



**T**RANSFORMATION, **I**NTEGRATION and **G**LOBALIZATION **E**CONOMIC **R**ESearch  
CENTRUM BADAWCZE TRANSFORMACJI, INTEGRACJI I GLOBALIZACJI

## **TIGER Working Paper Series**

**No. 65**

### **Banking Sector Liberalization and the Impact of Foreign Banks: The Case of Russia**

**Andrei Vernikov**

Warsaw, September 2004

**Andrei Vernikov**

**Banking Sector Liberalization and the Impact  
of Foreign Banks: The case of Russia**

**Summary**

The paper aims to make the first assessment of the impact that presence of foreign-controlled banks have produced on the Russian economy and banking system. So far foreign banks have gained a modest market share in Russia with 7% of the combined assets of the banking system. They have made some contribution to the improvement of financial intermediation, especially in terms of reallocation of savings towards Russian corporate borrowers. The presence of foreign banks has rendered some additional resilience to the Russian banking system during and after the financial crisis of 1998. Evidence from Russia, however, supports only some of the presumed benefits from foreign bank participation in transition economies. Insufficient proof was found to confirm assumptions that foreign banks: lend more actively, cheaper or for longer tenors than local peers; sufficiently support the local banking system during liquidity crises; enhance positive structural changes in the host economy; catalyze foreign direct investment; or disseminate product knowledge and new banking technologies.

## 1. Introduction

The opening up of the financial sector to foreign competition is a feature shared by practically all economies in transition. Foreign banks have taken over the local banking sectors of the countries of Central, Eastern and SouthEastern Europe, with the notable exception of the Russian Federation and other CIS countries. While being itself a product of a broader liberalization and opening up, the presence of foreign banks has, in its turn, made an impact on the economic transition.

Literature on transition economics contains enough theoretical argument why countries in transition need to privatize banks in favor of foreign strategic owners. Since foreign ownership of banks has been used as a proxy for a more liberal and market-oriented banking system, the beneficial role that foreign banks could play in the smooth economic transition and European integration of former communist countries was usually taken for granted. Furthermore, it is often argued that the best policy solution would have been the early invitation of foreign banks to take the lead in restructuring. (World Bank, 2001; Keren and Ofer, 2002).

Starting from the second half of 1990s, several attempts to assess the emerging empirical evidence were made. In general, the conclusion about the impact of foreign banks on transition economies was positive, especially in macro-economic sense. International Monetary Fund experts who analyzed the financial systems of five transition countries (Czech Republic, Hungary, Poland, Slovakia and Slovenia) have found that the more rapid was the pace of financial sector reforms (implying, *inter alia*, higher foreign ownership of banks), the less was the uncertainty about growth and stability. (Wagner and Iakova, 2001, p.46). On the micro-level, however, the findings of the empirical studies based on first several years of foreign ownership of local banks were less clear-cut. In some respects foreign-owned banks were found to make a positive contribution to the local banking systems and economies in general, while in other areas there was insufficient proof to the presumed advantages of foreign ownership.

Russia's experience with foreign banks is more limited than that of peer post-communist economies. Russia started later to allow foreign-owned banks to operate on its territory, and the scope of direct presence of these institutions has remained insignificant. Privatization has so far eschewed the core state-owned banks, and there have been no major takeovers of Russian private banks by strategic foreign investors. The case of Russia offers a rare

possibility to monitor parallel development of banks with different ownership structure, which might produce evidence of greater or lesser efficiency of banks controlled by foreign capital. In most other emerging markets in Europe such a possibility does not exist anymore because there are no sizeable banks left in the hands of local capital, so it is impossible to determine whether foreign-owned banks really are more efficient financial intermediaries than local peers, whether their activity makes a greater contribution to economic growth and welfare, and whether they adjust to exogenous shocks faster than locally-owned institutions.

The degree of politization of all the issues related to foreign banks' presence in Russia has discouraged objective research on the actual activity of foreign banks<sup>1</sup>. The aim of this paper is to start bridging this gap by summarizing the evidence of foreign banks' activity in Russia and trying to assess the impact produced on the host economy.

The paper consists of 5 sections. Section 2 will offer a few methodological remarks regarding the object of the study. Section 3 represents a short overview of direct presence of foreign banks in Russia and the market share that they command. Sections 4 deals with selected aspects and elements of impact produced by the presence of foreign banks on the host economy, such as: degree of financial intermediation, availability of lending resources and the level of interest rates, stability of the banking system, transfer of technology, structural change, inflow of foreign investments, and employment. Section 5 briefly summarizes the findings.

## **2.Methodological Remarks**

For the purpose of this paper, by „foreign banks in Russia” we mean those chartered in Russia by its main regulator, the Central Bank of the Russian Federation (hereinafter – CBR), that are under effective control of foreign commercial banks. The share of at least 50% of a bank's capital is used as a threshold of „effective foreign control”. This approach is consistent with other literature on the subject. Additional tiers of foreign ownership – e.g., 40% or more – may be established, as was done by IMF experts in one of the studies (IMF, 2000, pp.153-154). However in the case of Russia the introduction of an additional tier would leave the

---

<sup>1</sup> Most Russian authors have emphasized the dangers of broad foreign participation in the banking sector as a matter of principle, stemming from the presumed intrinsic need to preserve the independence of the banking system as a key element of national sovereignty. Banking market participants have actively contributed to the debate calling for protection against foreign competition; „infant industry argument” has been widely used along with the above-mentioned non-economic reasoning. At the same time, the voices of liberal economists

coverage practically unchanged because foreign commercial banks usually seek full control over their Russian subsidiaries and have not made portfolio investments in local institutions.

The above-mentioned definition allows focusing analysis on the direct presence of foreign commercial banks in Russia and excludes the following: (a) Russian banks controlled by international financial institutions (IFIs) or non-banking foreign institutions; (b) Russian subsidiaries of European banks whose real beneficial owners are the CBR and/or other Russian entities; (c) non-banking financial institutions (brokerages, investment companies, etc.) controlled by foreign banks; (d) cross-border lending and delivery of other financial services to Russian customers by banks based outside Russia.

We do not include in the sample the banks wholly or partly controlled by IFIs because the impact they produce may be different from that of private sector entities and is therefore not representative. IFIs are guided by their respective mandates and therefore pursue goals different from those pursued by private banks. Capital participation in Russian banks by IFIs such as EBRD and IFC is a temporary phenomenon until a strategic investor is found.

Cross-border lending and sales of banking services to Russian companies represent a substantial share of foreign commercial banks' total exposure to the Russian economy in terms of assets and revenues generated. According to our calculations based on the data published by the Bank for International Settlements and by the CBR, in 2001 foreign financial institutions located outside Russia held 29.4% of the consolidated credit claims on Russian private non-financial sector. By the end of September 2003, this share fell to 24.6% (Vernikov, 2002b, p.29; BIS, 2001, December, p.59; BIS, 2004, March, p.A50; CBR, 2001, No.12(103), p.21; CBR, 2004, No.3(130), p.98). Despite the reduction, it remained a multiple of the foreign-owned subsidiaries' share of the local commercial loans market (in the range of 7%). The combined share of foreign banks might therefore slightly exceed 30% of the Russian market for credit resources.

Omission of cross-border lending from foreign banks leads to underestimation of their true market share in Russia and might raise doubts about adequacy of coverage. Still, the limited scope of analysis appears to be unavoidable at this stage because the main focus point of this article is the effects of *direct presence* of foreign commercial banks in an emerging market, rather than more general phenomena such as globalization of the Russian economy. It helps to crystallize the findings for one specific group of market participants that share many common characteristics; it also renders comparability with similar studies on other economies in

---

emphasizing the positive impact stemming from foreign competition have become stronger in the recent years.

transition. In the future, however, we shall try to integrate cross-border banking into the general framework.

### **3.Foreign Banks in Russia: a Brief Overview**

The first foreign-controlled bank in Russia, the International Moscow Bank, was licensed in 1989, as a joint venture where several foreign institutional investors held 60% of the stock. In 1991, Credit Lyonnais established a subsidiary in St.Petersbourg. It was not until 1993, however, that a breakthrough started. By the beginning of 2004 there were 30 lending institutions controlled by foreign commercial banks, out of which 28 were 100%-owned subsidiaries (see Appendix A).

In the absence of opportunities for a quantum leap in market share through acquisition of a sizeable local institution, all foreign banks have pursued the strategy of „organic growth” by gradually increasing the scope and range of operations. The most common path of establishing presence in Russia has been to set up a representative office and after a few years to convert it into a 100%-owned subsidiary bank. In several cases, a global merger or takeover between two foreign banks left one of them owning a Russian subsidiary.<sup>2</sup> There have been no large-scale takeovers of private local banks by foreign strategic investors because Russia chose not to privatize major state-owned banks in favor of foreign owners. Those financial institutions that were offered for sale after the 1998 crisis did not attract foreign interest because they were essentially bankrupt and duly relieved of valuable assets by the previous owners.

One can identify three main types of foreign banks directly present in the Russian market:

- World banking leaders from Europe and USA, such as Citigroup, JP Morgan Chase, HSBC, Deutsche Bank, BNP Paribas, HVB Group, ABN AMRO Bank and ING Bank;
- Second-tier banks according to the rank of their assets and equity worldwide, such as Societe Generale, Credit Suisse, Commerzbank, Dresdner Bank, Raiffeisen Zentralbank, Standard Bank, Michinoku Bank;
- Banking institutions from adjacent countries (China, Turkey, Iran, Armenia, Azerbaijan and Uzbekistan).

European transition economies have been mostly eschewed thus far by the world’s largest banks except Citigroup. By contrast, Russia has hosted the subsidiaries of several banks from

---

<sup>2</sup> HSBC of the U.K. and KBC of Belgium became directly involved in Russia by taking over other institutions that used to have Russian subsidiaries.

this category, which hold a leading position among the foreign banks. International Moscow Bank, whose main stakeholder is HVB of Germany, and Citibank control together more than one-third of all assets and 27% of the combined equity of all foreign-controlled banks in Russia.

Russia's another distinctive feature is the relatively modest role played by European medium-sized regional banks (such as KBC of Belgium; Erste Bank, Bank Austria and RZB of Austria; UniCredito and IntesaBci of Italy) that have become prominent actors in Central, Eastern and South-Eastern Europe. Raiffeisenbank Austria is the only representative of this category that has firmly established itself in the leading cohort of foreign banking subsidiaries in Russia. A possible explanation to this phenomenon might consist in the insufficient comfort for medium-sized European banks that lack the political clout possessed by, or generally attributed to, the largest banks from USA or Germany.

In absolute terms the presence of foreign banks in Russia is low. By the beginning of 2004 all foreign-controlled lending institutions had combined assets in the order of RUB 423 billion or USD 14.4 billion, out of which those owned by foreign *commercial* banks represented RUB 393 billion or USD 13.4 billion. Combined equity of foreign-controlled banks was around RUB 51 billion or USD 1.7 billion.<sup>3</sup> To put things in proportion, these magnitudes were equivalent of respectively 3.2%, 3.0% and 0.4% of the Russian yearly GDP in 2003.

Russia differs greatly from the transition economies in Central and Eastern Europe where foreign banks hold an average *market share* of 75%, including 98% in Estonia, 91% in Croatia, 89% in Slovakia, 81% in Bulgaria, 77% in Hungary and 67% in Poland. (Bank Austria, 2004, p.4, 14). In Russia foreign commercial banks control just 7% of all banking assets and 6.3% of combined equity of the Russian banking system.<sup>4</sup> The most significant market shares belong to the International Moscow Bank, Citibank and Raiffeisenbank Austria – 1.4%, 1.1% and 1.1% respectively of combined assets of the Russian banking system, ranking them 9<sup>th</sup>, 12<sup>th</sup> and 13<sup>th</sup> among Russian banks (see Table 1). With regard to the size of equity (own funds), the same three institutions lead the foreign banking community. (Table

---

<sup>3</sup> Hereinafter the author's calculations are based on data from: respective banks' published annual and quarterly reports; CBR, 2004; Expert, 2004, No.11 (412), pp.134-137.

<sup>4</sup> These figures are somewhat higher than those published by the CBR according to which „lending institutions with foreign participation” held 5.1% of the capital of the Russian banking system by the end of October 2003 (CBR, 2003). The reason is that CBR calculates the combined *charter* capital of banks and the shares thereof, while we think that banks' *total equity* is more relevant for assessing the scope of activity and commitment to the local market. Safronov (2004) estimates the share of foreign-controlled banks at 6.6% of total equity, which is consistent with our calculation. For more detail on the methodology of assessing direct foreign participation in the Russian banking system, see: Vernikov, 2002b, pp.25-28.

2).

The share of commercial loans market held by foreign-controlled banks is consistent with respective indicators for total assets, while data are harder to obtain due to the aggregated nature of balance sheets of involved institutions. We estimate the share of International Moscow Bank at around 1.5% of all commercial loan portfolios, and that of Citibank and Raiffeisenbank at approximately 1.3% each.<sup>5</sup> The contribution of the subsidiaries of foreign commercial banks to consumer lending has been even more modest as compared to corporate lending. Raiffeisenbank has emerged as the fourth largest in consumer lending with a market share of just 1.4%. The same institution leads among other foreign subsidiaries in terms of the amount of household deposits, with nearly USD 470 million or 0.9% of the country total.

#### **4. The Impact Produced by Foreign-controlled Banks**

In this section we shall try to identify micro-economic and macro-economic effects of foreign banks' direct presence in the market. In particular, we will assess the impact on economic growth, financial intermediation, availability of loans, and the level of interest rates; stability of the local banking system; transfer of technology; structural changes; employment; and on the inflow of foreign direct investment.

##### *4.1 Financial Intermediation, Availability of Credit, Interest Rates*

As an inseparable part of the Russian banking sector, foreign banks contribute to the performance of the main functions of financial intermediation, namely reallocation of savings within the Russian economy (accumulation of savings from all sectors and their placement in productive assets) and maturity transformation of financial resources (conversion of shorter-term liabilities into longer-term assets).

As far as *reallocation of savings* is concerned, foreign subsidiaries have traditionally funded their operations in Russia by borrowings from non-resident financial institutions, primarily offshore divisions of the same banking group. Foreign-controlled banks have made a modest contribution to the mobilization of local households' savings into the official financial system, the direct impact being in the order of 5%, although growing fast in nominal

---

<sup>5</sup> Here we have to repeat the usual disclaimer with respect of non-inclusion of data on cross-border lending by the parent financial institutions.

terms. We have identified only one foreign subsidiary (Raiffeisenbank Austria) for which private individuals' deposits have become a significant source of liquidity and made up to 24.2% of total liabilities.

Instead, foreign-controlled banks have been reallocating resources between the Russian and international financial markets and making foreign savings available to the Russian economy. Over one year from 1.1.2003 through 1.1.2004 the positive balance of funds raised (mainly from parent institutions) by foreign-controlled banks over funds placed with non-residents of Russia, grew from RUB 22.6 billion to RUB 109.9 billion. (Safronov, 2004). Lending institutions controlled by foreign capital were responsible for 64 percent of the entire net inflow of resources from international money markets to Russian banks. This undermines the existing notion that foreign banks do not bring additional financial resources to Russia but merely redistribute local savings that they can raise thanks to the strength of their brand names. Balance sheets of some of the foreign subsidiaries reveal a steadily high share of total assets placed with foreign financial institutions and a growing proportion of „local” funding<sup>6</sup>, however the overall balance between funds raised abroad and funds placed abroad remains positive for each bank in our sample. For example, by 1.1.2004 the balance sheet of Citibank showed liabilities to non-resident financial institutions of RUB 20.2 billion, while placements with non-resident financial institutions were RUB 3.8 billion.<sup>7</sup>

A European Bank for Reconstruction and Development study covering 16 transition economies including Russia has failed to identify causality between the form of bank ownership and the rates of real growth of loans to customers: „There is no significant evidence that majority foreign ownership of banks is associated with higher – or lower – rates of loan growth. Foreign banks on average expand at the same rate as privatised or *ab initio* private banks.” (Fries and Taci, 2002, p.18). The absence of superior performance by foreign-owned banks may reflect the lack of informational advantage before domestic banks in assessing credit-worthiness of local lending opportunities. Their presence, however, was found to have positive spillover effects on other banks in a banking system by spurring competition and by helping to transfer and diffuse new technologies, skills and lending products.

Evidence of Russia cannot underpin the assumption that foreign-controlled banks tend to lend to the national economy more actively than local peers. Before the financial crisis of

---

<sup>6</sup> By the end of 2002, more than one-half (55.5%) of all liabilities of Raiffeisenbank Austria were raised within Russia, representing deposits and placements from companies, households and Russian banks. (RBA, 2003, p.57).

<sup>7</sup> Hereinafter data from quarterly disclosure of respective banks published on their web-sites.

1998, foreign subsidiaries in Russia did not lend on a large scale, keeping government securities as single most important asset class. Since then, a landslide shift in favor of loans to non-financial private enterprises has taken place, and foreign subsidiaries have been expanding their customer loan portfolios more or less in line with the rest of the banking system. Four of the foreign subsidiaries appear on the list of top 30 Russian banks in terms of customer loans.

With regard to *maturity transformation* of resources as another essential function of a financial intermediary, foreign subsidiaries had average maturity of assets at just 2.9 months in 1998 and 4.5 months in 1999, which was even lower than the average for all Russian banks – 4.2 and 5.1 months respectively, mainly due to the emphasis that foreign subsidiaries made on government securities as opposed to corporate lending. (Matovnikov, 2000, pp.32-33) Since then the situation has changed due to expansion of corporate lending, and average tenors of assets have been rising. It is a commonplace in the literature that foreign banks have a strong advantage before local competitors in long-term lending. Indeed, as was noted above, foreign banks have provided Russian companies with about 30% of the borrowed funds with a relatively favorable maturity structure. According to BIS data, in the total banks' cross-border claims on Russia in foreign currencies and local claims in non-local currencies, maturities of over 1 year represented 57% (BIS, 2004, March, p.A60). What is true for parent institutions, however, is not necessarily true for Russian subsidiaries. Balance sheets of the leading foreign-owned banks in Russia reveal the a heterogeneous picture: in Raiffeisenbank Austria's the portfolio of loans to Russian private non-financial companies with maturities over 1 year represented 63% of the total, while the same indicator for Citibank was just 12%<sup>8</sup>. Other things being equal, foreign subsidiaries have normally preferred to finance foreign trade and to extend working capital facilities with relatively short maturities. Nevertheless, it may also be fair to argue that the *combined* share of foreign banks (subsidiaries and head offices) in the provision medium- and long-term funds to the Russian economy is significant, and the presence in Russia has helped to identify the borrowers and to organize the loans.

Foreign-controlled banks reacted with much delay to the trend in the Russian market towards denominating loans in the national currency rather than in foreign currency. At the beginning of 2004, respective share was 81% for IMB, 72% for Citibank, 94% for Raiffeisenbank Austria, and almost 100% for Commerzbank, while on average for all Russian banks the share of commercial loans denominated in foreign currency was just one-third (33%). (*Expert*, 2004, No.11, p.140; CBR, 2004, No.3(130), p.98). While hedging the risks

that foreign banks themselves take, the domination of hard-currency denominated loans has hindered de-dollarization of the Russian economy and has built up a potentially disruptive exposure to currency risk among the industrial companies, especially those with purely Ruble cash flows.

It is assumed that the appearance of foreign participants increases healthy competition in the local financial market because they offer additional lending resources and interest rates downwards. Actually they do so unintentionally because the motivation for entry was exactly the opposite, namely to explore the broad profit margins. Kraft and Galac (2000) found that the foreign banks that have entered the Croatian market have quickly adapted to the country's high lending rates and were willing to free ride on high interest spreads, thus earning substantial profits. In Russia, *interest rates* on loans have indeed decreased substantially and banking margins (spread between average lending rates and average deposit rates) have tightened after 1998, due to macroeconomic stabilization, high economic growth, falling rates of inflation, and general improvement of investment climate. The contribution of foreign banks to these positive trends was commensurate with their market share in the Russian banking sector, i.e. under 10%. One has to bear in mind that the competition between Russian and foreign banks occurs through access to the business of the most profitable companies. Foreign subsidiaries did not take away business from other banks by offering easier lending at cheaper rates or for longer tenors than that available from Russian banks. Instead they leveraged such advantages as efficient international payments, name recognition abroad and safety of deposits („safe haven”), which worked best after the 1998 crisis (see Section 4.2).

#### *4.2 Impact on the Stability and Resilience of the Banking System*

Foreign-controlled banks are assumed to be efficient institutions with solid business processes and practices. They are expected to improve the quality, pricing and availability of financial services and the allocation of credit through their sophisticated systems of risk evaluation and pricing. The functioning of the foreign banks thereby improves the overall stability of the banking system. Russia is generally no exception to this rule. On average, foreign-controlled banks tend to be at least as efficient as the best local peers: foreign banks appear among the most profitable lending institutions in the country.<sup>9</sup> Over 2003, the current

---

<sup>8</sup> Such a broad spread may be partly due to methodological differences in loan classification and structuring.

<sup>9</sup> The tendency of foreign-owned banks being the most efficient among all market players was confirmed by

profits earned by foreign-controlled banks have grown to RUB 16.5 billion, or 12.8% of Russia's total. 34 out of 41 institutions surveyed had made a profit in the last reporting year. Return on assets has grown to 4.7%, and return on equity has reached 35.8%. These numbers exceed the average results achieved by Russian banks. (Safronov, 2004). Cost/income ratios tend to be higher in foreign subsidiaries as compared to local peers, although intra-corporate allocation of costs, especially technological ones and the cost of funds, may impair an accurate measurement.

The question whether the presence of foreign banks makes the financial system of the host country more resilient to crises has been extensively researched, due to its obvious practical importance. Two more particular questions arise in this connection: (a) whether crises are less likely to happen in emerging markets with greater presence of foreign banks, and (b) if crises happen nevertheless, would foreign banks „cut and run” or would they inject additional liquidity into the local banking system. A team of experts from the International Monetary Fund who studied the evidence from a wide range of developing countries have generally concluded that, „the evidence to date on the effects of foreign bank entry suggests that the competitive pressures created by such entry lead to improvements in banking system efficiency, but it is still unclear whether a greater foreign bank presence contributes to a more stable banking system and a less volatile supply of credit”. (IMF, 2000, p.152).

Some international experts have argued that the entry of foreign banks can worsen the stability of the banking system because foreigners „cherry-pick” the most creditworthy domestic markets and customers, leaving domestic banks to serve more risky customers and thereby deteriorate the overall risk profile of their portfolios (IMF, 2000, p.163-164). In the case of Russia, the effects of this trend now start to be felt. The leading corporations can raise funds from various sources including foreign banks and stock markets, so their reliance on local financial institutions has declined. Top managers of the largest Russian private banks have stated in press interviews that their push into the second-tier of corporates and into retail sector, whose creditworthiness remains untested, was driven to a large extent by the competition from foreigners in the service to the best corporate and institutional clients.<sup>10</sup>

In the period preceding the combined debt-and-currency crisis of August 1998<sup>11</sup>, foreigners were playing a prominent role in the lending to the public sector at unsustainably

---

Fries and Taci (2004) who looked at 289 banks from 15 transition countries.

<sup>10</sup> This point was confirmed by the CEO of Rosbank, one of the leading private banks. (*Vedomosti*, 26.01.2004).

<sup>11</sup> In the course of the crisis Russia's national currency dramatically depreciated vis-à-vis the reference currencies, the government defaulted on its Ruble-denominated bonds and some commercial parties - predominantly banks - defaulted on their debt obligations, including to households.

high interest rates. Government securities (the „GKOs”) were the single largest class of assets of the foreign-owned banks, while corporate and institutional lending to private sector clients was limited, and consumer lending almost non-existent. This profile of bank portfolios did little to stabilize the banking system and to prevent the collapse of the GKO pyramid.

During the crisis, the argument usually goes, local subsidiaries of foreign banks are likely to have recourse to additional capital from their head offices. Russia’s empirical evidence after the stress test of 1998 partly supports such an assumption. None of the foreign commercial banks formally withdrew from Russia in view of the losses incurred by their Russian subsidiaries<sup>12</sup>. Those losses were absorbed and fresh injections made into the capital. This action was not entirely voluntary because the pressure from the bank regulator has put at stake the continuation of the Russian franchise of each affected entity. Having to choose between recapitalization of subsidiaries and a loss of banking license in Russia, foreign banks decided to come up with additional funds. The amount of such funds was not prohibitively large, and it is not obvious that the same choice would have been made if the scope of foreign banks’ activities and losses had been at the level of those in other major emerging markets, e.g. Argentina by 2001. Anyway, the support expeditiously rendered to the subsidiaries by their foreign parents jumpstarted a recapitalization of what remained of the Russian banking system and sent a positive signal.

On the other hand, after the outburst of the crisis the foreign banks present in Russia did not reduce the volatility of credit supply nor mitigated the impact of the credit and liquidity crunch. All exposure limits on Russia and Russian counterparties were „frozen” or scaled down. While existing exposures to non-financial private sector companies were maintained and rolled over or refinanced, practically no funds were available to local financial institutions. Foreign subsidiaries effectively insulated themselves from the rest of the banking system by trading with each other on the money and foreign exchange markets, and transactions with Russian counterparties were carried out on a prepayment basis only.

If foreign-owned banks did little to smoothen the volatility of credit supply in the period following August 1998, they nevertheless made rendered a valuable enhancement to the stability of the deposit base. Depositors – especially private sector corporations – shifted funds from their usual relationship banks to foreign-owned institutions that were perceived as being sounder and safer. Those deposits became alternative to capital flight or to an outright

---

<sup>12</sup> After the crisis of 1998 several foreign banks performed a dramatic downsizing of their investment banking and trading operations based in Russia. Other foreign-controlled institutions became lethargic for an indefinite time.

loss of funds in the ruined and looted Russian banks. This flight-to-quality allowed to conserve a part of the national savings, prevented a complete financial disintermediation and preserved confidence in at least some parts of the local banking system. That was by no means an act of charity. From a strategic perspective, the crisis of confidence in Russian banks in 1998-1999 created a window of opportunity for foreign players to reshape the market in their own favor by gaining access to the most profitable clients and their cash flows in local and foreign currency and to their foreign trade business. Foreign subsidiaries took full advantage of the strength of their respective brands, even if unsupported either by an adequate credit expansion or by legally enforceable explicit guaranties from the parents.

In the period following the crisis the foreign-owned banks were quite slow in restoring credit lines to Russian clients. Net lending picked up again only three-four years later, when Russian economy was already fully recovered and growing at a high pace. Russian banks started a new round of credit expansion earlier, and as a result the share of foreign subsidiaries in total bank assets in Russia went into a long decline.

#### *4.3 New Products Development and Transfer of Technology*

Literature on foreign bank ownership has been reproducing the statement that one of foreign banks' inherent strengths is their ability to offer better products and more of them than indigenous institutions can offer. Hence the beneficial impact of foreign banks on the development of local financial services.

A comparison of the ranges of products placed in the Russian market by banks with different forms of ownership might suggest, however, that foreign banks' advantage is rather based on better marketing and positioning. It is true that most of the modern banking products were unknown to the Russian banking sector as recently as 15 years ago. Nevertheless, the new commercial banks rushed to collect experiences worldwide, to quickly assimilate many of the new products to the Russian environment, and to start offering them to their Russian clients. In some cases they even jumped ahead of time and sold products for which there was no sufficient legal framework, leading to serious losses in the end-1990s. As far as the foreign subsidiaries are concerned, they have actually been more conservative with regard to the mix of products than local peers. From early-1990s, they started offering simple „plain-vanilla” products including cash management, corporate securitized lending, international and domestic payments, trading in the financial markets, and foreign trade finance. Over time, additional products were added to the range, such as private banking, consumer lending, and

investment banking products.

At all times, however, local Russian banks were capable of matching that product mix. It is hard to find examples of truly innovative banking products brought to the Russian market by the foreign subsidiaries and unknown by local banks.<sup>13</sup> Russian banks started using modern delivery channels (telephone and Internet banking) much earlier and much broader than their foreign-controlled peers. There has been no automaticity in the spillover of the vast product knowledge owned by foreign institutions in their respective home markets to the local through the Russian subsidiaries. For example, Citigroup is one of the world's leaders in retail banking and credit cards issuance, but these products were not brought to the Russian market from the outset. Russian banks started offering plastic cards several years ahead of foreign subsidiaries, and it did not happen due to the presence of the latter, as many authors tend to argue when they regard any positive changes in the local banking systems only as a result of the „benign” competition. Until late 1990s, all foreign banks in Russia have been reiterating their lack of interest in the retail business, and were among latecomers to this rapidly growing segment of the market.

Foreign banks' expertise in products with high value-added, especially in the field of investment banking, is maintained in the offshore divisions and then directly delivered to Russian corporate clients, without much proliferation to the local personnel of the subsidiaries.

It was not through the foreign banking subsidiaries that Russia's leading universal commercial banks learned about banking products ranging from consumer lending to corporate loans to sophisticated banking products such as syndicated loans, advisory on mergers and acquisitions and equity financial markets. The only sphere where the Russian market benefited from efficient new products spread by foreign-controlled banks is the lending to small and medium-sized enterprises, but the merit goes to the parent IFIs and foreign non-banks, while the subsidiaries of the world's leading private commercial banks have not targeted the SME sector at all.

It is presumed that foreign financial institutions bring with them completely new banking and information technologies unavailable locally. Indeed, foreign subsidiaries as a rule tend to be better managed and more efficient and to rely on more solid procedures such as credit

---

<sup>13</sup> This statement derives from informal interviews with commercial bank managers from the author's own experience with the Russian banking sector, including in one of the leading foreign subsidiaries. With regard to technology transfer in the case of Croatia, Kraft and Galac (2000) came to a conclusion very similar to ours: foreign banks have not stood out as leaders in banking product innovation (p.776).

analysis, risk management, compliance, automation of all operations, etc. It is important to note that these technologies are transferred through intra-firm channels from parent institutions to subsidiaries in Russia and remain out of reach of local market participants not affiliated with foreign banks. There is no economic reason why private foreign institutions would share their technologies with local competition from whom they are trying to win market share. In Eastern Europe, by contrast, the effects of technology transfer were quite noticeable as the new owners were integrating their local acquisitions into global systems and networks.

#### *4.4 Structural Changes*

It is worth considering the contribution that foreign subsidiaries have made to the restructuring of the Russian economy from resource-based *sectors* in favor of those with high value-added and the knowledge-based services. From the very beginning the business of foreign banks was, and largely remains, focused on exporters of commodities and raw-material intensive goods such as oil, gas, petroleum products, metals and ores, timber, chemicals and fertilizers, although over time the client base has become more diverse. After 1998 the foreign banks contributed to the rapid progress of import substituting industries that produce food, beverages, tobacco and other fast-moving consumer goods, paper products, car parts and accessories, electro domestic appliances, telecommunications equipment. At the same time, little if any financial resources were made available to such economic sectors as construction, agriculture and agribusiness, engineering in general, computer and other hi-tech industries, etc. The explanation to that may be found in the corporate structures and legal environment in those sectors, as well as in the sphere of politics.<sup>14</sup>

It is recognized that the Russian economy suffers from prevalence of very large companies while *small and medium-sized companies* have no access to financial resources. SME have mostly remained beyond the scope of foreign commercial banks' interest in Russia<sup>15</sup>.

The activity of foreign-controlled banks is concentrated in Moscow and – to a much lesser extent - in St. Petersburg, thus reinforcing the *geographical* imbalance in the allocation of financial resources and infrastructure within the country's territory. IMB has one branch in St.

---

<sup>14</sup> For instance, foreign banks „by definition” cannot do business with Russian companies producing defense equipment and material, even if those are internationally competitive and employ advanced technology.

<sup>15</sup> While foreign-controlled banks have been the pioneers in systematic lending to small and medium-sized enterprises, in consumer and mortgage lending, the merit belongs to banks owned either by IFIs (KMB-Bank controlled by the EBRD) or by non-banking foreign investors (DeltaBank and DeltaCredit owned by the US-

Petersburg and 10 representative offices in Russia's main regions. Raiffeisenbank Austria has one branch outside Moscow and seven sub-branches within the city limits. Other foreign banks have practically no direct presence outside two main cities. In Moscow all these institutions compete for a relatively thin pool of qualified bank personnel and quality premises, thereby contributing to an already existing „bubble” in the price of office space and human resources in the financial sector.

Foreign-owned banks have promoted *globalization* of Russia's financial sector by setting up structures more integrated internationally than nationally. The leading foreign participants of the Russian banking market, such as Citigroup, Deutsche Bank, ABN AMRO Bank and ING Bank, have advanced in reorganizing their international subsidiary/branch networks into global product and client groups. Under the roof of a banking franchise in Russia, there may be unrelated units reporting to different senior officers located in other countries. The person appointed as the CEO of the local bank performs only a nominal coordinating role, while all the important decisions are made overseas. The pattern of globalization emerging in the case of Russia is peculiar and different from other transition economies. Foreign parent banks here do not envisage integrating their belongings into pan-European structures and avoid excessive local presence, however the structures created on-shore enhance a growing cross-border lending and sales of investment banking services.

#### *4.5 Impact on the Inflow of Foreign Investments*

It is widely believed that the mere existence of foreign banks in a certain country attracts additional foreign investments. Russian experience offers very limited proof to that notion. We differentiate between *direct* and *indirect* impact on the inflow of foreign investments to Russia.

Direct impact can be gauged through the capitalization of foreign banking subsidiaries themselves. As mentioned in Section 3, the combined equity of foreign-controlled banks has reached RUB 51.2 billion that corresponds to 0.4% of Russia's annual GDP in 2003. As it is shown in Table 3, the banking sector has concentrated just 2.5% of the cumulative amount of foreign direct investment to Russia, including 2.7% of all direct capital participation and reinvested incomes. A mere 3.9% of the total portfolio investment was destined for the banking sector, including 2.1% of portfolio capital participation and reinvested incomes. These numbers are much lower than in other similar economies. In Central and Eastern

European countries 8% of total FDI went to the financial sector and in Mediterranean countries – 12%. (Altomonte and Guagliano, 2003, p.230). This difference may be due to that fact that in Russia the foreign investment was channeled predominantly to the fully owned subsidiaries of Western commercial banks that developed from scratch through „organic growth” and therefore remained relatively small. Portfolio investment in existing Russian institutions did not take root due to concerns related to corporate governance and investor rights protection. In other European emerging markets the flows of foreign investment were rather directed towards acquisition of local institutions, including the leading and well-functioning ones.

*Indirect* impact of foreign-controlled banks on the inflow of foreign investments to Russia is harder to assess because it is difficult to grasp causalities, if any. In theory, the presence of foreign banks has created a more attractive environment for foreign direct and portfolio investment by making necessary financial infrastructure available to companies owned by overseas investors and by mitigating some country-specific risks including regulatory and political ones (e.g. volatile and burdensome foreign currency regulation) and perceived unreliability of local banks. In practice, however, the volatility of foreign direct investments into Russia has demonstrated much higher correlation with political developments such as presidential and parliamentary elections than with the number and the scope of activity of foreign-owned banks.

At the initial stage the business of foreign banking subsidiaries was almost fully concentrated on foreign companies, joint ventures and Russian firms affiliated with foreign investors. Since then the client base has gradually expanded to include Russian exporters and importers and the local enterprises that have been acquired by foreign investors. Some of the foreign-controlled banks have shifted the proportion further towards prevalence of local companies and households. For example, the share of domestic borrowers in the Russian companies in the corporate loans portfolio of Citibank (Russia) grew from 50% to 60% over the course of 2002. (Citibank, 2003, p.7). This may indicate that foreign-controlled banks may perform the function of promotion and support to foreign investment at the early phase of development but it is a by-product of their activity while exploration of the revenue potential of the vast Russian market for banking services is the strategic drive.

Foreign subsidiary banks have typically concentrated their activity and accompanied traditional foreign clients in their investment and trade with those sectors of the Russian economy (oil and gas, metals, timber, pulp and paper, food and beverages, chemical and fertilizer industry, etc.) which were highly attractive to foreign investment anyway and where

availability of banking services provided „on-shore” was not critical or where the leading Russian banks have offered very similar services. The causality between presence of foreign banks and the scope of FDI in those sectors might actually have been reverse in the sense that it was the lucrative business of foreign industrial investors that convinced international banks to establish presence in Russia rather than vice versa.

#### *4.6 Employment*

Banks controlled by foreign investors make a modest contribution to the overall numbers of employment in the Russian financial and banking sector. We estimate the total number of staff working for foreign subsidiary banks at around 4,000. The special feature about foreign banks is that they tend to offer services that are not labor-intensive but technology- and knowledge-intensive. The banks that have added retail market to the list of priorities in Russia have nevertheless avoided creating a vast branch network and invested instead in electronic, telephone and Internet solutions. Citibank has pursued its strategy of setting up fully automated banking terminals at petrol stations, while keeping the number of brick-and-mortar branches at the minimum level. This trend allows saving on labor costs even if it contributes modestly to job creation in IT-related activities.

The level of employment in foreign-controlled banks has been steadily expanding except for the institutions with a high share of investment banking business where staffing levels showed some volatility.<sup>16</sup>

Foreign banks compete with each other and with Russian private banks for skilled personnel, particularly at the managerial level. While comprehensive training is quite rare, most new employees are offered on-the-job training and short-term seminars. The best performing Russian staff may after several years of work be transferred to the same bank's branches in other countries.

Despite official statements, the foreign parent institutions have been reluctant to delegate to local nationals managerial control over their Russian subsidiaries, especially at the top level. There are no nationals of Russia among the chief executive officers of the leading foreign subsidiary banks.

---

<sup>16</sup> Between 1998 and April 2002, the number of staff in the Moscow subsidiary of Credit Suisse First Boston fell from its peak level of 300 to 130 (*Vedomosti*, 04.04.2002), reflecting redeployment of operations to other financial centers and loss of interest towards the Russian market.

## 5. Conclusions

Russian experience offers a unique possibility to observe parallel development of different types of banking institutions by the form of ownership and thus to determine the impact, the advantages and disadvantages of each of them. In most other transition economies of Central and Eastern Europe such a possibility does not exist anymore because there are very few, if any, sizeable banks left beyond foreign control.

Russia did not encourage foreign bank ownership and did not transfer any of its largest lending institutions to foreign owners. Under such circumstances, foreign commercial banks have preferred to establish in Russia wholly owned subsidiaries and to grow organically. By the beginning of 2004, these institutions were in control of about 7% of all banking assets and 6.3% of the combined equity of Russian banks.

The Russian experience has produced mixed evidence with regard to presumed advantages of the entry of foreign banks into an emerging market. In particular, we did find evidence to support the following assumptions:

- Foreign-controlled banks have offset some of the shortcomings of the local financial sector by increasing the degree of financial intermediation (in Russia by 3% of GDP);
- These institutions have performed well the function of reallocating savings from foreign markets to Russian borrowers (industrial companies and even households); they made additional resources available to feed Russian economic recovery and high rates of growth;
- Foreign banks may have contributed to the lowering of interest rates on bank loans in Russia, even if involuntarily;
- Banks owned by leading foreign commercial banks have strengthened the banking system by being solid, efficient and well-capitalized themselves and by importing high standards of management, efficiency, prudence and risk control;
- Parent banks did inject fresh funds into their Russian subsidiaries that suffered losses and became decapitalized as a result of the financial crisis. That sent a positive signal to the rest of the banking system and launched its recapitalization;
- Foreign subsidiaries have facilitated Russian exports and imports;
- Operation of the foreign subsidiaries as a part of transnational structures has promoted opening up and integration of the Russian banking sector into the world financial markets.

On the other hand, so far we failed to find convincing evidence to support some other assumptions, namely:

- Foreign banks have not appeared as a factor mitigating local banks' reluctance to lend to the national economy; their lending has grown slower than that by local peers, and they have eschewed entire economic sectors of importance to Russia;
- The average tenor of loans provided by foreign subsidiaries was generally shorter, not longer, than those among the peer group despite the fact that foreign subsidiaries had greater access to cheap long-term funding;
- Foreign banks did little to prevent the financial crisis of 1998 but may instead have brought it closer by investing heavily in government securities and exposing local banks to currency risk;
- Foreign banks did not substantially contribute to the resolution of the liquidity crisis;
- Foreign banks were slower than local peers to resume lending to Russian companies after the economy recovered from the crisis;
- Foreign subsidiary banks may have hindered positive structural changes in the Russian economy by focusing their activity on resource-based sectors and commodities and on large corporations, and by concentrating operational presence in Moscow;
- We found little proof to the catalytic role of foreign banks in attracting foreign investment into Russia, particularly foreign direct investment. Presence of foreign banks has hardly been a crucial factor in investment decisions;
- Not many new banking products and technologies became available to Russian banks through foreign subsidiary banks in Russia. Foreign banks have served as a channel of access to new technology and banking products only to the extent that those were employed in-house but did not spill over to the rest of the Russian banking sector;
- Foreign banks have made a negligible impact on employment in the banking sector. The benefits from knowledge spillover have yet to materialize.

In our opinion, the balance of the impact produced by the presence of foreign banks in Russia may be tentatively positive, even if many of the assumptions regarding benefits turned out to be overoptimistic. A general disclaimer to the above findings is that the magnitude of the impact from foreign banks' presence was discounted by the scope of such presence that remained quite low. This in turn has complicated the identification of possible causal relationships. The value of the evidence from the „stress-test” of August 1998 is limited because the amounts injected by foreign parent institutions were relatively small and did not

allow making conclusions in respect of foreign commitment to support the local banking system in a crisis situation in the future.

## Appendix A.

### Foreign commercial banks present in Russia (by January 1, 2004)

Year registration	«Parent»*)	Country	Name of the Russian subsidiary bank**)
1989	HVB Group – 43.4%; Nordea – 21.7%	Germany; Finland	International Moscow Bank
1991	Credit Lyonnais	France	Credit Lyonnais Rusbank
1993	Societe Generale	France	Societe Generale Vostok
	Bank of China	P. Rep. China	Bank of China (ELOS)
	Dresdner Bank	Germany	Dresdner Bank
	Credit Suisse Group	Switzerland	CSFB Bank
	ING Bank	Netherlands	ING Bank Eurasia ZAO
	Citigroup	USA	Citibank
	ABN AMRO Bank N.V.	Netherlands	ABN AMRO Bank A.O.
	JP Morgan Chase Bank	USA	J.P.Morgan Bank International
	Yapi ve Kredi Bankasi	Turkey	Yapi Kredi Bank Moscow
	TC Ziraat Bankasi	Turkey	Ziraat Bank (Moscow)
1995	Westdeutsche Landesbank Girozentrale	Germany	WestLB Wostok
	Turkiye Garanti Bankasi	Turkey	Garanti Bank – Moscow
1996	HSBC Holdings	U.K.	HSBC Bank (R.R.)
	Raiffeisen International Bank Holding	Austria	Raiffeisenbank Austria
	National Bank of Uzbekistan	Uzbekistan	Asia-Invest Bank
1997	FinansBank	Turkey	FinansBank (Moscow)
1998	Deutsche Bank	Germany	Deutsche Bank
	DenizBank	Turkey	DenizBank (Moscow)
	Commerzbank	Germany	Commerzbank (Eurasia)
1999	Michinoku Bank	Japan	Michinoku Bank (Moscow)
2002	NATEXIS Banques Populaires Group	France	Banque NATEXIS
	International Bank of Azerbaijan	Azerbaijan	International Bank of Azerbaijan – Moscow
	Bank Melli	Iran	Bank Melli Iran
	Banque BNP Paribas	France	BNP Paribas Bank
	Standard Bank Group	U.K.	Standard Bank
2003	Banca Intesa	Italy	Bank Intesa
	State Bank of India – 60%; Canara Bank – 40%	India	Commercial Bank of India
	Bank Anelik	Armenia	Anelik Ru

\*) The name of the current owner of the Russian subsidiary.

\*\*\*) Current name; may differ from the originally registered name.

Source: CBR data published in *Dengi i Kredit*, 2004, No.2, pp.78-79.

## References

- Altomonte, C. and Guagliano, C. (2003) Comparative study of FDI in Central and Eastern Europe and the Mediterranean, *Economic Systems* 27, Issue 2, 223-246.
- Bank Austria (2004) *Banking in CEE*, Vienna: Bank Austria Creditanstalt.
- BIS Quarterly Review, various issues. Bank for International Settlements, Basle.
- Blejer, M. and Skreb, M. (eds.) (1999) *Financial Sector Transformation: Lessons for the Economies in Transition*, Cambridge University Press.
- Bonin, J., Miszei, K., Szekeli, I. and Wachtel, P. (1998) *Banking in transition economies: Developing market oriented banking sectors in Eastern Europe*, Edward Elgar, Brookfield, Vermont.
- CBR, *Bulleten bankovskoy statistiki (Bulletin of Banking Statistics)*, various issues. Central Bank of the Russian Federation, Moscow, Russia. (*in Russian*).
- CBR (2003) Information on lending institutions with foreign participation by October 1, 2003. Central Bank of the Russian Federation, Moscow, Russia.
- <[http://www.cbr.ru/analytics/bank\\_system/print.asp?file=PUB\\_031001.htm](http://www.cbr.ru/analytics/bank_system/print.asp?file=PUB_031001.htm)> (*in Russian*).
- Citibank (2003) *ZAO Citibank Annual Report 2002*. Citibank, Moscow, Russia.
- Expert, various issues. Moscow, Russia. (*in Russian*).
- Fries, S. and Taci, A. (2004) Cost efficiency of banks in transition: Evidence from 289 banks in 15 post-communist countries, European Bank for Reconstruction and Development working paper No.86, London, UK. <http://www.ebrd.com/pubs/econ/workingp/86.pdf>
- Fries, S. and Taci, A. (2002) Banking reform and development in transition economies, European Bank for Reconstruction and Development working paper No.71, London, UK. <<http://www.ebrd.com/pubs/econ/workingp/71.pdf>>
- IMF (2000) *International Capital Markets: Developments, Prospects, and Key Policy Issues*. International Monetary Fund, Washington, DC.
- Kraft, E. and Galac, T. (2000) The impact of foreign banks on the Croatian banking market, Paper presented to the 6<sup>th</sup> Conference of the European Association of Comparative Economic Studies, Barcelona, September 2000, Mimeo.
- Keren, M. and Ofer, G. (2002) Globalization and the role of foreign banks in economies in transition, Paper presented to the 7<sup>th</sup> Conference of the European Association of Comparative Economic Studies, Forli, June 2002, Mimeo.
- Matovnikov, M., (2000) Assessing the efficiency of Russian banks as financial intermediaries, *Dengi i Kredit* 5, 27-34 Moscow, Russia. (*in Russian*).
- RBA (2003) *Annual Report 2002*. Raiffeisenbank Austria, Moscow, Russia. (*in Russian*).
- Safronov, V. (2004) Foreign capital in the Russian banking sector, Paper presented to the 12<sup>th</sup> Interbank Conference in Yalta, 26-29 April 2004, Mimeo. (*in Russian*).
- Vernikov, A. (2003) Foreign banks in Eastern Europe, *Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya* 8, 97-107, Moscow, Russia (*in Russian*).
- Vernikov, A. (2002a) Strategies of foreign-owned banks in Russia, *Voprosy Ekonomiki* 12, 68-84, Moscow, Russia. (*In Russian*).

Vernikov, A. (2002b) Assessment of foreign banks' participation, *Dengi i Kredit* 1, 25-30, Moscow, Russia. (*in Russian*).

Wagner, N. and Iakova, D. (2001) Financial sector evolution in the Central European economies: Challenges in supporting macroeconomic stability and sustainable growth, International Monetary Fund working paper WP/01/141, Washington, DC. <<http://www.imf.org/external/pubs/ft/wp/2001/wp01141.pdf>>

World Bank (2001) Finance for Growth: Policy Choices in a Volatile World, World Bank Policy Research Report, World Bank, Washington, DC.

**Table 1**  
**Top 10 foreign-controlled banks in Russia by assets, 01.01.2004\***

Bank	Assets		
	RUB billion**)	Share, %% of all foreign banks in Russia	of all Russian banks
International Moscow Bank	81.0	20.1%	1.4%
Citibank	62.5	15.5%	1.1%
Raiffeisenbank Austria	62.2	15.5%	1.1%
Commerzbank (Eurasia)	26.6	6.6%	0.5%
ABN AMRO Bank A.O.	18.4	4.6%	0.3%
Deutsche Bank	17.1	4.3%	0.3%
ING Bank (Eurasia)	16.7	4.2%	0.3%
CSFB Bank	13.9	3.5%	0.2%
WestLB Wostok	10.6	2.6%	0.2%
Credit Lyonnais Rusbank	8.9	2.2%	0.2%

\*) Based on respective banks' statutory reports in accordance with Russian standards of accounting and financial reporting.

\*\*\*) On 01.01.2004, the official exchange rate was USD/RUB 29.45.

Sources: *Expert*, 2004, No.11 (412), pp.134-132; CBR (2004); own calculations.

**Table 2**  
**Top 10 foreign-controlled banks in Russia by equity, 01.01.2004\***

Bank	Equity**		
	RUB billion***)	Share, %% of all foreign banks in Russia	of all Russian banks
Citibank	8.211	16.0%	1.0%
International Moscow Bank	5.739	11.2%	0.7%
Raiffeisenbank Austria	4.137	8.1%	0.5%
Deutsche Bank	3.019	5.9%	0.4%
CSFB Bank	2.616	5.1%	0.3%
ABN AMRO Bank A.O.	2.336	4.6%	0.3%
Dresdner Bank	2.266	4.4%	0.3%
ING Bank (Eurasia)	2.220	4.3%	0.3%
Societe Generale Wostok	1.603	3.1%	0.2%
Credit Lyonnais Rusbank	1.319	2.6%	0.2%

\*) Based on respective banks' statutory reports in accordance with Russian standards of accounting and financial reporting.

\*\*) Equity figures do not include subordinated loans.

\*\*\*) On 01.01.2004, the official exchange rate was USD/RUB 29.45.

Sources: *Expert*, 2004, No.11 (412), pp.134-132; CBR (2004); own calculations.

**Table 3**  
**Foreign investment in the Russian banking sector**

	01.01.2003		01.01.2004	
	USD million	%%	USD million	%%
Foreign direct investment in Russia, total	51355	100.0	...	100.0
of which banking sector	1267	2.5	1839	...
Capital participation and reinvested incomes, total	45264	100.0	...	100.0
of which banking sector	1202	2.7	1744	...
Portfolio investment, total	61422	100.0	...	100.0
of which banking sector	2420	3.9	2119	...
Capital participation and reinvested incomes, total	30915	100.0	...	100.0
of which banking sector	652	2.1	901	...

Source: CBR (2004), pp.20, 23.