



Resolution 1180 (1999)¹

Economic situation in Russia and Ukraine

Parliamentary Assembly

1. The Assembly views with great concern the worsening economic situation in the Russian Federation and Ukraine. In the Russian Federation, events since the summer of 1998 have highlighted the country's economic plight as shown in a widening budget deficit, a much reduced ability to attract foreign and domestic credit, and a threatening spiral of inflation. Although some remedial actions have been taken in both countries, the crisis that is leading to a sharp fall in already precarious living standards persists. It is also having a negative effect on neighbouring countries in transition, and even on Europe as whole and the world economy in general.

2. The Assembly expresses alarm over the difficult food situation and especially the lack of medicine and medical supplies in the Russian Federation in particular, but also in Ukraine. It welcomes the considerable international efforts undertaken to provide food and medicine to the populations concerned and the new readiness on the part of the host authorities to ensure efficient and fair distribution. The Assembly calls for additional humanitarian assistance, especially to remote areas in northern Russia where the winter is severe and transportation difficult, and to the poor regions of Ukraine – Chernivtsy Oblast and, especially, Zakarpattia Oblast, where a disastrous flood has complicated an already difficult situation. The Assembly also calls on the Russian Federation and Ukraine to do their utmost to facilitate the ways in which humanitarian assistance transits their borders and reaches the needy.

3. The many opportunities offered in recent years fundamentally to reform the economy in the Russian Federation have not been seized, although considerable, irreversible changes towards a market economy have been made. It is nevertheless essential that a way forward be found, based on compromises between all political forces and reflecting popular will.

4. The massive assistance provided by the international community in recent years has proved largely ineffective, in that banks have not been modernised, industrial and agricultural production has decreased, the state budget is not balanced, a considerable part of social aid is wasted and a lot of Russian capital continues to leave the country. The Assembly calls for a profound examination by both aid recipients and donors of the reasons for the failure of the policies of the International Monetary Fund and other major international financial institutions towards the Russian Federation and Ukraine, and the misuse of foreign funds, so that any repetition of mistakes can be avoided in future, when urgently needed assistance, beyond that for humanitarian purposes, can be resumed under secure conditions.

5. For this to occur, it is now for the Russian Federation and Ukraine themselves to take the lead in creating the conditions under which lasting economic recovery can take hold. This is all the more important as only a prosperous Russia and Ukraine can assure continued stability, peace and co-operation in Europe and beyond.

6. The Assembly strongly believes that every country must independently choose and develop its own political system but that democracy and the rule of law are necessary for lasting development. In the Russian Federation and Ukraine, the transition and modernisation process will inevitably last many years, perhaps decades, given the historical legacy of a deep social, economic and moral disintegration of society. It is

1. Assembly debate on 28 January 1999 (7th Sitting) (see [Doc. 8294](#), report of the Committee on Economic Affairs and Development, rapporteurs: MM. Telgma and Wielowieyski). Text adopted by the Assembly on 28 January 1999 (7th Sitting).



therefore essential that this process enjoys growing support from the people and that it is accompanied by ever stronger democratic mechanisms, the development of local autonomy and greater citizen involvement in accordance with the European Charter of Local Self-Government. A better coherence between the presidential and governmental administration on the one hand and parliament on the other is vital for effective government. In the case of the Russian Federation, the Assembly believes that the support given by the Duma to the present government sets a good example for the future and hopes that it will last.

7. The deep economic crisis in the Russian Federation results mainly from major difficulties in carrying out structural change and from neglect of the real sector of the economy. This has led to a situation characterised by:

- 7.1. a privatisation process which has not yielded the desired results, but which has instead preserved, strengthened or even created monopolies and oligopolies; and insufficient modernisation of enterprise management;
- 7.2. inadequate regulation of economic life;
- 7.3. a weak banking system;
- 7.4. the formation of conglomerates in the fields of finance, industry and the media with considerable power over state affairs but beyond democratic control;
- 7.5. a weak social dimension in economic reform projects, reducing critically needed popular support;
- 7.6. a serious imbalance in wealth, and especially low purchasing power or even poverty among populations, including salary, pension and other social arrears;
- 7.7. a growing barter and shadow economy;
- 7.8. a narrow tax base and a weak tax administration;
- 7.9. a worrying spread of crime and corruption ; The above circumstances contribute to the grave budgetary crisis, in which monetary and fiscal policies are insufficiently co-ordinated, and to a threatening increase in internal and external debt.

8. Ukraine has had to face many of the same challenges of transition as Russia and is still encountering many of the problems and difficulties mentioned in paragraph 7 above, especially since the economies of the two countries are so closely linked. Ukraine today stands a fair chance of weathering the crisis since it has attracted limited quantities of speculative capital and has pursued a cautious budgetary policy, incurring manageable quantities of foreign debt. Finally, its central bank has established a fair measure of control over the money market, has introduced a modern system of accounts in the banking system and therefore enjoys a measure of confidence on the part of international lenders.

9. Europe and the international community at large today face a vital question: should they support, and are they capable of supporting, the Russian Federation financially and materially, with Ukraine presenting a similar, though less dramatic, case? The Assembly believes that the immediate need of Europe and the world economy for a stable, internationally predictable and economically viable Russia and Ukraine implies that these countries be helped to stimulate their economic development, balance their budgets, reform their financial structures and systems and be provided with indispensable social and humanitarian assistance. Even if structural reforms proceed slowly and some assistance is not used rationally, Europe and the international community must continue to promote financial and other forms of assistance, since the necessary accompanying reforms, if too rigid, could lead to such resistance that reform is blocked and the destabilisation that might follow would be much more costly to all sides.

10. The Assembly calls on Council of Europe member states to pursue, individually and within the framework of international institutions, their assistance to the Russian Federation, Ukraine and other countries of the Commonwealth of Independent States so that these countries:

- 10.1. adapt their human resources to the requirements of a market-oriented economy;
- 10.2. achieve privatisation leading to a competitive economy, and a greater separation between political and economic powers leading to fair competition;
- 10.3. establish clear, stable and transparent legislation, including in the banking sector where adherence to internationally recognised accounting principles is particularly needed, and an efficient judicial system, including tough measures to combat all forms of crime and corruption;

10.4. reach true economic co-operation between regions in the Russian Federation and in Ukraine, as well as with neighbouring and other states, based on internationally accepted principles of trade.

11. In social assistance, one important principle must be to try to establish direct contact between European donor countries and regions on the one hand and regions in the Russian Federation and Ukraine on the other. A better utilisation of resources would result from such close co-operation with leaders of regional administrations and representative bodies, which are better controlled by public opinion in the accomplishment of their tasks. The Assembly also calls on the Russian Federation and Ukraine to sign and ratify the European Social Charter and its protocols as soon as possible.

12. The Assembly recalls the rich human potential and natural resources of both the Russian Federation and Ukraine. For the peoples

13. The Assembly considers it necessary to find ways to establish co-operation between the Russian Federation and Ukraine on the one hand and the Council of Europe's Social Development Fund on the other, including emergency assistance to both countries by the Fund in the event they request it, in order to alleviate the effects of natural disasters and the hardship of refugees, forced migrants, children and the elderly.

14. Finally, the Assembly expresses its confidence that the Russian Federation and Ukraine will, in time, with the support of Europe and the international community as a whole, be able to overcome their present difficulties and arrive at strengthened democracies and sustainable economic growth for the benefit of overall peace and prosperity.