

For whom the bank fails

Roman Bessonov explains the relationships between the August bank crisis in Russia and the election campaign.

“Financial Market: The Apocalypse of Our Days.” Under that headline, the leading Russian analytical paper *Kommersant-Daily* contemplated the situation in Russia’s banking credit system on Friday, Aug. 25. Many analysts had predicted a series of bankruptcies of smaller banks more than six months ago, but the instantaneous paralysis of inter-bank credits that broke out on Aug. 23, leading to an unscheduled bank holiday on Aug. 25, was obviously unexpected for bankers, their clients, and financial analysts.

Pictured in *Kommersant-Daily*’s lead photo was a large group of people, gloomy and disappointed, waiting at the door of a Moscow bank to get back their savings. This sight has become as common as the TV chronicle of the war in Chechnya and the sound of gangsters shooting at night. Still, for every victim his own tragedy seems unexpected. But not necessarily for the authorities.

There are many indications that the government was aware of the looming danger, and was preparing to manipulate it for political purposes. Both President Boris Yeltsin and Prime Minister Viktor Chernomyrdin have strenuously resisted attempts by the commercial banking elite to remove Tatyana Paramonova as temporary chairman of the State Bank of Russia; the banks were relying on the large number of State Duma (Parliament) deputies, who themselves have a material interest in the private banks, to block her permanent appointment, but they did not get her fired altogether.

Already in late 1994, the private banks planned to restructure the whole financial system, depriving the Central Bank of its authority. It is probable that the infamous Black Tuesday (Oct. 11, 1994), when the Russian ruble lost one-fourth of its value in one week, resulted from this bankers’ conspiracy against then-Central Bank Chairman Viktor Gerashchenko.

Gerashchenko, former chairman of the U.S.S.R. State Bank, was appointed in June 1992, after Prime Minister Yegor Gaidar’s shock therapy resulted in an acute crisis in payments among industrial firms and other Russian economic entities. The Central Bank, under his leadership, was seen as a major obstacle to the plans of the radical liberal economists like Gaidar, Illarionov, Shatalin, and Yavlinsky, to destroy the centralized and capable banking system in Russia.

There was another twist to Gerashchenko’s resignation after Black Tuesday: Yeltsin’s advisers evidently suspected him of promoting the interests of Most Bank, whose chairman, Vladimir Gusinsky, was maneuvering together with Moscow Mayor Yuri Luzhkov, to undermine the President’s power. Most Bank garnered an immense profit from Black Tuesday, selling a huge amount of dollars at a high price. At the same time, Gusinsky openly praised Gerashchenko, which no doubt fed the suspicions of Yeltsin’s men.

His successor Paramonova, the acting Central Bank chairman despite the lack of Duma confirmation, is Gerashchenko’s pupil and former assistant. It is widely rumored, that Gerashchenko still runs the Central Bank. All summer, the Moscow mass media had been talking of her possible resignation. The gossip intensified after the Duma yet again refused to confirm her in June, and then, even more, after bankers’ anger at her grew in connection with the so-called currency “corridor” established on July 1. In a policy coordinated with the International Monetary Fund leadership, the ruble has been maintained in a band between 4,300 and 4,900 rubles to the dollar.

For the sake of the “corridor,” the Central Bank increased the private banks’ obligatory payments into reserve funds almost tenfold. This was a heavy blow for smaller banks, and many of them, such as the formerly prominent North Trade Bank in St. Petersburg, went bankrupt or were absorbed by stronger neighbors. This “purge” did not affect the biggest banks. But in late August, the situation shifted again.

The slower you go, the sooner you get there

It is obvious that most of the private banks were waiting patiently for the end of the “corridor” period, slated for Oct. 1, when the ruble was supposed to take a dive—pushed also by the promised salary increase for State officials. Unexpectedly, the leadership of the Central Bank, together with Vice Premier Anatoly Chubais and presidential adviser Aleksandr Lifshits, announced on Aug. 24 that the corridor would be prolonged until December. Immediately, thousands of bank obligations based upon the expected rise in the value of hard currency, appeared insolvent.

At the time of the announcement, in fact, paralysis al-

ready affected over 80% of private banks. During the two months of the "corridor," the dollar equivalent of the ruble approached closer and closer to the lower "wall." Even if nothing had been decided about the corridor, the banking crisis would have flared.

The decision on prolonging the corridor just drew a line, defining the fate of the agonizing banks. On Aug. 26, several newspapers mentioned a list of insolvent banks that was circulating in select banking circles. According to different sources, the list included the names of 40 or 50 banks, among them some of Moscow's most prominent banks. Only two clearly insolvent Moscow banks were mentioned in papers: Lefortovsky and Mezhrefionbank. Some papers also mentioned severe losses at Chasprombank, Unikombank, and Menatep. The "Business Russia" TV program reported that Astrobank, one of the most prominent St. Petersburg banks, was bankrupt and could be saved only if it were absorbed by the stronger Sankt-Peterburg bank. Astrobank's leadership denied this story.

On Aug. 25, the "Business Russia" show, sounding the alarm about the developing paralysis of the credit system, gave the floor to Yuri Matyukhin, the Central Bank's chairman in early 1992 and a member of Gaidar's team who had scarcely appeared in public since his resignation amid rumors of his implication in the notorious Chechen false *aviso* swindle. Certainly, Matyukhin was speaking on behalf of the private banks' interests.

But the TV program, following the tradition of "pluralism of opinions," also featured Grigori Pelman, vice chairman of the Tyumen Credit Bank. Describing the grave situation of his own and many other private banks, Pelman charged that not only the Central Bank was to blame, but also the practice of short-term credits, the "hot cash" hunt that became widespread in private banking over the last two years, and the greatly increased volume of new paper instruments.

The leadership of Probiznessbank, a medium-sized Moscow private bank not belonging to the financial elite, claimed that its bank has not suffered from the crisis afflicting those giants "involved in risky operations." "If you conduct a clever and well-planned credit policy, avoiding speculative operations with inadequate backing, you will never get into trouble," the bank's expert said.

There is a Russian saying that, "The slower you go, the sooner you get there." Only some of the names of the bankrupt banks have been published, but it is already clear that many of them were trying to gain a high position as soon as possible, also extending their ambitions into active political struggle.

Jeffrey Sachs vs. the free market

In the mass media discussion, the most fervent defender of the suffering private banks was presidential candidate Grigori Yavlinsky. He demanded that the Central Bank immediately cut the private banks' reserve requirements and the

refinancing rate. One interviewer asked Yavlinsky whether the banks in trouble appeared to be those banks that were supposed to finance the opposition parties' presidential campaigns. "It isn't so," Yavlinsky said. "Some of the banks that suffered were also those banks that Chernomyrdin was going to use for his own campaign."

In truth, the names of the undermined banks really are connected with Chernomyrdin's election rivals.

Two weeks before the catastrophe, a St. Petersburg bank analyst told me that the collapse of the North Trade Bank, or at least the fact that nobody moved to bail it out, was due to the fact that the bank was financing Yegor Gaidar's Democratic Choice Party. Other sources indicated quite a different political involvement of this bank, saying that its leadership is linked with the retired bureaucracy of the Communist Party of the Soviet Union, close to ex-U.S.S.R. Prime Minister Nikolai Ryzhkov and his leftist electoral bloc, "Power to the People." Two years ago it also supported a small group of radical democrats in an attempt to undermine St. Petersburg Mayor Anatoly Sobchak.

Astrobank has a more obvious connection to Gaidar's Democratic Choice Party. The St. Petersburg section of that party even used to hold its closed meetings in the building of the bank, beyond a post with armed guards. Yuri Derevyanko, the present chairman of the board of Astrobank, was elected to DemChoice's political council at its founding congress.

On Aug. 26, *Moskovsky Komsomolets* reported that the National Credit Bank whose president, Oleg Boiko, headed the executive committee of Gaidar's party and was supposed to now finance some other liberal election blocs, had contracted severe debts in excess of 350 billion rubles.

Unikombank was known in 1993, after the elections to the Duma, as one of the sponsors of Yuri Skokov's "Fatherland" bloc that failed to gather the required number of signatures at that time. Chasprombank is headed by a former U.S.S.R. prime minister, Valentin Pavlov. It would be strange if this person had no political sympathies. His associates from the abortive State Emergency Committee (GKChP) of August 1991 are now in the above-mentioned Ryzhkov bloc, which deliberately held its founding congress on Aug. 19, the fourth anniversary of the GKChP.

The group of politicians closest to Menatep is really a fragment within Chernomyrdin's "Our Home Russia" movement, but has ambitions for independence, and connections with First Vice Premier Oleg Soskovets, who is known as Chernomyrdin's rival and a man with backing from some of Yeltsin's close advisers, who unsuccessfully boosted Soskovets as a possible prime minister late last year.

Was this new "Black Thursday," then, supposed to solve some important political problems for Chernomyrdin's "Our Home," undermining the wealth of the banks supporting both political flanks, as well as a lot of local banks in the provinces? The latter was perhaps even more important:

After Edward Rossel's victory in Yekaterinburg, "Our Home" must be interested in ruining the financial base of its regional opposition. At the same time, the prolongation of the "corridor" was obviously in favor of the prime minister's popularity which is so important before the December elections.

Speaking on Radio Liberty, erstwhile Russian government adviser Jeffrey Sachs praised the "strong monetary policy of the Russian Central Bank" and emphasized that "there was too much freedom in the Russian banking system before, and this created a lot of banks with tiny starting capitals and tiny responsibility." Certainly, the Harvard shock therapy mouthpiece has not changed his liberal mind. He is just using the same double standard as the British used to do, when they adopt protectionist measures in their own country and disapprove of them in other countries. Sachs evidently regards Chernomyrdin's government as "useful" for the circles he represents, and is not going to attack Chernomyrdin's monopoly.

I don't know what Grigory Yavlinsky meant, in saying that the banking crisis had undermined Chernomyrdin's banks, too. The Imperial Bank, linked with the giant natural gas firm Gazprom, was mentioned among those few that successfully avoided crisis (knowing of it beforehand). So, the would-be President seems to be concealing the truth. For what purpose? Or should we address this question to his banker, who probably did not want to quarrel with the prime minister or the Central Bank, right at this time?

Buy them, and safeguard us

It is remarkable that the Most Bank-supported *Moskovsky Komsomolets* mentioned Inkombank, the third largest Russian private bank, on the list of unlucky creditors, estimating its losses at 300 billion rubles. Unlike the above-mentioned banks and Most Bank itself, Inkombank is famous for *not* being involved in any political campaigns. It is also famous for its manner of promptly recouping money from debtors. In St. Petersburg, the Baltic Shipping Co. was forced to surrender the greater part of its premises to return its debt to Inkombank as quickly as possible.

Most Bank was not mentioned either in the papers or on TV during the crisis. It was astonishing that its leadership, owning a lot of mass media, did not start a new attack on the State leadership on behalf of the "poor bankers," as it has done before. I spent half an hour before I found a tiny mention of Most Bank in the *Moskovsky Komsomolets*, among photos of rock singers and crime reviews.

On Aug. 28, the strange silence about Most Bank got its explanation. It was included in a group of five privileged survivor banks, along with Sberbank, Vneshtorgbank (both have a large State share, being the savings and the foreign trade components of the U.S.S.R. State Bank, respectively), Inkombank, and Imperial. This new consortium is designed for making sure which bank is to be bailed out, and which is

insolvent. The profit these banks are to get is incalculable.

In the present situation, neither the Central Bank, the prime minister, nor the President could risk putting all banks in the same conditions. Some have to get privileges, in order to contain the others. In a popular play by Evgeni Schwartz, the minister of finances of a fairy kingdom said: "With your enemy, you may act twofold, either to 'K' him or to 'B' him." Not eager to be killed (K), the State leadership lets itself be bought (B), entering into a relationship of dependence on those privileged members of the financial elite, to which it offers vast perquisites in order to safeguard itself. A choice between "B" and "K" is a common rule of byzantine policy.

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In September, we shall probably be told the names of all the insolvent banks. The clients will get the news first, helplessly waiting at the gates without a hope to get their money back. How many people will set themselves on fire, like the woman in St. Petersburg whose last money disappeared with the director of the "Russian Real Estate" company? But the oligarchy never counts how many people it "K's" on a battlefield, or at a bank's gate. It is not in the rules of a byzantine power.

After the August crisis, the financial power of the government may enable it to control more than it controls now. It will have financial mechanisms capable of manipulating the election campaign. The government party will buy a lot of propagandists, speechwriters, sociologists, psychoanalysts, astrologers, and image-makers. They will try to control everything by buying everything. But the human mind can resist control, and a human soul cannot be bought or sold. No byzantine power is able to change the human identity, and the upcoming elections cannot easily be predetermined by byzantine methods.