holdings had dropped by more than $30 billion, while *tesobonos* outstanding skyrocketed from $5.3 billion to $53.8 billion—the vast majority of them short term (at least the Russians are trying to issue long-term Eurobonds). Then, when Mexico was hooked on these new *dollar* obligations—which increased the country's de facto foreign debt by nearly $50 billion in nine months!—the bottom fell out. During three weeks in December 1994, Mexico's reserves were drained from $16 billion down to $5.5 billion. With Mexico teetering on the edge of sovereign default on *tesobonos* and other foreign obligations, the IMF hustled together the famous $50 billion bailout package, which ensured that the foreign bond holders emerged unscathed.

There won't be a safe exit, this time, even if the GKO scheme is successfully launched. Its success is far from certain. The Russian government is taking applications for the conversion of GKOs, between July 14 and July 24, its agent for the new Eurobonds being Goldman Sachs. Although nearly half (47%) of GKOs are held by the Russian Central Bank and Sberbank, the national savings bank, the main prospective converters of GKOs to Eurobonds are supposed to be foreign GKO holders and some Russian banks. Mikhail Fridman, head of the Russian Alfa Bank, announced that his bank did not plan to trade in its GKOs. Chubais said that he expected between 30 and 50% of GKO holders to "accept the scheme." From London, where Deputy Finance Minister Mikhail Kasyanov briefed investors the week of July 13, wire service reports said that banking circles anticipated offers to trade in $2-10 billion worth of GKOs for Eurobonds, but that the swap would be cancelled if there were bids for less than $2 billion.

Having announced the termination of GKO issues, Russia has pledged to pay off unswapped GKOs as they come due. If the conversion plan flops, the new IMF funds could be gobbled up by GKO redemptions (used for supporting the ruble, as foreign GKO holders dump their ruble earnings from redemptions). Aleksandr Shokhin, head of the Our Home Is Russia faction in the Duma and former Economics Minister, predicted at a July 14 press conference, that "the IMF credit will be used to buy GKOs, because not all investors, residents or non-residents, will believe in the attractiveness of new currency instruments proposed by the government. . . . Many may want to withdraw from the Russian market of non-residents and move to, say, Brazil or Mexico."

Chubais stresses that, over and above the $22.6 billion in previous and newly pledged IMF, World Bank, and Japanese government loans, commercial banks in the West stand ready to lend Russia another $10 billion.

The U.S. Congress and the Russian Duma

It is an irony of history that the IMF's biggest political headache of the moment is caused by the legislatures of the present and the former superpower. The most important obstacle to the IMF has been posed by the U.S. Congress, which has stubbornly refused to vote for the U.S. contribution of $14.5 billion to the IMF quotas, and has thereby blocked the entirety of new IMF funding, since the quota increases, agreed to by the other major members, cannot go into effect until nations representing 85% of the voting shares have approved it.

The Russian State Duma and the upper house of Parliament, the Federation Council, could also throw monkey wrenches into the package, if they refused to endorse the attached austerity conditionalities. Even though the Duma was meeting in late evening sessions on July 15 and 16, in a drive to get the measures passed (they are in the form of a set of laws, called in Russia the "anti-crisis program"), IMF officials left no doubt about where "democracy" would go, if the Duma were to block the laws.

Stanley Fischer, at his July 13 press conference, replied to a question about what would happen if the Duma balked, "I see on the wire services that they say that the President has the right to do things by decree."

Another candidate for IMF bailout: Ukraine

A new financial crisis is brewing, this time in Ukraine. If no IMF bailout package is forthcoming, Ukraine could be heading for default as early as August, when a $450 million Eurobond with an annual interest rate of 39% in secondary trading, falls due.

In mid-July, Moody's downgraded Ukraine's country rating from "stable" to "negative." It is not hard to see why. From now till the end of the year, the amount of Ukrainian GKOs that have to be redeemed is more than the country's Central Bank dollar reserves, which were put at $1.7 billion in early July. What happens in the short term will be decided starting on July 21, when an IMF team arrives in Kiev, for negotiations on a new stand-by loan. Ukraine has been seeking $2-2.7 billion, a tiny amount compared to recent IMF bailouts, but, given the IMF's own precarious situation, one that could end up being a "bailout too far."

The IMF's political condition for a standby loan is that Ukraine's Supreme Rada (Parliament) pass the 1998 austerity budget. Ukraine's Parliament has been in session for less than a month, after a two-month impasse in which it failed to elect a Speaker. Whether the Parliament will, under heavy regime pressure, vote up this IMF budget in record time, is an open question.

—*Konstantin George*