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INSTITUTIONAL PREMISES, FACTORS AND LIMITATIONS FOR ORGANIZING A FINANCIAL CENTRE IN RUSSIA IN THE CONDITIONS OF FINANCIAL GLOBALIZATION

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The aim of the research is to outline the main characteristics of the financial globalization and determine some institutional premises, factors and limitations for organizing a financial center in Russia.

Specifics of modern post-crisis stage in world economic development is both in forming global players and the biggest world financial centres which concentrate themselves quite substantial finance power and which are the creditors of the most agents of global economy. They are also the centres of concentrating information about these agents' situation. Financial centres change criteria of economic decisions and motivation of economic activities towards short-term operations and immediate profit taking. They stimulate outflow of investments from a production sphere to a financial one.

After the crisis the definitions which are alternative to the period of financial globalization appear – such as “multipolar world”, “state regulation return”, “national competitiveness”. Forming integration associations is the main instrument to liquidate uncertainties in using accumulated savings and in building stable long-term relationships in order to fulfill economic programmes of cooperation.

In the conditions of globalization a model of development of financial sector has a value character. Global financial economy has started producing cost by crediting real sector. Integration and transnationalization processes stimulated cost relief which produces in a financial sector in conditions of financial globalization regardless of the processes in a real sector.

Professor of MSU named after M.V. Lomonosov Professor V.G. Belolipetsky detected this tendency pointing to the fact that in the conditions of dominating financial-investment instruments market agents realized it and began to change the structure of business assets in favor of financial and intellectual assets [1, 202].

In the conditions of globalization on the basis of transnational financial operations new mechanisms of economic interrelationships between the states and economic agents of world financial market appeared, information-communication technologies which serve the connections between local goods' and financial markets have been improved. Cooperation of financial institutions and international mobility of capitals also greatly increased. At the same time increase volatility in developing countries was less connected with general changes of world economy climate.

P. Krugman in his work stresses that “in the situation of total decrease in industrially developed countries dependence of industrial growth in developing countries from global factors are

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being greatly increased and new financial instruments of commercial banks and other financial institutions also stimulate this dependence” [2, 29].

If in industrial economy this disproportion between economic and non-economic factors of economy development took place inside each country in the conditions of financial globalization these disproportions became international. The correlation between global economic factors concentrated in the “gold billion” countries and non-economic factors concentrated in other countries deformed.

One of the consequences of financial globalization and quick growth of financial markets became the opposition “real” and financial sectors of economy. Professor V.M. Kollontay pointed to the integration strategies of development of global financial institutions “which use various mechanisms of increasing their assets, functions, influences, control and management of financial flows” [3, 46].

To make regulation in global economy efficient a state must have substantial finance capital, it must be a gross capital formation on the market. In the conditions of global resources’ competitiveness a state must create a most-favoured-nations regimes to raise foreign capital, to develop rational schemes of its investing by decreasing taxes from investment sums, financial operations or from expected products and also to create infrastructure for raising capitals playing the role of a guarantor of investments.

International financial centre (IFC) is a part of a strategical programme of Russian economy modernization. Experts choose Russia as the second (after China) potential candidate for a new international financial centre. These are the results of the survey of 223 experts from 53 countries which was conducted by one of the international institutions [4, 3].

The task to found IFC was defined in the paper “Strategies of development of financial market in Russian Federation for a period till 2020”. Instruments and technologies of IFC foundation were declared in “Conceptions of creating international financial centre in Russian Federation” and in the plan of measures on its foundation in which the stages of IFC forming were stated.

These indicated measures are mostly reasonable; however they can be called standard necessary for normal functioning of any financial market regardless of having it claims to have an international centre status.

Work group for founding IFC under the President of Russia formed a consultant board in which experts from international financial sphere joined as well as representatives of the biggest banks and investment companies. The criteria were made to understand how fast the process of financial centre forming is developing. Among them are the following: growth of foreign participants’ number on the Russian financial market, foreign capital presence. Besides macroeconomic stability it is also important for foreign investors their stay conditions in the country – such as comfortable hotels, well-trained personnel, proper education level and fluent English of most professionals.

In many financial centres participants have a free access to international marketplaces. Western experts gave a set of recommendations on Russia’s way to IFC based on stabilization of macroeconomic indicators and the most important of them – control of inflation. Inflation is a built-in component of world economy and international finance (one of the consequences is “constant” growth of asset value). World financial dynamics in a post-crisis period will depend upon inflation growth of prices on products’ and finances’ assets. It is most likely that in developed countries of a global financial system inflation will be in average less than in transition and developing economies.

Low inflation rate is one of the indicators of financial sector’s development level, the indicator of balance of financial system and limited value of risks. Development of globalization pro-

cesses, capital saturation of forming markets can come to gradual converging of inflation rates in the countries of financial core and financial periphery, to their gradual “aligning”.

Nowadays among all the countries Russia takes the first place according to its high inflation rate that is unacceptable for International financial centre. One of the weak items is a bank sector which is behind other countries, first of all according to the credit lending level (including mortgage credit lending). Now market capitalization of financial market is very low – 850 billion dollars which meets an average size of average market of regional value.

In 2009 renovation of a pre-crisis model of global financial system based on exponential growth of financial assets began. Replication of this development model can result in new concentration of risks destabilizing world economy development.

Higher inflation is a built-in component of Russian economy based on mostly nonmonetary character of inflation in Russia which is determined by the following factors: oligopolistic character of price formation in the conditions of concentrated property, tariff politics of the state in which in 2000s annual two-digit changes of prices were included, high level of risks and profitability, included by owners in prices, increased in 2000s regulative load which was reflected by business in prices, excessive interest to exporting capital leading to prices’ excessiveness and pursuing to maximize short-term profit, also a high speculative component in price growth, particularly based on speculative investments of non-residents and so forth.

It is important to take into account so-called “Moscow effect” in which more than 60% of financial assets of Russia are concentrated and as a result there take place effects of “overhang” of money demand over products and services’ supply (an additional monetary inflation factor). Markets of Moscow are the most important engine of inflation in economy of Russian Federation.

Russia falls under the group of developing economics with one of the highest in the world inflation rate. Decline in inflation in 2010 lower than 10% was connected with the crisis fall in producer prices (while keeping two-digit growth of consumer prices).

The task of founding financial centre in Russia is particularly actual in the conditions of post-crisis development. This process takes certain time and during this period main draft bills also in the sphere of stock institutions’ functioning, taxation of securities trading and others should be developed.

The foundation of a financial centre providing development of integration processes will allow modernizing domestic financial infrastructure that, in its turn, will provide additional resources’ flow-in in economy. Mechanism of fulfilling this project is based on financial-information capital and information-network technologies which provide an easy access to financial operations.

As actual grounds for founding an international financial centre one can also call the factor that Russian stock exchanges (both RCRME and MCSE) currently occupied from 10 to 16 places in the leading ratings of capitalization according to the number of registered emissions and other indicators. Foundation of IFC should create favorable investment regime which will allow attracting the biggest financial companies to work in Russia.

At the same time there are no plans to make a regime of some kind of financial offshores and to earn on financial services as it usually occurs in offshore areas. To boost the foundation of international financial centre it is necessary to make the following institutional conditions for foreign investors: a common depository, provision of transparency of securities turnover, guarantees from court system, from law-enforcement agencies and others.

One of the favorable institutional factors or founding financial centre is that in Russia there is no capital gains tax. Legal platform for forming an international financial centre is made tho-

ugh Washington Convention (adopted in 1965 and regulated investment lawsuits) is still not ratified in Russia and it is the basic mechanism of defending a foreign investor.

Russia is the only country from the post-Soviet ones the capital of which – Moscow - for many years keeps its place in a global rating of 75 the biggest cities in the world claiming to have a financial centre. Now it has 68th place.

Gradually Moscow is becoming a financial centre of the regional scale. Pooling of capital is taking place in the frames of Russia, Belarus and Kazakhstan. The nearest goal is to provide direct access to financial markets creating common economic space not only for state issuers but for banks and insurance companies as well.

As the most important measures in founding IFC one can call regulations premises made by FFMS which allow turning over foreign securities in Russia. At the same time estimation of these measures allows defining their limited character for turning Moscow into a financial centre of a global level comparable with the top ten ratings of global financial centres. It can be explained by the fact that an institutional mechanism of founding IFC is still working out and the current one needs to be modernized.

Relevance of the problem of designing a financial centre is determined by dynamics and character of Russian market integration into infrastructure of world capital market. Further development strategy not only of the national financial market but of the country in general is totally depended upon the value and quality of a new institution.

Will Russia be integrated into a global financial system or will our domestic financial system take a subordinate place in relation to a comparatively narrow group of transnational banks and the biggest stock exchanges? It depends upon designing of IFC and its foundation demands long and careful work of the whole market infrastructure: stock exchanges, professional participants of financial market, banks and regulators. Moreover, the role of a stock exchange in this process is particularly important because it is the stock exchange which becomes “an entry point” to the internal financial market of the country and “an access point” to the international capital market for domestic investors and issuers.

Considering that it is the stock exchange which is “a landmark” of any financial centre MCSE starts developing its infrastructure on the basis of actual world standards both on technologies and comfortable work for clients as well as on range of suggested services.

A perspective project closely connected with the idea of IFC is to create an international segment in the frames of MCSE in which one can do deals with instruments of a pair “euro-dollar”, foreign securities and can make accounts using Clearstream, Euroclear, national depositaries of CIS countries.

World stock industry in the conditions of globalization changed greatly and these changes are connected with capturing new markets, implementing new instruments, consolidating and up-sizing of stock exchanges, changing principles of doing business. One of the main trends in developing stock institutions is their internalization. The causes of these processes should be sought in greatly increasing the process of globalization and consolidation of traditional stock business in the conditions of competitiveness growth¹.

Conception of organizing IFC should be oriented to foreign investors’ mentality, and the development strategy of national financial market must be based on solving the tasks which are first

¹ Technological potentials and demand to fight with competitors’ attack make stock exchanges to go beyond the national frames and offer their services on the international market. Competing with broker electronic systems, stock exchanges refuse from their traditional forms of work such as closed clubs which exist at the expense of their participants’ fees. These institutions are gradually turning into financial centres which give their services to any participants.

of all in demand of domestic market agents. To connect these strategies mutually it is necessary to define actual priorities in strategy of founding IFC in Russia. This strategy must be based on the fact that sphere of its fulfilling – global financial market.

Financial centre of global level must be established on well-adjusted and flexible information infrastructure because the strategy of its forming is designed according to information-network principle, beyond strict hierarchical systems, with many players who can easily contact each other with the help of information technologies.

Considering that in order to form IFC it is necessary to organize a common Centre for giving corporate information from issuers in Russian and in English which allows securities holders - issuers from the countries – participants EAEC -and investors getting actual and authentic information about corporative events of the issuers whose securities are traded on the certain markets of IFC through the Internet.

The second of the most important elements of IFC infrastructure should become a common information-technical centre providing unified electronic document workflow built by using domestic cryptographic means between professional participants of financial markets regardless of their particular jurisdiction. Fulfilling the idea of so safe communicator between the subjects of relationships of financial markets of post-Soviet countries is possible with the help of EDB.

Functioning of this element in information infrastructure should result in decreasing of costs of the countries – participants of EAEC, with their investing into each others' economies, and in boosting relationships between financial institutions and investors.

Therefore, to form institutional mechanism for IFC foundation as a global market operator which stimulates forming of common economic space between the countries developing integration strategies it is necessary to solve the following problems:

1. To boost further development of integration contacts between countries and to use mechanisms of EAEC to create IFC on its base working for economies of all countries-participants.
2. To develop strategy of forming IFC on the basis of development of supernational financial institutions with a high status of non-governmental institutions such as EDB.
3. To encourage making a common information-technological environment for participants of financial market from the countries of EAEC (and Ukraine) and creating information infrastructure which provides its functioning.

Functioning financial centre will give Russian economy an increasing volume of investments in real economy, stabilizing incomes and growing welfare of its population, developing modern town and communicative infrastructure. Designing financial centre-integrator should stimulate creating favorable economic background, reaching global competitiveness, establishing transnational banks, making efficient social infrastructure, developing human resources capital in our country.

It is very important to stress the role of regions in fulfilling this project. Considering that financial resources in Russia are irregularly distributed among the regions, a potential model of development of this financial institution can be interregional financial centres on the basis of federal districts or in the frames of macroregions. Organizing regional financial centres, then forming this structure on the basis of CIS and EAEC is an important task because ruble gradually becomes attractive currency for other states and switching over ruble accounts will improve financial potential of Russia.

Forming of new international financial architecture should meet interests of developed countries but not only the countries with forming financial markets. New financial architecture should be built not to the prejudice of fundamental principles of market economy but on the contrary with the aim of their forcing. Risks regulating should be made on the basis of new in-

stitutional mechanism in such a way that no business could get rid of their load using instruments of multilevel hedging.

Analysis of recent crises shows that it is necessary to found principally new economic institutions – new global regulators.

System of focused regulation of financial-investment activities of actors of global economy should include instruments stimulating capital concentration and making big national, regional and international corporations, financial groups. State forming economic development strategy must provide efficient regulation of money-credit sphere, decreasing of inflation level as well as stimulate consolidation of national capital, developing securities market and moreover, it must come to this market itself making big loans through selling state bonds.

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