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Russian Banking since the Crisis of 1998

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Summary

This paper establishes that the banking sector in Russia is far less-developed than in the formerly socialist countries of Central Europe and that the underdevelopment of the financial sector is a drag on economic growth. It holds that the major cause of the financial crisis of 1998 was not losses on treasury-bill investments, as widely thought, but foreign exchange exposures, imprudent lending with limited risk diversification and bad management. The financial crisis, often regarded as not very damaging on account of the small size of the banking sector compared to GDP, caused substantial costs in terms of economic growth.

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