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**BANK-ENTERPRISE RELATIONS IN THE
TRANSITIONAL ECONOMIES: CHOOSING
THE MODEL OF FINANCIAL SYSTEM**

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Bank-Enterprise Relations in the Transitional Economies: Choosing the Model of Financial System

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Abstract

The "special relations" between banks and non-financial companies, that take form analogous to the industrial groups in the Western economies, are becoming an important feature of the economies. The commercial banks in the Central and Eastern European countries play an important role, often creating these groups or otherwise initiating them. The paper presents the development of such "special relations" in the Czech Republic, Russia and Ukraine. With the proliferation of these groups (both formal and informal, and of different organizational structure) the financial system of the countries in transition gradually starts resembling the German-Japanese style bank-oriented one. The attempts to create such groups 'from above' in the key sectors of economy (as in Russia and especially Ukraine) are based on perception that they provide a mechanism for long-term investment superior to that of the open stock-market. The evidence from the developing countries shows that in an unstable economic and institutional environment, these groups may well cause more trouble than benefit. So the problem of the regulation of this institutional transition becomes crucial.

Comments

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1. Introduction

Studying the developments in Russian economy during the 1990s it is impossible to get rid of the tremulous feeling of fascination. The processes that took long decades or even centuries in the Western industrialised countries, are being squeezed to few short years. Literally under the amused observers' very eyes the whole infrastructure of the economy ³/₄ in the broadest possible sense ³/₄ is created, reshaping it and defining the path of development that will determine the very destiny of Russia for the years to come.

'The general outlook in Russia is better than it has been at any time since the reform began', argues Richard Layard, a professor at the London School of Economics (*Financial Times*, 10 April 1995). Indeed, comparative to the previous years, inflation is down due to the austere monetary policy of the authorities, and the downward slide of the GDP¹ seems to be levelling out. However, while oil and gas producers grow, making major contribution to Russia's \$12 bn foreign trade surplus, Russian manufacturing industry still remains in crisis. It desperately needs new investment to restructure itself in order to increase its competitiveness *vis-a-vis* foreign rivals. On the one hand, the source of this investment may lay in, roughly speaking, the American-style capital markets, especially after the ambitious first stage of programme of mass privatisation is close to the end, with almost 90 per cent of industrial workers now working in privatised enterprises (*Economist*, 8 April 1995). Indeed, the stockmarket did emerge in Russia, but it is still in its infancy and does not seem to be a reliable source of capital right now. On the other hand, the banking industry, that made an impressive progress over the years since Russian economic reform began, is showing increasing interest in becoming major player in the game where stake is a leading role in Russian manufacturing industry. Banks need industrial enterprises to secure banks' financial base as much as enterprises need banks to invest in their development.

In the early years of reform it was fashionable in Russia to treat the big then state-owned enterprises, especially industrial unions of ministries of MIC, comprising in one economic entity few manufacturing plants and powerful R&D departments or even research institutes, as doomed dinosaurs, bound to be broken up to promote more competition (whereas in fact no such move was ever implemented). It is fascinating to see now a complete change of the mood. It is the big monopolistic corporation that is hailed in Russian economic and political literature as a main

¹The official statistics shows that Russian GDP is now almost 50 per cent less than in 1989; however, if account for the development of private sector in Russia properly, the drop of GDP could be estimated as 35 per cent (*Economist*, 8 April 1995).

engine of the twentieth century economical progress², emphasising especially their role in the development and introduction of new products and technologies.

While it is hardly questionable that the rise and spread of the giant business corporations is a characteristic feature of the world economy of the modern century, there is still a controversy in the Western economic literature whether they have benign or adverse effect on the economic growth and welfare, if any (Schmitz 1993, 81-83). The discussion of the advantages and disadvantages of big business is not the purpose of this essay. It could be almost taken for granted that the future Russian economy will include big corporations as its very important part (maybe even more important than that of the developed economies, taking into account all the Soviet legacy of monopolisation). The question is what is the most probable organisational forms of the Russian big business, and more precisely: what is the role of Russian banks in the process of the creation of the financial-industrial groups (FIG), as these economic entities are most commonly called in Russia. To give a correct answer to these questions is to understand what will be the Russian economy in future.

As the problems encountered by the industrial and financial sectors of Russia are to the bigger or lesser degree similar to those in other transitional economies, it is illuminating to compare the Russian evidence with the situation in other transitional economies. This paper pays particular attention to the investment funds in Czech Republic and to the developments in Ukraine where there is an attempt to implement the Russian model of industrial organisation.

2. Financial Market Configuration in the Industrial Countries

The proponents of the idea of FIG often refer to the world experience, namely that merging of banking and industrial capital is a normal state of nature in the developed world. That is why it is interesting to have a glance at the related issues in the economic theory and practice first in the major industrial countries and then in countries with transitional and developing economies.

There is no uniform model of financial system in the most developed countries that could serve as perfect prototype for the countries in transition. Generally speaking, two diverse models exist, that differ greatly in relative importance of their various elements. The Anglo-American market-based model limits the role of banks to the payment system and to the credit allocation and

²In such writings little distinction usually made between the Japanese *keiretsu*, German industrial groups or American big business corporations (eg. *Finansovye Izvestija* 15 November 1994).

places great emphasis on a free, extremely flexible capital market for a long-term financing of the enterprises.

The German-Japanese bank-based model is usually characterised by universal banking (although the Japanese banks are not essentially universal) and allows banks in addition to the above stated functions to hold equity shares large enough to monitor corporations as equity owners and to exert direct control on them. Bank representatives often participate in enterprises supervisory boards and could take leadership in their restructuring and liquidation. Not surprisingly, capital markets in both continental Europe and Japan are not as developed as in the UK and the US.

The extend to which banks should and can perform the role of controlling enterprises is discussed in a number of economic papers in 1980s and 1990s. Diamond (1984) develops a theory of financial intermediation based on minimising the cost of monitoring information. Diamond shows how this delegated monitoring is performed by the deposit-taking banks. Chant (1993), presenting the 'new' theory of financial intermediation, also stresses that only models with delegated monitoring and enforcement function of deposit-taking institutions could explain the concentration of non-marketable securities like long-term loans to enterprises (in contrast with other financial intermediaries like brokers and mutual funds that appear to concentrate on transactions in marketable securities). Both Diamond and Chant show positive outcomes from involving deposit-taking banks in long-term relations with their borrowers, the case that is characteristic for the German-Japanese model of financial system.

However, the actual activities of German and Japanese banks concerning their customers (in fact influencing their decision-making process) reflect more than just Diamond's 'monitoring'; otherwise, monitoring ought to be understood in a broad sense. Hellwig (1990) surveys different existing models of monitoring by financial intermediaries and shows that 'monitoring' as an instrument for improving performance under an incentive contract, is not far from the approach developed by Mayer (1988), according to whom, financial intermediation provides a mechanism of commitment to a long-term relationship.

There are studies that provide a comparative analysis of performance of two models of financial systems by investigating banking in countries with different financial systems. Frankel and Montgomery (1991) admit that in 1970s and 1980s German and Japanese banks have expanded more rapidly than US and British and have more stable and higher profit (as Frankel and Montgomery suggest, relatively low degrees of competition may contribute to this). The banking system of the former countries includes as an important structural element relationship between banks and their customers. In a more volatile economic environment this results in much less

number of corporate bankruptcies in Germany and Japan in comparison to UK and the US. Authors conclude that the practice of the bank-sponsored work-outs may help eliminate the free-rider problems and likely lowers the cost of financial distress (though it is necessary to admit that some later evidence contradicts this conclusion ³ see below). Borio (1990) and Frankel and Montgomery are in favour of loosening some US regulations and allowing the US banks have long-term relations with their customers in order to make the American economy more internationally competitive³.

Another study was carried by Steinherr and Huveneers (1994). They tested a set of 88 banks from different countries for effects of the regulatory and structural variables on the level and variability of bank performance over the period of 1985-1990. Their conclusion was that universal banks achieve a better risk-return trade-off, due to superior monitoring and information collection capacity.

Kestner (1992) shows that the industrial groups, *i.e.* groups of companies confederated around a major bank, trading company, or a major industrial corporation and interacting within the context of close relationship, could be considered as a contractual governance system different from the Anglo-American one. Large financial institutions possessing debt and equity claims on client companies are vital components in the contractual governance machinery used to support efficient production and exchange relationship. Evidence from Germany, Japan and Sweden proves their role in delegated monitoring, active investment in restructuring of client companies, mediation of disputes and promotion of new businesses amongst their clients.

However, not everything is rosy in the world of bank-dominated financial system. Frank and Mayer (1993) analysing market for corporate control in Germany since World War 2 (or rather absence of it from the perspective of Anglo-American corporate governance) raise question about the repressing of the minority shareholders by banks that pursue their own objectives at the expense of other parties. Steinherr and Huveneers (1994, 286-287) also show conflict of interests that arises when banks are lenders and shareholders of the same enterprise simultaneously. In this case debt of a firm exceeds the level that maximises firm's value. Steinherr and Huveneers also test how various financial variables affect macroeconomic growth in countries with different financial structure and reject the popular assumption that universal banking might be a better support for long-term strategies of the non-financial sector than are the Anglo-American institutions (*Ibid.*, 303).

³It is worth mention that even the US politicians start to take notice of the idea of repealing the Glass-Steagall act that had built a solid fire-wall between the commercial and investment banking since 1930s (*Economist*, 15 April 1995).

There is a tendency that with the development of the economy larger and more profitable firms tend to gain more independence from their banks, even if this emancipation is not costless and firms then are more likely to suffer from volatility in their earnings (Hellwig 1990, 23-25). Recent issue of *Economist* (30 April 1995) admits that there is an evidence that German companies are growing weary of domination of their 'main bank' and are looking to the stockmarket for the new investment capital. From another hand, string of corporate disasters in Germany (that stemmed from lousy investments and limited outside supervision of the firms) in 1994 made German policy-makers worrying about whether it is necessary to break close links between German banks and biggest companies. The Japanese *keiretsu* (groups of firms, including financial intermediaries, tied together by cross-shareholdings) now are not in their best shape too, having business among member firms fallen to unusually low 10 per cent of total turnover (*Economist*, 29 January 1995). Although it is hard to disentangle how much of these present difficulties could be attributed to the recession that hit German and Japanese economies, it is possible to argue that the system of long-run business relationship between banks and firms works well if everyone has the same interest, and with economies in trouble, some conflicts of interest are emerging inevitably.

It is possible to conclude, therefore, that none of the two major existing models of the financial structure of an economy, with their very different role assigned to the commercial banks' involvement in the performance of the industrial firms, could claim outright superiority over the rival one, neither from theoretical, nor from empirical point of view. There is an evidence, however, about a clear tendency of what are usually described as having entirely different financial systems to move gradually closer to each other.

3. Transitional Economies in the Light of the First and the Third World's Experience

It is interesting to trace the origins of the divergence between the two models of financial system (eg. Borio 1990, p.24-34). In the United States, UK and Canada stock markets had developed very early, while elsewhere different institutional barriers had slowed down their emergence. Thus non-Anglo-Saxon companies have been forced to rely more heavily on debt because the availability of external equity finance has been limited. Disclosure standards and insider-trading legislation were less stringent in the continental Europe; there were no other institutional investors like pension funds or mutual funds. Moreover, the dominant position of banking in these countries' financial systems may itself have been a factor hindering the development of stock market.

Hellwig (1990) also refers to the economic history to understand the internal logic of long-term bank-firm relationship. He recalls Gerschenkron's (1962) hypothesis that relatively less developed countries (with relatively scarce capital) rely more on banks for outside finance for industrial development. In this respect 19th century Germany with her banks' leading role in industrialisation is opposed to that time Britain that was industrialised earlier and relied more on stockmarkets. It is interesting how tsarist Russia fits into this picture: for this 'latecomer' in late 19th century even the banking system was not adequate to provide capital and entrepreneurship for the industrialisation, so state intervention had to be employed first to start industrialisation and to nurture banks at the same time (Cameron 1972, 11).

The financial system in post-communist countries is overwhelmingly dominated by banks. This is of no surprise because the only financial institutions that were allowed to operate outside the banking sector during the period of centrally planned economy, were the state insurance companies. The banking sector itself was characterised by the dominant state bank, acting both as a central bank and as a 'commercial bank'. When the reforms had begun, all these countries established two-tier system; but the former state banks are still the biggest financial intermediaries.

There is, however, a disagreement among scholars (and politicians) to what extent the bank-dominated German-Japanese model of financial system would be better suiting to the economies in transition. While some, like Corbett and Mayer (1991) are definitely in favour of the bank-dominated German-style system, others are more cautious. Rostowski (1995) argues that this is neither desirable nor feasible, because still largely state-owned banks could become the centres of large state-owned holding companies able to inhibit competition and threaten marketisation (Rostowski 1995, 14-15). Perotti (1992) also states that banks are not appropriate agents of direct corporate governance, since concentrated portfolios of non-performing loans could cause perverse effect of excessive involvement in those enterprises and a bias against lending to new more profitable ventures (Perotti 1992, 18-19).

Such vigilant approach is supported by the evidence from the developing countries, where financial systems, while being underdeveloped and with virtual absence of open security markets, are often dominated by big financial-industrial groups. These groups take over most of the large financial intermediaries and use them to mobilise resources for their own activity, like in Chile, Brazil, Korea or Philippines (Fry 1988, 247, 284-285). Concentrated loans to related firms were the source of financial troubles in 1970s in Spain and in 1980s in Thailand, Chile and Korea, in which cases the state had to intervene to rescue the troubled banking system (except the case of Korea, where due to the expansion of the Korean economy in late 1980s and rising bank earnings, banks were able to 'grow out' of trouble) (Saunders and Sommariva 1992, 32-38).

The actual realisations of the described above variants of financial system in the East-Central Europe is as follows. Only Hungary that had transformed its banking system from the single to the two-tier banking even in 1987, have chosen differentiating between the commercial and the investment banking. All other countries have chosen the universal banking model of German-Japanese style. Hungarian commercial banks are limited to the deposit taking and loans providing activities and limited in their investment opportunities that are the sphere of the investment banks activity. The investment banks could allocate up to 100 per cent of their capital and reserves into long-term investment, and the same is allowed for the universal banks in Bulgaria and Romania. At the same time, Polish and Czech legislation restricts long-term investment to 25 per cent of the universal bank capital and reserves (however, in the case of impressive Czech mass privatisation the ultimate control of the privatised enterprises belongs to the investment funds, of which a lot was founded and owned by Czech commercial banks). Legislation also allows banks to initiate bankruptcy procedure (Thorne 1992, p.17-21).

Meanwhile, the stockmarkets have also come into their own in Poland, Hungary, Czech republic and Slovakia. As entrepreneurs realised that it is too long to wait until the banks (along with the economies) recover to be able to supply enterprises with what they need most $\frac{3}{4}$ long-term credits, they started new issues of debt and equity on their countries' stockmarkets, thus giving them impressive boost (*Economist*, 19 March 1994). Overall, the final shape of the Eastern-Central European financial markets has not been formed yet. Despite of some mentioned above recent developments they still look like more bank-dominated.

4. Closer Look on Czech Investment Funds

Czech investment funds were created in the process of highly-advertised large-scale privatisation programme that had started in 1991 (when the federation of Czechoslovakia still existed) and by now is recognised as the most successful throughout the Central and Eastern Europe⁴. The core of this programme was so called "voucher privatisation", with the philosophy behind it as follows. Because of the limited savings of (then) Czechoslovak citizens, standard privatisation by sale to them (as the sales to foreigners were seen as undesirable) had been estimated to last up to 600 years. So the state selected a group of (finally) 1,491 medium and large size companies that were rather arbitrarily considered to be more ready for privatisation, to be privatised by vouchers in the first wave of privatisation, with the rest to be sold for cash in the second wave. All Czechoslovak citizens were endowed with 1,000 voucher points (with no explicit monetary value) that could be exchanged only for shares; voucher holders could diversify their investment into as many as 10 companies or investment privatisation funds (IPFs).

⁴ The description of the Czech privatisation programme is based on Dlouhý and Mládek (1994).

The first wave was technically finished by December 1992, but the share distribution was delayed to May-June 1993. About US\$ 10 billion of property, 70 per cent of which was in the Czech Republic, had been privatised then. On average, Czech companies in the first wave gave 63.5 per cent of their shares for voucher privatisation, with remaining shares sold to foreigners, transferred to municipalities or left in the Fund of National Property.

During the first round of voucher privatisation, 429 IPFs were established, that obtained 72 per cent of all available voucher points. At that time, an investment fund was only a joint-stock company that represented the voting rights of its individual shareholders. Because it was found that the joint-stock company arrangement was troublesome, in the second wave the funds very often became unit trusts, which can be either closed or open ended, but individuals who gave their voucher points to those funds would not have voting rights.

As any single investment company could establish several investment funds (*e.g.* Harvard Capital & Consulting a.s. established 8 funds, Investicni Banka established a daughter company Prvni Investicni a.s. that in turn established 12 IPFs *etc.*). As a result, the top 14 investment groups controlled 4,744 m voucher points, 77 per cent of voucher points given to IPFs and 55 per cent of all points, that were transformed into 119 m shares, *i.e.* 67 per cent of IPF shares or 43 per cent of all shares. Although IPFs are not the biggest shareholders⁵ (according to *Financial Times*, 2 June 1995, they control now about 29 per cent of all outstanding Czech shares while the Fund of National Property holds 40 per cent and industrial and portfolio investors own 25 per cent) they are the most influential. Nine of these major investment groups were created by Czechoslovak banks, and since the banks are also the major providers of loans to the economy and can perform privatisation through other methods than vouchers, clearly banks received nearly absolute control over the Czech economy (Dlouhý and Mládek 1994, 168).

When the economic reforms began, the Czech banking sector was the first key industry to be partially privatised and restructured. The slimming-down created three big commercial banks: Komerční Banka and Investicni Banka, now the main bankers to industry, and Československá Obchodní Banka, the Czech and Slovak Trade bank. A special state-owned institution called the Consolidation Bank (Konsolidacni Banka)⁶ took over much of their bad debt (unrecoverable credits to the state owned enterprises), allowing them to recapitalise and start operating like the standard universal banks (*Financial Times*, 2 June 1995).

⁵ They are prohibited by law from owing more than 20 per cent of any single company (which does not prevent them from pooling their resources).

⁶ Konsolidacni Banka had achieved surprising success, having transformed these bad loans into long-term credits to enterprises at 13 per cent annual rate (*Times*, 2 May 1995).

As Table 1 shows, the Czech banking industry after the dissolution of Czechoslovakia is dominated by four big banks that enjoy virtual monopoly in their respective markets. There is almost no middle-sized financial intermediaries, and the small banks have difficulties to find a profitable *niche*, sometimes having the only lending opportunities that have been already rejected by these giants. The small banks also accuse Komerční, Investiční and Česká spořitelna (Czech saving bank) that own large investment funds through which they control big stakes in the country's leading companies (Table 2), that they could force lending decisions on company executives who are thus prevented from seeking more competitively priced resources elsewhere.

There is a contradictory evidence about the role of IPFs in corporate governance of the Czech companies. On the one hand, IPFs brought crucial stability to companies at a time of tax oversight and sometimes wild conduct by communist-era managers that establish their own companies-within-companies to line their own pockets, as in track maker Tatra Kopřivnice (King 1995, 25). Eventually five funds that had a combined stake of 60 per cent of shares in the company, fired the top managers and hired an American team headed by a former Chrysler executive (that was later also forced out by IPFs). Another example is Zivnobanka IF that replaced 10 per cent of managers of companies of its portfolio for the illicit asset-stripping (*Business Central Europe*, February 1995).

On the other hand, the efficacy of Czech IPFs as institutions of corporate governance remains unproved. There is a potential conflict of interests between the banks that manage investment funds, and those banks' own corporate lending arms⁷. The banks may be a restraining force holding back the pace of restructuring, being motivated more by a desire to avoid both costly bankruptcies than by a desire to achieve efficient outcomes. So they could quash riskier innovation while trying to steer crucial business their way. Sometimes companies are forced to borrow for investment or to undertake bond issues often handled by their house bank. the bank's own IPFs take lion's shares of these issues, increasing its influence on a company. A classic example arose in April 1995, when several bank funds pushed construction giant Metrostav a.s. to pay a tidy dividends despite the company's need for reinvestment; worse, Metrostav would have to borrow to pay the dividends (King, *Op.cit.*, 25). Consequently, the proposed amendments to the banking law are likely to insist on a specific division of the activities ('the Chinese Wall') between the banks and their funds of banks and their funds.

Another problem is large stakes in the country's biggest companies owned by state (incarnated in the Fund of National Property), whose goal is to sell them to large single shareholders. As FNP's stake sometimes outweighs those of IPFs, managers could be reluctant to listen to the IPFs'

⁷ The strategy of different banks differs: Spořitelna tries to keep bank managers off 70 or so boards where it has seats, while Komerční actively puts bank employees on some 120 corporate boards.

representatives in the governing bodies until the 'true owner' is chosen by government (*Business Central Europe*, February 1995). However, IPFs are afraid to dilute their holdings in companies and trade their shares in the stock market and are reluctant to consider new equity issues, which some IPFs may not be able to subscribe for due to lack of liquidity. The result is a stock market paralysis.

Moves are under way to force IPFs to become either portfolio managers or strategic long-term investors. The chief proposal under consideration would convert the funds into two different breeds. Some funds, mainly the larger ones, would become similar to venture-capital concerns - after removing the 20 per cent rule for the strategic investors. Smaller funds would be converted into more typical mutual funds, with this rule tightened and lowered to 10 or 5 per cent, and their seats on management boards taken away (King 1995, 26).

As Dlouhý and Mládek state, despite a heroic attempt of the architects of Czech privatisation to create a US-style capital market, the economy had finished with something close to the German system of corporate banking ownership. The difference is that the Czech banks control the companies not through the proxy votes but through their daughter companies-investment funds. Another difference is a wide-spread cross-ownership in Czech banking industry, the benign consequence of which is more stable system that could better resist different shocks. But the minus of it is a limited competition and implicit redistribution of resources by the banking sector rather than the state (Dlouhý and Mládek 1994, 169).

5. Reshaping of Russian Financial Market

5.1. Brief History of Russian Banking Industry: To the Edge of Crisis

The banking industry in Russia had undergone a tremendous change from virtual non-existence as such in modern sense few years ago to the most dynamically growing sector in Russian economy.

In mid-1980s Russia (as a constituent republic of the Soviet Union) had a monobank system, in which the State Bank (Gosbank) was responsible for allocating state resources to all parts of the economy according to the economic plans designed by the central authorities. In 1987 this system was transformed into two-tiered one, with Gosbank established as the central bank of the USSR⁶ and its non-central-bank functions were assigned to five specialised banks, each of them

⁶The Central Bank of Russia (CBR) had been created in 1991 and in November of that year incorporated the Soviet central bank with the dissolution of the Soviet Union.

dealt with specific sector and activities: the Savings Bank (Sberbank), the foreign trade bank (Vneshtorgbank), the bank for construction and industry (Promstroibank), the agricultural bank (Agroprombank) and the social and housing sector bank (Zhylsotsbank). In 1991 three latter banks were transformed into joint stock companies chartered to act as a universal bank, and were subsequently fractured into hundreds of independent banks through simple decentralisation.

Since 1988, there was a rapid emergence of a diverse set of commercial banks, that were established as co-operative (at the initial stage of reform) or joint stock companies. They were organised by private firms and co-operatives, social organisations, academic and research institutions and state-owned enterprises. Sometimes these banks were called 'sectoral banks', because most of them were owned by groups of enterprises from a given sector, their aim was to get access to the payments system and manage their cash flow through these banks.

Russia had experienced an enormous proliferation of the number of banks, from five in 1988 to 1,700 in April 1993 and more than 2,400 by April 1995. Most of them are small and the banking industry is concentrated with less than 4 per cent of the banks accounting for 70 per cent of total assets of the banking system in the first quarter of 1994 (*Central European Review*, March 1994, 33). While the quantitative concentration decreased slightly in 1994, regional concentration had become even more visible. Moscow banks owe 75 per cent of total assets, and Table 1 shows that only three of top 25 Russian banks are not Moscow-based (*Banker*, April 1995, 37-40). The descendants of specialised banks still dominate the list of top Russian banks, while being successfully challenged by the group of late-1980s upstarts like Inkombank, Menatep or Stolichny.

In terms of ownership transformation, Russia has a largely private banking system, since most of the enterprises-owners of commercial banks have been privatised. The formal change of ownership structure, however, could not end the incestuous relation between banks and enterprises, when most small banks lend almost exclusively to their own shareholders. Having a weak deposit base, they were relying heavily on short-maturity funds from the interbank market or on the CBR refinancing credits to the enterprises. With the exception of a few dozen dynamic and well-managed institutions these banks have weak loan portfolios.

The Russian banking system despite its obvious connection with the industrial sector was not very helpful in providing funds on the scale necessary to revive Russia's manufacturing sector. 95 per cent of the loans made by banks, were short-term and made mainly to finance trade operations, the only ones able to keep pace with inflation (*Finansovye Izvestija*, 7 March 1995). While most of 1994 credit emission of rubles 35,000 to 40,000 bn was aimed on the

improvement of financial position of manufacturing sector, great part of it leaked to the financial sector via the banks (*Ibid.*, 31 January 1995).

By the end of 1994, the Russian banking system found itself in crisis. The manufacturing industrial enterprises, especially badly hit by the continuing recession and inter-enterprise arrears, had become less likely to repay the bank loans. On another hand, trade in imported consumer goods, that used to be financed by the lion share of the banks' short-term loans, showed sharp drop in profit margins, indicating increased competition and a changing consumer demand. A lot of banks' troubles were due almost exclusively to their lack of experience and bad management. Insider lending (to private companies mainly) is widespread, and according to some estimates, probability of non-payments for such loans is about 20 to 30 per cent (*Banker*, April 1995, 36).

The worst affected were under-capitalised and under-managed small banks. As a result, 65 banks were closed by the CBR in 1994 (19 in 1993), and few hundred had become regional branches of powerful Moscow banks. Tough credit policy conducted by the CBR is knocking down the marginal players. The outcome of this crisis will be changing face of the Russian banking, and more generally, financial system, with emerging of the financial-industrial groups as an important players.

5.2. Russian Stock-Market: Booming But Imperfect

Russian stock-market came into being when most of the commercial banks had been established already. Since the beginning of the privatisation programme shares were created in some 15,000 companies, and the market is growing fast. Rise of prices in some shares has been explosive. Nevertheless, doubts persist about the market's ability to raise necessary funds for manufacturing sector.

Most of the booming shares belong to the joint stock banks, massive oil and gas companies and utilities like telephone companies or electricity. Over six month prior to March 1994, bank share prices have risen by 221 per cent (corresponded to an inflation-adjusted return of 18.5 per cent) comparative to less than 50 per cent share rise in industrial shares (*Economist*, 12 March 1994). Investors prefer solid banks and oil-exporting companies (like Lukoil, Russia's biggest one, that hopes to raise from \$3 bn to \$6 bn by selling shares to foreign investors, according to *Economist*, 24 September 1994) to the manufacturing enterprises, that are bankrupt in all but name, and according to the general director of the Federal Bankruptcy Agency, 9 per cent of Russian enterprises, or 8,000, should be declared bankrupt immediately (*Ibid.*, 19 March 1995).

There are few serious problems with the stock-market in Russia. First, the overall political and economical uncertainty and high degree of economy-wide systemic risk due to the large structural changes affects adversely the investors' expectations and enterprises' ability to borrow funds on the open stock-market. Second, the imperfect information structure makes it next to impossible for outside investors to understand what is going on inside a firm. Socially profitable long-term investments could be crowded out by less profitable short-term ones.

Another problem is that the bosses of as many as 90 per cent of privatised enterprises want their shares traded as little as possible. They do not want to raise additional capital, preferring to maintain control rather than expanding their businesses and risking being replaced by shareholders, as it was the case in 10 per cent of privatised companies (*Financial Times*, 10 April 1995). And some of the bigger companies still seem far from sure that they are ready to recognise that outside shareholders have any rights at all, as the existing legislation makes it extremely difficult for the dispersed shareholders to assert their rights.

The relevant conclusion is that due to the existing informational and institutional imperfections the stock-market does not provide an adequate mechanism to raise funds for the enterprises: outside investors do not want to invest their money there, and the stockholders do not want to give up ultimate control over the enterprises to the shareholders according to the Anglo-American model. However, the very existence of the stock-market in Russia provides the possibility of establishing necessary mechanism, as it is shown in the next chapter.

5.3. 'Financial-Industrial Groups': Panacea or Poison?

As the economic recession deepened in Russia and the return on the implemented reforms seemed to be much less than expected, the authorities and the prominent figures in the Russian economy started to look for a remedy able to revive the troubled manufacturing sector. The concept of economical reforms produced in the leading Moscow economic research institute expresses an idea that

'accent should be done on forming the corporate sector in Russian economy [...] personified by large industrial corporations or financial-industrial groups (FIG) [...] which could endure competition of the Western countries and provide necessary conditions for transition to the open economy' (CEMI, 1994, 14).

1994 was marked with the proliferation of integration of financial and industrial institutions into the different organisational forms that are usually known as already mentioned financial-industrial groups. The examples of these financial-industrial groups are given in Table 4. This is in fact a

result of several different processes going on, and the ultimate outcome could be a financial structure centred on the formations resembling German industrial groups or Japanese *keiretsu*.

The first process is an attempt of the commercial banks to beat the banking crisis by different forms of integration. The small and medium-size regional banks under threat of bankruptcy are eager to become part of a more stable structure either by transforming themselves into branch of bigger bank (usually with headquarters in Moscow) or by entering some sort of group, sometimes in form of bank holding (Promstroibank holding $\frac{3}{4}$ Table 4). Big banks also move closer to each other, establishing informal agreements (group Energy $\frac{3}{4}$ Table 4) or formal cartels (like between Imperial, Stolichny and National Credit) or consortia (Avtobank *et al.* $\frac{3}{4}$ Table 4). Because of uncertainty with tax policy and with dealing with local and regional authorities many of these unions prefer not to declare themselves as such formally.

Banks are interested in closer relations with industrial enterprises that have substantial funds, access to the state financing and certain tax benefits. Bring them into the bank's group either by acquiring substantial amount of shares or by agreement is also part of strategy that deals with banking crisis, because this secures resource base of banks. Enterprises are interested in long-term relations with banks to invest in their restructuring. It is often the case that relatively weak local banks are unable to bid successfully for the control of industrial enterprises, so more powerful Moscow banks step in, like in the case of joint-stock company Azot (Vologda), 80 per cent of shares in which had been bought by Uneximbank. The bank invests in carbamid production facilities there, and plans to create (together with Gazprom) a natural gas processing line on Azot.

Actually, such attractive enterprises could be able to initiate a financial-industrial group themselves, with the first step being creating own bank. A good example is Volga-Kama group (Table 4). The main bank of it $\frac{3}{4}$ AvtoVAZbank $\frac{3}{4}$ had been created by VAZ, major car producer in former USSR. This group now creates vertically integrated structure, acquiring stakes in companies-suppliers of VAZ and KamAZ, thus securing their production process. Another example is a group that had emerged around Severstal ferrous metallurgy plant (Vologda oblast), that includes the plant itself, machine-building enterprise, Cherepovets airport, Kostomuksha ore refining enterprise, coal mines in Vorkuta coal basin, construction enterprises and Metkombank. Kochevrin *et al.* (1994, 386-387) analyse case example of Uralmash Heavy Engineering Association that gives an example of non-antagonistic alliance between the managers of privatised company and external investors (in this case - NIPEK private investment corporation).

There is a set of widely diversified holding companies. Some, like Alfa Group (one of the country's most ambitious import-export concerns) or Most Group, have their origin in the pioneer

private trade companies of the late 1980s, that gave their offshoots in early 1990s as commercial banks that became the centres of these holding companies. Others, like Inkombank or Menatep group, originate in banks organised by state enterprises. Now they are almost identical, with structure similar to that presented on Figure 1. These groups are usually the first who start develop new profitable financial and other services ³/₄ pension funds, insurance, consultancies or trading in real estate. Now they are transforming from the financial groups into the financial-industrial, their 'industrial' part being controlled by their investment funds, providing investment in the exporting industries like oil-extracting and refining, chemicals, metallurgy, timber, construction materials and food industry.

Some holding companies and cross-ownership structures, like Menatep and Hermes groups or RINACO Investment Group, were formed by a spontaneous processes even before the state privatisation programme had been implemented. These are loose kind permitting entrepreneurial initiative and independence at the managerial level (Kochevrin *et al.* 1994, 385).

All the discussed above was the creation of the financial-industrial groups 'from below', the prevalent way until now. However, in 1994 the Russian government decided to start organising such groups 'from above', in accordance to the quoted 'concept of reform'. The idea is to make 30 to 40 'base points' in high-tech military-industrial complex, able to manufacture internationally competitive goods, mainly for arms trade. Another objective was to entrust commercial banks with providing support for those enterprises and by this make a relief for the government budget.

The first experiments (Russian Export-Import Bank and others) were unsuccessful, though. The industrial enterprises designed to become part of such groups, are usually with low profit level or even loss-making, over-burdened with huge social infrastructure that they used to maintain in the Soviet era; their management is used to cheap and easy state credits and transfers this habit on the commercial banks. The banks were usually deprived of all control over the enterprises, as in four fifth of these newly created groups the share of state property was above 60 per cent, and even in the privatised enterprises the majority stake belongs to the stockholders; the legislation is either absent (like in case of trust operations) or contradictory. The role of banks is no more that accounting departments of these groups.

There are doubts about viability of the groups created 'from above'. The government, however, plans to continue experiment, with clear objective to create mechanism of intervention into economy similar to the Japanese or South Korean one. The profound absence of incentives for banks (that should be the main engines of these groups) undermines all the undertaking. Moreover, even in the government there is no full agreement on vision of the role of banks in

future Russia. The new project of legislation on the securities market envisages Anglo-American structure of it and excludes banks from operating there.

The latest encounter about the shape of the Russian financial system was in April, when two consortia of the top Russian banks, including Uneximbank, International Financial Company, Inkombank, Stolichny and Imperial Bank, make their proposal to the government to sell stakes in big privatising companies not in open market but in the closed tender controlled by these banks $\frac{3}{4}$ thus securing for themselves a leading role in Russian economy for the time being. While some members of government are in favour of this proposal, other, including deputy head of the CBR, are opposed, arguing that re-establishing monopoly over assets means to harm the development of economy. What is more interesting and maybe more important $\frac{3}{4}$ such companies as Gazprom and Lukoil (whose stakes will be traded too and who have close relations with Imperial Bank, one of the bidders) are against, too, because they want to attract foreign investors (*Financial Times*, 22 April 1995; *Economist*, 15 April 1995).

6. In Russia's Steps: Financial-Industrial Groups in Ukraine

The development of economic transformation in Ukraine followed the Russian path fairly closely, and the events that happen in Russia, usually happen in Ukraine with an interval of few months.

Prior to 1991 the Ukrainian financial system was an integral part of the financial system of the USSR and experienced all the changes in the latter. Since 1991 it is possible to speak of an independent Ukrainian financial system. The National Bank of Ukraine (NBU) was formally established in early 1991 on the base of the Republican branch of the State Bank of the USSR in the Ukrainian SSR. NBU has since assumed the function of a central bank. On March 20, 1991 the Ukrainian parliament adopted *Law on Banks and Banking Activity*. This law has confirmed the existence of a two tier banking system composed of NBU and the commercial banks of different kinds and forms of ownership (Halushka 1994).

The emergence of new commercial banks in Ukraine was slower than in Russia, where more than 1500 banks were licensed by the end of 1991. At that time there were only 73 banks in Ukraine (including five former state banks - FSBs). In the middle of 1993 their number had risen to 160 and to more than 240 in January 1994. This figure is unlikely to increase sufficiently, as NBU has established now the lower limit of own capital for the newly registered banks at the level of 3 mn ECU. The already existing banks have to increase their capital to 5 bn karbovantsi till mid-1994. By this measure NBU wanted to stimulate

mergers in banking sector and creation more viable banks, and in 1995 their number is around 220.

The Ukrainian commercial banking industry has a dual structure with huge FSBs and relatively small newly established commercial banks. Unlike Russia, Ukraine had kept FSBs with their traditional sectoral demarcation almost intact, having changed their ownership structure only. At the beginning of 1993 three of FSBs: Ukraina (lends to agricultural sector), Prominvestbank (lends to state industrial enterprises) and Ukrsochbank (lends for social infrastructure projects) covered almost 95 per cent of money turnover in Ukraine, and year after they still have 87 per cent of the market share (as the state sector is still the decisive in the Ukrainian economy). These banks had strong connections with and support from government and NBU. They enjoyed safe credit base (until April 1993 they officially had NBU refinancing rate lower, than for the commercial banks), broad network of branches and stable set of customers, being still the monopolists in servicing the state sector. However, many of their customers are heavily indebted, and close ties with government could backfire. In the end of 1993 FSBs became hostages of the erratic policy of government, having been obliged to serve the burden of 40 per cent state budget deficit.

On the contrary, the new banks are free from servicing the inefficient state sector. Although many of them were founded by ministries or state-owned enterprises, and some still remain little more than credit unions for limited groupings of state enterprises, they are oriented primarily on the market structures, including private businesses. Some of these banks are eventually approaching in size to FSBs and usually exceed them in growth rate and profitability. However, even the largest of them, like INKO (Kiev) are equal only to Russian mid-level banks in terms of assets, that reflects the fact that Ukraine is still far behind Russia in the developing of the banking industry and the economic reform in general.

The emerging of the commercial banks occurred with different speed in different regions (some of oblasts have no independent banks at all). The city of Kiev could be seen as a real financial capital of the country, concentrating almost one fifth of all banks. The Kiev banks are the biggest and most active in Ukraine, trying to spread their influence through all the main industrial centres. 1993 gave an evidence of rapid growth of banks in the East, in the regions close to the Russian border. This could be understood having in mind that more liberal tax legislation in Russia attracted big share of the Ukrainian private business there.

In spite of extremely hard economic situation in Ukraine the leaders of banking industry enjoyed return on equity of 2,000 - 3,000 per cent with average 300 per cent in 1993. High inflation (with its peak in December 1993: 90 per cent monthly) made long-term lending and

investment almost impossible, so banks channelled their resources to short-term lending, mainly for trade operations. Even the best banks have less than 10 per cent of their assets in long-term investment projects, mainly in food, chemical and machine-building industry.

The changes to the Ukrainian banking legislation adopted in 1993 impose a restriction on the banks' investment activity. The banks are not allowed to have more than 10 per cent of shares in any affiliated companies, that in fact prohibits the banks to take part in the large-scale privatisation process. Another decree states that state enterprises could not be the shareholders of the commercial banks. The commercial banks were obliged to pay quarterly dividends of state enterprises-former shareholders directly to the state budget. These new regulations were sometimes seen as a prelude to the large-scale nationalisation of the banking sector.

As a result of these actions, as well as of tight monetary policy conducted by the NBU, the Ukrainian banking system was in heavy difficulties during 1994, with big FSBs performed better than the newly created commercial banks (*Uriadovyj kurjer*, 137, 23 September 1994 p.5). At the same time, industrial production continued to decline. Enterprises were in desperate need of long-term investment for restructuring their outdated energy-intensive technological lines. Quite naturally, the banks started to be seen as the source of such investment, and the idea of putting together banks and industrial enterprises emerged, following the Russian fashion.

The problem of creation and the role of financial-industrial groups in the economy became a fashionable issue for discussion in the Ukrainian economic and political circles by the middle of 1994. The idea gained both its passionate supporters and fierce opposers. The arguments of the former (that include top Ukrainian bankers as well as top level governmental officials) could be summarised as follows. The monopolistic industrial groups have to be consciously created in the key sectors of the Ukrainian industry during the process of large-scale privatization in order to secure the survival of its unique scientific and technological potential. These groups (15 to 20, accounting up to 30 per cent of the industrial production, as the Deputy Minister of Economics L.Minin envisaged (*Uriadovyj kurjer*, 114, 23 July 1994 p.6) will be responsible for the most of hi-tech Ukrainian output that could be competitive on the international markets. These groups should be state controlled (*Ibid.*) or under state guardianship through the system of benefits for their participants (*Biznes*, 91, 13 September 1994). The source of long-term investment in the industrial enterprises will be the money of commercial banks, would-be members of the industrial groups. It is emphasized that the banking sector (95 per cent of which are joint stock companies) is the most developed structure of the private sector and thus could become the moving force of the whole Ukrainian economy. As in Russia, this process had started spontaneously already.

Similarly to Russian major car producer, AvtoVAZ (founder of already mentioned Volga-Kama industrial group), the major Ukrainian car producer, AvtoZAZ (in Zaporizzhia) had created a bank (AvtoZAZbank) that has an incentive to invest in manufacturing process.

There were serious arguments *contra*, however. The Ukrainian banks are too weak (partly because of the 1993-1994 policies of central authorities) and are more probably to become 'little screws' in the newly created state monopoly monsters than their restructuring force. Creation of the industrial groups is presented as an attempt to restore the command methods in economy that could destroy the whole commercial banking and curb the development of the private sector in Ukraine (*Fortune*, September 1994). There were fears that the FIGs will be either created as trans-national corporations or will become trans-nationals eventually, with the most probable candidates for foreign partners being Russian businesses - and nationalist-oriented economists and politicians predicted that Russian private and dynamic businesses will dominate over the weaker, rigid and government-controlled Ukrainian ones, and by the end of the day will control the key positions in the Ukrainian economy.

That was why the national-democratic MPs in the Ukrainian parliament joined their communist and socialist colleagues on 2 March 1995 in attack on the first Russian-Ukrainian FIG "International Avia-Engines" created according to the presidential decree. The parliament vetoed the decree, and this group that had to embrace 50 Russian and Ukrainian enterprises of military complex, had not been created. However, the plans of the president and government remain the same, and the government worked out the draft law on financial-industrial groups and submitted it to the parliament.

President Kuchma reiterated on June 16, 1995 his determination to develop the finance-and-industry groups, large associations which he believes will remedy Ukraine's faltering economy. He declared that Ukraine, in cooperation with Russia, is going to establish about forty of such groups, within the next month.

Kuchma said that the partners in a group will be exempt from customs taxes and duties, which will increase their chances to be competitive. The losing enterprises, however, may undergo transformation, or even be closed.

The president continued that government may "revise" the contracts with managers of the state-owned enterprises, meaning that some contracts will in fact be terminated.

In June 1995, after heated two-days debate, the Ukrainian parliament endorsed the law on financial-industrial groups, in the first reading. The law defines the FIG as 'associations of

industrial enterprises, research or design institutes, and banks, which shall be established upon a governmental decision for the purpose to implement state programs for development of the principal industries' (*UPresA News*, 28 June 1995).

The priority importance is attached to the heavy, machine-building, chemical industries, and agriculture. The annual turnover of an FIG is to exceed US\$ 100m, otherwise it will lose its status, and any privileges, such as tax exemption, connected with it.

Chairman of the Ukrainian Interbank Currency Exchange, MP V.Het'man explained that the Ukrainian banks are interested in the law because it will enable them to be more active in the privatization process and improve investment opportunities.

So far it could be concluded that industrial groups *per se* is a reasonable idea that could suit the Ukrainian economy well and could really improve the shape of the economy. It corresponds to the logic of the economical development of Ukraine and her place among the world economies. It is evident that 'over-regulation' of the Ukrainian banking industry should be abolished and the natural process of creation of industrial groups should be allowed, but not the re-creation of the state monopolists of old days.

7. Conclusions

The “special relations” between banks and non-financial companies, that take form analogous to the industrial groups in the Western economies, are becoming an important feature of the economies. The commercial banks in the Central and Eastern European countries play an important role, often creating these groups or otherwise initiating them. The paper presents the development of such “special relations” in the Czech Republic, Russia and Ukraine. Clearly, in each country the process has its local peculiarities, but there are similar features, too. With the proliferation of these groups (both formal and informal, and of different organisational structure) the financial system of the countries in transition gradually starts resembling the German-Japanese style bank-oriented one.

The attempts to create such groups ‘from above’ in the key sectors of economy (as in Russia and especially Ukraine) are based on perception that they provide a mechanism for long-term investment superior to that of the open stock-market. The evidence from the developing countries shows that in an unstable economic and institutional environment, these groups may well cause more trouble than benefit.

Evidence is contradictory. In some cases these groups really provide vitally necessary funding for the restructuring. However, in other cases it could be that instead of undertaking a painful and costly programme of production and organisational transformation, the new structures tend to rely on exploitation of all sorts of market failures. So the problem of the regulation of this institutional transition becomes crucial.

Table 1: Top 10 Czech banks, ranked by capital (\$ m), December 1993

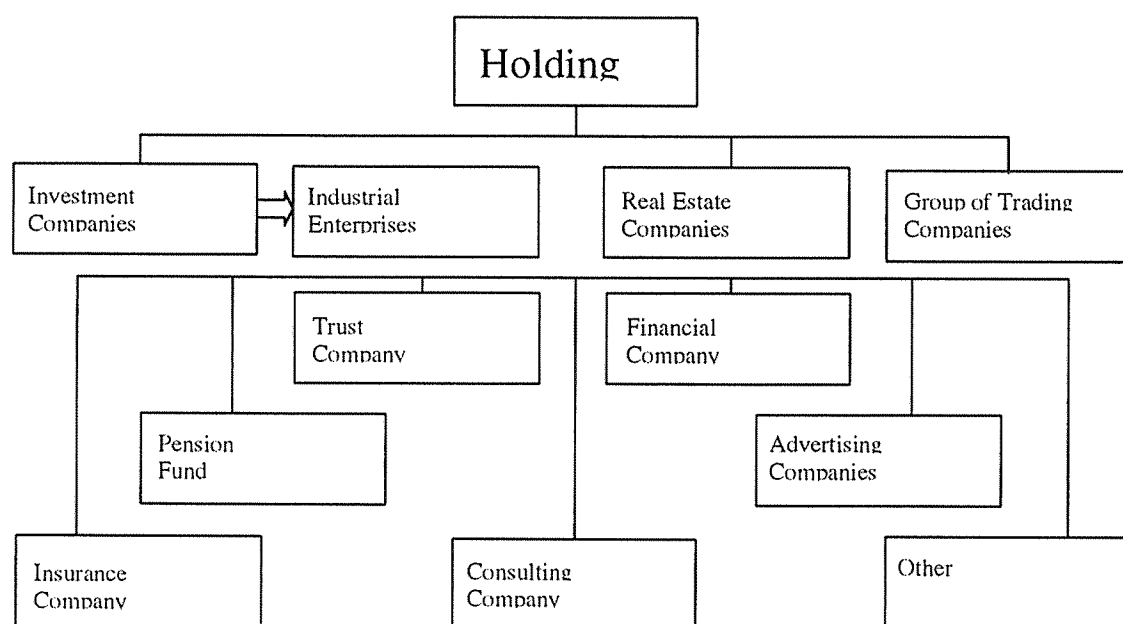
	Bank	Capital	Assets	Gross profit	Share of total credits	Share of total deposits
1	Komerční Banka	402	9,186	420	33 %	22 %
2	Ceskoslovenská Obchodní Banka	364	4,260	-369	9 %	5 %
3	Ceska Sportelna	333	10,462	89	17 %	42 %
4	Konsolidací Banka	231	2,982	na	na	na
5	Investiční a Poštovní Banka	210	4,142	18	14 %	9 %
6	Agrobanka Praha (Dec 1992)	64	1,301	33	na	na
7	Zivnostenská Banka	56	746	19	na	na
8	AB Banka (not risk adjusted)	46	379	6	na	na
9	Banka Hana, Prostějov	23	382	5	na	na
10	Ekoagrobanka	22	406	2	na	na

Source: *Business Central Europe*, October 1994; *Financial Times*, 2 June 1995.

Table 2: Top 10 Czech investment funds ranked by capital (\$ m), first wave privatisation

	Fund	Fund management company : *bank,**private,***insurance co.	Market capitalisation
1	Sportovní Privatizační	Sportovní Investiční Společnost *	296
2	Harvard Dividend	Harvard Capital & Consulting **	159
3	Komerční Banka IF	IKS Komerční Banky *	148
4	RIF	První Investiční a.s. *	147
5	PIF IPF	KIS Česká Pojišťovna ***	98
6	Harvard Growth	Harvard Capital & Consulting **	91
7	Fond Rychlého Vynosu	První Investiční a.s. *	74
8	Creditanstalt IPF	Creditanstalt Investment Co. *	66
9	Rentierský	První Investiční a.s. *	63
10	Zivnobanka IF	Zivnobanka Trust a.s. *	57

Source: *Central European Economic Review*, June 1995.



Source:

Figure 1:

Table 3:. Top 25 Russian banks (as at 1 January 1995, in rubles millions; US\$ = 3,587 rubles)

	Bank name	City	Assets	Capital	Net profit
1	Sberbank	Moscow	44,323,880	2,403,063	1,078,010
2	Vneshtorgbank	Moscow	18,778,153	2,752,758	506,513
3	Agroprombank	Moscow	18,310,997	2,634,610	na
4	Inkombank	Moscow	9,186,682	895,012	290,332
5	Rossiyskiy Kredit Bank	Moscow	7,728,729	369,177	55,141
6	Mosbusinessbank	Moscow	7,271,532	281,842	365,529
7	Uneksimbank	Moscow	7,051,215	653,168	59,505
8	Moscow Industrial Bank	Moscow	6,189,273	264,279	517,720
9	Imperial bank	Moscow	5,836,799	429,465	41,209
10	International Financial Company	Moscow	5,803,419	180,145	51,831
11	Stolichny Bank	Moscow	5,344,470	753,460	11,991
12	Menatep Bank	Moscow	5,315,009	177,793	55,894
13	International Moscow Bank	Moscow	4,966,590	385,715	83,181
14	Unicombank	Moscow	4,730,358	201,391	359,013
15	Promstroybank	Moscow	4,178,663	356,478	302,993
16	Vozrozhdenie Bank	Moscow	3,907,801	124,952	na
17	Moscow Interregional Commercial Bank	Moscow	3,774,628	232,548	142,125
18	National Credit	Moscow	3,770,548	155,096	24,861
19	Tokobank	Moscow	3,586,848	824,731	83,180
20	Avtobank	Moscow	3,342,645	279,370	169,574
21	Promstroibank	St.Petersburg	3,231,157	145,654	214,988
22	Alfabank	Moscow	3,193,779	112,118	100,185
23	St.Petersburg Bank	St.Petersburg	2,553,979	827,722	108,227
24	Most Bank	Moscow	2,298,963	136,609	130,119
25	AvtoVAZbank	Togliatti	2,284,435	121,507	120,592

Source: *The Banker*, 41, April 1995.

Table 4.: Some Russian banks participating in the financial and financial-industrial groups.

Imperial Bank	multinational oil and gas consortium; includes Lukoil (biggest Russian oil-producing company) and Gazprom (world biggest natural gas producer)
Yugorski Bank	Siberian oil and gas group
Moscow Industrial Bank	Neftekom group; controls 30 per cent of the ex-USSR production of the equipment for oil-extracting and oil-refining industries
Rossiyskiy Kredit Bank	Ferrous and non-ferrous metallurgy, chemicals
Inkombank	Military (especially hi-tech) industry, diversified (trade, insurance, financial operations)
Bank group 'Energy'	Informal union of otherwise independent banks-descendants of Promstroibank; planned investment in ferrous metallurgy and energy-producing industry
Promstroibank holding	Centralised bank holding: St.Petersburg Promstroibank controls stakes in 12 regional Promstroibanks; partnership in Russian alloys group (mining and ferrous metallurgy)
AvtoVAZbank	Volga-Kama group; car industry ¾ includes VAZ and KamAZ: two biggest cars and trucks producers (respectively) in ex-USSR
Sudcombank	Prompribor group; 18 leading enterprises of instrument-making industry
Mezhkombank, Avtobank and Russian-German Trade Bank	Bank consortium created for financing potential exporters in machine-building, chemicals, pulp and wood industry in Siberia, Far East and South Russia
Russian Export-Import Bank	Created by the government by merging 8 'sectoral' banks; investment in export military production
Effect-Kredit Bank	Rostextile group; 70 per cent of textile factories
Alfabank	Widely diversified group (structure similar to that on Figure 1).
Most Bank	Widely diversified group (structure similar to that on Figure 1).

Source: *Finansovye Izvestija, Kommersant*. 1994-1995, various issues.

Table 5: Top 25 Ukrainian banks (as at 1 July 1994, in karbovantsi billions; US\$ = 140,000 krb)

	Bank name	City	Assets	Capital	Net profit
1	Ukraina	Kyiv	161,814.5	3,420.2	6,529.9
2	Ukrsocbank	Kyiv	75,140.3	1,725.0	3,773.0
3	Prominvestbank	Kyiv	na	na	na
4	INKO	Kyiv	7,786.3	212.8	25.1
5	Vidrodzhennia	Kyiv	4,020.0	144.3	70.3
6	Pryvatbank	Dnipropetrovsk	3,708.1	187.5	69.3
7	Ukrinbank	Kyiv	3,538.4	206.4	160.4
8	Gradobank	Kyiv	2,175.2	151.5	11.2
9	Aval'	Kyiv	1,417.6	66.7	40.8
10	Ekonombank	Kyiv/Rivne	1,360.5	52.3	1.9
11	UkrCreditBank	Kyiv	1,097.4	190.8	154.9
12	AZhIO	Kyiv	1,055.6	61.7	40.5
13	Ukrnaftogazbank	Kyiv	1,032.9	24.3	28.1
14	Donvuhlekombank	Donets'k	756.7	28.9	34.7
15	Alex	Kyiv	518.1	44.0	101.6
16	Nadra	Kyiv	506.9	94.6	93.2
17	Novyj	Dnipropetrovsk	457.8	23.3	10.5
18	Dniproservis	Dnipropetrovsk	375.2	23.2	2.1
19	ZUKB	L'viv	365.6	31.2	44.3
20	AvtoZAZbank	Zaporizzhia	355.6	27.8	62.7
21	NPK-bank	Kharkiv	316.9	22.8	10.4
22	Geobank	Dnipropetrovsk	315.8	15.2	6.8
23	Transbank	Kyiv	315.4	31.0	44.3
24	Mykkombank	Mykolaiv	308.6	30.6	10.6
25	Perkombank	Kyiv	290.6	27.0	32.6

Source: *UNIAN-business*, 32, 1994.

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