

RUSSIA HAS NO REAL BANKS

by Michael S. Bernstam and Alvin Rabushka

Russian Prime Minister Mikhail Kasyanov, at a meeting of the Confederation of British Industry in London on September 19, 2000, described the state of Russian banking in these words: “I could confess...we don’t have real genuine banks, practically no banks.”¹ In addition, stories compiled from Reuters, the Associated Press, and *The Moscow Times*, and headlined in *The Moscow Times* as “Kasyanov: Russia Has No Real Banks,” Kasyanov admitted that Russia’s banking sector was still very weak because of a low level of capitalization. He further described Russia’s banking sector as consisting of financial companies or financial departments of big financial groups that suit the interests of those borrowers which the financial groups themselves controlled. This amounts to lending to themselves. In short, he his British audience, “this [banking] system is not working.”

Prime Minister Kasyanov’s remarks are quite blunt. However, the condition of Russia’s banks is not new. Russia has not had real genuine banks throughout the 1990s, a reality of which Mr. Kasyanov was surely aware. Furthermore, in June 1998, we published a book on the subject of Russia’s banks, appropriately titled *Fixing Russia’s Banks*.² The analysis in the book was summarized in articles that ran in the U.S., European, and Asian editions of *The Wall Street Journal* and *Forbes* magazine.

In the book, we explained that Russia’s banks were *ersatz banks*, not real banks; their main activity was to transmit subsidies from the government to enterprises. We also explained in the book how to transform Russia’s *ersatz banks* into real banks through a series of debt-for-equity swaps, a process that still holds today.³

¹Reported in *FT.com Financial Times*, September 19, 2000, 18:019 GMT. See also, in Russian, on the web site of Russian Business Consulting at <http://www.rbc.ru/rbcfreenews.shtml?/20000919144407.shtml>.

²Michael S. Bernstam and Alvin Rabushka, *Fixing Russia’s Banks: A Proposal for Growth* (Stanford: Hoover Press, 1998). The book is posted on this web site.

³See Chapter 4 in *Ibid.*, pp. 91-98.