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Banks and corporate sector in Russia – the evolution and current state of relations in a corporate governance context

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Abstract

The main goal of the paper is to analyse the evolution and the current state of banks' role in corporate governance in Russia. The article is partly a review as it includes the analysis of results obtained from studies conducted by the main Russian research centres, and was additionally supplemented with a statistical data analysis. Banks played a significant role in the corporate sector development in the 1990s. Their strong position was undermined as a result of the financial crisis of 1998. In the first decade of the 21st century, the role of banks in the functioning of the corporate sector was restricted due to ownership redistribution, the development of corporate control market as well as the strengthening of the state's position in the economy. Recent years, especially due to the difficult situation of the Russian economy since 2014, indicates an increase in the significance of the banking system.

Keywords: banking sector, corporate governance, Russian economy

JEL: G21, G34

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1 Introduction

The banking system, as one of the basic elements of the state's financial system, plays a significant role in the functioning of the economy, e.g. by generating savings and allocating capital. Moreover, it can support the development of enterprises by providing them with capital by granting loans for the on--going operation and development. The credit relationship between banks and enterprises can result in the emergence of different interdependencies impacting the governance of enterprises. In this kind of situation, the banking system becomes part of the country's corporate governance system.

The banking systems of developed countries have been operating for a long period of time and may play a key role as corporate governance mechanisms and sources of capital for investments. Due to the specificity of the issue analysed in the article, the author claims that corporate governance can be best defined by utilizing the definition suggested by OECD. According to it, corporate governance "(…) involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD 2015, p. 9).

The banking system's functioning and essential features in developed economies have been thoroughly investigated and described in the literature. In the case of Central and Eastern European (CEE) economies, the development of banking systems based on private ownership began only with the beginning of the economic transformation process. In those countries the construction of corporate governance systems demands investigating the roles of particular groups of stakeholders. The Russian example is particularly interesting due to the size of the economy, solutions adopted within the transformation process as well as the specificity of the corporate sector's evolution over the last twenty-plus years. The secured creditor control as well as the role of banks in enterprises and capital groups functioning in the Japanese or German corporate governance system were widely discussed in the literature, but when it comes to Russian joint-stock companies and banks, they still constitute a relatively less recognized category and the research on the corporate sector focuses mainly on ownership structure and its influence on other corporate governance mechanisms.

The aim of this article is to analyse the Russian banking sector evolution since the beginning of the economic transformation until the present and to reveal its characteristic features. Additionally, the analysis was conducted of the banking system's role as an element of the corporate governance system. The article focuses on the analysis of the banking sector's influence on the development of the enterprise sector and on the corporate governance system in Russia. The issues pertaining to corporate governance in Russian banks were ignored and they were treated as a separate aspect. The author claims that the role of the banking system in the development of the corporate sector and in corporate governance has been changing, mainly due to a series of crises afflicting the Russian economy. When it comes to banks' impact on the development of the corporate sector in Russia, the key period was the time before the crisis of 1998. It greatly determined the peculiarity of the Russian corporate governance system. The article is partly a review and contains the analysis of results obtained from research conducted by the main Russian research centres. The article constitutes a part of a wider research project which focuses on the evolution of the corporate governance system in Russia.

2 Literature review

The banking sector plays a significant role in the functioning of the corporate sector. It provides financial resources which fuel the on-going activity and investments. Moreover, a bank can be an important entity in the corporate sector system. In the cases when a company uses external funding in the form of a loan, the mechanism of the so-called secured creditor control begins to operate. This supervision is a mechanism thanks to which the bank providing the company with financial resources in the form of a loan, wants to protect the repayment of debt and receive the agreed return on investment in the form of interests (Słomka-Gołębiowska 2006, pp. 15–17). The main tools for executing the repayment of loans are entitlements to take over in bankruptcy proceedings and to control the debtor or his assets pledged as loan collateral. In this kind of situation, the secured creditor control adopts a passive character.

Furthermore, banks can be companies' shareholders, hold long-term credit connections to enterprises and delegate their representatives to the boards (active secured creditor control), all justified practices when granting long-term loans (Edwards, Nibler 1999, p. 1). The bank has an easy access to internal information about the company-debtor's creditworthiness. Long-term connections between a bank and a company can lead to the bank fulfilling the role of a dominant bank for the company. Aoki (1988) enumerates the following conditions which have to be fulfilled by the bank to achieve such a status: servicing most of the financial transactions of the company (i.e. being its largest creditor), owning its capital share, organizing the issuing of bonds and representing the company in front of bondholders, as well as providing advice on the opportunities for profitable investments.

Theoretical foundations for analysing the relationship between a bank (creditor) and a company (debtor) stem mainly from the selected trends of new institutional economics, including contract theory, agency theory as well as transaction costs economics. Banks engage in secured creditor control because the following factors are at play: loan contracts are incomplete as a result of people's limited rationality; the implementation of contracts is delayed in relation to their conclusion; there is an asymmetry of information between the bank and the company-debtor; conflicts of interests emerge between the bank and the company (especially its management). It is necessary to aim at reducing transaction costs resulting from the conclusion and implementation of loan contracts.

In many studies the analysis of the banking system's role in financing companies' activity is based on the comparison of the banking system and the capital market or different financial systems (Wajda 2009). As highlighted by Roe (2013, p. 71), if securities markets are weak, more capital will flow through the banking system. When taking as a criterion the role of banks and the capital market in company governance, Levine (2002) distinguishes two models: bank-based (Germany and Japan) and market-based (US and Great Britain). Levine's work aims to clarify which of the systems is more efficient in supporting long-term economic growth. The bank-oriented system helps to reduce the asymmetry of information between a bank and a company, and to condition the efficient allocation of capital as well as the control over it. It also extends the time horizon of the relationship between the stakeholders of a particular company. On the other hand, the supporters of the pro-market model argue that it is the capital market that most efficiently supervises and motivates managers, so that they act in the interest of company owners. It is possible, however, in the case of high market liquidity and an available option to sell shares that managers will act against the company's interests and accordingly its results will be unsatisfactory. According to La Porta et al. (1997; 2000), the exogenous variable which determines the structure of the financial system as well as the role of the banking system and the capital market, and consequently the type of corporate governance, is the system of legal regulations and the level of investor and creditor rights protection.

The role of banks in financing companies' activity is one of the features that differentiate the classic models of corporate governance (more about corporate governance models and systems e.g. in Weimer, Pape 1999; Prowse 1994; Charkham 2005; Mallin 2011). The role of banks in the corporate governance system also depends on the mutual relations between particular mechanisms and institutions of the system and should be analyzed as such (e.g. Zalega 2003; Oplustil 2010; Aluchna 2007; Lis, Sterniczuk 2005).

The studies of corporate governance in Germany highlight the significant role of banks as owners of shares, creditors, members of supervisory boards as well as depositaries and proxies of other shareholders in German companies (e.g. Hackethal 2004; Edwards, Nibler 1999; Benston 1994; Edwards, Fisher 1994; Gorton, Schmid 1996). German legislation enables banks to simultaneously provide credit services and conduct investment activities (Oplustil 2010, p. 236). Liberalization of regulations related to the creation of banks, companies' growing demand for capital as well as the lack of regulations restricting the scope of banks' activity led to the development of the system of the so-called universal banking (Hausbank). The hallmarks of universal banking are credit, capital and personal connections between banks and companies. Banks grant long-term loans to companies, purchase and keep their shares and delegate their representatives to companies' boards. The role of banks in the functioning of German companies is extended by the adopted custom of conveying corporate rights to banks by minority shareholders, in particular the right of vote on board meetings (Depotstimmrecht) (Lis, Sterniczuk 2005, p. 131).

While in the German corporate governance model the role of banks is examined with respect to its participation in companies' ownership, representation in supervisory boards and taking over proxies, in the Japanese system the analysis of banks takes into account fulfilling the function of the main bank in keiretsu groups. Similarly as in Germany, the Japanese system of governance is defined as a bank-oriented one. Banks in the Japanese corporate governance system fulfil the following functions: they provide capital in the form of loans and provide other financial services, they constitute majority shareholders and help companies to enter the capital market by providing them with financial guarantees or issuing shares (more about the Japanese corporate governance in e.g.: Hoshi, Kashyap 2001; Aoki, Saxonhouse 2000; Aoki 2000). Moreover, they supervise the management, have their representatives in the board and rescue the company when it happens to be in financial distress. Banks' activities depend on the respective companies' condition (Grabowiecki 2006, p. 102). In the literature this phenomenon earned the name of state-contingent corporate governance (Yafeh 2000, pp. 77–78). The bank intervenes in the company's on-going activity when its results are poor by implementing a restructuring plan and disciplining the least efficient managers. When the company's results are satisfying, the bank does not get involved in active monitoring of management.

Together with the start of economic transformation, Central and Eastern European (CEE) economies began the construction of their corporate governance system. After conducting the restructuring and privatization processes, banks were predicted to play a significant role in it (see more in Baer, Gray 1996; Dittus, Prowse 1996). The main argument was the low level of development of capital markets coupled with the necessity to provide extensive funding for the development of the corporate sector. In such conditions the governance carried out by banks could be more efficient than market mechanisms as it solved conflicts of interests internally and had a favourable access to information (Rajan, Zingales 2003; Claessens, Fan 2003). Moreover, as Williamson (1988) indicated, the creation of conditions for secured creditor control conducted by banks is less costly than the preparation of institutional surrounding for the governance system with the capital market in the leading role. According to Pohl and Claessens (1994), the reform of banks and capital markets in the economies undergoing transformation should not be analysed along the same lines as the Western economies due to their developed institutions, extensive and comprehensive financial instruments and advanced legal regulations. What should be taken into account are such factors as the short period of financial systems' development, imperfection of legal regulations and governance as well as macroeconomic conditions and the specificity of particular economies. Part of the research concerning the banking sector in CEE economies in the context of corporate governance focused on analyzing governance in banks only (e.g. Bokov, Vernikov 2008; Mallin 2016; de Haan, Vlahu 2016; Love, Rachinsky 2015). Connections between banks and companies regarding debt governance were also examined, for example in studies focusing on Poland, the Czech Republic or Hungary (Słomka-Gołębiowska 2006). Debt governance in Poland was also studied in detail (Michalak-Prymon 2016).

The subsequent part of the study presents an analysis of banks' role in the functioning of the corporate sector in Russia from the point of view of corporate governance. The conducted study was divided into two key periods, i.e. before the crisis of 1998, when the role of banks in the functioning of the corporate sector was very significant and resulted mainly from their ability to create capital groups centred around them; and after this crisis treated as a watershed due to its impact on the breakdown of numerous banks, on the intensification of redistribution and ownership concentration processes as well as on the emergence of new tasks that the banking system was going to face.

3 The role of banks in the Russian corporate sector before the 1998 crisis

The Russian banking system started its intensive development together with the start of the main systemic reforms at the beginning of the 90s, aimed at economy liberalization, macroeconomic stabilization (monetary and budgetary) and privatization. The first years of transformation resulted in the emergence of a great deal of banks. As early as in 1991, there were more than 1300 banks operating in Russia (Vedev, Lavrenteva 2003, p. 18) and the number had been gradually increasing until 1998, when it reached 2.5 thousand. The majority consisted of small and medium banks, which were not able to efficiently fulfil the functions designated to commercial banks and play a significant role in the economy.

However, in the first years of economic transformation in the Russian economy, there emerged groups of big banks, which were able to play a significant role in corporate sector transformations. Banks became owners of some big enterprises, e.g. by taking over companies' shares in exchange for debts. Moreover, big and financially strong banks as early as in the first years of transformation, either directly or through dependent entities, began the active purchase of shares of the privatized industrial enterprises and on the basis of the acquired blocks of shares (as well as creditors' informal rights), they participated in their management (Pappe, Galuhina 2009, p. 39). Among private banks stand out those that initiated the creation of financial-industrial groups (FIGs) and constituted their central entities (Pappe 2000, pp. 30–33). These were the so-called oligarchic banks, including Inkombank, Oneksimbank, Menatep Bank, Rossiyskiy Kredit, SBS-Agro Bank, Alfa Bank, Most Bank. In a way, they found competition among private banks in the group of native banks of the Russian entrepreneurial elite, such as Gazprombank, NRB, Imperial Bank, Guta-bank and MAPO-bank. Those banks set themselves apart by high dependence on mother company resources, the ancillary nature of their activity, involvement in servicing the external operations of enterprises and low level of sophistication of their retail operations.

A significant event, which established the position of banks in the economy until the crisis of 1998, was the loans for shares (*zalogovye aukciony*) programme, that was first put in place in November and December 1995. Formally it was a competition mechanism enabling the state to get loans from private banks in exchange for collateral in the form of controlling stakes in industrial enterprises. The government aimed to use those loans to pay off the federal budget deficit and the initial list covered 29 companies that were deemed the most attractive from the perspective of the potential participants in the programme (Âkovlev, Danilov 2007, p. 11). Eventually, twelve loans were extended in exchange for the state-owned blocks of shares of nine oil and metal enterprises and three big water transport companies. The process ended up with a couple of leading banks becoming holders of controlling stakes in big industrial enterprises. The greatest income was obtained from the blocks of shares of six companies: Norilsk Nickel, Yukos, Surgutneftegas, Sibneft, Sidanko and Lukoil.

The mechanism and results of the loans for shares programme entitle the observers to assume that its real goal was to circumvent the existing ban on privatizing enterprises considered to be of strategic importance. The "loans for shares" are assumed to breach the legislation related to privatization and hinder the development of the Russian capital market (Bunič 2005). What should be highlighted is the fact that the loans taken by the authorities were never supposed to be paid back, as the federal budget for 1996 did not provide for such an expense. The holders of the collateral were consequently to become the owners of shares. The aims of the authorities were as follows: permanent alliances between banks and industry, the emergence of strategic owners in state-owned enterprises and the guarantee of political relationship between federal authorities and enterprises (Pappe 2002, p. 34).

Conducting the loans for shares programme was the key moment for building up the position of banks in the economy and for the process of creating the Russian financial-industrial groups. The most well-known winners of the "loans for shares" were the following banks: Oneksim, Menatep and MFK as well as the oligarchs: Roman Abramovich (Millhouse/Sibneft, in 1995–1997 the junior partner of Boris Berezovsky), Mikhail Khodorkovsky (Menatep/Yukos), Vladimir Potanin (Interros/Norilsk Nickel), Vagit Alekperov (Lukoil) and Vladimir Bogdanov (Surgutneftegaz) – the last two both coming from the oil sector and acquiring additional shares of companies that were already under their control (Guriev, Rachinsky 2004, p. 11).

It should be assumed that between 1992 and 1998 banks played the most prominent role in corporate governance (Pappe, Galuhina 2009, pp. 39, 45–52). These banks constituted a core of the private financial sector by servicing the monetary streams flowing in and out of the industrial enterprises that were already under their control as well as providing infrastructure and stimulating quick profit making. Vedev and Lavrenteva (2003, p. 65) emphasize that after 1995 every large Russian bank was the owner of a large export-oriented industrial enterprise (or even a couple of those) because this allowed them to escape from barter, which was popular in the Russian economy of the 90s. Table 1 includes basic data concerning the largest Russian banks in 1998.

The largest FIGs, until the crisis of 1998, were Gazprom, Oneksimbank Group, Lukoil, Menatep Bank Group, MOST, SBS-Agro Bank, and groups formed around Inkombank, Rossiyskiy Kredit and Alfa Bank. The number of officially registered FIGs increased rapidly. While in 1993, there was only one group operating, in 1994 there were 6, in 1995 – 21, and in June 1997 there were as many as 62 groups. At the beginning of 1998, there were 72 FIGs registered, which included about 1500 enterprises and 100 credit and financial institutions (IETP 1998, pp. 478–479). Actually, at the end of 1998 there were about 150 groups in the Russian economy including those that were not officially registered, but whose structure allowed to call them financial-industrial groups. As early as in 1996, the officially registered groups were responsible for production valued at 10% of the Russian GDP. The largest FIG – centred around Oneksimbank, controlled banking assets with the value of about USD 5 billion as well as 11 industrial enterprises with sales amounting to USD 9 billion (the Russian GDP amounting to USD 364 billion in 1995). The second largest group – Menatep – owned banking assets with the value of USD 2 billion and enterprises with sales amounting to USD 6 billion (Popov 1999, p. 24).

The researchers dealing with the Russian sector of large enterprises enumerate several reasons for the acquisition of shares belonging to industrial enterprises in the 90s (Pappe, Galuhina 2009, pp. 40–41; Kuznecova et al. 2008, pp. 30–31):

– the growing competition in servicing the accounts of large industrial enterprises; the increase in the role and amount of loans granted to industry coupled with the high risk of crediting companies uncontrolled by banks; in the context of impaired efficiency of the standard control mechanisms exercised by banks over their debtors, taking over shares happened to be the best solution;

– the fear of competition by foreign banks when it came to providing services for Russian enterprises; the ensuing decision was to combat their acquisition of shares in domestic companies;

– the largest Russian banks at the beginning of the 90s, gathered the best analysts and managers, also from the field of industry, who were able to prepare and analyse documents related to corporate activity and had the know-how to restructure enterprises if need be; it was natural to make use of those abilities;

– experts claimed that the global crisis of the Russian banking system in the mid-term perspective was unavoidable and would lead to a significant number of banks going bankrupt, so the expansion in the industrial sector (which will always function in the economy and obtain help from the state) was viewed by some of the bankers as a logical answer to this threat.

Some researchers were of the opinion that a bank-based financial system in support of financial--industrial groups (similar to the German and Japanese cases) had a good chance of developing and demonstrating economic efficiency in economies undergoing transformation. As highlighted by Litwack (1994, pp. 100–103), Russian banks had certain advantages over other financial institutions when it came to corporate governance. They were experienced in monitoring enterprises, and owned significant pools of both capital and information about companies' potential and credibility, intelligence dating back to former contacts with the state-owned industrial enterprises. On the other hand, there were missing links as well, thus the lack of traditional connections between the bank and companies' managers (as in Japan) or of a historic tradition of large, family-based financial-industrial groups with a bank at the centre (as in Germany), hindered the further evolution of the Russian corporate system towards the Japanese or German models, a process that was also abruptly interrupted by the financial crisis of 1998 (Belyanova, Rozinsky 1994, pp. 200–203).

The studies conducted in the 90s by leading Russian research centres indicated relatively low participation of banks in the ownership of the analysed companies in the wake of privatization. For example, the studies by the Institute for Industrial and Market Studies (IIMS) conducted in 1995 on the sample group of 277 companies revealed that the participation of banks in their ownership amounted to 1.6% (Dolgopâtova 2001, p. 47). On the other hand, the studies by the Russian Economic Barometer carried out in 1995 and 1997 (covering, respectively, 136 and 135 companies) indicated the participation of banks in the ownership of the researched companies (but jointly with institutional investors) at the level of 9.3% in 1995 and 10.3% in 1997 (Kapelûšnikov 2001, p. 104). The studies on the participation of bank representatives in the boards were carried out relatively rarely. The results of the research conducted by the IIMS in 1999 on a group of 277 enterprises revealed that the participation of bank representatives amounted to 2.1% (Dolgopâtova 2007, p. 91).

Up until the crisis of 1998, the credit activity of Russian banks towards domestic enterprises had been on an upswing. From the beginning of the transformation period, the value of loans granted increased steadily, reaching over RUB 126 billion in 1998. Yet, the loan portfolio was dominated by loans extended for the period of up to 3 years. Until 1998, longer-term loans constituted only a couple of percent of the total (Table 2). This limited both the banks' role as companies' stakeholders and the exercise of the passive secured creditor control. It should be emphasized that the credit activity of the Russian banking system was developing relatively weakly in relation to both highly-developed countries and other economies under transformation in Central Europe. By way of example, in 1997 the ratio of loans for the private sector to GDP amounted to 115% in Japan, 67% in the USA, 62% in the Czech Republic, 19% in Poland and only 9% in Russia.[1]

Bank loans constituted an important external source of investment financing for Russian enterprises, however, they gave way to federal and regional budget funds. As the 1998 data from the Federal State Statistic Service (Rosstat 2016) reveal, bank loans amounted to 4.8% of investment financing from external sources and budget funds to about 19%. Until the crisis of 1998, own funds accounted for over a half of investment financing in Russian enterprises.

4 The role of banks in the Russian corporate sector after the 1998 crisis

The first years of dynamic transformation in Russia were interrupted by the August 1998 financial crisis. It was mainly caused by an expansive budgetary and exchange rate policy conducted by the government in 1994–1997 (IET 1999, pp. 7–11). The lack of consistency in reforming the expenditure part of the budget, a "soft" fiscal policy and high interest rates led to a burgeoning state debt, which exacerbated the dependence of the economy on the economic situation in the raw material and financial markets and on the financial condition of external creditors. The crisis caused a considerable loss of both external and domestic investors' confidence in the government, the Central Bank and the Ministry of Finance, which meant losing the possibility of obtaining financial resources and could lead to the outflow of capital abroad and consequently bring the necessity of turning to inflationary deficit financing.

The events that took place in the second half of 1998 indicated negative changes for the banking sector in Russia. Already in the middle of 1998, some of the largest Russian banks faced serious

[1] *Bûlleten' bankovskoj statistiki. Statističeskij bûlleten' Banka Rossii,* years 1998–2016, the Central Bank of Russian Federation, http://www.cbr.ru/publ/?PrtId=bbs.

problems connected with cash flow and solvency. Due to the crisis, a considerable group of Russian banks faced financial difficulties or bankruptcy – (from the middle of 1998 until the end of 1999, almost 240 lost licences (Vedev, Lavrenteva 2003, p. 35). Following the crisis and especially the drop in the value of the rouble, the following banks went bankrupt: Inkombank, Oneksimbank, SBS-Agro Bank, Menatep, Rossiyskiy Kredit, Promstroibank RF, Mezhkombank and together with them a part of the financial-industrial group landscape (IET 1999, p. 239). In the remaining integrated structures, the banks morphed into secondary entities, and their centre of gravity shifted from financing industrial groups to providing them with services.

The crisis opened a new stage of changes in the ownership structure of Russian companies. The main trends in ownership redistribution resulted from a considerable deterioration of the situation in the Russian banking system's (Âkovlev, Danilov 2007, p. 12). The bankruptcy of many banks and financial difficulties of those that survived the crisis led to the relocation of assets belonging to industrial enterprises into the hands of holding companies and other integrated corporate structures. In many cases, banks as holders of shares were not able to pilot the efficient restructuring of enterprises, which was the demand of the post-crisis era. Moreover, the decrease in the value of shares of many companies listed on the stock exchange as well as the difficult situation of companies focused on activities related to trade and finance coupled with the devaluation of the rouble and the increase in export competitiveness initiated a dynamic development of the industrial sector, especially within the business groups. The crisis weakened the largest capital groups and changed the balance of forces in the economy. The so-called new oligarchs took centre stage. They either had their roots in the real economy, owing their position e.g. to the expansion of natural monopolies, or they emerged from the ranks of the regional elite (IET 2000, p. 337).

The whole first decade of the 21st century was characterized by the decrease in the share of banks and other financial institutions in the ownership of Russian companies. According to the Rosstat (2015), at the beginning of the previous decade, the participation of banks and other financial institutions in the authorized capital of Russian enterprises amounted to 9%. This share decreased steadily and in 2011 it dropped to 2%. The changes in ownership structure were extensive also due to merger and acquisition deals as, since 1999, the corporate control market in Russia had been developing at a rapid pace. 1999–2002 was a period when about 1300 merger and acquisition transactions were concluded for the total value of USD 34.6 billion.[2] While the number of transactions increased 4.5 times in the period under consideration, their value rose almost 13 times. In the analysed period Russia plays the leading role among the CEE economies when it comes to merger and acquisition transactions. They jointly accounted for about 70% of the regional market and 2.8% of the global market (Avdaševa, Šastitko, Kalmyčkova 2007, p. 407). In 2004, the value of merger and acquisition transactions in Russia reached 9.3% of GDP (just to compare, in the United States the figure for the same category was 6.6% in 2005).

Nevertheless, since 1999 the restriction of the role of banks as owners of Russian companies had been accompanied by the improvement in the financial situation of the Russian banking system. Despite the fact that the number of officially registered banks decreased steadily, the asset value in the banking system as well as the value of loans granted to the nonfinancial sector, including enterprises, kept rising. The participation of banking loans in the structure of financing the investments of Russian enterprises had been gradually increasing since 2000 and reached its maximum value in 2008 – almost 12% (Table 3). Loans granted to enterprises after the crisis of 1998 as well as in earlier years had been

2 *Sliâniâ i poglošeniâ v Rossii. Obzor' rossijskogo rynka sliânij i poglošenij*, mergers.ru/researches/.

predominantly short-term and were focused on providing enterprises with working capital (Borisov 2005, p. 76). Bank loans gave way to other sources of financing, including own resources and budgetary funds (whose value and share in investment financing are consistently twice as large). This stems partly from the fact that in Russian circumstances of the first half of the previous decade external funding increased the risk of a hostile takeover (by buying out shares, debts, promissory notes and/or filing for bankruptcy).

The cooperation of Russian banks with enterprises also included the market of corporate and bank bonds, which after the crisis of 1998 started its dynamic growth in the first decade of the 21st century. On the bonds market, banks undertook various activities – they issued own bonds, acted as organizers of bond issue and their placement, invested own resources in corporate and other banks' bonds. They also acted as buyers either on the primary or secondary market (IET 2002, pp. 523–529).

5 The Russian banking sector and corporate sector after the 2008 crisis

The year 2008 brought another crisis to the Russian economy. First, it was caused by external factors. With respect to the global financial system the period preceding the crisis was the time of vivid expansion, deregulation and liberalization of bank governance. One should not forget about expansive monetary policy coupled with financial stability in the US and other highly developed economies either. As a consequence there was a surge in interrelationships between particular financial markets. The main global reasons for the financial crisis of 2008 were, on the one hand, the so-called macroeconomic factors, such as the imbalance in the global economy that had been increasing since the turn of the 20th and 21st century and the persistence of low real interest rates in developed countries. On the other hand, there were microeconomic factors as well, including the lack of proper regulations and governance over banking institutions and financial markets or a preference for short--term objectives and neglecting risk (Wierzba et al. 2014, pp. 7–15). The second group of factors were systemic causes – fundamental problems of the current economic development of countries across the board. There was also a third set of factors specific to Russian circumstances: a considerable rise of stock market indices coupled with a relatively low level of capital market development, small diversification of exports and economic structure, as well as quick increase in the external debt of Russian corporations (Mau 2010, pp. 86–89).

The crisis caused negative changes in numerous spheres of the Russian economy and it went through three stages. In the first period – the pre-crisis stage – the external factors were revealed, which led to the emergence of negative trends in the Russian economy. At the second stage, the main impulse for the unwinding of the crisis was fed by the adaptation process of the Russian economy to the fast deterioration of international economic situation. The financial crisis in the US and other developed economies resulted in a massive outflow of foreign capital from Russia – in September and October 2008, about USD 84.3 billion in total (Belousov 2010, pp. 27–29). The outflow of foreign capital quickly deteriorated the balance of payment and the functioning of the banking system. What ensued, among other things, was the depreciation of the rouble. The third stage of the crisis began in November 2008 and its main manifestation was the active focus on combating the crisis by monetary policy means. The interest rate was raised causing the reduction of bank lending, especially short-term loans.

The shrinkage of the raw materials markets and the drop in their international prices very quickly caused a crisis in the export-oriented Russian sectors.

Following the crisis, the Russian economy noted tendencies which changed the position of large banks in relation to the corporate sector. Those changes, however, were of a different character than in the 90s, when the largest banks initiated the creation of FIGs and constituted the main entities within their framework. The changes were mainly caused by the activities of the state following its program of combating the crisis. An important feature of the 2008–2009 crisis was the active participation of the state and state entities in the process of ownership redistribution. The state decided to refinance the external debts of state-owned and private companies, realizing that default would lead to loss of national control (by the state or state's capital) over strategic assets. Companies, either state-owned (with the state's participation in ownership exceeding 50%) or private-owned could then become subject to nationalization. Moreover, the banking sector was granted the highest financial support taking into consideration the total scope of anti-crisis activities carried out by the state (IET 2009, pp. 421–424).

Emerging from the crisis of 2008, Russian banks began active cooperation with their debtors (Lugačeva, Musatova 2010, p. 107). In the second half of 2008, in order to obtain a collateral for loans banks started taking over blocks of shares that largely lost their value. This tendency persisted also in 2009 as well, but this time involved mainly 18 state-owned banks (e.g. Vneshtorgbank and Sberbank) and can be attributed to a general trend of the growing stature of state in the Russian economy. The authorities had sufficient funds to provide banks with financial aid (Dubinin 2015, p. 10). Those banks that obtained it (Vneshtorgbank, Sberbank, Vnesheconombank) could therefore buy and restructure some private banks and enterprises. A fact that should be highlighted is the significant increase in the ratio of loans granted to enterprises to GDP, which in 2009 amounted to 33.2% – an unprecedented figure (Table 4).

The post-crisis period was characterized by steady growth in the number of loans granted to entrepreneurs for over 1 year, a development partly due to the financial aid from the state and state--owned banks granted to enterprises in which the state was an owner or a co-owner. The most dynamic growth, as early as in 2005, was observed in the share of loans granted by banks to Russian enterprises for more than 3 years, reaching almost 24% in 2009.

According to Orlova evaluations (2014 pp. 63–64), one of the consequences of the crisis was a significant increase in the role of state-owned banks in providing loans for enterprises. It was caused, among others, by instability on the global financial markets. The participation of state-owned banks in the corporate credits market in the years 2009–2010 amounted to about 56% (in 2004–2007 it stood at 47%) and in 2013 it grew to almost 64%. State-owned banks dominate when it comes to the share in crediting Russian enterprises. According to SPARK data,[3] in the group of the 20 banks with the largest share in crediting Russian enterprises (a ranking conducted by the RAExpert rating agency in 2014), in the case of two banks the dominant owner was the federal state, in the case of another four – a state--owned bank and in the case of further three banks, the state was a minority owner or a second-tier owner (meaning indirect ownership).

It should be assumed that the commitment to long-term loans (on the scale not observed in the 90s) rises the interest of banks in the efficiency of the credited enterprises. Moreover, bank

[3] System of Professional Analysis of Markets and Companies.

loans constitute a significant external source of financing for the investment activity of enterprises (in 2013 an over 9% share in the structure of investment financing) and exceed approximately nine times the share of funds obtained from issuing shares (Table 3). The Russian capital market constitutes a plausible option for raising capital for the largest companies only. Furthermore, it is characterized by a high level of concentration and strong dependence on the changes of international oil prices.

6 The current situation in the Russian economy and the banking sector

The year 2014 marked the start of another difficult period for the Russian economy. This was due to a combination of unfavourable events and trends related (Gaidar Institute 2015, pp. 16–17), firstly, to a structural crisis and the crisis of the Russian economic growth model based on the premises of increasing demand coupled with the existence of spare manufacturing capacity and continued increase in prices of the main export commodities; secondly, to the upswing in Russia's international political activity and the corresponding sector-wise and financial sanctions imposed by the European Union and the United States, and thirdly, to the decrease in oil prices, a currency crisis and a significant drop in the investment activity of enterprises. These events, especially the financial sanctions and the shocking drop in the value of the rouble, meant an entirely new situation for the Russian banking system (Dubinin 2015, p. 9). The main results of sanctions were: the intensification of economic and political uncertainty, restrictions in the transfer of technology, a drop in imports (affecting mainly those branches which rely on imports for obtaining necessary components) and a fall in budget transfers (Ulûkaev, Mau 2015, pp. 7–8).

Since the end of summer 2014, the majority of large enterprises have been affected by restrictions in access to capital, technology and foreign markets. They also faced problems related to cooperation with foreign partners in the spheres in which the sanctions were not directly imposed (Afoncev 2015, pp. 23–24). In 2015, the main financial problems spawned by the sanctions were related to the necessity of regulating foreign liabilities of the corporate sector in conditions of a very restricted access to foreign financial markets.

The fall of the Russian economy into stagnation raises the question what can boost the investment and production activity of enterprises and consequently what is the possible role of the banking sector in such a process. The emergence of such factors as sanctions, including the restrictions of access to international financial markets for Russian enterprises, can increase the importance of the banking sector (Berezinskaâ 2016, pp. 63–64). As indicated by data from Table 4, the value of loans granted by banks to enterprises is growing steadily and reached almost RUB 20 billion in 2015. It should be emphasized that the most dynamic growth was observed with respect to long-term loans (with the credit period of over 3 years), whose share amounted to 40% in 2014 and 2015. There is still the question of the allocation of funds borrowed by enterprises. On the one hand, they can be fed to investments and on the other, they can cover the existing liabilities. They may also help enterprises to survive the stagnation period.

7 Conclusions

The analysis presented in the present article allowed to bring out the key stages and factors that determine the role of the banking sector in the Russian economy and in the development of the corporate sector in this country. The role of banks from the beginning of the transformation period until the crisis of 1998 can be summarized as very significant, especially in the context of the emergence of financial-industrial groups and the necessity to establish a new system of governance over enterprises. According to Pohl and Claessens (1994, p. 3), the reforms of the financial sector in Russia presented a useful model for other Eastern European countries. However, the key factor that limited the banking system's role was the financial crisis of 1998, which resulted in the bankruptcy of several banks and financial-industrial groups and marked the beginning of ownership redistribution and consolidation as well as the increase in the importance of other corporate governance mechanisms. Another crucial factor that had an impact on the position of banks in the Russian economy was the crisis of 2008, especially in the context of support lent to enterprises through state-owned banks and the newly enhanced position of the state and state-owned banks in the Russian economy.

Since the beginning of the current decade, a further growth of the banking system has taken place, but its main problems came more to light as well. As highlighted by Schoors and Yudaeva (2013, p. 544), the banking system in Russia was shaped by such weaknesses of the Russian economy as the Soviet legacy, weak institutions, soft legal constraints, lack of competition, volatile economic environment and popular distrust in banks. Many researchers emphasize the still crucial problems of the Russian banking system, including low transparency of banks' activity, insufficient level of employee qualifications, a strong dependence between the bank's economic strategy and the interests of the founders and large corporate clients (Andrûšin, Kuznecova 2009, p. 15). Moreover, the ratio of loans granted to enterprises to GDP is relatively low, which reveals a weak relationship between the banking sector and the real economy. Nevertheless, it should be pointed out at this juncture that the banking system in Russia is better developed than the capital market. This can be proved, among other things, by the scale of the reaction of the banking system and the capital market to the crisis of 2008 and to the current situation caused by financial and economic sanctions. It can also be deduced from the business climate in the international oil market.

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Appendix

Table 1
The largest Russian banks in 1998 (in RUB billions)

Bank's name	Number of employees	Assets' value	Private deposits	Corporate deposits	Loans for enterprises	Contribution to state bonds	Bank created/ belonged to a financial- -industrial group
Sberbank	211,188	379,802	136,026	19,206	36,743	101,204	no
SBS-Agro Bank	35,340	72,255	6,470	5,185	8,990	498	yes
Inkombank	8,000	49,467	7,421	9,954	11,849	3,150	yes
Rossiyskiy Kredit	8,743	31,441	2,052	6,113	3,071	742	yes
Menatep	4,000	30,344	1,698	4,702	3,432	784	yes
Oneksimbank	1,781	23,898	666	6,874	4,733	4,291	yes
Mezhdunarodnyi Promyshlennyi Bank	435	22,637	27	11,600	13,689	257	no
Alfa Bank	1,678	21,861	555	1,508	2,081	743	yes
Vneshtorgbank	2,986	21,735	722	6,201	353	3,130	no
Gazprombank	2,003	14,912	835	3,137	3,783	1,163	yes
Most Bank	1,419	14,393	2,288	2,224	1,256	521	yes

Source: preparation based on: Vedev, Lavrenteva (2003, pp. 67–68); Pappe, Galuhina (2009, p. 53).

Table 2
The number of banks, the structure of loans granted to enterprises in Russia in the years 1993–1998

	1993	1995	1998
The number of banks	2,009	2,295	2,455
Loans for enterprises (for the beginning of the period, in RUB billions), including:	25.7	60.2	126.2
– up to 1 year	24.9	56.3	96.2
– from 1 to 3 years	24.9	56.3	22.9
– over 3 years	0.8	3.9	7.1
– from 1 to 3 years, in % of the loans' total value	–	–	18.1
– over 3 years, in % of the loans' total value	3.1	6.5	5.6
Loans for entrepreneurs, in % of GDP	11.8	8.5	12.9

Notes: data from 1993 with the exclusion of Sberbank.

Source: preparation based on: CBR; EBRD; Vedev, Lavrenteva (2003, pp. 18, 23).

Table 3

Investment in the share capital in Russia according to financial resources in 2000–2015 (in RUB billions)

	2000	2002	2005	2008	2009	2010	2012	2013	2014	2015
Investment in share capital, including:	1053.7	1455.7	2893.2	6705.5	6040.8	6625.0	9595.7	9499.3	8650.0	8913.2
– own resources	500.6	654.6	1287.2	2648.6	2243.3	2715.0	4274.6	4378.4	4742.3	5260.3
External resources, including:	553.1	801.1	1606.0	4056.9	3797.5	3910.0	5321.1	5120.9	3907.7	3652.9
– bank loans	30.6	85.2	235.6	791.9	621.5	595.8	806.3	885.0	1363.9	1033.2
Participation of loans in investment financing, in %	2.9	5.9	8.1	11.8	10.3	9.0	8.4	9.3	10.6	8.1
Budget resources	232.1	289.6	589.2	1404.7	1324.1	1294.9	1712.9	1790.1	1761.3	1921.2
Funds from issuing corporate bonds	–	1.7	8.9	5.4	4.1	0.9	4.2	8.6	5.9	–
Funds from issuing shares	5.1	5.2	90.5	51.0	62.6	72.4	95.6	98.3	116.5	–

Source: preparation based on: Rosstat (2016).

Table 4

The number of banks, structure of loans granted to enterprises in Russia and the banking sector's assets in 2000–2015 (at the beginning of the year, in RUB billions)

	2000	2002	2005	2006	2008	2009	2011	2013	2014	2015
The number of banks	2,104	1,823	1,366	1,299	1,176	1,131	1,055	1,002	999	976
Loans for enterprises	228.4	809.3	2,271.5	2,917.7	4,541.8	8,971.9	10,130.5	15,594.3	17,346.8	19,751.9
– up to 1 year	166.7	655.2	1,530.2	1,821.9	2,755.4	4,211.7	3,294.8	4,561.7	5,129.8	5,446.5
– from 1 to 3 years	34.1	117.9	579.2	792.3	1,180.5	2,637.0	3,156.4	4,990.0	4,710.8	5,419.0
– above 3 years	27.6	36.2	162.1	303.5	605.9	2,123.2	3,679.3	6,042.6	7,506.2	8,886.4
– from 1 to 3 years in % of the total value of credits	14.9	14.6	25.5	27.2	26.0	29.4	31.2	32.0	27.2	27.4
– above 3 years in % of the total value of loans	12.1	4.5	7.1	10.4	13.3	23.7	36.3	38.7	43.3	44.9
Loans for enterprises in % of GDP	11.9	17.3	25.7	30.9	31.1	33.2	18.1	23.3	24.4	25.3

Source: preparation based on: CBR, Gaidar Institute (2011, p. 129), Vedev, Lavrenteva (2003, pp. 18, 23).