

and may contribute to the observation of worsened income distribution.

7. In April 1994, the IMF approved Russia's purchase of the second tranche under the Systemic Transformation Facility (STF). The basis for the purchase was the Government economic program for the remainder of 1994. In early March, 1995 negotiations over an IMF Standby Loan were under way and an agreed program was anticipated later that month. This program will help to form the basis for fiscal and monetary policy in support of macroeconomic stabilization.

#### **Progress on structural reforms and medium-term outlook**

8. Following the major structural reforms introduced in 1991-1993, the past year was a period of general consolidation. By mid-1994 private retail trade already accounted for over 60 percent of total turnover, and domestic prices of traded goods moved closer to world levels (the main exception was energy). Greater progress was made in specific areas. The privatization program continued strongly through mid-year, moving onto the next phase of cash purchases following completion of the mass voucher privatization launched earlier. As far as trade policy is concerned, further steps were taken to reduce trade barriers, particularly the removal of export quotas. Few new policies were introduced in social protection, but the social programs established after 1991 continued to support large segments of the population. On land reform, little progress was made. The rights of land owners to lease or rent land were reiterated in late 1993 and the moratorium on land sales was lifted, but only 6 to 7 percent of arable land is thought to be cultivated by individual farmers.

9. Further structural reform will need to be made within the context of the government's top policy priority: adherence to a realistic macroeconomic stabilization program. The stabilization program, adopted by the government in early 1995 as the basis for a \$6.25 billion standby loan from the IMF, will require significant fiscal tightening and more stringent monetary measures to reel in inflation. With elections scheduled for end-1995 and mid-1996, resisting political pressures to relax credit constraints will pose a challenge to authorities. If these pressures can be resisted, a gradual resumption of positive growth and investment trend during 1995 is expected, with inflation reduced to moderate levels by 1996. The structural reform objectives outlined below are consistent with stabilization measures to reduce fiscal outlays and streamline government operations.