A hazard rate analysis of Russian commercial banks in the period 1994–1997

Martin A. Carree*

Department of Organization and Strategy, Faculty of Economics and Business Administration, Maastricht University, P.O. Box 616, 6200 MD Maastricht, The Netherlands

Received 20 September 2002; received in revised form 20 January 2003; accepted 27 March 2003

Abstract

The number of commercial banks in Russia increased at a fast pace after the 1988 banking reform. Many of these banks lacked supervision and operated with dangerously low funding capital. After the 1995 liquidity crisis, many of these banks disappeared. In this paper, we investigate the determinants of the hazard rates of banks active on the Moscovian deposits market during the 1994–1997 period. We find that market share and duration have negatively affected the hazard rate, while the deposit interest rate has had a positive effect. The market share and interest rate effects are robust to controlling for ‘financial clans’.

© 2003 Elsevier B.V. All rights reserved.

JEL classification: G21; L11; P34

Keywords: Banking; Hazard rates; Transition economies

1. Introduction

The banking sector was among the first to be confronted with a privatization process at the start of the transition period in Russia. The Gosbank was split up and privatised except for Sberbank (savings) and Vneshekonombank (international exchange). Many new commercial banks were founded following the 1988 banking reform. The consequence for the Russian savings market was a massive entry in the beginning of the 1990s. In the mid-1990s, however, many new banks had to leave the market again, either suddenly or because they failed to pay the claims of depositors. Buchs (1999) reports that the Central Bank of Russia withdrew about 1000 bank licences in the 1995–1998 period. These events had a dramatic

* Tel.: +31-43-388-4981/3763; fax: +31-43-388-4893/4877.
E-mail address: m.carree@os.unimaas.nl (M.A. Carree).
impact on the lives of many Russian households losing their deposits and plans attached to it, such as spending holidays abroad, or rebuilding their apartment. Bernstam and Rabushka (1998) claim that the Russian banking ‘system’ has been collectively insolvent since 1992 and that (privileged) banks have been kept afloat by injections of inflationary credit, by preferred sales of high interest GKO bonds and by sales of shares in state-owned natural resource firms at low prices to the banks.

The occurrence of high rates of exit after a period of entry is not uncommon in young industries. Gort and Klepper (1982) and Klepper and Graddy (1990) report on several industries in which such a ‘shakeout’ of producers has taken place. However, these industry shakeouts were documented only for technologically progressive manufacturing industries. Klepper (1996) explains such shakeouts occurring by stressing the role of economies of scale in R&D while Klepper and Miller (1995) discuss the possible role of ‘overshooting’. Although manufacturing industries have been the main focus of research into shakeouts, there are exceptions like Fein (1998) documenting the shakeout in pharmaceutical wholesaling. The key features of a shakeout being a sharp drop in the number of firms and a virtual cessation of entry once the shakeout begins are also found in the Russian commercial banking industry. Another well-known characteristic of industry life cycles is that young and small firms are more likely to exit than their older and larger counterparts (see, e.g. Evans, 1987). In this paper we investigate whether this characteristic also holds for the Russian commercial banking industry.

There have been quite some periods in the early years of capitalism in which financial crises took place and banks went bankrupt (Canova, 1994). The August 1995 interbanking crisis in Russia may be compared to those ‘banking panics’. In fact, Canova reports no less than eight crises during the 1880–1914 period, or about one every 4 years. Each of these episodes was characterized by skyrocketing interest rates. This was also the case in Russia during the interbanking crisis. The crisis was at least partly caused by the low entry barriers (weak enforcement of reserve requirements) for new commercial banks.1 The question may remain whether it was a consequence of the massive entry of banks and therefore part of an ‘endogenous’ shakeout process of inefficient saving banks or whether it was a consequence of unprofessional and risky bank policies per se. By investigating which banks were the first to exit we may gain access to important information concerning the evolution of the Russian banking sector. This paper uses a hazard rate analysis of banks active on the Moscovian saving market for this purpose. The number of firms ‘active’ (licensed) on the deposits saving market in Moscow almost halved during the 1995–1997 period. This corresponds closely to the figures presented by Buchs (1999) for all licences of commercial banks issued by the Central Bank of Russia.

The data set used in this paper covers the period from the beginning of 1994 till mid-1997. The data set ends before the 1998 Rouble crisis causing very severe problems for the Russian banking system disrupting a normal evolutionary pattern. The focus of the analysis is on commercial banks performing tasks comparable to those in Western economies, hence including attracting (household) deposits. Therefore, we exclude the majority of licensed banks that are no more than money-changing boutiques or that are intimately connected to

1 The possibility of too much entry in the context of banking in transition economies is also discussed by Schnitzer (1999).
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات