Six months ago, the Russian economy stood at the brink of hyperinflation. Today the stabilisation of the rouble and the end of high inflation are within reach. The near-hyperinflation at the end of last year was caused by virtually unrestrained central bank credit creation, amounting to an astonishing 40% of gross domestic product in 1992. Since then, Mr Boris Fedorov, the new finance minister, has gradually been gaining control of macroeconomic policy.

In April, Mr Fedorov and the central bank governor, Mr Viktor Geraschenko, signed an agreement committing the central bank to reduce the rate of credit creation to less than 10% a month by December. Inflation is now running at about 15% a month, down sharply from the near-hyperinflationary 30% at the end of 1992.

This credit agreement reflects the growing political strength of the government relative to the congress, to which the central bank is responsible. The government has been strengthened by President Yeltsin's victory in the April referendum and indications that the constitutional convention is going his way.

The Group of Seven industrial countries' announcement in April of a $28bn aid package has also strengthened the reformers.

In May, the Russian government and the International Monetary Fund agreed on budget and credit targets, which will mean $3bn in IMF loans should start flowing to Russia in July.

The budget deficit planned for the second half of 1993 is about 10% of GNP. Of this, about 3% will be financed by central bank credit and 7% from abroad, including the IMF, World Bank and western governments. By borrowing abroad to finance the budget deficit, the government reduces the amount of money it has to print, so reducing inflationary pressures.

Implementation of these fiscal and credit policies will make low inflation possible, but they are not sufficient to stabilise the currency. To do that and reduce inflation rapidly, Russia should peg the exchange rate. The market value of the rouble would be supported by tight monetary and fiscal policies, and defended by the central bank.

Russian stabilisation will not succeed without delivery of already-committed western financial assistance. Part of the assistance is needed to finance the budget deficit. Part is needed to help defend the exchange rate: the $6bn stabilisation fund that the IMF controls should be made available on a rapid timetable, provided the Russians tighten credit and the budget. Similarly, an IMF standby loan of $4bn and a new World Bank loan of $1bn should be brought on line quickly.

These western commitments should be reaffirmed to President Yeltsin at this week's Tokyo summit, though the actual flow of assistance would be conditional on Russia's implementation of the remaining steps for stabilisation.

The Russians could credibly commit to a stable, pegged exchange rate by September or October. They need several weeks to ensure that the credit agreement with the central bank is working; to adjust energy and other controlled prices before the start of the stabilisation programme; and to be reasonably sure that the budget deficit can be held to 5% of GNP.

The Russians should go for it. But will they? Ironically, one thing that might hold them back is the view that things are going rather well now. So why rock the boat? The answer is that restructuring of the economy cannot be undertaken with annual inflation of more than 400%. At some point, Russia will have to stabilise,
and the circumstances are unlikely to be more favourable than now.

Unfortunately, the G-7 is threatening to put a roadblock in the way at this critical juncture. Recent reports suggest the Europeans and Japanese want to scale back sharply the $4bn ‘privatisation fund’ for enterprise restructuring, proposed by the US to complement the Western aid package announced previously. Failure to make significant funding available for this purpose would set back the restructuring of industry and lower the chances for successful stabilisation.

No single policy by the West will make or break Russia's stabilisation. But, with the opportunity for Russia's success so high, we can only hope that both Russia and the G-7 recognise the historic opportunity when they meet in Tokyo.

The authors are professors of economics at MIT and Harvard, respectively. Fischer is former vice-president and chief economist of the World Bank. Sachs is an economic adviser to Russia's government.

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