

# Russia acts to recover from IMF disaster

by Konstantin Geoge

The policy revolution launched by the government of Prime Minister Yevgeni Primakov, ending Russia's ruinous subservience to the International Monetary Fund and Western creditors, scored two dramatic advances in the first seven days of December. It was a week that saw the retreat from Moscow of IMF Managing Director Michel Camdessus, and ended on Dec. 7 with the purge of the hard core of Presidential staff members representing financial oligarchic and monetarist interests intent on destabilizing Russia. Through these steps, Russia has turned another corner in its attempt to recover from the ravages of the past seven years of IMF shock therapy.

Camdessus had come to Moscow on Dec. 1 with the aim of forcing compliance with IMF terms, whereupon the Fund would release another tranche of its share of the so-called rescue package for Russia agreed to last summer. Instead, Camdessus left empty-handed on Dec. 2, after two days of talks with top officials including Primakov, First Deputy Prime Minister Yuri Maslyukov, and Central Bank head Viktor Gerashchenko.

The Russian "nyet" to IMF conditions was accompanied by a demand that the IMF reschedule the \$5.5 billion in debt that Russia owes, which falls due in 1999. This marked the first time in history that a state has demanded that the IMF reschedule its debt. The Russian demand carries the implicit threat that it won't pay, a possibility that has the financially fragile IMF frightened. (Of the roughly \$100 billion in outstanding IMF loans to states, \$19.58 billion is owed by Russia.)

The scene for the Camdessus mission was set on Nov. 28, when Primakov denounced IMF officials as "kids who've seen almost nothing in life." Even before the talks had begun, Primakov made it clear that no agreement would be forthcoming: "Don't measure the significance of Camdessus's visit by how much money he brought. He has come with a briefcase containing documents, not cash. You shouldn't think that the question of giving money to Russia will be solved now."

First Deputy Prime Minister Maslyukov, who is in charge of the economy, was even more blunt. Addressing the Federation Council (upper house of Parliament), hours before he was to meet with Camdessus on Dec. 2, Maslyukov said: "The

aim of the Russian state and government is a social orientation of the market economy. . . . This really scares IMF representatives and some parts of our society. The instrument of this reorientation will be civilized, state regulation of the market based on the experience of developed countries." On the same day, Russia stopped paying cash for Soviet-era debt, paying instead through new securities.

On Dec. 4, culminating a week of anti-IMF statements, State Duma (lower house of Parliament) Speaker Gennadi Seleznyov demanded that Russia "break off relations" with the IMF. "We have to get these shackles off Russia's legs," he said. Seleznyov warned that if Russia were to follow IMF demands, "we would first have to impose a dictatorship," because otherwise the ensuing "social upheaval could not be kept under control."

## The Presidential purge

With the IMF under attack, on Dec. 4, the Kremlin Press Office announced that President Boris Yeltsin, who had been in a clinic since Nov. 22, would return to the Kremlin on Dec. 7. The next day, on the radio, Yeltsin spokesman Dmitri Yakushkin stated that Yeltsin could "return to work any time," though he refused to confirm the Dec. 7 date.

On Dec. 7, Yeltsin did return to the Kremlin, for a brief three hours, and fired his chief of staff, Valentin Yumashev, and three other Presidential staff members: First Deputy Chief of Administration Yuri Yarov, Mikhail Kommissar, and Yevgeni Savostianov. Technically, Yarov was not purged, but rather demoted, becoming Yeltsin's representative in the Federation Council. Yumashev was succeeded by Gen. Col. Nikolai Bordyuzha, a veteran of KGB counterintelligence and later of its personnel department. In 1995, Bordyuzha was sent into the Federal Border Service (till 1992, the Border Troops of the KGB), and in January 1998 he became commander of the Border Troops. Following the firings, Yeltsin returned to the clinic.

The purge removed the key links of the Kremlin network "owned" by one of Russia's top financial oligarchs, Boris Berezovsky. Equally, it consolidated the position of Prime Minister Primakov in the Presidential Administration, by installing a team led by Bordyuzha, drawn from the sections of the former KGB allied with Primakov. Bordyuzha had been brought into the center (after Primakov was made Prime Minister) on Sept. 14, when he was named Secretary of the Security Council. Bordyuzha will keep both posts, as Security Council Secretary and head of Presidential Administration, short-circuiting any attempts by the "subversives" to outflank the purge by getting a hold in the Security Council.

As for the subversives, billionaire (at least on paper) Berezovsky has been a key figure in attempts to destabilize the Primakov government, attempts which, if successful, would wreck Russia's last chance to avert chaos. During the autumn, his leading asset in the Kremlin, Yumashev, had exposed

himself as a subversive, by publicly stating his support for former Prime Minister Viktor Chernomyrdin as Russia's "next President." Yumashev and the others fired were often used to float stories that Yeltsin would "have to resign" for "health reasons," and thus force Russia to hold early elections. Of course, Yeltsin's health is anything but rosy, but the stampe to get a resignation has only one purpose: to topple the Primakov government through early elections, on the assumption that it would be too early for Primakov to build his own successful Presidential candidacy.

Thus, the expulsion of Berezovsky's network from the Kremlin will go a long way toward helping Russia create the political conditions to start its recovery from the crisis during the next months.

The purge also marked another battle in the war between the sections of the Russian Security Service (FSB) loyal to Primakov, who formerly headed the service (and, earlier, Russian Foreign Intelligence), versus sections of the former KGB tied to Berezovsky. The most recent visible eruption of this fight was the accusation by Berezovsky in November that the FSB was "trying to kill" him. In an attempt to add weight to the charges, Berezovsky recruited some FSB personnel to vouch for his statements that a "plot" had existed. The operation certainly did confirm that pro- and anti-Primakov factions exist in the FSB.

The profile of those fired and those installed as replacements in the Primakov-steered purge, sheds further light on the factional situation. In addition to the Bordyuzha appointment, the most important person fired was Yevgeni Savostianov, 46 (even in age, senior to the 40-year-old Yumashev), the former chief of the KGB and its FSB successor for the City of Moscow. Savostianov was removed as deputy chief of staff responsible for Presidential staff personnel and Presidential relations with security agencies. His replacement is Gen. Vladimir Makarov, who also had a career in KGB counterintelligence.

The Yeltsin decree also made the Tax Police and the Justice Ministry, along with the "force ministries" (Defense, FSB, and Interior), subordinate to the President. Yeltsin spokesman Yakushkin emphasized that the President's decision aimed to prevent "separate tendencies" and to "combat corruption." Bordyuzha stated that, "in a situation where political leaders and businessmen are murdered . . . and some people allow themselves to disobey the President's and government's orders . . . force structures have to play a larger role in the state leadership."

Figures representing a wide range of forces in Russia outside the comprador camp of IMF-allied monetarists, heartily endorsed the purge. Moscow Mayor Yuri Luzhkov, a leading contender for President in 2000, said during a visit to Bonn on Dec. 8 that he welcomed the firing of Yumashev and the others because they had "not worked effectively, were too political, and sometimes worked rather chaotically." Luzhkov

added that through the dismissals, the influence of Berezovsky would be heavily reduced inside the Kremlin: "This is quite likely, because the previous administration was very closely allied politically, and not only politically, with Berezovsky. I think that in this sense, it is a useful decision by the President." The dismissals were also hailed by Duma Speaker Seleznyov and Communist Party leader Gennadi Zyuganov.

Luzhkov also lashed out at the IMF while in Bonn, in an interview with *Newsweek*: "The International Monetary Fund has treated Russia like a small country that needs help. But Russia has a totally different system, and [IMF] recommendations about privatization and tight money were a mistake," he said.

### Getting out of the morass

Purges alone cannot get a country out of crisis; economic policy measures are required. On Dec. 4, in the wake of Camdessus's retreat, Prime Minister Primakov addressed a Moscow conference of the Switzerland-based World Economic Forum (the organization which hosts the annual Davos meeting). First, Primakov took stock of the cumulative failure of IMF "reform" policies: "Unsuccessful reforms have given birth to an economy of distrust in Russia," he said. "The toughest consequences of the crisis and the most serious lesson we must draw does not concern the fall in production or the decline of the ruble exchange rate, but a total credibility gap, a crisis of confidence." He described a society twisted by mistrust, between creditors and debtors, between owners and managers, between the government and the population.

According to the Dec. 5 Indian daily *Hindustan Times*: "Mr. Primakov told the assembly of 200 global corporate and banking leaders that Russia's economic potential has been drained by massive capital flight, its banking system is in ruins, the government is almost incapable of effective action, and the people are running out of patience. Mr. Primakov puts the blame on his predecessors, who built a huge pyramid of government debt, encouraged the growth of a parasitical banking sector and fumbled the task of revitalizing Russian industry."

Primakov said that Russia must slash its dependence on imported goods, and protect and promote domestic manufacturing. He stressed that Russia must shift from being a mere raw materials exporter: "We shall not let the macro-economy be used for exporting energy resources and importing goods, including food. This model of the macro-economy does not correspond to the interests of national producers," he said. Primakov raised the prospect of an amnesty for those who had engaged in capital flight, which he estimated to be at \$15 billion per year, in order to attract capital back into Russia. "This is a paradoxical situation where Russia, which does not have means for development of its own economy, finances the development of others," he said.