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INFLUENCE OF REGULATORY INSTITUTIONS ON MACROECONOMIC GROWTH IN RUSSIA

Abstract. The structural changes in the Russian economy are further stimulated by the improvement of the government regulation policy. The authors examine the factors and effects of the general economic growth and the integration processes. Special focus is made to the production structure and monetary offer from the banking sector (the credit channel, the exchange channel, the budget channel), inflation targeting. The authors examine the institutional changes in the government policy of economic regulation aimed at improving the country's performance in the world financial system. Thus, Judging from the foreign countries' experience, the gradual transition of the Central Bank of Russia to the inflation targeting regime might take up to 5 years. It is intended to support the country's economic growth and control inflation. It is therefore possible that inflation targeting will be of modified nature. It is believed that expansion of the current trading band for the ruble exchange rate volatility will mean the reduced presence of the CBR on the exchange market, which will lead to the complete abandonment of the present scheme of currency intervention by 2014. If this occurs, then under the oil price of over \$80 per barrel and the improvement of the investment climate in the market, one might expect capital inflow increase to Russia. The real opportunities for creation Moscow international financial centre have also been analyzed, as well as compatibility of national financial institutions.

Keywords: economic growth; government regulation; integration processes; institutional changes.

JEL Classification: E40, E44, G1, G18

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ВЛИЯНИЕ ИНСТИТУТОВ РЕГУЛИРОВАНИЯ НА МАКРОЭКОНОМИЧЕСКИЙ РОСТ В РОССИИ

Аннотация. В настоящее время получают дополнительный импульс развития структурные изменения в экономике России на основе совершенствования системы государственного регулирования. В статье анализируются факторы и эффекты общего экономического роста. Авторами раскрываются институциональные изменения в сфере государственного регулирования экономики, направленные на усиление позиций страны в мировой финансовой системе.

Ключевые слова: экономический рост, государственное регулирование, интеграционные процессы, институциональные изменения.

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ВПЛИВ ІНСТИТУТІВ РЕГУЛЮВАННЯ НА МАКРОЕКОНОМІЧНЕ ЗРОСТАННЯ В РОСІЇ

Анотація. Нині додаткового імпульсу розвитку набувають структурні зміни в економіці Росії на основі вдосконалення системи державного регулювання. У статті аналізуються чинники та ефекти загального економічного зростання. Авторами розкриваються інституційні зміни у сфері державного регулювання економікою, спрямовані на посилення позицій країни у світовій фінансовій системі.

Ключові слова: економічне зростання, державне регулювання, інтеграційні процеси, інституційні зміни.

Introduction. In spite of serious efforts to facilitate economical growth, Russia still is unable to reach the capital accumulation of the 1960-1980s, as well as life standards of that period. Today the ratio of the volume of investments to GDP is less than 20 percent; while the threshold volume to ensure the country's economic security is 25 percent (according to the Finance and Banking Research Centre under the Russian Federation Academy of Science). This indicator is planned to be raised to 27 percent only by 2018.

Serious problems hampering economic growth are as follows: flight of capitals abroad, insufficient volume of foreign capitals attracted, development of the financial market without relevant changes in economy, high dependence of the national financial system from the world system, as well as foreign participants, often pursuing their own speculative purposes.

That is why the issues of analyzing modern trends in Russian economy; explaining development of institutional regulatory environment of the financial system and coordinating it with changes in national economy in order to ensure economical growth; assessing the actual situation and prospects for the Russian financial structure to be integrated into the world system are of great practical interest.

Brief Literature Review. Mentioned above issues have always been in the centre of macroeconomic theory. Domestic authors pay special attention to the government policy aimed at facilitating growth rates and ensuring its quality (Gaidar, 2010; Yaskowa & Matveeva, 2014).

Economical growth problems have been the matter of special interest for both academic economists and utilitarian ones. As for extensive growth factors, natural recourses are traditionally considered as vital (but not to industrial countries, in contrast to developing ones), as well as capital and labor costs increase. More tempestuous debates are aroused by studies looking for ways to growth based at technical progress, economy of scale, employees' training and professional skills improvement, developing mobility and rationalizing recourse allocation, streamlining management, relevant improving of legislation, etc. Sometimes, aggregate demand is named as the main catalyst for economic development. As for factors hampering economical growth, inefficient government policy is often considered.

One of global external factors was the crises which first combusted in the USA and later spread out over the main part of the world community. Subsequently, more studies appeared focusing on the causes of misbalances, deficit, contradictions (Senchagov, 2007; Sergeeva, 2012; Abramov, Apokin, Belousov, Mikhailenko, Penuhina, & Frolov, 2013).

Problems of innovation and investment activities regulation aimed at economical growth are analyzed in the studies by S. Glazyev (2011), Yu. Yakovets (2004), etc.

Discussion on budget balance takes a special place there. Advocates of budget deficit believe that investments and economical growth can be provided as a result, and social problems can be handled. Supporters of budget surplus consider that economical growth should be based at cutting budget deficit and excess of income over expenditure. Meanwhile, both theory and practice of many countries prove that budget surplus suppresses internal demand and puts brakes on social and economic development.

Studies of foreign authors give comprehensive analysis of the problems related to economical growth, factors providing it, modern trends, and conditions necessary for its steadiness

and stability (Dolan, Campbell, Campbell, 1996; Linwood & Geiger, 1996; Fischer, Dornbusch, & Shmalenzi, 2003; Mau, 2014). Despite achievements in the research, the problem still remains timely. In national academic literature there is no single approach to explaining mechanism and strategies of economic growth regulation by government and specifics of their realization in the Russian transition economy. As before, discussions on the extent of government intervention in market economy take place. Theoretical and practical issues of optimization and efficient implementation of government regulation for national economical growth should be developed and reasoned.

The purpose of the work is to analyze the situation after the economic growth slowdown in Russia, and to find and offer measures for improving government regulations aimed at resolving timely problems in the national economy developing.

The solutions of the problem are based at:

- fundamentals about government regulation on economic growth;
- revealing and analyzing the roots of incompatibility of the Russian economy and its misbalance in financial and credit system;
- examination the most timely problems in the nation economy developing and its financial market.

Results. It is generally believed that the low incomes and savings of the bulk of the Russian population show low dynamics which does not allow developing the inner potential sufficient for investment. Nearly 70 percent of the Russians have no savings. Under these conditions, borrowing abroad and foreign direct investment become the vital sources of economic growth in our country. By the forecast of the Russian Ministry of Economic Development and Trade, the year 2013 expected 6.5 percent increase in investment. The investment has been showing the tendency to decrease since 2008 and has not yet come close to the pre-crisis level (Table 1). According to statistics, the government share in the total investment steadily decreases to account for less than 18 percent, while the private capital share has increased to around 60 percent.

Tab. 1: The Overall Investment and Savings Indices in the Russian Federation

Indices	2005	2008	2009	2010	2011	2012
1. Capital investment as percent of GDP	16.7	21.3	20.4	20.4	18.7	20.2
2. Gross savings as percent of GDP	28.9	30.2	20.9	25.4	28.3	25.9
3. The ratio of gross savings to capital investment, in percentage points	1.73	1.42	1.03	1.25	1.51	1.28

Source: Calculated on the basis of the data provided by the official websites of the Central Bank of Russia (www.cbr.ru) and the Russian Federal State Statistics Service (www.gks.ru)

The analysis of the structure of industrial production indicates a major share of the fuel and energy complex and a small share of engineering and metal-working needed for modernization, the renovation of fixed capital and ensuring the competitive growth of Russian enterprises (Table 2). By comparison in 1990 engineering and metal-working accounted for 30 percent of industrial output.

Tab. 2: The Structure of Industrial Production in Russia, as Percentage of Total

Industry	2005	2006	2007	2008	2009	2010	2011	2012
Industrial output, total	100	100	100	100	100	100	100	100
Mining operations	22.5	21.8	21.8	21.3	22.7	21.6	22.9	22.3
Manufacturing	65.1	65.5	67.8	68.3	63.9	65.6	65.1	66.0
including:								
- metallurgy, machinery and equipment, transportation manufacture	26.9	27.3	28.4	27.2	22.8	25.2	25.5	30.1
- electricity, gas and water supply and production	12.4	12.7	10.4	10.4	13.4	12.8	12.0	11.7

Source: Calculated on the basis of the data provided by the Russian Federal State Statistics Service

In addition, from 2004 to 2012, there was a disproportionate growth of monetary base and money supply relative to Nominal GDP, which was inevitably reflected in the economic growth. In 2004 the money supply contraction relative to GDP caused the bank liquidity crisis. The analysis indicated that in the following years the higher rate of GDP was prompted by the expansion of money supply by the Bank of Russia (Table 3).

Tab. 3: The Dynamics of Money Supply Ratio to GDP in Russia in 2004-2012

Indices	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP, in billion rubles	17027	21610	26917	33248	41277	38786	44939	54586	62357
Money supply M2, in billion rubles	4353	6032	8970	12869	12975	15267	20011	24543	27405
Money supply to GDP, in percentage terms	25.6	27.9	33.3	38.7	31.4	39.4	44.5	45.0	43.9
Cash in circulation M0, in billion rubles	1534	2009	2785	3702	3794	4038	5062	5938	6430
Share of cash in money supply in broad sense, in percentage terms	35.3	33.3	31.0	28.8	29.2	26.4	25.3	24.2	23.5

Source: Calculated on the basis of the data provided by the Russian Federal State Statistics Service

A more powerful influence was the bank (monetary) multiplier capable of increasing the efficiency of the Central Bank's transmission mechanism. However, the prospects are not bright here either. By comparison not only with advanced economies but also with many emerging economies the low value of this index reflects the low issuing ability of commercial banks to create extra money for crediting.

The interest rate is set at the export-oriented manufacturers' return level is significantly higher than that of other manufacturers. Certainly, the high cost of bank loans is explained not only by the rate of inflation, but also by the high margin rates of banks with the government participation.

On the other hand, when prices and energy tariffs rise, the inflation leads to capital flow and income redistribution to the natural monopolies sector, which has a negative effect on the competitiveness of producers in manufacturing industries. According to the study of the Centre for Macroeconomic Analysis and Short-Term Forecast the poor see the inflation rise at a quicker pace, which creates social and economic problems. As a result, this leads to the imbalance of the Russian economy imbalance, and, consequently, triggers price rises.

The policy of currency liberalization pursued by the Central Bank of Russia (CBR) over the past few years stimulates the growth of interest of foreign banks or non-resident banks in accumulating rubles and in financial and banking operations with this money stock. The same interest will be pursued by the free-floating ruble policy, which by 2015 will have provided for the full abandonment of the current trading band for the currency, with the corridor adjusted depending on the currency intervention by the CBR. It is believed that the abandonment of the currency band will not affect the Russians and the ruble exchange rate will increasingly reflect the costs of the economic agents. In addition, the events showed that the elimination of the trading band (set at the beginning of 2009 within a corridor of 26-41 rubles) for the dollar-euro basket fluctuation did not lead to the ruble fall. It must be noted that all of these institutional changes occur against the backdrop of dramatic events in the world markets where a full-scale war is being waged.

As for the availability of the banking services at the regional level, the analysis shows that Russia's current banking infrastructure is not balanced and well-developed. A large proportion of assets in the banking sector go for the Central Federal District, while the shares of other regions, most often having the same population level, are significantly lower. At the same time, the regional banks continue to reduce in number. Demand for the banking services in the Russian economy is far from being satisfied. The major problems faced by the national banking system, which became apparent during the 2008 world economic crisis, include low liquidity, long-term financial resources

shortage, and high risks. As regards the population, there are a growing number of the Russian Federation citizens who use banking services on a regular basis. However, less than half of Russians have banking accounts and less than 50 percent of the population are bank card holders. It is planned to expand the network of banking institutions using the infrastructure of the federal state unitary enterprise «Russian Post».

The decision of the Government of the Russian Federation on the allocation of 1,2 trillion rubles for the recapitalization of lending institutions, which includes 400 million rubles on buying out shares from private banks, was taken to strengthen the country's banking system. Many other countries took the same route, but in the case of Russia this decision is of greater consequence. In the conditions when the state has control over around 60 percent of the market, there is a high risk of a decline in the system's efficiency, the weak-

ening of market competition and monopolization. It is more advisable for the state to grant subordinate loans to private banks and to provide their capitalization support through federal loan bonds in order to maintain healthy competition.

With respect to the competitiveness index, with the financial market maturity index as its essential component, Russia has a rather low ranking. International experts rate Russia highly in terms of the cost of the company equity registration, changes in the effective exchange rate, public debt management and some other aspects. Considering such indices as financial sector liberalization, the protection of minority interest, the degree of the proper use of budgetary funds, the corruption level, the independent judiciary, the degree of protection of creditors' and borrowers' interests and some others, Russia has yet to face up to a lot of urgent tasks in order to claim the status of the country with the international financial centre. Nevertheless, many of those experts, who do not believe that the Moscow international financial centre may be established by the specified date, do agree that the changes in the Russian economy will benefit the investment climate and the financial markets development. Moreover, it will contribute to invigorating the battle for capital flows in the international market.

Russia's movement towards achieving the national currency convertibility does little for the ruble to be used for settling payments between countries, since the Russian economy is relatively small in size (compared to other countries), accounting for slightly over 4 percent of the world GDP. As for the ruble as reserve currency, the achievement of this task may become possible if there is at least steadily low inflation in the country (at the annual rate of no more than 2-4 percent), and if the country's economy stops depending heavily upon the world commodity prices.

Judging from the foreign countries' experience, the gradual transition of the Central Bank of Russia to the inflation targeting regime might take up to 5 years. It is intended to support the country's economic growth and control inflation. Such a transition requires the development of the internal debt market and the hedging instruments against exchange risks and oil risks, as well as the harmonization of the tax regime of forward contracts. It is therefore possible that inflation targeting will be of modified nature. More specifically, in one form or another it will combine with credit targeting based on the market instruments and the exchange rate. It is believed that expansion of the current trading band for the ruble exchange rate volatility will mean the reduced presence of the CBR on the exchange market, which will lead to the complete abandonment of the present scheme of currency intervention by 2014. If this occurs, then given the oil price of over \$80 per barrel and the improvement of the investment climate in the market, one might expect an increase in the inflow of capital to Russia and the growth in the CBR account balance.

While the inflation targeting regime is difficult to implement due to the structural crisis in the Russian economy, certain amount of work in this direction is in progress. Firstly, this concerns the transparency of the CBR activity. Secondly, emphasis is placed on the creation of the central electronic interbank credit market, the elimination of regional disproportions and of the hierarchical structure of the interbank market and the development of more forward interbank market segments. Thirdly, the work involves the setting of interest rate targets (which requires «the adjustment» of the monetary instruments) and the narrowing of the interest rate band. It is vital to increase the CBR's responsibility for committing blunders in achieving the inflation targets given the fact that at present time the CBR assumes no liability for unfulfilled goals.

The relationship between the global and regional capital markets, as well as increased competition between different international financial centers for attracting capital makes Russia's adoption of the International Financial Reporting Standards (IFRS) a task of prime importance. Introduction and application of the national standards different from IFRS give an edge to Russian business for providing comparable and transparent financial information in the global market.

Proper changes in legislation are being introduced related to stock market trading in order to create more favourable conditions for foreign issuing companies to place their stock on the Russian stock exchange. The Moscow Interbank Currency Exchange Stock Exchange (MICEX) began to trade in the European Bank for Reconstruction and Development (EBRD) bonds. The stock exchange has developed the listing reform for the purposes of attracting new foreign issuing companies and safeguarding investors' interests. This will result in the disappearance of non-listed stock, the minimization of defaults in the bond market and other changes. It is believed that the potential issuers on the MICEX Stock Exchange will include in the first place the Russian companies, which have placed securities abroad through the Special Purpose Vehicle (SPV) mechanism, issuing companies from the Commonwealth of independent States (CIS) countries and foreign issuing companies either conducting business in Russia or making strategic plans to come into the Russian market.

Conclusions. The world financial crisis, as well as economic sanctions introduced as a result of current events in Ukraine, has revealed essential problems in regulation of national economy and financial system. Expansion of authorities and instruments of the Bank of Russia for financial market segments regulating, its closer cooperation with the state government for economical growth, as well as some other regulatory changes, will give a strong impulse to ensure outrunning growth compensating the inflation. To our opinion, these changes will set the necessary foundations for the growth of investment prospects and the role of Russia not only in the world economy, but in the world financial system as well.

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