Russia's 'Ministry of Cash': Sberbank in Transition

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> *Over the last five years, Sberbank has been transformed before our eyes from an amorphous, unwieldy mechanism for collecting money for the government into a normal commercial bank—indeed, the largest bank in our country.*
>
> Ivan Zhagel', *Finansovye izvestiya*[1]
>
> ... *Sberbank is being transformed from a universal financial institution into an instrument for the conduct of state policy.*
>
> Maksim Akimov, *Kommersant*"[2]

With a construction boom under way in Moscow, it is perhaps significant that the two most striking new additions to the skyline of Russia's capital—apart, perhaps, from Mayor Luzhkov's ill-conceived monument to Peter the Great—are the new headquarters built by RAO Gazprom and the Savings Bank of the Russian Federation (Sberbank) south of the city centre.[3] These much criticised skyscrapers are surely an accurate reflection of the distribution of economic power in the new Russia, reflecting the importance of the energy and banking sectors in general and of the two largely state-owned giants which dominate them in particular. Yet while Western observers of Russia have long been aware of the political connections and financial power of Gazprom, and have closely followed the controversies surrounding it, remarkably little attention has been paid to Russia's largest bank. To a certain extent, this is true within Russia as well: while there has been no shortage of controversy surrounding Sberbank, its political profile has been far lower than Gazprom's, and neither government reformers nor multilateral lenders have shown much eagerness to press for its privatisation or restructuring.

This in itself requires explanation. The 'non-story' of Sberbank's non-privatisation is interesting precisely because it presents such a stark contrast to the situation in Central Europe, where governments have come under pressure to privatise and, where necessary, break up state-owned banks. In the case of Sberbank, privatisation and restructuring have barely even appeared on the political agenda, a fact which is mute testimony to the power of the coalition protecting it. Ironically, the bank's state ownership and privileged status have been defended most vigorously not by 'conservatives' in the Duma or the government, nor even by Sberbank's own managers, but by leading reformers in the finance ministry and the central bank. The goals they are pursuing are above all macroeconomic: policies have been directed not towards

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establishing a sound banking system but towards ensuring that Sberbank remains a ready source of cheap credit to the government. Indeed, it is no exaggeration to describe Sberbank as the country's number one 'pocket bank'—the pocket bank of the federal government.

This article will examine Sberbank in three sections. The first section analyses the peculiarities of Sberbank's position in the banking sector: its size, its ownership and control arrangements, its enjoyment of state guarantees and its role as a provider of credit to the government. The next section examines the challenges to Sberbank's ability to maintain this position, including commercial challenges and retail market development, as well as political and legal threats to its status. This is followed by a brief conclusion which considers the implications of this state of affairs for both the banking and real sectors.

The Gazprom of the Banking Sector

The most remarkable aspect of Sberbank's position is its massive (by Russian standards) size. On 1 November 1997 the bank held 106.5 trillion rubles in household deposits, 76.9% of household ruble deposits in the banking system. The bank also held around 10.4% of all corporate ruble deposits, up from just 5.5% at the start of 1996.[4] These data leave little doubt about Sberbank's command of the deposit base: its nearest rival in the retail market, Stolichnyi Bank Sberezhenii,[5] held just 1.67 trillion rubles' worth of household deposits at 1 October 1997 (compared with a figure for Sberbank of 106.5 trillion at that date). Inkombank ranked third, with 1.62 trillion rubles in retail deposits, followed by Agroprombank, with 1.60 trillion (its retail deposits are counted separately from those of SBS-Agro) and Most-Bank, with 1.17 trillion; no other bank had crossed the trillion-ruble threshold.[6] On the other side of the balance sheet, the bank boasted 252.9 trillion rubles in assets at the start of 1997, as against 26.2 trillion for state-owned Vneshtorgbank and just under 20.2 trillion for Oneksimbank, then the largest of Russia's private commercial banks (*kombanki*) in terms of assets.[7]

By global standards, Sberbank is not impressively large: in July 1997 *The Banker* ranked it 344th in the world in terms of tier-1 capital and 300th in terms of total assets.[8] By comparison, however, the highest-ranking *kombank*, Oneksimbank, was rated 504th on tier-1 capital and 807th in terms of total assets.[9] Sberbank holds roughly 40% of the total deposits in the Russian banking system,[10] equal to about 35% of broad money (ruble M2) in May 1997.[11] Moreover, its network of over 33 000 branches is vastly larger than that of any other Russian bank: most Russian banks have only one or two branches, and even Inkombank, the second largest player in the retail market (in terms of total deposits), had 57 in January 1997. The one exception is SBS-Agro (formerly Stolichnyi Bank Sberezhenii), which has just over 1200 branches as a result of its purchase of a controlling stake in Agroprombank. However, many of these are in unpromising rural areas.[12] In most areas of Russia, Sberbank is still the only bank available.[13] Largely for this reason, virtually every Russian adult is, in some capacity, a client of Sberbank. Citizens still pay their housing and communal services charges via Sberbank branches, millions receive salaries, stipends and pensions through them, and holders of State Savings Loan Bonds (OGSZ) receive their interest payments through Sberbank.[14]

The Recovery of a Monopoly

More striking than Sberbank's size, however, has been its resurgence since 1994.

The early years of economic transformation saw a marked erosion of Sberbank's position in the market, which was dramatically reversed in 1995–96. Its share of total household deposits, generally seen as the most important indicator of its market power, fell from above 90% in 1991 to roughly 40% in the summer of 1994; largely as a result of the collapse of MMM-style investment funds and evidence of trouble in the banking sector, Sberbank's market share then recovered to over 60% in early 1995, reaching 68% by the beginning of 1996 and crossing the 75% mark in early 1997.[15] This growth in market share has, moreover, been achieved against the backdrop of rapid growth in total household deposits, which jumped by 42.1% in the year to May 1997, as against an inflation rate of just 14.6% over the same period.[16] Overall, retail deposits in Sberbank rose by 69% in 1996.[17] Household deposit growth slowed markedly in 1997: total retail deposits rose by 11.4% in the first three quarters. However, corporate deposits were actually declining in real terms over the same period.[18]

This recovery has been highly profitable: the bank recorded a 14.5 trillion ruble pre-tax profit in 1996, up from 4.3 trillion in 1995. While Sberbank's 1997 profit will not match the 1996 figure, the pre-tax profit for January–September 1997 amounted to 4.16 trillion rubles, reflecting the sharp fall in bank profits across the sector in 1997.[19] These profit figures are particularly striking when compared with the total 1996 profit of the 100 largest Russian banks, estimated at just 29.5 trillion rubles.[20] Some allowance should be made for the fact that private banks may well go to greater lengths than Sberbank to conceal their profits and thus hold down their tax bills, but there is no doubt that the state-owned giant accounts for a huge portion of the sector's total profits.

Given its commanding position at the start of the market transformation, Sberbank's current dominance might seem more or less inevitable. However, it was not by any means a foregone conclusion that the bank would weather the first stages of the transition as it has done. Its future after 1991 was threatened by two major challenges: fragmentation and economic instability.

In contrast to Promstroibank, Agropromstroibank and Zhilsotsbank, the specialised state banks (*spetsbanki*) created by the 1988 banking reform, Sberbank has essentially retained its institutional integrity. The former fragmented to a considerable degree in the early 1990s as a result first of decentralisation and subsequently of the de facto 'secession' of many of their branches via new share issues, although Agroprombank (now a part of SBS-Agro) and Promstroibank have remained among the largest Russian banks.[21] There are at least three reasons why Sberbank did not break up in similar fashion. First, Sberbank's local outlets never possessed the degree of autonomy enjoyed by the local branches of the *spetsbanki*, although conflicts between the all-Russian parent and provincial (republican) Sberbanks are by no means unknown. Secondly, Sberbank's viability depends above all on its reputation as a bank that cannot fail, which in turn depends on its status as a state bank. If a regional Sberbank were to 'secede' from the parent bank, it would probably lose depositors rapidly. A third reason, closely related to the first two, is that, because Sberbank performed a limited range of relatively simple operations for a very large number of clients, Sberbank managers were and are less likely than the managers of banks with a corporate focus to know their clients and to be able to build the kind of relationships needed to take those clients with them in the event of a separation from the parent bank. This contrasts with the situation of managers in, for example, important regional branches of Promstroibank, who typically enjoyed established working relationships with a few key client enterprises.

Indeed, not only has Sberbank not broken up, but the current leadership of the bank, installed in January 1996, has actually tightened central control over its regional branches. Discretion with respect to deposit rates on retail deposits has been all but eliminated: a uniform policy is to prevail across the country. Moreover, regional Sberbanks' freedom to execute certain types of financial market transactions without Moscow's approval has been curtailed. There has, however, been a countervailing trend in the corporate market—individual branches have much greater flexibility in dealing with corporate clients—as well as a growing willingness to link decentralisation to performance, with more profitable branches being allowed greater autonomy in their operations and vice versa.[22] Flexibility is a sine qua non in the corporate market, where major customers are far more demanding than retail savers and often want services tailored to their needs.

For a time, macroeconomic instability appeared a more serious threat to Sberbank's position than fragmentation. The triple-digit inflation of 1992–95, which directly facilitated the rapid growth of many of the new commercial banks, dealt a triple blow to Sberbank. First, the retail deposit base on which it relied shrank dramatically in both real terms and relative to corporate deposits. At the end of 1991 the volume of household ruble deposits in the banking system exceeded that of enterprise deposits; a year later, household deposits were equivalent to just 18% of enterprise deposits.[23] This was because rapid inflation and negative real interest rates on deposits of all kinds eliminated the incentives for households to hold rubles, while enterprises were constrained by a host of financial regulations to maintain undesirably large ruble balances in their transaction accounts.[24] Moreover, the massive emission of soft credits and subsidies to enterprises which characterised 1992–93 ensured that enterprise balance sheets did not contract in real terms nearly as sharply as did household balance sheets. This is a common phenomenon in transition economies and is one reason why, in Russia and elsewhere, financial stabilisation has been followed by faster growth in household deposits than corporate ones.[25]

The second blow to Sberbank was that, at the start of the transformation, it was required to lend the state virtually all of its available funds at very low nominal interest rates.[26] The debt was repaid in the spring of 1993, by which time the hyperinflation of 1992 had drastically reduced its real value.[27] The government's action was later blamed by the bank for a third problem: the failure to pay interest rates to depositors which were even close to the rate of inflation (in fact, real interest rates remained negative long after the debt had been repaid[28]). In one obvious respect, of course, this was all to the good from the bank's perspective: the negative real interest rates paid on deposits in 1992–93 allowed Sberbank to generate enormous margins on other activities—or at least limited the damage done by lending to the state at negative real interest rates. However, hyperinflation and negative real interest rates also contributed to the rapid erosion of the retail deposit base and led to Sberbank being blamed for its failure to protect citizens' savings from high inflation. The bank continues to be involved in legal battles arising from the obliteration of private savings deposits in the early years of transformation and from its own (sometimes dubious) attempts to limit the application of subsequent legislation on the payment of compensation to depositors.[29]

By the middle of 1994, then, it appeared that macroeconomic instability might 'solve' the problem of Sberbank without any action by the government: Sberbank's monopoly of retail deposits was being rapidly eroded, and the volume of retail deposits relative to the total deposit base had shrunk dramatically. Aggressive commercial banks like Inkombank and Stolichnyi Bank Sberezhenii were already making significant inroads into the market for household deposits, especially in the capitals. Many citizens were also investing heavily in new investment companies which promised (and, in some cases, delivered for a time) staggering returns, while more cautious savers simply opted for the security of foreign cash kept at home.

Sberbank's recovery owed much to external factors. The failure not only of obviously dubious pyramid schemes and credit institutions but also, in due course, of some apparently solid banks played a vital role, as did the absence of any form of deposit insurance covering private banks (Sberbank deposits are guaranteed by the state). At the same time, the growth of the government securities market, in particular, provided the opportunity to invest virtually unlimited sums of depositors' funds in safe, highly liquid and lucrative instruments. However, there is no doubt that Sberbank also responded to the challenge of competition. By all accounts, service improved, even if critics argue that the bank continues to serve clients less well than the private *kombanki*[30]—which is almost certainly true in areas where Sberbank faces little or no competition. The bank has invested heavily in technology designed to increase the speed of operations within it—Sberbank has been the largest single Russian client of Hewlett Packard in recent years[31]—as well as in the provision of automated teller machines and plastic cards to clients. Some 35 000 cards were issued in March–June 1997, with another 130 000 applications pending; the bank expected to issue 200 000 more cards by the end of the year.[32]

It will be argued below that Sberbank's dominant position is being challenged on a number of fronts and is likely to be eroded; nevertheless, it is at the moment, and will for some time remain, by far the biggest player in the Russian banking sector.

Ownership and Control

Sberbank's unique position in the Russian banking sector is, of course, largely a product of its ownership status and preferential treatment by the authorities. Sberbank remains over 50% state-owned, with the state's share being managed by the Central Bank of Russia (TsBR).[33] This arrangement has generated criticism, as it means that the sector's regulator is also the de facto owner of its largest bank.[34] There is little doubt that this raises a conflict of interest for the TsBR, which until 1 January 1997 did not require Sberbank to meet the reserve requirements to which other banks were subject[35] and which continues to accord Sberbank a special status. According to Sergei Aleksashenko, first deputy chairman of the TsBR, Sberbank's position with respect to mandatory reserves was by mid-1997 'roughly equal' to that of other banks, but it is expected to come into full compliance with other central bank norms only towards the end of 1998.[36]

Even then, however, Sberbank will, according to TsBR Chairman Sergei Dubinin, remain exempt from the controversial requirement (known as 'N11') that a commercial bank's retail deposits not exceed its paid-up capital.[37] N11 has irritated commercial bankers, who argue that it constrains their ability to compete with Sberbank and that it is methodologically unsound, as both elements of the equation are on the liability side of the balance sheet. It has been blamed by some observers for checking the growth of the commercial banks, since the drying-up of other sources of funds has made retail deposits increasingly important, especially for hard-pressed regional banks.[38] The Association of Russian Banks has argued for a change which would link retail deposits to highly liquid, reliable assets.[39] The fact that N11 applies only to ruble deposits and not to hard currency reinforces the perception that its purpose is to constrain would-be challengers to Sberbank—

especially given that the exemption of forex deposits runs counter to TsBR efforts to 'de-dollarise' the economy. In April 1997 Inkombank chief Vladimir Vinogradov claimed not only that the regulation impeded the growth of the banks' retail deposit bases but also that the TsBR 'leadership' had rejected amendments to the regulation drafted by bank officials which would have made it less burdensome to commercial banks.[40] The apparent lack of enthusiasm at TsBR for either the privatisation of Sberbank or the speedy introduction of deposit insurance further points to a desire to preserve the savings bank's unique position and to ensure that it remains under central bank control for the foreseeable future.

Although its roots go back to the nineteenth century, Sberbank's modern history as a commercial institution began with the 1988 banking reform, which gave the USSR Sberbank, hitherto no more than a specialised department of the State Bank, considerable autonomy. In 1991 the RSFSR Sberbank was reorganised as a joint stock company and won its independence from its all-union parent. However, its autonomy was limited, as the Bank of Russia retained control of a majority stake. The cabinet, moreover, initially continued to give directives to the bank on such issues as interest rate policy, although critics pointed out that there was no longer a legal basis for it to do so; the government soon began to make 'recommendations' instead.[41]

Control over Sberbank has remained an issue ever since. In early 1993 the central bank submitted to parliament a proposal to amend article 41 of the banking law then in force, which defined the status of Sberbank. The amendment would have ended Sberbank's existence as a joint stock company and made it federal property managed by the central bank. A note accompanying the proposal provided its rationale: the TsBR felt that Sberbank's pursuit of 'excessive profits' had led it to undertake risky credit market operations, which were incompatible with the state guarantees it enjoyed.[42] Given that TsBR Chairman Viktor Gerashchenko also headed Sberbank's supervisory board and that the central bank controlled 50% plus one share of Sberbank's equity, it is not entirely clear why the TsBR felt the need further to strengthen its hold over the bank; more than a simple desire to protect depositors seems to have been involved. It may be significant that the amendment was proposed shortly before the first auctions of government treasuries were to take place. Given the importance the authorities have since attached to ensuring that Sberbank remained a source of cheap credit to the government, it is not unlikely that the TsBR was already concerned to shift the focus of Sberbank's portfolio in this direction. Pressure to end all direct central bank financing of the budget deficit made Sberbank's position as a surrogate for the TsBR all the more important.

Sberbank fought back, arguing that adoption of the amendment would represent a step back from a two-tier banking system, undermining investors' faith in the irreversibility of economic reforms in general and the security of property rights in particular. Sberbank President Pavel Zhikarev warned that, if the bank were not allowed to be aggressively profit-oriented, then it might prove possible to pay depositors a positive real interest rate only with help from the state budget. Lev Makarevich of the Association of Russian Banks argued that the renationalisation of Sberbank would aggravate relations between Moscow and the regions. He claimed that 80% of the resources accumulated by Sberbank branches remained in the regions where they were deposited and that this provided a crucial resource base for local budgets and firms (the subsequent development of the government securities market has changed this state of affairs dramatically). Finally, critics of the proposal cited the prohibitive costs involved in compensating Sberbank's non-state shareholders, who included 3500 corporations (including some private commercial banks) and 120 000 private persons (mainly Sberbank employees). The law on joint stock companies then in force stipulated that when a company was liquidated, its assets were to be distributed to the shareholders, once obligations to the budget, employees and other creditors had been met.[43] The Gerashchenko proposals died in parliament, but the TsBR remained concerned to keep a firm grip on Sberbank. After the 'Black Tuesday' ruble crisis of October 1994, which cost Gerashchenko his job, the central bank unveiled new proposals to strengthen government control over Sberbank.

In April 1995, however, the TsBR suffered an apparent setback with the adoption of a new law on the central bank, which stipulated that the TsBR could not 'participate in the capital of credit organisations unless provided for by federal law (*zakonom*)'.[44] The divestment provision was prompted by concern about possible conflicts of interest arising from the dual role of the TsBR as Sberbank's owner and regulator. The TsBR was to be required to give up its stakes in Sberbank and Vneshtorgbank by 1 January 1996, although there was no question of their being immediately privatised, since dumping such assets onto Russia's illiquid share markets would have put paid to any attempt to raise revenue by privatising either the two banks or any major industrial assets. Moreover, talk of selling off Sberbank would be certain to frighten depositors.[45]

At Sberbank's May 1995 annual meeting, State Property Committee (GKI) Chairman Sergei Belyaev proposed that the TsBR stake be transferred to his committee. The proposal was unexpected, as indeed was the appearance at the meeting of Belyaev and First Deputy Prime Minister Anatolii Chubais. Gerashchenko, still chairing the Sberbank supervisory board, pointed out that the TsBR stakes in other banks were reflected on its balance sheet and that simply wiping them off it would be a 'thoroughly Bolshevik act' which would harm the central bank; compensation would have to be paid. Belyaev agreed to this but then, perhaps realising the hostage he was thereby giving to fortune, promised that budgetary funds would not be used for this purpose. However, he could not state whence the funds would come. With the first shares-for-loans proposals having been floated only a few weeks earlier, one journalist wryly observed that the shares could be put up as security to borrow the funds needed to compensate the TsBR: this would leave the state's Sberbank shares to be managed by a consortium of private commercial banks.[46]

In the event, the meeting was broken off, to be resumed in 30 days' time. In the interim, Belyaev and the GKI were to draft a plan for disposing of the Sberbank stake held by the TsBR; later in the month, the GKI chief reiterated his promise that Sberbank would be privatised in 1995. However, the promised guidelines never appeared, and the meeting was again postponed, this time indefinitely. Belyaev's new line was that privatisation of Sberbank would be postponed pending the adoption of special legislation.[47] In July 1995 the Duma passed and the president signed an amendment to the law on the central bank stipulating that federal shares in Sberbank could be transferred or the number of voting shares reduced only if parliament adopted a special law to this effect. Budget Committee Chairman Mikhail Zadornov claimed that the amendment would 'guarantee Sberbank's depositors against surprises'.[48]

Belyaev's campaign had clearly stalled. The TsBR, while officially in favour of withdrawing from involvement in any commercial structures, was clearly in no hurry to relinquish its Sberbank shares. For the government, which Belyaev might have been thought to represent, the approach of parliamentary, presidential and regional elections in rapid succession made it an inauspicious time to tamper with Sberbank. In the State Duma, even liberals like Zadornov were opposed: Zadornov in late May raised the possibility of putting off any change in Sberbank's status until 2000.[49] The commercial banks were divided: a number of major banks, including some which already held shares in Sberbank (e.g. Tokobank) and others which borrowed heavily from it on the inter-bank market, were reportedly opposed to any change in the savings bank's status. The leading putative proponents of privatisation were banks like Inkombank and Stolichnyi Bank Sberezhenii, which were trying actively to compete with Sberbank for retail deposits and which may have felt that privatising Sberbank would level the competitive playing field—especially if Sberbank were broken up at the same time.[50]

Sberbank's own managers proposed selling 25% of the bank's equity at 'face value' (50 000 rubles per share) to the public (chiefly depositors), possibly subject to some restrictions on the transfer of shares from one owner to another. This arrangement, they claimed, would leave the state with a controlling interest, while Sberbank management would handle the day-to-day running of the bank.[51] Of course, restrictions on share transfers would have amounted to another form of state control, while free trade in Sberbank shares would probably have led rapidly to the accumulation of large privately held stakes. The proposal thus suggests that Sberbank officials were most interested in avoiding the emergence of an effective outside owner.

That, however, was not to be. Legislation leaving the TsBR in control of its shares until 1 January 2000 was finally passed in December, when the Duma voted through all three readings in one go, just weeks before the 1 January 1996 deadline.[52] By mid-1997, however, it was increasingly clear that neither the TsBR nor Sberbank was thinking seriously about the eventual privatisation of the savings giant. Indeed, Dubinin claimed that Sberbank's mix of state and private ownership was advantageous.[53] At a press conference following Sberbank's 30 May 1997 shareholders' meeting, the central bank chief did not sound like a man planning to relinquish control any time soon:

> The Bank of Russia considers that it would be inexpedient to reduce the size of its stake in the Savings Bank of Russia. This share may fluctuate somewhat in connection with new share issues, but we will not surrender that part of our stake which permits us to have a majority. The most recent period has shown the high degree of efficiency of this arrangement for both Sberbank … and the country, the population … We are therefore certain that the combination of state and private capital in this bank must be preserved.[54]

By the end of 1997 Dubinin seemed certain to have his way. While there was renewed speculation concerning a GKI bid for control of Sberbank during the summer—a time when Dubinin was under pressure on a number of fronts—the government in the autumn mooted a bill which would extend TsBR control of the savings monopoly indefinitely. By the end of the year the proposal appeared all but certain to become law.[55]

The TsBR grip on Sberbank could scarcely be firmer. Dubinin chairs the bank's supervisory board, which is dominated by representatives of the government and the TsBR. Sberbank President Andrei Kaz'min, appointed in January 1996, was widely seen as Dubinin's choice. Kaz'min had served since 1993 as deputy finance minister, in which capacity Dubinin was for a time his boss; moreover, Kaz'min's responsibilities at the ministry included managing relations with the TsBR.[56] The replacement of Sberbank President Oleg Yashin with Kaz'min was engineered by the TsBR and the finance ministry, both of which were determined to strengthen state control over the savings monopolist. Yashin was widely believed to have been pressured by the TsBR to step down, a view which Dubinin's subsequent criticisms of Sberbank's previous managers would seem to confirm.[57] The shareholders meeting at which Kaz'min was installed also witnessed the election of a supervisory board dominated by TsBR and finance ministry officials and an attempt by the TsBR to amend the Sberbank charter so as to limit supervisory board representation to shareholders with equity stakes of at least 30 billion rubles—a provision which would have made for a wholly TsBR-appointed board; in the event, the threshold was lowered to 5 billion.[58]

A number of theories regarding the reasons for Yashin's replacement were floated in the Russian press. The simplest is that the newly appointed Dubinin wanted to install his own man at Sberbank, control over which is crucial to TsBR management of monetary policy; more generally, critics believed that Sberbank, like many other state-owned monopolies, had become the de facto property of its managers and needed to be brought back under control[59]—a phenomenon which the government began to tackle in the case of Gazprom a year later. It was also suggested that Yashin was in trouble because of the so-called 'deal of the century', a massive transaction involving the exchange of 100 million dollars' worth of promissory notes which was concluded between Sberbank and the bank Natsional'nyi Kredit just a month before the failure of the latter.[60] Dubinin himself has criticised the Yashin team for, inter alia, investing excessively in expensive, underfinanced and unprofitable construction projects, including the new Sberbank headquarters (reported to have cost 5000 dollars per square metre[61]) and various commercial properties.[62] Finally, some observers believe that the chief TsBR concern was to ensure that Sberbank remained a ready purchaser of government paper, and that it was dissatisfied with the Yashin team's credit policies.[63] Dubinin has since criticised the credit policy of the Yashin administration, implying that it should have concentrated more on safe instruments like government securities.[64] Significantly, government paper, which made up around 20% of Sberbank's portfolio shortly before Yashin resigned, accounted for well over 50% by the end of 1996.[65] However, this shift in asset structure began before Yashin's departure and was at least partly related to rising yields on treasuries and heightened caution about lending on the inter-bank market, where Sberbank had been a major provider of funds, in the wake of the August 1995 crisis.

Security

Sberbank deposits are 100% guaranteed by the state. No other bank enjoys such a guarantee. This is particularly important given that Russia still has no deposit insurance scheme and no law on the bankruptcy of financial institutions.[66] Draft laws on both topics have been under consideration in parliament since 1995.[67] The absence of a law on the bankruptcy of financial institutions means that extracting funds from a failed bank is expensive and can take years; nor is there any guarantee of success, as depositors must compete with other creditors.[68] This is the main reason for Sberbank's popularity: deposits in Sberbank are seen as secure, and its market share tends to increase at times of turbulence in the financial sector. Reliability is generally regarded as the most important factor in choosing a bank.[69]

That being said, critics argue that the Sberbank guarantee is backed by nothing more than the government's word and the printing press: no provision has been made in the budget or elsewhere for ensuring that the government could make good on this commitment if circumstances required it. Dubinin rejects this view, claiming that Sberbank's asset structure ensures the safety of its deposits, since the total value of its mandatory reserves, the government securities in its portfolio and the credits it has extended under finance ministry guarantees is considerably greater than its total deposits. In short, all deposits are matched by very secure liquid assets.[70] At a press conference following Sberbank's 1997 shareholders' meeting, Dubinin placed great stress on the fact that Sberbank deposits had 'not only a legal, but a real, economic, financial guarantee',[71] suggesting perhaps that the issue remains a sensitive one. Dubinin's position sits uncomfortably alongside Sberbank's stated desire to diversify its asset structure and the May 1997 presidential decree ending the extension of credits under finance ministry guarantees.[72] The irony of his stance lies in the fact that the commercial banks have pressed for a similar link between safe liquid assets and retail deposits in lieu of the current version of N11, but the TsBR has rejected this.[73]

This debate matters little at present, since Sberbank deposits are still safer than those in commercial banks. However, the eventual creation of a deposit insurance scheme for the commercial banks may well focus attention on the perceived lack of substance behind the Sberbank guarantee, leading either to its modification or to the adoption of a separate law on Sberbank itself, the drafting of which could be full of unpleasant surprises for the bank. The latter possibility has already been raised in parliament.[74]

There is no consensus concerning the likely impact of the creation of a system of deposit insurance on Sberbank's competitive position.[75] If adopted in something like its present form, the law on deposit insurance would create a Federal Deposit Guarantee Corporation which would be financed by charges levied on participating banks; these would comprise an 'entry fee' of 0.5% of the bank's own capital and an annual premium equal to either 0.5% or 1.0% (depending on the bank's financial soundness) of its average volume of retail deposits, rates which critics argue are rather high by international standards.[76] The commercial banks maintain that it would make more sense—and would better correspond to international practice—if the fund were formed using mandatory reserves already deposited with the TsBR rather than via the imposition of additional levies. The TsBR initially resisted any erosion of its powers over the sector, including the diversion of a portion of mandatory reserves to the deposit insurance corporation, but Dubinin has since said that the formation of the corporation could coincide with a one-off reduction in mandatory reserve requirements. This, however, would be unlikely to cover the full cost of maintaining the fund, and Dubinin stressed that it would put an end to any discussion of using mandatory reserves to pay off depositors. Even so, the proposed schedule of fees would be far from sufficient to finance the corporation in its early stages. This has led to pressure for state support, but the finance ministry has consistently resisted any budgetary contribution to the fund, citing the problem of moral hazard as well as the government's already serious fiscal difficulties.[77]

With the exception of Sberbank, all banks taking retail deposits would be required to join the deposit insurance system. Sberbank, with its state guarantee, would remain outside the system. This would leave it with two significant advantages. First, it would not have to pay into the guarantee fund; this would amount to exemption from a significant new tax. Yet Sberbank would benefit from the reduction in mandatory reserves mooted by Dubinin—hence the pressure from *kombanki* for a provision in the new law requiring Sberbank to set aside 0.5% of its retail deposits in a special TsBR account.[78] Secondly, Sberbank's state guarantees cover 100% of all its deposits; the proposed new scheme would include a schedule of limits, involving 100% coverage of deposits worth up to 20 times the minimum monthly wage, 90% coverage for deposits up to 250 times that sum (about 19 million rubles at the end of 1996) and no coverage thereafter. It would also exclude funds deposited in trust, the accounts of unincorporated entrepreneurs[79] and numbered (anonymous) accounts.[80]

These aspects of the law have led some observers to conclude that, far from increasing competition for household deposits, the new arrangements will actually deter banks from pursuing retail business.[81] Sberbank is not, however, the sole beneficiary of its state guarantee. The TsBR has, in some high-profile cases, transferred retail accounts from banks which had lost their licences to Sberbank. While this demonstrates TsBR faith in the soundness of Sberbank, it also signals to depositors that deposits in larger *kombanki* are safe, because the authorities will not accept the political costs of failing to rescue them.[82] In other words, the explicit guarantee of Sberbank deposits has been implicitly extended to some other banks. This is one reason why some leading commercial banks remain unenthusiastic about deposit insurance: de facto if not de jure, their deposits are arguably more secure now than they would be under the proposed deposit insurance scheme, which they see as a mechanism for making them pay for the mistakes of weaker banks.

Sberbank and State Finances

The primary reason TsBR wishes to protect both Sberbank's position and its own grip on Sberbank is bound up with yet another peculiarity of its position: it is a crucial source of cheap credit for the government, ensuring that its bonds meet with a highly liquid primary market.[83] In April 1997 the bank held about 36% of all treasury bills and government bonds in circulation, including an estimated 44% of GKO and OFZ.[84] Some 60% of its assets were in government paper in mid-1997, and 70% of its income in the first half of that year was generated on the government securities market.[85] The bank's accounts for 1996 show an eight-fold increase in operations involving government paper compared with 1995. Its holdings of government securities amounted to a sum roughly equal to 86.5% of its retail deposits.[86] Sberbank thus continues to play a role assigned to it in 1968, when the Soviet regime first began borrowing directly from Gosbank to finance the internal state debt.[87]

The interest in maintaining Sberbank's presence as a ready purchaser of government paper is one which the TsBR shares with the government, and 'it is no accident', a Bolshevik might say, that 10 of the 17 members elected to Sberbank's board in 1996 were representatives of the central bank or the finance ministry. Dubinin himself acknowledged in May 1997 that 'cooperation with Sberbank in various sectors, particularly the government securities market, helped [the TsBR] to perform essential tasks, which would have been difficult, and perhaps impossible, without Sberbank'.[88] He was even more frank in a June 1997 interview carried by *Komsomol'skaya pravda*. After explaining that Sberbank's state guarantee obliged it to pursue a low-risk credit policy focused on government securities, Dubinin continued:

> ... this has allowed us to regulate the situation on the GKO market. During the bitterest period of political struggles before the presidential election,

> when many banks moved out of government securities, Sberbank consciously invested in that market and stabilised the situation. I can say frankly that there were moments when we could otherwise have had something like a 'Black Tuesday' on the GKO market.[89]

Dubinin leaves little doubt as to why journalists have nicknamed Sberbank the 'ministry of cash'.[90] Given the need to abstain from direct central bank financing of the budget deficit, largely in order to please the IMF, the authorities have found borrowing from a TsBR-controlled bank to be the next best thing. Since the TsBR itself holds roughly as much government paper as Sberbank, the central bank is directly or indirectly financing over 70% of the market; the *kombanki* account for about a quarter, with the remainder being covered by other investors.[91] While this arrangement is far preferable to that which prevailed in 1992–93, it highlights the largely symbolic nature of the commitment to avoiding direct central bank financing of the deficit.

Critics argue that this is an inefficient use of depositors' funds and that Sberbank contributes little to the real economy, but the authorities have resisted attempts—not least those of Sberbank's own managers—to diversify the bank's asset structure. Sberbank officials, moreover, reject criticism on this score, pointing to the fact that the bank increased its lending to both corporate and private borrowers by around 80% in 1996, to 86.9 trillion rubles. On 1 January 1997 it claimed 30.9 trillion rubles in credits outstanding to such borrowers. Moreover, lending to industry and construction accounted for 42.3% of this sum, up from a 35.5% share a year earlier, while the relative weight of interbank lending and lending to the trading/intermediary sector declined.[92] In any case, government paper is seen as an extremely low-risk investment, an important consideration for the authorities given the state guarantee of Sberbank deposits and the political implications of any crisis involving them. Dubinin has stated flatly that, in view of its state guarantee, 'Sberbank should be a conservative institution, not permitting risky operations'.[93]

Thus, the government's fiscal hunger and its political needs both point to the desirability of ensuring that Sberbank invests heavily in government securities. At present, the authorities appear likely to get their wish. While stressing that Sberbank plans to diversify its portfolio and, in particular, to step up lending to households and industrial enterprises, Kaz'min has repeatedly emphasised that his bank intended to retain its leading role in the market for government securities, suggesting that it would continue to account for around one-third of the market. In particular, he stated in June 1997 that falling yields on short-term treasuries (GKO) meant that these instruments would increasingly be replaced in Sberbank's portfolio by other state securities, including State Savings Loan Bonds (OGSZ), State Internal Hard-Currency Loan Bonds (OVGVZ) and Russian government Eurobonds.[94]

Not surprisingly, Sberbank also enjoys privileged access to budgetary funds. On 1 January 1997 there were 1.28 trillion rubles in state funds in Sberbank accounts, far more than in any *kombank* except Oneksimbank (though it should be noted that this was but a tiny fraction of its total deposits).[95] During early 1997 Sberbank held the accounts of some 4000 budgetary organisations, including the tax and customs services.[96] Moreover, the May 1997 presidential decree on abolition of the federal government's controversial system of 'authorised banks' servicing budgetary accounts will, to the extent that it is implemented, benefit Sberbank.[97] As an interim measure pending the establishment of a fully operational system of 'treasury execution of the budget' from 1 January 1998, the authorities have begun to transfer to Sberbank the accounts of the Federal Border Service, the ministries of defence and internal affairs, and a number of other large federal bodies. This deadline is likely to slip, but Sberbank will remain the principal channel for federal funds even if it does not. As the 'general agent' of the treasury, Sberbank will hold the accounts of the 253 branches of the treasury and will perform its functions in places where no treasury branch exists.[98] Tax service chief Aleksandr Pochinok has expressed the hope that Sberbank would win most of the competitive tenders for participation in the financing of federal programmes, which are in future to be the only basis on which private *kombanki* handle budgetary accounts.[99] All this will ensure that such budgetary funds as are available for short-term investment can be used to provide liquidity in the government securities market.

Sberbank's Future

Despite the apparent determination of the authorities to protect its privileged position, Sberbank faces challenges on a number of fronts. These include both commercial challenges arising from developments in the market for government paper and the activities of the private *kombanki*, and political and legal threats to Sberbank's status.

Commercial Challenges

While Sberbank's rising share of the retail market has been widely discussed, the consolidation of the rest of that market has gone largely unnoticed. The proportion of retail deposits outside Sberbank has been increasingly concentrated in just a few commercial banks, several of which have had far faster rates of deposit growth than Sberbank. The leading challengers include, inter alia, Inkombank, Most Bank, Vneshtorgbank, Menatep, Stolichnyi (now SBS-Agro), Gutabank and Avtobank.[100] Obviously, a great deal hinges on the extent to which any new deposit insurance scheme preserves Sberbank's privileges. It is therefore significant that the commercial banks are lobbying for a special law on Sberbank requiring it to set aside funds for deposit insurance on the same basis as the *kombanki*.[101] The TsBR reaction to such proposals will be an important test of its willingness to level the playing field in the banking sector. Requiring Sberbank to participate in deposit insurance on a 'normal' basis would deprive it of a significant competitive advantage and would also eliminate the justification for insisting that Sberbank invest disproportionately in government paper—possibly an equally serious consideration from the authorities' point of view.

Not surprisingly, Sberbank's challengers have made the greatest headway in Moscow, where the strongest of the commercial banks are based. Thus, by mid-1997 some 49% of all non-Sberbank household deposits were in Moscow, up from 40% at the end of 1995.[102] This reflects both the more favourable economic conditions of the capital relative to the provinces and the presence there of strong challengers to Sberbank. However, this geographical concentration of the competition works in Sberbank's favour. Its national position is likely to be eroded much more slowly, if only because of the time and investment required for the major commercial banks to challenge it outside a few major cities. Such expansion could be accelerated by mergers and acquisitions in the provinces, but few of the potential acquisition targets are financially sound enough to attract the major banks, and there is still some political resistance to be encountered, although regional administrations' hostility to the big Moscow-based banks has declined markedly in recent years.

Sberbank is not oblivious to the competitive threats to its position. In addition to stepping up efforts to attract retail deposits, it has been increasingly aggressive in pursuing corporate clients: the number of corporate accounts held by Sberbank rose by 40% in 1996; its share of total corporate ruble deposits jumped from 5.5% to 10.4%.[103] Much of this growth was a result of the transfer of budgetary accounts to Sberbank, but the bank has done much to attract comercial corporates as well. Ironically, its pursuit of corporates as *account holders* has coincided with a growing reluctance to *lend* to corporates, as Sberbank concentrated its lending first on the inter-bank market and then the government securities market.[104] The bank claims to have reversed this trend, and bank officials are at pains to stress the scale of Sberbank's lending to industry and construction, but this nevertheless accounts for a small fraction of its total assets.[105]

Retail Market Development

Total retail deposits in Russian commercial banks rose by 38% in real terms in 1996 before more or less stabilising in 1997. Even the introduction of a tax on interest on deposits did not check this growth, since it applies only to interest rates above the TsBR refinancing rate. The share of retail deposits in the total ruble deposit base rose from around 38.3% in 1995 to roughly 44–45% (and rising) by the end of 1996. By contrast, corporate deposits have grown slowly. Total enterprise deposits rose by only 7% in real terms in 1996, with enterprise term deposits falling by 34% after inflation.[106] At the same time, other sources of cheap funds have become less accessible: yields on state securities continue to decline, the corporate securities market remains under-developed, and the government is currently trying to change the conditions under which commercial banks handle state funds, on which they have hitherto generally paid no interest.[107]

Competition for retail deposits is already fierce. During the early years of the transformation, most banks showed little interest in retail operations. Since 1995, however, the rapid growth of household ruble deposits, when contrasted with the stagnation of enterprise deposits and the drying-up of other sources of cheap or free liabilities, has intensified the competition for the custom of previously neglected retail depositors. Even banks such as Menatep, which previously showed little interest in the retail market, are aware of its growing importance. By 1996 retail money was more expensive in some western regions of Russia than wholesale money.[108]

However, estimates of the potential short-term growth of the retail banking market are generally high of the mark for the following reasons. Russian and Western observers frequently draw attention to the fact that the rate of growth of sales of foreign cash 'to the population' has in recent years outstripped the growth of household ruble deposits. In the first three quarters of 1996 citizens' purchases of foreign cash were more than four times as great as the total increase in the volume of retail deposits in the banking system.[109] It has been estimated that 20–24% of household expenditure goes on purchases of foreign cash.[110] The conclusion drawn is that citizens do not yet trust the ruble to hold its value and that foreign cash is still seen as preferable to interest-bearing ruble deposits.[111] Indeed, the State Committee for Statistics (Goskomstat) continues to include household purchases of foreign cash in its estimates of household savings.[112] The clear implication is that these funds are there to be drawn into the banking system, if only the citizens had greater confidence in the ruble and in the banks—especially given that the legislation governing investment funds, insurance companies and private pension funds is still woefully inadequate, leaving retail savers with few low-risk alternatives to bank accounts.[113]

There is some truth to this view: the US dollar, in particular, is an important savings instrument. However, much—perhaps most—of the foreign cash purchased by private individuals is bought by entrepreneurs whose activities are registered as 'retail' because they are not incorporated. The most important group here are the so-called 'shuttle traders', private citizens who buy goods abroad with foreign exchange, sell them for rubles in Russia and then convert their earnings into foreign exchange to repeat the cycle.[114] This represents turnover, not accumulation. No one really knows how much wealth the population holds, but one recent analysis of retail purchases of foreign cash concluded that the entrepreneurial share of such purchases fluctuated between 60% and 80% of the total.[115] Since even non-entrepreneurial households *spend* foreign exchange as well as buy it (something Goskomstat apparently overlooks), the total savings accumulated in the form of dollars or other foreign cash comprises an unknown share of the 20–40% not accounted for by small-scale entrepreneurial activity. Actual household savings probably amount to around 10.4% of disposable income, rather than the 26% recorded by Goskomstat.[116] Thus, most assessments of citizens' propensity to hold savings as foreign cash greatly overestimate such 'unbanked' savings (and, by extension, total household wealth) and likewise underestimate households' propensity to bank what funds they have. This implies that the growth of retail deposits depends on the growth of real incomes rather than on the ability of the banks to draw some large existing stock of savings out of mattresses and into their accounts.

At the same time, with yields on government securities falling and the opportunities offered by lending to the real sector limited, banks' margins are being squeezed. Household accounts, being largely transaction-oriented, are expensive for the banks to operate, leading both outside observers and Russian bankers to anticipate increasing reliance on transaction charges and other fees.[117] The rising price of domestic deposits of all types has prompted Sberbank and its competitors to borrow abroad. Sberbank is to draw some of the funds from a $135 million EBRD-sponsored five-year credit package and has also secured a one-year $225 million syndicated loan from Western commercial banks at LIBOR plus 2%.[118]

Developments in the government securities market pose another challenge. Sberbank's deposit rates and its profitability are closely tied to yields on government securities, which are expected to continue to fall this year. There is thus an emerging contradiction between the bank's need to diversify its asset structure and the authorities' desire for it to provide liquidity in the government securities market and to adhere to a very low-risk strategy. Kazmin has continued to stress that the bank intends to maintain its leading position in the government securities market, but it has also promised to increase lending to the non-financial sector and particularly to individuals.[119] Given the existing legal framework and the economic condition of most households, the latter is unlikely to be very widespread for some time. Nevertheless, Sberbank has repeatedly reduced lending rates on credits to individuals, particularly for housing purchases; these are now lower than those offered by the *kombanki*.[120] It has also taken steps to simplify the procedures for retail borrowers.[121] This should at least aid Sberbank in establishing a reputation for being friendlier to small borrowers, which could stand the bank in good stead as the retail credit market—and, more particularly, the mortgage market—develops. At present, however, the bank remains extremely cautious about lending to individuals, and the terms it advertises, especially for mortgage lending, reflect aspiration at least as much as reality.[122]

Political and Legal Challenges

Sberbank continues to face a bewildering array of legal challenges, mainly arising from the losses suffered by depositors in the hyperinflation of 1992. None of these has so far done serious damage to Sberbank financially, and none looks likely to do so, but the litigation has generated a tremendous amount of adverse publicity.[123] Ironically, Sberbank itself actively lobbied for compensation for savers—from the budget, needless to say, rather than from its own funds. The bank argued that it was unable to offer depositors positive real interest rates in 1992 because it had been required to lend those deposits to the government at low nominal interest rates—and, as it turned out, massively negative real ones.[124] Even so, the bank is widely blamed for the losses, and the fact that both the cost of its new headquarters and the size of its 1996 profit dwarf the sums so far paid in compensation to elderly savers (the only group so far to have been compensated) has not enhanced its reputation.[125] The announcement of the redenomination of the ruble refocused public and press attention on the problem of pre-1992 deposits and the prospects for some form of restitution. Debate has centred on whether those deposits must also be redenominated.[126] This, in turn, generated considerable adverse publicity for Sberbank. Although it continued to maintain that the question of compensation was a matter for the government rather than itself (something which the government has also acknowledged), the bank, in an effort to limit the damage, offered to help the government finance a wide-ranging compensation programme.[127]

This unpopularity leaves the bank politically vulnerable. Sberbank in early 1997 began to attract unwanted attention from a number of parliamentary deputies. Given the fiscal difficulties faced by the government, it is scarcely surprising that some in the State Duma are eager to secure a large slice of Sberbank's profits for the state budget.[128] Talk of a special law on Sberbank picked up in connection with the debate over deposit insurance; this is a particularly worrying prospect for the bank, given the view of many opposition deputies that parliament should even pressure Sberbank to increase the rates it pays on deposits.[129] The whole issue of Sberbank's interest rate policy became extremely controversial as a result of its unilateral reduction in deposit rates in March 1997 in response to falling GKO yields and central bank interest rates. The legality of the move, which affected what many depositors thought were fixed-rate term deposits, was contested and upheld, since the fine print of the deposit agreements stipulated that the bank could alter the interest rate if circumstances required it.[130] However, that victory was cast into doubt in August 1997 by a statement from the procuracy questioning the legality of the deposit agreements.[131]

Sberbank, with TsBR support, remains opposed to parliamentary attempts to intervene in its affairs. Kaz'min has rejected political interference in the bank's operations on the grounds that there is no justification for politicians' meddling in a bank which is profitable and requires no subsidies from the budget.[132] (Sberbank's rivals might wish to dispute Kaz'min's claim about the lack of subsidy, but he was certainly right to claim that it needed no subsidies *from the budget*.) In any case, a special law on Sberbank may be the price it has to pay for remaining outside the deposit insurance scheme; the bank's best defence then would be to involve itself as fully as possible in the drafting of the new law.

Parliamentarians are not the only politicians eyeing Sberbank's resources. Even as the issue of its long-term ownership was being resolved in late 1997, there was increasing speculation concerning its potential utility for politicians aspiring to succeed President El'tsin. With Russia's private financial oligarchs far less likely to unite behind a single candidate in any future presidential election, it is argued that control over Sberbank could offer a candidate access to financial resources such as his rivals could only dream about. On this view, TsBR control of Sberbank works to the advantage of Prime Minister Viktor Chernomyrdin, who is generally reckoned to have very close links to Dubinin.[133] As the El'tsin succession approaches, the position of both Sberbank and the TsBR could become highly politicised.

Conclusion

To date, the authorities' handling of Sberbank has, like many other policies directed at the banking sector, been driven by short-term fiscal pressures rather than by the need to establish a safe, sound banking system over the long run. The savings bank has been treated as a cash cow, to be milked, if anything, even more assiduously than it was during the Soviet period. Prior to stabilisation, this mattered little to the sector as a whole, since few banks were seriously interested in household deposits and the retail deposit base was in any case shrinking rapidly. However, the rapid growth in household bank deposits of recent years has made Sberbank an enormously powerful player in the sector, while its smaller commercial rivals have come increasingly to resent its privileges[134] even as the strains caused by stabilisation have generated new pressures for them to take the retail market seriously.

This has a number of implications for the future, all of which Rostowski identified in Central Europe prior to Sberbank's recovery.[135] First, it means that the inter-bank market, such as it is, is badly unbalanced. A second and closely related point is that Sberbank now holds enormous potential power over domestic long-term interest rates, which, in the absence of TsBR control, would depend on Sberbank's commercial goals rather than the requirements of monetary policy. The TsBR has prevented this by effectively taking over Sberbank's asset/liability management policy and tailoring it to central bank needs. This, however, raises the prospect of encouraging the government to run budget deficits, particularly if, as in the Russian case, the authorities not only maintain tight control over the savings bank but actually ensure that it retains its dominant position by granting it legal privileges which put potential competitors at a disadvantage. This ensures that the state has first call on the funds accumulated by the banking system while making it easier to hold down the interest rates the state must pay for such funds.

The other possible response to the situation, according to Rostowski, is for the central bank itself to become the major player (in gross terms) on the market. If the market were relatively balanced in gross terms, which it is not, the TsBR could influence long-term rates by operating at the margin. Paradoxically, Rostowski argues that this second option actually creates incentives for the authorities to increase the state's indebtedness so as to provide the instruments with which the central bank would then operate.[136]

The Sberbank story is essentially about a conflict between macroeconomic and microeconomic goals, in this case the need to hold down borrowing costs while abstaining from direct central bank financing of the budget deficit as against the need to foster competition in the banking sector. As has typically been the case in Russia since 1992, macroeconomic targets have consistently been given priority. At the same time, the manipulation of Sberbank has to some extent offered the TsBR the solution to a dilemma faced by many central banks in managing the government securities market: the relationship between liquidity and cheap credit. The central bank and the government alike share an interest in ensuring that new securities issues will always meet a highly liquid primary market; at the same time, the government wants to borrow as cheaply as possible. Clearly, these two goals are not always compatible in the normal course of things; control of Sberbank has allowed the TsBR to square this circle to some extent by ensuring that the largest player on the market will always be willing to buy up whatever is required. Russia is not alone in devising a peculiar institutional solution to the liquidity/cheap credit dilemma: the system of primary dealers in the United States, which Russia has to some extent tried to copy, was devised for similar reasons and was widely blamed for making the 1991 Salomon scandal possible.[137]

The implications of the present arrangement for the real sector are depressing, particularly for enterprises in the provinces. Given that banks appear to be extremely—and understandably—reluctant to lend 'further than they can see',[138] credit resources, which are now overwhelmingly concentrated in Moscow, will find their way to the regions only in one of two ways: via regional banks, borrowing on the interbank market, which has never recovered from August 1995, or via the expansion of the bigger banks' branch networks, which, as noted above, will take time. The one bank with both the resources and the branch network needed to become a lender to industry nation-wide is Sberbank, but both the government's fiscal needs and the authorities' fear of letting Sberbank pursue any but the most low-risk credit policies militate against its playing this role—quite apart from the many obstacles which any would-be lender to industry must overcome.[139]

Pressure for change is mounting. The commercial banks are growing more critical of Sberbank's special status, while the opportunities for reconciling the bank's commercial interests with the authorities' need for it to concentrate on government securities are declining along with GKO yields. Nevertheless, change is unlikely to come quickly. Russia's industrial monopolies have shown themselves extraordinarily adept at thwarting attempts to restructure them; there is little reason why Sberbank, backed by the finance ministry and the central bank, should prove any different.

Notes

1. 25 February 1997.
2. 1996, 2, 30 January, pp. 46, 49.
3. For a discussion of state-owned giants' propensity to build, see Aleksandr Novikov, 'Novyi gosstandart: byt' proshche', *Kommersant"*, 1997, 22, 17 June, pp. 9–10; on Sberbank's 26-storey headquarters, see Elena Vrantseva, 'Sberbank: otdelenie, stroisya!' *Kommersant"*, 1997, 22, 17 June, pp. 11–12.
4. Data are taken from PRIME TASS, 27 November 1997; and *Finansovye izvestiya*, 3 June 1997.
5. Data on the deposits held by the component banks of SBS-Agro (Stolichnyi Bank Sberezhenii and Agroprombank) are still given separately.
6. V. Andreev, 'O "vklade" denominatsii v chastnye vklady', *Ekonomika i zhizn'*, (hereafter simply *EZh*), 1997, 51 (December), p. 5.
7. 'Rossiiskie banki po sostoyaniyu na 1 yanvarya 1997 goda', *EZh*, 1997, 25 (June), p. 5; and *Finansovye izvestiya*, 3 June 1997.
8. 'Top 1000', *The Banker*, 147, 857, July 1997, p. 161. It should be noted that the data

on which Sberbank's ranking is based are from January 1996, while the figures underlying most other 1997 rankings are for 31 December 1996/1 January 1997. Sberbank is thus lower in the rankings than it would otherwise be.

9. 'Top 1000', p. 168. The other Russian banks listed in the top 1000 are Vneshtorgbank (315 and 750 for capital and assets respectively), Inkombank (662 and 883), Menatep (831 and 946), MFK (837 and 966), Tokobank (842 and 994), Imperial (888 and 992), Stolichnyi Bank Sberezhenii (937 and 995, on data pre-dating the Agroprombank tender), and Mosbiznesbank (963 and 985). Interestingly, all but Sberbank are ranked much higher in terms of tier-1 capital than in terms of assets.
10. *Finansovye izvestiya*, 3 June 1997.
11. Based on estimated M2 as given in *Russian Economic Trends: Monthly Update*, 16 June 1997, p. 17.
12. 'Krupneishie banki Rossii po ob"emu vkladov naseleniya na 1 yanvarya 1997 goda', *EZh*, 1997, 16 (April), p. 4.
13. *Delovoi mir*, 25 March 1997.
14. 'Sberbank na grebne peremen', *Biznes i banki*, 8 May 1997; Maksim Akimov,'Sberbank obrek sebya na bessmertie', *Kommersant"*, 1996, 2, 30 January, p. 44.
15. Goskomstat data cited in Svetlana Corda-Stanley & Damien Synnott, *Banking in Russia* (London: FT Financial Publishing, 1996), pp. 69–70.
16. *Interfaks*, 28 May 1997; and *Russian Economic Trends: Monthly Update*, 16 June 1997, p. 1.
17. RIA-Novosti, 31 January 1997.
18. *Kommersant"-daily*, 29 October 1997; V. Andreev, 'Bankiry zhdut ekonomicheskogo rosta, vkladchiki—garantii gosudarstva', *EZh*, 1997, 38 (September), p. 4.
19. Elena Makovskaya, 'Chelovek v sisteme' (interview with Andrei Kaz'min), *Ekspert*, 19 May 1997, p. 35; *Russkii telegraf*, 19 November 1997.
20. These figures exclude Agroprombank's losses. *Interfaks-AiF*, 9 June 1997.
21. Jacek Rostowski, 'Introduction', in Jacek Rostowski (ed.), *Banking Reform in Central Europe and the Former Soviet Union* (Budapest, CEU Press, 1994), p. 8.
22. *Narodnaya gazeta*, 27 June 1997; *Finansovye izvestiya*, 3 June 1997; Makovskaya, 'Chelovek', p. 36; and *Delovoi ekspress*, 13 May 1997.
23. *Economist*, 29 May 1993, p. 105.
24. For a detailed discussion of these regulations, see William Tompson, 'Old Habits Die Hard: Fiscal Imperatives, State Regulation and the Role of Russia's Banks', *Europe-Asia Studies*, 49, 7, November 1997, pp. 1162–1170.
25. Rostowski, 'Introduction', in Rostowski (ed.), *Banking Reform in Central Europe ...*, p. 13.
26. *Izvestiya*, 5 March 1992; *Economist*, 29 May 1993, p. 105.
27. *Izvestiya*, 26 March 1993.
28. L.N. Afanas'eva, 'O vkladakh naseleniya v uchrezhdeniyakh Sberegatel'nogo Banka Rossii', *Den'gi i kredit*, 1993, 6 (June), p. 64.
29. See the discussion of political and legal challenges below.
30. See, for example, *Economist*, 26 March 1994, p. 123; *Biznes i banki*, 8 May 1997.
31. *Biznes i banki*, 8 May 1997; *Delovoi mir*, 25 March 1997. The company also concluded a major deal with Microsoft in 1997: ITAR-TASS, 1 October 1997.
32. *Delovoi mir*, 18 June 1997.
33. The state's share is usually reported as either 51% or 50% plus one share; however, TsBR chief Dubinin has given a figure of 53%. *Komsomol'skaya pravda*, 24 June 1997.
34. I. Ya. Bogdanov, vice-president of the Association of Russian Banks, made some particularly sharp remarks on this point at the 1997 ARB Congress; *Vestnik ARB*, 25 June 1997.
35. *Finansovye izvestiya*, 3 June 1997; *Segodnya*, 3 June 1997.
36. *Segodnya*, 3 June 1997.
37. *Narodnaya gazeta*, 27 June 1997; *Segodnya*, 3 June 1997.

38. L. Nazarova, 'Kreditnye resursy: bez garantii "zub" neimet', *EZh*, 1997, 22 (May), p. 4; *Biznes i banki*, 19 September 1997.
39. *Biznes i banki*, 20 June 1997; *Vestnik ARB*, 1 July 1997; Letter of the ARB of 8 April 1997, N. A-02/2–252.
40. *Vestnik ARB*, 25 June 1997.
41. See, for example, *Izvestiya*, 16 May 1992 and 18 January 1993; *Nezavisimaya gazeta*, 20 January 1993. Former finance minister Boris Fedorov has recalled exerting massive pressure on Sberbank to get it to raise deposit rates; see Boris Fedorov, 'Kreditno-denezhnaya politika i funktsionirovanie Tsentral'nogo banka Rossii', *Konstitutsionnoe pravo: vostochnoevropeiskoe obozrenie*, 3(8)/4(9), Summer–Autumn 1994, p. 37; the article appears in English in *East European Constitutional Review*, 3, 3-4, Summer–Fall 1994.
42. *Izvestiya*, 16 February 1993.
43. *Izvestiya*, 16 February 1993; *Nezavisimaya gazeta*, 25 March 1993.
44. See article 7 of the law; *Sobranie zakonodatel'stva Rossiiskoi Federatsii*, 1995, 18, 1 May, st. 1593.
45. *Izvestiya*, 11 May 1995.
46. *Izvestiya*, 11 May 1995; *Kommersant"-daily*, 6 June 1995.
47. *Kommersant"-daily*, 6 June 1995.
48. *Sobranie zakonodatel'stva Rossiiskoi Federatsii*, 1995, 31, 31 July, st. 2991; *Segodnya*, 8 July 1995.
49. *Kommersant"-daily*, 6 June 1995.
50. *Kommersant"-daily*, 6 June 1995.
51. *Kommersant"-daily*, 6 June 1995.
52. Reuters, 8 December 1996.
53. *Finansovye izvestiya*, 3 June 1997.
54. *Narodnaya gazeta*, 27 June 1997.
55. On Dubinin's mid-summer troubles, see *Pravda-5*, 24 June 1997 and 4 July 1997; Alena Galan, 'Duma stiraet litso rossiiskogo rublya', *Kommersant"*, 1997, 23, 1 July, pp. 42–43; Aleksandr Novikov, 'Bankovskie voiny: pobeditelei ne budet', *Kommersant"*, 1997, 24, 8 July, pp. 8–10; and Gleb P'yanykh & Aleksandr Malyutin, 'Razvedka boem', *Kommersant"*, 1997, 24, 8 July, pp. 11–13. For discussion of the new law securing the TsBR hold on Sberbank, see 'Banki nevidimogo fronta', *Kommersant"*, 1997, 35, 30 September, pp. 41–42; *Kommersant"-Daily*, 19 September 1997, 25 September 1997 and 31 October 1997; *Delovoi mir*, 25 September 1997 and 8 October 1997; RIA-Novosti, 30 October 1997; *Finansovye izvestiya*, 4 November 1997.
56. Akimov, pp. 45–46, 48–49; *Izvestiya*, 25 January 1996.
57. *Segodnya*, 16 December 1995; see Dubinin's criticism of the Yashin team in *Komsomol'skaya pravda*, 24 June 1997.
58. Akimov, pp. 47–48.
59. *Kommersant"-daily*, 10 February 1996; Elena Makovskaya, 'Prishestvie varyagov v Sberbank', *Ekspert*, 1996, 4, 29 January, p. 16.
60. *Delovoi mir*, 25 March 1997; Yaroslav Skvortsov, 'Nasledniki podelilis' po bankrotski', *Kommersant"*, 1997, 6, 18 February, p. 32.
61. Vrantseva, p. 11.
62. *Komsomol'skaya pravda*, 24 June 1997.
63. Akimov, pp. 45–49.
64. *Komsomol'skaya pravda*, 24 June 1997; Makovskaya, 'Chelovek', p. 35, and 'Prishestvie ...', p. 17.
65. Interfaks, 6 September 1995; V. Andreev, 'Chastnye vklady: pod pressom GKO', *EZh*, 1997, 16 (April), p. 4.
66. From July 1991 to December 1993 the TsBR maintained a bank insurance fund and a reserve (bankruptcy) fund. Banks were required to pay into each fund 1% of their profits until their contribution to it amounted to 25% of their authorised capital. However, the

former was dissolved in January 1994 and contributions to the latter ceased to be required by law. Corda-Stanley & Synnott, p. 72.

67. *Izvestiya*, 27 June 1995.
68. For a brief discussion of the complexities and difficulties of current bankruptcy procedures, see *Segodnya*, 9 June 1997. For recent examples of depositors' travails, see *Segodnya*, 30 June 1997; *Simbirskii kur'er*, 10 June 1997; *Delovye vesti*, 24 April 1997; *Afanasii-birzha*, 23 May 1997; and *Finansovye izvestiya*, 3 June 1997. This is not, of course, a uniquely Russian problem: as the BCCI case demonstrates, it can be an issue even in the 'developed market economies' which Russian reformers and their Western advisers so often take as models.
69. *Delovye vesti*, 26 May 1997.
70. *Finansovye izvestiya*, 3 June 1997; *Komsomol'skaya pravda*, 24 June 1997.
71. *Narodnaya gazeta*, 27 June 1997.
72. *Sobranie zakonodatel'stva Rossiiskoi Federatsii*, 1997, 20, 19 May, st. 2235.
73. *Vestnik ARB*, 25 June 1997; *Biznes i banki*, 20 June 1997.
74. *Segodnya*, 23 May 1997; P.A. Medvedev, 'Slovo "bank" dolzhno vyzyvat' polozhitel'nuyu reaktsiyu', *Bankovskoe delo*, 1996, 9 (September), p. 3; Dubinin has also alluded to the possibility of a special law on Sberbank: Makovskaya, 'Prishestvie', p. 19.
75. For analyses of the draft legislation which take conflicting views of its likely impact, see *Finansovye izvestiya*, 19 December 1996, and 13 May 1997; L. Nazarova, 'Poka gosudarstvo na storone, "kubyshka" popolnyaetsya', *EZh*, 1996, 51 (December), p. 5; Nazarova, 'Kreditnye resursy', p. 4. *Delovoi mir*, 14 April 1997; and *Segodnya*, 14 April 1997.
76. *Finansovye izvestiya*, 13 May 1997 and 16 December 1997.
77. *Kommersant"-daily*, 13 December 1995; *Finansovye izvestiya*, 19 December 1996.
78. *Finansovye izvestiya*, 16 December 1997.
79. The category of a 'person engaged in entrepreneurial activity without the formation of a legal person' is defined in article 23.3 of the Civil Code of the Russian Federation.
80. Nazarova, 'Poka gosudarstvo', p. 5; *Delovoi mir*, 14 May 1997.
81. *Vechernyaya Moskva*, 25 June 1997; *Delovoi mir*, 14 May 1997; *Finansovye izvestiya*, 13 May 1997.
82. V. Andreev, 'Vkladchiki doveryayut "izbrannym"', *EZh*, 1996, 50 (December), p. 5.
83. *Nevskoe vremya*, 7 June 1997.
84. *Finansovye izvestiya*, 6 May 1997; Reuters, 28 April 1997.
85. Andreev, 'Bankiry zhdut', p. 4.
86. *Finansovye izvestiya*, 3 June 1997.
87. *Izvestiya*, 5 March 1992.
88. *Narodnaya gazeta*, 27 June 1997. Dubinin apparently wants the best of both worlds: in January 1996 he called Sberbank 'an executor of state policy' but stressed that it 'nevertheless will retain the advantages and status of an independent credit organisation'; Makovskaya, 'Prishestvie', p. 19.
89. *Komsomol'skaya pravda*, 24 June 1997.
90. *'Ministerstvo nalichnykh deneg.'* See 'Sberbank na grebne peremen', *Biznes i banki*, 8 May 1997.
91. Tsentral'nyi bank Rossiiskoi Federatsii, *Tekushchie tendentsii v denezhno-kreditnoi sfere*, 1997, 8(54) (August), p. 19.
92. Interfaks, 30 May 1997.
93. *Komsomol'skaya pravda*, 24 June 1997.
94. *Narodnaya gazeta*, 27 June 1997; and *Segodnya*, 3 June 1997; *Biznes i banki*, 8 May 1997; Makovskaya, 'Chelovek', p. 37.
95. *Pravda-5*, 23 May 1997.
96. *Arguments and Facts International*, 28 April 1997.
97. For the text of the decree, see *Sobranie zakonodatel'stva Rossiiskoi Federatsii*, 1997, 20, 19 May, st. 2235.

98. See also *Nevskoe vremya*, 7 June 1997; *Finansovye izvestiya*, 6 May 1997 and 15 May 1997; *Delovoi mir*, 16 May 1997; *Kuranty*, 11 June 1997.
99. *Ekho Moskvy*, 18 June 1997.
100. 'Krupneishie banki Rossii po ob"emu vkladov naseleniya' p. 4.
101. *Kommersant"-daily*, 3 July 1997.
102. Andreev, 'Bankiry', p. 4; and 'Chastnye vklady', p. 4.
103. *Finansovye izvestiya*, 6 May 1997; *Arguments and Facts International*, 28 April 1997.
104. *Finansovye izvestiya*, 24 December 1996.
105. Andreev, 'Bankiry', p. 4, estimates that credits to other banks and real-sector enterprises amounted to 18% of total assets in mid-1997. See also Interfaks, 30 May 1997; *Arguments and Facts International*, 18 June 1997.
106. Andreev, 'Chastnye vklady', p. 4; *Russian Economic Trends*, 6.1, 1997, p. 147.
107. *Izvestiya*, 17 January 1997.
108. Corda-Stanley & Synnott, p. 68. This is partly because of a regulatory regime that has served to make corporate deposits artificially cheap; see Tompson, pp. 1162–1170.
109. K. Ivanov, 'Ekonomika Rossii: valyutnye sberezheniya ili den'gi dlya biznesa?' *EZh*, 1997, 22 (May) p. 2; Nazarova, 'Poka gosudarstvo', p. 5; 'Sberbank na grebne peremen', *Biznes i banki*, 8 May 1997; *Delovye vesti*, 26 May 1997.
110. *Segodnya*, 11 August 1997; *Finansovye izvestiya*, 15 July 1997; *Vek*, 20 June 1997; *Vestnik ARB*, 25 June 1997.
111. Nazarova, 'Poka gosudarstvo', p. 5, and Corda-Stanley & Synnott, p. 66, follow this line of argument, as does Inkombank chief Vladimir Vinogradov, *Vestnik ARB*, 25 June 1997. See also *Delovoi mir*, 29 October 1997; *Segodnya*, 9 June 1997; *Vek*, 20 June 1997.
112. Press conference with Richard Layard, London School of Economics, on the current economic situation in Russia (RAPIC, 16 June 1997).
113. D.V. Voronin, 'Rossiya nakanune vvedeniya sistemy garantirovaniya vkladov grazhdan', *Bankovskoe delo*, 1997, 3 (March), p. 16; Corda-Stanley & Synnott, p. 70; *Vek*, 20 June 1997; *Delovoi mir*, 16 July 1997. Most private insurance companies are anyway controlled by banks.
114. A few years ago they might simply have sold their wares for hard currency; today this is no longer legal in most circumstances.
115. Ivanov, p. 2.
116. For the basis of this low estimate, see *Russian Economic Trends*, 6, 1, 1997, p. 100; and Pekka Sutela, 'The Strategic Role of Banks in Financing Russian Economic Growth', paper prepared for the AAASS meeting in Seattle, November 1997, p. 12.
117. Corda-Stanley & Synnott, p. 68; such predictions were made at the 1997 ARB congress; *Interfaks AiF*, 9 June 1997.
118. *Russian Economic Trends*, 6,2, 1997, p. 112; and *Finansovye izvestiya*, 25 November 1997. Oneksimbank and Tokobank are also among the beneficiaries of the EBRD credit line.
119. See *Narodnaya gazeta*, 28 March 1997 and 27 June 1997.
120. *Komsomol'skaya pravda*, 3 July 1997; ITAR-TASS, 25 June 1997.
121. *Segodnya*, 5 November 1997.
122. *Segodnya*, 23 August 1997; *Delo*, 29 August 1997.
123. See, for example, *Delovoi mir*, 23 May 1997; *Zhizn' i koshelek*, 15 May 1997; *Vechernyaya Moskva*, 25 June 1997; *Ural'skii rabochii*, 30 August 1997.
124. *Economist*, 29 May 1993, p. 105; *Kommersant"-daily*, 14 August 1997.
125. See, for example, the criticisms expressed in *Komsomol'skaya pravda*, 24 May 1997.
126. See, for example, *Segodnya* 14 August and 1 September 1997; *Finansovye izvestiya*, 21 and 28 August 1997; *Delovoi mir*, 29 August 1997; and *Kommersant"-daily*, 14 August 1997.
127. *Segodnya*, 25 August 1997; RIA Novosti, 7 October 1997; *Ekonomicheskie novosti Rossii i sodruzhestva*, 13 September 1997.
128. Galan, p. 43.

129. *Segodnya*, 23 May 1997; *Delovoi mir*, 11 April 1997.
130. See *Izvestiya*, 14 March 1997; *Komsomol'skaya pravda*, 21 May 1997; and *Delovoi mir*, 11 June 1997.
131. *Literaturnaya gazeta*, 27 August 1997.
132. Makovskaya, 'Chelovek', p. 37.
133. Speculation on this score was prompted by the removal of former Sberbank President Oleg Yashin from his post as an adviser to Kaz'min. *Kommersant"-daily*, 2 October and 3 October 1997; Gleb Baranov, 'Sberbank: pered upotreblenie vstryakhnut'', *Kommersant"*, 1997, 36, 7 October, pp. 9–12. Significantly, the relatively pro-Chernomyrdin *Segodnya* played down the political significance of Yashin's removal; *Segodnya*, 3 October and 10 October 1997.
134. See, for example, Bogdanov's comments to the ARB; *Vestnik ARB*, 25 June 1996.
135. Rostowski, 'Introduction', p. 14. With respect to Russia, Rostowski proposed that Sberbank be broken up into several regionally based savings banks, to be privatised only when enough 'respectable' *kombanki* had come into existence.
136. Rostowski, 'Introduction', p. 14.
137. The privileges extended to primary dealers in the USA are linked to the requirement that they participate in auctions of US securities; effectively, they are committed to buying.
138. 'Special Report: Finance for Investment', *Russian Economic Trends: Monthly Update*, June 1997, p. viii.
139. For a brief discussion of these, see Tompson, pp. 1176–1177.