Working Paper

Economic Relations Among the Successor Republics of the USSR

ETI Project

WP-93-38
July 1993

International Institute for Applied Systems Analysis □ A-2361 Laxenburg □ Austria
Telephone: +43 2236 715210 □ Telex: 079 137 iiasa a □ Telefax: +43 2236 71313

Economic Relations Among the Successor Republics of the USSR

ETI Project

WP-93-38
July 1993

Working Papers are interim reports on work of the International Institute for Applied Systems Analysis and have received only limited review. Views or opinions expressed herein do not necessarily represent those of the Institute or of its National Member Organizations.

International Institute for Applied Systems Analysis □ A-2361 Laxenburg □ Austria
Telephone: +43 2236 715210 □ Telex: 079 137 iiasa a □ Telefax: +43 2236 71313

Foreword

The International Institute for Applied Systems Analysis (IIASA) was founded in 1973 to promote collaborative research among scholars of what was then called the East and the West. Its founding national member organizations were from both regions.

With this history, it was natural for the USSR Committee on Economic Reform to turn in 1989 to IIASA for assistance on the complex problems of a transition of a centrally planned economy to a market system. IIASA organized a series of seminars in 1990 and 1991 that provided a dialogue between Soviet and Western economists. IIASA collaborators also compiled a set of reports for use of the Committee.[1]

In 1992 a similar relationship was established with the government of the Russian Federation. IIASA agreed to organize a series of seminars on topics of concern to the government. The Ford Foundation and the Pew Charitable Trusts have generously provided financial support for the seminar series.

This paper is a report of the first major seminar held at the request of the Russian government. The subject of inter-republican trade is an important one for all the independent nations that were once members of the Soviet Union as well as for the Russian Federation. The Soviet Union was built over seventy years ago as a single market with inter-republic trade integrating the economic activity of each republic into one economy. Trade can, of course, thrive equally well without a common government, but inter-republic trade has declined sharply since 1991 for the various reasons discussed in this report. That decline, in turn, explains in part the serious deterioration of economic conditions among all the republics.

This report summarizes the seminar participants' attempt to search out solutions that would bring back inter-republic trade to levels that would promote economic recovery and growth. The report demonstrates the complexity and difficulties of the problem. It shows there is no agreed easy solution.

The report, however, does not perhaps convey the most promising aspect of the seminar: the willingness of experts from various republics and various institutions to approach the problem with mutual respect and an intense desire to find solutions that would serve the interests of all the republics. It is this quality that the seminar participants demonstrated and, indeed, the seminar itself in some small measure may have promoted.

Merton J. Peck
Project Leader

[1]The reports are summarized in Merton J. Peck and Thomas J. Richardson, **What is to be Done? Proposals for the Soviet Transition to the Market**, Yale University Press, 1991.

Table of Contents

Introduction 1

Trade Relations Among FSU Republics 3
  Policy Options 3

Payment Schemes and the Interstate Bank 6
  Payments Arrangements and Trade Patterns 6
  Proposed Alternate Payments Systems for Inter-Republic Trade 7
  The Interstate Bank: A Potential Solution 9

Establishment of New Currencies 13
  General Remarks 13
  Technical Aspects of Introducing a New Currency 14
  Arguments for Independent Currencies Versus Remaining in a Common Currency Area 15
    Optimal currency area arguments 15
    Public-finance based arguments 16
    Implicit inter-republican transfers 16
    Explicit inter-republican transfers 17
  Introduction of Independent Currencies in 1992 and 1993 17

Exchange Rate Regimes and Inter-Republican Economic Relations 19
  The Emergence of Non-cash Ruble Exchange Rates 19
  Exchange Rate Regimes Chosen for Countries with New Currencies 19
  Alternative Exchange Rate Regimes for FSU Republics 21
  Exchange Rate Regime for Russia and Effectiveness of Exchange Rates 22

References 24

Program for the Seminar 26

Final List of Participants for the Seminar 29

Introduction

Within the framework of an agreement between the government of the Russian Federation (RF) and the International Institute for Applied Systems Analysis (IIASA), the Economic Transition and Integration (ETI) Project at IIASA organized a seminar on *"Economic Relations Among the Successor Republics of the USSR"*. The seminar, held on 11-13 March 1993 in Laxenburg, Austria, responded to a request of officials from the Russian government. Senior government officials, experts, and scholars from the new, independent republics as well as from the West met to discuss issues of inter-republican relations and consider acceptable and efficient solutions.

The organization of the seminar reflects the understanding that the unresolved problems of trade and payments between the successor republics of the Soviet Union are a major source of political tensions and the decline of production in the region. Participants at the workshop agreed that the republics are economically interdependent to an extraordinary degree -- a legacy of their Soviet past which regarded the union as one market. Production of tractors or machine tools, for example, would be concentrated in one or two republics with key suppliers located in other republics. Thus, inter-republic trade is necessary for continued production. Since 1990 such trade has declined by as much as 50 percent. Transition to reliable cooperation between the independent republics and to the market economy can progress smoothly only as long as inter-republic trade and payments issues are settled in a mutually acceptable and economically efficient fashion.

The discussion at the workshop centered both on the reasons for the decline in inter-republic trade and on various ways to halt this decline or even improve the tattered economic relations. Topics included the consequences of the abandonment of the single ruble; the rise and implications of barter trade; the problems created by some republics' near monopolies over key natural resources, such as oil from Russia and cotton from Central Asian republics; the difficulties in moving to world prices, especially for oil; and the plans for a new inter-republican bank designed to ease difficulties of payment between the states. Also examined were the problems created by large trade deficits in some republics, diverse trade policy between the new nations, new currencies, and the role of the exchange rate. Bilateral balanced trade under the present conditions was considered an unrealistic goal.

The timing of the seminar so soon after January 1993 raised a paradox: as Western Europe seeks to become a single market, the republics of the former Soviet Union have divided themselves into little economies, rejected a common currency, and broken up one of the largest free-trade zones in the world. According to statements by senior government officials at the seminar, most of the republics are officially committed to re-establish free trade in the long run, but they currently maintain quotas and export controls that act as barriers to trade. Free trade with an effective payments mechanism promises to undo the damage of autarky, though not overnight.

The structure of this report largely follows that of the seminar. The sections cover issues concerned with trade, exchange rates, the establishment of new currencies, and the new interstate bank and payments schemes. Although all the sessions were taped and a complete set of papers contributed by the participants was collected, this report is presented in a more concise manner. It is a summary of the key issues and a description of alternatives for the policy-makers. The expository form of presentation has been chosen in order to present a more succinct and cohesive account of the discussions at the meeting as well as the information provided there. The accounts of the various national experts and officials as well as the ensuing discussions during this seminar have been complemented with background material (these are listed in the references).

The authors of this report and organizers of the seminar, all members of the ETI Project, wish to thank all the participants in the seminar for their contributions. A list of seminar participants is given in the Appendix.

Trade Relations Among FSU Republics

Policy Options

The political disintegration of the former Soviet Union (FSU) ensued the deterioration of the single economic space that once existed on its territory. This deterioration only worsened the general crisis of the FSU economies. Although structural changes, needed to cure former communist economies, require a deep restructuring of inter-republican trade relations, the spontaneous collapse of the trade relations is regarded as being the worst solution for that. There is wide agreement among republics of FSU that a substantial part of the inter-republican trade must be preserved.

There is, however, broad agreement that the structure of trade inherited from the FSU must be radically changed. In the FSU, numerous industries were -- and still are to a large extent -- negative value-adding, based on the world market prices and costs. These industries use raw materials received at prices well below world prices from countries rich of raw materials (primarily, Russia, Kazakhstan and Turkmenistan), and supply these countries in return with manufactured goods. The move to trade among republics based on the world prices will result in collapse of such activities because the price of the manufactured goods will increase to such a level that these goods will not stand the more intense competition from more efficient foreign industries. Therefore, some decline of inter-republican trade must be considered as necessary long-term adjustment.

Poor statistics in the FSU do not allow to assess the degree of decline necessary for such a long-term adjustment. However, since the full-scale restructuring of the FSU industries has barely begun, the current sharp decline in trade must be attributed to a large extent to the technical and institutional barriers. These barriers must be removed in order for the viable and mutually beneficial trade among the republics to survive pending restructuring.

The current situation cannot be characterized as favoring inter-republican trade relations. The existing trade arrangements between the republics of the FSU are inconsistent with the trade policies suggested by conventional wisdom:

- avoid quantitative restrictions on trade;
- avoid non-tariff barriers to trade.

The newly independent countries (even the most advanced in economic transformation, the Baltic states) continue to build up new barriers impeding trade relations, mostly in the form of multiple export restrictions.[1] All 15 states were making the widespread use of quantitative restraints on exports in 1992, both for FSU and convertible currency area trade. These trade

[1] It is important to note that trade restrictions occur even at the regional (oblast) level in the Russian Federation.

restrictions have deep roots in obsolete price structures, monopolistic and demand-unresponsive industries, severe bureaucratization of trade regulation, deterioration of inter-republican payment systems and the lack of an adequate means for payment transactions. There are several preconditions that must be fulfilled for the republics to stop relying on export restrictions. These are:

- liberalization of the internal prices;
- imposition of a hard budget constraint on enterprises;
- creation of an adequate inter-republican payment system.

Until these three requirements are fulfilled, traditional recipes of trade regulation are hardly helpful for the republics of FSU. Therefore, any policy-related suggestions must be based on the second-best solutions. There are several general recommendations among these second-best solutions.

The general policy recommendation to the raw-material importing republics would be not to resist Russia's attempts to impose the world prices on oil and gas sold to these republics. To some extent, the severe trade shock inflicted by Russia gives these republics unique opportunities for rapid and politically feasible restructuring of domestic industries. If, instead, the republics choose the way of gradual restructuring and endless quarrels with Russia and other oil-and-gas producers, this might create political instability within the republics and worsen relations with Russia for years and even decades ahead. In this sense, the trade shock imposed by Russia to newly independent countries creates a political situation more favorable for the reforms, than Russia itself might have within the country.

There is, however, a bright spot even for Russia and other raw-material producers in the move to the world prices in inter-republican trade. It is related to the subsequent adjustment in the prices of manufactured goods that Russia received from other republics within FSU. With world-market priced inputs, manufactured goods produced by inefficient republican enterprises become unacceptably expensive for Russian consumers and/or enterprises. This has three immediate consequences: 1) moderating domestic inflation as less expensive manufactured products are imported from republics, 2) a desirable restructuring of the negative value-adding industries, and 3) re-orientation of Russian consumption to third countries' suppliers which are now competitive in the Russian market as world prices prevail. There are strong reasons for Russia to carry out such a re-orientation. Therefore, it would be advisable for Russia to boldly shift to world market prices in trade with other republics even if the domestic structural adjustment would be painful for Russia.

Another general suggestion is that Russia (as well as Kazakhstan and Turkmenistan) should provide other republics with trade credits instead of selling raw materials at subsidized prices. This will substantially help to de-politicize trade relations among the republics. This approach will help to gradually reduce all trade preferences over time to permit different republics to adjust to their long-run comparative advantages. That adjustment implies less dependence on inter-republican trade and a stronger orientation to the world market.

Several initiatives should be undertaken on the micro level. It is widely argued that quantitative restrictions on various exports, particularly raw materials, protect domestic

producers who otherwise could not buy domestic inputs. Such protection may be particularly valuable to negative value added industries and in this way add to the cost of transition. Export restrictions are much worse than direct selective subsidies to potentially viable industries.

In contrast to quantitative restrictions, export taxes are revenue-earning for the federal budget. Moreover, they are economic rather than administrative instruments of control over trade. These advantages, however, exist only in theory. A very long tradition of rent-seeking in the FSU poses the threat that even these instruments will be used in a detrimental administrative way. Nevertheless, export taxes are ranking ahead of direct subsidies in terms of reducing the adverse effects. All efforts should be made to enforce export taxes regulation, along with gradual abolishment of quantitative restrictions.

The republics should make all efforts to set up a customs union. Since this solution is politically difficult to achieve, bilateral free-trade agreements are reasonable second-best solution. Given multiple export restrictions, present free-trade agreements can hardly be called such. Yet even in their limited form they serve as an important manifestation of the long-term move in the right direction. Given the present excessive incentive to import from within the ruble zone, preferential trade arrangements would be most important for promoting trade among states with different currencies.

Finally, inter-government barter seems to be an important substitute to yet inadequate private trade structures, and the only viable mechanism given virtual collapse of the payment system. However, efforts should be made where possible to commercialize inter-state trade arrangements, namely, eliminate monopoly position of state trading organizations, convert them into procurement agencies for the import of commodities for use by government, and subject them to competition from private companies.

Progress in trade relations, however, depends on the establishment of an efficient payment system whereby a firm in one FSU republic can be paid promptly for its sales to firms in another FSU republic. The state of the current payment system and the issues concerning possible alternatives or modifications are discussed in the following section.

Payment Schemes and the Interstate Bank

Payments Arrangements and Trade Patterns

Most participants at the IIASA seminar supported the creation of a functioning payments or settlements system among the republics of the former Soviet Union (FSU). Political and economic reform in the individual republics has led to a drastic deterioration of trade volume among formerly mutually dependent partners. The lack of an effective payments mechanism is a major cause of the decline in inter-republican trade. A payment mechanism is a necessary condition for improved trade relations amongst the various new politically independent nations.

The republics of the former Soviet Union are by no means unilaterally dependent on Russia, but there is a mutual dependency -- for Russia is also dependent on the other former republics (i.e., for transit to important sea ports (in the Baltic Sea), for finished goods, etc.). In fact, the industrial structures created and promoted during the better part of 70 years of communist central planning was based on the concept of a single union-wide market based on trade between individual republics. Each republic to a varying extent depended and still depends on others for inputs for its industry as well as final goods. It also depends on others for a market for its products.

Since the autumn of 1991, inter-republican trade within the FSU declined drastically for numerous reasons. One of the most decisive is the non-functional payments scheme with the lack of a convertible base currency, and the general inability of the existing currencies of the new independent nations to hold their relative value. Given the structural differences between the various republics and the financial instability within the region, an inherent tendency for trade imbalances has arisen. In addition, rapid inflation has become a prime incentive to delay payments for traded goods and, with increasing frequency, these postponements have finally resulted in non-payments.

The obstacles to viable settlements arrangements persist, further stalling efforts to resolve payment conflicts and to facilitate inter-republican trade. These obstacles include the continuation of barter trade and state orders. Today, the latter are referred to as obligatory trade, but only the words have changed while the meaning has stayed the same. In addition, market-oriented practices frequently meet with the opposition of the more conventional enterprise managers, policies aimed at maintaining old production patterns and structures chronically recur, and inter-enterprise debts have become a serious phenomenon. Furthermore, there is insufficient information concerning the characteristics of the various markets and an inadequate number of personnel with knowledge regarding the reform and expansion of banking and payments systems as well as those required to physically perform the required tasks.

The dissolution of the former Soviet state and the desire to prevent trade and payments imbalances from getting out of hand resulted in a tendency among governments to favor bilateral trade and settlements agreements. Correspondent accounts and technical credits are a product of this preference. However, in 1993 there has been a shift in views that favor market oriented, multilateral proposals for trade and payments agreements as more effective in promoting inter-republic trade.

Proposed Alternate Payments Systems for Inter-Republic Trade

Beginning in 1992, the payments and settlements regime in use for inter-republican transactions amongst the successors to the USSR was based on bilateral correspondent accounts held by each of the republican central banks with the Central Bank of Russia (Ickes, 1993, p.13). This has been called the ''Ruble zone'' concept. Initially, non-Russian republics could use this system to obtain endless credit for bilateral trade transactions from the Central Bank of Russia (CBR) because no effective mechanism was introduced to control overdrawn balances on the correspondent accounts. In order to introduce more strict financial discipline, to eliminate inter-enterprise arrears, and to reflect increased autonomy in monetary policy of the non-Russian republics, the CBR subsequently modified this payments system several times during 1992 to create more control by the CBR over correspondent accounts.

However, the changes gave rise to more problems impeding the reliability and functioning of the payments regime, such as the so-called technical credits extended by the CBR to the republican central banks. In fact, as the clearing system was portrayed in early 1993, it actually presupposed the existence of the technical credits, which were themselves not restricted by any precisely controlled limits. The constant changes also fuelled inflation in the individual republics, increased transactions costs, and further worsened the enterprise arrears situation, especially regarding the payments from non-Russian enterprises. Inevitably, the malaise surrounding the settlements system induced enterprises to search and find methods to avoid inter-republican trade because it had become too costly.

The financial strictness intended by limiting the credit line of the CBR in the correspondent accounts was offset by the relatively generous provision of technical credits by the CBR. Inter-bank debt (that is between central banks of all the republics) continue to accumulate. The entire process only aided and abetted in discrediting the value of the ruble and its role as a unit of account.

By the spring of 1993, officials from the central banks of the FSU republics turned their attention towards alternative settlements systems with multilateral rather than bilateral clearing procedures. The payments regime chosen can play a major role in allocating inter-republican transfers and in enforcing the internalization of the consequences of cash and non-cash ruble emissions (ibid, p. 15). The credibility of the payments regime will be a function of the general level of financial stability; the latter, in itself, depending on prudent monetary policy and a frugal fiscal policy.

Successive modifications of a decentralized payments system to accommodate the structural economic changes commensurate of a transition to a market economy, particularly in the presence of a functioning and complementary centralized payments system, combined with financial policies aimed at stabilizing national currencies, should provide for a positive trade response and give a boost to output. Furthermore, the success of the economic transformation of the republics will depend, in part, on the ability of a payments regime to allow maximum flexibility of exchange rates to reflect the relative prices of goods.

Possible alternative payments systems suggested by experts include a ruble zone, a ruble area, dollar settlement, a clearing or payments union, floating exchange rates, and barter (Williamson, 1993, p. 1). At this writing, the ruble zone, which requires the continued use of the ruble as the currency in the FSU republics, faces rapid disintegration. The collapse is mainly due to the political unacceptability on the part of the non-Russian republics of a centrally controlled macroeconomic policy. In addition, continuing the ruble zone buffers some of the FSU republics' economies from fiscal and monetary responsibilities with which they would be otherwise confronted.

As a result, the idea of the ruble area has been proposed. This would require non-Russian republics that had introduced their own individual currency to be willing nevertheless to hold balances of rubles in correspondent accounts in Moscow and exchange those claims in order to clear inter-republican trade (ibid, p. 2). This potential solution is more conceivable since the FSU republics leaders agreed to the creation of the Interstate Bank. However, with the ruble's difficulty in holding its value, it may be wise to select an alternative currency for settlements remembering though that the republics holdings of any hard currencies are very limited. The possibility of transactions being settled with dollar balances as required under the dollar settlement concept seems uncertain -- maybe even improbable.

Recently, calls to establish a multilateral payments union (MPU) for the former USSR republics have gained increased support from experts. Sub-optimally low transactions on a given monetary base and the high cost of acquiring hard currencies to support transactions have reinforced the belief that a payments union along the lines of the European Payments Union (EPU) of the 1950s could pose a possible solution. The idea behind this suggestion is for the member countries to denominate their intra-trade in a hard currency, agree to accept one another's currencies in payment for exports, deposit their earnings from those exports with an agent of the union, allow the claims to be consolidated and periodically netted out on a multilateral basis, and then settle the remaining imbalances centrally with the union in a mixture of credit and hard currencies (ibid, p. 3). The main function of a MPU would be a multilateral clearing of inter-republican trade which reduces the amount of trade flows that require a payment in hard currency to settle trade imbalances within the union as well as to provide the precautionary demand for those reserves (Bofinger and Gros, 1993, p. i). An MPU would economize on the use of hard currencies needed to support union trade, encouraging both inter-republican trade and exchanges with non-FSU nations.

Within the group of FSU republics, Russia inherently will be the dominating force. Therefore, the feasibility of such a settlements arrangement will largely depend on the ability of the Russian government to pursue non-inflationary monetary and fiscal policies; that is,

generally a stable macroeconomic policy. Finally, the MPU appears as a favored intermediate solution in the attempt to slowly give the market more credit for encouraging settlements between enterprises, and eventually reducing the role and activities of the governments. In order to realize such developments, an initial step would be to allow correspondent accounts at commercial banks that could also be used to settle inter-republic payments.

A third alternative is the use of floating exchange rates for the republics' individual currencies. This approach would permit the payments for inter-republican trade to be settled through the commercial banking system based on the resulting cross rates. However, financial stability and strict macroeconomic policies would again be a prerequisite for success of this option. The central banking system must also be functional, dependable, and credible.

Barter trade, the last option, is notoriously inefficient and not conducive to the development of a market economy. Numerous East European experts, however, have stated that at times the choice for enterprises or republics on the territory of the FSU is between barter trade or no trade at all.

The Interstate Bank: A Potential Solution

In an effort to prevent the complete disintegration of inter-republican trade among the successor nations of the FSU, the heads of state of 10 FSU republics signed an agreement to establish the Interstate Bank (ISB) on 22 January 1993[2]. The agreement recognized the importance of coordinated banking activities and with a view to maintain and develop multilateral industrial, trade, and financial relations and to successively achieve monetary stability. The signing parties agreed that the ISB should have the responsibility to organize and effect multilateral settlements between central (national) banks relating to trade and other operations (EES, 1993, p. 7). Furthermore, the ISB is to be a forum through which republics can coordinate credit and monetary policies. The present agreement also designates the ruble as the currency in which the settlements through the Bank are to be carried out. Article 3 of the agreement to establish the ISB clearly sets out six main tasks:

1. organization and realization of multilateral inter-state settlements and periodical multilateral clearing (netting of mutual claims),
2. the organization of the management of cash money emission and credit emission by the central (national) banks of the signing parties,
3. monitoring of the economies of the signing parties and the completion of recommendations concerning the coordination of monetary, credit, and exchange policies,
4. assistance in organizing the more technical aspects of payments systems for the individual members,

[2] The Baltic states, Georgia, and Azerbaijan did not sign the agreement.

5. the extension of credit as required by the multilateral inter-state settlements, and
6. other special operations as designated by the charter.

The clearing system described in the agreement resembles a combination between the ideas behind the second and fourth proposal described above, a cross between the ruble area concept and the payments union notion.

The mutual decision of FSU republics to commit themselves to the creation and operation of the ISB was an essential step towards normalizing trade relations on the territory of the former USSR. The agreement and the charter finally provide a multilaterally acceptable institutional framework for a disciplined payments system to cover inter-republican trade. The ISB should, in effect, eliminate the incentives for bilateralism, corruption, and profiteering. Some say the creation of this bank signals the turning point towards a multilateral system that eventually leads to the full convertibility of the national currencies that are being created (Gros, 1993, p. i).

A number of experts believe that the view that ISB operations will curtail the incentive system, motivating states to amass credits and be delinquent with payments, is unfounded. The capital of the ISB is not to be utilized for the extension of credits and the CBR will only do so as clearly stated under the conditions specified in the charter of the ISB. Whether the credit limit is appropriate, unreasonably strict or lax, is difficult to say at present. An issue that should be of greater concern is what might arise when the initial credit lines granted by the CBR to the ISB are exhausted. Then debtor countries will have to acquire Russian rubles (possibly even by selling hard currency reserves) if they want to continue to import from Russia. Russia might push for the indexing of cumulative balances to hard currencies, leading to partial hard currency settlements. In light of persistent imbalances, the payments union would eventually lead to full hard currency settlement and would thus be equivalent to full convertibility (ibid, p. 19).

One of the guiding themes in creating the ISB was the effort to minimize the disruptions to trade as a result of the establishment and operation of ISB. This goal was to be achieved by utilizing as much as possible established channels and practices familiar to traders and enterprises as long as these were not vulnerable or conducive to corruption. Also, with this new scheme, national central banks simply send their payment orders to the ISB rather than undertake all the bilateral back and forth as was previously the case.

A further advantage of the Interstate Bank is that countries outside the ruble area can participate in the multilateral clearing (i.e., the Baltic nations, or some members of the former Council for Mutual Economic Assistance). These countries would not be founding members of the Bank. In order to participate all they would need to do is open a correspondent account with the ISB, and all that means is that they would have only a single correspondent account instead of possibly ten or more for each FSU nation. These countries would have only one balance *vis-à-vis* the FSU republics rather than numerous ones to manage, providing efficiency gains. The more countries participate, the more important will be the multilateral clearing aspect.

However, several questions still face the operation of the ISB. Due to the interpretation of potentially allowing the ISB, upon receipt of special permission from a republic, to manage the monetary emission of such a republic causes queries to arise as to the precise division of responsibilities between the ISB and the CBR or whether the ISB might even replace the CBR. The clarification of this issue was still outstanding at the end of the seminar. In addition, this policy might imply that countries that are members of the ISB but not of the ruble area have a say in the policy for the area. This would certainly be the root of future instability.

Uneasiness also exists with respect to the possibility that the ISB might be seen as a discouragement for the activity of commercial banks. The existence of the ISB might appear to reveal a preference for government exchange. This is neither appropriate nor desirable at a time when the trend is toward the market forces and privatization. This concern might be discounted as the Bank simply offers a multilateral clearing mechanism which is potentially additional to that of the private sector; it should be seen as a complement and not a substitute in the development of a commercial multilateral payments system. However, the Interstate Bank has been initially conceptualized as a technical body assigned the responsibility of all payments made through the central national banks between the members. Such payment is merely a small segment of total inter-state payments. Furthermore, if the private sector is more successful, then the impact of the ISB will be more minor -- in any case, no conflict should arise. The ISB will do no less than assist in making the new national currencies more convertible.

A further concern about the ISB is the choice of the ruble as the base currency for such a payments system due to its falling credibility and fluctuating value. The significance of this concern depends on whether the CBR will exert sufficient monetary control, or yield to the temptation (as has been the case in the bilateral payments systems) that when countries reach their limits, a further extension of credit occurs, subverting the discipline which is supposed to be imposed by such a system.

Another problematic issue is the influence of negative real interest rates. In a monetary system with an extremely negative real rate of interest, as is currently the case in Russia, no one will be willing to promptly pay or to extend credit. Nevertheless, the situation is different in the FSU because the assumption is that the non-Russian republics will be net debtors, thus, this aspect might in fact be a positive attraction in favor of having the ruble as the base currency of the ISB. Russia, though, would probably soon encounter a circumstance in which it recognizes that it has given the wrong incentives for other republics. These would be confronted with the motivation of FSU republics to borrow right up to their credit limits. Russia would subsequently disapprove of the system because all the members would use their debt to the Bank to draw goods out of Russia in the inexpensive fashion made possible by a negative real rate of interest. Non-Russian members would have no interest in holding a current account surplus in a currency losing its value in real terms. A possible answer lies in indexing the balances to some selected Russian prices. Of course, an even better solution is a macro-economic policy that will bring Russian inflation to moderate levels.

The payment systems discussed at the seminar all assume the ruble remains the key currency. Given Russia's size and economic importance, that is a realistic assumption. Yet, the reliance on the ruble would be reduced by the efforts of FSU republics to establish their own currencies, a topic considered in the next section.

Establishment of New Currencies

Establishing a new national currency is always at least a two-dimensional issue. In its *political* dimension, one can consider the introduction of an independent currency in terms of strengthening national sovereignty and fostering national pride. These aspects are characteristic phenomena accompanying the collapse of the former Soviet Union (FSU) and the re-birth of ethnic, national, and regional feelings. In spite of the undeniable importance of these factors in understanding current developments on FSU territory, we concentrate only on the main *economic* issues and consequences of the efforts to introduce independent legal tenders in successor states of the FSU.

General Remarks

In deciding on introducing a new currency, every government should appraise all economic costs and benefits. The items on both sides are numerous. As far as costs are concerned, direct (explicit) costs include: printing and distributing the new currency; setting up the institutions and policy mechanisms; acquiring the abilities needed to operate monetary policy and central bank operations in general; and conducting international transactions. Even more significant and probably more difficult to predict will be the indirect (implicit) costs. These typically refer to the output (income) and employment losses caused by the shift to world market pricing in inter-republican trade[3], disruptions of former trade flows, changes in the terms of trade, malfunctioning of trade and payments systems.

The most important benefit is independent shaping of monetary policy which no longer needs to pay much attention to the policy implemented in the ruble area. Generally, this allows different timing and sequencing of the major reform steps in a way which is perceived by a given country as the most desirable. The advantage of controlling the supply of money and credits consists of achieving a different (presumably lower) level of inflation than in Russia or in other parts of the ruble zone. The possibility of collecting seigniorage rents as additional revenue for financing fiscal expenditures may be important as well.

Any effort of a country to achieve economic sovereignty, should, however, consider the heritage of the past, which is inescapable in the short- and medium-run. Given the historically conditioned dependence of smaller republics on Russia and continuing asymmetry in mutual economic relations (Russia is nearly the exclusive oil exporter; industrial profiles of all republics are highly specialized and integrated with the Russian economy), no former republic will be able to fully separate itself from economic developments in the ruble area in the foreseeable future. Independent monetary and exchange rate policies have only limited

[3] The Russian government has adopted the policy of setting energy and raw material prices at the world market level for FSU republics leaving the ruble zone.

influence on the process of adjustment to economic disturbances originating in Russia or elsewhere.

However justified may be an effort of any successor republic to introduce its own currency, the questions of timing and preparation are still contentious issues. This step should be only undertaken after all necessary conditions are sufficiently fulfilled. The failure to create the conditions required to run an effective anti-inflationary policy after the introduction of independent currencies would very probably lead to political opposition and consequently to the real danger of losing the social support for economic reform itself.

Technical Aspects of Introducing a New Currency

The introduction of a new currency is associated with numerous technical steps.[4]

Preparatory steps would include the abolition of fiscal deficits which would force the central bank to finance them via monetary expansion, subsequently having potentially inflationary impacts. Legislative acts must:
a) introduce the new currency as a legal tender,
b) specify the conditions for conversion,
c) set up the monetary institution that is responsible for introduction of the currency and controlling the rate of monetary expansion, and
d) regulate exchange operations.
Establishment of a central bank has to be accompanied by clarifying:
a) the instruments required to control money and credit,
b) the power for imposing reserve requirements on commercial banks,
c) the reporting systems and analytical capacity required to monitor macroeconomic developments.

Announcement of the replacement of the old currency should follow certain guidelines. While the general idea is sufficient for the public to know during preparatory stages, all possible details of the conversion should be available at the right time.

Timing and logistics refer to a certain period of time (several days), during which existing rubles could be exchanged for the new currency and to the mechanics of conversion. This includes placing an order for new bank notes, their transportation, storage and physical distribution to the public.

Terms of conversion refer to the specification of the initial rate of exchange between the new currency and the ruble, and to quotas for conversion.

---

[4] See Hernandez-Cata (1992).

Arguments for Independent Currencies Versus Remaining in a Common Currency Area[5]

Two groups of arguments against participation in a common currency area could be identified: 1) the "traditional" optimal currency area literature, considering a flexible exchange rate as a means for output stabilization, and 2) the "public finance" approach which focuses on cross-country competition for the gains from monetary coordination.

Optimal currency area arguments

The advantages and disadvantages of staying in a common currency area are typically identified with the role of exchange rate flexibility as a device for economic stabilization. Under the condition of downward rigidity of nominal wages an independent currency accompanied by flexible exchange rate is viewed as an important tool of output stabilization.

A relevant question arises here: to what extent are certain republics potential winners? Due to the diversity of different republics and regions (more industrialized parts -- Ukraine, Belarus, and Russia versus more agricultural Central Asian countries) and ensuing diversity in responding to economic shocks, the pressure to introduce individual currencies could, in some countries, be rather strong. This may be magnified by limited inter-regional labor flows which restrict the capacity to stabilize output shocks in all member nations of the FSU including Russia. On the other hand, several factors diminish the importance of independent currencies as instruments for stabilization:

- because of different inflation rates in different republics following price liberalization in early 1992, the adjustment of real wages across republics could occur even without movements of labor;

- still resilient monopolistic structures seriously undermine the responsiveness of the economies to exchange rate adjustments; exchange rate changes are likely to generate price shifts instead of output adjustment;

- limitation to the efficiency of the exchange rate stems from the existing payments system. Uncertain and prolonged receipts of payments for goods deter enterprises from using the existing trade and payment arrangements. Thus, the behavior of exporters does not reflect the fluctuations in the nominal exchange rate.

Despite a transitory character of these phenomena, the limitations of the exchange rate as an effective stabilization instrument could prove to be relevant in the short-run.

[5] See Goldberg, Ickes, and Ryterman (1993).

Public-finance based arguments

Another set of arguments for maintaining independent currencies considers whether a national money can provide a government with a tool to increase much needed budget revenues. There are several fiscally related issues:

- one is concerned with the seignorage and distribution of seignorage rents. The incentives of some FSU republics to introduce their own currency and use the inflation tax as a source of revenues could be fairly tempting. On the other hand, if such a country has succeeded in securing a disproportionately large share of seignorage rents, its decision to stay within the currency union is quite understandable. In addition, the issue of finding a key for appropriate territorial allocation of cash rubles arises. Even now, after the split of former *Gosbank*, the nature of cash distribution (which is still fully under control of the Central Bank of Russia) remains the same as before. Each country demands cash rubles to pay wages. It follows that the distribution of seignorage could take into account the level of economic activity reflected in total wage payments.[6]

- An important incentive for introducing an independent currency could be the different optimal inflation rates among countries. We can reasonably expect that the higher the reliance on inflation tax revenues, the lower the willingness of a high inflation country to join any currency union.

- The decision to introduce a new currency may be related to a lack of interest in higher monetary discipline which could be attributed to a monetary union.

The importance of these arguments is enhanced by transfers other than the seignorage associated with participation in the ruble zone. Two kinds of such transfers have existed: indirect (implicit) transfers via the distorted system of prices in inter-republican trade, and direct (explicit) transfers intermediated by monetary and payments regimes.

Implicit inter-republican transfers

Until recently inter- and extra-republican trade was based on distorted internal prices which did not correspond to international relative prices and which provided implicit subsidies to different countries. The "takeover" of world market prices of hard currency transactions in inter-republican trade will cause a substantial transformation of inter-republican subsidies and implicit transfers supported by existing relative prices. World prices had already been imposed on every country that decided to exit the ruble zone.

According to some estimates, countries expecting to benefit from terms of trade changes as a result of moving to world prices in inter-republican transactions are Russia, Kazakhstan and

[6] This at first sight simple criterion must be, however, adjusted with respect to the speed and course of reforms in different republics. Cash ruble needs are closely connected with nominal incomes and through this with inflation which was a result of price liberalization as a key reform measure. It is straightforward that countries which liberalized prices earlier will have higher demand for cash rubles than those starting later.

Turkmenistan. On the other hand, Moldova, Lithuania, Estonia, Latvia, Belarus and Armenia, as net recipients of subsidies, could no longer rely on this source of income and will experience further economic contraction at least in the short run.

Explicit inter-republican transfers

During the course of 1992, several reforms were introduced in inter-republican payment regimes. They included the establishment of "correspondent accounts" (held by each republican central bank with the Central Bank of Russia) at the beginning of 1992; partial reform of this system and its tightening in February; introduction of bilateral inter-state payments in July; and partial reversals to some former arrangements at the end of August. At the beginning, these changes caused a certain tightening of payments which restricted the ability of individual countries to export inflation and to collect seignorage within the ruble zone. Then, trade disturbances and payment problems led to a deterioration of the economic situation in each republic. Later on some ease of payments policies materialized, strengthening the incentives to follow inflationary policies.

Introduction of Independent Currencies in 1992 and 1993

At the beginning of 1993, the countries that had exited the ruble zone accounted in total for more than 60 percent of the net material product of the non-Russian republics of the FSU. There are many signs that the ruble zone entered its last stage in the spring of 1993.

Estonia was the first of the former Soviet republics to issue its own currency, *the kroon*, in June 1992. It is pegged to the Deutsch Mark (eight kroons for one mark). Estonian officials consider the currency reform as the most successful measure of economic policy in the country since gaining independence in 1991. Estonia exchanged all the rubles in circulation for its crowns in three days, at a rate of ten rubles per crown. Since then, the crown has a rather steady exchange ratio against convertible currencies. It even appreciated slightly against the Finish mark and the Swedish crown and understandably against the ruble - by a factor of 7.

Latvia launched the Latvian ruble, *the rublis*, into circulation already in May of 1992[7] but only later did the government declare it as the sole official currency. With a floating rate regime in existence, the Latvian Central Bank had policy in place to achieve the appreciation of the rublis. As a result of many interventions, the exchange rate moved from 170 rublis per US dollar in November 1992 to 130 in June this year. This March the currency that is considered the eventual national currency, *the lat*, was introduced and was exchanged against the rublis at the ratio 1:200. There is an intention to let both currencies circulate simultaneously as the rublis will be gradually withdrawn. It is interesting to note the impressive decrease of inflation in Latvia. While the monthly rate was about 60% at the beginning of 1992, it dropped to 2.6% in December and to 0.3% by April of this year.

[7] This step was done in order to overcome the shortage of Russian rubles at that time.

Shortly after Estonia, Lithuania also introduced its own currency: *the talons* were allowed to float. During the last year, their value decreased from 200 to 500 per US dollar. The substitution of this temporary currency has been started on 25 June this year. The new currency, *lit* (litas), will be exchanged at the ratio 1:100 against the talon, keeping the exchange rate stable against the dollar (the same ratio will be applied with respect to deposits of population and bank accounts). Planned completion of the replacement of talons will be 20 July 1993 when the lit becomes the only legal tender.[8]

Ukraine and Belarus departed from the ruble zone in November 1992 issuing non-convertible, temporary currencies (*coupon* and *karbovanets* in Ukraine and *zajčik* in Belarus) which are supposed to be soon replaced by permanent ones (*hryvna* in Ukraine). In January 1992, the coupon was introduced in Ukraine to protect the people from price jumps in Russia. At first, coupons were only ruble substitutes, officially trading at par to the ruble and even better unofficially. In summer, all cash receipts of the population (wages, pensions, and withdrawals from bank accounts) were paid in coupons. Since the introduction of the coupon, the government has assured the nation that coupon is "not a money" but only a transient substitute. The hryvna (as a genuine Ukrainian currency) was announced and promised, but its effective introduction has been postponed into 1993 until the inflation and the budget deficits are brought under control. On 12 November, when Ukraine officially left the ruble zone, the karbovanets (which means ruble in Ukrainian language), was launched as a legal tender.

In Georgia temporary *coupons* circulate. Turkmenistan and Azerbaijan have printed new currencies (called *manat* in both cases), but no decision on their introduction has been made yet. Kyrgystan's currency, *the som*, was introduced on 17th May this year as one of many contributions to an array of new currencies.

Kazakhstan remains the only big non-Russian republic staying firmly in the ruble zone. Some smaller FSU republics such as Uzbekistan also remain in the ruble zone.

The introduction of new currencies requires, of course, an exchange rate regime for that currency. The seminar participants discussed the various exchange rate regimes for new currencies as well as the regimes for the non-cash rubles which became more and more independent currencies of the various FSU republics in 1993.

[8] Supplementary measures will be, for example, a prohibition of using foreign currencies; obligation to declare any exchange or deposit of all incomes in foreign currencies; and so forth.

Exchange Rate Regimes and Inter-Republican Economic Relations

Exchange rates are bound to play an increasing role in each formerly centrally planned economy going through transition to a market economy. The abolishment of earlier reliance on quantitative restrictions in trade and the simultaneous move towards trade liberalization is one of the reasons. The need to use exchange rates in the course of macroeconomic stabilization, as well as in the adjustment to trade shocks are additional motivations. Inter-republican economic relations of the former Soviet Union, however, add further dimensions to the use of exchange rate regimes in transition economies.

The Emergence of Non-cash Ruble Exchange Rates

Since the setting up of 15 republican central banks in 1991, each republic acquired the opportunity to create non-cash rubles (or in other words: deposit rubles) by extending non-cash ruble credits to their enterprises. As opposed to non-cash rubles, cash rubles are still printed and allocated by the Russian authorities only and can be used in a wider range of transactions throughout the successor republics of the former Soviet Union. Since the use of non-cash rubles is constrained (for instance, the extent of republican non-cash rubles used in inter-republican trade depends on bilateral inter-republican agreements and technical credits), distinctive exchange rates emerged for republican non-cash rubles in each republic, whether still part of the ruble area or not. This means that non-cash rubles began to be recognized as *de facto* different currencies.

These various currencies began to be traded at exchange rates that substantially differed from par. For example, in January 1993 the non-cash ruble issued in Kazakhstan was traded in Latvia with a 41 percent discount to the cash ruble, the non-cash ruble of Uzbekistan with 38 percent, while -- at the other extreme -- the Moldovan non-cash ruble with a mere 3 percent discount in the same market. While these markets are thin, and the currency rates are not of primary concern for republican authorities, the existence of non-cash ruble exchange rates gives an indication of the spontaneous fragmentation of the ruble area and also of the diversity of speed of the disintegration across republics.

Exchange Rate Regimes Chosen for Countries with New Currencies

In 1992, several attempts were made in a number of republics to introduce new currencies. Some of these were simply coupons (to be used in certain transactions, and allocated to residents only) or parallel currencies (complementing the use of the ruble in certain transactions), while others were considered as real new currencies in the given republics. In the latter case one of the most important decisions with far-reaching economic and political consequences has been the choice of the exchange rate regime to be applied for the new currency.

Some participants of the IIASA seminar discussed this issue in relation to the dichotomy of fixed versus freely floating exchange rates, while others argued that real world exchange rates are no longer so clearly distinguishable and exchange rates cannot be separated from complementary macro-economic policies. For instance, with the choice of a fixed exchange rate regime a series of additional questions should be answered before the proper identification of the regime is finalized. These are: which currency to choose when pegging the new currency to another currency; how to find the appropriate level; and, if a fixed rate is preferred, how adjustable should the peg be? The importance of the last question is supported by the fact that the success of a fixed exchange rate regime depends on its flexibility in response to changing external and internal situations, shifts in macro-economic policies, and the variable ability of governments to control money growth. The performance of a fixed exchange rate regime depends very much on how adjustable it is and on the initial level chosen. Although these qualifications were generally accepted by seminar participants, they still adhered to the distinction between fixed versus flexible exchange rates.

The following arguments were stated in favor of a **floating exchange rate regime**. Given the inheritance of central planning with highly distorted prices as well as autarky, it would be extremely complicated to set the initial level of the exchange rate. With a floating exchange rate, this task can be simplified since the first period of floating allows the market to determine an acceptable level. In addition, large terms of trade shocks, which many countries of the FSU region expect to encounter, are more readily absorbed with a floating exchange rate than with a fixed exchange rate system.

The disadvantage of the floating rate system is that the government loses an appropriate guide for monetary management (credit expansion could be carried out in a quasi automatic way) and has to choose another nominal anchor. While to choose a monetary aggregate for this purpose is not difficult, the problem inevitably emerges, as it is well-known for industrialized countries, that the demand for these aggregates is likely to be unstable.

The arguments in favor of a **fixed exchange rate regime** were as follows. With such a regime, the inexperienced and overburdened monetary authorities of these newly independent FSU republics can be freed from the complex task of carrying out independent monetary policies. An obvious nominal anchor is imported from the rest of the world, as are a set of relative prices, at least for the traded goods sector. The fixed exchange rate helps to implement stabilization in countries where hyperinflation is an imminent threat, and with the psychological impact of the fixed rate inflationary expectations can also be eased. This system also helps reduce exchange risks implied by the variability of exchange rates for the enterprises engaged in foreign trade.

The primary disadvantage of the fixed rate system is the dependency on foreign monetary policies that may be subject to changes inappropriate for the country which has pegged its currency. If the currency is pegged to the US dollar or the German mark, the central bank of the given country has to be prepared to follow the monetary policy of the Federal Reserve Board or the Bundesbank, respectively. As for fiscal policies the basic requirement is that the budget deficit should be financed by available foreign borrowing (the use of internal

borrowing, like the issuance of government securities is advised not earlier than a year from the introduction of the new currency).

Due to conditions unique to the successor republics of the Soviet Union, expert opinions regarding the choice of either a floating or a fixed exchange rate regime have diverged to the one or other extreme. However, recent examples of Estonia and Latvia did not provide a conclusive evidence for either. The two countries chose different regimes in an essentially similar environment, each successful in its own right.

Estonia opted for a fixed exchange rate regime, and for the most stringent version within that group of regimes -- the Currency Board system. The *kroon* was tied to the German mark at an exchange rate of 8 to 1. Hard currency reserves provided the legal guarantee for the new currency that was made fully convertible within the territory of Estonia. Since the introduction of the kroon, gold and hard currency deposits at the Bank of Estonia more than doubled. Latvia, on the other hand, embarked on a floating rate regime with the Latvian ruble in July 1992. So far, both countries succeeded in curbing inflation substantially, and sustaining their original regime. Both countries successfully maintained a balanced fiscal position, with practically no domestic financing requirement.

Alternative Exchange Rate Regimes for FSU Republics

The successor republics of the Soviet Union are not uniform and the suggested exchange rate systems differ accordingly. For instance, the Currency Board system adopted by the Estonian government implies, in essence, a concession of much of the economic independence the country had just acquired after the dissolution of the Soviet Union. Many experts think that republics of larger size and importance (like Russia and the Ukraine) would be reluctant to accept such a disrepute, and that for purely political reasons. For larger countries, the currency reserves needed to intervene against fluctuations would require large resources that presently do not seem to be available.

Some policy analysts felt a system of fixed rates across most of the successor republics would imply that those countries that record the highest inflation rates would determine the monetary policy in all other republics. There would also be a danger that the tools to ensure exchange rate coordination would be less of the financial and credit type; rather, they would be more administrative including price controls, centralization of payments, and forced bilateral as well as other clearing arrangements. In turn, this would lead to endless political arguments about credit levels and the handling of debts. These consequences, which resemble present practices, would cause instability in these economies and further decline in inter-republican trade, compounding the decline already caused by demand shocks.

Thus, a system of flexible exchange rates across the republics would be much more desirable. This would allow varied adjustments to internal shocks that vary among republics, help make the various currencies convertible, create a progress that would enhance inter-republic

payments, and consequently trade among republics. This solution is also more compatible with liberalization and decentralization of foreign trade.

Still, some seminar participants did not find this argument convincing. There is evidence that suggests there is and will be a continuing high degree of dependence of the small republics on Russia with respect to trade relations. As a result, the floating rate for the smaller republics is bound to lead to large fluctuation. A common international experience is that exchange rates tend to fluctuate in a more volatile way than prices. In the presence of a floating rate system, this phenomenon would have far-reaching adverse consequences for the smaller republics and their chances for stabilization. A fixed rate, on the other hand, could provide a certain element of stability. It is true, however, that even fixed rates themselves would not be sufficient to stabilize these economies; complementary policies would be needed. A qualification to the proposition of the fixed exchange rate applies here: a fixed rate is rarely truly fixed and its success highly depends on the initial level and its ability to adjust.

While to peg the exchange rates of the smaller economies to the Russian ruble now seems to be a dangerous undertaking, one participant at the seminar argued that it would be reasonable to expect some republics (like the Asian republics, Belarus and Moldova) to peg their new currencies to the ruble if Russia can achieve sensible macroeconomic discipline. Other republics, like the Baltics, would probably consider this option as politically unacceptable.

Exchange Rate Regime for Russia and Effectiveness of Exchange Rates

It is clear that much of Russia's unfavorable experience with the fixed exchange rate regime has been related to the unsettled conditions of the ruble area, such as the inability of the Central Bank of Russia to carry out its monetary policy in an environment where other republican central banks were able to extend credits in the form of republican non-cash rubles. Experts at the seminar, however, pointed out that the republican central banks were responsible for no more than 20 percent of credit creation in Russia in 1992, and the Russian economy itself seemed to have vested interests to credit neighboring republics to enable them to maintain trade with Russian enterprises.

Since 1 July 1992, the exchange rate of the cash ruble has been uniform and, in principle, freely floating. The daily level is determined by the CBR based on the results of exchange bids on the Moscow inter-bank currency market. This market is still extremely thin and the evolving exchange rates do not tend to give a realistic valuation of the ruble.

While most republics of the former Soviet Union are in the process of transition to a market economy, close observers of enterprise behavior warn that many underlying conditions of the expected impact of different exchange rate regimes are not yet present in the republics. It is highly probable that enterprises would not respond to fluctuations in bilateral exchange rates and thus exchange rates should not be considered as effective exchange rates. The

explanation for this lies in the still large absolute and relative size of the enterprises in their market and their ability to disregard changes caused by exchange rate fluctuations.

Another explanation for the same phenomenon is related to the close to hyperinflationary conditions and long delays in payments for supplies. Because of high inflation, it is very profitable for buyers to delay their payments. Under conditions of 30 percent monthly inflation, it is absolutely crucial for enterprise revenues whether payments are received within two weeks or only in three months. As compared to this kind of variation of payments, exchange rate fluctuations are negligible and would not, in fact, influence enterprise behavior.

A final matter of concern at the seminar was the relationship of capital flows and exchange rate determination. As the evolution of exchange rates is usually analyzed in the light of current account transactions, one participant warned that the issue of capital flows is a "wild card" in exchange rate determination. Very little attention has been paid to capital account transactions by policy-makers. Moreover, there are no current statistics available on capital movements among the republics. What is clear though, is that for most of the republics very few restrictions on capital movements are enforced. Accordingly, governments establishing exchange rate regimes should be aware of the high potential for capital flight and speculative capital movements.

References

Anderson, John (1993): *Changing Trade Patterns in the Former Soviet Union (and Their Implications for Payments Arrangements).* Paper prepared for the Workshop: **Economic Relations Among the Successor Republics of the USSR** at the International Institute for Applied Systems Analysis in Laxenburg, Austria, 11-13 March 1993.

Bofinger, Peter and Daniel Gros (1992): *A Multilateral Payments Union for the Commonwealth of Independent States: Why and How?* Discussion Paper No. 654. Centre for Economic Policy Research, London.

Boss, Helen and Peter Havlik (1992): *Russia, Ukraine, Kazakhstan and Belarus Debt Situation in Late 1992 and Outlook.* The Vienna Institute for Comparative Economic Studies (WIIW), Vienna, Austria.

European Expertise Service -- Advisory Group on Inter-State Economic Relations (1993): *Agreement on the Establishment of the Interstate Bank,* Unofficial Translation. EES-AGIR.

Goldberg, Linda, Ickes, Barry and Randi Ryterman (1993): *Departures from the Ruble Area: The Political Economy of Adopting Independent Currencies.* Paper presented at the Workshop: **Economic Relations Among the Successor Republics of the USSR** at the International Institute for Applied Systems Analysis in Laxenburg, Austria, 11-13 March 1993.

Gros, Daniel (1993): *The Interstate Bank: An End to Monetary Disintegration in the Former Soviet Union?* Paper prepared for the Workshop: **Economic Relations Among the Successor Republics of the USSR** at the International Institute for Applied Systems Analysis in Laxenburg, Austria, 11-13 March 1993.

Gros, Daniel, and Jean Pisani-Ferry (1992): *The Ruble Zone: Simple Rules for Today and Principles for Tomorrow,* in: **Inter-State Economic Relations in the Former Soviet Union**, D. Gros, Jean Pisani-Ferry and André Sapir. Working Document Nº 63, Centre for European Policy Studies.

Hernandez-Cata, Ernesto (1992): *Introduction of a National Currency.* Paper presented at the Workshop: **Economic Relations Among the Successor Republics of the USSR** at the International Institute for Applied Systems Analysis in Laxenburg, Austria, 11-13 March 1993.

Ickes, Barry (1993): *Departing the Ruble Zone: Lecture Notes.* Paper presented at the Workshop: **Economic Relations Among the Successor Republics of the USSR** at the International Institute for Applied Systems Analysis in Laxenburg, Austria, 11-13 March 1993.

Williamson, John (1993): *Alternative Payments Systems for Inter-Republic Trade.* Paper prepared for the Workshop: **Economic Relations Among the Successor Republics of the USSR** at the International Institute for Applied Systems Analysis in Laxenburg, Austria, 11-13 March 1993.

Other Papers Presented at the Seminar

Gabunia, G. V. (1993): *Some Aspects of Trade Policy of Russia.*

Ickes, Barry W., Goldberg, Linda and Randi Ryterman (1993): *Departures from the Ruble Area: The Political Economy of Adopting Independent Currencies.*

Kahn, Juri (1993): *Brief Survey of the Political and Economic Changes in the Republic of Estonia as a Basis for New Economic Relations with the Russian Federation.*

Maksimov, V. A. (1993): *Trade and Economic Relations of Russia with the Former Soviet Union Republics.*

Navickas, V. (1993): *Trade and Account Problems of Lithuania with Former Ruble Zone States.*

Revenko, Andrey (1993): *Ukraine: Country Report.*

Tarr, David G. and Constantine Michalopoulos (1993): *Trade and Payments Among the Successor States of the USSR.*

Program for the Seminar
on

Economic Relations Among the Successor Republics of the USSR

Seminar Room, IIASA, 11--13 March 1993

Thursday, 11 March

13:30 REGISTRATION
14:00 OPENING REMARKS
Peter de Jánosi, Director, IIASA
14:15 INTRODUCTION
Merton J. Peck and János Gács,
Economic Transition and Integration Project

SESSION I: ECONOMIC INDEPENDENCE AND TRADE
Country Presentations

14:30 RUSSIAN FEDERATION COUNTRY REPORT
by Georgi Gabunia and Vladimir Maksimov
Comment by Peter Havlik
Discussion

15:30 UKRAINE COUNTRY REPORT
by Andrey Revenko
Comment by Thomas Richardson
Discussion

16:30 Coffee Break

17:00 BELARUS COUNTRY REPORT
by Vladimir Zalomai or Valentin Zayash
Comment by Matthias Lücke
Discussion

18:00 Social Event

Friday, 12 March

SESSION I: Country Presentations continued

09:00 ESTONIA COUNTRY REPORT
by Ülo Sarv or Jüri Kahn
Comment by Thomas Richardson
Discussion

10:00 Coffee Break

10:30 LITHUANIA COUNTRY REPORT
by Vytas Navickas
Comment by Pekka Sutela
Discussion

SESSION II: PAYMENTS ISSUES---MONETARY POLICY COORDINATION, SETTLEMENTS AND BALANCING

11:30 CHANGING INTER-REPUBLIC TRADE PATTERNS AND THEIR IMPACT ON THE PAYMENTS SYSTEM
by John Anderson
Comment by Dariusz Rosati
Discussion

12:30 Lunch

14:30 IMPLICATIONS OF THE BREAKUP OF THE RUBLE ZONE
by Barry Ickes
Comment by André Sapir
Discussion

15:30 Coffee Break

16:00 THE INTRODUCTION OF A NATIONAL CURRENCY: OPTIONS, POLICY REQUIREMENTS AND EARLY EXPERIENCES
by Ernesto Hernandez-Cata
Comment by Pekka Sutela
Discussion

17:30 Bus to Vienna

Saturday, 13 March

SESSION II: continued

09:00 ALTERNATIVE PAYMENTS SYSTEMS FOR INTER-REPUBLIC TRADE
by John Williamson
Comment by Philip Turner
Discussion

10:00 Coffee Break

SESSION III: INTER-REPUBLICAN COOPERATION

10:30 THE INTERSTATE BANK: AN END TO MONETARY DISINTEGRATION IN THE FORMER SOVIET UNION?
by Daniel Gros
Comment by Michael Jones
Discussion

12:00 Lunch

14:00 COORDINATION OF REFORM MEASURES AND OTHER TRADE RELATED ISSUES AMONG THE REPUBLICS
by David Tarr
Comment by Susan Collins
Discussion

15:00 Coffee Break

15:30 Discussion

17:00 Summary (topics of primary importance for further discussion)
Merton J. Peck and János Gács

17:30 Close of Workshop

Final List of Participants for the Seminar on

Economic Relations Among the Successor Republics of the USSR

IIASA, Seminar Room, 11--13 March 1993

Dr. John Anderson
Ministry of Foreign Economic Relations
Moscow, Russia

Professor Dr. Peter Bofinger
Lehrstuhl für Volkswirtschaftslehre, Geld und internationale Wirtschaftsbeziehungen
Universitat Würzburg
Würzburg, Germany

Dr. Helen Boss
Vienna Institute for Comparative Economic Studies (WIIW)
Vienna, Austria

Dr. Susan Collins
Economic Studies Program
The Brookings Institution
Washington, DC, USA

Professor Barry Eichengreen
Wissenschaftskolleg zu Berlin
Berlin, Germany

Dr. Valeri Gabunia
Deputy Minister
Ministry of Foreign Economic Relations
Moscow, Russia

Mr. Arkadii Goriatchev
Interpreter
Moscow, Russia

Dr. Daniel Gros
Centre for European Policy Studies (CEPS)
Brussels, Belgium

Dipl.-Ing. Peter Havlik
Vienna Institute for Comparative Economic Studies (WIIW)
Vienna, Austria

Dr. Ernesto Hernandez-Cata
International Monetary Fund
Washington, DC, USA

Dr. Barry Ickes
Pennsylvania State University
currently at:
Rand Corporation
Santa Monica, CA, USA

Professor Michael Jones
Department of Economics
Bowdoin University
Brunswick, ME, USA

Ambassador Jüri Kahn
Ambassador of the Republic of Estonia
Moscow, Russia

Dr. András Köves
Deputy General Director of Research
Institute for Economic Market Research and Informatics
Budapest, Hungary

Dr. Matthias Lücke
The Kiel Institute of World Economics
Kiel, Germany

Dr. Vladimir Maksimov
Head of Department
Department of Inter-Republican Relations
Ministry of Foreign Economic Relations
Moscow, Russia

Dr. Vytas Navickas
Deputy Minister
Ministry of Economics
Vilnius, Lithuania

Mr. Paul O'Brien
Economics Directorate
OECD
Paris Cedex, France

Mr. Alexander Oulianov
Interpreter
Moscow, Russia

Professor Andrey Revenko
Institute of Economics
Academy of Sciences of the Ukraine
Kiev, Ukraine

Dr. Thomas Richardson
Department of Economics
Yale University
New Haven, CT, USA

Dr. Dariusz Rosati
Division for Economic
Analysis and Projections
United Nations Economic
Commission for Europe
Geneva, Switzerland

Dr. André Sapir
Economic Advisor
Directorate General for
Economic and Financial
Affairs
Commission of the European
Communities
Brussels, Belgium

Dr. Ülo Sarv
Deputy Minister
Ministry of Trade
Tallinn, Estonia

Dr. Viacheslav Solovov
Deputy Chairman
Central Bank of Russia
Moscow, Russia

Dr. Pekka Sutela
Bank of Finland
Helsinki, Finland

Dr. David Tarr
Principal Economist
The World Bank
Washington, DC, USA

Dr. Philip Turner
BIS -- Bank for
International Settlements
Basel, Switzerland

Dr. John Williamson
Institute for International
Economics
Washington, DC, USA

Mr. Vladimir Zalomai
State Secretary of CIS
Council of Ministers
Republic of Belarus
House of Government
Minsk, Belarus

Mr. Valentin V. Zayash
Deputy Board Chairman
National Bank of Belarus
Minsk, Belarus

INVITED VISITORS

Academician
Vladimir S. Mikhalevich
Director
V.M. Glushkov Institute of
Cybernetics of the
Ukrainian Academy of
Sciences
Kiev, Ukraine

Professor Zgurovsky
Rector
Kiev Technical University
Kiev, Ukraine

IIASA PARTICIPANTS

Dr. Peter E. de Jánosi
Director

Dr. Petr O. Aven
Economic Transition and
Integration (ETI) Project

Dr. Vít Bárta
Economic Transition and
Integration (ETI) Project

Ms. Angela Ferrari
Economic Transition and
Integration (ETI) Project

Dr. János Gács
Deputy Project Leader
Economic Transition and
Integration (ETI) Project

Ms. Shari Jandl
Administrative Assistant
Economic Transition and
Integration (ETI) Project

Dr. Il'dar Karimov
Economic Transition and
Integration (ETI) Project

Professor Merton J. Peck
Project Leader
Economic Transition and
Integration (ETI) Project

Dr. Christoph Schneider
Economic Transition and
Integration (ETI) Project

Dr. Tibor VšašššŠsko
Economic Transition and
Integration (ETI) Project