State bond schemes are designed for looting Russia even more

by Rachel Douglas

Aleksandr Livshits, finance minister and deputy prime minister of the Russian Federation, came to London in mid-November to attend the first issue of Russian state Eurobonds on the London market. Approximately $1 billion in Russian five-year bonds was sold on Nov. 21. London, a source in the Livshits delegation told ITAR-TASS, "is in fact the main European door to the world's financial resources."

Back in Moscow, officials of Livshits's Finance Ministry are working on regulatory changes that would allow a far greater amount of Russian state debt to be owned by foreigners. Bella Zlatkis, head of the ministry's Department for Securities and Financial Markets, has hinted that foreign investor access to the domestic market in short-term Russian state debt (the GKO market, from the Russian acronym for "state short-term bonds") will be eased in 1997.

These maneuvers with the public debt mark a new phase of the looting of Russia. A report by Prof. Lev Makarevich, a leading Russian expert on finance, reveals the relationship between Russia's reform-era finances, and the demolition of its physical economy. His presentation to a recent conference of the Central Mathematical Economics Institute (CEMI) of the Russian Academy of Sciences, was published in *Finansovyye Izvestiya* of Oct. 31, 1996 and is summarized below.

Dr. Makarevich estimates capital flight from Russia, since 1992, at $700 billion to $1 trillion. His figures somewhat exceed the 1993-94 estimates of other Russian experts, who put the annual rate of capital flight at $100 billion. Either way, it is a formidable stream of loot, equivalent to over 20% of the international financial world's single biggest source of cash—the $521 billion per year proceeds of the illegal drugs business. In the early phase, much of the lost resources was in physical form: raw materials, precious metals, and manufactured goods, exported without taxation, often at dumping prices. Now, more sophisticated mechanisms of financial looting are coming on line.

A profitable feeding trough

In a Nov. 2 article in *Nezavisimaya Gazeta,* discussing Zlatkis's remarks on improving foreigners' access to the GKO market, Sergei Kashlev wrote: "The government securities market remains a superprofitable feeding trough for Russian banks. Not long ago, the International Monetary Fund [IMF] surprised observers, by demanding the removal of restrictions on access to that feeding trough for foreign capital, as well. If that happens, the investment vacuum cleaner of the GKOs, which sucks resources out of other sectors of the economy, will begin to pump Russian capital to the West."

The GKOs are denominated in rubles, and the restrictions to be lifted concern the amount of foreign currency that foreign investors may convert for investment in the GKO markets; earnings are then reconverted for repatriation, exerting downward pressure on the ruble, even as the Russian government artificially maintains its exchange rate within a "corridor." Foreigners would be allowed to stay in the GKO market for indefinite lengths of time, as opposed to the present two-month limit. Kashlev points out that many foreigners have been in the GKO markets anyway, acting through its main players—the Russian commercial banks.

The Russian economy is highly dollarized, already, as Makarevich reports.

The "vacuum cleaner" effect of GKOs on potential investment monies, is because of the high rates the state has had to offer on its bonds, currently at annual rates of 30-45% for three-month bonds and 55% for six-month bonds. During the spring 1996 election campaign, they were in triple digits. Kashlev and other commentators call the accumulation of public debt, "the GKO pyramid," suggesting the influx of foreign speculators would be necessary to keep it from collapsing. At present, foreign investors in GKOs must operate through the Russian Central Bank, a service which Zlatkis suggests the Russian commercial banks should now be allowed to sell.

The 'rule of the seven boyars'

Russia is currently under what one wag called the *semibankirshchina,* a take-off on the *semiboyarshchina,* "rule of the seven boyars," period of Russian history. Vladimir Potanin of ONEKSIMbank is first deputy prime minister; Boris Berezovsky, whose financial empire includes a bank, car dealerships, and the country's largest TV station, is deputy secre-

Monetarist Anatoly Chubais, head of the Presidential Administration, is overseeing the takeover of Russian finances by foreign speculators.

tary of the Security Council; their monetarist co-thinker Anatoli Chubais runs the Presidential Administration.

Once hooked to the insatiable appetites of the greatest financial bubble in world history, the international markets, Russian finances have been subjected to minute supervision by foreign agents, in a fashion that insults the country's sovereignty and infuriates its patriots. Thus, not only does the IMF send a delegation to Moscow each month, to dole out—or, as at present, withhold—tranches of an IMF credit to the Russian Federation, but now, as Finance Minister Livshits confessed in a Nov. 12 press conference, "they have brought along some specialists on taxation, the technique of taxation, organizations, and so on, [who] will be meeting with our people at the Tax Commission." These "technical experts on taxation will be here for a fairly long time," Livshits said. When Chubais, Potanin, et al. set up a Temporary Emergency Commission (VChK) to collect taxes, the IMF representative in Moscow held a press conference to applaud.

Every month, London School of Economics professors, working quasi-officially for the Russian government, brief the Moscow press corps about the performance of their pupils. The latest theme of Profs. Peter Boone and Richard Layard is that Russia had better slash spending on housing and pensions, the better to meet GKO and other debt service obligations. Surely, some percentage of Russian pensioners don't really need those stipends, and families could do without rent subsidies, says Layard, so that the really poor could be helped better. This is in a country, where tens of millions of people—over 70% of families with more than two children—live below the official poverty level. Sixty percent of the population of Siberia and the Far East does not even live to pensionable age! According to Layard, if subsidies for home heating were reduced, households would be more frugal and efficient. (It so happens that in Vladivostok, there was no heat at all for several November days and cold nights, because a steam pipe in the city's aged system burst.)

The Makarevich report on Russia's banking crisis

This summary was prepared by Konstantin Cheremnykh and Rachel Douglas.

Since the Russian Presidential elections, the situation of the commercial banks has worsened. As of Aug. 1, 1996, 161 credit institutions (banks or financial groups) had lost their licenses, as against 150 in all of 1995. In October, 130 more banks were slated for "execution." Every fourth bank is losing money. The volume of overdue loans, with interest, had reached almost 40 trillion rubles ($8 billion), or more than triple the volume of bank reserves, as of September. Bank assets have fallen by one-third during 1996.

The current banking crisis is unlike the crisis in the United States during the Great Depression, when all credit institutions were closed for two weeks. Nor is it comparable to October 1994 or August 1995 in Russia, when the freely convertible currency and interbank credit markets crashed simultaneously, burying dozens of banks. We do not have a crisis-spreading medium, such as the stock markets they have abroad, nor the interbank currency and credit markets. The dollar is in its currency "corridor," so its behavior is predictable at least till summer 1997. There is a certain danger from the GKO "pyramid," but the Ministry of Finance and the Central Bank have agreed to keep printing enough rubles to support the trade in government bonds.

The majority of banks, impaled on the "needle" of the GKOs, were unprepared for the decline of their yields, from 360-400% annual rates, to the present 50-70%. But that is not the main reason for the bank failures, including of some major banks. The banking crisis is due to the coincidence of several other systemic, cyclical, and conjunctural crises: budget, payments, investment, production, central management, struc-