

## Government Regulation of the Financial Market in Russia

**Ramazanov A.V.**

*Kazan Federal University, Institute of Management, Economics and Finance, Kazan, 420008, Russia  
Email: rav83@mail.ru.*

**Grigoryan K.A.**

*Kazan Federal University, Institute of Management, Economics and Finance, Kazan, 420008, Russia*

Doi:10.5901/mjss.2014.v5n24p321

### Abstract

*The article analyzed the peculiarities of state regulation of the financial market in Russia over the last decade, which helped to identify deficiencies in the legislative and administrative regulation of the financial system, and however showed a lack of a developed financial market infrastructure, the presence of large systemic risks and ineffective measures in the framework of the strategy of development of the financial market in Russia up to 2020. The proposed measures to address identified problems based on the integrated development of segments of the financial market, on the involvement of people's savings, on the activation of mechanisms of state-private partnership, improvement of legislative regulation.*

**Keywords:** regulation; financial market; securities market; commercial banks; state-private partnership.

### 1. Introduction

Globalization processes in the world economy as a whole, our country's accession to the WTO has generated some positive preconditions for economic development of Russia and at the same time clearly showed the negative aspects related to the underdevelopment of the domestic financial market with the legal, economic, infrastructure and other points of view. In this regard, important is the assessment of the regulation of the financial market of Russia and to develop recommendations for improving the situation.

### 2. Materials and Methods

September 1, 2013 in Russia abolished the Federal service for financial markets, previously responsible for the development of the national securities market, and its powers transferred to the Bank of Russia. Thus, on the basis of the subject of regulation created extensive financial market. However, regulation of the financial market in Russia still lags behind the needs of its participants and in most cases has a rough defects. In particular, a number of normative documents of the Russian Government made a methodological error, which consists in the separation of integral segments of the financial market:

- the name of one of the subsections of the fourth section the concept of long-term socio-economic development of the Russian Federation for the period up to 2020, approved by decree of the RF Government dated 17 November 2008 #1662-R sounds like a "Long-term development priorities of the financial markets and the banking sector";
- decree of the RF Government dated 22 February 2013 #226-R approved the state program of the Russian Federation "Development of financial and insurance markets, the creation of an international financial centre".

Also noteworthy is the fact that in the introduction to the Strategy of development of the financial market of the Russian Federation for the period up to 2020, approved by decree of the government of the Russian Federation of December 29, 2008 #2043-p written in this Strategy does not address the development of the banking and insurance sectors, as well as their regulation, control and supervision".

It is advisable to note that in the current legal framework there is no interpretation of key definitions of "financial market".

Another methodological error is that the independence of the Central Bank of Russia, guaranteed by the Constitution of Russia and the Federal law "On the Central Bank of the Russian Federation (Bank of Russia)", is

disturbed by the fact that the government currently attend meetings of the Central Bank with the right of deliberative vote and, in the Board of Directors of the Central Bank of Russia, involving members of the government.

Thus, the concentration within a single body of authority for regulation of the entire national financial market on the background of pronounced trends on strengthening the vertical of power in the country, in our opinion, will lead to increased risk of loss of independence on the part of the Bank of Russia.

Analysis of a substantial part of the relevant regulatory documents adopted by the Government of the Russian Federation, showed their fragmentation and lack of coordination among themselves, the absence of real measures to promote the development of Russia's financial market, focus on attracting foreign investment.

The development of the domestic financial system is difficult because of various negative factors, such as the crisis phenomena in the economy, the predominance of speculative transactions orientation, lack of proper regulation by the state.

State regulation of investment activity participants in the financial system should focus not only on regulatory activities, but also to promote the development of appropriate infrastructure and tools that constitute the basis for an effective mechanism for the reallocation of investment resources.

Today in Russia the infrastructure of the securities market is actually only the Moscow exchange (MICEX-RTS). Other auction organizers licensed stock exchange, focused on the organization of trading in commodity assets. The rapid economic development of the Russian economy is largely dependent on the investment activity of its subjects, regulation which may lead to the restriction, and an expansion of this activity. Recent years are characterized by the expansion of commercial banks in the securities market, and unnecessary government regulation can reduce the positive effects of these operations. A study conducted by a group of foreign authors showed that the effect of government support of the banking sector may be different [7].

According to the Strategy of development of the financial market of Russia up to 2020, the securities market will be a priority segment of state influence.

Unsustainable development of the Russian economy raises controversial issues about the effectiveness of monetary policy implementation by the bodies of state regulation and supervision. In this regard, it is important to assess the role of the Bank of Russia as of the mega-regulator of the financial system and the search directions by increasing the role of Bank of Russia in the sustainable development of the financial and credit system. At the same time it should be noted that a number of foreign authors, for example, Saktinil Roy, David M. Kemme believe that the occurrence of banking crises is only weakly dependent on the deregulation of the financial system [8].

Analysis of the implementation of monetary policy by the Bank of Russia for the period from 2011 to 2013 showed a preferential orientation of the main Bank on inflation targeting and risk management in the banking sector. From the point of view of the Bank of Russia this policy will promote sustainable economic growth, improving people's welfare and financial stability of commercial banks.

To evaluate the effectiveness of the monetary policy of the Bank of Russia is comparable main macroeconomic indicators on the basis of information of the Central Bank of the Russian Federation and the Federal service of state statistics, documents of the Government of the Russian Federation. The obtained data will display in tabular form (table 1).

**Table 1.** Dynamics of macroeconomic indicators for the evaluation of monetary policy the Bank of Russia

Indicator name	2011	2012	Growth rate (2012/2011)	2013	Growth rate (2013/2012)
Inflation, %	6,1	6,6	108,19	5,5	83,33
The discount rate of the Bank of Russia (average), %	8,25	8,25	100,00	8,25	100,00
Gross domestic product, %	4,3	3,4	79,07	2	58,82
The subsistence minimum in the Russian Federation in the 1st quarter of the year, rubles	6473	6307	97,43	7095	112,49
The average salary in Russia, rubles	23091	26690	115,58	27339,4 (на 1 кв. 2013 г.)	-
The average exchange rate of 1 US dollar (01 January), rubles	30,35	32,19	106,06	30,37	94,35
The number of credit institutions licensed to conduct banking operations - total (beginning of year)	1012	978	96,64	956	97,75
The number of credit institutions with foreign participation in the share capital, carrying out banking operations (beginning of year)	220	230	104,54	244	106,08

In table 1 according to indicators such as inflation and GDP data for 2013 shows the average predicted values. Presented in the table 1 data among the negative factors in the development of the domestic economy, we note the following:

- in 2012, compared with 2011 increased inflation 8,19%, decreased standard of living for citizens by 2.57%, increased the dollar on 6,06%;
- in the first quarter of 2013 compared with the first quarter of 2012 there was a significant increase in the cost of living for the citizens; for the period from 2011 to 2013 is the refinancing rate unchanged;
- sequential decline in GDP in the dynamics.

The analysis also helped to identify and positive factors:

is expected in 2013, the reduction of inflation on 16,67%;

- the increase in average wages (in dynamics from 2011 to 2013);
- reduction on 01.01.2013 the dollar on the 5.65%;
- reduce the number of credit institutions licensed to conduct banking operations (in dynamics from 2011 to 2013);
- increase in the number of credit institutions with foreign participation in the share capital having the right to conduct banking operations (at the beginning of each accounting year).

It is obvious that the Central Bank of the Russian Federation may not affect the average wage in the Russian Federation and on the subsistence minimum, while 2012 is characterized by a significant increase in the level of inflation and the exchange rate of the ruble against the dollar.

Saving in the dynamics between 2011 and 2013, the refinancing rate, the reduction in the number of credit institutions licensed to conduct banking operations and the increase in the number of credit institutions with foreign participation in the share capital having the right to conduct banking operations, confirms the stability of the Bank of Russia's policy aimed at maintaining financial stability of commercial banks. The increase in the share of credit institutions with foreign capital we associate with the entry of Russia in 2012, the WTO, and the decrease in the number of credit institutions licensed to conduct banking operations - with the increase of own capital requirements of banks in connection with the tightening of rules of Basel and the corresponding amendments to the banking legislation of Russia.

In fact, we observed a shift of focus the Bank of Russia's policy towards the supervision of financial sustainability of the banking sector. Thus the actions of the Central Bank of the Russian Federation for ensuring sustainable economic growth, improving people's welfare are extremely inefficient. We believe it is necessary to develop recommendations for enhancing the role of the Bank of Russia in the sustainable development of the domestic economy.

### 3. Results and Discussion

In our opinion, to develop a composite segments of the financial market, consisting of insurance, foreign exchange, stock, banking markets, it is necessary in the relationship and comprehensively. In the last decade in the global financial market is the symbiosis of its separate parts, which generates the appropriate financial tools.

Accordingly, the efficiency of financial market development will depend on the uniform development of all its segments. Display this dependence by the formula:

$$E_{fm} = E_{im} + E_{sm} + E_{bm} + \text{etc. (1)}$$

$E_{fm}$  – efficiency of financial market development;

$E_{im}$  – efficiency of development of insurance market;

$E_{sm}$  – efficiency of stock market development;

$E_{bm}$  – efficiency of development of the banking market;

etc. – effectiveness of other segments of the financial market.

We believe it is necessary to create a regional stock exchanges, for example, under the Federal districts, which should encourage and accelerate the economic growth of the country as a whole. On the regional stock exchanges to appeal should only be allowed securities regional issuers, while important is involvement in the stock market funds households.

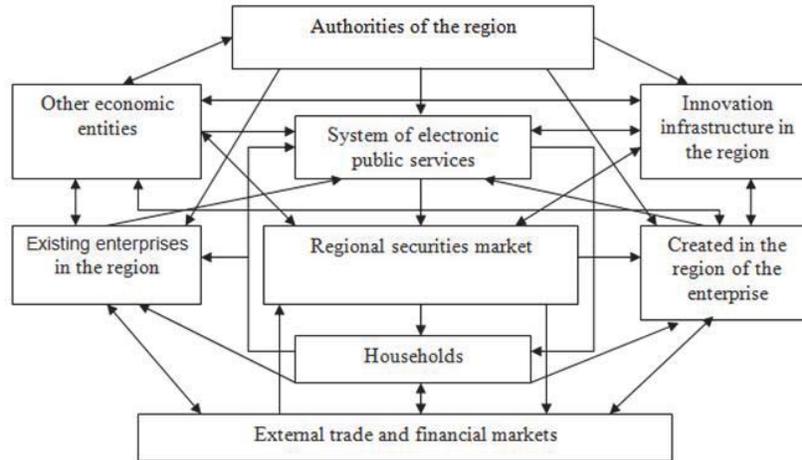
A similar position on the need for the development of regions contained in the research of scholars such as Bagautdinova N.G., Gafurov I.R., Kalenskaya N.V., Novenkova A.Z. [3] and Pesaran M.H., Schuermann T., Weiner S.M. [4], and Gadelshina L., Vakhitova T., etc. [5].

As world experience has shown that the securities market allows for more efficient allocation of financial resources between actors in the economy, the development of regional stock exchanges, in our opinion, will accelerate the process of economic development of our country. In this case, the formula 1 can be transformed as follows:

$$E_{fm} = E_{im} + E_{rsm} + E_{bm} + \text{etc. (2)}$$

ErsM – efficiency of the development of the regional stock exchanges.

Kundukchyan R.M., Gaizatullin R.R., Zappartova Z.N. believe that development of the Russian financial system depends on the integration processes [6]. The mechanism of formation and functioning of regional stock market with regard to the integration processes display in figure 1.



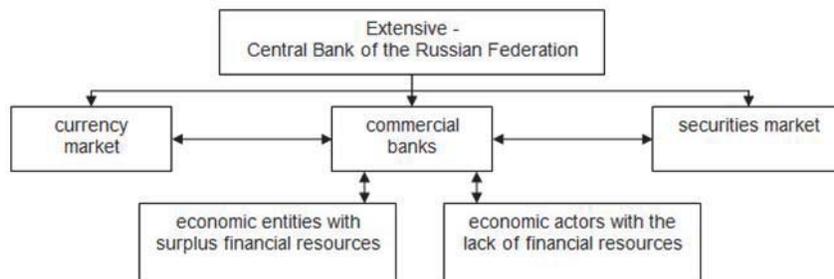
**Figure 1.** The mechanism of formation and functioning of regional stock market on the example of the region of Russian Federation

The basis for electronic marketplaces will serve as the system of electronic public services (e-government). Businesses, financial authorities in the region who wish to raise capital through the issuance of securities, place a notice with detailed information about it on the appropriate section of the portal of public services. Households acquire the opportunity to familiarize themselves with relevant securities and, if desired, to buy them through this information system. Funds received from the placement of securities, in a subsequent act issuers.

The positive effect of ownership of securities has been implemented through the infrastructure established securities market, for example, information on shareholders' meetings, dividend payments or percent of households and other investors receive from the professional participants of the securities market. Also provides the possibility of direct cooperation between investors and issuers to implement the rights provided valuable paper.

Measure the confidence of private investors in the financial market may be the creation of a system of insurance of investment similar to the state Corporation "Agency for deposits insurance", created in accordance with the Federal law dated 23.12.2003, #177-FZ "On insurance of deposits of individuals in banks of the Russian Federation within the limits of formation of the Deposit insurance system. This is analogous to the system of Deposit insurance premiums for the insurance of investment must come from professional participants of the financial market, retail investors. The creation of a system of insurance of investments as possible at the state level, and on the basis of self-regulating organizations in their respective segments of the financial market.

The stability and development of the national payment system should include the protection and sustainability of the ruble, as the ruble is an integral the main element, the unit of account within the payment system.



**Figure 2.** The proposed model is effective monetary policy

## The Bank Of Russia

Based on our analysis of table 1 data, will form a model of effective monetary policy of the Bank of Russia (see figure 2), focusing on meaningful, in our opinion, the operations of the Bank of Russia.

As we noted above, in recent years, the Central Bank of Russia monetary policy had a positive impact on the stability of the banking system of the country and strengthen the financial condition of commercial banks. At the same time, a large share of the credit products commercial banks implemented at higher interest rates exceeding the average rate of return across sectors of the economy, despite the low levels of inflation (about 6%) and a discount rate (8,25%). "Dear" loans do not promote economic growth, reduce welfare and profitability of business entities, while they improve the financial condition of commercial banks. Sami Ben Naceur, Mohammed M. Omran indicate the Effects of Bank regulations, competition and financial reforms on banks' performance [7].

## 4. Conclusion

In the model of effective monetary policy of the Bank of Russia (figure 2) activities of the Bank of Russia in respect of commercial banks should be directed on:

the regulation, control and supervision of interest rate loan products of banks, for example, by setting limits on the level of margins of banks on credit operations, which is especially important in connection with an active parish in the domestic banking market to foreign banks (after Russia joins the WTO), credit products which are characterized by significantly lower interest rates compared with the national average. In this regard, significant is the point of view Horst Feldmann, according to which the liberalization of banking activities can qualitatively affect the social sphere, in particular, to reduce unemployment in the country [8];

- the adoption of measures under the terms and amounts of the operations of raising and allocation of financial resources by commercial banks, for example, when bringing the Bank Deposit in the amount of 1 million rubles for a period of 3 years, these funds may be posted only for a period not exceeding three years, which will reduce the financial risks for banks. These measures will help to meet the growing demands of Basel III;
- encourage lending to the real sector of the economy that is not associated with the directions of modernization of economy of Russia announced during the presidency D.A. Medvedev, for example, by reducing the requirements of compulsory redundancy according to credit transactions;
- promotion brokerage and trust operations of commercial banks on the stock market by differentiating the requirements of financial stability of banks engaged in traditional banking lending and brokerage operations on the stock market. When this dealer and investment operations of commercial banks should be reflected in the "standard" statements of banks;
- development of the market of derivative financial instruments in hedging transactions of commercial banks in the foreign exchange and stock markets [9, 10].

We believe that our proposed measures will improve the effectiveness of monetary policy by the Bank of Russia, namely to stimulate economic growth through accelerated cost-effective development of enterprises of the real sector of the economy [11], improve living standards, reduce inflation, improve the financial sustainability of the banking sector, will reduce the orientation of commercial banks for speculative purposes.

## References

- Ken B. Cyree, Mark D. Griffiths, Drew B. Winters, 2013. Federal Reserve financial crisis lending programs and bank stock returns. *Journal of Banking & Finance*, 37 (10): 3733-3992.
- Saktinil Roy, David M. Kemme, 2012. Causes of banking crises: Deregulation, credit booms and asset bubbles, then and now. *International Review of Economics & Finance*, 24: 270-294
- Bagautdinova N.G., Gafurov I.R., Kalenskaya N.V., Novenkova A.Z. The re-gional development strategy based on territorial marketing (the case of The Russia) (2012) *World Applied Sciences Journal* 18 (Special Issue of Economics), pp. 179-184.
- Pesaran, M.H., Schuermann, T., Weiner, S.M. 2004. Modeling Regional In-terdependences Using a Global Error-Correcting Macroeconometric Model / *Journal of Business and Economic Statistics* 22 (2), pp. 129-162.
- Gadelshina L., Vakhitova T., Shikhalev A., Ullubi S. Foreign economic and interregional relations of the Russian Federation subjects (the case of The Tatarstan Republic): analysis and predictions // *World Applied Sciences Journal* 27 (7): 939-943, 2013.
- Kundukchyan R.M., Gaizatullin R.R., Zappartova Z.N. Russian Financial System and Integration Processes. *Mediterranean Journal of Social Sciences*. Vol 5, No 18 (2014). <http://www.mcser.org/journal/index.php/mjss/article/view/3645/3570>
- Sami Ben Naceur, Mohammed M. Omran. The effects of bank regulations, competition, and financial reforms on banks' performance. // *Emerging Markets Review*, Vol 12, No 1 (2011), pp.1-20.

- Horst Feldmann, 2012. Banking deregulation around the world, 1970s to 2000s: The impact on unemployment. *International Review of Economics & Finance*, 24: 26-42.
- Melissa Mun, Robert Darren Brooks. The roles of news and volatility in stock market correlations during the global financial crisis. // *Emerging Markets Review*, Vol 13, No 1 (2012), pp.1-7.
- Tigran Poghosyan. Re-examining the impact of foreign bank participation on interest margins in emerging markets. // *Emerging Markets Review*, Vol 11, No 4 (2010), pp.390-403.
- Kundukchyan R.M. Performance Evaluation of Institutional Integration Forms in Real and Financial Sector Companies / R.M. Kundukchyan, R.R. Gaizatullin, Z.N. Zapparova, N.V. Antonova // *Mediterranean Journal of Social Sciences*. Vol. 5, № 12 (2014).