Economic security and the current monetary policy in Russia

Bystryakov, Alexander; Penkin, Alexander; Vladimirova, Margarita

ALEXANDER BYSTRYAKOV, ALEXANDER PENKIN, MARGARITA VLADIMIROVA

Economic Security and the Current Monetary Policy in Russia

DOI: 10.22394/2070-8378-2016-18-5-26-29

Modern economic and political discussions in Russia clearly demonstrate that the most important factor to ensure sustainable growth in economy, acceptable living standards, financial system stability, and rational structure of foreign trade –i.e. all that defines the essence of economic security – is monetary policy. No doubt, the results that have been recently achieved by the tools of monetary policy after the introduction of sanctions by a number of foreign countries are important and positive. In the first instance it is referred to the prevention of large-scale reduction in gold and foreign exchange reserves of the country, maintenance of control, and keeping foreign liabilities of administrative bodies and economic entities of Russia in acceptable boundaries. Besides, it currently requires a decrease of the exchange rate fluctuations of the rouble (volatility in late 2014 – early 2015 set records). Finally, it implies the prevention of collapses in banking sector, which, in spite of the reduction in lending and assets, has retained the capacity for sustainable development.

However, economic security presupposes fast identification weaknesses of the economy to estimate possible progression of problems, and potential risks. From this perspective, it comes as no surprise that the current monetary policy in the country has found itself in the midst of severe criticism.

The reason for it was unpredictability of the Bank of Russia decisions (suffice to recall the night of 15 December, 2014, when the key rate of the Central Bank has been increased from 6.5% to 17%), unconvincing arguments in favour of restrictive monetary policy continuation in stagnation context (2014), the fall of the Russian economy in 2015 and 2016, and resignation of professional discussions with opponents on determination of feasible vector of development of financial markets in the country. Besides, the achieved results in the main declared objective (price stability) and in reduction of volatility of the exchange rate of rouble, has not been impressive.

Are these claims unique for the current period or whether they were expressed before, when the country's financial regulators had to make decisions in the acute phase of the financial and economic upheavals: in 1998 and in 2008-2009? What features of these chocks are similar and what are the differences? Considering these issues, we fully support the thesis that the current situation in Russia is determined by the interplay of several crisis processes: the transformation crisis, the crisis of current model of economic growth, cyclical crisis, and, finally, the financial crisis, which has many manifestations. Accordingly, "... each of these crises requires specific economic policy measures that might be not only different, but often conflicting" [Mau, 2015].

However, the following statement seems controversial: "in a situation of trying to overlay multiple crises improve one thing, will degrade more" [Mau, 2015]. In our opinion, there shouldn't be any predetermination: we should learn from previous mistakes. A critical look at the decision of the Central Bank of Russia and the Ministry of

ЭКОНОМИЧЕСКАЯ БЕЗОПАСНОСТЬ И ТЕКУЩАЯ ДЕНЕЖНО-КРЕДИТНАЯ ПОЛИТИКА В РОССИИ

АЛЕКСАНДР БЫСТРЯКОВ, доктор экономических наук, профессор, заведующий кафедрой экономики и финансов общественного сектора Института государственной службы и управления Российской академии народного хозяйства и государственной службы при Президенте Российской Федерации (119571, Москва, проспект Вернадского, 82). E-mail: bstal@yandex.ru

АЛЕКСАНДР ПЕНКИН, доктор экономических наук, профессор кафедры экономики и финансов общественного сектора Института государственной службы и управления, Российской академии народного хозяйства и государственной службы при Президенте Российской Федерации (119571, Москва, проспект Вернадского, 82). E-mail: af.penkin@migsu.ru

МАРГАРИТА ВЛАДИМИРОВА, доктор экономических наук, профессор, профессор кафедры экономики и финансов общественного сектора факультета государственного управления экономикой Института государственной службы и управления Российской академии народного хозяйства и государственной службы при Президенте Российской Федерации (119571, Москва, проспект Вернадского, д. 82). E-mail: mpvladi@mail.ru

Аннотация: В статье рассмотрены вопросы влияния денежно-кредитной политики на экономическую безопасность страны; поднимается дискуссия о переходе монетарных действий от традиционного регулирования денежно-кредитных отношений к политике стимулирования экономического роста и обеспечения национальной безопасности в новых условиях. В статье выделены тенденции, проблемы и противоречия проводимой в России денежно-кредитной политики; определены направления ее «модернизации» для целей развития национальной экономики и обеспечения экономической безопасности страны.

Ключевые слова: денежно-кредитная политика, экономическая безопасность, финансовый рынок, риски денежно-кредитной политики, финансово-экономическая нестабильность.

Finance of the Russian Federation in crisis situations allows revealing certain systemic failures in their activities, which should be overcome in the near future. After all, the likelihood of deployment of the next global crisis is high enough and Russian society cannot afford meeting it with financial regulators that don't show high effectiveness in their practice.

The era of financial and economic turbulence that Russia, so as the other countries, is experiencing for the past decade, has demanded, in our opinion, a rethinking of previous approaches, established dogmas, and refusal of multiple myths. This particularly applies to the field of monetary relations and monetary policy applied by financial regulators in order to ensure economic security.

These dogmas has been developed as a product of economics' mainstream of the 80s of the last century and are fixed, for example, in concentrated form in a neoliberal manifesto as the Washington Consensus (the original version formulated by John Williamson in 1989) [Williamson, 1990].

Here is the minimum list of conditions that should have been at the heart of macroeconomic policy and regulation of monetary relations [Williamson, 1990]:

Fiscal policy discipline (it is desirable to have a primary surplus of a few percent of GDP and implement inflation targeting; to form stabilization funds);

Financial liberalization (rates set by the market do not imply lower rates for privileged borrowers, which should be achieved with not very high but positive real interest rate, ensuring the independence of the central bank);

Competitive exchange rates (we need a single exchange rate, maintained at a level sufficient to stimulate rapid growth of non-traditional exports, preferably unregulated floating exchange rate mode);

Liberalization of inward foreign direct investment (barriers to entry of foreign companies should be abolished; foreign and domestic firms should compete on equal terms, capital accounts of residents abroad should be liberalized).

Negative results of these recipes in Latin America and especially in Eastern Europe forced the World Bank, which previously required their compliance, to recognize the their inadequacy in current challenges even before the global financial crisis. In particular, the report that has summarized the reforms of the 90s, has highlighted as common mistake the following: "translation of general policy principles into a unique set of actions: macroeconomic stability, domestic liberalization, and openness to international trade, have been interpreted narrowly to mean "minimize fiscal deficits, minimize inflation, minimize tariffs, maximize privatization, maximize liberalization of finance" [Economic Growth…, 2005. P. 11].

A greater shake to these economic assertions of 80-90s has been made over the course of pragmatic search and implementation of anti-crisis programs of the leading countries of the world, which have become the epicentre of the global financial crisis of 2007-2009, and, by the current practice of monetary policy in the US, the EU, and Japan.

GDP quantum index (in percent to previous years), as by Federal State Statistics Service of the Russian Federation, last accessed 04.04.2016

2012	2013	2014	2015
103,5	101,3	100,7	96,3

First, regulatory function of interest rates in these countries has been compromised. Loan interest, being in economic theory an integral form of remuneration for a capital granted in debt and for a period, is close to zero. Moreover, a number of financial instruments suppose that the creditor (commercial bank) has to pay interest for the provision of capital to the borrower (the central bank, and in some countries, and mortgage borrowers). This deactivates the mechanism of inflation targeting based on dynamic loan policy. === With such dynamics in interest rates we loose landmarks for market valuation of securities, and destroy the dogma that the real interest rate can not keep negative for a long while as it is in this area for the past 8 years in the US, in Japan, and in the EU countries.

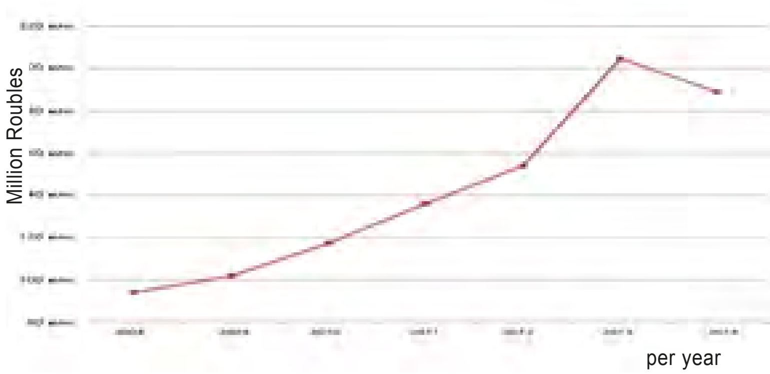
Second, to regulate money supply and emission, central banks of these countries use at the same time two models previously declared in economic theory incompatible: in the monetary base, and through the active interest rate policy. I.e., the entire available arsenal is involved in order to overcome deflation, increase the level of inflation to the targets and thereby give impetus to economic recovery. Modern transmission mechanism of monetary policy in fact presupposes unlimited inflationary pumping money into the economy, including through the mechanism of quantitative easing. Hence, central banks take on their balances an increasing proportion of risky assets (if in the US in 2007, the assets of the Federal Reserve in relation to GDP were less than 7%, then in 2013 exceeded 20% of GDP, the assets of the Bank of England - 25% of GDP, Bank of Japan - nearly 35%) [1].

Third, which has been acknowledged on the IMF level, is that there is no absolute recommendations to ensure freedom of cross-border movement of capital, especially for the emerging markets.

Forth, belief in self-regulation of efficient financial markets and limitation of supervisory and regulatory interventions in its operational activity remained in the past century and has been considered inaccurate by the G20 as trigger of financial crisis of 2007-2009. Central banks regulatory functions strengthening, both in relation to the participants of financial markets and regarding macroeconomic equilibrium maintenance objectively alter their mandates: they become less independent in carrying out policies aimed at achieving stability of national currencies. They are considered as the main reserve of mitigation (mitigation of the negative consequences) of financial and economic instability.

1 Bank of Russia Information-Analysis Materials. URL: http://www.cbr.ru/analytics/ (дата обращения: 20.09.2016).

National Wealth of the Russian Federation



Are these new circumstances taken into account in monetary policy in Russia and, above all, in the activities of the Central Bank?

In our opinion, with all the peculiarities of Russian economy– raw materials orientation and dependency on world prices, low competitiveness, lack of financial market development and high inflation over decades, and other characteristics that determine Russia assignment to the developing markets countries and distinguish it from the above mentioned group of developed countries – the foregoing new approaches are not considered in a due measure. Moreover, an uncritical adherence to the dogmas of the 80-90s in the new conditions of financial and economic turbulence threatens the socio-economic development of the country.

Dogmatism is manifested primarily in the absolute priority given to price stability pursued by the Central Bank of the Russian Federation. Suffice to note that the document “Guidelines for the Single State Monetary Policy for 2016 and between 2017 and 2018”[2] as shown by CBR at time when Russia’s economy dived down, begins with the statement: “Protection and insurance of the rouble stability is the main function of the Bank of Russia, in accordance with Constitution. Rouble stability is ensured by the maintenance of price stability, which is the main objective of monetary policy as enshrined in the Federal Law “On the Central Bank of Russian Federation (Bank of Russia)”[3]. In line with this logic, the CBR defines the mechanism of targeting inflation, as opposed to other financial regulators and experts guidelines, indicating that, despite the fact that the main objective is price stability, the mandates of central banks typically include additional goals of economic growth and employment[4].

As for experience of the last three decades, the Bank of Russia’s position regarding the definition the causes of inflation in the country and the tools it has been activating to overcome it, seems controversial. In accordance with the provisions of books of the last century, inflation is still regarded as a purely monetary phenomenon (“demand pull”) due to excess liquidity in the economy, although it is a common knowledge that it has been primarily generated by the monopoly in Russian economy and is in fact “proposal inflation”.

The basic tools to overcome inflation by December 2014, respectively, were: limitation of money supply as a means the monetary base growth containment, and liquidity absorption through budget channels (the growth of the expanded government account balances in the Central Bank of the Russian Federation at the expense of budget surplus).

After the emerged negative consequences of an unprepared transition to unregulated regime of rouble exchange rate as a condition of the inflation targeting mechanism (mid-December 2014), it has been necessary to use a shock power with drastic consequences for economic entities: to raise the key interest rate to a prohibitive 17% per annum.

As a result of this Central Bank policy, the country’s economy cannot accordingly use one of the main resources of the capitalist market – the loan. Besides, loan makes it possible to accelerate the accumulation of capital, its cross-sectorial flow, and thus provide the progressive changes in the structure of the economy, revive the investment process and economic growth. However, today’s high levels of he interest rate for the borrowing for business entities and population, monetization of the economy, rather typical for countries with a predominance of natural non-market sector (the ratio of money supply to GDP of less than 50%) are the major causes of the prolonged stagnation of socio-economic development of Russia. If at the beginning of this century the approaches in the field of monetary relations mentioned above have been working, then in terms of financial-economic turbulence and increasing international competition for investment resources, the forecasted long-term preservation of sanctions and restrictions for Russian companies access to global financial markets, they clearly fail.

Is there any alternative to the current vector of monetary policy in Russia? In our opinion, it is getting a shape. And not only in the form of declarations, such as the “Economy growth” program of Stolypin Club[5] and numerous works of Russian theorists and experts, but also in the form of practical measures.

Among the latter should be noted an implementation of new project financing mechanism in accordance with the Russian Government Program adopted in October 2014 and supporting investment projects in Russia on

2 Guidelines for the Single State Monetary Policy for 2016 and between 2017 and 2018. Approved by the Board of Directors of the Bank of Russia 11.09.2015. URL: http://www.cbr.ru/publ/ondkp/on_2016(2017-2018)pr.pdf.

3 Ib. P. 3.

4 Bank of England. Guide No. 29 CSDs (Ed. Of February, 2012). The practice of inflation targeting (P. 5). URL: http://www.cbr.ru/dkp/ccbshb29r.pdf.

5 Stolypin Club: Inmarket Realists Expert Pool. URL: http://stolypinsky.club/economica-rosta/

the basis of project financing[6]. Especially if the program, in spite of the "ideological" opposition of the Central Bank of the Russian Federation[7], will acquire proper extent. Thus, the Guidelines for the Single State Monetary Policy for 2016 and between 2017 and 2018 establish that "... the amount of funds for the purposes of specialized programs is limited, as their use shouldn't affect the monetary policy course or hinder the achievement of its main purpose – the price stability"[8].

In our opinion, the progress in deoffshorizatsation of Russian business and reduce of the intensity of capital outflow from the country, as well as restrictions on cross-border capital flows are inevitable. This is due, among other things, to the increasing activity if financial, tax and law enforcement agencies of foreign countries.

New horizons for a more flexible and modern monetary policy may be revealed in the course of implementation of the Main Directions of Development and Stability of Russian Financial Market for the period of 2016-2018 years, which for the first time clearly emphasised the development of the bond market. We can't but agree that the development of this segment of the bond market will improve the functioning of the system of refinancing flexibility of the Bank of Russia, will boost the development of the derivatives market, and will improve the stability of the money market (including through the expansion of the Central Bank's open market operations).

Although the Central Bank of the Russian Federation has taken the first steps to "modernization" of the monetary policy, they might remain separate patches while maintaining the old vector. In our opinion, this modernization requires a systemic conceptual rethinking of the final and intermediate objectives, tools and practices of monetary policy in the country.

The main objective is to identify the critical bottlenecks restricting economic growth, and to use the available tools of monetary, macro- and micro-economic policies to achieve it. Within this narrative, economic theory in its application to the monetary relations should focus on definition of issues and pragmatic search for consistent decisions. The idea of universal recipes for monetary policy derived from the postulates of the economic mainstream of the last century and that supposed, that the economic system focused of on achieving the most efficient use of available resources in static would provide optimum path of development, nowadays displays its constraints.

If there is a question of 15 years of stagnation of the socio-economic development of Russia (which predicts the Ministry of Finance), or search for pragmatic solutions in monetary management instead of accurate following theoretical recommendations of 80-90s of the last century, the choice is obvious. It consists in the orientation of monetary policy to the development of the country, and to its economic security in the new environment.

6 Russian Federation Government Resolution dated October 11, 2014 No. 1044 (ed. 21.02.2015) "On Approval of Investment Projects Support Program, implemented in the territory of the Russian Federation on the basis of project financing". URL: http://www.consultant.ru/document/cons_doc_LAW_169755/.

7 Guidelines for the Single State Monetary Policy for 2016 and between 2017 and 2018. Approved by the Board of Directors of the Bank of Russia 11.09.2015. URL: http://www.cbr.ru/publ/ondkp/on_2016(2017-2018)pr.pdf.

8 Ib. P. 12.

ALEXANDER BYSTRYAKOV, Dr. Sci. (Economy), Professor, Head of Public Sector Economy and Finance Department, Institute of Public Administration and Management, Russian Presidential Academy of National Economy and Public Administration (119571, Moscow, Prospect Vernadskogo, 82). E-mail: bstal@yandex.ru;

ALEXANDER PENKIN, Dr. Sci. (Economy), Professor of Public Sector Economy and Finance Department, Institute of Public Administration and Management, Russian Presidential Academy of National Economy and Public Administration (119571, Moscow, Prospect Vernadskogo, 82). E-mail: af.penkin@migsu.ru;

MARGARITA VLADIMIROVA, Doctor of Economic Sciences, Professor at the Chair of Economics and Finance of Public Sector Faculty of Public Management of the Economics, Institute of Public Administration and Management, Russian Presidential Academy of National Economy and Public Administration, (119571, Moscow, Vernadskogo prosp., 82). E-mail: mpvladi@mail.ru

Summary: The article is concerned with the issues of monetary policy impact on the economic security of the country. The authors come up with discussion on the transition of monetary policy from traditional regulation of monetary relations to stimulation of economic growth and national security provision in the new environment. Besides, the article highlights the trends, the problems and the contradictions of the monetary policy in Russia, and determines the ways of its "modernization" for the purposes of national economy development and economic security.

Keywords: monetary policy, economic security, financial market, risks of monetary policy, financial and economic instability.

References

Mau V.A. Rezervnyi fond destimuliruet i oslablyaet ekonomiku [Emergency fund destimulates and impairs the economy] // Vedomosti, 26.03.2015, No. 3798. URL: https://www.vedomosti.ru/economics/characters/2015/03/26/u-nas-voobsche-navernoe-ne-budet-massovogo-malogo-biznesa.

Economic Growth in the 1990s: Learning from a Decade of Reforms. World Bank. Washington, 2005.

Williamson J. What Washington Means by Policy Reform / Latin American Adjustment. How Much Has Happened? Washington, 1990.