

THE NEW BANKING SYSTEM IN POST-SOVIET RUSSIA

*Dissertation Submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of*

MASTER OF PHILOSOPHY

VIJAY KUMAR

**CENTRE FOR SOVIET AND EAST EUROPEAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI - 110 067
INDIA**

1997



जवाहरलाल नेहरू विश्वविद्यालय
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI - 110 067

CENTRE FOR SOVIET AND EAST EUROPEAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES

July 21, 1997

CERTIFICATE

Certified that the dissertation entitled "**THE NEW BANKING SYSTEM IN POST SOVIET RUSSIA**" submitted by **Mr. VIJAY KUMAR** is in partial fulfilment of **MASTER OF PHILOSOPHY** of this University. This dissertation has not been submitted for any other degree to any other University and is his own work.

We recommend that this dissertation be placed before the examiners for evaluation.

Dr. Tahir Ashgar
Supervisor

Prof. Nirmala M. Joshi
Chairperson

DEDICATED

TO MY

FAMILY MEMBERS

PREFACE

The banking sector is vital to the modern economies. The countries which follow market economy have strong and sound banking system. In the free market economy, where market forces play a big role, banks have enough responsibility to take on the major problems, the economic forces. That is why in almost all countries, banks have been given a free hand to enliven the economy. In the Soviet Union, the command economy system which was controlling the economic forces is now dismantled and instead, new forms and models of economy have taken the old place. So in this context, the reforms that have been introduced in Russia, have far reaching implications if the bank were to adopt new prescriptions, the economy, the state and the people's demand.

The first chapter comes under "The genesis of banking sector". The chapter deals as to how the World Bank was used first and how can it develop slowly into a financial institution. No country in the world could ignore this sector.

The second chapter deals with "The working of banking system in Russia". This chapter contains, after the Gorbachev reform, disintegration, the type of working, the banking system developed in Russia. This chapter also deals with the bank's role in development of the economy of Russia and what similarity exists in the banking systems among the CIS countries.

(ii)

The third chapter is "The reform in banking sector in Soviet Union and thereafter. The matters that are discussed in this chapter are the banking stabilization in USSR and the cause, that purpose and Gorbachev's reform in the banking sector and the reasons of its failure.

The fourth chapter contains "The post-reform constraints in the banking systems in Russia". The chapter deals with the type of problems that Russia faces in the banking sector and what problems of the Russian banking system pose towards international banking.

The study is the analysis of the banking system in Russia and among the CIS countries. Various primary and secondary sources have been consulted, including journals and newspapers.

This dissertation has been completed under the supervision of Dr. Tahir Ashgar with deep insight on the subject and sustained guidance throughout the course of research enabled me to accomplish this work successfully.

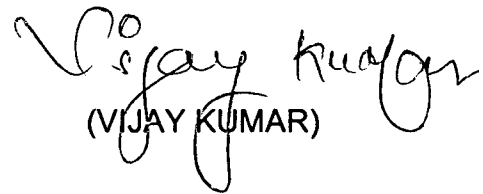
(iii)

I am especially thankful to the staff and members of Jawaharlal Nehru University Library, computer typist Mr. Saroj and especially my friends and brother, who helped me in completing this dissertation work.

I thank them all individually.

NEW DELHI

July 21, 1997


(VIJAY KUMAR)

CONTENTS

		Pages
PREFACE		
CHAPTER - I	THE GENESIS OF BANKING SECTOR	1-11
CHAPTER - II	THE WORKING OF BANKING SYSTEM IN RUSSIA	12-30
CHAPTER - III	THE REFORM IN BANKING SECTOR IN SOVIET UNION AND THEREAFTER	31-48
CHAPTER - IV	POST-REFORM CONSTRAINTS IN THE BANKING SYSTEM IN RUSSIA	49-61
CHAPTER - V	CONCLUSIONS	62-65
BIBLIOGRAPHY		66-79

CHAPTER - I

THE GENESIS OF BANKING SECTOR

1.1

Banking is an integral part of the modern economy; its activity is closely connected with the needs of reproduction. Since banks are at the center of economic life and they serve the interests of producers, they act as intermediaries in relations between industry and trade, agriculture and the population. Banks are not an attribute of a separate economic region or any one country. The sphere of their activities has been neither geographical nor national boundaries. They possess colossal financial power and considerable monetary capital.

Banks differ widely in respect of their ownership, sources of finance, objectives, methods and scope of operations, etc. depending upon the peculiar, social, economic and political framework in which they have to function. Although they have all been sponsored by governments, which exert a varying degree of influence of their policies and operations. Some are owned exclusively by government, others by private interest and still others by a combination of the two. Some are devoted to the promotion and financing of government enterprises, others exclusively to private interestment and still others act in both fields. Some have broad planning functions, some can only lend, some can lend and take equities and some can set up and manage enterprises on their own account. Some are concerned with the entire economy, others with but a single sector. Some are regional, others national,¹.

1. Diamond, William, " Development banks, Baltimore, The John Hopkins Press, 1957, P.1.

This great variety among existing banks indicates “that no single model is suitable to all, perhaps not even to any two countries”,².

While banks have enormous power throughout the entire world, in the USSR they have lost the significant role they initially enjoyed.

For quite a long time administrative, frequently unprofessional, thinking replaced the economic approach, and as a result the genuine economic functions of credit institutions became secondary instead of primary. Throughout the entire history (USSR), the activity of banks was frequently ignored and their economic purpose was downgraded. And even now, with the transition to a market. Banks are not giving the attention they deserve. In other words, the command style of managing the national economy was drummed into their consciousness persistently and for a long time, and banks lost their authority and purpose, and today, the task of restoring their genuine role is paramount.

1.2 ON THE HISTORY OF THE QUESTION : -

The history of ancient economics has not left us sufficiently complete information about when banks originated, the kind of operations they performed, and the driving force behind their development. In the opinion of a number of authors, the first banks

2. Baskey, Shirley, “Problems and Practices of Development Banks”, Baltimore, The John Hopkins Press, 1959, P.6.

"Originated at the manufactory stage of capitalism in the form of banking houses, which, unlike usurers, extended credit to industry and trade capitalists at a moderate individual interest rate and later originated in the form of joint-stock bank. Bankers first appeared Italian cities (Venice and Genoa) in the fourteenth and fifteenth centuries".³

A number of authors believe that the bank originated as a special institution in the commodity economy not in connection with the development of commodity - monetary relations in the early stages of the commodity economy but only in the period of these relations when there was need for a network of special institutions to regulate the involved circulation of money and conduct credit operations on a broader scale. It can consequently be assumed that the bank, according to the position taken by this group of authors, originated only at the stage of development of credit where Capitalist enterprises could not function without its extensive assistance. It is not by chance that individual works characterize the bank exclusively as a phenomenon in the capitalist economy. "The Bank", I.A. Trakhtenberg notes, "is a special type of capitalist enterprise".⁴

-
3. M.Iu Bortnik, Denezhnoe obrashchenie I Kredit Kapitalistcheskikh stran (Moscow: Finansy, 1967), P-47; Professor L.N. Krasavina et al., Denezhone Obrashchenie I Kredit Kapitalisticheskikh Stran (Moscow : Finansy, 1977), P.61.
 4. I.A. Trakhtenberg, Soveremennyi Kredit I ego organizatsiia (Moscow-Leningrad, 1931), P-191.

Another group of authors points to an earlier origin of banks. In their opinion, banks "First Originated under feudalism".⁵ However, this is still not the initial, the period of the appearance of concrete institutions believe researchers who note that "The need for the functions of the bank as an intermediary in making payments originated already in the ancient and feudal economy."⁶

The word "bank" comes from the Italian "banco," which means "table". These "bank tables" were set up in squares where trade in goods was brisk.

The concept of a bank, that equated with money changers and their special tables in ancient Greece, where bankers were called trapezides (from the Greek word "Trapeza" meaning Table). Ancient Rome also had its own trapezides; mensarii (from "mensa", the Latin word for table), who exchanged currencies and also performed certain other monetary operations. "The first banks", the authors note, "originated ----- on the basis of money changing -- of exchanging money of different cities and countries".⁷

-
5. Ekonomicheskaiia entsiklopediia. Politicheskaiia ekonomiiia (Moscow, 1972), Vol. 1, P-124.
 6. Bol'shaia Sovetskaia Entsiklopediia, 2d ed., Vol. 4, P.189.
 7. Denezhnoe obrashchenie i kredit kapitalisticheskikh stran (Moscow ; Finansy, 1977), P.61.

A Bank is defined in modern Russian as a "Large credit institution".⁸ A bank is consequently a degree of the development of the business of credit where credit, money, and payment operations are in their aggregate concentrated in a single center.

1.3 MODERN VIEWS OF THE ESSENCE OF A BANK :-

The modern picture of a bank's activity does not provide the full answer and only makes matters more difficult. The activity of banking institutions is so varied that their true essence is vague. Banks in modern society perform the most diverse types of operations. They do more than organize the circulation of money and credit relations. They finance the national economy and handle insurance operations, the buying and selling of securities, and in some cases brokerage transactions and property management. Credit institutions offer advice, participate in the discussion of national-economic programs, keep statistics, and have their own subsidiary enterprises. In a word, the impression is created not of the specific but of the multifaceted essence of a bank. It also performs activity that can be performed by other institutions.

The exposure of a bank's essence can be approached from two sides; legal and economic. In the first instance, primary importance is acquired by the concept "banking operations". Their list includes those that in accordance with legislation are related exclusively to banking activity. These operations include taking in deposits, extending

8. S.I. Ozhergov, Slovar' russkogo iazyka (Moscow, 1978), P.36.

various types of credit, purchasing promissory notes and checks, commission operations, involving securities, operations involving assets transferred to the bank's custody, the acquisition of loan obligations prior to the payment due date, non-cash payments, and payment services.

For all the importance of the legal aspect, the essence of the bank still remains open. The clarification of this essence goes beyond correlating the bank's activity with the law. It is not the Juridical Law that determines the essence of a bank as such, not operations that are allowed them, but the economic aspect of the matter, the nature of a bank that gives it the legislative right to carry out the corresponding transactions. It is no accident that the law covers operations performed by other institutions. It is therefore doubtful that the operations of investment companies, the acquisition of surety and guaranteed obligation bonds, consulting, and other services should be considered purely banking operations.

When analyzing the essence of a bank, it is important to take into account historical patterns and stable, traditional transactions (safekeeping, currency exchange, extending credit, payments) on the one hand and to identify those that are associated with economic conditions and peculiarities of a certain stage of social development on the other.

The view of the bank as an institution, as an organization, is most widespread. "Banking institutions and organizations" is a term that is quite widely used. It can frequently be found both in serious scientific as well as educational literature, in banking legislation, in banking documents, and in the press. Here and subsequently it should not be forgotten that the term "organization" refers us to a certain aggregate of people. "Organization (Fr. organisation from late Latin Organizo - I communicate a harmonious

from, I arrange) An association of people jointly carrying out a program or pursuing a goal and acting on the basis of certain rules and procedures."⁹ What kind of association it is what it does in accordance with its rules -- all this remains hidden with respect to a bank as an institution or organization. As was shown above, historically the bank as an organization, as an association of people, was not such, it was rather the lot of a private person, and only later, with the development of banking, especially under modern conditions of management, was it transformed into large, medium- sized, and small associations.

1.4 THE PRACTICAL SIDE OF THE MATTER

The development of a bank should also be based on the solution of a number of other extremely important problems. In our view the most important among them are interrelations between banks and state authority; antimonopoly policy and the development of competition in the banking sphere; the bank and property; the interaction between commercial banks and the Central Bank; directions of banking policy; banks' cadre potential; and scientific principles of banking activity. In the transitional period, banks have particular need for direct state innovation programmes that include the development of banking, inter-alia through the formulation and implementation of now scientific recommendations appropriate to the needs of developing a market at individual stages of its functioning.

9. Sovetskii entsiklopedicheskii slovar', 3d ed. (Moscow; Sovetskaia entsiklopediia, 1987), P-945.

Naturally, banks are also responsible to the state. They contribute to the economy by accelerating production through money and credit instruments. Banks are answerable before the law in two ways; first, they must have mandatory reserves in the RSFSR Central Bank as well as their own insurance and reserve funds, and they must observe the established economic norms; Second, they must maintain confidentiality concerning the bank's operations, accounts, depositors, clientele, and correspondents.

1.5 INSTITUTIONS IN CRISIS :-

Even though political scientists and economists toss around the word 'institution' frequently, it is often unclear precisely what this term means¹⁰ Institutions serve as the glue of society. They allow us to deal with our limited capacity to absorb and process information by routine in numerous social tasks. A complex institution, like banking system, is composed of its structure (its organisation), its practices (the ways in which it operates) and its norms or values (the underlying ideas that guide its functions). Although studies of institutions have become somewhat of a fad in social science today, scholars have been more interested in showing how institutions act as independent

10. Depending on whose definitions is used, institutions can be concepts or agencies, formal or informal, Public or Private. North (1990) has distinguished between organisations and institutions, with an organisation being a formal structure (like the UN) and institutions the practices and values that guide organisations and social groups.

variables in periods of stability.¹¹ and in pointing out the exogenous factors that create opportunities for fundamental institutional change¹² than in investigating the nature of institutional change itself. The dominant paradigm regarding institutional change has been Krasner's notion of 'punctuated' equilibrium'.¹³ Punctuated equilibrium means that institutions, which are normally characterised by inertia and autonomy, lose that autonomy during crisis situations (such as transitions) and can then be changed in fundamental ways.

As Thelen and Steinmo explain, however, "the problem with (the punctuated equilibrium) model is that institutions explain everything until they explain nothing. Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape

11. Peter Hall, *Governing the Economy : The Politics of State Intervention in Britain and France* (New York, Oxford University Press, 1986); and John Zysman, *Governments, Markets, and Growth* (Ithaca, NY, Cornell University Press, 1983).
12. Peter Gourevitch, *Politics in Hard Times* (Ithaca, NY, Cornell University Press, 1986); and Stephen Krasner, 'Approaches to the state', *comparative Politics*, January, 1984.
13. Karsner, P-240, Krasner borrowed the term 'Punctuated equilibrium' from the study of evolutionary biology.

is determined by the political conflicts that such institutional breakdown unleashes".¹⁴ even in crisis the old institutions remain and must continue to function in order to prevent a complete atomisation of society. In such a crisis period, then, the structure, practices and values of old institutions will have a fundamental impact on the way in which the institutions react and adapt to the new circumstances. In any society, large gaps almost always exist between legislated changes from above and their implementation by the institutions affected by these changes. Something is regularly lost or altered in the translation, and the institutions themselves determine exactly what these 'Somethings' will be.

1.6 THE INSTITUTIONAL CHANGE :-

Institutional factors become extremely important in a situation such as Russia's where the combination of lack of legitimate Central political institutions. The absence of a legal framework to support a market economy, and the subsequent decentralisation of political and economic power have led to the disintegration of vertical institutional ties. In the banking system, this has resulted in a reluctance to implement government reform decrees as well as to the Solidification of patronage ties between institutions and political and economic actors at the local level. Sustained macro-economic stability in Russia will be stalled without a fundamental reform of the banking system, which includes not just changing the structures of banking institutions themselves but changing the practices and values of the administrators who manage them.

14. Kathleen Thelen and Sven Stienmo, 'Historical institutionalism in Comparative Politics', in Sven Steinmo et. al., structuring Politics (Cambridge, Cambridge University Press, 1992), P.15.

Thele and Steinmo identify four potential sources of institutional change, all of which are currently present in Russia. First 'broad changes in the socio-economic or political context can produce a situation in which previously latent institutions suddenly become salient, with implicatgions for political outcomes'¹⁵ Second 'changes in the socio-economic context or political balance of power can produce a situation in which old institutions are put in the service of different ends, as new actors come into play who pursue their (new) goals through existing institutions'. Third, 'exogenous changes can produce a shift in the goals or strategies being pursued within existing institutions -- that is, changes in outcomes as old actors adopt new goals within the old institutions'. Finally, 'a fourth source of dynomism can occur when political actors adjust their strategies to accommodate changes in the institutions themselves'.

15. Thele and Steinmo, PP.16-17.

CHAPTER - 2

THE WORKING OF BANKING SYSTEM IN RUSSIA

Until the reform of the 1987 and 1988, the USSR had a monobank system. The new banking restructuring began in 1987-88 when the Soviet Union created a two-tiered banking system. Gosbank became the Central Bank of the Soviet Union and put in charge of implementing monetary policy, maintaining a stable currency. Supervising commercial banks and facilitating interbank settlements.

In November 1991, the Central Bank of Russia took over CBSU functions. In the Russian Federation, the CBSU itself was formally liquidated in December 1991.

1. The Central Bank - The first tier of the banking system in Russia :

(i) Structure and Administration of the CBRF :

The CBRF has a dual legal nature. On the one hand, it is a legal entity; it is responsible for its own debts and is not responsible for the debts of the government; it owns real estate; it can purchase stock; it can bear liability on its own behalf; and it

can be plaintiff or a defendant in Court ¹. For provisioning against possible losses, the CBRF has created a reserve fund from profits; as of October 1, 1994, this fund consisted of 3 trillion rubles.

On the other hand, the Bank of Russia is given full powers in the managing of the monetary system in Russia via directives and economic methods ².

The CBRF has 100% state share-holding. Management of the bank is carried out by a chairman of the board and a board of directors of the Bank ¹. In conformity with the constitution of the Russian Federation, questions of the appointment of the candidate for chairman of the board of the Central Bank and his dismissal are submitted for the consideration of the State council by the president of Russia, since October 18, 1994, the acting chairwomen of the board of the Central Bank of Russia has been Tatiana Paramonova, who replaced Victor Gerashchenko.

-
1. By-Laws of the Central Bank of the RSFSR (Bank of Russia). June 24, 1991.
 2. Efimova, L.G. Bankovskoe Pravo uchebnoe ipark-ticheskoe posobie (Banking Law. An academic and practical handbook). Moscow: Izdatel'stvo BEK, 1994, P.360.

The board of directors consists of the chairman of the board, his deputies, heads of general departments of the CBRF, their deputies, and heads of general departments (national Banks) of the Central Bank of Russia.

In addition, the minister of finance and the minister of the economy participate in the deliberations of the board of directors, and the chairman of the CBRF board takes part in sessions of the government of the Russian Federation, ³.

The principal questions that are considered in sessions of the board of directors are :

- Developing the principal trends of monetary policy.
- Determining the volume and kinds of CBRF transactions with banks, as well as on the securities market and foreign- exchange market.
- Determining the amounts of CBRF credits granted to other banks and the interest rates on these credits;
- Creating the procedures forming CBRF funds; and
- Establishing economic standards for banks.

3. Tsemianskii, A.Ia. "The role of the Central Bank in financial stabilization"
Biznes-i-baki, 1994, no.46.

The CBRF has established a central administrative machinery and broad network of regional institutions. The organisational structure of the CBRF is represented by its principal managerial bodies, as well as services and divisions that are given certain full powers and carry out strictly defined function ⁴.

The main departments act as branches on behalf of the CBRF, and include payment-cash center. The bank's regional departments form an integrated centralized system ¹. Which is supported by personnel numbering about 50,000 people.

ii) The role of the CBRF in carrying out Federal monetary and credit policy :

The CBRF sets Federal monetary policy. Thus, the adoption and execution of legislative acts that limits the integrity of the CBRF are illegal. The execution of monetary policy by the CBRF consists of the following : -

- Supervising monetary circulation;
- Stabilizing the ruble's purchasing power;
- Establishing the forms and procedure for settlements;
- Protecting depositor's interests.

4. Babichev, M.14; Babicheva, Iu.A; Trokhova, O.V; et.al. Bankovskoe delo; spravochnoe posobie (Banking affairs; Informational handbook). Ed. Babicheva. Iu.A. Moscow; Ekonomika, 1994, p.397.

- Issuing licenses for carrying out banking operations and charter registration;
- Supervising commercial bank activities and
- Conducting banking operations abroad ¹.

The ultimate aim of the CBRF's monetary policy is controlling the money supply in order to reduce inflation and simultaneously moderate recession. The CBRF in the beginning of 1993 prepared the document "Basic Directions of Monetary Control" aimed at introducing moderately restrictive credit and monetary policies. The essence of this policy was made concrete in a statement by the government of the Russian Federation and the Central Bank of Russia, entitled "Economic Policy in 1993".

The following statement provided :

- Fixing the official refinancing rate, based on market interest rate criteria,
- Maintaining a floating exchange rate as soon as financial policy stabilizes and inflation decreases ⁵.

5. Gerashchenko, V. "On the Central Bank's financial stabilization measures", *Biznes-i-banki*, 1993 no.46.

The central goals of monetary policy were also formulated in the "Statement of the Government and the Central Bank for 1994". The main goal was the reduction of monthly inflation rates to 7% by the end of 1994, with further considerable reductions in 1995.

The first positive results after putting the moderately restrictive monetary and credit policies into effect appeared at the beginning of 1994. For the first time in the years of economic reforms, the monthly inflation rate slowed down to under 5-6%. There was a sharp decrease in the inflation rate to 180% in the first half of 1994, against 318% for the corresponding period in 1993, ⁶.

In the second half of 1994, Russia returned to the economy of stagnation and inflation that had taken place in late 1992 and early 1993. The monthly rate of inflation by the end of 1994 increased to nearly 20% and according to the International Monetary Fund, to 204% for the year, though this is considerably less than in previous years (e.g, 1992, 1,353% and 1993, 800%). Funds are mostly used in the sphere of consumption and financial speculation.

6. Gerashchenko, V. "Doklad Vovladiovo-toke" (Report in Vladivostok) *Biznes-i-bank's* 1994, no.38.

Monetary velocity is rising, during 1992-94 it increased fourfold ⁷. According to a CBRF draft of monetary and credit policy principles, the recession was to moderate in 1995, and the monthly rate of inflation decrease from 5 to 1%.

As I know, the CBRF is not only the controlling body but a participant as well. In this connection, the CBRF carry out the following operation and transactions;

- As the creditor of "last resort" it grants credits to banks at the request of the borrower.
- It mobilizes deposits and investment bonds for the long-term crediting of state investment programs.
- It opens accounts of correspondent banks and carries out the payment and cash servicing of these banks, and
- It conducts operations in international monetary and credit markets and in precious-metals markets, ¹.

7. Vasil'chuk, E. "Provaly V ekonomike ugrozhaiut obernut'sia politicheskim revanshem" (Failures in the economy threaten to become political regression). Finansovye izvesties, 1995. no.2

In the sphere of monetary and credit regulation, the CBRF is given the following powers :

- Paper-currency manufacturing, issue and retirement
- Monetary and credit regulation, including money supply in circulation, by means of carrying out rediscounting and securities transactions, other emergency funds regulation, and setting economic standards,
- Bank refinancing by means of granting short-term credits at the CBRF interest rate,
- Organization of interbank settlements.
- Cash servicing of banks, and
- The setting up of forms and procedures for settlements ¹

The CBRF is now transferring part of its authority. Thus, the establishment of a great number of commercial banks and the CBRF's changing function in republican fiscal policy decrease the possibility of controlling the special use of state funds.

iii) Credit and Monetary Policy

The instruments of monetary policy are,

- Minimum reserve requirements,
- Terms for granting CBRF credits, and
- Interest rates on CBRF credits,

The first two instrument played the main role in monetary policy, at best, the interest rate was a supplement. This assignment reflects the administrative character of monetary regulation, with all its drawbacks, such as lobbying and selective regulation. The large difference between the rate on CBRF credits and market credit rates, with imperfect criteria for access to centralized credits, the problem of selectiveness in credit decisions.

The required reserve funds that are in a separate non- interest bearing account of the CBRF have the following functions;

- They influence the growth of the total (cash and non cash) money supply in circulation,
- They serve as an insurance reserve fund for commerical banks,
- Accumulating in the CBRF, they provide a back channel of money for refinancing credit resources to commerical banks.^{8,9}

8. Proskurin, A. "Obiazatel'nye rezervy V sisteme denezhnogo regulirovaniia" (Reserve requirements in the system of financial regulation). *Biznes i banki*, 1994, no. 46.

9. Proskurin, A. "Rezervy - eto ne nalog" (Reserves are not a tax), *Delovoimir*, October 31, 1994.

As of February 1, 1995, the following standards of allocations to required - reserves funds were set;

- 22% on demand deposits and time deposits of commercial banks up to 30 days.
- 15% on time deposits between 30 and 90 days.
- 10% on time deposits over 90 days, and
- 2% on demand deposits in foreign exchange.

The CBRF's other key monetary instrument in the commercial bank refinancing system. CBRF crediting of commercial banks is similar to the refinancing system in countries with a highly developed market economy.

In 1992-93, 60% of centralized credits were invested in the agricultural and industrial complex and in the far North region. The share of centralized resources invested into industry, transport, and trade did not exceed 20%⁶. During the transitional period. The CBRF pursued a flexible interest rate policy and changed the refinancing rate in accordance with movements in the rate floating in this market.

TH-6587

The regular growth of interest rates in the bank markets that took place in 1993 was followed in 1994 by declines in interest rates, which in turn allowed the CBRF to reduce its refinancing rate from 210% (in late April) to 130% (in late August).⁶

DISS
332.170947
K9606 Ne



TH6587

However after September 1994, a large gap reemerged between interest rates and inflation rates, and the CBRF had to increase interest rates step by step. Since January 6, 1995. The interest rate has come to 200% annually.

Centralized credits played a positive role in the development of the credit market in Russia, the provision of additional resources to commercial banks, and the use of centralized funds for financing the economy, ⁶.

iv) CBRF Supervisorial and Regulatory Functions

The principal tasks of the CBRF are increasing the reliability of the banking system and protecting its deposits. The CBRF is therefore given full powers in the sphere of supervision and control over the activity of commercial banks as following way :

- Issuing banking licenses, charter registration, withdrawal of licenses, keeping and issuing the bank register,
- Setting regulatory standards.
- Determining loan-loss reserves for banks.
- Determining the volume and dates for submitting accounting information and statistical documents necessary for economic analysis, and
- Determining general rules for accounting and statistical documents as well as for each and other bank operations.

The principal tasks of banking supervision are :

- Oversight of timely, full and reliable document accounting and analysis of these documents.
- Oversight of adherence to regulatory standards.
- Analysis of bank loan port-folios.

The basis for an analysis of the sufficiency of a bank's ownership capital is the quantitative estimation of that ownership capital. ownership capital of a bank is understood as the ratio that includes :

- Bank assets.
- Deferred receipts.
- Reserves against losses on investments in securities.
- Bank income.
- Profits of the financial year and the previous year less :
- Investments in shares of joint-stock companies and enterprises
- Resources transferred to enterprises, organizations, institutions, and Cooperative for participation in their economic activity,
- Enterprises and organizations of a bank on current assets.
- Deferred charges.
- Drawing away of funds.
- Expenses of a bank.
- Losses of the financial year and the previous year

Regular inspections of commercial bank activities are to be conducted not less than once every two years. The main tasks of the inspection sub-divisions are :

- Oversight of cash, settlement, currency, credit, deposit, and other bank operations.
- Oversight of book keeping and the authenticity of accounting data.
- Oversight of observance of banking law and CBRF regulatory standards, and
- Determination of the general financial standing of a bank.

The CBRF is empowered to refuse a license in the following instances :

- Sub-mission of an inaccurate report to the CBRF by a Bank.
- Delay in the commencement of activity of more than one year from the date of obtaining a license.
- Carrying out of operations not provided for in the license.
- Exposure of violations of the requirements of the antimonopoly law.
- Declaration of insolvency (bankruptcy) ^(1,10)

10. Law of the RSFSR "on Banks and Banking activity in the RSFSR". June 24, 1992.

2.2 Commercial Banks - The Second Tier of the Modern Banking System in Russia :

i) The Development of Commercial Banks in Russia :

At the first stage of establishing a two-tiered banking system in Russia, a large number of commercial banks emerged specializing in different spheres of banking activity : -

- Exchange banks (Vserossiiskii Birzhevoi Bank [the All-Russia Exchange Bank] and Rossiiskii Natsional'nyi Kommercheskii Bank [The Russian National Commercial Bank]. Which have institutions for selling available money funds, as well as the banks Delovaia Rossia [Business Russia], TORI-Bank, Tveruniversalbank, Mytishchi commerical Bank, RNCB, and others).
- Insurance banks,
- Land banks,
- Innovation banks,
- Trade bank,
- Pledge banks (REM-Bank),
- Conversion banks (Konversbank [Conversion Bank]),
- Credit banks,
- Trust banks,
- Investment banks,

Russian commercial banks can be differentiated along the following lines :

- Universal banks (banks offering a wide range of banking services) and specialised banks (banks providing only one kind of banking service, for example, saving operations); Russia, like many other countries, favours the practice of establishing universal banks.
- Banks having branches and nonbranch banks,
- Regional banks operating on a limited territory and banks operating across territories.
- Banks for financing specific programs (so-called development banks) and banks whose activity is not restricted to the financing of a certain branch of industry or a concrete programs.
- Joint-stock and other banks
- Large, medium, and small banks,
- Banks established on the basis of the foremen state specialised banks and commercial banks that have just been established.
- Banks with authorised capital formed by Russian private individuals and legal entities and banks with foreign investments.
- Banks whose activity is not limited by law and banks that have no right to perform a number of banking operations.

There were 2,517 banks in Russia as of January 1, 1995. Of these, 971 were joint-stock banks. During 1994, the number of banks increased by 490. By comparison, for example, there are 15,000 banks in the United States and 22,000 in France, plus 26,000 branch offices. The total number of branches in Russia is 5,486, excluding 31,182 Savings Bank branches.

The density of the bank network in Russia is 1.4 commercial banks for 100,000 inhabitants, taking into account divisions of the savings Bank, there are 30 banking institutions for 100,000 inhabitants,¹¹. By comparison, in the Federal Republic of Germany (FRG) there are 71.4 divisions of credit institutions for 100,000 inhabitants,¹².

11. "Vash Partner" (Your partner). *Ekonomika i zhizn*; 1994, no.6, p.8.

12. *Den'gi i Kredit*, 1994, no.9-10.p-74.

Table 1 shows the quantitative ratios of the Russian banking system and their changes in 1994-95.

Table 1

Quantitative Ratios of the Russian Banking System

1. Banks registered, total	2,517
including :	
- on a share basis	1,546
- joint-stock	971
2. Credit institutions registered, total	18
- including clearing houses	4
3. Branches of commercial banks, total	5,486
- including branches of Agroprombank	1,207
4. Branches of the Savings Bank of the RF	31,182
5. Banks having an exchange license	770
6. Banks having a general license	242
7. Authorized capital of banks, total (million rubles)	4,396,847,83
including:	
- banks having an exchange license (million rubles)	1,235,524,75
- banks having a general license (million rubles)	2,134,587,90
8. Banks that were reorganized or dissolved by order of stockholders meeting :	
- total in 1991	19
• including reorganized into branches of other banks	17
- total in 1992	92
• including reorganized into branches of other banks	90
- total in 1993	117
• including reorganized into branches of other banks	115
- total in January-December 1994	45
• including reorganized into branches of other banks	40
9. Banks with canceled licenses (in connection with violation of banking legislation);	
- total in 1991	1
- total in 1992	0
- total in 1993	19
- total in 1994	65

ii) Kinds of Commercial Bank Activities

Banks can perform the following operations and transactions :

- Attracting deposits and granting credits to borrowers.

In the credit structure of commercial banks, short-term credits, whose share exceeds 96% of the total, are predominant. Long-term credits are not so popular, since they are inefficient in inflationary conditions, ⁶

- Making payments on to behalf of clients and correspondent banks and their cash servicing.
- Opening and keeping accounts for clients and correspondent banks, including foreign ones.
- Financing capital investments in behalf of the owners or distributors of the money invested, and also using the bank's own money.
- Issuing, buying, selling, and keeping documents of payment and securities and performing other operations with them.
- Supplying guarantees and other liabilities for third parties.

iii) Licensing of Commercial Banks:

The CBRF grants the following kinds of licenses :

- Ruble-operations licenses,
- Currency-operations licenses (foreign licenses).
- Licenses for precious-metals operations, ¹⁰.

The CBRF can refuse to give a license for carrying out banking operations in the following instances, ¹⁰

- When inconsistencies exist between a bank's founding agreement. Its charter, and legislation of the Russian Federation.
- When the auditing organization concludes that the financial standing of the founders is unsatisfactory, threatening the interests of investors and creditors.

CHAPTER 3

THE REFORM IN BANKING SECTOR IN SOVIET UNION AND THEREAFTER

This chapter contains 2 parts first part goes under the heading of "Development of the macro-economic situation by the beginning of 1991".

Parts II is divided into five section, Section I gives on overviews of the development of the Pavlov government. Section 2,3,4,5 contain programmes of the Gaidar, Fedrov, Chernomyrdin and Chubais respectively.

After a long period of low rates of price increases the 1990s were a time of high open inflation for Russia (table1) for four years in a row - 1991 to 1994. The maximum rise in the level of prices was recorded in 1992; in excess of 26 times. The general consumer price index rose 3,470 times in a little under four and one-half years (from May 1995 to December 1990) and will reach approximately 4,500 times in December 1995. By any criterion, inflation rates are exceptionally high and are evidence of a deep financial crises.

Over the last six years in the USSR and in Russia, there were several attempts to suppress inflation and achieve financial stabilization.

The events of recent years in Russia suggest that the processes taking place in the country's financial sphere cannot be fully appreciated unless the specifics of the transition economy are taken into account. The character of the interrelations in it differs from that inherent in a developed market economy, which makes traditional models, such as demand inflation and cost-push inflation.

According to the data of A. Kolganov, the share of monetary aggregate M1 and M3 is 88% as compared with 20% in the united states, even though in both the united states and Russia M1 is 15-16% of the GDP, ¹

The Russian government's moderately strict monetary - credit policy is based on the restrictions of emission, which, given the general rise of prices, means the reduction of the real money supply. Thus according to the data of V. Sokolov, Russian Accounting Chamber auditor, in 1992-95 the money supply (in constant 1984 prices) declined from 133.4 billion rubles to 10.0 billion rubles. ²

1. A. Kolganov, "Zakonomernosti perekhodnoi ekonomiki : ekonomicheskie tendentsii i modeli" Voprosy ekonomiki, 1995, no.2, p.54.
2. V. Sokolov, Ne razrushitel'nye reformy, a sozidanie, Moscow, 1995, p.56.

According to the polling data of the "Russian Economic Barometer" former state enterprises on the average own 50% of the stocks (shares) in the capital of former special banks and 20% in the capital of new commercial banks.³

In the period from March 1994 through December 1995, Tveruniversal bank alone placed 3.1 trillion rubles of bills of exchange in circulation, off-setting approximately 15-16 trillion rubles in nonpayments; 550-600 trillion rubles of exchange are [still] in circulation.⁴

In the broad sense the money supply may be pictured as the sum of the entire complex of money supplies, such as the official monetary aggregate M2, treasury notes, foreign currency, commercial and bank bills of exchange in circulation, nonpayments, and the reciprocal crediting of enterprises. V.Sokolov estimates that the share of M2 here is about 25%.⁵

-
3. E. Belianova, "Motivatsiia i povedenie rossiiskikh predpriatii," *voprosy ekonomiki*, 1995, No.6.
 4. *Finansist*, 1995, no. 47, P.8.
 5. V.Sokolov, *Ne razrushitelnye reformy, a sozidanie*, Moscow, 1995, P.16.

According to the data of V.Solvov, the noncash money supply, which was about 40 trillion rubles at the beginning of 1995 and serviced the GDP (1994) in the sum of 630 trillion rubles ⁶ had to "turn around" every 12 days, which was practically impossible. For the sake of comparison; in the united states, the velocity of circulation of the M2 money supply in 1929-89 was 14-2 turnovers a year.

Macroeconomic Situation by the beginning of 1991

The transition to institutional reforms in 1988, while presring the soft fiscal policy, meant a further destabilization in the macroeconomic situation. The most significant events in this area were the passage of the law on Enterprise, which liberalized wage payment policy, the authorisation of enterprises to adopt policies of contract prices, and the beginning of the cooperative movement. in the same year, the government raised purchase prices on agricultural produce while preserving the old retail prices. Which automatically increased the volume of fiscal subsidies. The deficit rose to 9.2% of the GDP and remained at approximately that level up to 1991.

The credit resources of the USSR state bank were actively used to finance the budget deficit, their net increase in percent of the GDP was from 2.8 in 1986 to 14.1 in 1990. The growth rate of the M2 money supply in 1987-90 increased to 14.1 to 15.8%

6. "Dogmy praisat bal reform", *Economika i investitsii*, 1995, no.2,p.32.

a year. The same time, the activity of new economic structures that mastered to perfection the art of converting noncash money to cash led to higher growth rates of money stock (M0) by 19.5% in 1989 and by 24.3% in 1990.

The increased volume of the money supply was instrumental in increasing the volume of the cumulative "money overhang". The share of M2 in the GDP rose from 52.6% in 1984 to 67.7% in December 1990. Despite continuing state price controls, inflation became increasingly apparent. By the end of 1990, the deficit was so widespread that the primary necessities became scarce. Prices in the collective-farm market increased by 21.5% in 1990, and their level exceeded state retail prices by 3.03 times. The pressure of the redundant money supply also began to affect the level of state prices. The consolidated consumer price index rose by 6.8%. The price reform that had been repeatedly postponed drew inexorably closer.

i) Stabilization Measures of the Pavlov Government

On January 1, 1991, industrial wholesale prices were raised by more than 50%, resulting in a decline of M2 from 67.7% to 56.9% of the GDP. At the same time, a new 5% turnover tax was introduced, which came to be called the "president's tax" in common parlance. The monetary reform of January 25-27 replaced 50 and 100 ruble bank notes with new ones. The rate of inflation in May August 1991 averaged 3.2% a month as compared with 5.7% in January-march. The rate of decline in the nominal exchange rate dropped to 5.0% in March - June 1991 as compared with the monthly

average of 11.2% between January 1990 and February 1991 and 22.9% between December 1990 and February 1991. In April 1991, the normal exchange rate rose by 8.9% from 36.1 to 32.9 rubles to the dollar and the actual exchange rate even rose by 41.2%.

At the same time, Pavlov's stabilisation policy was of an openly antidemocratic nature and therefore did not find any appreciable support in society. The monetary reform dealt a serious blow to confidence in the ruble, the union government, and the Premier directly, thereby undermining the possibility for the success of the stabilisation program in the medium term.

By May 1991, in connection with the transfer of the initiative in macroeconomic policy from the government of the USSR to the leadership of Russia, the continuation of a conservative stabilisation policy was paralyzed. Beginning in the fall of 1990, the Russian leadership headed by Boris Yeltsin, chairman of the RSFSR Supreme Soviet, began an active campaign to transfer enterprises on the republic's territory to Russian jurisdiction. Lower tax rates approved by the Russian Parliament became the main stimulus. In addition to this, the central Bank of Russia [CBR], independently of the USSR State Bank, began extending credits to "its" Russian enterprises and to the Russian government.

The populist macroeconomic policy of the Russian leadership struck a fatal blow to the financial and monetary system of the USSR and thereafter to its political

structures. The USSR's economic "demise" was not in December 1991. When the Belovezhskie accords were signed, or when Mikhail Gorbachev stepped down : nor was it in september, when the Union parliament was dissolved, but in April 1991 when the weapon of financial destabilization was brought to bear against union authorities.

The financial crisis of 1985-90 was prepared both by the preceding ambitious policy of the USSR leadership and the populist policy of the Gorbachev-Ryzhkov government. The first attempt at financial stabilization in early 1991, which was essentially indecisive and incomplete and deeply antidemocratic in the mode of its implementation, was doomed from the very beginning. But it was finally buried by the political defeat of the Soviet Union's leadership in the struggle against independent Russia.

ii) The Stabilization Program of the Gaidar Government

The Gaidar government started to liberalized prices on January 2, 1992. Price controls on many consumer and producer goods were lifted. Prices rose by 245.3% in January and by a total 653.3 percent in January - April, that is, to roughly the same extent as the lowering of the ratio of M2 to the GDP with due regard to the growth of the money supply in the first four months of 1992. By April, this indicator had dropped 5.1 times- from 76.5 to 15.1% of the GDP. Thus, the "money overhang" that had built up over several decades and that was responsible for the almost sevenfold rise of prices at the beginning of 1992 was practically liquidated by May. While prior to May

1992 inflation was for the most part predetermined by the liquidation of the "money overhang" that had accumulated during the Soviet period and during Russia's struggle for political independence, beginning in May 1992 its nature was already determined entirely by the policy of independent Russia.

•

Macroeconomic policy in the first five months of 1992 proved to be substantially milder than planned. Despite this, however, it was able to have a definite stabilizing impact on the economy in the summer months. The average monthly growth rate of the money supply-11.2% - ensured a substantial lowering of the rate of inflation to 12.3% in May - September 1992. After the decline of the nominal exchange rate of the ruble by 28% in January, it rose by an aggregate 67% in the next five months while the real exchange rate rose by 4.7 times. The level of relative prices rose appreciably to 13% of the U.S. price level and average monthly wages in dollar terms rose from \$7 in January to \$ 41 in June. The main thing the Gaidar government managed to do was to restore macroeconomic balance and accordingly the manageability of the economy. Only after this was it possible to carry out a policy that was in any way rational.

Beginning in June, however, under the pressure of the conservative parliament and regional and branch lobbies, a retreat began in all directions of fiscal and credit-monetary policy. The explosive growth of arrears among enterprises in the first half of 1992 was one of the most important reasons for this. The budget's cash deficit financed by central Bank credits rose to 14-15% of the GDP in June-July and to 24%

in August. moreover, fiscal credits to the economy were increased to 14% of the GDP. V. Gerashchenko, who replaced G. Matiukhin as central Bank chairman in mid-July, carried out a reconcilisation of reciprocal indebtedness of enterprises accompanied by mass credits from commerical banks that reached 15% of the GDP in July and 31% in August. In addition, credits continued to be granted in the ruble zone at the level of 5.5% of the GDP. The aggregate growth of central Bank assets increased to 40% of the GDP in June, 49% in July, and 55.5%% in August on the whole, the expanded budget deficit during the three summer months totaled 28.8%, while the aggregate growth of Central Bank assets totalled 48.9%.

From October 1992 through February 1993, the average monthly growth rate of prices increased to 25%. For two weeks in late 1992 and early 1993, the rate of inflation increased to 2% a day, or 60% a month, and this meant the Russia was on the verge of hyperinflation. The contributions of the summer and the Central Bank to the aggregate granting of credit in the summer months of 1992 were roughly equal (the government, 49%; the Central Bank, 51%) in September - Nov. 1992 the government's share declined to 12%, while the Central Bank's role 88%.

The initial stabilization plan was intensified many times by the policy of Gerashchenko, the Central Bank chairman, who successfully employed the weapon of financial destabilization against the Russian government. It was the same weapon that the Russian leadership had used a year before in the struggle against union authorities in general and the USSR State Bank in particular whose chairman at that

time was Gerashcheko. The retirement of Gaidar and the majority of his government team was the payment for the failure of financial stabilization.

iii) Fedorov's Stabilization Policy

On the average, the growth of Central Bank assets from December 1992 to March 1993 totaled 41.5% of the GDP. Fortunately for Russia, the preservation of the high level of commercial banks redundant reserves led to a lowering in the credit multiplier and thereby continued to have a depressing effect on the growth rate of the money supply that has remained at the level of 17.4% a month. The result of this policy with the corresponding time lags has been a continuing devaluation of the ruble at practically the same rate; 17.2 percent a month from January to May and a certain increase in the rate of inflation to 22.8% a month between June and September 1993.

The Fedorov fiscal policy carried out the following : -

- The consolidation of all foreign economic transactions by the state and credits to enterprises. The last budget credit in the amount of 200 billion rubles (2.4% of the GDP) was granted by the Central Bank in April 1993. Beginning in April 1993, the budget cash deficit has repeatedly exceeded 10% of the GDP, but in the last quarter of 1993 it was reduced on the average to 6.1% of the GDP.

The credit policy was :

- The raising of interest rates on credits on commercial banks. As a result of pressure on the central bank's leadership, it was forced to raise the refinancing rate on March 30, 1993, to 100% annual interest; on June 2, to 110%; on June 22, to 120%; on June 29, to 140%; on July 15, to 170% on September 23, to 180%; and on October 15, to 210%,
- The Central Bank assets rose by 178% in the first quarter of 1992, by 207% in the second quarter, by 169% in the third quarter, and by 11% in the fourth quarter of 1992, in 1993 their quarterly growth decline to 69,50,55, and 36%, respectively.
- In policy regarding states in the ruble zone, the discontinuation of "technical" credits to CIS States, termination of mass deliveries of cash, consolidation of credits to CIS States in the federal budget, and sharp reduction of the volume of budget credits. While credits to the ruble zone comprised 8.2% of the Russian GDP in 1992 and 8.7% in the first quarter of 1993, subsequently, in general, they declined consistently to 2.9% of the GDP in the second quarter, 3.4% in the third quarter, and 0.1% in the fourth quarter.

The entire ten-month "Fedorov" stage of stabilization policy thus breaks down into two periods. In the first period (April- August 1993), its implementation was substantially complicated by the confrontation within the government and also on the part of the Central Bank and the Supreme Soviet, and therefore it had limited positive

consequences. In the second period (Sept 1993 - Jan 1994) it was more effective as a result of a significant weakening of political opposition. It was possible to lower the budget cash deficit to 6.7% of the GDP as compared with 7.6% in the first period. Consequently, the average monthly growth rate of the money supply dropped from 14.9% in the first period to 9.5% in the second period.

The irresponsible economic policy of the Chernomyrdin government and the CBR under the leadership of Gerashchenko was the cause of the financial crisis of the fall and winter of 1992- 93. The attempt at financial stabilization from March 1993 to April 1994 was the largest and most intensive to date. During its course, there were substantial successes in all directions of reform. Nevertheless, it was dashed for political reasons, as were previous attempts.

iv) Chernomyrdin's Macroeconomic Policy

In the first half of 1994, it did not appear that the departure of Gaidar and Fedorov from the government had led to appreciable changes in the economic policy of the Chernomyrdin government with the exception of the 16% drop in the exchange rate in January 1994.

By July and August there was a sharp drop in currency reserves, and for the first time in one and one half years, the rate of decline of the exchange rate surpassed the rate of inflation. The growth rate of prices doubled in September, but the exchange

rate of the ruble declined by 10.6%. Crisis descended upon the stock market and the state short-term bond market. The beginning of October was marked by monetary panic that culminated in Black Tuesday on October 11 when the exchange rate of the ruble dropped by 27% in a single day. Despite the fact that the Central Bank "returned" the ruble to its original position two days later, the aggregate drop in the exchange rate was 25% in October. The next wave of inflation was between October 1994 and January 1995. When the growth rate of prices jumped to 15 to 18% interest rates became negative once more, savings began to shrink in real terms, and a new stage in the "flight from the ruble" was ushered in.

The diminished propensity to save was due to an uneven decline in the Central Bank's refinancing rate to 205% on April 29, to 200% on May 18, to 185% on June 1, to 170% on June 23, to 155% on July 2, and to 130% on August 23. The increase in credit granted by the Central Bank was intensified by the growth of the credit multipliers and correspondingly, the money multipliers. As a result, the average monthly growth rates of the money supply rose from 9.5% to 12.1%. The onset of the wave of inflation was delayed for a certain time as a result of the lowering of the rate of monetary circulation in August by 25% as compared with April and the seasonal lowering of prices at the end of summer. The increase in prices was all the more intense when the inflation wave reached the consumer market in the fall and winter to 1994 1995 (Table -1).

Chubais's Stabilization Policy

The government learned a number of lessons from its own mistakes and from the failures of its predecessors. First of all, the tasks of financial stabilization were imposed on Chubais, whose status was raised to the government's first deputy prime minister responsible for the formulation and implementation of macroeconomic and financial policy. The prestigious commission for economic reform, which began work to secure the macroeconomic and technical aspects of financial stabilization, was formed from the most highly qualified government staffers. It, like the president's securities commission, the commission on credit policy, and the commission on nonpayments of the Russian federation government, was headed by Chubais. He later became an administrator from the Russian federation in the IMF and the World Bank, responsible for interrelations with these financial organisations.

The Central Bank repeatedly raised the refinancing rate to 170% on October 11, 1994; to 180% on November 17; and to 200% on January 6, 1995. Only on May 16, 1995, was it lowered to 195% and on July 20, to 180%.

Five months of continuous negotiations with the IMF culminated on March 10, 1995 with the signing of an agreement giving Russia a reserve credit of \$ 6.7 billion. The credit is paid out in monthly instalments of \$ 550 million each. The prerequisite to the next trench is the Russian government's fulfilment of the declaration on economic

policy of March 10, 1995, verified by the commission for monitoring the macroeconomic situation and economic policy, which was created by the government jointly with the fund.

The accelerated devaluation of the exchange rate between November 1994 and early June 1995 enabled the Central Bank to increase currency reserves very substantially by approximately \$ 4-5 billion. Their growth was particularly rapid in April - May 1995.

Macroeconomic policy remained moderate in the first quarter of 1995. The budget cash defect did not exceed 3.6% of the GDP, while Central Bank credits comprised only 1.3% of the GDP. The remaining 2.3% were financed by securities, including treasury bonds (TBS) at 1.8% and state short term bonds at 0.5% of the GDP. However, because of the substantial increase in currency reserves (by 3.5% of the GDP) the aggregate growth of Central Bank assets in the first quarter of 1995 was 6.6% of the GDP. The moderate fiscal and credit - monetary policy in the fall and winter of 1994-95 led to a deceleration in the rate of inflation in February May 1995 to 8 to 11% a month.

Over the last ten years, the USSR and Russia have pursued different fiscal and credit-monetary policies. Twelve stages of macroeconomic policy can be identified as criteria by dividing its most important macroeconomic indicators into periods (the budget deficit in percent of the GDP, Central Bank credits in percent of the GDP, the

growth rate of the money supply, the rate of monetary circulation, the rate of change of the nominal and actual exchange rate, the relative price index, and the rate of inflation). Differences among them are predetermined above all by differences in the actions of their principal authors, the heads of organs of power at various levels who have played a decisive role in the formation and implementation of a given macroeconomic policy. It is for this very reason that the various stages are named for the person who have exerted the greatest influence upon them.

The financial destabilization policy that has been carried out in the USSR and Russia and has been accompanied by the growth of the budget defect, by increased credit to the government and the economy from the Central Bank, by the decline of the exchange rate, and by the acceleration of the rate of inflation, already has quite a long history. It was pursued (Table-1) by the union government of Gorbachev and Ryzhkov from 1985 to 1990 (Gorbachev - Ryzhkov); by Russian authorities under Yeltsin in 1991 (Yeltsin); by Gerashchenko, head of the Central Bank of Russia, in the summer and fall of 1992 (Gerashchenko); by the Russian government of Chernomyrdin in late 1992 and early 1993 (Chernomyrdin), and also a large part of 1994 (Chernomyrdin).

Notwithstanding the failure of previous stabilization attempt, the general level of inflation over the past four years declined substantially (Table - 1). The rate of inflation dropped from a peak of 245% in January (1992) to 8% in May 1995. The gradual lowering of the monthly rate of inflation became especially noticeable beginning in

August 1993. The actions of Russian reformers over the past three and one-half years have been based on this modest success. They led to a consistent lowering in the growth rate of the money supply created by the granting of credit by the Central Bank.

Table 1

Inflation in the USSR and in Russia

Indicators	USSR 1986	USSR 1987	USSR 1988	USSR 1989	USSR 1990	Russia 1991	Russia 1992	Russia 1993	Russia 1994
Rate of increase for year %	-	-	-	-	-	-	-	-	-
GDP deflator					14.7	131.8	1,606.9	919.7	365.8
Wholesale prices in industry	1.0	0.5	0.9	1.7	3.0	138.0	1,949.0	887.0	2,330.0
Purchase price of agricultural produce	1.0	2.9	12.1	6.7	11.7	58.9	831.0	740.0	2,000.0
Prices on the collective farm market	-3.6	2.6	2.6	9.5	21.5	132.0	622.0	11,000.0	133.3
Consolidated consumer price index %	1.3	1.5	0.8	2.8	6.8	168.0	2,508.8	844.2	214.8

Source : USSR State Committee on Statistics, Russian Federation
State Committee on Statistics, Institute of Economic Analysis.

CHAPTER - IV

POST-REFORM CONSTRAINTS IN THE BANKING SYSTEM IN RUSSIA

1. Problems of Russian Banks:-

The contemporary Russian banking system is characterized by considerable geographic unevenness on the territory of Russia. Most banks (43%) are concentrated in the central region, mainly in Moscow. More than one-third of all Russian banks are located in Moscow.¹ Oases with a developed financial infrastructure (Moscow, St. Petersburg, etc.) border upon giant banking deserts that are the size of an average European country. In Ingushetia, the Yamalo - Nenets Autonomous Okrug, Khakassia, the Jewish Autonomous Oblast Adygea, Tuva, and so on, there are either few banks or no banks at all.²

-
1. Sazhin, A. "Chislo Bankov Prodolzhaet bystro rasti, osobenno Za schet Moskvyy" (The number of banks continues to grow rapidly, especially in Moscow). *Finansovye Izvestiia*, 1994, No.-53.
 2. "Kommercheskie banki osatiutsia samym rynochnym institucion V ekonomike strany" (commercial banks remain the most market institutions in the national economy). *finansovye izvestiia*, 1994, No-16.

In terms of banking-system development, the territory of Russia can be divided into five types :-

- (I) Banking centres that are characterized by a considerable predominance of banking assets relative to the financial resources of the base region (i.e. balances of accounts of the region's enterprises).
- (ii) Relatively exclusive regions that are characterized by a balance between the above-mentioned regions, these regions have an average or low orientation toward centralized credit investments.
- (iii) Regions supported by the government, characterized by a predominance of bank assets over funds of the region's economy, but with powerful financial investments as sources, the banks of these regions are characterized by high and average dependence on CBRF credits.
- (iv) Donor regions; the average assets of regional banks lag considerably behind the financial possibilities of the region's economy; small banks oriented toward servicing local enterprise prevail.
- (v) Outside regions, these are regions with average bank assets and a rather high rate of dependence on centralized credits, the influence of branch interregional banks is great.³

3. Proskurin, A. "Rezervy - eto ne nalong" (Reserves are not a tax). Delovoi mir, October 31, 1994.

There is one more problem, there are not enough large commercial banks able to operate with large monies allocated for enterprise support by the government. There are currently certain difficulties with investments. Whole sale trade organisations that are mostly served by commercial banks reduced their loan demands, which should have reoriented the banks towards financing industrial investments.

But poor government support for investment projects and very low financing for enterprises made this impossible, since interest rates on such loans are too high. In spite of this, interest rates at present are high enough to allow bank profits to keep pace with inflation.

Banks derived from the former specialized state banks (Promistroi - bank, Agroprombank, Zhilsotsbank, Sber-bank) give credits as before to their traditional clientele (on the whole, former state enterprise and organizations of the corresponding branches) and to shareholders at favourable rates. This fact forces less powerful banks to offer relatively attractive interest rates to keep their depositors.

There is therefore dangerous tendency of reductions in the share of bank's capital with respect to their assets, which diminishes bank's opportunities for refinancing. Extremely high costs adversely affect prospects for self-financing. Skilled bank personnel, which has to be paid extra high wages, is in high demand. the largest share of unpaid credits (which constitute up to 15 trillion rubles of the total 65 million

rubles of credit investments), growing enterprise arrears and insolvency, and high inflationary expectations force banks to maintain unprecedentedly excessive interest rates (Table-1).⁴

Table - 1

The Dynamics of Commercial-Bank Credits, Outstanding Accounts on Loans, and Card File To Settlement Accounts to Enterprises and Organizations (1994).

	Jan 1	April 1	July1	Sept. 1
1. Commercial-Bank Credits into National Economy (Billion rubles)	30,019	38,888	52,940	65,102
2. Discount rate of the Central Bank of Russia	210	210	155	130
3. Card file in banks (billion rubles)	17,686	32,497	60,063	80,639
4. Overdue Credits of Commercial banks (billion rubles)	3,623	6,507	11,590	15,038

-
4. Makarevich, L. "Gosundarstvo pytaetsia vosstanovit Zhestkii Kontrol'nad bankami" (The government is trying to restore tight control over the banks). Finansovye izvestiia, 1995, No.5.

Some other problems are:-

- The level of bank operations is still low.
- The extent of bank services is insignificant, and consumer credit is undeveloped.
- There are many problems in the legal security of the banking business, many questions are regulated by instructions of the former State Bank of the USSR, which are frequently not adequate to the requirements of a market economy; and
- A panic by depositors may arise in the event of Commercial Bank Bankruptcies.

How can Russian Commercial banks survive in these extreme economic conditions? Specialists in the financial business try to answer this question. Three future scenarios of the Russian banking system are currently under consideration.⁵

The first variant considers the possibility of yielding to the pressure of large banks, which advocate lower interest rates and easier money.

5. Makarevich, L. "Vlasti gotoviatisia K trem stsenariiam obostreniia bankovskogo Krizisa" (The authorities are preparing for three scenarios of the sharpening banking crisis). *Finansovye izvestiia*, 1995, No. 10.

The second variant proposes strengthening support and protection for the leading banks.

The third way is the most difficult. It takes into account the experience of similar critical periods in Germany, Japan, Mexico, and other countries. It suggests radically changing the system of extending credits in Russia.

(2) Problems of Integration of the Russian Banking System into International Banking :-

Russian economic situation inevitably influences the integration of the Russian banking system into the world banking sphere. Over 800 Russian banks currently have foreign licenses to cooperate with foreign banks, and 245 Russian banks have general licenses.⁶

6. Sedova, I. "Lishenie litsenzii - eto ochen' bolezennaya problema" (The cancellation of licenses - A very painful problem). *Biznes i banki*, 1995, No. 10.

In 1994, as the magazine *The Banker* States, five Russian banks were on the list of the one thousand biggest banks in the world in terms of authorized capital. Dozens of credit institutions have become members of the international payment system SWIFT, using new software and plastic cards. Big banks are developing most rapidly. Twenty of the biggest banks in Russia have achieved a level where integration into the international banking community is not a far off prospect. Among the leaders are Vneshekonombank, Sberbank, Agprombank, Inkombank, Mosbiznesbank, Stolichnyi, Kredobank, and Imperial. They have the largest ownership capital, assets and number of branches, which helps enrich the ownership credit base.⁷

However, there are serious obstacles to the integration of the Russian banking system into the world banking structure :

- (i) The problem of mentality, differences in understanding by Russian and foreign bankers of banking business philosophy.
- (ii) Differences in accounting systems and appraisals of financial results of banking activity.

7. "O denezhno - Kreditnoi politike" (on monetary - credit policy). *Biznes I banki*, 1994, no. 29.

- (iii) A lack of highly qualified bank personnel having knowledge of foreign language.
- (iv) Problems with the technical equipment of Russian banks.
- (v) A discrepancy between Russian and foreign structural arrangements, and
- (vi) Specific features of the Russian economy.

A number of problems must be solved before the Russian banking system can be broadly integrated into world banking markets, including.

- (i) The creation in Russia of a legal climate favourable for the development of banking activity, making it safe, profitable, and controllable. The state must provide favourable conditions to commercial banks for active participation in economic reforms in the country and must make the Russian market attractive for foreign capital, the legal status of banks with share capital can be characterized as unstable.
- (ii) legislation regulating credit-redemption security, the law on loans does not operate properly.
- (iii) The creation of an effective system of bank payments.

Russian banks need political and economic stability in the country, otherwise foreign capital will not flow into economy. Political risk is too high for foreign investors, Russia occupies too low a rating in investment attractiveness.

The problem of integrating Russian banks into world financial markets was central in the discussion at the International conference on the Banking Business that took place in Moscow recently. In order to support the integration process, conference participants proposed the following :

- i) Asking the government and state committee to draw commercial banks more broadly into the process of developing banking legislation.
- ii) Recommending that the government and the CBRF consider the question of Russia's membership in the Bank for International Settlements.
- iii) Proposing to the CBRF (together with the Association of Russian Banks) that it work out and pass international-level banking regulations.
- iv) Recommending to the Government, together with other CIS countries, that a center (Bank) for International Settlements (clearing house) be created for these countries.
- v) Recommending to Russian enterprises and companies interested in restoring trade with partners in Central and Eastern Europe that they make broader use of the possibilities associated with proposals for the creation of an ECU- clearing payments system.
- vi) Appealing to the CBRF to take the initiative in creating a risk centralisation system in order to increase banking system stability.

vii) Accelerating the adjustment of the Russian Accounting system to world standards and training highly qualified personnel in this sphere.⁸

3. Possible Improvement in the Banking Legislation in Force :

The state Duma has adopted a bill on the central bank of Russia, which is under consideration by the president at the present moment. It reinforces the statutes of the CBRF as the no. 2. federal bank the only issuing center, and the administrative service that supervises bank activity and settlement relations.

The important provisions of the bill are the following :

- The CBRF is not empowered to grant credits to the government for covering the budget deficit or to buy government securities during their initial placement, except as envisioned by the federal budget law.
- Open market operations (the purchase and sale of commercial and treasury bills, government bonds) and currency intervention were legalised, which will allow the CBRF to maneuver its financial resources.

8.Sudakov, V.B. "Rossiiskii banki i mirovoi finansovyi rynok" (Russian banks and the international financial market). Biznes i banki, 1995,

- The CBRF is empowered to grant credits on the collateral of capital issues and other assets, to purchase and sell checks, ordinary bills, and bills of exchange, and to operate with government papers in the secondary market.
- A term limitation on clearing settlements will be introduced, two days within the limits of a subject of the federation, five days within Russia.⁹

The state Duma considering the bill "on Amendments to the Law on Banks and Banking Activity in the RF", this bill has been developed by different political forces and, naturally, bankers. Among the main participants are the Association of Russian Banks, the Bank Finance House, the president's economic advisers, and experts from the Finance Ministry and the CBRF.¹⁰

The new items of the bill are the following :

- Limitation of official access for foreign banks to the Russian market; the quota of foreign banks shareholding is fixed by the State Duma upon the recommendation of the CBRF; if the quota is exceeded, the CBRF must stop granting licenses to banks with foreign investments and branches of foreign banks.

9. Ivanov, V. "Pobeda TSB byla Predreshena" (The CBRF's Victory was preordained). Kommersant - Daily, 1995, no. 15.

10. Ivanov, V. and Loginov, M. "Alians Vlasteis bankami Sokhranilsia" (The authorities' alliance with the banks has persevered). Kommersant-Daily, 1995, no. 12 (January 25).

- The requirement of obligatory registration in the CBRF of all amendments and supplements in statutes concerning commercial banks.
- Recognition of commercial banks as official participants in the securities market, with the granting of a license by the Federal Securities committee.
- Extension to customers of the right to open the necessary number of settlement, deposit, and other kinds of accounts in any currency in credit institutions.
- Empowerment of the CBRF to close down (by court order) companies that carry out banking operations without a license, and
- Establishment of the Federal Fund for compulsory insurance of individual bank deposits.¹⁰

Many things depend upon the CBRF, but it is not able to settle all questions. In order to solve the problems in the monetary sphere, we need a comprehensive and systemic approach and joint efforts of all the parties concerned.¹¹

11. Paramonova, T. "Bank Rossii; Vzgliad V budushchee" (The Bank of Russia: A glance at the future). *Ekonomika i Zhizn*, 1995, No. 9.

Thus, during the past three years the CBRF, in cooperation with commercial banks, has done much to promote the development of a two tiered banking system in Russia. Its importance in the gross national product and in the allocation of resources into branches and regions that need them has been greatly increased.²

Banks have become a powerful lever for an efficient economy and the correction of structural deformities in the Russian economy.

The state of the Russian domestic financial market (currency exchanges, bank currency and credit markets) testifies to the development of Russian banks. The most important instruments of banking activity are government short term bonds, banks bills of exchanges, gold certificates, and other securities.

For the short term, commercial banks created a great number of bank, financial, and other institutions located in different countries. This process will accelerate after the adoption of the Law "on Banking Associations and Holdings", the Law "on Credit Societies", the Law "on Government Obligations", the Law "on Compulsory Insurance of Deposits of Individuals", the Law "on Foreign Investment", and other legislative acts.

Commercial banks were the first to enter the market and learn to work in market conditions. If, according to different appraisals, 60 to 90% of production in Russia remains under state control, radical denationalization of the banking sector has already taken place.

CONCLUSIONS

Achieving long term macroeconomic stability and building up a market economy in Russia will be impossible without creating a coherent banking system that rations credit, controls the money supply and operates the profit mechanism.

Uptill the reform of 1987-88, the USSR had a monobank system. The Council of Ministers had direct overbearing Gosbank (the Central Bank). The restructuring began in 1987-88 when the Soviet Union created two-tiered banking system, Gosbank became the Central Bank of the Soviet Union and was put in charge of implementing a stable currency supervising commercial banks and facilitating interbank settlements. in November 1991, the Central Bank of Russia took over CBSU functions in the Russian Federation, and the CBSU itself was formally liquidated in December 1991.

After disintegration, problems resulting from the old banking system include, the unhealthy relationship among the legislative apparatus, state enterprises and banks; the poor payments system; the over specialisation of banks; the values; incentives and habits of Soviet trained bank personnel; the dual monetary circuit regulatory confusion, the lack of tools to affect monetary policy, the legacy of bad loans to enterprises, the absence of information,

expertise and technology available to the banking system; and the banks role in collecting taxes.

The Russian Central Bank, which replaced CBSU, presently has three direct instruments of monetary policy - credit emission, cash money emission and limited control over interest rates. 'Spetsbanki' are the second tier of banks. Three of those - Promstroibank, Agroprombank and Zhilsofsbank.

In addition to the structural transformation of these old banks, three new types of banks have come up, i.e. joint venture banks, 'wildcat' banks and domestic commercial banks.

Despite the dramatic changes that have been brought about in Russian banking sector, there are major problems that need to be weeded out. The major problem that inflict the Russian banks are :

- I. Low level of banking operations.
- II. Immature credit system
- III. Insufficient legal security in bank transactions.
- IV. Losing of confidence by depositors at the bankruptcy of commercial bank.
- V. Insufficient exposure of banks to the new needs of market economy.

Commercial banks provide many services that are needed for economic development. First and foremost, they provide a healthy payments system without which economic growth would be severely hampered. Second, banks intermediate public deposits to invest in business firms through loans and purchases of securities. Banks provide a wide range of other financial services that are instrumental to these activities, including insurance, foreign exchange, cash-management services, and international-trade services.

Another often-overlooked service provided by banks is the dissemination of information about firms. This information enables banks and other institutions in the financial system to allocate scarce capital efficiently to the best productive purposes. Thus, well functioning and profit making banks bolster economic productivity, incomes, and the real wealth of the nation.

Today, there are over 2,500 private commercial banks having their presence in Russia. The majority of Russian banks are only seven years old. The opening of private banks was done on August 17, 1990, of order by the Chairman of the Board of RSFSR State Bank (Gosbank), which got autonomy from the clutches of the Council of Ministers, have crossed only the first stage of formation and are now in the second stage. But some bigger banks have entered the third stage of development.

In April 1993, the Russian Central Bank sought to limit foreign banks entry into the country and ruled that foreign banks may have limited ownership to the tune of 12% equity in Russian commercial banks and can only establish their own branches with a minimum initial capital of US\$ 5 million (only \$ 180,000 is required for a Russian bank).

Given the last five years trend of spiralling inflation, Russian banks are required to encourage more and more changes that are vital for the economic betterment of the people as well as for the country. Russia, presently, is undergoing depression in various levels including the strategic sphere, is required to initiate more reforms in the banking sector so that the Russian economy becomes more competitive and development oriented. Russia being caught in the grip of overnight changes in the Eastern Europe as well as elsewhere has to strengthen it economically so that it could rise up as a major force in the world and gain its lost glory.

BIBLIOGRAPHY

Primary sources : -

Banking sector Reform in Central and Eastern Europe, IMF, 1994.

Edict No. 1924 of the President of the RF. 'On the activity of foreign banks and joint banks with the participation of the means of non-residents on the territory of the Russian Federation', November 17, 1993.

Edict No; 1006 of the President of the RF, 'The Implementation of comprehensive measures for the timely and full payment into the budget of taxes and other mandatory payments', May 23, 1994.

Edict No. 1924 of the President of the RF, 'The activity of foreign banks and joint banks with the participation of the means of non-residents on the territory of the Russian Federation', November 17, 1993.

Establishing monetary control in financial systems with insolvent institutions', IMF, 1994.

IMF. 'Fiscal developments in economics of transition under fund-supported adjustment programs'. Fiscal Affairs Department Mimco, Washington, D.C., Jan 10, 1994a.

IMF. 'Russian Federation - Recent developments'. Mimco, Washington, D.C., August 31, 1994d.

IMF. 'Russian Federation: Staff report for the 1993 Article IV consultation', Mimco, Washington, D.C. April 2, 1993a.

IMF, 'Russian Federation: Use of resources, request for purchase under the system transformation facility', Mimco, Washington, D.C., June 15, 1993b.

Letter No. 14 of the CBRF, 'Statute on Noncash settlements in the RSFSR', July 9, 1992.

Letter No. 15/945 of the CBR 'On questions of the regulation of the activity of branches of commercial banks, their subsidiary banks and representative', May 18, 1991.

Letter No. 35 of the Central Bank of RF, April 28, 1993.

Telegram No. 13-95 of the Central Bank of the RF, January 17, 1995

Telegram No. 47-94 of the Central Bank of the RF, February 21, 1994.

Telegram No. 221-94 of the Central Bank of the Russian Federation, Dec. 27, 1994.

World Bank, Russian Economic Reform : Crossing the threshold of structural change (Washington, D.C., The World Bank, 1992). P. 106.

Secondary Sources :

Books :

Babichev, M. Iu.; Babicheva, Iu.A.; Trokhova, O.V; et al. Bankovskoe delo : spravocnoe posobie (Banking affairs : Informational handbook). Ed. Babicheva, Iu.A. Moscow : Ekonomika, 1994.

Berezina, M.P., and Krupnov, Iu.s., Mezhsbankovskie raschety : Prakticheskoe posobie (Interbank accounting : A practical handbook). 2d revised and supplemented ed. Moscow : Finstatinform, 1994.

Dobbert (Gerhard), ed. Soviet Economics, London, The Bodley Head Ltd., 1993.

Garvy (George), Money, Financial Flows, and Credit on the Soviet Union, Cambridge Ballinger Publishing Company, 1997.

Hubbard (L.E.), Soviet Money and Finance, London, MacMillan and Co., United St., Martin's Street, 1936.

Korobov, Iu.I.; Rubin, Iu.B.; and Soldatkin, V.I., eds. Bankovskii (1) Portfol' Kniga bankira. Kniga Klienta. Kniga investora (The banker's portfolio. The banker's book. The client's book. The investor's book). Moscow : Somintek, 1994.

Nova (Alec), The Soviet Economic System, London, George Allen & Unwin, 1977.

Schwartz (Harry), Russia's Soviet Economy, New Delhi, Prentice Hall of India Pvt. Ltd., 1963.

Spulber (Nicolos), The Soviet Economy, Structure, principle, problem, New York, W.W. Norton & Co., Inc, 1969.

Sturat (and Gregory), Soviet economic structure and performance, London, Harper & Row, Publishers, 1974.

The U.S. Library of Congress (The Legislative Reference Service), Trends in economic growth, New York, Greenwood Press, Publishers, 1968.

Articles :

Abalkin, (L), 'The current crisis and prospects for the development of the Soviet economy', Problems of Economic Transition, June 1992, Vol 35, No. 2

Aleksashenko (S), Kostiuikova (E), and Nikologorskii (D), 'A Managed Rate : Why not ? : The possibilities and consequences of the transition to a managed ruble exchange rate'. Problems of Economic Transition, June 96, Vol 39,. No. 2.

Anderson (Sheldon), ' Dollar to Poland is a Dollar to Russia : United States economic diplomacy toward Poland 1945-1950. East European Quarterly', 26(1); Spring 1992, pp. 76-108.

'Banking and financial reform in Russia, Poland and Hungary', Russian and East European Finance and Trade, 30(5); Sep-Oct. 94, (Series of articles).

Blinov, (I), Drugova (A), and Ushanov(P), 'Will Banks continue as Generators of inflation ?' Problems of Economic Transition; May 1992, Vol. 35, No. 1, pp 74-91.

Choosudovsky (Michel), 'Russian under IMF rule', Economic and Political Weekly, 28 (15), 10 Apr. 93.

Deliagin (M), "The banking crisis in light of basic tendencies of economic development of Russia" Problems of Economic Transition, July 1996, Vol. 39, No. 3.

Easterly, (William) and Cunha. (Paulo Vieira da), " Financing the storm : Macroeconomic crisis in Russia", Economics of Transition 2 (4); Dec. 94.

Fan. (Qimiao) and Schaffer (Mark, E.), "Government Financial transfers and enterprise adjustments in Russia, with comparisons to Central and Eastern Europe", Economics of Transition, 2(2); 1994.

Gaidar (E), "At the beginning of a new phase : An economic review", Problems of Economics 34(6); Oct. 91.

Gaidar, (E), and Matiukhin (G), "Memorandum on the economic policy of the Russian Federation", Problems of Economic Transition, Nov. 1992, Vol. 35, No. 7.

Gatrell, (Peter) and Lewis (Robert), "Russian and Soviet economic history", Economic History Review, 45(4), Nov. 92, pp. 743-54.

Glaz'ev (Sergei), "Economic Policy : Problems of the present, model and imperatives of the new model" Problems of Economic Transition, Vol. 38, No. 2.

Gomulka (Stanislaw), "IMF - supported programs of Poland and Russia, 1990-1994, Principles, errors and results", Journal of Comparative Economics, 20 (3), June 95.

Granville, (Brigitte), "Price and currency reform in Russia and CIS, Russian and East European Finance and Trade, 29 (1); Spring 1993; pp 3-67.

Hoch (Steven, L.), "Banking crisis, peasant reform and economic development in Russia 1857-1861", American Historical Review, 96(3); June 91.

Illarionov (A), "Attempts to carry out policies of financial stabilisation in the USSR and Russia", Problems of Economic Transition, June 1996, Vol. 39, No. 2.

Islam (Shafiqul), "Russia's rough road of capitalism : foreign affairs", 72(2), Spring 1993.

Johnson (Juliet , Ellen), "Russian banking system : Institutional reponses to the market transition" Europe-Asia Studies, 46(6); 1994.

Kagarlitsky (Boris), "Rise of democratic left : Anti-IMF feelings in Russia", Mainstream, 31(5): 12 Dec. 92, pp 17-26, (Interview).

Kashin (Iu), "On the problem for assessing the state of the circulation of money and programs for its stablization", Problems of Economic Transition, Vol. 36, No. 7.

Khanin (G), "Economic crisis in Russia : possible ways out", Problems of Economic Transition, 36(2); June 93, pp 23-7.

Kokorev (V), and Remizov (A), "Modernization of Russia's credit system under conditions of liquidity crisis" Problems of Economic Transition, Dec. 96. Vol 39, No. 8.

Kuznetsov (N), " The liberalization of monetary circulation", Problems of Economic Transition, Dec. 1996, Vol. 39, No. 8, pp 6-32.

Lavrushin (O), "The bank and the national economy", Problems of Economic Transition, August 1992, Vol. 35, No. 4.

Lewin (Moshe), "Russia: nationalism and economy, dissent", Spring 1992, 172-75.

Medvedkov (S), "Banking system in the economy of the transition period", Problems of Economic Transition, 36(7), Nov. 93, pp. 66-78.

Medvedkov (S), "Economic policy and the banking system" Problems of Economic Transition, Aug. 96, Vol. 39, No. 4.

Medvedev (V), "Privatization : A System of Priorities", Problems of Economic Transition, 35(11), Mar. 93, pp. 79-87.

Mekhriakov (V), "The Russian Banking System : The Current Situation and Problems of Development", Problems of Economic Transition, Aug. 96, Vol. 39, No. 4., pp 82-91.

_____, "Outlook for the stabilization of the Russian economy in 1994", Problems of Economic Transition, Mar. 95, 37(11); pp 67-87.

Petrik, (Alexander), "The role and functions of the Central Bank : Instruments of Credit - Monetary Policy", Problems of Economic Transition, March 1996, Vol. 38, No. 11, pp. 16-23.

Petrenko (I), "Commercial Banks and Financial Industrial Groups", Problems of Economic Transition, Aug. 96, Vol. 39, No. 4.

Popov, (Gavriil), "Economic Reform in the Country and the Capital", Problems of Economic Transition, 35(9): Jan 93, pp. 63-71.

Popov (Gavriil), "Economic Reform in the Country and the Capital, Russian Social Science Review, 34(3); May-June 93; pp. 34-42.

Pugachev, (V), and Pitelin, (A), "Russian Inflation : How to interpret, Model and Control It", Problems of Economic Transition, Sept 1995, Vol. 38 No, 5, pp. 18-41.

Shmeleva (Natalia), "Property reform and the Financial System", Problems of Economic Transition, May 1994, Vol. 37, No. 1, pp 25-37.

Sinel'nikov (S), and Murylev, "State Finances in 1995 and the Draft Budget for 1996", Problems of Economic Transition, July 1996, Vol. 39, No. 3, pp. 54-83.

Simonov (V), "Credit Reform in the USSR", Problems of Economic Transition, June 1992. Vol. 35, No. 2, pp 77-95.

Starodubrovskaya (Irina), "Financial Industrial groups : Illusions and Reality", Communist Economics and Economic Transformation, 7(1), Mar 95.

Stepanov (Iu), "The experience of foreign countries in organizing the work of Central banks", Problems of Economic Transition, July 1996, Vol. 39, No. 3.

Tedstrom (John) "From crisis to economic stabilization and subsequent growth", Problems of Economic Transition, Oct. 1995, No. 38, No. 6, pp 7-60.

Tedstrom (John), "Reforms and the Development of the Russian Economy in 1995-1997", Problems of Economic Transition, Jan 96, Vol. 38, No. 9.

Vanoskii (Mikhail. Gel), "Russia on the path to a normal economic system", Problems of Economic Transition, 37(3); July 94, pp 47-61.

Vernikov (A.V.), "Convertibility of the Russian Currency", Russian Social Science Review 34(3), May-June 93; 43-58.

Vernikov (A.V.), "Convertibility of the Russian Currency : New approaches", Russian and East European Finance and Trade, 28(3), Fall 1992, 3-18.

Volkov (A.), "Financial Statistics and the Transition to the Market Economy", Problems of Economics, 34(7); Nov. 91, pp 82-91.

Voevodskaia (N.P.), "Condition of the financial market in Russia", Russian and East European Finance and Trade, 31(2); Mar-Apr. 95.

Wanniski (Jude) "Future of Russian Capitalism", Foreign Affairs, 71(2); Spring 1992, pp 17-25.

Watson (D.R.) "Rise and fall of the Russo-Asiatic Bank " Problems of a Russian Enterprise with French Shareholders 1910-26", European History Quarterly, 23(1); Jan. 93, pp 39-50.

Zadornov (Mikhail), "The state of the economy and prospects for the immediate future", Problems of Economic Transition, January 93, Vol. 35, No. 9.

Zevin (L), "The Economic Space of the CIS", Problems of Economic Transition, January 1995, Vol. 37, No. 9, pp 6-19.

Zhukov (S), Monetary aspects of Russian Reform Part II", Problems of Economic Transition, 37(1), May 94; pp 38-55.

Journals and Periodicals :

Foreign Affairs (New York)

International Affairs (Moscow)

International Affairs (London)

Link (New Delhi)

Mainstream (New Delhi)

Problems of Economic Transition (New York)

Reprints from the Soviet Press (New York)

Russian and East European Finance and Trade (Armonk,)

Soviet Studies (Glasgow)

Summary of World Broadcasts (London)

The Current Digest of the Soviet Press (Columbus, Ohio)

World Focus (New Delhi)

Newspapers :

Indian Express (New Delhi)

Moscow News (Moscow)

New York Times (New York)

The Hindu (Madras)

The Times (London)

The Times of India (New Delhi)