PREFACE

Banks are an integral part of the modern money economy. Their activity is closely connected with the needs of reproduction. They are at the centre of economic life and service in the interest of producers, they act as intermediaries in relations between industry, trade, agriculture and population. Banks are not an attribute of a separate economic region for any one country. The sphere of their activity has neither geographical nor national boundaries. They possess colossal financial power and considerable monetary capital. Banks have enormous power throughout the entire world. Without a viable banking system no economy can exist. The nascent mixed economic structure which was slowly evolving from the ruins of the planned bureaucratic command economy in Russia after the disintegration of USSR is a major concern.

OBJECTIVE

The objective of the study is to analyse and explain the functioning of banking institution in the economy of Russia in the post disintegration era.

SOURCES

This study is based on published materials of primary and secondary sources.

METHODOLOGY

Descriptive and analytical methodology has been employed in the present study.
The study has been divided into following five chapters. In the opening chapter an attempt has been made to trace the genesis of banking institutions. The chapter describes about the role of banking institutions in the modern money economy. The chapter further describes about the role of banks in socialist and capitalist economies.

In the Socialist economy, banks help to strengthen the economic alliance between the working class and the peasantry, between the state and cooperative sectors of socialist production. In Capitalist countries, saving are used to finance the business of small, middle and bourgeoisie.

The second chapter encapsulates the history of the Russian banking system in pre-revolutionary Russia. It further explains about the State Banks in Russia. The State Bank was the basic source of legitimate short-term bank. It was established in 1860.

After the revolution the Soviet government used State Bank as an important economic institution at all steps in the development of the Soviet state to eliminate capitalist elements and strengthen the socialist system for industrialisation and collectivisation of the country, and to ensure victory of socialism.

The third chapter is devoted to explain the causes of the disintegration of the Soviet Union and its impact on the functioning of the banking institution of Russia. The Gorbachev government, seeking to reform the economy by decentralizing it, broke up the USSR state Bank into five specialized banks (for agriculture, foreign trade, industry, housing and household savings).

The chapter further explains about the functions of the emerging banks. The emerging banks performed defensive and opportunistic
functions. The private banks enabled their founders to get around the remaining restrictions of the Soviet system and to mobilise short-term capital to take advantage of the new opportunities opening up, mainly in foreign trade. The chapter also explains about pre-banking and golden era periods of Banking and the Russian Banking debacle of 1998. The period 1987-91 could be called the era of 'pre-banking'. It was then followed by the 'golden era' of 1991-95 when the Russian banks multiplied manifold the capital they had accumulated in the previous phase. This was the time in which the banking giants grew and the financial base for the 'oligarchies' was built.

The Russian banking debacle of 1998 had its parallel at various times in other transition economies, it nevertheless represented a tremendous failure for policymakers who had for several years been attempting to put the banking system upon a sounder footing.

The fourth chapter dwells on the problems and prospects of the Russian banking system. After a decade of the Soviet break-up Russia has not been able to evolve an efficient banking system to meet the needs of market economy. At the outset Russia did not inherit a sound banking system when the USSR disintegrated itself into fifteen independent sovereign countries.

To reform the banking sector the Russian government has undertaken some measures, particularly after the financial crisis of 1998 e.g. the mushrooming of banks has been contained. In March 1999, the Bank Bankruptcy Law was passed and in July 1999, the Bank Restructuring Law was passed to facilitate changes in banking system. But most of the policy decisions have remained on paper and that bank restructuring has been slow both in conception and realisation.

To overcome the problems facing the banking sector and to enable it to meet the demands of a modern market economy. Russia needs genuine banking reforms. The Russian authorities have
introduced the International Accounting System in the banking sector as there is a growing realization of its need in the context of increasing economic ties with Western financial institutions and improving the prospects of Russia's membership of the World Trade Organization (WTO).

In the last chapter an overall concluding derivation of all chapters has been made.