western Bloc

As implied, this bloc consists of different advanced, free-market economies headed by the Group of Seven, including the United States and Western European countries. Due to their historical contentions with the Soviet Union, the fall of communism marked a new era of cooperation between the former rivalries. They are more keen to support their transition towards a market-based economy to prevent further economic meltdown, seeing it as a strategic necessity in reshaping the geopolitical balance.

In the United States, President Clinton was particularly enthusiastic to forge stronger ties with Russia, believing that economic liberalisation would not only contribute to the latter's prosperity but also towards a guarantee for global security. He saw market reforms and democratisation as a tool to align Russia's national interest with the West, thus placing them in the pretext of any bilateral support.

Under his presidency, G-7 countries have endorsed its integration into the global financial system as well as maximising monetary support with less stringent conditionalities. In their 1993 summit, G-7 leaders has agreed to deliver a USD 3 billion economic aid package to support corporate restructuring in former Soviet countries[49].

However, some Western creditors were still concerned about financial risks involved in IMF loans made to the former Soviet nation. They are still concerned about its ability to service the debts, yet remaining mostly optimistic in its pro-reform and friendly political leadership. Henceforth, these nations hold high expectations on global financial institutions, such as the IMF and World Bank, to ensure that Russia can receive the full support on achieving macroeconomic stability in the near future.

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[49] G7 Research Group, "Press Conference by Prime Minister Kiichi Miyazawa and President Boris Yeltsin of the Russian Federation at the 1993 G7 Economic Summit: Tokyo Summit III," g7.utoronto.ca, Jul. 09, 1993. https://g7.utoronto.ca/summit//1993tokyo/russia/index.html#economic

Key Blocs and Stakeholders

Emerging Economies

Apart from the two blocs, other countries with a lesser stake in the Russian economy are considerably more concerned about the scale and context of international monetary interventions. Developing nations are more susceptible to similar problems in their foreign reserves, and would be more keen to seek financial support from the IMF. Ever since its leadership has become more cautious on granting loans with relaxed conditionalities, with the failed example of the 1993 Systematic Transition Fund, these countries would therefore might seize this opportunity to influence or shape its response towards Russia's macroeconomic instability, as if it were to be imposed on them in the near future.

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[47] K. Elborgh-Woytek, "Of Openness and Distance: Trade Developments in the Commonwealth of Independent States, 1993-2002," SSRN Electronic Journal, 2003, doi: https://doi.org/10.2139/ssrn.880865.
[48] I. Bremmer, "The Post-Soviet Nations after Independence," in After Independence: Making and Protecting the Nation in Postcolonial and Postcommunist States, L. W. Barrington, Ed., The University of Michigan Press, 2006, doi: https://doi.org/10.3998/mpub.126246

Additional Resources

- [Russia's Lost Decade and the Rise of the Oligarchs]
- [IMF Archives Catalog]
- [International Monetary Fund Annual Report 1995]
- [Kino]
- [National AnKino - Gruppa Krovi (Blood Type) / Кино - Группа Кровиthem of USSR]
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