

Building Trust Developing The Russian Federation's Financial Sector

Moscow, June 3, 2002

Good morning. Welcome to this seminar on behalf of the World Bank. I would like to thank the Central Bank of Russia, here represented by its First Deputy Governor, Mr. Kozlov, for hosting this seminar. And I would like to thank, on behalf of Michael Fuchs the editor of the book we will be discussing today and tomorrow, all those that helped him and the team put it together.

We will be talking about much more than a book in this seminar. We will be discussing one of the most critical issues for a country that is its financial sector development. This is an issue that cuts across society from the saver to the retiree to the entrepreneur to the large corporations. And it is an issue that is based on the national currency which is one of the most sophisticated and powerful attributions of national sovereignty. A strong financial sector strengthens the currency.

When the financial sector functions properly, and by this I mean when its users receive the service they are looking for, it helps create wealth.

However, it is not an easy matter to get the financial sector to function properly: first, you have got to get the framework right that is the laws, regulations, their application and enforcement. But this is only half the story – and perhaps less than half. The second element is that you have got the financial sector players to be willing to engage to the extent required. This is gigantic task as it involves not only the banks but also millions of unrelated parties which are the bank clients. What brings together these elements – the framework and the players is **trust**. Trust in each other; trust in the framework; trust of the framework.

We could not have selected a better topic for this seminar than trust. In this respect, I would like to read you a quote: "The bottom line is simple. Misplaced trust in the quality of the information provided or in the ability to overcome any informational deficiencies can severely impair the functioning of the financial system. It can do so by allowing the misuse of economic resources and by undermining confidence in the very fabric of the financial system once these limitations are exposed." This quote does not come from Michael's book on Russia. It comes from Andrew Crockett, the BIS General Manager, and reflects the Enron experience in the US. I quoted it because trust, as essential as it is, is elusive. You have to work hard to get close to it but you can never touch it! And yet in a second you can slide away from it.

The book is a vehicle for collecting our knowledge of the Russia financial sector development situation, issues and debates and for benchmarking it against international experience. It is one of our contributions in our continuing engagement in assisting with the building of a sound financial system. The book aims at creating greater consensus for

the reform process. It identifies policy recommendations as related to the implementation of the reform process.

But financial sector development is a long-term endeavor. It takes two to tango: the authorities and the business sector. It is important that the two understand each other, talk to each other and work together to find the most appropriate approach to financial sector development given the country's circumstances.

What we have learnt over the years and around the world is that the authorities cannot do it alone. They have to bail in the business sector in terms of commitment to market discipline, transparency and sound competitive practices. Excessive reliance on banking regulations does not help spur development. Actually, it sets back development as it fosters administrative abuses and corruption. It is therefore very positive to note that many representative of the banking community are in this room today. We look forward to hearing their views on these topics.

Now, coming to the topics, we will start with an introduction by Michael Fuchs, followed by remarks by Arne Petersen, our good colleague from the IMF. Mr. Kozlov will then provide the CBR point of view.

Michael, please.