

# A HISTORICAL ANALYSIS OF RELATIONS BETWEEN BANKS AND ENTERPRISES IN RUSSIA

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## INTRODUCTION

In any analysis of the relationships between banks and enterprises, it is necessary to consider not only relations between them, but also relations between banks and markets and between enterprises and markets. This is important because markets influence banks and enterprises. In transitional countries like Russia, federal and local governments also play an important role in developing them. In this paper, therefore, “banks,” “enterprises,” “markets,” and “governments” are analyzed altogether.

No survey of the beginning of the transition to a market economy, when Russian banks and enterprises were controlled by “financial repression” and the “dual economy,” appears to have been carried out. “Financial repression” means that the interest rate in rubles is in the negative. “Dual economy” means that not only rubles but also hard currencies like dollars function as means of payments and savings. Because a foreign exchange operation denotes transactions in convertible currencies, mainly the US dollar, this paper does not distinguish foreign currencies from dollars. Under the conditions of financial repression and dual economy, economic entities try to shift their financial assets in rubles to financial assets in dollars, because purchasing power in dollars is increasing against purchasing power in rubles. On the other hand, economic entities try to increase their liabilities in rubles to maximize the profits from inflation.<sup>1</sup> But these rational behaviors cause friction between banks and enterprises. While banks hope to shift their claims in rubles to dollars so as not to decrease the real value of them, enterprises try to keep and increase their liabilities in rubles. Banks want to cut loans in rubles and shorten them, while enterprises want longer loans and to increase them. The purpose of this paper is to answer how banks and enterprises can solve this problem, analyzing the transformation process to a market economy historically.

The paper is organized as follows. Section 1 introduces the analytical framework. Section 2 discusses the relationship between banks and enterprises during 1992 and 1993. Section 3 describes the relationship between banks

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1 Discussions about demand for money are shown in: S. Sriram, “Survey of Literature on Demand for Money: Theoretical and Empirical Work with Special Reference to Error-Correction Models” (IMF Working Paper No. 64, 1999). This paper argues that the opportunity cost of holding money has two ingredients: own-rate of money and returns on alternative assets for money. The return on alternative assets consists of the return on domestic financial and real assets, and the return on foreign assets.

and enterprises from spring 1995 to August 1998. Both sections highlight banks' assets and liabilities which fluctuated in line with the net interest rate. The composition of assets and liabilities in rubles and dollars is analyzed individually. Section 4 provides some conclusions.

## 1. ANALYTICAL FRAMEWORK

### 1.1. *Financial Repression*

Financial repression can be defined as the situation in which the real interest rate calculated for rubles, by taking the balance between a nominal interest rate of financial assets and the nominal inflation rate, is negative.<sup>2</sup> This financial repression is characteristic of a high inflation rate and a shift of wealth from the private sector to the government.

In countries in a state of transition from a centrally controlled economy to a market economy, the abolition of price control and a large budget deficit leads to inflation and financial repression. This financial repression in transitional countries is accompanied by certain characteristics. First, direct control of banks by the government exists, because separation between the government and banks is still ambiguous at the early stage of privatization. Second, past loans to state-owned enterprises directed by the government are passed on to the banking sector. Third, collecting defaulted loans by banks is very hard, because bankruptcy laws neither exist nor function satisfactorily. Though these characteristics are common among transitional countries, the degree of financial repression is different among them. Roughly speaking, inflation rates of Central and Eastern European countries (including the Baltic countries) were lower than those of former Soviet countries. Furthermore, the period of high inflation of Central and Eastern European countries was shorter than that of former Soviet countries. Therefore, Central and Eastern European countries could pursue recapitalization by debt-for-debt swaps etc.<sup>3</sup> It was not necessary

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2 First, McKinnon and Shaw drew attention to the costs of "financial repression" in the third world. They argued that the real interest rate was repressed by government-market regulations, which impeded savings and economic growth. They argue that the dissolution of the state of financial repression by financial liberalization can promote savings and lead to greater efficiency in the allocation of resources. However, the evidence is less clear. Many economists argue that government regulation is necessary for developing countries to keep the domestic economy on a course of economic growth. See: R.I. McKinnon, *Money and Capital in Economic Development* (Washington, DC, 1973); E. Shaw, *Financial Deepening in Economic Development* (New York, 1973).

3 See: M.S. Borish, M.F. Long, M. Noël, *Restructuring Banks and Enterprises* (Discussion Paper, 279, The World Bank, 1995); J. Daniel, M. Saal, "Macroeconomic Impact and Policy Response," W. Alexander, J.M. Davis, L.P. Ebrill, C.J. Lindgren, eds., *Systemic Bank Restructuring and Macroeconomic Policy* (IMF, 1997), pp. 1-41; R.M. Desai, K. Pistor, "Financial Institutions and Corporate Governance: A Survey of Six Transition Economies," I.W. Lieberman, S.S. Nestor, R.M. Desai, eds., *Between State and Market: Mass Privatization in Transition Economies* (Washington DC, Studies of Economies in Transformation No. 23, The World

to recapitalize with former Soviet countries, because the real value of debts had decreased through long-term high inflation.<sup>4</sup> This meant that the government could keep its influence upon state-owned banks or former state-owned banks.

Under the condition of financial repression, it is very important to know how inflation tax is distributed among banks, enterprises, and the government, in order to understand relationship between these parties. In the case of a negative real interest rate, if deposits in rubles were kept, it meant that people paid inflation tax, because these deposits were saved in official banks at the beginning of transition. Even if deposits were saved in private banks, the central bank could collect inflation tax by means of reserve requirements. On the other hand, enterprises pay inflation tax through increasing nominal profits and nominal sales. But they can avoid paying inflation tax, if they can borrow loans in rubles.

According to Easterly and da Cunha,<sup>5</sup> inflation tax is calculated each month as (monthly inflation rate–monthly interest rate)/(1+monthly inflation rate) times multiplied by (the stock of each financial balance at the end of proceeding month). According to their calculations in 1992, a remarkably high inflation tax of 30.9 percent of GDP was paid.<sup>6</sup> Households paid 12.04 percent of GDP and enterprises paid 18.86 percent of GDP. On the other hand, enterprises received 16.31 percent of GDP through subsidized and “unsubsidized” credits. Although the government received 7.19 percent of GDP on loans from the central bank (the nominal interest rate was only 10 percent per year), net inflation tax received by the government was only 4.07 percent of GDP.

A negative real interest rate creates a hotbed for official corruption.<sup>7</sup> Denizer, et al. suggest that in those countries where the pre-reform elite class are

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Bank and OECD, 1997), pp. 130-161; S. Fischer, R. Sahay, C.A. Végh, “From Transition to Market: Evidence and Growth Prospects” (IMF Working Paper, No. 52, 1998).

- 4 In Azerbaijan, a comprehensive restructuring plan for the state-owned banks was launched in September 1996 (See: *Central Bank Reforms in the Baltics, Russia, and the Other Countries of the Former Soviet Union*, IMF Occasional Paper No. 157, 1997). Kazakhstan, the Kyrgyz Republic and Moldova also pursued recapitalization. Dziobek and others indicate that only two of the 12 CIS countries, namely, Kazakhstan and the Kyrgyz Republic, have embarked on a systemic restructuring strategy that includes particular measures to deal with the formerly specialized banks that dominate the financial system. C. Dziobek, C. Pazarbasioğlu, “Lessons and Elements of Best Practice,” Where is the rest of the title? in Alexander et al., *Systemic Bank Restructuring*, pp. 75-143. Concerning the Russian case, see “3.2.3. Collecting claims.”
- 5 W. Easterly, P.V. Da Cunha, *Financing the Storm: Macroeconomic Crisis in Russia, 1992-93* (Policy Research Working Paper, 1240, The World Bank, 1994).
- 6 Ghosh defines the inflation tax revenue as  $R/Y = [\pi/(1+\pi)](M/Y)$  where  $\pi$  is end-period inflation,  $M$  is the average stock of base money, and  $Y$  is nominal GDP. The results of the calculation of inflation tax are shown in Table 2 in: A.R. Ghosh, “Inflation in Transition Economies: How Much? and Why?” (IMF Working Paper No. 80, 1997).
- 7 According to Easterly and da Cunha, Åslund reports that: “In the spring of 1993, the going rate for a bribe from a commercial bank to people in or around the Central Bank for a three-month credit was 13 percent of the credit.”

numerous in legislative bodies, and where inter-party competition is low, the elite class has been able to perpetuate a system of implicit subsidies by “softening up” the financial sector—particularly the commercial banks—in order to assure the continued flow of cheap credit to specific borrowers.<sup>8</sup>

In Russia, financial repression could be observed from January 1992, when price liberalization was implemented. Before 1992, the government controlled interest rates and retail prices though it revised retail prices in April 1991. The real interest rate is derived by calculating the nominal inflation rate and nominal interest rates of financial assets. In Figure 1, the rediscounted rate of the central bank, namely, the official interest rate and yearly inflation rate calculated at the compound monthly rate are shown. The reason why the official interest rate is selected is that it is easy to collect data for this. As can be seen in Figure 1, (i) the real interest rate was negative from January 1992 to October 1993, though a transition in 1992 is not shown for the reason that it is difficult to calculate; (ii) from November 1993 to February 1995, it was difficult to judge whether the real interest rate was positive or negative; (iii) from March 1995 to August 1998, the real interest rate was positive.<sup>9</sup> Hence, this paper argues that the period of financial repression was from January 1992 to the end of 1993 and the period of positive real interest rate was from spring 1995 to August 1998. Although after that period, the real interest rate became negative again, from March 1999, it changed to a positive rate. In section 4, we will discuss the influence of financial crisis.

### ***1.2. Dual Economy***

Table 1 shows the results of deposits and loans in rubles and in dollars since January 1997, because it is difficult to obtain data separated by currencies. The total of bank deposits on April 1, 1998 consisted of 68.4 percent in rubles and 31.6 percent in dollars. After the devaluation of the ruble, the share in rubles decreased to 46.3 percent in October 1, 1998. It can be concluded that without taking into account the issue of deposits in dollars, discussion about bank deposits is impossible. The situation regarding bank loans is the same. The total of bank loans in on April 1, 1998 consisted of 58.4 percent in rubles and 41.6 percent in dollars. The ratio in rubles fell to 29.7 percent in October 1, 1998. Although the statistics have a problem connected with continuity, the ratio in rubles had been kept at the level of approximately 57 percent of the

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8 C. Deniz, R.M. Desai, N. Gueorguiev, *The Political Economy of Financial Repression in Transition Economies* (Policy Research Paper, 2030, The World Bank, 1998).

9 According to the data of the IMF (*Transforming, Financial Systems in the Baltics, Russia, and Other Countries of the Former Soviet Union*, 1999), the real deposit rate became positive beginning in the mid-1996. On the other hand, the real lending rate has been positive since the end of 1995.

total loans. If loans in rubles are converted into dollars, the ratio of loans in rubles to total loans in dollars was 51.4 percent in January 1, 1997.<sup>10</sup>

In general, dollarization is a response to economic instability and high inflation, and reflects the desire of domestic residents to diversify their asset portfolios.<sup>11</sup> In addition, expectations of exchange rate depreciation and poor government finances result in dollar holdings, while tax avoidance and inefficient banks provide structural reasons for the use of dollars at the stage of the recent improvement in macro-economic indicators.<sup>12</sup> To understand the motives for the demand for foreign currency assets, a distinction should be made between “currency substitution” and “asset substitution.” Currency substitution occurs when foreign-currency-dominated assets are used as a means of payment, while asset substitution occurs when foreign-currency-dominated assets serve as financial assets (a store of value) but not as a means of payment or unit of account.<sup>13</sup>

Dollarization resulted from excessive liberalization concerning regulations of payment in foreign currency. The Currency Adjustment Law of April 1, 1991, stated that corporations and individuals had the right to deal with foreign currency in accordance with the foreign exchange rate. The Law of Currency Adjustment and Currency Control of October 9, 1992, recognized that residents had the right to open foreign currency accounts in domestic and foreign banks. It also stated that transfers of foreign currency for payment of imports and exports could be carried out without being regulated. On the other hand, it prescribed that the method, which determines the way some parts of foreign currency incomes would be decided by a Presidential Decree. This prescription resulted in the ratification of the Instruction of the Central Bank of Russia (CBR) of June 29, 1992, based on the Presidential Decree of June 12, 1992. The Instruction prescribed that 50 percent of foreign currency income should be sold to buy rubles. According to Ryttilä,<sup>14</sup> there has been much discussion on banning the use of foreign currency in Russia’s internal trade, and in February 1993, the CBR published instructions concerning the restriction of foreign currency operations within the territory of Russia. The Letter of the CBR of October 1, 1993, prescribed that sales to residents in foreign currency within the territory of Russia were forbidden. The Instruction of August 15, 1997, prescribed that the settlement of goods and services to individuals in foreign currency was forbidden, and the prescription was enacted on October 10, 1997.

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10 I. Doronin, A. Zakharov, “Rossiiskie banki v perekhodnyi period,” *Ekonomika perekhodnogo perioda* (Moscow, 1998).

11 See: *Monetary Policy in Dollarized Economies* (IMF Occasional Paper, 171, 1999).

12 *Russian Economic Trends*, Monthly Update, 7 May 1998.

13 See: *Monetary Policy in Dollarized Economies*.

14 T. Ryttilä, “Russian Monetary Policy Since January 1992,” *Review of Economies in Transition*, Bank of Finland, 7, 1993, pp. 5-25.

## 2. THE RELATIONSHIP BETWEEN BANKS AND ENTERPRISES DURING 1992 AND 1993

### *2.1. Raising Money by Banks*

Table 2 shows the basic indicators as a guide to understanding the banking sector. First, attention should be paid to the fact that the share of “gross assets of the banking sector” to GDP fell from 88 percent in 1992 to 36 percent in 1995 and 1996. Komulainen (1999) shows that in the first half of 1998, the share of bank assets to GDP in Russia was also under 40 percent and lower than the results in Poland, Brazil, Czech Republic, and Germany.<sup>15</sup> This decline is associated with the share of the money supply (defined to include currency in circulation, demand and time deposits, or M2) to GDP. The share of M2 (excluding foreign currency deposits) to GDP fell from 33.7 percent in 1992 to 13.4 percent in 1996. According to Claessens, at the end of 1994, the share in Russia was 15 percent, while the share in China was 91 percent, the share in Czech Republic was 74 percent, and the share in Poland was 31 percent.<sup>16</sup> Though a part of the deficiencies of liquidity of enterprises resulting from cost push inflation was covered by central-bank-directed credits, those credits decreased rapidly, leading to a decline of the share to GDP. Consequently the share of “bank credit to the non-financing sector” to GDP dropped from 33.6 percent in 1992 to 10 percent in 1996.

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15 Even if the share of foreign currency assets in the total banking assets is very high, the share of foreign currency assets to GDP is low. Therefore, it might be difficult to discuss dollarization at a macro-economic level. In *Monetary Policy in Dollarized Economies*, Russia is classified in the group of “moderately dollarized economies.” The ratio of foreign currency deposits to broad money in Russia was 29.5 percent in 1993, 28.8 percent in 1994, and 20.6 percent in 1995, while the ratio in Bolivia was more than 80 percent. On the other hand, *Russian Economic Trends* (May, 1998) insists that the Russian economy is in effect still a two-currency economy. P. Sutela, “Russia: The State and Future of the Economy,” BOFIT Discussion Paper, 4, 1999, regards specific features of the Russian economy as indicative that Russia has the makings of a dual economy. In Russian references, Iu. Petrov, “Ozdorovlenie finansovoi sistemy i normativnye metody gosudarstvennogo regulirovaniia ekonomiki,” *Rossiskii ekonomicheskii zhurnal* 3, 1997, considers that it is necessary for Russia to conquer dollarization. However, there are few studies in which the Russian dual economy is discussed directly and deeply, because it is very difficult to get data about foreign currencies, capital flight and so on. We consider that without understanding dollarization in Russia, no one can understand the real Russian economy. For example, the fact that in 1998 about 10.8 percent of total federal budget revenue was collected in hard currency is very important to understanding the real effect of the exchange rate depreciation at the macro-economic level (R. Ahrend, N. Ivanova, E. Panova, “Budget and Inflation: Current Situation and Prospects for 1999,” *Russian Economic Trends*, April 1999).

16 S. Claessens, “Banking Reform in Transition-Countries,” *World Development Report 1996* (The World Bank). For information on the share of most of post-Soviet countries and East European countries, see: H. Tang, E. Zoli, I. Klytchnikova, “Banking Crises in Transition Economies,” World Bank Policy Research Working Paper, No. 2484 (2000).

17 Denizer et al., *The Political Economy*, 1998.

The share of M2 as a percentage of GDP is a standard measure of financial “depth” that is consistently found to be higher in market economies and lower in financially repressed economies.<sup>17</sup> In developed countries, currency in circulation is deposited in banks and some of it is lent, then some of it again is deposited in banks. This circulation of money results in the increase of M2. Nevertheless, in Russia such a circulation system has not developed, so the ratio of M0 (currency in circulation) to M2 is high. At the end of 1994, the ratio of M0 to M2 in Russia was 42 percent, while the ratio in the United Kingdom was 3 percent, in France 6 percent, in the Czech Republic 10 percent, in Hungary and in Poland—both 26 percent.<sup>18</sup>

### *2.1.1. Liquid Assets of Enterprises*

In considering Russian financial characteristics, now we need to discuss the liquid assets of enterprises. The Presidential Decree No. 297 of December 3, 1991, declared that on January 2, 1992, the Russian Federation would embark on the first steps of transition to free prices and tariffs. Although energy and transportation were excluded from price liberalization, 80 percent of producer prices and 90 percent of consumer prices were freed (in value terms, at 1991 relative prices).<sup>19</sup> Cost-push inflation then occurred and demand in dollars increased for settlement of payment and for avoidance of depreciation of rubles. The federal government and the CBR gave directed credits to enterprises for their payments. In July 1992 the CBR ordered the commercial banks to register in ‘Line 2’ all payment arrears of Russian state enterprises in order to carry out a multilateral netting of the arrears.<sup>20</sup> The netting process was concluded in October and the arrears were reduced to 450-480 billion rubles. The remaining credit balances were used to service the debts of enterprises with the commercial banks, and the remaining debt balances were settled by the funds provided by the CBR to the indebted enterprises. As seen in Table 2, the share of “credit from monetary authorities to commercial banks” to GDP was 15 percent at the end of 1992. Nozdran’ argues that while an increase in costs brings an increase in mutual debts of enterprises and issues of directed credits for payment, the increase of costs also increases demand in credits and leads to an increase of bank credits to enterprises, following which the money for payment accounts also increases.<sup>21</sup>

In spite of the high share of the directed credits, owing to the rapid increase of nominal GDP, the share of M0 in GDP and the share of “non-cash money” in GDP fell substantially. Table 2 shows that though the share of M0 in

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18 Ibid.

19 A. Åslund, *How Russia Became a Market Economy?* (Washington, D.C., 1995).

20 I. Hivensalo, “Developments in the Russian Banking Sector in 1992-1993,” *Review of Economies in Transition* 7 (Bank of Finland, 1993).

21 N. Nozdran’, “Denezhnye agregaty: opyt perekhodnogo perioda v Rossii,” *Voprosy Ekonomiki* 11 (1993), pp. 96-103.

22 It seems that real assets in foreign currency were greater. Because Article 70 of the law on the central

GDP fell from 13.6 percent at the end of 1991 to 8.8 percent at the end of 1992 and the share of “credit to economy and residents” to GDP declined from 31.1 percent to 25.6 percent during the same period, the share of “non-cash money” in GDP fell from 54.8 percent to 24.9 percent. It seems that the rapid fall of the share of non-cash money in GDP resulted from the dollarization of non-cash money. This dollarization led to an increase in the share of “foreign currency deposits” to GDP, which was 23.9 percent at the end of 1992. And it can be inferred that banks preferred loans in dollars to loans in rubles under financial repression, thus, some of the loans in dollars were forced to be deposited in foreign currency. We can describe these deposits as “restraint deposits.” “Restraint deposits” were one of the reasons why the share of foreign currency deposits to GDP was so high in 1992. The resources of bank loans in dollars included the central-bank-directed credits and fiscal money, which was collected and paid through banks.

Table 3 shows the structure of assets and liabilities of 627 Moscow banks on January 1, 1995. Although the result on January 1, 1995 is not applicable to the period of 1992-1993, the data give details of banking activities, so Table 3 is very helpful concerning banking activities. The share of the total assets of 627 banks in the total domestic bank assets was about 35 percent. The share of domestic bank assets, excluding Sberbank and Vneshekonombank, was approximately 51 percent. Therefore, Table 3 reveals the tendency of general banking activities. The share of “liabilities” to total liabilities (=total assets) on average was 87.2 percent, including 61.2 percent which is the ratio of “liabilities in foreign currency” to total liabilities. The larger the assets of banks, the higher the ratio of “liabilities in foreign currency.” This tendency corresponds to the fact that the larger a bank’s liabilities, the higher the ratio of “non-interest-bearing liabilities in foreign currency” to total liabilities. “Non-interest-bearing liabilities in foreign currency” consist of payment accounts of enterprises and organizations, current accounts of official organizations and trade unions, and correspondent accounts of the central bank and commercial banks. The share of the sum of payment accounts and current accounts in foreign currency to total liabilities was 22.4 percent. 76.8 percent of these accounts was appropriated in dollars. The share of “correspondent accounts” in foreign currency was 12.9 percent. These high ratios resulted in the high share of “non-interest-bearing liabilities in foreign currency.”

Furthermore, the ratio of “foreign currency assets” to total assets on average was 64.7 percent.<sup>22</sup> It can be seen that the larger assets of banks, the higher

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bank states that the central bank regulates positions of financial organizations relating to currency, interest, and other financial risk, banks cannot hold assets in foreign currency without limitations. To keep assets in foreign currency within regulated positions, banks also hold liabilities in foreign currency to decrease the balance in foreign currency, especially before the settlement of accounts. In reality, because it is difficult to shift investing assets in foreign currency to assets in rubles, banks try to borrow dollars, then change them into rubles. See: M. Dmitriev, M. Matovnikov, L. Mikhailov, L. Sycheva, E. Timofeev, E. Uorner, *Rossiiskie banki: nakanune finansovoi stabilizatsii* (St. Petersburg,



the ratio of “foreign currency assets.” This corresponds to the fact that the ratio of “foreign currency correspondent accounts” and the ratio of “loans and veksel’s in foreign currency” were high.

Dmitriev, et al.,<sup>23</sup> who made up Table 3, suggested that the increase of the share of “free foreign currency liabilities” was equivalent to the interests of clients of banks. They tried to raise the ratio of foreign currency in order to hedge the depreciation of their liquid assets from inflation. It seems that during 1992 and 1993, clients also tried to shift their assets in rubles to foreign currency assets. However, these needs of the clients conflict with the interests of banks, because this shift reduces their profits. Therefore, there is a possibility that clients, namely, enterprises and banks, reach a compromise. It can be inferred that the compromise involved the banks giving loans in dollars to enterprises to hedge the depreciation of loans in rubles under the condition that those loans should be kept at in payment accounts until the money is spent and some of the loans should be deposited as “restraint deposits.”

On the other hand, enterprises tried to shift their money when paying accounts under their control to assets in dollars. In Russia many enterprises exported natural resources abroad, in order to acquire foreign currency.

### ***2.1.2. Central-Bank-Directed Credits***

At the beginning of the transition to a market economy, transitional countries had fiscal subsidies, namely, explicit transfers to enterprises from the government budget, and implicit subsidies to enterprises. These subsidies were vestiges of socialism, when the central government redistributed funds deducted from enterprises without compensation. Both subsidies resulted in softening budget constraints, therefore, they became blocking factors for rational management of enterprises. To receive subsidies, managers of enterprises made an effort to establish and maintain a cozy relationship between politicians and business. This kind of rent seeking resulted in a loss for the economy as a whole, though individual enterprises could make profits.

After 1990 all the transitional countries made efforts to slash those subsidies to reduce budget deficits and to tighten budget constraints. For example, Poland and the Czech Republic succeeded in cutting subsidies for a short time. Russia and Ukraine took more time to reduce subsidies.<sup>24</sup>

This paper focuses on the argument relating to central-bank-directed credits. One of those credits is based on the Decision of the Presidium of the Supreme Soviet and the Government of Russian Federation of May 25, 1992. This credit was supplied by the CBR to liquidate debts among enterprises through commercial banks. Another credit is used to maintain employment levels in agriculture, fuel industry, etc. According to Lopez-Claros and Alexashenko,

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1996).

23 Ibid.

24 Desai and Pistor, “Financial Institutions.”

25 A. Lopez-Claros, S.V. Alexashenko, *Fiscal Policy Issues During the Transition in Russia*, IMF Oc-

the share of “central bank directed credits” to GDP fell from 15.5 percent in 1992 to 2.3 percent in 1994.<sup>25</sup> Table 2 shows that the ratio of “credits from monetary authorities to commercial banks” to GDP was 15 percent in 1992, 5.1 percent in 1993, and 2.4 percent in 1994. In Russia, these directed credits were suspended after 1994. However, in-direct credits through auctions were started in February 1994 and continued after 1994.

Kuboniwa and Gavrilencov<sup>26</sup> suggest that in 1992-1993 commercial banks could obtain credits from the CBR at real negative interest rates, since only in December 1993 did the monetary authorities raise interest rates to positive levels. The credit rate of directed credits to commercial banks before the Cabinet’s Decision No. 975 of September 25, 1993, seemed to be the preferential rate plus 3 percentage points. The first clause of the Decision prescribed that the rate of directed credits should be set at the official interest rate. Although it is not known whether the rate was applied to credits to commercial banks or to enterprises, it is clear that the rate of borrowers of directed credits was very near to the refinance rate. Because the average annual bank real refinance rate from 1992 to 1994 was minus 41 percent, borrowers could receive the benefit of an inflation tax from the CBR.<sup>27</sup>

### 2.1.3. Fiscal Money

The suggestion that a lag of only a couple of months between purchasing the inputs and using them in production can lead to artificially inflated “profits,” which include a couple of months of capital gains on the inputs under the condition of financial repression corresponds to a lag between acceptance and payment of fiscal money.<sup>28</sup> If a bank receives money from the government and does not transfer the money to a directed account quickly, the bank can obtain inflation income by exchanging the money into dollars. When enterprises pay taxes through commercial banks, banks can delay the payment to tax authorities and have a chance to gain inflation income. Hence, under the condition of financial repression, the greater the amount of money banks dealt with, the bigger profits they could acquire, diverting the money into dollars like directed credits. At the early stage of transition to a market economy, there was no “hard financial system,” in which the diversion of fiscal money could be penalized by laws.<sup>29</sup>

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casional Paper, 155, 1998.

26 M. Kuboniwa, E. Gavrilencov, *Development of Capitalism in Russia: The Second Challenge* (Tokyo, 1997).

27 Desai and Pistor, “Financial Institutions.”

28 Easterly and Da Cunha, *Financing the Storm*.

29 Of course there were penal regulations for violations of payment contracts. The Decision of the Supreme Soviet in USSR of September 16, 1983, and of July 30, 1988, were enforced even in post-Soviet Russia. Now Article 856 of the Civil Law prescribes penal regulations of non-timely transfers of money by banks, however, it does not stimulate timely transfers satisfactorily.

30 Dmitriev, et al., *Rossiiskie banki*.

Table 3 shows that the share of “demand deposits of budgetary institutions” to total liabilities was only 1.6 percent on January 1, 1995. However, this percentage was calculated by net results based on the balance, so it can be inferred that the position of “money of budgets and funds” was greater. According to Dmitriev, et al.,<sup>30</sup> the average ratio of incomes from fiscal money (money from budgets and off-budget funds) to total liabilities of 627 Moscow banks was 11.8 percent, however, the average ratio of incomes to total liabilities of 45 highly profitable banks amounted to 125.0 percent. Hence, it can be concluded that fiscal money involving banks increased banks’ profit.

#### ***2.1.4. Evasion of Taxes***

It is easy to understand that banks will collude with enterprises to evade taxes. In general, enterprises often utilize a basic “obnalichivanie,” namely, a “raising cash” scheme.<sup>31</sup> The main idea of this scheme is that high-taxed elements of total revenue such as salaries or profits are replaced by low-taxed elements such as material expenditures. The basis of this replacement is the contract between the client and an intermediary “sham” firm. Under the terms of the contract, the client transfers money to the bank account of the sham firm in exchange for a false work report. In exchange for bank payments to the sham firm, the client receives unaccounted, or “black,” cash. The total amount of black cash returned equals bank payments minus the commission of the sham firm, typically less than 2 percent or 3 percent of initial client’s payment. To evade taxes, sham firms never report to the tax authorities. They operate for two or three months and then vanish. This scheme existed in the spring-summer of 1992. However, it was used mainly by small and medium-sized firms, while large enterprises manipulated sales and purchasing prices, and used arrears, invoices, barter operations, etc.

According to Yakovlev, certain small and medium-sized banks provide most of the cash funds for the basic scheme. While banks typically have no direct contact with clients of sham firms, the bank involved is usually affiliated with a financial agent or investment company responsible for the formation and disappearance of sham firms and contacts with clients. He did not state explicitly that these financial agents or investment companies had ties with organized crime, but it seemed that this was indeed the case. *Russian Organized Crime*<sup>32</sup> shows that 785 organized crime groups had been identified in Russia in 1990; the number had risen to 5691 by 1994, and 8000 by 1996. It also shows that the Ministry of the Interior estimates that 40 percent of private businesses, 50 percent of Russian banks, and 60 percent of state-owned companies are con-

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31 A. Yakovlev, *Black Cash Tax Evasion in Russia: Its Forms, Incentives and Consequences at the Firm level* (BOFIT Discussion Paper, 3, 1999).

32 *Russian Organized Crime*, Global Organized Crime Project, Center for Strategic and International Studies (1997).

33 Although it seems that this tendency agrees with the reality, it should be noted that organized crime

trolled by organized crime groups. In addition, it states that CIA estimates link half of the 25 largest organizations in Russia with organized crime groups. Those relations between organized crime groups and enterprises are useful not only for the evasion of taxes but also for barter operations. Organized crime groups have so much money that it can intermediate not only in the procurement of raw materials but also in the sale of products. Therefore, organized crime is spreading and getting stronger.<sup>33</sup> In short, since the beginning of transition, it is possible that banks controlled by organized crime groups colluded with enterprises.

## 2.2. Investing Money by Banks

### 2.2.1. Loans (Excluding Interbank Loans)

In general, under the conditions of financial repression and dual economy, banks prefer a reduction and shortening of claims in rubles and an increase of claims in dollars when it comes to investing money. Conversely, enterprises prefer to increase and prolong liabilities in rubles when it comes to raising money. However, there is room for compromise between banks and enterprises. The compromise can be realized by distributing inflation income among them. For example, in the case of a 200 percent interest rate per year, when enterprise A borrows one million rubles, A has to pay 3 million rubles after one year. If the inflation rate was 2000 percent for the same period, A could have bought goods or dollars with the one million rubles borrowed from the bank, and A could sell them for 20 million rubles within a year, A therefore would be able to get 17 million rubles even after paying 3 million rubles. Hence, there is a possibility that from the beginning, a bank and an enterprise could agree to share the percentage gained between them.<sup>34</sup> Of course, it is difficult to predict the inflation rate for a year in advance and there is no guarantee that goods or dollars will be sold for a higher price within a year. However, under the conditions of financial repression and dual economy, it was easy to acquire inflation income by exchanging rubles into dollars immediately after borrowing rubles.

Table 4 shows the results of loans and deposits of all commercial banks in Russia. Owing to the high inflation rate, deposits of enterprises and individuals to banks were less than one tenth of loans to enterprises and individuals. It seems that the ratio of loans to individuals was much smaller than loans to enterprises. On the other hand, loans to enterprises might include central-bank-directed credits. *Russia: The Banking System during Transition* (1993)<sup>35</sup> states that

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maybe overestimated. See: J. Bäckman, "The Hyperbola of Russian Crime and Police Culture," A.V. Ledeneva and M. Kurkchian, eds., *Economic Crime in Russia*, Kluwer Law International (2000), pp. 257-273.

34 Iu. Ovsienko, "Krizis i denezhno-kreditnaia politika Rossiiskogo gosudarstva," *Ekonomika i Matematicheskie Metody* 1 (1994), pp. 19-30.

35 *Russia: The Banking System during Transition* (Washington, D.C., The World Bank, 1993).

36 V. Babak, A. Novgorodov, "Finansirovanie i kreditovanie investitsii kommercheskimi banka-

in 1992, about half the loans of all commercial banks were based upon money of the central bank or budget. However, most of the remaining loans might be in foreign currency. Therefore, it is hard to understand what percentage of loans in rubles to enterprises was supplied under the condition of collusion between banks and enterprises.

Nevertheless, there were clearly many individual cases in which banks gave loans in rubles even under high inflation. Babak and Novgorodov suggest that some banks gave loans based on not directed credits, but using their own money and for a half year in 1992, several banks gave 60 loans of which 15 loans were long-term.<sup>36</sup> It seems that such long-term loans in rubles might be given under the condition of collusion between banks and enterprises.

At this point more detailed analysis is necessary. Table 5-1 shows that while the main shareholders of “new banks” were “new-private companies,” those of “former state banks” were “state-owned enterprises,” “privatized enterprises,” and “new private companies.” As seen in Table 5-2, “former state banks” were apt to prefer “state-owned enterprises and other state institutions” as their borrowers, because there were traditional relations among them, while “new banks” managed to lend money to “new private companies,” because it was difficult for them to have good relations with “state-owned enterprises and other state institutions.” Table 5-3 shows that most liabilities of “former state banks” were based on “enterprises’ current accounts” and “directed centralized loans,” while “new banks” depended more upon “enterprises’ deposits.” This data suggest that “former state banks” had a back-scratching alliance with state-owned enterprises or privatized former state-owned enterprises. It can be concluded that though banks made efforts to give loans in dollars to hedge depreciation of their claims based on the compromise between banks and enterprises under the conditions of financial repression and dual economy, banks also gave loans in rubles if there was collusion among them. Finally, it should be emphasized that to prove this conclusion more detailed analysis is required, though collecting data concerning individual terms of loans such as interest rate, collateral, and penal regulations is very difficult. By differentiating these terms, banks can give implicit subsidies to particular enterprises.

### **2.2.2. Investment in Shares**

There are regulations governing banks investing shares.<sup>37</sup> The program permitted by Presidential Decree No. 2284 of December 24, 1993, determined

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mi,” *EKO*, 4, 1995, pp. 42-50.

37 The space here does not allow us to consider capital from the perspective of raising money for banks. Under high inflation, banks had to hedge the depreciation of their capital, though only about 41 percent of 2297 acting banks were joint stock banks on January 1, 1996 (*Russia's Banking System: Analytic report* (1996)). Therefore, banks were permitted to transfer foreign currency collected by issuing shares in foreign currency to their capital by the Letter of the Central Bank of February 11, 1994. It should be noted that this policy institutionalized.

38 L. Makarevich, *Rossiiskie banki v 1994-1997 godakh: mezhdru effektivnost'iu i stabil'nost'iu* (Mos-

the following: (1) banks cannot behave as buyers of shares of privatized companies and privatized investment funds, (2) banks cannot hold more than 10 percent of shares of joint stock companies, (3) banks cannot invest more than 5 percent of their assets in joint stock companies. In addition, the prescription permitted by the Presidential Decree No. 2096 of December 5, 1993, stated that acquiring more than 10 percent of participants of Financial-Industrial Groups (FIG) registered to the government by banks included in the FIG was forbidden. Investment of more than 10 percent of assets of banks to participants of the FIG was also prohibited. It is said that when banks want to buy more than 20 percent of joint stock companies, they have to get permission from the CBR and the State Committee on monopoly policy, as well as the support of new economic organizations.<sup>38</sup>

However, it is doubtful whether these prescriptions were obeyed. Rebel'sky insists that there is a possibility that banks could take control of firms, if banks establish affiliated-companies with limited liabilities and have those companies buy shares of other enterprises.<sup>39</sup> Blasi suggests that banks hold more than 28 percent of shares of one percent of companies investigated and more than 14 percent of shares of 5 percent of companies investigated, though the investigation was carried out in the fourth quarter of 1995.<sup>40</sup> In short, there was a tendency for banks to concentrate their investment on a limited number of enterprises owing to their control over them. This control of firms meant owning whole firms, therefore, it was not necessary for banks to worry about depreciation of shares in rubles under financial repression. Radygin also states that for a number of banks, investing in enterprise shares is a way to establish direct control over the enterprise.<sup>41</sup>

Table 6 shows the holding structure of shares of privatized companies. The share of stocks held by banks is very low, because under the condition of financial repression, the value of shares in rubles falls rapidly and there is not much expectation that share prices will increase more than the inflation rate. Hence, banks concentrate their investments on a limited number of firms in order to control them.<sup>42</sup>

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cow, 1997).

39 N. Rebel'skii, "Antimonopol'noe regulirovanie bankovskoi sfery." *Voprosy Ekonomiki* 11 (1995), pp. 68-79.

40 J. Blasi, "Corporate Ownership and Corporate Governance in the Russian Federation," Lieberman et al., eds., *Between State and Market*, pp. 162-170.

41 A. Radygin, "Corporate Governance through the Banks: The Experience in Russia," *Banks and Privatisation* (OECD, 1997), pp. 78-100.

42 On the other hand, Berglöf considers that many of the so-called investment funds emerging from voucher privatization in the Czech Republic and Russia are strongly affiliated with commercial banks (E. Berglöf, "Corporate Governance in Transition Economies: The Theory and Its Policy Implications," M. Aoki, H.K. Kim, *Corporate Governance in Transitional Economies: Insider Control and the Role of Banks* (Washington, D.C., 1995), pp. 59-95). In the same book Akamatsu shows that as of July 1993, about 16 percent of the banks with VIFs (Voucher Investment Funds) were managed by their affiliated fund management companies (N. Aka-

### 3. THE RELATIONSHIP BETWEEN BANKS AND ENTERPRISES FROM SPRING 1995 TO AUGUST 1998

Analyzing the period 1992-1993, we can suggest that the conditions of financial repression and dual economy encouraged banks and enterprises to collude with each other in order to survive, utilizing traditional trust or dependencies developed in the Soviet era. Owing to excessive liberalization in the use of foreign currency, banks and enterprises could easily realize inflation income by exchanging rubles collected through dealing with central-bank-directed credits and changing fiscal money into dollars. Banks and enterprises could also get profits through loans in rubles and dollars, colluding with each other. This trend distorted the rational distribution of resources at macroeconomic levels. Therefore, in May 1993, the IMF, the Russian government and the CBR agreed to a macroeconomic stabilization program, envisaging not only a decline in the rate of growth of money and credit, but also a number of measures aimed at breaking the system of politically motivated, administratively directed and heavily subsidized credits.<sup>43</sup> As a result, the CBR became determined to prohibit the circulation of rubles issued before 1992 and kept the official discount rate at 210 percent from October 15, 1993 to April 28, 1994. However, tight financial policies encountered great political resistance and sabotage from special interest groups, so that the 1993 program was not carried out. This tight financial policy seemed to bring about a real positive interest rate in 1994 until "Black Tuesday" on October 11, 1994. In 1995, the IMF, the government and the CBR reached agreement on another macroeconomic program. First, the federal government suspended directed credits to the government and to the enterprises in order to cut budget deficits. Second, a joint statement of July 6, 1995, between the government and the CBR determined to introduce a target exchange zone to stabilize the exchange rate. These policies enabled inflation to be restrained and to realize a real positive interest rate in rubles. These changes forced banks and enterprises to respond to new financial conditions. First, nominal yields of financial assets in rubles such as treasury bills fell and reduced profits in the banking sector. Second, investors preferred financial assets in

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matsu, "Enterprise Governance and Investment Funds in Russian Privatization," *Corporate Governance*, pp. 121-183.). Yet, it is much more likely that a group involving a major VIF has a commercial bank as a member than the case of a major commercial bank controlling a VIF through its affiliated fund management company. Belyanova and Rozinsky consider that the establishment of relationships between banks and investment funds does not add much to the stronger party's capability to exercise outside control over the corporation and what really matters is the strength of the participant initiating the partnership (E. Belyanova, I. Rozinsky, "Evolution of Commercial Banking in Russia and the Implications for Corporate Governance," *Corporate Governance* (1995), pp. 185-214.).

43 *Policy Experiences and Issues in the Baltics, Russia, and Other Countries of the Former Soviet Union* (1995).

44 It seems that once dollarization has spread, it is very difficult to recover the previous level of domes-

rubles. Third, the positive position of foreign currency became risky owing to the decline of nominal increase of dollars against rubles.

### ***3.1. Raising Money by Banks***

#### ***3.1.1. Liquid Assets of Enterprises***

According to these premises, enterprises' liquid assets must be discussed first of all. Table 7 shows the structure of assets and liabilities in Moscow banks. The share of "foreign currency assets" to total assets of banks on average fell from 62.8 percent on January 1, 1995 to 38.6 percent on July 1, 1997. The share of "foreign currency liabilities" to total assets on average also declined from 58.1 percent on January 1, 1995 to 42.7 percent on July 1, 1997. The reason why the share of "foreign currency assets" fell can be explained by the increase of "interest-earning assets," the share of which to total assets on average increased from 50.6 percent on January 1, 1995 to 77.8 percent on July 1, 1997. This is because foreign currency in correspondent accounts was withdrawn and shifted to federal and municipal securities. Figure 2 suggests that it was more lucrative to invest in loans and GKO's, namely, short-term treasury bills, than in dollars.

Those changes stimulated increased liabilities in dollars and the changing of them into rubles and investing in "interest-earning assets," but in reality, the share of liabilities in dollars relative to total assets fell. Owing to positional regulations against foreign currency, as the share of assets in dollars fell, the share of liabilities in dollars also declined, however the pace of the former was faster than the latter. Therefore, the net position of foreign currency on average became negative on January 1, 1998.<sup>44</sup> This is why Russian banks were faced with difficulties of payment to liabilities in dollars after the financial crisis in August 1998.

On the other hand, the decline of "foreign currency liabilities" seemed to be related to the fact that the ratio of "interest-bearing liabilities" (interbank loans, time deposits, etc) to total assets increased from 18.4 percent on January 1, 1995 to 29.7 percent on January 1, 1996 and to 37.6 percent on January 1, 1998. The radical increase of the ratio in 1995 to some degree was a response to the share of "time deposits" to total assets increasing from 2.9 percent on January 1, 1995 to 5.8 percent on January 1, 1996.

The other reason for the decline of "foreign currency liabilities" was that enterprises withdrew dollars from the payment accounts to evade supervision

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tic currency. There is no guarantee that the cost of switching from foreign to domestic currency can be covered by the benefits from de-dollarization, and the lack of credibility in the sustainability of the stabilization plan easily suspends the process of de-dollarization. See: G.A. Calvo, C.A. Végh, "Currency Substitution in Developing Countries: An Introduction," IMF Working Paper, 40, 1992.

45 The federal government began to utilize "veksels" to raise money based on the determination of the government of August 9, 1994, and the instruction of the Ministry of Finance of October 12, 1994.



of the tax authorities. Presidential Decree No. 1212 of August 18, 1996, stated that an account for payment of taxes should be opened in banks and all money except for some designated for special needs should be transferred to the new account, therefore, enterprises were afraid that their money would be monitored by the tax authorities. In addition, as banks shifted assets such as loans in dollars to assets such as GKO's in rubles, "restraint deposits" remaining in payment accounts after borrowing loans in dollars also decreased. The introduction of a reserve requirement for dollars also influenced the decrease in foreign currency liabilities at first. The CBR began to introduce reserve requirements in dollars on February 1, 1995. The rates for reserve requirements are shown in Table 8. As shown in Table 9, the share of dollars in foreign accounts of enterprises to total liquid assets fell from 4.3 percent in 1993 to 0.8 percent in 1996 and 1997. Instead of investment in dollars, banks and enterprises began to invest in GKO's.

### **3.1.2. Fiscal Money**

Under a real positive interest rate, banks can make profits by investing in GKO's and loans in rubles, utilizing fiscal money by delaying payment. The system called "representative banks" authorizes these banks to carry out transactions for federal and local governments: to collect taxes, finance state projects, and involve themselves in foreign currency operation. However, the standards for selecting representative banks did not exist until the Ministry of Finance defined them at the end of 1995. Representative banks often diverted fiscal money to invest in GKO's, and they were in this way able to make considerable profits. According to the *Survey of Economic Policies in Russia during 1997* (1998), the state tax agency inspected 2103 banks and their branches in 1997 and discovered that 64 billion rubles had not been paid on time.

Table 10-1 shows some kinds of representative banks. According to the list of representative banks for financing onerous state-investment-projects in 1996, three former state-owned banks and eight banks based on former state-owned enterprises and former ministries were selected as representative banks, while only four banks established by entrepreneurs and one former cooperative bank were selected. Concerning 1997, among 28 representative banks, six former state-owned banks and 10 banks based on former enterprises and ministries were selected. Among 16 banks selected as representative banks for financing onerous state-conversion-programs in 1996, three former state-owned banks and seven banks based on former state-owned enterprises and former ministries were included. As seen in Table 10-2, in the top 45 banks dealing with budgetary money, 16 banks were former state-owned banks. Ten banks based on former state-owned enterprises and ministries were also included in these representative banks. Nine banks established by entrepreneurs and one former cooperative bank became representative banks, as well. Thus, it can be concluded that even in 1996 and 1997, former state-owned banks and banks based on former state-owned enterprises and former ministries utilized tradi-

tional relations with the government in order to make profits.

Not surprisingly, this back-scratching alliance between the government and banks became a political issue. Hence, Presidential Decree No. 477 of May 12, 1997, ordered the transfer of fiscal money from commercial banks to the CBR, the selection of representative banks on a competitive basis, and the completion of these jobs by January 1, 1998. Then, owing to some politicians' criticism, UNEXIM Bank, which bought many companies into the process of privatization, lost its privileged status in dealing with the state customs committee's money. Also, as the market economy developed, the government was faced with many opportunities for which it had to select banks.

### *3.1.3. After the Suspension of Central-Bank-Directed Credits*

Central-bank-directed credits were suspended in 1995. The government, faced with arrears to pay its "state orders" as a result of cutting expenditures, introduced a new scheme to reduce arrears in December 1995. The scheme was to pay by "state order" to military-industrial complexes, with the Ministry of Finance asking banks to issue *vekselia* ("veksels"), namely, promissory notes, for which the ministry guarantees redemption, with the government receiving the "veksels" and giving them to those complexes.<sup>45</sup> Then, the government pays for the banks in cash or "veksels" by the date of redemption. In reality, this is a case in which banks directly give loans to enterprises based on the government's commitment.

As for the government, it can cut arrears of payment of "state orders" without issuing rubles, and its burden to pay interest of "veksels" is not heavy, because the discounted rate of "veksels" is restricted to around 10 percent a year. As for banks, though the nominal discounted rate is lower than the yields of other financial assets like GKO's, banks can gain much profit by getting those "veksel's" discounted. And as for enterprises, they are satisfied with cutting claims to government in spite of using quasi-money. Hence, the amount of "veksels" issued rose to 21 trillion rubles by autumn 1996.<sup>46</sup>

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These were called "KOs." During the period between the end of October, 1994 and December, 1994, the amount of KOs issued was 7.5 trillion rubles. However, the liquidation of KOs was stopped by pressure from the IMF, because KOs were used for payment of taxes like money. However, the government did not have enough money to redeem them, therefore, the government issued KNOs in exchange for KOs beginning in spring 1995. The amount of KNOs soon rose to 21 trillion rubles. As KNOs also behaved like money and their increase brought on inflation, the decision of the Government No. 481 of April 1, 1996, prescribed that payment of taxes by non-money would be forbidden from May 1, 1996. The Instruction of the Ministry of Finance No. 373 of July 22, 1996, ordered not to deliver KNOs from July 23. And until August 15, 1996, all KNOs should be returned to the Ministry of Finance.

46 *Ekonomiki i Zhizn'* 49 (1996), p. 6.

47 S. Aukutsionek, V. Zhukov, R. Kapelyushnikov, "Dominatoriushchie kategorii sobstvennikov i ikh vliianie na khoziaistvennoe povedenie predpriatii," *Voprosy Ekonomiki* 12 (1998), pp. 108-127.

Were there any standards governing which banks and enterprises could participate in which programs? Because there were no transparent standards, there was room for banks and enterprises to seek rent, utilizing cozy relations with the government. In other words, this scheme could create a hotbed for establishing a “structural corruption triangle” among banks, enterprises, and governments. According to guarantees of debts given to banks by the Ministry of Finance during nine months in 1996, of the best ten banks possessing guarantees, Menatep, UNEXIM Bank, and Russian Credit were established by entrepreneurs, while Sberbank, Vozrozhdenie, Vneshtorgbank, and Promstroybank were former state-owned banks and Moscow National bank was based on former state-owned enterprises and former ministries. It can be said that in this scheme, former state-owned banks and banks based on former state-owned enterprises and former ministries were predominant.

However, this scheme did not continue long. Because these “veksels” were used like money for payment of taxes until the prohibition of using non-money for federal-tax payment (based on the Decision No. 481 of the Federal Government of April 1, 1996), the increase of the “veksels” meant an increase in money supply. Therefore, the Presidential Decree No. 467 of May 12, 1997, suspended giving credit guarantees to commercial banks for procurement of expenditures.

### ***3.2. Investing Money by Banks***

#### ***3.2.1. Loans (excluding internbank loans)***

Before analyzing loans, it is necessary to consider briefly banks’ liquid money situation. Table 11 shows that the “non-income earning assets” to total assets fell from 52 percent in 1995 to 19 percent in 1998. This is because the share of “money at correspondent accounts” and “payment money” to total assets declined drastically. The fall of the share of “money at correspondent accounts” was brought on by the decline of the share of foreign currency deposits to total assets and the reduction of banking profits by the falling interest rate. The fall of the share of “payment money” was related to the drop of the ratio of foreign currency for payment to total assets. Because banks judged that it was more lucrative to invest in GKO’s than in dollars, they withdrew foreign currency deposits and changed dollars into rubles to invest in GKO’s. Therefore, the ratio of state securities to total assets increased from 5 percent in 1995 to 17 percent in 1998. On the other hand, enterprises also drew dollars for payment. Some of the dollars were changed into rubles and these rubles were saved as deposits in rubles. Others seem to have invested dollars in GKO’s, as well.

The suspension of central-bank-directed credits from 1995 led to a reduction in raising money for banks. This means banks lost opportunities to gain profits through collusion between banks and enterprises. As a result, banks began to select enterprises carefully, while enterprises also reconsidered their

relations with banks, though banks and enterprises recognized that the relationship with governments remained very important.

As shown in Table 11, the share of short-term loans (excluding interbank loans) to total assets increased from 30 percent in 1995 to 37 percent in 1996 and 1997, to 36 percent in 1998. As for long-term loans, there was also a tendency for their ratio to assets to increase. On the other hand, Aukutsionek, et al.<sup>47</sup> suggest that the share of loans to industrial enterprises was 23-35 percent of the sum of all bank loans during 1996 and 1997, while Sutela<sup>48</sup> considers that in 1996, net credits to industry were still declining, and a change in this trend appeared in the second quarter of 1997. Sutela's point of view is very important, because this means that after controlling inflation, the relation of cause and effect of "increasing costs-increase of credit demands-increase of loans in dollars to enterprises-increase of dollars at payment accounts" did not function, so loans in dollars were eliminated. Therefore, "restraint deposits" in dollars also declined.

As seen in Figure 2, though the real loan rate tended to exceed the real increase rate of dollars and real yield of GKO's from spring 1995, both the real increase rate of dollars and real yield of GKO's tended to decline, therefore, banks could not help but increase loans to enterprises. The reason why the real loan rate was so high was that loans to enterprises were considered very risky, so banks did not want to increase loans to enterprises. Because the real interest rate was not negative, banks made efforts to give loans in rubles.

Analyzing balances of individual banks on January 1, 1997, based on the data of *Banks of Russia* (1997), the cases where the spread of the share of "loans to organizations and residents and leasing to clients" to total assets, and the share of "interbank loans" is over 50 percent include 20 of the largest 80 banks. Of these 20 banks, former state-owned banks are Urals Transport Bank, Rostov Joint Stock Investment Bank for Industrial Construction, Evrofinance, Vneshekonombank, Metallurgical Commercial Bank, Bank "St. Petersburg," Promstroybank, and Bank Enisei. Banks based on former state-owned enterprises and former ministries, which are included in these 20 banks, are Rostra Bank, Lanta-Bank, Moscow National Bank, "Imperial" Joint Stock Bank, East-West Bank, "Globex" Commercial Bank, International Bank for Development of Power Supply Enterprises, and MAPO-Bank. On the other hand, banks established by entrepreneurs, namely, Menatep, Alfa-Bank, and UNEXIM Bank, are included in the 20 banks. It is not known to which kind of organization the International Industrial Bank (also included) formerly belonged. Thus, it can be inferred that former state-owned banks and banks based on former state-owned enterprises

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48 P. Sutela, "The Role of Banks in Financing Russian Economic Growth," *Post-Soviet Geography and Economics* 39:2 (1998), pp. 96-124.

49 Radygin, "Corporate Governance."

50 According to Sutela (See his "The Role of Banks"), the total market capitalization of Russian equity was about \$30 million in early 1996 and then increased rapidly to more than

and former ministries concentrated on loans to enterprises and sectors related to them even up to January 1, 1997. It is possible that “veksels” issued by banks under the guarantee of the Ministry of Finance were included in their loans. Hence, it can be concluded that a “structural corruption triangle” among banks, enterprises, and governments was maintained.

### 3.2.2. Investment in shares

Radygin considers that only since 1996 has the decrease in yields of state securities affected some transfer of financial resources to the corporate sector of the securities market.<sup>49</sup> However, this is not correct. As seen in Figure 2, the index of the Russian Trading System began to increase after April 1996, but at that time, the real yield of GKO's tended to increase, too. Although later the yield tended to fall, the RTS index was leveling off. The RTS index has increased dramatically since April 1997 and at that time, the real yield of GKO's tended to stabilize at this low level. Hence, it is impossible to determine whether investors selected bonds or shares. As shown in Table 12, the turnover of shares was much less than that of bonds, therefore, if money for investing in bonds shifted to investing in shares, the RTS index would increase dramatically.<sup>50</sup> However, in reality, the RTS index increased rapidly only after April 1997.

As for banks, they were reluctant to invest in shares, because under financial repression, the value of shares depreciated rapidly and not only income gains but also capital gains were difficult to achieve. As the inflation rate fell, however, the risk of depreciation of shares became smaller. Sutela suggests that because the yields of GKO's tended to fall, larger banks entered equity markets and during the first half of 1997, the amount of non-state securities in bank assets increased almost 80 percent and accounted for eight percent of all assets.<sup>51</sup> This period corresponded to the period of the increasing RTS index. The main purpose for investing in shares seemed to be to obtain short-term capital gains.

On the other hand, larger banks made efforts to control some profitable enterprises. It can be confirmed that they positively took part in loans-for-shares auctions, which were held by the Presidential Decree No. 889 of August 31, 1995. The government gave shares as collateral on loans to winners of the auctions. Because the government did not intend to repay the loans, it permitted winners to sell these shares after September 1, 1996. Though we can understand that larger banks participated in the auctions positively, it is impossible

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\$100 million in the fall of 1997, before the October decline. This was about 25 percent of GDP. Although in 1994, the ratio of market capitalization of equity in the United States, the United Kingdom, and Switzerland was more than 70 percent of GDP, the ratio in Russia was only 4-5 percent.

51 Sutela, “The Role of Banks.”

52 *Expert* 8 (1999), p. 20.

to judge whether they intended to continue holding shares or sell shares later to acquire capital gains. Possibly, this trend, making it easier for banks to invest in shares without fear of depreciation of shares, encouraged a change in relations between banks and enterprises. Banks began to monitor enterprises attentively, selecting them by considering the efficiency of their investment.

### 3.2.3. *Collecting claims*

The collecting of claims, dealing with overdue liabilities and debts, and realizing bankruptcy must also be discussed. Holders of claims can influence their issuers. If the holders of claims are the government or the CBR, issuers of claims, namely enterprises, can naturally hope to soften the terms of payment. First, the Presidential Decree No. 2218 of December 29, 1994, stated that claims of the CBR to enterprises of the agricultural-industrial complex given during 1993-1994 as central-bank-directed credits would be exchanged for a *veksel'* issued by the Ministry of Finance. These enterprises would repay the Ministry with the same terms of the *veksel'* under the guarantee of the local government, where these enterprises were located. The terms were a ten percent interest rate for a year and ten years for redemption. The Decree stated that the Ministry of Finance would use three trillion rubles calculated into the budget. Article 44 of the Federal Law No. 39-FZ of March 31, 1995, stated that the CBR's claims to transport enterprises related to the Far-North Region would be exchanged for a *veksel'* of the Ministry of Finance. The sum of this exchange amounted to two trillion rubles. Then, the Federal Law No. 46-FZ of April 24, 1995, and the Law No. 212-FZ of December 27, 1995, prescribed a similar scheme. As seen in Table 13-3, the amount of exchanging claims of the CBR was equal to "debt and interest on centralized credits reregistered as domestic public debt in 1995," namely, 21 trillion 257.4 billion rubles. As far as inflation was concerned, the terms of payment were advantageous to enterprises, therefore, they made efforts to seek rent by applying for this scheme.

On the other hand, to save holders of claims based on central-bank-directed credits, namely, not the CBR, but commercial banks, the Federal Law No. 46-FZ of April 24, 1995, prescribed that the claims of commercial banks would be exchanged for a *veksel'* of the Ministry of Finance. The Instruction of the Ministry of Finance of Russian Federation No. 92 of August 21, 1995, prescribed that the claims of commercial banks concerning loans under the directed credit scheme during 1992 and 1994 would be exchanged for a *veksel'* which would be distributed from September 1, 1995 to August 31, 2005. This interest rate was set at ten percent per year. Commercial banks were permitted to apply for payment to the CBR and to discount it. As a result, commercial banks' debts to the CBR were cut dramatically, as seen in Table 13-1. This new scheme was related to not only the CBR and enterprises, but also commercial banks. As for commercial banks, this scheme was lucrative, because they could increase liquidity by obtaining this *veksel'*. Therefore, commercial banks strove to be chosen to take part in this scheme. In short, this scheme encouraged the devel-

opment of a “structural corruption triangle” among banks , enterprises, and governments.

It is difficult to collect data concerning how banks utilize their claims to intervene in enterprises. Therefore, we have to omit this problem here. Finally, attention should be paid to the fact that some banks utilized procedures of bankruptcy in order to control enterprises. In Russia, procedures of bankruptcy were carried out by the Federal Law No. 3929-1 of November 19, 1992, and the Federal Law No. 6-FZ of January 8, 1998. There is no space to discuss the differences between the two Laws. Here, we have to consider only how banks try to control enterprises in the process of bankruptcy. It is well-known that a bank makes efforts to send a close friend of its leaders as an official receiver to an insolvent enterprise and make advantageous terms to control it for the bank. The new Bankruptcy Law prescribes that creditors having claims on an enterprise of more than 500 times larger than the minimum wage can submit an application of bankruptcy to the court, if they have not receive any payment for more than three months. The sum of such claims was only 42,000 rubles in the spring of 1999, that is, about 2000 dollars.<sup>52</sup> As a result, creditors themselves began to easily sue for bankruptcy. Then, the court has to inquire into the case within three months. If the court decides to accept the application, the insolvent enterprise is placed under supervision, and the court appoints a receiver from among candidates proposed by the creditors or registered in the court. The receiver applies for measures in order to maintain the enterprise’s assets, analyzes the financial situation, and holds the first general meeting of creditors. In this meeting, the direction of the enterprise, namely, its revival under external control or the auction of assets or reconciliation between creditors and debtors is determined. Therefore, if a bank can send a close friend to the enterprise as the receiver, the bank has the advantage of determining the fate of the enterprise. For example, a receiver can include false creditors in the list of creditors or falsify the vote results by removing voting papers.

#### 4. CONCLUSIONS

Under the conditions of financial repression and dual economy, there were two sources of profits. One was inflation income arising from high inflation; the other was dollarization arising from an excess of liberalization in the settlement of domestic transactions. These two sources had an effect on the relationship between banks and enterprises. As for inflation income, central-bank-directed credits and fiscal money became resources to realize inflation income by changing those funds into dollars. To acquire those funds, a cozy relationship with government was crucial. And banks could realize inflation income to collude with enterprises to share profits of loans not only in dollars but also in rubles. In particular, former state-owned banks and banks based on former

state-owned enterprises and former ministries utilized trusts or dependencies from the Soviet era in order to establish a “structural corruption triangle” among banks, enterprises, and governments. It seems that at the beginning of the first stage, state-owned enterprises or former state-owned firms took the initiative in establishing these triangles. From then on, banks played an important role in developing it.

On the other hand, for banks established by entrepreneurs, central-bank-directed credits, and fiscal money were also very important to realizing inflation income by dollarization. Therefore, these banks needed to create and foster good connections with government officials. These banks succeeded in cooperating with other kinds of banks to encourage the government to regulate foreign banks’ operation strictly. And domestic banks had an advantage in being able to obtain cash and could take advantage of cash constraints under conditions of an insufficient money supply. Nevertheless, enterprises producing products were faced with the loss of Central-Eastern European and CIS markets, and exposed to stiff competition with imported foreign goods. Therefore, they lost their power rapidly.

In the second stage, financial repression ceased, but a dual economy continued. This stage was characterized by a reduction of inflation income due to the deceleration of inflation and the decline of profits through dollarization because of the introduction of a target exchange zone. Investment in state bonds became a new important resource for profits. Under the condition of a real and positive interest rate, holding GKO was more lucrative and less risky than holding dollars. Banks made efforts to increase investment in GKOs, and to do so, they began to raise dollars by issuing eurobonds and borrowing syndicate loans in foreign currency. As the real yields of GKOs declined, banks had to issue loans in rubles positively to enterprises in spite of the investment risk. On the other hand, the abolition of central-bank-directed credits encouraged banks to reconsider their relations with enterprises. Owing to a reduction of opportunities to make profits through collusion with enterprises, it seemed that at least superficially banks were inclined to seek not rent, but profit based on legal transactions. However, to evade taxes, both banks and enterprises needed “black transactions.” In addition, because of the stabilization of inflation and the ruble exchange rate, banks could invest in shares without anxiety about their depreciation. Becoming interested in investing in shares, banks began to select specific enterprises.

As for enterprises, they also tried to invest in GKOs. To raise money, they utilized non-monetary transactions such as barter, offsets and “veksels,” evading taxes. In evading taxes, small and medium-sized enterprises were helped by intermediaries like financial companies. These intermediaries were closely linked to organized crime and controlled many banks. It can be inferred that as a market becomes widespread, the transparency of transactions deepens superficially, however, the need to hide profits also becomes greater. Hence, under the table, collusion between banks and governments becomes more important



in order to find rents and hide profits. In addition, in order to get “veksels” issued by the Ministry of Finance, enterprises and banks maintained a back-scratching alliance with the government.

In the second stage, we have to pay attention to the fact that marketization brought changes to the relationships among banks, enterprises, and governments. The differences between prices of shares and “veksels” depended on issuers influencing relations between banks and enterprises. The government was faced with the selection of co-managers for underwriting eurobonds and selecting the primary dealers of state bonds. Although markets encouraged banks and enterprises to manage them more efficiently, it also forced them to rely on governments. Even now, the myth that the last resort for banks and enterprises is the CBR, as well as federal and local governments, persists. Therefore, regrettably, marketization would seem to have fostered the development of a “structural corruption triangle” among banks, enterprises, and governments behind the scenes.

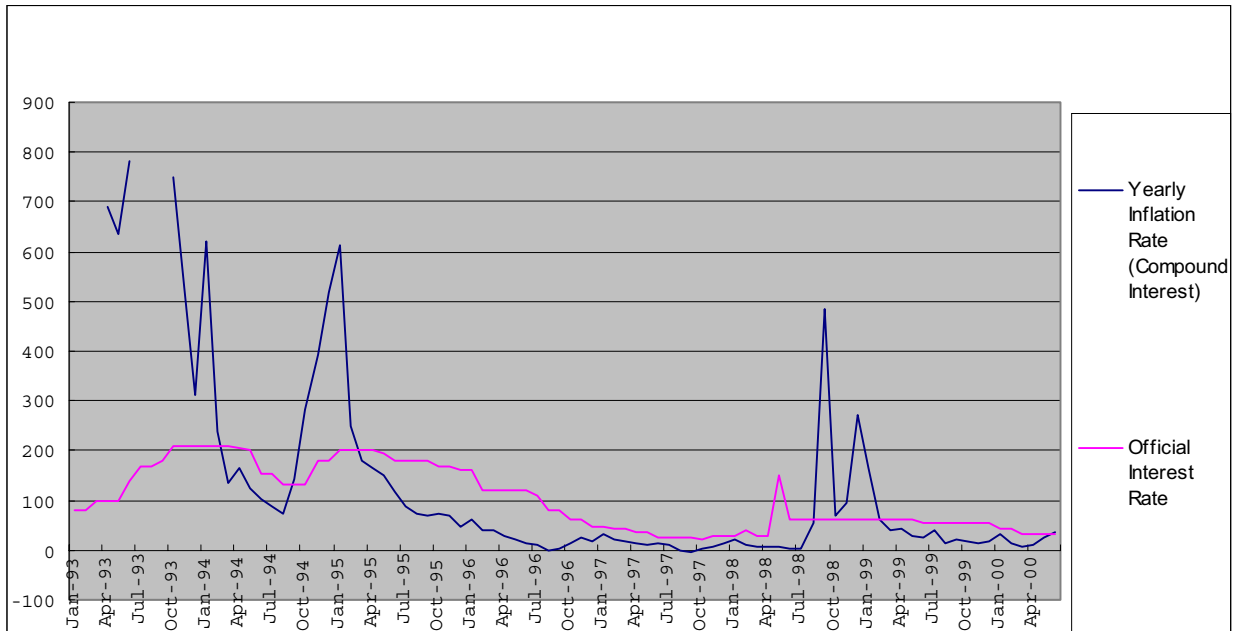
Since August 1998, what changes have occurred in this triangle? This paper does not answer this question. At first glance, it seems that the myth is weakening owing to the cancellation of permits of many banks to operate, but that is only a superficial impression. An analysis of individual relations among banks, enterprises, and governments suggests a different conclusion.

Now, the dismantling of the “structural corruption triangle” has become a necessity, though it is doubtful that it can be realized through further marketization. Indeed, there is a possibility that a further wave of marketization will yet strengthen the triangle, and every time there is a presidential election, not only politics but also the economy are changed dramatically. On the other hand, even if the government could retake the initiative and control the economy strictly, there would not be any guarantee that the triangle would collapse and allow the domestic economy as a whole to develop.

At least we can say that it is very important to confront this “structural corruption triangle,” to form a comprehensive plan to destroy this triangle, and to carry it out. We believe that this paper is only a first step toward this end, but a significant one.

## FIGURES & TABLES

**Figure 1. Yearly Inflation Rate and Official Interest Rate**



**Figure 2. RTS Index, Real Dollar Increase Rate, Real Loan Rate, and Real Yield of GKO's (At the End of Month)**

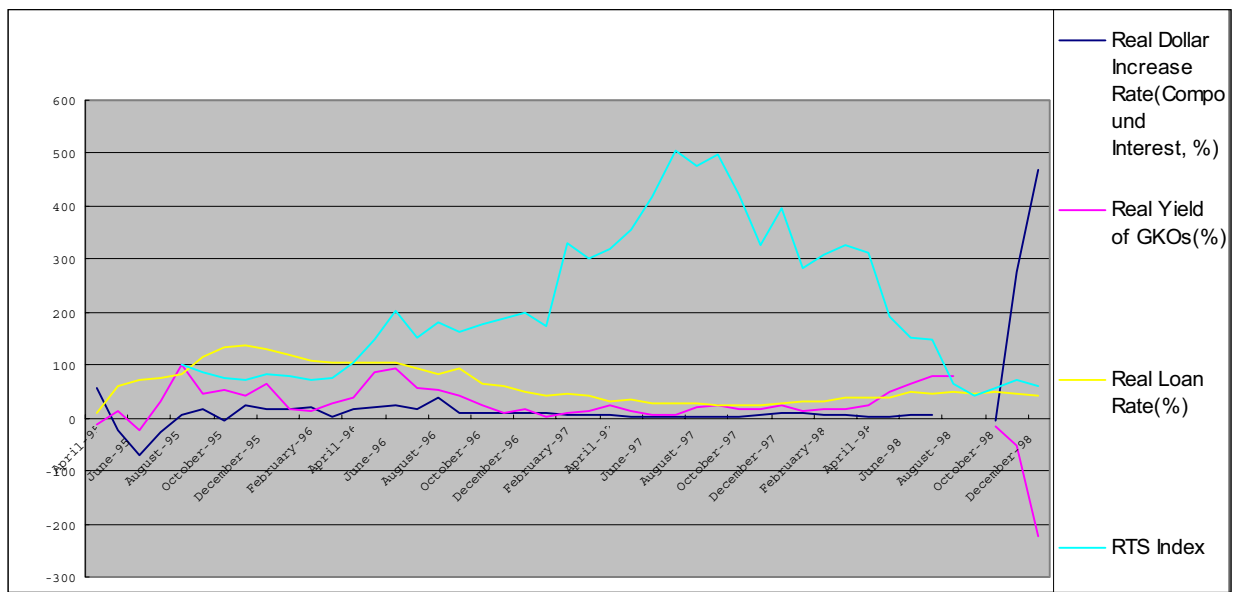


Table 1. Deposits and Loans of Russian banks (Millions of Rubles)

|   | 97/01/01 | 97/04/01 | 97/07/01 | 97/10/01 | 98/01/01 | 98/04/01 | 98/07/01 | 98/10/01 | 98/12/01 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Raising money</b>                      |          |          |          |          |          |          |          |          |          |
| Deposits                                  |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 131067   | 138429   | 144637   | 147566   | 149964   | 164579   | 166907   | 131578   | 148545   |
| In dollars                                |          |          |          | 76130    |          | 76130    | 82376    | 152788   | 154124   |
| Deposits of residents                     |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 124475   | 130244   | 136923   | 138516   | 141571   | 154609   | 156908   | 125027   | 141072   |
| In dollars                                |          |          |          |          |          | 33936    | 37709    | 71833    | 59729    |
| Deposits of enterprises and organizations |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 6593**   | 8185**   | 7714**   | 9050**   | 8393**   | 7166     | 6226     | 342      | 290      |
| In dollars                                |          |          |          |          |          | 20574    | 21649    | 47655    | 54852    |
| Deposits of banks                         |          |          |          |          |          |          |          |          |          |
| In rubles                                 |          |          |          |          |          | 24424    | 26791    | 36906    | 41488    |
| In dollars                                |          |          |          |          |          | 2804     | 3773     | 1803     | 1945     |
| <b>Investing assets</b>                   |          |          |          |          |          |          |          |          |          |
| Loans                                     |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 246685   | 241586   | 264806   | 283265   | 309066   | 259058   | 272258   | 407485   | 416475   |
| In dollars                                | 129570   | 136610   | 153891   | 164867   | 178688   | 151252   | 147849   | 120839   | 125069   |
| To individuals                            |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 5306     | 6165     | 7279     | 8896     | 10275    | 18215    | 18464    | 22206    | 20022    |
| In dollars                                |          |          |          |          |          | 12515    | 12424    | 10954    | 10598    |
| To enterprises and organizations          |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 107881   | 114249   | 127794   | 136749   | 149528   | 196290   | 201115   | 287761   | 295139   |
| In dollars                                |          |          |          |          |          | 73013    | 83613    | 189847   | 194614   |
| To banks                                  |          |          |          |          |          |          |          |          |          |
| In rubles                                 | 57331    | 44775    | 51911    | 51961    | 53460    | 29367    | 33837    | 55338    | 58346    |
| In dollars                                | 16384    | 16196    | 18817    | 19222    | 18885    | 15244    | 17856    | 11751    | 13775    |
| In dollars                                | 40947    | 28579    | 33094    | 32739    | 34575    | 14123    | 15981    | 43587    | 44571    |

Note: \* denotes anticipation; \*\* denotes deposits of enterprises, organizations, and banks.

Units of currency after denomination, Jan. 1, 1998, are changed into former rubles.

Source: *Bulletin of Banking Statistics 2* (1999), pp. 72-73, 80; 2-3 (1998), pp. 48, 54.

**Table 2. Russian Banking during 1990 and 1997 (Results on December 31)**

|  | 1990 | 1991 | 1992  | 1993 | 1994   | 1995   | 1996   | 1997 |
|--|------|------|-------|------|--------|--------|--------|------|
| 1 Number of operating credit organizations                 |      | 1360 | 1713  | 2019 | 2517   | 2295   | 2030   |      |
| 2 Licenses withdrawn (number, cumulative)                  |      |      | -     | 13   | 78     | 303    | 592    |      |
| 3 Charter capital requirement for new banks (\$ thousands) |      |      | 214.4 | 70.6 | 1244.7 | 1291.5 | 3648.9 |      |
| 4 Real monthly refinance rate of CBR(%)* % of GDP          |      |      | -12.2 | -6.9 | 4.4    | 7.6    | 6.5    |      |
| 5 Credit from monetary authorities to commercial banks**   |      |      | 15    | 5.1  | 2.4    | 1.1    | 0.6    |      |
| 6 Bank credit to the non-financial sector                  |      |      | 33.6  | 20.4 | 19.6   | 12     | 10     |      |
| 7 Interbank credit received                                |      |      | -     | 3.2  | 4.9    | 3.9    | 3.1    |      |
| 8 Gross assets of the banking sector                       |      |      | 88    | 54   | 56     | 36     | 36     |      |
| 9 Household deposits                                       |      |      | 1.9   | 2.4  | 4.2    | 4.3    | 5.3    |      |
| 10 Household deposits outside of Sberbank                  |      |      | 0.3   | 0.9  | 1.7    | 1.5    | 1.4    |      |
| 11 M0  | 13.2 | 13.6 | 8.8   | 7.8  | 5.8    | 5.1    | 4.7    | 5    |
| 12 Non-cash money***                                       | 57.5 | 54.8 | 24.9  | 11.3 | 10.2   | 8.8    | 8.7    | 9.8  |
| 13 M2 (11+12)  | 70.7 | 68.4 | 33.7  | 19   | 16     | 13.9   | 13.4   | 14.8 |
| 14 Foreign currency deposits                               | -    | -    | 23.9  | 7.1  | 6.4    | 3.5    | 2.8    | 2.7  |
| 15 Quasi-money (13+14)                                     | -    | -    | 57.6  | 26.1 | 22.4   | 17.4   | 16.3   | 17.5 |
| 16 Credit to economy and residents****                     | -    | 31.1 | 25.6  | 14.3 | 10.5   | 10.4   | 9.1    | 10.6 |

Note: \* denotes on yearly average of real monthly rates; for 1992 February-December (so as to exclude the price jump in January).

\*\* includes credit by auction.

\*\*\* includes current deposits and time deposits.

\*\*\*\* does not include credit of Sberbank and foreign currency credit.

Source: J. Litwack, "The Russian Federation: Commercial Banking," *The OECD Observer* 210 (1998.2-3), p.46 (from 1 to 10), *Survey of Economic Policies in Russia during 1997* (1998), pp. 381, 411-412.

**Table 3. Structure of 627 Moscow Banks on January 1, 1995.**

| Groups  | 1     | 2     | 3     | 4     | 5     | 6      | 7       | 8        | 9      | 10      |
|---|-------|-------|-------|-------|-------|--------|---------|----------|--------|---------|
|   | <0.5  | 0.5-1 | 1-5   | 5-10  | 10-50 | 50-200 | 200-500 | 500-1000 | >1000  | Average |
| Separate assets<br>(10 billion rubles: before denomination) |       |       |       |       |       |        |         |          |        |         |
| Number of banks in sample                                   | 83    | 31    | 162   | 75    | 146   | 76     | 30      | 14       | 10     | 627     |
| Average (average per bank, 10 billion rubles)               | 0.2   | 0.7   | 3     | 7.2   | 24.6  | 99.4   | 344.1   | 636.7    | 3868.9 | 111.9   |
| Share of separate groups as percentage of total assets      | 0.026 | 0.032 | 0.687 | 0.775 | 5.13  | 10.769 | 14.717  | 12.708   | 55.156 | 100     |
| <b>Structure of assets (in percent of total assets)</b>     |       |       |       |       |       |        |         |          |        |         |
| Working assets  | 39.05 | 53.09 | 61.02 | 61.94 | 61.17 | 62.96  | 58.24   | 59.48    | 40.89  | 49.53   |
| Non-working assets  | 60.95 | 46.91 | 38.98 | 38.06 | 38.83 | 37.04  | 41.76   | 40.52    | 59.11  | 50.47   |
| -of which foreign currency non-working assets               | 3.32  | 2.57  | 2.11  | 5.26  | 11.99 | 16.54  | 28.04   | 29.43    | 48.25  | 36.93   |
| Financial-income-earning assets                             | 42.37 | 55.66 | 63.14 | 67.2  | 73.18 | 79.5   | 86.39   | 88.91    | 89.13  | 86.47   |
| Non-financial-income-earning assets                         | 57.63 | 44.34 | 36.86 | 32.8  | 26.82 | 20.5   | 13.61   | 11.09    | 10.86  | 13.52   |
| Foreign currency assets                                     | 3.32  | 2.57  | 2.44  | 6.23  | 22.63 | 42.32  | 62.8    | 69.03    | 74.06  | 64.65   |
| Cash  | 2.82  | 3.09  | 2.09  | 2.03  | 2.36  | 2.56   | 1.72    | 1.4      | 1.55   | 1.72    |
| -of which foreign currency                                  | 0     | 0     | 0.14  | 0.2   | 1.08  | 1.05   | 1       | 0.86     | 1.1    | 1.03    |
| Correspondent accounts                                      | 41.92 | 30.06 | 19.46 | 16.3  | 19.1  | 17.55  | 19.85   | 26.16    | 42.76  | 32.98   |
| due from the Central Bank                                   | 27.41 | 16.27 | 8.21  | 61.7  | 3.85  | 3.59   | 3.63    | 2.34     | 2.45   | 2.88    |
| due from banks  | 14.5  | 13.79 | 11.25 | 10.13 | 15.25 | 13.96  | 16.22   | 23.81    | 40.31  | 30.1    |
| in rubles   | 11.18 | 13.72 | 10.12 | 6.74  | 9.37  | 6.4    | 2.76    | 4.36     | 3.77   | 4.34    |
| in foreign currency   | 3.32  | 0.07  | 1.13  | 3.39  | 5.88  | 7.57   | 13.46   | 19.45    | 36.54  | 25.76   |
| Required reserves at the Central Bank                       | 1.64  | 3.53  | 5.13  | 5.59  | 4.08  | 3.42   | 1.91    | 1.34     | 1.68   | 2.04    |
| Total loans   | 21.44 | 38.39 | 39.55 | 39.08 | 37.2  | 37     | 38.95   | 34.07    | 28.25  | 32.13   |
| -of which ruble loans and veksel's                          | 21.44 | 38.39 | 39.34 | 38.21 | 28.6  | 17.28  | 12.2    | 9.14     | 6.23   | 10.3    |
| -of which foreign currency loans and veksel's               | 0     | 0     | 0.21  | 0.88  | 8.6   | 19.72  | 26.75   | 24.93    | 22.02  | 21.82   |
| -of which short-term loans                                  | 20.73 | 38.07 | 35.6  | 34.33 | 34.12 | 34.5   | 36.81   | 33.3     | 28.06  | 31.12   |
| in foreign currency   | 0     | 0     | 0.21  | 0.88  | 8.6   | 19.72  | 26.75   | 24.93    | 22.02  | 21.82   |
| -of which long-term loans                                   | 0.05  | 0     | 0.1   | 0.85  | 0.49  | 1.14   | 0.46    | 0.41     | 0.04   | 0.29    |
| Interbank loans   | 10.41 | 13.08 | 12.55 | 9.13  | 14.79 | 16.99  | 13.25   | 21.88    | 6.37   | 10.99   |
| in rubles   | 10.41 | 13.08 | 12.43 | 9.04  | 12.75 | 10.92  | 0.523   | 7.2      | 2.57   | 5.1     |
| in foreign currency   | 0     | 0     | 0.12  | 0.09  | 2.04  | 6.07   | 8.02    | 14.67    | 3.79   | 5.9     |
| Investments to securities                                   | 6.09  | 1.54  | 3.48  | 6.81  | 6.57  | 6.79   | 4.94    | 2.52     | 5.17   | 5.05    |
| -of which state securities                                  | 5.72  | 1.54  | 2.67  | 5.99  | 5.99  | 5.08   | 4.59    | 2.26     | 4.28   | 4.25    |
| -of which non state securities                              | 0.36  | 0     | 0.81  | 0.82  | 0.58  | 1.7    | 0.35    | 0.25     | 0.89   | 0.8     |
| Settlement for transaction                                  | 0     | 2.5   | 0.85  | 1.66  | 4.8   | 7.51   | 13.29   | 9.11     | 10.61  | 10.04   |
| in foreign currency   | 0     | 2.5   | 0.85  | 1.66  | 4.8   | 7.51   | 13.29   | 9.11     | 10.61  | 10.04   |
| Overdue credit  | 0.28  | 0     | 3.17  | 5.1   | 2.13  | 1.76   | 0.57    | 0.89     | 0.83   | 1.02    |



**Table 4. Loans and Deposits of Russian commercial banks during 1993 and 1995 (billion rubles)**

|   | 93/01/01 | 93/07/01 | 94/01/01 | 94/07/01 | 95/01/01 | 95/07/01 |
|---|----------|----------|----------|----------|----------|----------|
| Loans to enterprises and individuals    | 4857     | 11926    | 24542    | 43466    | 63965    | 83613    |
| Deposits of enterprises and individuals | 330      | -        | 2393     | 3858     | 4500     | 7534     |

Source: V. Bukato, V. "Mosbusinessbank: dolgosrochnaia strategiia zalog stabil'nost' i uspekha," *Den'gi i Kredit* 11 (1995), p. 7.

**Table 5-1. Bank Ownership Structure, January 1994 (in percent of share capital)**

|   | Former state banks | New banks |
|---|--------------------|-----------|
| State-owned enterprises, and other state institutions | 24                 | 11        |
| Privatized enterprises                                | 25                 | 14        |
| New private companies                                 | 26                 | 65        |
| Individuals   | 19                 | 5         |
| Others  | 6                  | 5         |

Source: E. Belyanova, I. Rozinsky, "Evolution of Commercial Banking in Russia and the Implications for Corporate Governance," *Corporate Governance* (1995), p.190.

**Table 5-2. Bank Preferences in Selecting Borrowers, Second Half of 1993**

| Preferred borrowers     | Former state banks | New banks |
|-------------------------|--------------------|-----------|
| State-owned enterprises | 60                 | 8         |
| Privatized enterprises  | 40                 | 15        |
| New private companies   | 27                 | 85        |

Note: The totals do not make 100 percent, since some respondents marked two variants of an answer.

Source: Belyanova, Rozinsky, "Evolution of Commercial Banking in Russia," p.191.

**Table 5-3. Main Source of Banks' Borrowed Funds, Second Half of 1993**

|                                   | Former state banks | New banks |
|-----------------------------------|--------------------|-----------|
| Enterprises' current accounts     | 80                 | 54        |
| Directed centralized loans        | 73                 | 38        |
| Enterprises' deposits             | 47                 | 92        |
| Households' accounts and deposits | 40                 | 31        |
| interbank loans                   | 33                 | 69        |
| Other                             | 0                  | 0         |

Note: The totals of the lines exceed 100 percent, because the respondents were asked to mark up to three variants of answers.

Source: Belyanova, Rozinsky, "Evolution of Commercial Banking in Russia," p.191.

**Table 6. Structure of Share Ownership at Privatized Firms (percent)**

|   | April-94 | December-94 | June-95 | June-96 | 1997 | 1998** |
|---|----------|-------------|---------|---------|------|--------|
| Insiders, total                                   | 62       | 60          | 56      | 56      | 51.6 | 51.3   |
| -of which employees                               | 53       | 49          | 43      | 40      | 39.5 | 36.3   |
| -of which management                              | 9        | 11          | 13      | 16      | 12.1 | 15     |
| Outsiders, total                                  | 21       | 27          | 33      | 34      | 41.3 | 45.3   |
| -of which large-scale                             | 11       | 16          | 22      | 25      | 23.6 | 22.8   |
| -of which banks                                   |          |             | 1.5     |         | 1.2  | 1.7    |
| -of which investment funds                        |          |             | 6       |         | 4    | 5.2    |
| -of which holding and financial-industrial groups |          |             | 1       |         | 4.9  | 3.4    |
| -of which small-scale*                            | 10       | 11          | 11      | 9       | 13.2 | 15.6   |
| Government  | 17       | 13          | 11      | 10      | 6.5  | 2.7    |

Notes: \* denotes firms with share holding rate less than 5 percent concerning April 1994 and June 1994, and less than 1 percent about December 1994 and June 1996.

\*\*The source writes 1999, but we judged it should be corrected to 1998.

Source: A. Radygin, *Securities Markets Development and Its Relationship to Corporate Governance in Russia* (OECD, 1996); A. Radygin, "Ownership and Control of Russian Industry," Conference on "Corporate Governance in Russia," Moscow, 31 May-2 June, 1999.

**Table 7. Structure of Assets and Liabilities of Moscow Banks during 1995 and 1997 (in percent of total assets)**

|   | 95/01/01 | 96/01/01 | 96/07/01 | 97/01/01 | 97/07/01 | 98/01/01 |
|---|----------|----------|----------|----------|----------|----------|
| Total number of samples   | 648      | 688      | 686      | 675      | 637      | 596      |
| Average assets per bank (billion rubles)  | 137      | 219      | 245      | 301      | 410      | 476      |
| <b>Structure of assets and liabilities (in average percent of total assets)</b> |          |          |          |          |          |          |
| Foreign currency assets   | 62.8     | 57       | 52       | 47.4     | 38.6     | 42.3     |
| Foreign currency liabilities  | 58.1     | 52.1     | 48.3     | 46.4     | 42.7     | 47.4     |
| Position of foreign currency (net)  | 2.8      | 4.9      | 3.7      | 1        | -4.1     | -5       |
| Interest-earning assets   | 50.6     | 67.7     | 69.3     | 72.9     | 77.8     | 76.3     |
| Non-interest-earning assets   | 49.4     | 32.3     | 30.7     | 27.1     | 22.2     | 23.9     |
| Interest-bearing liabilities  | 18.4     | 29.7     | 26       | 32.1     | 30.8     | 37.6     |
| Non-interest-bearing liabilities  | 69.8     | 55.3     | 57.3     | 48.2     | 50.6     | 44.1     |
| Loans to the non-financial sector (including past due loans)                    | 34.4     | 41.2     | 43.9     | 39.9     | 46.8     | 45.7     |
| Time deposits   | 2.9      | 5.8      | 6        | 5.7      | 5.3      | 4.7      |
| Interbank loans   | 11.2     | 16.1     | 12.2     | 14.3     | 11.1     | 11.1     |
| Interbank borrowings  | 13.1     | 17.5     | 12.9     | 18.1     | 16.6     | 22.4     |
| Securities  | 5.5      | 10.9     | 13.9     | 19.4     | 21       | 20.6     |
| -of which federal and municipal securities                                      | 4.7      | 8.8      | 9.7      | 13.5     | 14.9     | 12.4     |
| Loans past due, including principal and interest not received                   | 1.3      | 3.1      | 3        | 2.5      | 1.9      | 1.6      |
| Equity capital  | 11.9     | 15       | 16.7     | 19.7     | 18.6     | 18.3     |
| profits   | 4.6      | 4.8      | 2.4      | 5        | 1.7      | 2.4      |

Sources: M. Dmitriyev, M. Matovnikov, L. Mikhailov, L. Sycheva, "Russian Stabilization Policy and Banking Sector, as Reflected in the Portfolios of Moscow Banks in 1995-97," *Review of Economies in Transition* 7 (Bank of Finland, 1998), pp.54-55.



**Table 8. Rate of reserved requirements of the Central Bank\***

|                         | Demand deposits<br>and time deposits<br>until 30 days | Time deposits<br>from 31 to<br>90 days | Time deposits<br>more than<br>91 days | Foreign<br>currency<br>accounts | Individual deposits<br>in rubles<br>in Sberbank |
|-------------------------|---|--|---------------------------------------|---------------------------------|---|
| 1995/2/1 - 1995/4/30    | 22  | 15                                     | 10                                    | 2                               |   |
| 1995/5/1 - 1996/4/30    | 20  | 14                                     | 10                                    | 1.5                             |   |
| 1996/5/1 - 1996/6/10    | 18  | 14                                     | 10                                    | 1.25                            |   |
| 1996/6/11 - 1996/7/31   | 20  | 16                                     | 12                                    | 2.5                             |   |
| 1996/8/1 - 1996/10/30   | 18  | 14                                     | 10                                    | 2.5                             |   |
| 1996/11/1 - 1997/4/30   | 16  | 13                                     | 10                                    | 5                               | 10**  |
| 1997/5/1 - 1997/11/11   | 14  | 11                                     | 8                                     | 6                               | 9.5   |
| 1997/11/12 - 1997/11/30 | 14  | 11                                     | 8                                     | 9                               | 9.5   |
| 1997/12/1 - 1998/1/31   | 14  | 11                                     | 8                                     | 9                               | 8   |
| 1998/2/1 - 1998/8/23    |   | 11                                     |                                       |                                 | 8   |
| 1998/8/24 - 1998/8/31   |   | 10                                     |                                       |                                 | 7   |

Notes: \*Reserved requirements were introduced from June 1, 1991. At that time, rate of reserved requirements was uniformly 2 percent. From February 1, 1992, separated requirements were introduced.

\*\* was introduced from December 1, 1996.

Source: [www.cbr.ru/dp/res\\_intr.html](http://www.cbr.ru/dp/res_intr.html)

**Table 9. Liquid Assets of Enterprises during 1993 and 1997**

|                                    | 1993           |      | 1994           |      | 1995*          |      | 1996        | 1997        |
|------------------------------------|----------------|------|----------------|------|----------------|------|-------------|-------------|
|                                    | billion rubles | %    | billion rubles | %    | billion rubles | %    | structure,% | structure,% |
| Remaining values<br>of stocks      | 20433          | 17.7 | 88551          | 16.4 | 186986         | 16.2 | 15.2        | 14.3        |
| Unfinished production              | 6736           | 5.8  | 43430          | 8.1  | 96479          | 8.4  | 5.9         | 6.8         |
| Costs in future                    | 499            | 0.4  | 3087           | 0.6  | 6114           | 0.5  | 0.5         | 1           |
| Finished products                  | 6736           | 5.8  | 21198          | 3.9  | 54034          | 4.7  | 6.8         | 5.4         |
| Goods                              | 9474           | 8.2  | 43062          | 8    | 78928          | 6.8  |             |             |
| Short-term financial<br>investment | 1202           | 1    | 13950          | 2.6  | 20197          | 1.8  | 1.8         | 2.5         |
| Monetary resources                 | 9977           | 8.6  | 30374          | 5.6  | 46106          | 4    | 2.6         | 2.9         |
| Included in payment<br>accounts    | 2886           | 2.5  | 10498          | 1.9  | 17921          | 1.6  | 1           | 1.3         |
| in foreign currency<br>accounts    | 4952           | 4.3  | 10707          | 2    | 12041          | 1    | 0.8         | 0.8         |
| Other monetary<br>resources        | 2130           | 1.8  | 9169           | 1.7  | 16144          | 1.4  | 0.8         | 0.8         |
| Total of liquid assets             | 115480         | 100  | 538558         | 100  | 1153060        | 100  | 100         | 100         |

Notes: \* is based on book-keeping reports. In 1996 and in 1997, enterprises include only firms in industry, agriculture, construction, and transportation, but during 1993 and 1995, enterprises include firms in not only these four sectors but also communication, trade, and wholesale industry.

Source: Data during 1993 and 1995 based on *Finances of Russia* (in Russian), p.126 and data during 1996 and 1997 based on *Russian Statistical Yearbook* (in Russian, 1998), p.675.

**Table 10-1. Representative Banks** (1)former state-owned banks,2)banks based on former state-owned enterprises and former ministries, 3)banks based on municipal authorities, 4)banks based on former cooperatives, 5)banks established by entrepreneurs, 6)joint stock banks with foreign banks, 7)others)

| List of representative banks concerning financing to the state investment projects |   |  | List of representative banks concerning financing to the state conversion programs |   |
|--|---|--|--|---|
| 1995   | 1996  | 1997**   | 1995   | 1996  |
| 1)Vneshtorgbank  | 5)UNEXIM Bank                                     | 1)Aspekt   | 1)Vneshtorgbank  | 2)Aviabank****  |
| 5)UNEXIM Bank  | 7)Montazhspetsbank                                | 6)Zenit  | 5)National Credit  | 2)Avtobank  |
| 7) Montazhspetsbank  | 7)Reforma   | 7)BIN  | 5)UNEXIM Bank  | 1)Vneshtorgbank   |
| 7)Kredobank  | 5)Inkombank                                       | 2)GUTA-Bank  | 5)Inkombank  | 1)Vozrozhdenie*   |
| 7)Reforma  | 2)Avtobank  | 1)Evrofinans Bank  | 6)Mezheconom-sberbank****  | 5)Inkombank   |
| 5)Inkombank  | 1)Agroprombank (concerning transitional objects)  | 1)Conversbank  |  | 2)Conversbank****   |
| 7)Rospishchinvest  | 7)Akkor (concerning farmers' projects)            | 6)Creditimpex Bank   |  | 2)Mir****   |
|  | 2)AMI-BANK  | 1)Kuzbassotsbank   |  | 7)Montazhspetsbank  |
|  | 3)Bank of Moscow*                                 | 2)MAPO-BANK  |  | 2)Joint Stock Commercial Investment Bank for Oil Industry**** |
|  | 2)New Moscow*                                     | 1)Joint Stock Commercial Bank for Development of Local Economy |  | 7)Nizhegorod Bankers' Dom****                                 |
|  | 1)Vozrozhdenie*                                   | 7)Metallurgical Invest Bank                                    |  | 5)UNEXIM Bank   |
|  | 2)Imperial  | 7)Montazhspetsbank   |  | 2)Promradrekhbank****   |
|  | 2)InterTEKbank                                    | 2)Joint Stock Commercial Investment Bank for Oil Industry      |  | 1)Promstroibank****   |
|  | 2)MAPO-BANK                                       | 6)Olympic  |  | 7)Reforma   |
|  | 2)Metallurgical Investment Bank                   | 7)Probusiness-Bank   |  | 6)Federal Deposit Bank  |
|  | 2)Orbita  | 2)Promradtekhbank  |  | 2)Elektronika****   |
|  | 1)Promstroibank (concerning transitional objects) | 7)Russian National Commercial Bank                             |  |   |
|  | 5)RATO-Bank*                                      | 1)State-owned Specialized Russian Export and Import Bank       |  |   |
|  | 5)Russian Credit                                  | 2)Sovin Bank   |  |   |
|  | 4)SBS   | 7)Uralpromstroibank  |  |   |
|  | 6)Federal Deposit Bank                            | 2)Moscow National Bank***                                      |  |   |
|  |   | 2)Inturbank***   |  |   |
|  |   | 2)InterTEKbank***  |  |   |
|  |   | 7)Inkor-Bank***  |  |   |
|  |   | 2)Capital***   |  |   |
|  |   | 2)Lanta-Bank***  |  |   |
|  |   | 7)Rossiysky Kapital***   |  |   |
|  |   | 7)Moscow Export and Import Bank***                             |  |   |

Note: \* means provisional. \*\* includes the state investment programs and the state conversion programs. \*\*\* were permitted provisionally under consideration of the data until July 1, 1997. \*\*\*\* includes only transitional objects.

Source: *Segodnia*, Feb. 29, 1996, Feb. 22, 1997.

**Table 10-2. Relations between Budgetary Money and Banks**

| Bank agencies and representative banks of budgetary money in 1997 |                                     |
|---|-------------------------------------|
| Bank agencies*  | Representative banks***             |
| 1)Sberbank  | 1)Promstroibank (St. Petersburg)    |
| 1)Vneshtorgbank   | 2)Cmercial Bank for Gas Industry    |
| 5)UNEXIM Bank   | 7)MDM-Bank                          |
| 2)National Reserve Bank   | 2)international Commercial Bank     |
| 5)International Financial Company                                 | 2)Joint Stock Commercial Investment |
| 2)AvtoBank  | 1)Vozrozhdenie                      |
| 2)Imperial  | 7)Alba Alliance                     |
| 6)Moscow International Bank                                       | 3)Bank of Moscow**                  |
| 5)Russian Credit  | 7)Mezhprombank**                    |
| 4)SBS   |                                     |
| 5)Menatep   |                                     |
| 1)Mosbusinessbank   |                                     |
| 1)Universal Joint Stock Commercial Bank**                         |                                     |
| 5)Most-Bank**   |                                     |
| 5)Alfa-Bank**   |                                     |

Note: \* deal with money of federal budget and international financial organizations. And they regulate foreign debts, control eurobonds, and so on. \*\* were permitted provisionally under consideration of the data until July 1, 1997. \*\*\* control budgetary accounts of federal budget. Concerning to local authorities of customs committee, other representative banks were determined.

Source: *Segodnia*, Feb.22,1997.

**Balance of Budgetary money on January 1, 1997**

| Name                                       | Budgetary money<br>(million rubles*) | Share of budgetary<br>money to liabilities,% | Name  | Budgetary money<br>(million rubles*) | Share of budgetary<br>money to liabilities,% |
|--|--------------------------------------|--|---|--------------------------------------|--|
| 5)UNEXIM Bank                              | 2099561.1                            | 12.2   | 1)Zapsibkombank   | 55009                                | 6.2  |
| 1)Sberbank                                 | 1280295                              | 1.2  | 2)Mosstroibank  | 50472                                | 5.3  |
| 1)Mosbusinessbank                          | 547722                               | 7.6  | 7)Kosmos  | 49365                                | 1.6  |
| 3)Bank of Moscow                           | 467301                               | 41.5   | 7)Petrovsky   | 44640                                | 5.1  |
| 1)Promstroibank                            | 439106                               | 8.6  | 1)Presnya-Bank  | 42892                                | 11.2   |
| 5)Menatep                                  | 296511                               | 2.8  | 2)Rospishchiinvest  | 38028                                | 50.1   |
| 2)Imperial                                 | 177818                               | 3.7  | 1)Bank for Industrial Construction<br>in Nizhny Novgorod Province | 37012                                | 8.3  |
| 1)Vozrozhdenie                             | 170096                               | 5  | 2)Doninvest   | 36728                                | 7.9  |
| 5)Most-Bank                                | 165777                               | 2.6  | 2)Iuganskneftebank  | 36163                                | 10.5   |
| 7)Industrial Cnstruction Bank              | 165414                               | 5.9  | 2)Commercial Bank<br>for Gas Industry                             | 35747                                | 1.2  |
| 2)Promradtekbank                           | 147853                               | 12.4   | 1)Makhachkalapromstroibank  | 35482                                | 41.8   |
| 1)Universal Joint Stock<br>Commercial Bank | 147190                               | 5.1  | 2)Globeks-Bank  | 34906                                | 6.3  |
| 1)Moscow Indutrial Bank                    | 134964                               | 6.2  | 5)RATO-Bank   | 34708                                | 2.5  |
| 5)Russian Credit                           | 90063                                | 1  | 5)Inkombank   | 34033                                | 0.2  |
| 5)Balt UNEXIM Bank                         | 85588                                | 32   | 7)Russky Credit Bank  | 31155                                | 33.4   |
| 1)Mosstroyeconombank                       | 83028                                | 11.5   | 5)International Financial<br>Company                              | 31135                                | 0.4  |
| 4)SBS-Agro**                               | 79647                                | 0.9  | 1)Rostpromstroibank   | 29529                                | 5.4  |
| 2)Aviabank                                 | 72188                                | 13.9   | 5)Alfa-Bank   | 26121                                | 0.7  |
| 3)Dal'kombank                              | 70617                                | 47.6   | 7)Uralpromstroibank   | 25882                                | 3.6  |
| 1)Sotsinvestbank                           | 59881                                | 9.4  | 7)Etalonbank  | 25711                                | 14.4   |
| 1)Enisei                                   | 59653                                | 8.8  | 1)SKB-Bank  | 24473                                | 6.2  |
| 7)Eksi-Bank                                | 59538                                | 45.2   | 1)Petroagroprombank   | 23439                                | 7.8  |
| 2)Electrobank                              | 56485                                | 17.5   |   |                                      |  |

Note: \* Rubles before the denomination on January 1, 1998.

\*\* The official name on January 1, 1997, was SBS.

Source: *Kommersant*-daily, May 7, 1997.

**Table 11. Structure of Moscow Banks\*** (In percentage of total assets)

|   | 1995/1/1 | 1996/1/1 | 1997/1/1** | 1998/1/1*** |
|---|----------|----------|------------|-------------|
| I.Non-income-earning assets                 | 52       | 31       | 22         | 19          |
| -of which cash                              | 2        | 1        | 1          | 1           |
| money at correspondent accounts             | 33       | 13       | 6          | 4           |
| required reserves at the Central Bank       | 2        | 4        | 4          | 4           |
| payment money                               | 10       | 8        | 6          | 5           |
| fixed assets                                | 2        | 3        | 3          | 3           |
| other assets                                | 2        | 2        | 2          | 2           |
| II.Income-earning assets                    | 48       | 69       | 78         | 81          |
| -of which short-term loans                  | 30       | 37       | 37         | 36          |
| in rubles                                   | 10       | 14       | 14         | 14          |
| in dollars                                  | 20       | 23       | 23         | 22          |
| long-term loans                             | 0        | 1        | 1          | 2           |
| overdue loans based on commercial credit    | 1        | 2        | 3          | 4           |
| veksel's                                    | 1        | 3        | 4          | 4           |
| interbank loans                             | 11       | 16       | 16         | 16          |
| in rubles                                   | 5        | 4        | 4          | 4           |
| in dollars                                  | 6        | 12       | 12         | 12          |
| overdue loans concerning to interbank loans | 0        | 0        | 0          | 0           |
| state securities                            | 5        | 8        | 16         | 17          |
| other securities                            | 1        | 2        | 1          | 3           |

Note: \* does not include Sberbank.

\*\* is based on estimation of January 1, 1997.

\*\*\* is based on expectation of January 1, 1998.

Source: *Ekonomika i zhizn'* 12 (1997). This was based on questionnaires of the Karnegi-Center, but the number of samples is not known.

**Table 12. Volumes of Securities Issuers in Russia** (trillion rubles)

|  | 1994  | 1995   | In the first half of 1996 |
|--|-------|--------|---------------------------|
| Total volumes of issue of GKO's and OFZ's  | 20.53 | 171    | 164.5                     |
| -of which GKO's  | 20.53 | 157    | 149.5                     |
| OFZ's  | -     | 14     | 15                        |
| Volume of issue of Kos   | 7.2   | 52*    | -                         |
| Total volume of issue of shares<br>(without bank shares)                                       | 21.55 | 81.99  | 25.6                      |
| -of which shares in privatized firms   | 9.56  | 9.25   | -                         |
| Volume of issue of bank shares   | 3.03  | 5.83   | 0.51**                    |
| Volume of stock exchange trading sessions<br>of GKO's and OFZ's, at market prices              |       | 374.77 | 362.66                    |
| Volume of stock exchange trading sessions of<br>shares (without bank shares), at market prices |       | 0.4*** | -                         |
| Volume of stock exchange trading sessions<br>of bank shares, at market prices                  |       | 0.01   | 0.01                      |

Note: \* denotes results of the amount until July 1, 1995. \*\* denotes results of January and February, 1996. \*\*\* includes shares of investment funds, etc.

Source: Radygin, *Securities Markets Development and Its Relationship*.

**Table 13-1. Commercial Bank's Debt on Centralized Credits** (billion rubles)

|   | 1995/1/1 | 1996/1/1 | Change over the year | Rate of growth(%) |
|---|----------|----------|----------------------|-------------------|
| Commercial bank's debt on Central Bank centralized credits, total | 17282    | 12350    | -4932                | -28.5             |
| -of which due overdue   | 9718     | 1337     | -8381                | -86.2             |
| overdue interest on credits                                       | 939      | 793      | -146                 | -15.5             |
|   | 6625     | 10220    | 3595                 | 54.3              |

**Table 13-2. Credits Deferred in 1995** (billion rubles)

| Sector                                 | Sum    | % of total sum of deferred credits |
|--|--------|------------------------------------|
| Agriculture                            | 613.7  | 14.7                               |
| Early deliveries of goods to Far North | 2382.8 | 57.1                               |
| Fuel and energy sector                 | 1092.6 | 26.2                               |
| Other sectors                          | 84.1   | 2                                  |
| Total                                  | 4173.2 | 100                                |

**Table 13-3. Debt and Interest on Centralized Credits Reregistered as Domestic Public Debt in 1995** (billion rubles)

|   | Actually reregistered debt | Actually reregistered interest | Total debt reregistered |
|---|----------------------------|--------------------------------|-------------------------|
| Total   | 5846.9                     | 13450.5                        | 21257.4                 |
| including:-industrial enterprises*                                    | 4315.7                     | 7968                           | 12283.7                 |
| -organizations delivering goods to Far North and similar territories* | 1531.2                     | 4922.5                         | 6453.7                  |
| -textile miles (Ivanovo region)**                                     | -                          | 560                            | 560                     |

Note: \* In accordance with Federal Law No.39-FZ of March 31, 1995 and No.46-FZ of April 24, 1995. \*\*In accordance with Federal Law No.212-Fz of December 27, 1995.

Source: *Bank of Russia, Annual Report for 1995* (1996), p.165.