WORLD TRADE ORGANIZATION

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Working Party on the Accession of the Russian Federation

DRAFT REPORT OF THE WORKING PARTY ON THE ACCESSION OF THE RUSSIAN FEDERATION TO THE WORLD TRADE ORGANIZATION

Corrigendum[1]

- The attached table replaces Table 1 on page 157 of the Draft Report of the Working Party (WT/ACC/SPEC/RUS/25/Rev.2).

[1] In English only.

Table 1

Exchange Restrictions on Current Currency Operations

(Based on the information received from the International Monetary Fund with regard to the IMF Executive Board meeting of 2 May 2003 to conduct the 2003 Article IV Consultation with the Russian Federation)

Background	The Russian Federation accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from 1 June 1996. Since then, however, the Russian authorities have imposed a number of exchange measures that are subject to approval under Article VIII because they give rise to exchange restrictions on the making of payments and transfers for current international transactions and/or multiple currency practices. Most of these measures were imposed in August 1998, in order to stem capital flight and stabilize the exchange rate in the wake of the financial crisis. Over time, the scope and impact of these restrictions have been reduced, and a number have been eliminated altogether. The Russian authorities recently submitted a new draft Foreign Exchange Law to parliament. If adopted in its current form, this law would open the capital account significantly, and IMF staff expects that this would have a positive effect on economic performance and trade. Fund staff will monitor developments in order to advise the authorities and the Board on the implications of the new law and related regulations with regard to exchange restrictions and multiple currency practices.
Remaining exchange restrictions	Russia's exchange restrictions subject to approval under Article VIII of the Fund's Articles are as follows: Conversion operations through non-residents' S accounts. These are special accounts for non-residents used for GKO-OFZ-related transactions. Before balances arising from such transactions can be repatriated, funds have to be transferred to a non-interest bearing transit account for a fixed period. As a result, the repatriation of interest earnings and other current proceeds from GKO/OFZ investments would be made with delay and at unfavourable terms. Repatriation restrictions on ruble balances of non-residents not participating in the GKO/OFZ novation. The rules governing the repatriation of ruble balances are similar to those described above with respect to the S-accounts. They apply to ruble balances arising from GKO/OFZ investments, which matured before 31 December 1998. Restrictions on advance import payments. The authorities do not freely permit the making of all advance payments that are required under valid import contracts. Use of a more depreciated exchange rate for repatriation of S-account balances. Non-residents who participated in the GKO/OFZ novation are allowed to repatriate part of the proceeds by purchasing foreign currency in special auctions arranged by the CBR at a depreciated exchange rate. Restrictions on non-residents' N-accounts. These are non-resident bank accounts used for trade and some bond-related transactions. Existing restrictions limit the ability of non-residents to effect moderate amounts of amortization from the proceeds of bond transactions.
Economic significance	The above remaining exchange restrictions and multiple currency practices subject to approval under Article VIII of the Fund's Articles affect relatively few transactions, and do not have a significant impact on the balance of payments: 1. The limits on repatriation of interest payments affect modest amounts as the stocks in these accounts have declined, while the holding period has also been reduced. 2. The percentage of deposits that is required for advance payments on imports

	has been reduced to 20 percent and applies to advance payments of more than 90 days. This affects only a small percentage of payments. 3. The number of special auctions that give rise to the multiple currency practice has been reduced and they affect relatively modest amounts (several million dollars in the recent auctions, with a premium of under 1 percent).
IMF Executive Board discussion	Under Fund policy, the Executive Board generally may approve exchange restrictions and multiple currency practices if it is satisfied that they are imposed for balance of payments reasons, are not discriminatory, and their use will be temporary while the member is seeking to eliminate the need for them (i.e. including a timeframe for removal). The Executive Board did not grant approval of the exchange restrictions and/or multiple currency practices listed above when it concluded the 2003 Article IV consultation with the Russian Federation on 2 May 2003. In fact, the Executive Board, in concluding the consultation, encouraged the Russian authorities to remove the remaining exchange restrictions and multiple currency practices subject to Article VIII. The Executive Board welcomed the new legislative proposals to liberalize foreign exchange transactions and urged the authorities to ensure that a strengthening of the financial system and better enforcement of prudential norms go hand in hand with liberalization. It considered that, in the current environment of sizable capital inflows, the authorities should avoid introducing new controls.