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Fiscal Policy
of CIS Countries
in 1993-1995

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Introduction*

This paper is based exclusively on official data, provided by the State Statistical Office of CIS (Goskomstat of the CIS). Reports by Goskomstat of the CIS on fiscal and monetary issues are rather uncomplete, even in comparison with data from some of the CIS national statistical agencies.

For example, Goskomstat reports do not contain regular data on money growth and money structure, central bank credits or on the spending of extrabudgetary funds. There is no breakdown of fiscal data for central and local governments. The breakdown of budgetary spending and revenues is far from detailed. The items of revenues and spending enlisted in the statistical reports do not represent all revenues and expenditures. Up to 30% or even more of total revenues and expenditures can not be attributed to any concrete item of revenues or expenditures.

There are significant gaps in the data from some countries. As for reliability of the available fiscal statistics, the least reliable and complete data we have concerns Georgia and Tadjikistan, i.e., states with unsettled internal conflicts. Thus, the CIS Statistics Committee's information for execution of budget in Georgia covers only the year of 1992. For all that, the interpreted revenue items (value-added tax, excises, profit tax, and tax on income of natural persons) account for only 31.8% of revenues in Georgia's consolidated budget for 1992.

The interpreted revenue items of Tadjikistan's budget made up 37.7% in 1993 and in the first half of 1995 - 17.1% of the total received revenues of the republic's budget. The data on 1994 is missing.

The matter is something better with the data on the revenue part of the budget in Azerbaijan and Armenia. It should be noted though that the degree of interpretation of the fiscal revenues in Azerbaijan reduced drastically (67.8% of total revenues in 1993, 50.1% of total revenues in 1994, 25% of total revenues in the first half of 1995). At the same time Armenia shows the opposite tendency (37% of total revenues in 1993, 46.6% of total revenues in 1994, 54.3% of total revenues in the first half of 1995).

The rest of the CIS countries are notably different from Georgia, Tadjikistan, Azerbaijan and Armenia by a higher degree of interpretation of their fiscal revenues. This feature corresponds precisely to the internal political situation in Georgia and Tadjikistan, as well as to the conflict in Nagorny Karabakh.

The data on different counties is not quite compatible - particularly in the definition of fiscal deficit. During 1993-1994 the definition of deficit financing in CIS statistics was strikingly inconsistent with the IMF methodology. Several items of revenues, which are attributed by the IMF methodology to deficit financing, in the Goskomstat of the CIS statistics on the 1993 and 1994 budgets were considered as part of revenues. These include:

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- Proceeds from privatization.
- Borrowings from domestic market.
- Foreign borrowings (in CIS statistics of 1993-1994 they were classified as revenues from foreign economic activity, - the item, which also included custom duties and import charges).

Goskomstat of the CIS does not provide enough information to separate revenues from sources of deficit financing. For these reasons, any estimates of fiscal deficit, based on official Goskomstat of CIS statistics are extremely unreliable. Although in some cases resulting undervaluation of fiscal deficit may not exceed 1-2% of GDP, undervaluation of fiscal deficit of up to 20 times was not uncommon. For example, in 1993 official fiscal deficit in Armenia was 2.7% of GDP, while in reality it was close to 50% of GDP. Tadjikistan in the same year officially had profit, while in reality his deficit was close to 25% of GDP. Deficit of general government may be a much more serious problem - mainly due to a large scale subsidized lending from the central banks.

Inevitably, observations, presented in this paper, will be of a very preliminary character. They can be considered rather as an attempt to evaluate possible spheres of further research and technical problems, which any comprehensive research of fiscal and monetary policy in CIS countries may involve. For a more thorough analysis much more information is needed on the structure of revenues and expenditures of the general government and on the balance-sheets of the central banks.

1. Major Economic Differences Between CIS Countries.

Fiscal data and general economic indicators from Goskomstat of the CIS for 1993, 1994, and for the first half of the year 1995 reveal important differences between CIS countries. By 1993 five economic groups could have been identified within CIS. They may be characterized in the following way (see tables 1-3).

1. Obviously, Russia is a special case among the other states-members of the CIS. The first to start conducting radical economic reforms on the turn of 1991-1992, the Russian Federation traveled the longest path forward, as compared with other states - the former union republics. To make an exception in this respect are the Baltic Sea countries that are not affiliated to the CIS. At the same time the dimensions of the country, its huge resource potential, and considerable (as compared with other states-members of the CIS) export outside the limits of the Community, the scale of the military-industrial complex places Russia in a special position. It may be related to countries with high natural-resource potential and enjoying certain success in market reformation.

2. Ukraine and Belarus form the next group. They are the states that are most closely related with Russia in economical and cultural-historical respects, that have inherited similar economical problems of the Soviet period. However, in 1992-1993 the hopes were relied there on the opportunities opening due to national sovereignty. In this way it was supposed

to escape from painful market transformations regardless of low-level provision with own oil and gas, ineffective coal mines of the Donetsk basin and of the Western Ukraine, high share of obsolete technologies in production of construction materials, in civil machine-building engineering, existence of numerous enterprises of military-industrial complex attended by cooperation relations with Russia. Inevitable economic hardships still forced Ukraine to begin radical market reforms, but with a delay of approximately two years, as compared with Russia.

3. To be separately distinguished is a group of states with considerable potential of natural resources: Kazakstan, Turkmenistan, Uzbekistan. Old political elites of these states succeeded in 1991-1992 to retain power and to strengthen their positions. The economic policy in these countries is characterized by a Chinese type approach to market reforms, with preservation, where it seems to be possible, of the old economic order. At the same time, the distinctions between these countries are determined in many respects by the amount of natural resources available. Thus, Turkmenistan, with large deposits of gas and oil, is promoting large-scale investment programs. At the same time, as far as Turkmenistan is concerned, even limited fiscal information is not always available from Goskomstat of the CIS.

4. A group of countries involved in military conflicts with the neighboring states, the states with existence of strong separatist movements, that turn into genuine civil wars at times: Azerbaijan and Armenia (a conflict in Nagorny Karabakh and around it), Tadjikistan (internal Tadjik conflicts).

Georgia could also be attributed to this group (conflicts in Abkhazia and in Southern Osetia). However, during 1992-1994 Georgia was not a CIS member and statistical data on Georgia was not available through Goskomstat of the CIS.

Oil extraction in Azerbaijan (1,512 kg per capita of oil and gas condensate were extracted in 1992, the corresponding figure for the same year in Russia is 2,686 kg per capita) allowed to finance military operations in Nagorny Karabakh. But due to the deficiency of effective economic reforms and internal instability the quick setback of production in Azerbaijan continued and consequently fiscal imbalances were growing.

At the same time in 1992 Armenia endured the most severe drop in GDP among all CIS countries¹, i.e., 47.7% by 1991. In 1993 the fall in GDP slowed down sharply, and in 1994 Armenia was the only CIS country where GDP grew by 5.5% as compared to 1993 - starting to come out of the very deep recession of the previous years.

The incompleteness of budget information and statistics in general on Turkmenistan should be particularly pointed to. This fact can be explained by the republic's specific political system. Rich in resources of natural gas and oil Turkmenistan nevertheless suffers a considerable setback of production. For example, if in 1991 extraction of natural gas in Russia made up 4,327 cu m per capita and 4,092 cu m per capita in 1994 the similar indices

¹ Unfortunately the corresponding data on Tadjikistan is not available.

for Turkmenistan are correspondingly 22,144 and 8,084 cu m. The economic difficulties were supposed to affect the programmes of capital construction in Turkmenistan which in 1993 used to have the largest share of capital investments in the budget's expenditure part among CIS countries (14%) and in financing of social programmes. This is why the statistic budget information available in 1994-1995 on Turkmenistan is minimum though the republic's internal and foreign-policy situation is remarkable for its stability.

5. A group of states with “transitional” characteristics, distinguished for the lack of a considerable natural-resource potential, minor dimensions, inability to play a considerable part in one's region due to this reason, and aspiring at the same time for promotion of moderate economic and political reforms. Such states as Moldova and Kyrgyzstan may be related to them.

Moldova also had a limited military conflict within its borders (the central government lost control over Gagausia and Dnestr republic). However, this conflict had less disastrous economic consequences, than in the countries included into the previous group.

The 1993 budgets of CIS countries give evidence that despite all these geographical, economic and political differences striking similarities in fiscal sphere existed between all former Soviet republics. Obviously, one year of political separation was not enough for CIS members to transform their common fiscal and monetary heritage.

In 1993 most of CIS members were still using ruble as their national currency. Their tax systems and remained pretty similar and even tax reforms were based on the same principles (such as introduction of VAT and social extrabudgetary funds, financed from payroll tax). The spending structure and budget classifications still remained pretty similar. All CIS countries were running huge deficits of general government, which in most cases exceeded 10% of GDP. The revenues and expenditures of general government - even for the least developed countries - remained strikingly high. In most extreme cases, such as Ukraine, they exceeded top OECD levels. In all CIS members except Russia consumer prices in 1993 increased more than 10 times.

Even a superficial comparison of budgets of the CIS members during 1994 - the first half of 1995 shows how rapidly differences between the countries were growing due to dramatic variations in fiscal and monetary policies. The scale of these differences was growing rapidly in step with dismantling of the ruble zone and introduction of national currencies by CIS members.

In 1992 Azerbaijan and Ukraine were the first to leave the ruble zone. In the first half of 1993 they were followed by Belarus and Kyrgyzstan. In November, 1993 national currencies were introduced in five other CIS countries: Armenia, Kazakstan, Moldova, Uzbekistan, and Turkmenistan. Tadjikistan became the last member of CIS to introduce national currency (May, 1995).

The 1994 budgets of CIS states provide evidence of growing differences, which can be attributed to a different pace of stabilization efforts throughout CIS.

During 1993 Ukraine, which left ruble zone earlier than most of other CIS countries, experienced hyperinflation (consumer prices increased 102,6 times). In 1994 inflation

increased in those countries, which accomplished withdrawal from the ruble zone by the end of 1993 or in the first half of 1994.

The differences between CIS countries become even more obvious in fiscal reports for the first half of 1995 (the latest date available so far from Goskomstat of the CIS). On one hand, in those of CIS countries, which succeeded in reducing monthly inflation below 3-5%, the structure of consolidated budgets became closer to that of East European states in post-stabilization period. On the other hand, in those countries, where inflation in 1995 still remained high, the structure of revenues and expenditures remained less affected by change.

2. Consolidated Budgets of CIS Countries in 1993.

In 1993 Russia looked as a spectacular success story in CIS with a lowest inflation rate (9.4 times in 1993 - see table 10) despite the fact that during this year it provided 3% of GDP in the form of credits to the countries of the ruble zone. At the same time, according to Goskomstat of the CIS in 1993 Russia had the largest fiscal deficit among CIS members 10% of GDP (see table 4).

In most of other CIS members official statistics strongly underestimated actual size of the deficit. In Azerbaijan (price increase 12.3 times in 1993) fiscal deficit was 7.2%, in Armenia (price increase 19.2 times) - only 2.7%, in Moldova (price increase 12.8 times) - 6.5%, in Ukraine (price increase 102.6 times) - 6.6% of GDP, in Belarus (price increase 12.9 times) - 5.3%, in Uzbekistan (price increase 13.3 times) - 3.6%. In Kyrgyzstan (price increase 13.1 times), in Tadjikistan (price increase 22.4 times) and in Turkmenistan (price increase 17.3 times) - official consolidated budgets had proficits.

Table 9 provides more accurate estimate of fiscal deficits in CIS countries during 1991-1995. Comparison of these estimates with the corresponding figures of the Goskomstat of the CIS from tables 4 and 5, shows that undervaluation of the size of fiscal deficits in official CIS statistics was sometimes enormous. In 1993 actual fiscal deficit in Armenia was 18 times higher than the official one, obtained from the Goskomstat of the CIS, for Uzbekistan - more than 5 times higher, for Azerbaijan - almost 2 times higher. Two of the countries, which in 1993 ran proficits according to official CIS statistics, in reality had relatively high deficits (13.5% of GDP in Kyrgyzstan and 24.7% of GDP in Tadjikistan). However, official estimates of the deficit proved to be rather accurate in cases of Moldova, Kazakstan and Turkmenistan.

Moreover, in 1993 the deficit of general government in some of CIS members far exceeded official figures of fiscal deficit. During this year in all CIS countries substantial part of the deficit of the general government was covered by direct subsidized lending from the central banks to national economy. Russia was an only obvious exception from that rule due to the fact that in 1993 Federal Government incorporated into the budget major part of targeted credits to national economy. For this reason, in 1993 Russian official fiscal statistics was obviously the most reliable among CIS members. Comparison of the official deficit figures with inflation rates suggests that the volume of such lending as percent of GDP was probably the highest in Ukraine, Kyrgyzstan, Tadjikistan, Turkmenistan and

Armenia, where the volume of off-budget subsidies to national economy must have far exceeded 10% of GDP.

According to official data, domestic borrowings outside central banks were small or non-existent in all CIS countries with exception of Armenia, where officially such borrowings exceeded 1.5% of GDP. Although foreign credits are missing in the reports of the Goskomstat of the CIS, they were probably insufficient to finance official deficits in countries like Azerbaijan, Belarus, Moldova and Uzbekistan. It is quite obvious that major part of official deficits in these countries was also financed by the central banks.

Fiscal revenues as percent of GDP (including revenues of extrabudgetary funds) strongly varied among CIS countries - between 23.9% in Moldova and 67.4% in Ukraine. However, variations in tax revenues were much smaller. In four countries - Armenia, Kazakhstan, Kyrgyzstan and Turkmenistan - they varied between 10 and 12.5% of GDP. Moldova stands alone at 14.7% of GDP. In 3 countries - Russia, Azerbaijan, and Tadjikistan - tax revenues varied between 21 and 23 % of GDP. The highest tax revenues were registered in Uzbekistan (29.3% of GDP) and Ukraine (32.4% of GDP).

Extremely high level of fiscal revenues in Tadjikistan probably results from the fact that Goskomstat of the CIS added large-scale foreign aid to this country (which was mainly coming from Russia) into the revenues, and did not consider it as part of deficit financing.

If payroll taxes, collected mainly by social extrabudgetary funds, are added to the tax revenues, the picture will look differently. Armenia then becomes the country with the lowest tax revenues (12.3% of GDP). It is followed by Kyrgyzstan (16.8% of GDP). Azerbaijan, Turkmenistan and Moldova can be attributed to the same group (roughly between 20-22.5% of GDP). The next group comprises Tadjikistan (26.2%) and Kazakhstan (27.7%). They are followed by Russia (32%) and Uzbekistan (36.1%). Ukraine with its tax revenues of 47.3% of GDP remains well ahead of any other CIS country.

Such a remarkable taxation power of Ukrainian government can be partly explained by relatively slow pace of privatization in Ukraine - even in comparison with other CIS members, including Kazakhstan, Kyrgyzstan, Armenia and Azerbaijan. During 1993-1994 the Ukrainian tax system still remained unreformed and therefore oriented mainly on the old state sector of the economy. Quite obviously, such a high level of fiscal revenues will not be possible to maintain in process of mass privatization, which started since 1995.

To some extent these differences in the size of tax revenues may reflect progress in market reforms, achieved by each country. In 1993 all CIS members had tax systems, oriented mostly on the old state sector of the economy, while newly established private enterprises were easily evading taxes. The high share of the old state enterprises in the economy was probably the main factor, which enabled tax authorities to maintain relatively high level of tax/GDP ratio in the economy.

In Armenia ability of tax collection might have been undermined both by early progress of privatization (particularly in agriculture), rapid development of new private enterprises and the consequences of war with Azerbaijan. War and loss of control over part of the territory must have negative effect on tax collection in Azerbaijan and Moldova. In

Uzbekistan, very much like in Ukraine, high ratio of fiscal revenues to GDP (41% in 1993) can be partly explained by the lack of reformist effort, with state sector still untouched by market reforms.

Extremely high Ukrainian inflation of 1993 could partly be explained by earlier withdrawal of Ukraine, compared to other CIS countries, from the ruble zone (in November, 1992), which made impossible redistribution of inflationary burden between Ukraine and Russia. In other CIS countries (with exception of Kyrgyzstan and Moldova), who remained in the ruble zone longer than Ukraine, similar developments were observed a year later - in 1994.

Like in most other post-communist economies in early period of transition, the share of corporate profit tax in total revenues of CIS members was much higher than in most of OECD countries. In 1993 corporate profit tax and VAT were the major sources of fiscal revenues for all CIS countries, while individual income tax and property taxes were not particularly significant. This indicates not only common roots of the tax systems of CIS countries, but also a common logic of adjustments in national tax systems at the initial stage of market reforms.

In 1993 the economy of all CIS countries was heavily subsidized, which reflected rather slow structural adjustment in the economy. Subsidies and social spending comprised at least 2/3 of total expenditures of general government.

The structure of subsidies by sources and purposes was quite similar throughout the CIS. Subsidies were provided through:

- Central budget.
- Local budgets.
- Extrabudgetary funds.
- Central banks.

Subsidization of public and private enterprises through numerous tax and custom duties exemptions was also extremely important in all CIS countries.

In a majority of CIS countries price liberalization was far from complete. In these circumstances price subsidies for commodities and services with state controlled prices remained the major form of subsidies. For the majority of CIS countries the most significant among subsidies, related to state controlled prices were:

- Subsidies for fuel and energy (in 1993 and to a lesser extent in 1994-1995 prices for fuel and energy, imported from Russia by other CIS members were also subsidized by Russian government).
- Housing subsidies, which included subsidized rents and maintenance services, utilities and housing construction.

- Subsidies for public transportation.
- Subsidies for food industry and agriculture.

Two major purposes of subsidies besides those related to prices controlled by the state were state investments in public enterprises (part of them was allocated directly by the central banks in the form of targeted credits) and import subsidies. The latter were usually granted to importers or domestic consumers by providing cheap (far below the market rate) foreign exchange, direct compensations from the budget or targeted import credits.

It is impossible to get precise estimate of the volume of subsidies from the Goskomstat of the CIS statistics, partly due to the unavailability of information about off-budget subsidies (sectoral extrabudgetary funds, targeted credits from central banks), partly due to the absence of data on individual tax and customs duties exemptions. Another problem with correct identification of subsidies is that the Goskomstat of the CIS fails to distinguish between expenditures on public infrastructure (including both investment and maintenance costs), which must not be considered as subsidies, and transfers to enterprises of other sectors of the economy. In official CIS budgets all these items are usually aggregated under the name of “Expenditures on national economy”.

In 1993-1994 social spending was funded from central and regional budgets, as well as from social extrabudgetary funds (pension funds, employment funds, health and social insurance funds - see tables 7 and 8) which were introduced in majority of CIS countries during 1992-1993. In most of CIS members social spending was intended to maintain the levels of basic social services, inherited from the Soviet era. In some of the countries overall social spending increased by several percents of GDP. For example, in Russia in 1993 social spending from the budget and extrabudgetary funds increased from the previous year by 4% of GDP. This mainly occurred due to substantial reduction of subsidies to state enterprises, which in their turn reduced supply of social services to employees and their families and shifted these responsibilities to local governments. However, in some other countries (for example in Azerbaijan) social spending dramatically declined.

3. Consolidated Budgets of CIS Countries in 1994.

The 1994 budgets reflected growing differences between CIS countries in the pace of economic reforms and monetary policy. In some of this countries (Armenia, Azerbaijan, Belarus, Kazakstan, Turkmenistan and Uzbekistan) inflation rate was growing. In the others (Kyrgyzstan, Moldova, Russia and Ukraine) inflation was dramatically reduced. The pace of privatization and structural adjustments was also different among CIS members.

In 1994 Russia, Tadjikistan and Kyrgyzstan had the lowest inflation rates among CIS countries (see table 10). In these countries prices increased less than 4 times. Quite obviously, Russia still remained the leader in terms of reducing money supply.

For Tadjikistan no fiscal information for 1994 is available from Goskomstat of the CIS. In fact, during 1994 Tadjikistan had the lowest inflation rate among CIS countries. This situation reflects strong economic dependency of Tadjikistan from Russia. Tadjikistan remained the only CIS country, which stayed in the ruble zone throughout 1994, and at the same time relied on massive economic aid from Russia. However, monetary situation in Tadjikistan should not be considered as a simple replica of monetary situation in Russia. Unlike Russia itself, Tadjikistan in 1993-1994 still preserved severe shortage economy due to widespread price control practices. Partly due to significance of suppressed inflation official statistics on price movements may be misleading - particularly in comparison with Russia, Kyrgyzstan and other countries with far more liberalized price systems.

Despite rather low inflation rate, official fiscal deficit as percent of GDP in Russia remained one of the highest in CIS (see table 5). On one hand, this indicates, that (with exception of Kyrgyzstan) other CIS countries still failed to incorporate off-budget subsidies into the budgets, whereas Russia in 1994 reduced them even further from relatively low level of 1993. On the other hand, this reflects reduced share of lending from the central bank and growing share of borrowing from domestic market and from international financial institutions in deficit financing. Relatively low inflation rate in Russia can also be attributed to higher monetisation of Russian economy, than that of other CIS countries. At the same time the structure of spending and revenues of consolidated budget in Russia did not change significantly.

Relatively low inflation in Kyrgyzstan reflects the progress of financial stabilization in this country. Official fiscal deficit in Kyrgyzstan increased from zero level in 1993 to 8.6% of GDP in 1994, while inflation rate reduced almost four fold. This means that most of the off-budget spending in Kyrgyzstan was successfully incorporated into the budget, while significant part of fiscal deficit was funded by international financial institutions.

Ukraine and Moldova were moving in the same direction, but less successfully.

Official fiscal deficit in Ukraine increased from 6.6% of GDP in 1993 to at least 9.7% in 1994. At the same time, inflation rate declined from 103 times to 5 times. This means that off-budget subsidies from the central bank were incorporated into the budget. This explains, why expenditures on national economy in consolidated budget of Ukraine increased two-fold - from 9.5% of GDP in 1993 to 18.4% in 1994. Total revenues of consolidated budget increased by 3.5% of GDP. On the other hand, revenues from VAT declined by 3.3 and contributions to extrabudgetary funds were reduced by 7.5% of GDP due to elimination of major extrabudgetary funds of non-social character. Obviously western loans played an important role in deficit financing.

In Moldova official fiscal deficit was reduced from 6.5% of GDP to approximately 4.7%. Inflation declined from 12.8 to 5.9 times but remained higher than in Ukraine. Official fiscal deficit declined from 6.5% of GDP in 1993 to 4.7% of GDP in 1994. Revenues of consolidated budget increased - partly due to the growth of revenues from profit tax by 2.3% of GDP. Social spending from budget and extrabudgetary funds declined by 2.5% of GDP. However, level of spending on national economy (including investments) remained unchanged. Most likely the government still maintained some of the subsidies, allocated through the central bank.

In other CIS countries inflation increased. Partly this inflation growth may be associated with dramatic reduction of Russian economic aid and subsidies on energy supplies, as well as with tightened transaction requirements in the trade with Russia. Withdrawal from the ruble zone combined with low confidence in the new national currencies must have also given an inflationary impact by eliminating possibility of redistribution of inflationary tax between these countries and Russia. Low level of credibility of new national currencies became additional factor of high inflation. During 1994 and partly even in 1995 ruble was still regarded as a more reliable currency. On practice ruble remained a reserve currency for majority of CIS countries - mainly due to their dependency on energy supplies from Russia..

In 1994 Armenia suffered from high inflation more than any other country of CIS (assuming that Georgia was still not a CIS member at that time). Inflation rate increased from 19 times in 1993 to more than 50 times in 1994. Fiscal revenues decreased by 15% GDP - from 37.7% of GDP in 1993 to 22.3% of GDP in 1994. Such a dramatic decline of revenues may be considered as a result of Tanzi effect, war with Azerbaijan and rapid growth of the share of informal private sector in the economy. Particularly notable was decline in revenues from VAT (from 5.1 to 2.7% of GDP) and from excise taxes (from 1.16 to 0.45% of GDP). Changes on expenditure side were also unfavorable. As a combined effect of war and energy blockade subsidies to national economy as percent of GDP increased two fold (from 6.1 to 12.5%). To compensate this increase, social spending as percent of GDP was reduced 2.5 times (from 13.3% to 5.5%). Official fiscal deficit was close to zero, but obviously large-scale lending from the central bank was used to finance war with Azerbaijan and to subsidize enterprises.

Azerbaijan was in a similar situation, which was somewhat dampened by a far better energy supply, than in Armenia. Inflation increased from 12.3 times in 1993 to 17.6 times in 1994. Official fiscal deficit increased from 7.2% of GDP in 1993 to 11.5% of GDP in 1994. Revenues of consolidated budget declined by 5% of GDP. Particularly sharp was the decline in collection of three major taxes: corporate profit tax (from 8.1% of GDP in 1993 to 2% of GDP in 1994), VAT (from 7.8 to 5.3% of GDP) and individual income tax (from 2.4 to 0.5% of GDP). Such a reduction may be considered as an evidence of failure of the tax authorities to cope with the growing scale of shadow economy. To match such a reduction of revenues, subsidies to national economy in consolidated budget were reduced more than two-fold

Decline of fiscal revenues was notable in all other CIS countries, which suffered from increased inflation. In Uzbekistan this decline was particularly sharp - by 13.6% of GDP. In Belarus revenues declined by 5% of GDP and in Kazakstan - by 4.4% of GDP. Unfortunately, for all three countries the breakdown of fiscal revenues and expenditures is available from Goskomstat of the CIS only for one of the two years in consideration.

1995 is remarkable by dramatic progress towards financial stabilisations in all CIS countries. Two of them - Moldova and Kyrgyzstan - entered stabilization phase. In Moldova consumer prices in 1995 increased by 30% and in Kyrgyzstan - by 53%. The highest increase of consumer prices in CIS - 8 times - was registered in Belarus, but still it was 3 times lower than in previous year. Inflation in Turkmenistan was probably even higher, but

the data on the 1995 inflation rate in Turkmenistan is unavailable from the Goskomstat of the CIS.

So far fiscal data on 1995 from Goskomstat of the CIS is incomplete and available for the first half of the year only (see table 6). However, even a limited data gives evidence of growing differences between CIS countries.

According to Goskomstat of the CIS, fiscal deficit in Moldova - the most successful CIS country in terms of financial stabilization - increased from 4.7% of GDP in 1994 to 6.7% in the first half of 1995. Partly such an increase may be of statistical origin, partly - by increased borrowing from international financial agencies. Official deficit of Kyrgyzstan - the second best country of the CIS in terms of inflation rate - almost doubled in the first half of 1995 to alarmingly high 16.4% of GDP. Probably, such phenomenon can be explained by a large scale foreign aid and by the presidential election campaign of 1995.

In the countries with relatively low inflation (Kyrgyzstan, Moldova, Russia and Armenia) fiscal revenues increased as percent of GDP. In all these countries except Russia revenues from the corporate profit tax as percent of GDP declined, reflecting reduction of inflationary component in profits, while social spending as percent of GDP increased dramatically.

Despite growing differences between fiscal policies of CIS countries, the major common structural features of their budgets remained almost untouched. With exception of Azerbaijan in all other CIS countries VAT and profit tax remained two major single sources of fiscal revenues.

Revenues from the individual income tax as percent of GDP did not increase and sometimes even declined. This confirms that the methods of its collection remained essentially the same as they were during late Soviet era. On practice income tax in all CIS countries still remains just a wage tax and is seldom applied to other categories of individual incomes.

The level of social spending from the budget and extrabudgetary funds and the level of subsidies in consolidated budgets was not significantly reduced in comparison with the previous year. In 1994 and the first half of 1995 the main adjustment effort was still concentrated on reduction of extrabudgetary subsidies rather than on the consolidated budget per se.

Conclusions.

1. Withdrawal from the ruble zone, accompanied by reduction of credits and subsidies, provided by Russia, was probably one of the major factors of increased inflation in CIS countries in 1994.

2. Despite an obvious progress towards financial stabilization, achieved by CIS countries since then, fiscal adjustment in CIS countries is far from complete. Even in most successful of them fiscal deficits still remain too high to allow long term sustainable growth,

tax systems remain unreformed and poorly adjusted to collection of taxes from the private sector, while dependency on foreign aid is sometimes excessive.

3. During 1993-1995 the size of general government was reduced in all CIS countries. Such a reduction may be considered as a combined result of several factors:

- Decline in tax collection due to low compliance in the growing private sector, high inflation, slow adjustment of tax authorities to market environment, loss of real control over parts of the territory by some of the countries as a result of wars or local separatism.
- Elimination or substantial reduction of the off-budget subsidies, provided through the central banks.
- Liquidation or reduction of extrabudgetary funds, responsible for investment and subsidies to the national economy.
- Dramatic reduction of credits and subsidies of Russia to other CIS countries in process of their withdrawal from the ruble zone.
- Reduction of fiscal deficits in process of financial stabilization.

4. The tax systems of all CIS members are still biased towards corporate taxation, rather than taxes on consumption. Such a system discourages investments and favors consumption. This type of tax distortions was common among former communist economies at the early stages of transition and is particularly unwelcome in the periods of large-scale structural adjustment, which remains a priority for all post-communist economies.

Major East European economies have already achieved remarkable progress in overcoming these distortions: they have dramatically reduced revenues from corporate tax, whereas revenues from individual income tax were rapidly growing in real terms due to higher efficiency of tax collection. In terms of shift towards consumption taxation most of CIS members so far had a limited success. Introduction of the VAT in 1992-1993 by CIS members was the most important achievement. Since then taxes on consumption did not increase significantly as percent of GDP and a share of total tax revenues. This may be partly explained by inadequacy of the existing practices of VAT collection. In Russia and - probably - in other CIS countries an invoice method was applied to VAT credits, while VAT payments were collected on accrual basis. With a high ratio of inter-enterprise arrears to GDP such practices substantially increased the gap between VAT credits and payments, making VAT revenues unusually vulnerable to Tanzi effect. In Russia the resulting revenue losses were estimated by at least 50% of actual VAT proceeds. Revenues from individual income tax remained stagnant as percent of GDP - far below the typical OECD level (this reflects the fact that individual income tax in CIS still remains essentially a wage tax and fails to cover most of non-wage incomes). At the same time, revenues from corporate profit

tax did not decline as rapidly, as in some of East European countries, and still remain much higher than in the OECD.

5. Just like in other countries in transition, dramatic reduction of budget and off-budget subsidies to national economy was the most significant element of fiscal adjustment on expenditure side. Social expenditures as percent of GDP in 1993 - first half of 1995 were moving in different directions in various countries. By the first half of 1995 they were cut down to 3.7% of GDP in Azerbaijan, but grew to over 20% of GDP (60% of total expenditures) in Kyrgyzstan and Moldova. Other major items as a share of total expenditures remained relatively stable.

6. Both structure and volume of fiscal revenues and expenditures in Azerbaijan, Armenia, Tadjikistan and, to some extent, in Moldova were affected by wars and local separatism. Tax revenues as percent of GDP in these countries were usually smaller, while spending on defense was higher, than in most of other countries (with exception of Russia).

Table 1. Economic Indicators of CIS Members (1995 as per cent of 1990).

State	GDP (real)	Industrial output (real)	Agricultural output (real)*	Shipment of cargo by general use transport**	Capital investments (real)
1	2	3	4	5	5
Russia	62.2	50	67	30	30
Ukraine	44.4	53	61	26	26
Belarus	60.5	61	73	23	41
Kazakstan	45.4	48	54	23	20
Uzbekistan	82	99.9	83	73	54
Turkmenistan	n.d.	65	76	68 ⁽¹⁾	193 ⁽²⁾
Georgia	20	17	26	6 ⁽¹⁾	n.d.
Armenia	39.2 ⁽¹⁾	47	114	3	3 ⁽¹⁾
Azerbaijan	38.2	45	54	14	33
Tadjikistan	n.d.	44	36	8	21
Moldova	38.6	44	66	10	14
Kyrgyzstan	50.3	35	57	5	37

Source: Goskomstat of the CIS.

¹⁾ 1994 to 1990 ²⁾ 1993 to 1990

(*) - all categories of farms

(**) - without pipelines

Table 2. Export (USD per capita, 1995).

From	To CIS countries	To Non-CIS countries
1	2	3
Russia	92	453
Ukraine	113	108
Belarus	250	166
Kazakstan	168	148
Uzbekistan	71	101
Turkmenistan	384	170
Georgia	14	12
Armenia	44	29
Azerbaijan	32	52
Tadjikistan	43	112
Moldova	109	61
Kyrgyzstan	63	32

Source: Goskomstat of the CIS.

Table 3. Comparative geographic advantages of CIS countries.

State	Mineral resources	Economic geographical position	Geopolitical position
1	2	3	4
Russia	+	0	0
Ukraine	-	+	from 0 to +
Belarus	-	+	+
Kazakstan	+	from - to 0	+
Uzbekistan	0	-	-
Turkmenistan	+	from 0 to +	0
Georgia	-	+	-
Armenia	-	-	-
Azerbaijan	+	0	-
Tadjikistan	0	-	-
Moldova	-	+	0
Kyrgyzstan	0	-	0

Notes: Relative valuation: 0 - medium ; + - favourable ; - - unfavourable

Table 4. Consolidated Budgets of CIS Members in 1993 (% of GDP).

	Russia	Azerbaijan	Armenia	Belarus	Kazakstan	Kyrgyzstan	Moldova	Tadjikistan	Turkmenistan	Uzbekistan	Ukraine
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL REVENUES	25.74	33.48	36.15	37.1	29.67	22.6	17.73	64.5	18.3	41.73	42.52
VAT	6.94	7.82	5.10		4.45	4.07	4.5	10.92	4.76	10.74	14.74
Excise taxes	1.09	3.97	1.16		0.59	1.36	2.93	2.58	0.08	6.56	2.15
Corporate income tax	10.33	8.12	4.47		4.75	4.07	4.88	6.45	4.57	8.67	12.40
Land tax	0.19	0.21	-		0.06	0.09	0.67	0.20	0.0	0.0	0.67
Individual income tax	2.70	2.35	1.56		2.67	1.36	1.69	2.58	0.79	3.34	2.47
Revenues from foreign economic activity	1.45	0.76	-		0.59	0.45	0.33	1.29	0.18	0.32	1.71
Revenues from privatisation	0.20	-	0.0		2.97	0.14	-	0.26	-	0.0	0.10
TOTAL EXPENDITURES	35.32	40.50	38.92	40.2	27.9	22.1	24.24	53.3	17.8	45.35	49.06
Subsidies to national economy	9.94	11.74	12.45		7.22	5.53	3.37	18.66	6.94	14.16	9.46
Foreign economic activity	0.47	-	0.70		0.03	-	0.06	-	0.07	0.0	1.06
Social and culture expenditures	8.81	14.97	13.25		8.93	8.84	14.26	17.06	6.23	17.67	11.85
Science	0.58	0.38	0.83		0.28	0.22	0.29	0.53	0.18	-	0.44
Investments	-	3.82	-		3.35	2.65	0.61	-	2.49	1.13	-
Defence	44.43	4.95	2.30		1.12	0.66	-	3.79	0.36	1.77	2.37
Public security affairs	1.62	3.41	1.64		1.67	0.66	1.41	2.66	0.71	1.93	1.50
Public administration	0.91	1.14	1.38		1.40	0.66	0.83	1.59	0.36	1.03	1.08
DEFICIT	9.8	7.02	2.74	5.3	0.03	0.0	6.5	-	-	3.56	6.5

Source: Goskomstat of the CIS.

Table 5. Consolidated Budgets of CIS Members in 1994 (% of GDP).

	Russia	Azerbaijan	Armenia	Belarus	Kazakstan	Kyrgyzstan	Moldova	Tadjikistan	Turkmenistan	Uzbekistan	Ukraine
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL REVENUES	28.16	28.46	22.32	32.05	25.25	18.74	25.30			28.3	45.97
VAT	5.93	5.29	2.70	8.77	2.53	4.94	4.86				11.42
Excise taxes	1.18	3.84	0.45	3.39	0.51	1.61	2.61				1.48
Corporate income tax	7.75	1.96	5.71	9.81	3.54	4.07	7.21				12.56
Land tax	0.26	0.13	0.22	0.10	0.05	0.12	0.26				0.36
Individual income tax	2.78	0.48	1.21	2.33	2.02	2.10	2.24				2.99
Revenues from foreign economic activity	3.04	2.10	...	2.94	2.02	0.44	0.51				0.78
Revenues from privatisation	0.12	...	0.04	...	0.25	0.52	...				0.22
TOTAL EXPENDITURES	37.28	39.95	21.67	35.02	24.8	27.35	30.04			...	55.42
Subsidies to national economy	10.07	5.61	6.12	9.64	3.97	3.11	2.32				18.38
Foreign economic activity	0.79	...	0.75	1.86	1.24	...	0.87				...
Social and culture expenditures	8.77	5.22	5.47	12.59	6.70	13.50	13.26				18.45
Science	0.49	0.29	...	0.31	0.25	0.20	0.25				0.53
Investments	...	...	...	...	0.0	0.96	1.91				...
Defence	4.45	5.11	...	...	0.99	0.98	...				2.05
Public security affairs	1.81	2.86	0.51	1.28	1.24	1.78	1.37				0.83
Public administration	1.13	0.78	...	0.66	0.99	0.94	0.78				0.91
DEFICIT	9.95	11.53	-	3.0	0.05	8.6	4.7			...	9.5

Source: Goskomstat of the CIS.

Table 6. Consolidated Budgets of CIS Members in 1995 (% of GDP)

	Russia	Azerbaijan	Armenia	Belarus	Kazakstan	Kyrgyzstan	Moldova	Tadjikistan	Turkmenistan	Uzbekistan	Ukraine
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL REVENUES	27.34	21.24	28.61			20.52	30.45				
VAT	6.34	1.27	4.55			5.23	8.07				
Excise taxes	1.45	1.21	0.60			2.18	3.56				
Corporate income tax	8.15	2.82	8.13			3.70	6.94				
Individual income tax	2.35	...	2.26			2.34	3.14				
TOTAL EXPENDITURES	28.49	22.54	44.63			36.92	37.15				
Subsidies to national economy	...	0.83	10.76			3.91	3.16				
Social and culture expenditures	8.35	3.70	10.98			21.63	21.58				
DEFICIT	3.2	1.3	16.1	...	-	16.4	6.7	...	...	...	...

Source: Goskomstat of the CIS

Table 7. Revenues of Extrabudgetary Funds in 1993 (% of GDP).

	Russia	Azerbaijan	Armenia	Belarus	Kazakstan	Kyrgyzstan	Moldova	Tadjikistan	Turkmenistan	Uzbekistan	Ukraine
1	2	3	4	5	6	7	8	9	10	11	12
Social Insurance fund	1.21	-	-		1.39	1.01	0.99	-	3.03	-	1.09
Pension fund	6.54	-	-	-	7.71	4.45	3.83	-	8.85	-	11.45
Employment fund	0.39	-	-		0.38	0.21	0.15	-	0.02	-	0.53
Others	2.17	-	0.01		5.74	0.13	0.18	3.50	0.0	6.82	1.77

Source: Goskomstat of the CIS.

Table 8. Revenues of Extrabudgetary Funds in 1994 (% of GDP).

	Russia	Azerbaijan	Armenia	Belarus	Kazakstan	Kyrgyzstan	Moldova	Tadjikistan	Turkmenistan	Uzbekistan	Ukraine
1	2	3	4	5	6	7	8	9	10	11	12
Social Insurance fund	-	-	0.05	3.94	-	-	0.21	-			0.60
Pension fund	-	-	0.16	-	-	-	2.99	-			6.27
Employment fund	-	-	0.11	0.0	-	-	0.06	-			0.49
Others	-	-	0.00	4.43	-	-	0.18	-			-

Source: Goskomstat of the CIS.

Table 9. Fiscal Deficits of CIS Members (alternative estimate, % of GDP).

	1991	1992	1993	1994	1995 (estimate)	Average for 1993 - 1995
Russia	-31.0	-18.8	-7.6	-9.9	-4.5	-7.3
Azerbaijan	-5.0	2.8	-13.0	-18.0	-2.0	-4.0
Armenia	-1.9	-37.6	-48.2	-16.1	-9.0	-24.4
Belarus	3.6	-1.6	-8.3	-1.5	-2.5	-4.1
Georgia	-3.0	-28.0	-34.0	-17.0	-7.0	-19.3
Kazakstan	-7.9	-7.3	-1.2	-6.5	-5.0	-4.2
Kyrgyzstan	4.6	-17.4	-13.5	-8.4	-12.0	-11.3
Moldova	0	-23.4	-8.8	-8.0	-4.0	-6.9
Tadjikistan	-16.4	-29.9	-24.7	-6.4	...	-15.6
Turkmenistan	2.5	13.2	-0.5	-1.1	...	-0.8
Uzbekistan	-3.6	-12.0	-20.0	-2.0	-4.0	-8.7
Ukraine	-13.6	-29.3	-9.7	-9.1	-4.0	-7.6

Source: Voprosy Ekonomiki, 1996, N2.

Table 10. CPI of CIS Members (times per year).

	1991	1992	1993	1994	1995
Russia	2.6	26.1	9.4	3.2	2.3
Azerbaijan	2.1	10.1	12.3	17.6	5.1
Armenia	2.4	8.3	19.2	50.6	2.8
Belarus	2.0	10.7	12.9	23.2	8.1
Kazakstan	1.8	16.1	17.6	19.8	2.8
Kyrgyzstan	2.1	9.5	13.1	3.8	1.5
Moldova	2.1	12.1	12.8	5.9	1.3
Tadjikistan	2.1	10.1	22.4	3.4	5.0
Turkmenistan	2.1	8.7	17.3	28.1	...
Uzbekistan	2.0	5.1	13.3	16.5	4.2
Ukraine	3.9	21.0	102.6	5.0	2.8

Source: Goskomstat of the CIS.