APPROVED FOR
RELEASE
DATE: APR 2007

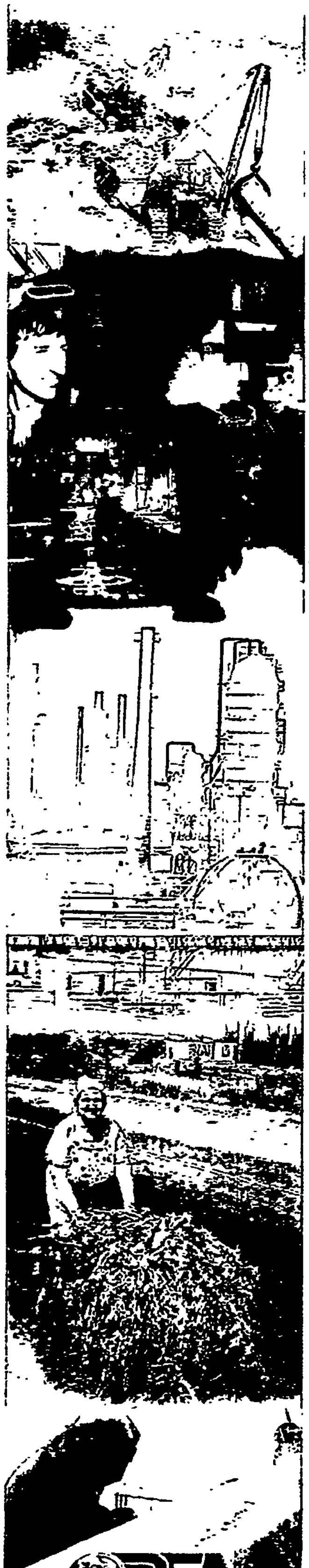
(b)(1)
(b)(3)

CIA/OREA NIS ERI 99-001

~~Secret~~

NIS Economic Reform ISSUES

Number 1 28 July 1999



Pursuing WTO Membership: Measuring the Commitment to Economic Reform

The intensity with which the Newly Independent States (NIS) pursue membership in the World Trade Organization (WTO) is a litmus test of their overall commitment to economic reform. Not only does the WTO require liberalization of foreign trade regimes, it also expects prospective members to make progress on all the other aspects of economic reform. States are encouraged to privatize their economies, eliminate subsidies, and open their industry and agricultural sectors to outside competition. Moreover, to meet the strict and detailed requirements for membership necessitates a sustained effort by much of the country's governing apparatus: the political leadership; the government bureaucracies responsible for trade, financial, and economics issues; and the legislative branch, which must pass comprehensive and detailed enabling legislation.

Overstating the Benefits. . . .
Most of the key political leaders of the NIS have made WTO accession a high priority, but, so far, only Kyrgyzstan has become a member, joining the WTO last October. Only Turkmenistani President Niyazov does not have WTO membership on his country's economic agenda. The other leaders see WTO accession as providing a major shot to their economies by bolstering their export earnings. ***The near-term economic effects of membership, however, are likely to be limited.***

- Kyrgyzstan, for example, is not contiguous to any of the other WTO member states and its greatest trade potential in the short run lies with its neighbors. It will take many years for Kyrgyzstan to develop extensive trade ties to any of the other 133 WTO members.

Inside...

Office of Russian and European Analysis

~~Secret~~

NIS Economic Reform Issues

The political leaders also see membership in this prestigious organization as another means of securing their independence and joining the world community.

- Georgian President Shevardnadze claimed that joining the WTO is equal to joining the UN as far as recognition of Georgia's statehood is concerned, according to the press.

- Moldovan Foreign Ministry representatives [redacted] that, without WTO membership, Moldova could not pursue its goal of European integration. [redacted]

. . .And Underestimating the Costs.

This widespread political commitment has not translated into quick action, however. Those newly independent states that are not far along in the accession process tend to underestimate the amount of work that must be done before they could join the WTO. While the top leaderships of these countries may support the goal, those at lower echelons may drag their feet or even be actively opposed.

- Midlevel government officials are the ones who must prepare the memorandum describing their country's trade regime in great detail, including information on the existing tariff structure for every good traded, import and export regulations, technical barriers to trade, agricultural and industrial policy, customs valuations, licensing requirements, and intellectual property rights. In a later stage of the process, the bureaucracy must prepare responses to literally hundreds of questions from WTO members on the existing trade regimes. [redacted]

Moreover, at least some of the top leaders appear to believe they will be admitted on "special" terms that will limit the changes they have to make to their existing trade regime.

- The Chairman of Kazakhstan's Strategic Planning Agency told a news conference that the standard admission policies are not suitable when many countries are experiencing an acute financial crisis, according to the press. Kazakhstan seeks a grace period of five to seven years to protect its economy with high tariffs.

- Armenia wants to be accepted into the WTO as a "developing country" because that would allow the government to provide agricultural subsidies of up to 10 percent of GDP, according to our Embassy. Subsidies are currently provided indirectly through the tax system.

- Moldova's Geneva representative [redacted] that Moldova should be allowed to maintain its tariff structure since it had so little impact on the US market. Moldova also wants a permanent arrangement that will enable it to implement agricultural support programs through 2008. [redacted]

To the reader:

This is the first issue of a new serial publication, requested by the State Department's Office of the Special Advisor for the Newly Independent States, providing analysis and viewpoints on economic reform issues in the non-Russian NIS states as they make their transitions from closed, centrally planned regimes to something resembling market-based economies. Each issue will include up to three articles—with a focus on cross-cutting and regional themes—covering reform issues of current importance. It will also include a matrix of recent developments for each country in key reform categories. I hope you find this new publication useful and welcome your comments on its content or format. I may be reached on [redacted]

[redacted]

NIS Economic Reform Issues

A Bearable Cost

One cost that the newly independent states are willing to bear is to alter their trade agreements with other parties in the CIS and, for those states that are members, the Customs Union.

[redacted]

Assessing Progress and Measuring Commitment

Some 30 states worldwide have indicated an interest in joining the WTO and 20 are actively pursuing membership. Of the non-Russian NIS, Armenia, Georgia, Kazakhstan, Moldova, and Ukraine are actively participating in bilateral and working party discussions and thus are closest to WTO membership.

- **Georgia's** prospects for joining the WTO before the end of this year are strong. Georgia has made substantial progress on economic reform, has active negotiations under way, and, with the guidance of the IMF and World Bank, has made changes in tax and customs laws that will bring it into WTO compliance. ***Georgian officials may, however, be underestimating the amount of implementing legislation that must still be passed.***

- A year ago, **Armenia** appeared the best bet to be the next member. However, time was lost after the May 1998 presidential election, while the new Kocharian administration assessed its interest in the WTO. Once it decided that WTO was a priority, the leadership pushed the bureaucracy to make a herculean effort to complete the necessary paperwork by the end of 1998, and a fifth working party meeting was held in June. The implementing legislation must go through the recently elected parliament, which was to meet in a special session this summer, but is now in recess until September. ***Having a parliament that plays more than a rubberstamp role may actually penalize Armenia, as parliamentarians who are generally suspicious of economic reform move slowly on the legislation.***

- **Moldova** has moved to restore the momentum to its WTO negotiations. It has been engaged in working party and bilateral discussion through 1998 and into this year. If President Lucinschi can get the implementing legislation through a powerful and sometimes discordant parliament, ***Moldova has a good chance of acceding to the WTO this year.***

- **Kazakhstan** must negotiate favorable conditions for joining the WTO and "cannot be said to be in a hurry," according to the Director of Foreign Economic Policy in the Energy, Industry, and Trade Ministry. This implied tough negotiating stance—combined with Kazakhstan's introduction of supposedly temporary protectionist tariffs on a wide range of imports from regional partners last winter—***will probably damage prospects for a near-term accession.***

- **Ukraine** has essentially stopped its forward movement on accession over the past year, [redacted] It is badly behind in submitting its paperwork, and the bureaucracy working on WTO accession is understaffed and likely to remain so. ***Moreover, with President Kuchma focused on his reelection prospects, there is little chance that he will push the implementing legislation through a largely unsympathetic legislature so that Ukraine can be ready to join the WTO this year.*** [redacted]

In the next tier, Belarus has begun working party reviews; Uzbekistan is still gathering information; and Azerbaijan has recently submitted its Memorandum describing its foreign trade regime, the first step in this long process.

- **Belarusian** President Lukashenko is not committed to economic reform, and, therefore, ***Belarus's chances of becoming a member are slight.*** The near total withdrawal of Western advice and assistance, which was crucial in helping Kyrgyzstan to become a member, further reduces Belarus's prospects.

NIS Economic Reform Issues

- **Uzbekistan** has submitted its memorandum describing its foreign trade regime, but appears unwilling to take major steps on economic reform, particularly allowing the convertibility of its currency.

- **Azerbaijan** is very early in the process and has made only limited progress on economic reform. President Aliyev's centralized decisionmaking style and a compliant legislature could put WTO accession on a fast track, but it seems more likely that other issues will demand his attention, particularly given his poor health and his resulting reduced work load. Without Aliyev's full attention, ***Azerbaijan will probably not be ready to join the WTO for several years***. A post-Aliyev succession struggle would delay accession even more.

The two remaining non-Russian NIS, Tajikistan and Turkmenistan, are far from membership. **Tajikistan** has been involved in a civil war that formally came to an end only two years ago. It is making progress achieving macroeconomic stability, but the structural changes necessary for WTO accession are coming slowly. Nevertheless, Tajikistan is preparing its application for WTO membership, **Turkmenistan's** President Niyazov has rejected taking any major steps on economic reforms despite advice from the IMF, World Bank, and the US administration.

Economic Reform in the NIS: Battered but Not Beaten by the Russian Crisis

Recent external shocks to the NIS economies—most notably the spillovers from Russia's financial crisis—have dealt a blow to the region's economic reform efforts but have not knocked it off its tracks. Progress on reforms has slowed in virtually every one of the newly independent states, according to the European Bank for Reconstruction and Development (EBRD), but this is no surprise, given the economic turmoil that has roiled the region. The transition process is difficult, and fits and starts are to be expected: the Central and East European states that are much farther along the reform road are not having a seamless transition either.

- ***For the most part, the economic chaos that has rocked Russia and the NIS since last August's ruble devaluation has not resulted in any serious reconsideration of economic reforms by those states aspiring to become market economies.***

Many of the NIS were cautiously optimistic about their economic prospects at the start of 1998 before being buffeted by the twin blows of the Asian and Russian financial crises. While the Asian contagion did not have a large direct impact on the NIS because of the region's relatively underdeveloped financial and stock markets, its affects were felt nonetheless as weakening global demand eventually depressed prices for many of the key commodities that these states export such as fuels, minerals, and textiles. Russia's economic collapse had a far more devastating impact, given the strong trade and financial links that most of these states have maintained with Russia. As Russia's collapse began to drag down the NIS economies, international lender and investor concerns about the region also sank, adding to their financial plight.

The Leaders

Russia's recent problems have not altered the underlying reasons to reform among those states in the NIS at the forefront of economic reform. If anything, the region's continued vulnerability to

NIS Economic Reform Issues

external shocks reinforces the need to proceed with reforms and diversify trade and financial links.

- For a resource-rich state such as Kazakhstan, reforming is a prerequisite to enticing the Western expertise and financial resources it needs to exploit its underground wealth.

- At the other end of the spectrum, the leaders of resource-poor and isolated Moldova see no alternative but to reform because it needs every advantage possible to be competitive in global markets.

Kyrgyzstan is generally considered the economic reform leader in the NIS: it has an excellent track record working with the IMF and last December became the first member of the NIS to become a member of the WTO. Although the pace of reforms slowed a bit this past year in response to financial hardships, President Akayev reiterated his commitment to reforms in April. He did, however, rule out a "radical" approach.

Kazakhstan ranks high among reform leaders, but it took a small step backward this past year because it was hit hard by the Russian crisis. In response to a deteriorating trade balance, Astana temporarily banned selected food imports from Russia and imposed duties on some goods from neighboring Uzbekistan and Kyrgyzstan. Later, Kazakhstan's decision to float its currency, the tenge, was undertaken without consulting the IMF, which applauded the decision but was upset with some of the supporting provisions, such as an increase in the hard currency surrender rate. Kazakhstan hopes to renew its reform efforts by offering stakes in a number of its blue-chip enterprises.

Moldova also ranks near the top of the reform list because it moved quickly to institute a variety of reforms. But Moldova's very large trade links to Russia leave its economy highly vulnerable, and the pace of reforms have slowed markedly over the past year. The leadership's commitment to reforms has not wavered—indeed, new Prime Minister Sturza is a much more committed reformer than his predecessor—but it does note that the hardships it is suffering at present compel it to move more slowly. ***Moreover, frequent disagreements between members of the fractious ruling coalition in parliament and a strong Communist opposition make it hard to pass reform legislation.***

Armenia has had a very reform-minded agenda, given its heavy dependence on foreign economic assistance and inflows from the Armenian Diaspora. President Kocharian is considered proreform, ***but some questions have been raised about the commitment of the recently elected government. Prime Minister Sarkisyan has stated that Armenia has no option but to reform, but he also advocates more state control of the economy, a revival of state industry, and increased social protectionist measures.***

Georgia's leadership is committed to economic reforms, and the country has made important progress since independence. ***In recent years, however, the ability of President Shevardnadze's government to press ahead on reforms has been hampered by the tense political climate and rampant corruption at the highest levels of government.*** Moreover, the government has been slow to meet IMF requirements to take decisive action on its persistent deficit.

The Lollygaggers

Several of the states are pursuing reform-oriented agendas but for one reason or another have been unable to make the concerted effort needed to raise themselves to the next plateau.

Azerbaijan's reform program slowed this past year because the economy took a beating from low oil prices, and legislation was put on hold while President Aliyev dealt with his health problems. Progress on large-scale privatization—already delayed by nearly a year—will be a key litmus test of the government's resolve. ***Reform could easily take a backseat to prolonged squabbling over a potential successor to Aliyev and to widespread corruption.***

NIS Economic Reform Issues

That **Ukraine** has made any progress at all on reform to date is perhaps somewhat surprising, considering that it has been in an almost constant state of economic turmoil since independence. Ukraine's modest reform program, however, took a back seat to the Russian crisis, with Kiev imposing currency controls and import restrictions. ***The reform pace will remain sluggish again this year with the presidential election coming up this fall. In fact, Ukraine's commitment to the reform process remains questionable, with some analysts arguing that Kiev—even with a reelected Kuchma—will only do the minimum to garner needed Western funds.*** [redacted]

Tajikistan has only recently embarked on reforms, as years of internal strife since independence have left it well behind a number of others in the region. The government is trying to catch up by working very closely with the IMF in developing its reform agenda. ***The tense political climate, however, can frequently divert the government's attention. Moreover, Dushanbe's heavy reliance on Russia for security increases the potential for Russian influence over other domestic matters, such as the pace and direction of reforms.*** [redacted]

The Laggards

Ruling officials in the hardcore, nonreformist states—Belarus, Turkmenistan, and Uzbekistan—appear to be undaunted by the Russian crisis. If anything, Russia's latest time of troubles only reinforces their belief that economic dislocations are best avoided by retaining a large degree of state control and proceeding with reforms at a snail's pace. ***For these three stragglers, however, the question remains how long they can maintain this posture. All three face serious external financial imbalances, and they eventually may have to make some concessions on reform to gain the backing of the IMF and World Bank.*** [redacted]

While **Uzbekistan** occasionally pays lipservice to reform, it also says that the Russian crisis emphasizes the need not to undertake any measures without careful consideration of the social costs and implications. It has had no ties to the IMF since a standby agreement was canceled at the end of the 1996 and recently hiked some tariffs in response to Russian-induced trade problems. ***Indicators of a possible change of heart on reforms would be some movement on Uzbekistan's recurring pledge to move forward on currency convertibility and progress on privatization.*** Tashkent, however, recently removed one of its most attractive assets—the Almyk metals plant—from its privatization list. [redacted]

Belarus is close to the bottom rung of the reform ladder. The leadership recently echoed statements that it has made over the past year that it will not follow in Russia's footsteps by engaging in "wild privatization and bandit capitalism." The EBRD noted in its annual update on the transitioning economies that Belarus is the only country in the NIS to actually have regressed on economic reforms between 1994 and 1998. There are those within the government that are speaking out on mounting problems—the head of the Central Bank warned that soft loans have left the bank on the verge of collapse, and a Finance Ministry official complained that Belarusian banks lack the funds to finance debt. Minsk is considering some price and exchange rate liberalization to appease the IMF, ***but it clearly lacks the ideological commitment to hold fast to IMF conditions.*** [redacted]

The EBRD puts **Turkmenistan** in last place in implementing reform, noting that Ashgabat has retained the most extensive controls in the NIS. [redacted] the leadership is clearly more comfortable with the "visible hand of the state." Indeed, President Niyazov's government reacted to cheap imports from Russia by introducing even more administrative measures, such as foreign exchange controls. ***Turkmenistan's pervasive use of price controls and subsidies have left it financially beleaguered.*** [redacted]

Not Yet Full-Speed Ahead

Progress on economic reforms will continue for most states in the region over the coming year, but the pace is likely to remain quite sluggish. Continuing problems in Russia will be a major factor. While the Russian economy recently has shown some signs of life, growth will remain depressed with all of the concomitant effects

NIS Economic Reform Issues

on the rest of the NIS. Moreover, dampening growth prospects this year for Western Europe—and especially Germany—will play a role.

Upcoming elections also will dampen the enthusiasm of some leaders to undertake too ambitious a reform agenda too soon because of the continuing social costs. In addition to the election in Ukraine, presidential elections are also tentatively slated in the fall in Tajikistan, in January in Uzbekistan, and in April in Georgia. Much of the Caucasus and Central Asia can look forward to parliamentary or municipal elections over the next six months.

Finally, most of the states on the reform track need to embark on the more difficult steps, such as large-scale privatization, enterprise restructuring, and reform of banking and capital markets. Most, if not all, of these states lack the resources and expertise to proceed effectively with these more difficult reforms during such difficult times, and the leaderships remain far more preoccupied at present with trying to achieve some degree of macroeconomic stability and to moderate the negative effect on living standards.

- Some privatizations are lagging at present because of sluggish investor interest in the region and the voluntary decision by some governments not to sell key structures at depressed prices.
- ***Even for those governments wishing to move more briskly, their efforts will continue to be plagued by corruption, cronyism, and the lack of the rule of law.***

NIS: External Financial Burdens

	Ratio of Current Account Deficit to GDP[1] (Percent)	Ratio of External Debt to GDP[2] (percent)	Change in Gross Reserves[3] ($US millions)
Kyrgyzstan	-15.0	53.0	-20
Kazakhstan	-6.5	35.2	-277
Moldova	-19.7	72.5	-196
Armenia	-27.8	42.4	44
Georgia	-12.2	33.1	-61
Azerbaijan	-31.1	16.6	-34
Ukraine	-1.4	27.3	-1,400
Tajikistan	-7.3	104.3	55
Uzbekistan	-3.7	20.4	na
Belarus	-6.8	15.8	-244
Turkmenistan	-52.7	85.3	-111

[1]The IMF becomes concerned when the ratio of current account deficit to GDP exceeds 4 percent.

[2]Financial experts are concerned when the debt-to-GDP ratio for a developing country falls in the 50 to 80 percent range and consider it a dangerous risk when it exceeds 80 percent.

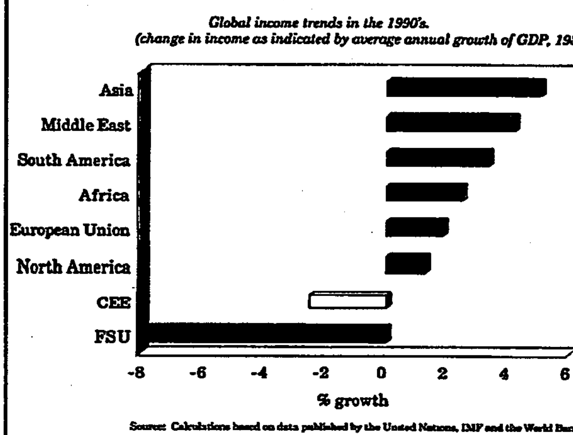
[3]From the end of 1997 to the end of 1998.

Source: EBRD, *Transition Report Update*, April 1999, preliminary estimates.

NIS Economic Reform Issues

The Human Costs of Transition in the NIS: Miles To Go Before They Sleep [redacted]

The breakup of the Soviet Union plunged millions of people into poverty as production dropped, salaries and pensions were not paid, unemployment soared, and many of the health, education, and welfare benefits that were distributed through the work place ceased. For most of the people in the former Soviet Union, the economic decline and psychological loss of status experienced is greater than anything the US experienced during the Great Depression. Wars and ethnic conflict added to the misery, as tens of thousands died, and millions more became refugees in conflicts over Nagorno-Karabakh, and in Chechnya, Georgia, and Tajikistan. The Central and East European states experienced a similar economic downturn, but most of them quickly adopted policies designed to end it. Nearly a decade after the depression began, most of the newly independent states (NIS) are still mired in it and have no clear exit strategy. [redacted]



[redacted]

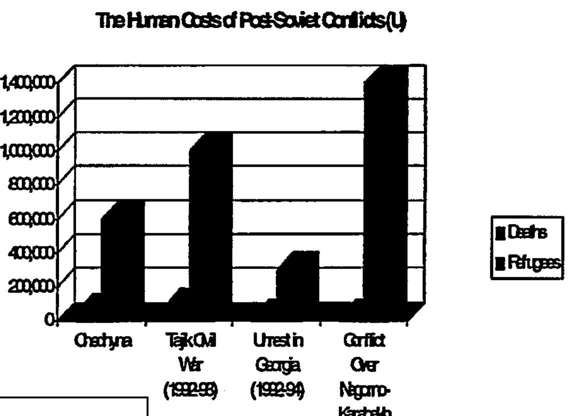
Inflation and Per Capita Income Decline Worst of the 1990s

One of the most comprehensive studies of the situation in the former Soviet Union, a UN Development Program study, *Poverty in Transition*, published late last year, notes that "no region in the world has suffered such a dramatic decline in living standards as have the countries of the former Soviet Union and Eastern Europe" in the 1990s. The study acknowledges that in only six of the 22 countries do people in the former Soviet Union live as badly as the poorest in Latin America (where some 86 million people live on less than $1 a day) or Africa (where the situation is even more dire), but it also points out that no other part of the world saw such dramatic drops in per capita GDP as the states of the former Soviet Union did during the 1990s. [redacted]

- For example, most of the NIS have experienced losses of between 30 and 60 percent of their preindependence GDPs per capita, and those states that were embroiled in armed conflict such as Armenia, Azerbaijan, Georgia, and Tajikistan experienced GDP losses in excess of 60 percent.

[redacted]

War and Ethnic Conflict Add to the Numbers



[redacted] Source: CIA estimates based on various sources.

Ethnic conflicts and civil war in Russia, Azerbaijan Georgia, and Tajikistan resulted in tens of thousands of deaths and millions of refugees, most of whom are still eking out a precarious existence in refugee camps. For example:

- Various estimates put the number of refugees in Chechnya at 600,000, in Georgia at 300,000, in Armenia up to 300,000, and in Azerbaijan 700,000.

NIS Economic Reform Issues

- In Tajikistan, most of the 500,000 to 600,000 who were internally displaced and the nearly 100,000 who fled to Afghanistan have since returned home and begun to rebuild their lives, but the more than 300,000 Russians who returned to Russia and the nearly 13,000 Jews who emigrated to Israel are now living at the bottom of the economic ladder in their new homes.

Problems With Defining Poverty

Determining who has been most affected by the declining living standard across the former Soviet Union is difficult because of the wide disparity in incomes across the union prior to the transition and because concepts of poverty have altered over time. As the UN Development Program study notes, different attempts to measure poverty will yield different estimates because of the difficulties involved in calculating income, assets, and the effect of the informal economy. Matters are further complicated by the fact that some of the measures refer to absolute levels of poverty, and others do not. For example, in 1995, Estonia had an annual per capita GDP of over $4,000, while Tajikistan had an annual per capita GDP of about $100.

Who Are the Hardest Hit?

UN and World Bank studies show that women and children have been most impoverished.

- In July, for example, the Armenian Government announced that 65 percent of the registered unemployed in the country were women.

Individual Strategies for Dealing With Poverty Resulting From Transition

In-depth World Bank studies of the newly impoverished in several transitioning states show that individual families have developed a variety of coping strategies for dealing with declining incomes. Most build on strategies that evolved during the Soviet era. People, for example, still rely heavily on private plots for food, use their cars as taxis to earn extra income, hire themselves out as tutors, and borrow from relatives or neighbors when the money runs out.

The new circumstances, however, have also led to the development of new coping strategies. For example:

- Many families have moved in together to conserve fuel in winter and sell furniture, jewelry, and other household goods, as well as rent or even sell their newly privatized apartments to make up for lost income.

- When these assets are gone, men and women become traders, migrate abroad in search of work, or turn to crime.

There are no comprehensive statistics indicating precisely how many people do each, but the numbers are significant. For example, some reports suggest that as many as a million of Armenia's 3.5 million population go abroad in search of work.

The experience of the transitioning states to date indicates that increased poverty and income inequality are an inevitable consequence of the process, but that

governments that adopt a three-pronged reform strategy aimed at achieving macroeconomic stability and resumed economic growth, extensive privatization, and reform of the social safety net have been able to end the poverty fairly quickly. Unfortunately, none of the NIS have unambiguously embarked on such policies.

NIS Economic Reform Issues

Inbriefs [redacted]

Wage Arrears Jump in Ukraine. Wage arrears rose about 14 percent over the first half of 1999 to just over 7 billion hryvnia ($1.8 billion) as of June 10, from 6.2 billion hryvnias at the start of the year, according to the State Statistics Committee. Arrears owed to state workers paid from the budget make up 858 million hryvnia of the total amount. The head of the Pension Fund said that arrears on pensions totaled another 2.2 billion hryvnias. Arrears have risen dramatically over the last several years in Ukraine despite repeated government promises to pay them down. Prime Minister Pustovoytenko, whose government survived the latest no-confidence vote in parliament on Tuesday, promised deputies that paying off arrears on salaries and pensions would be a priority issue for his cabinet. [redacted]

Ukrainian Fuel Shortages Threaten Harvest. Ukrainian refineries in June processed 24 percent less oil than last year, while diesel fuel imports also fell sharply, according to press reports. An agricultural consultant said that farms had less than half the fuel supplies they had this time last year, while Kherson Oblast officials warned that 200 imported combines are idle. The government has responded by easing oil import duties—instituted in March—prioritizing agricultural fuel needs, and negotiating with Azerbaijan for 500,000 tons of diesel fuel, which began arriving in mid-July, according to press reports. In addition, separate deals were reached for an additional 1.3 million tons of fuel from Greek and Russian firms.

- ***Kiev's efforts should begin to have an effect soon—farms can use the Azerbaijani fuel immediately, while the elimination of import fees should aid oil product trade with Russia.***

- ***While these measures can help to alleviate the immediate need for fuel, problems will continue until Ukraine develops an oil market with solvent customers and enforceable payment schedules.***

[redacted]

Central Bank Head Says Belarus Not Ready for Unified Currency. National Bank Chairman Prokopovich—noting that the introduction of a single Russian-Belarusian currency requires time and attention—told reporters last week that Belarusians will continue to receive their wages, pensions, and benefits in Belarusian rubles for "at least the next 10 years." He also noted that President Lukashenko has ordered urgent measures be taken to strengthen the Belarusian ruble, which Prokopovich considers to be the main prerequisite for the unification of the two currencies. [redacted]

Economic Reform Developments

	Privatization	Market-based Legal Structure	Trade and Exchange Rate Policy	Fiscal/budget	Financial Sector	Price Liberalization
Ukraine	Small-scale privatization completed in 1998. Almost 9,000 medium/large enterprises sold under mass privatization program, but sales of the most attractive companies to strategic investors are lagging.	Bankruptcy law is flawed and liquidations are rare. New civil/commercial law in drafting stage—there is considerable opposition in parliament. Farm land cannot be bought and sold.	Has gradually lifted the currency restrictions that were imposed during the hryvnia crisis last fall. Trade protection has risen over the past two years in attempt to protect favored sectors, primarily agriculture.	Fiscal deficit gradually reduced as level of transparency rises, primarily through reduced use of off-budget funds. Lack of control over expenditures has led to a buildup of arrears on wages, pensions.	Banking sector remains small and undercapitalized. Some progress in introducing international accounting standards for all banks, abolishing foreign ownership limits, and strengthening the securities market.	Government finally agreed to raise public utility prices for households to full cost recovery levels this summer, but implementation at the regional level is still not complete.
Belarus	Privatization of small-scale enterprises only.	Protection of private property suffers from the absence of the rule of law and respect for property rights. Government controls many products, particularly food staples.	Tight currency controls exist through a turgid and confiscatory system of multiple exchange rates.	The state budget is not transparent. The presidential administration is believed to control extensive off-budget funds derived from foreign arms sales, rent from expropriated properties, and loopholes in the customs unions with Russia.	Plans to force commercial banks to make loans to state farms during the this year's planting season caused increased inflation, and further eroded confidence in financial institutions and the value of the Belarusian ruble.	Government repeatedly tries to control price increases through administrative means, which cause periodic widespread shortages of some commodities, especially dairy products and other food staples.
Moldova	Progress in small-scale privatization is below NIS average and few large enterprises have been sold, although the government has initiated work on an ambitious privatization program for 1999-2000.	Bankruptcy law, which is currently being modified, is not effectively applied. The court system is underdeveloped, but relatively uncorrupted, by NIS standards.	Moldova's trade regime is relatively liberalized, with tariffs, as of yearend 1998, less than 10 percent on average.	New corporate and personal income tax codes were introduced last year, which reduced the number of tax brackets and expanded the tax base. Wage arrears still a problem, however.	Banking regulations are improving, as minimum capital requirements were doubled in early 1998 and international accounting standards in late 1997.	The liberalization of electricity prices has moved forward in the past two years.
Georgia	Some 80 percent of medium-sized and large enterprises privatized. Privatization of the power sector is proceeding and plans for tenders in telecoms and port facilities under preparation.	The 1997 Bankruptcy Law has not resulted in a liquidation. Government has implemented a progressive law on oil and gas leasing, licensing, exploration, and production. The first land titles for private land holders distributed in June.	Georgia making good progress toward WTO entry. Unlimited right of foreign investors to transfer profits abroad freely and without delay.	Inadequate tax collection is largely unresolved and is a contentious issue with the IMF. In an effort to increase revenues and combat contraband trade, excise stamps on cigarettes and alcohol were introduced this year.	The banking system is still fragile and further consolidation is expected. Comprehensive legislation is being prepared to establish a formal capital market. Two stock exchanges are currently open.	Most prices liberalized: energy prices are being increased gradually.
Armenia	Privatization of medium-sized and large enterprises is moving ahead in face of parliamentary opposition. Land largely privatized, but administrative constraints have slowed issuance of rural land titles.	Corporate governance dominated by insider ownership and plagued by corruption.	Much progress made toward WTO membership, pending parliamentary approval of the necessary legislation.	In January, the government introduced a streamlined single family allowance that replaces the previous system of universal social benefits. Civil service, health, and education reforms moving slowly.	Satisfactory compliance with improved regulations of banking system and introduction of IAS accounts in 1998. Regulatory framework for capital markets still underdeveloped. Small but functioning stock markets.	Most subsidies removed and energy prices increasing to market clearing levels. Telephone services still underpriced.
Azerbaijan	Small-scale privatization largely completed. Privatization of large enterprises plagued by limited transparency. A new large-scale privatization program, based on open tendering, has been drafted, awaiting Aliyev's approval.	Implementation of bankruptcy procedures remains weak. Little control is exercised by outside shareholders and the establishment of effective corporate governance mechanisms is a major challenge.	Working with IMF to establish a WTO-consistent trade regime.	A new tax code drafted to raise revenue performance through tighter supervision of tax registration and granting more authority to enforcement branches.	Bank restructuring program under way. Government treasury bills now auctioned 3 times per month. A law on securities passed, establishing the legal and regulatory basis for the stock exchange.	Most prices liberalized, but some markets hampered by monopolization. Free use of oil and gas ended, but energy prices still too low.
Kazakhstan	Large-scale privatization slowed in 1998. Sales of large, blue-chip firms to strategic investors has been delayed.	Adequate bankruptcy legislation in place, but actual cases are rare. There is no private land ownership.	Import controls against Russia still in place but due to be phased out this month. Tenge recently allowed to float.	Parliament is considering the third set of budget cuts this year as revenues fall short. A partially private pension program was introduced last year.	Banking sector reformed and consolidated, and it performed well during recent currency crisis.	Prices have been liberalized since 1994.
Uzbekistan	Case by case privatization is moving slowly. Some offerings stalled because of government retention of controlling interest.	State intervention in industry is extensive: industrial enterprises receive low interest credits and are allowed to accumulate arrears.	The government has promised to phase out multiple exchange rates. Import and export controls remain, along with a 50 percent surrender requirement on foreign exchange transactions.	Tax regime is not transparent, with numerous exceptions and different treatment.	Commission on banking reform established to privatize banks and move toward the adoption of International Accounting Standards.	Some basic food staples remain subsidized, along with some services.
Turkmenistan	Slow progress on large-scale privatization. Some efforts at land reform, but state retains controlling interest.	Development of the private sector hindered by extensive state intervention.	Official exchange rate remains controlled: the gap between unofficial and official rates has widened to three to one.	Tax system is not transparent and extra-budgetary funds make it difficult to assess the budget as a whole.	Banking remains largely in state hands and not in compliance with International Accounting Standards.	Some progress, but subsidies and controls remain for some food items and utilities.
Kyrgyzstan	300 medium to large enterprises are scheduled to be privatized in 1999-2000. Private land ownership was introduced by referendum in 1998.	The 1997 Bankruptcy law is gradually being implemented.	Kyrgyzstan is the first of the NIS countries to qualify for WTO membership and is required to maintain an open trading regime.	Plans to cut the budget and generate a surplus underway: cuts must still be approved by parliament. Tax reform has been introduced to address the revenue collection problem.	The banking sector has come under tighter regulation by the central bank and reserve requirements have been increased.	Most prices liberalized and electricity prices are being increased, although some subsidies to remain.
Tajikistan	160 large farms are scheduled to be privatized in 1999. Plans underway to privatize the aluminum plant in Tursunzade, with government retaining a controlling interest.	Reform efforts slowed by political instability.	Reform efforts slowed by political instability.	Recently introduced a new enterprise tax, a simplified small business tax, and a reduction in the top marginal tax rate and the profit tax.	A new law on banking and banking activity introduced regulations close to international standards. The banking industry consolidated from 26 to 19 banks last year after minimum capital requirements were increased.	Most prices liberalized with the government retaining limited control over rents and some services.