

**ПО МАТЕРИАЛАМ 2-ой МЕЖДУНАРОДНОЙ КОНФЕРЕНЦИИ
«Модернизация экономики России»¹⁾
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**Drawing Lessons from Ten Years of Cooperation
Between Russia and I.M.F.**

Michel Camdessus

Mr. Chairman, excellencies, ladies and gentlemen,

Allow me first to express my deep sense of gratitude for the honor to address you, this second annual conference of the Higher School of Economic, in my new capacity as Chairman of the French Center for Prospective Studies and International Information (CEPII), at the invitation of Professor Yasin, with whom I had the privilege to cooperate closely over a long period of time and who has been, during all these critical years, a permanent example of lucidity, wisdom and courage.

It was of course quite presumptuous to accept to speak here today with, as a topic: «drawing lessons from ten years of cooperation between Russia and IMF». We are too close to the events and I was too much – with my colleagues of the IMF – part of them, to be able, after just 15 months, to draw lessons with an academic objectivity. Remember what Chou en Lai used to say about the French 1789 Revolution «we are possibly still too close to the events to be able to pass a final judgment». Even without pretending, to share this Chinese wisdom, the only thing I can offer at this stage are a few temporary, honest but subjective conclusions, with only the modest ambition of contributing, in my strictly personal capacity, to a useful debate.

How do I see now, this 10 years period of cooperation?

Well with mixed feelings indeed, but – I do not hesitate to say – in a predominantly positive way. It has been, indeed, a tremendously challenging job, and when I remember the hard work and commitment of my colleagues of the IMF-Staff, under the leadership of John Odling-Smee, when I remember their contributions, their travels, their sacrifices of all kind, particularly in their family life, when I remember their concerns for the suffering of many people here, I know that in all of that, they were second only to the work, commitment and compassion of our partners in the Russian side, including your Executive Directors in our Executive Board. If I was allowed only one word on that experience, it would be that I feel proud and gratified for having been one of them and for what we did together, whatever the uncertainties in the analysis of the circumstances, whatever the difficulties in finding common grounds, whatever our common frustration at the slowness of progress. Yes, it has been cooperation in extremely difficult circumstances,

¹⁾ Журнал продолжает публикацию отдельных докладов и выступлений участников научной конференции.

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but a cooperation we were able, on both sides, to maintain active, whatever the difficulties, a cooperation which finally contributed to history.

Of course the debate will be intense for sometime more on what we did together, on the strategy we adopted, on our reactions to changing circumstances; extreme views will continue to be exchanged, but this is only testimony to the importance of all-what-was-at-stake.

The central question can be formulated very simply:

- were we right on the strategy, we, together, designed, with its successive «variants» from the initial package we discussed and adopted with Prime Minister Gaidar, Prime Minister Chernomyrdin steadily developed, till the last we negotiated with Prime Minister Primakov, and was confirmed and implemented under Prime Minister Stepachin and Putin? There is still a hard debate on that, and a few observers seem to be nostalgic about a virtual «third way». The problem with this «Third way» was that its content was never very precise for those who were in charge and that a very strong political support was never stated for it. I do not share this nostalgia for that virtual «third way». My regret is that it was not possible to gather more political support for the strategy of stabilization and market-oriented reform your successive governments have steadily endorsed. Yes, I share the view that the strategy advocated by the proponents of the market-oriented reform that has prevailed – of course with ups and downs during all the 90s - was the right one. It is now clearly demonstrated by the experience of Russia and of the other transitions countries, as Stan Fischer put it here last year, that both stabilization policies and structural reforms, particularly privatization, contribute to growth; and that the faster is the speed of reforms, the quicker is the recovery from the inevitable initial recession, and the more rapid is growth».

Of course we could comment at nauseam on the reasons why progress was slower and less regular in Russia than in other transition economies. History of the previous 70 years is, of course, an important part of the explanation. But what is more important to note is that the many adverse factors in Russia, including an unconvinced majority during that time in the State Duma, have not prevented the government from steadily pursuing a strategy of macroeconomic stability and continued reduction in inflation, even when domestic or external environment became less favorable. A striking demonstration of it was given to me during the second part of the very difficult year 1998. Many commentators outside of Russia took for granted the abandonment of that strategy and announced that we were heading for at least some time of heavy printing of money and state interventions. This was not the case, and no later than December of that year, we were able, with Prime Minister Primakov, to agree on a strategy quite in line with these stability and market orientation principles.

The steady fastness of Russian authorities in making irreversible the process of transition has opened the road to future prosperity in your country. This has been an outstanding contribution to Russia leading to remarkable results in the years 1999 and 2000, including:

- Strong and broad based economic growth;
- Progress toward monetary stability, and remonetization of the economy;
- Distinct improvements in the revenue side of the budget with a stronger discipline of the tax payers, higher payments in cash etc.;
- Accumulation of comfortable external reserves;

- Surplus in the current account which are not exclusively related to oil price bonanza;
- Continuation of privatization programs, trying to avoid the initial flaws;
- Significant reduction of wages and pensions arrears, barter operations and of practices unfitting with a modern market economy, etc...

Clearly, 2000 was an economic records year!

I know that – we will hear people telling us with a degree of skepticism – not to say cynicism: «wait a minute, are not we in end 1997?» End 1997, this was the time when the first distinct indications of macroeconomic achievements, including positive growth rate for the first time since the beginning of the 1990s, allowed very competent people to start thinking about what was called an «amicable divorce» with the IMF. This perspective, tempting for both sides – as it would have implied that the IMF had successfully completed its task in Russia – was not contemplated for long, as the so called «asian crises» was at the same moment accumulating threatening clouds on the world emerging economies. What I can tell you today is that we are no more end 1997. Of course the risk of world economic slowing down is with us, with the bad news coming from the US and Japan. But Russia is stronger than before. Its monetary stability is based on the impressive surpluses of the current account instead of volatile short term borrowing. The Budget – the Achile's heel of your public finances is now in significant primary surplus. There are of course risks – including a still excessive dependence on prices of oil and gas fluctuations – but there is no immediate threat of budgetary difficulties on the next few months.

Here comes the second question. Are you near the end of the reform agenda? Not quite.

What was your major problem during the 1990s – and at times, apparently, an intractable one – is still with you, namely the difficulties in putting in place all the structural reforms which are still needed for a buoyant Russian private sector to prosper. I put the emphasis on the word «Russian» because the decisive test of success will be reached only when flight of capital will be over and Russian investors will start investing a much more significant part of their savings in their own countries. The day this occurs, you can be certain that foreign investments in much higher amounts will also take place with all what it means in terms of transfer of know-how and integration in the world globalized economy. For that you cannot rely on administrative coercive measures but only on very systematic efforts to establish an environment for investment as secure and favorable here as it is abroad. It will then become for many enterprises a good business choice to invest in Russia where it would become possible to fully benefit from positive advantages they could not find outside Russia. But, this good business would, over all, be good business for Russia. Such an environment is still dependant on the adoption of the structural changes which are the key precondition anyway for Russia to enjoy a steady rate of growth in the range of 5–6% a year or more, for the foreseeable future. The needed changes are certainly very familiar to all of you.

The detailed measures are in the government program approved for the year 2001²⁾.

²⁾ **The banking sector reform.** I was happy to see that the CBR presented a strategy for the development of the banking sector in January. This and possibly more is needed to create

It is hard to overstate the importance of such initiatives. Simply speaking, one could say that the difference between rapid structural change and slow structural reform (at the pace of the 1990s) is the difference between maintaining growth at 4–6 percent a year and producing a reasonable market economy in a few years, and, on the other hand, stagnation over many years, with economy not looking much like a market economy for a very long time. There are obvious social and political consequences of these different economic trajectories and I welcome with appreciation the announcement by President Putin and his government of their determination to give renewed impetus to these Herculean works. I know that you will always find against you, in this major task for the future of your country – the powerful coalition of vested interest and misguided conservatism. But I am certain also that a government which now enjoys in the State Duma a much better support than in the past will not allow «structural change fatigue» and such a devastating coalition to prevail.

Russia is enjoying now an exceptional window of opportunity for these decisive changes. I believe it will be properly used.

Mr. Chairman,

May I dare now to offer what I promised «a few preliminary subjective conclusion»? Allow me to try.

1 – Is the glass half full or half empty? My answer would be that it is more that half full and that the merit for it lies with the admirable perseverance of the people of Russia and with all the policymakers, talented experts and civil servants who were able with courage, skill and vision to have Russia succeeding in this giant

a competitive market-oriented banking sector and for the banks, to make credit available for sound operations.

The continuation of the **major tax reform** initiated last year, especially reform of the profit tax.

The adoption of a Land Code that would permit private ownership of both rural and urban land.

The rationalization of the role of government through public expenditure reviews to identify appropriate expenditure assignments at federal and local levels and the improvement in the efficiency of government services, reduction in the size of the civil service, and adoption of competitive remuneration scales...

The reduction of state interference in business through enactment of simplified registration and licensing procedures and reductions in the number of inspections and monitoring bodies.

To improve protection of property rights, including laws to protect shareholder and creditor rights, and intellectual property rights.

To strengthen judicial institutions to create an independent judiciary through an appropriate wage structure training of potential judges in appropriate laws for a market economy. Let me mention that many international investors have told me that to be able to trust the justice of whatever country is more important for them than any investment incentive government could instaurate.

To strengthen bankruptcy legislation to remove the bias in current legislation towards restructuring rather than liquidation.

To reduce barriers to entry to the Russian market by eliminating direct and indirect subsidies to inefficient incumbent companies.

To accelerate the restructuring of natural monopolies to separate monopolistic and competitive activities, provide improved network access for independent gas producers and rail operators, and demonopolize electricity generation and telecoms. Don't be discouraged for that by the slow pace at which your friends from Western Europe have proceeded.

leap toward democracy, market economy and reform. Could it have been done at a lower cost, with shorter delays? Perhaps! But, believe me, it was not that easy:

- To rule the country with a dismantled administration;
- To renovate infrastructures with scarce national savings;
- To reform with only an handful of well prepared reformers;
- To create a vibrant market economy, without a culture of market;
- And to launch successful enterprises without market entrepreneurs...

You need to be Russia, with her capacity at miracle-making, to untie such Gordian knots and overcome so many paradoxical challenges.

Looking at the future I see clearly Russia, now, at a cross-road, illustrated by the new relationship you are establishing with the IMF: agreeing on the basic tenets of a strategy without seeking a stand by loan arrangement, while knowing pretty well that the support of multilateral institutions will be available to you if, unexpectedly, circumstances were to turn for the worse. This can be seen as an appropriate stance at this stage. As far as I am concerned, I look forward, in the near future, to a new step toward a new kind of partnership between Russia and the outside world. This new partnership would go significantly beyond the public and the financial spheres to which cooperation has been so far too narrowly confined and would broaden itself to embrace peoples, civil societies and many more enterprises. This would be a partnership where the natural «peer pressure», of which we are so familiar in the EC, would substitute itself to the more formal conditionality dialogue of the last years; this would be a partnership in which, of course, the IFIs contribution would remain important, but within which on the basis of the Russian vision of the future, the international community, – on the broader sense of the word private and public sector together, – would contribute to support Russia in finding the proper instruments, including technical assistance, for the realization of her economic, social and cultural purposes in the same way as Russia would certainly want to contribute to the major purposes of the international community for human development. I have no doubt that, in such a framework, time will not be long for Russia to recover her traditional place at the forefront of world progress, culture and civilization.