

FINANCING NATIONAL ECONOMY THROUGH CREDIT AND BUDGET MECHANISMS

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Abstract

This article examines the impact of budget policy on the development of Russian economy. It reveals a contradictory nature in strategic development goals of two sectors of the economy: the real and the financial one. Current money-and-credit policy of the Central Bank of the Russian Federation (CBRF) hardly takes into account the needs of internal market, it is accompanied by monetary contraction and by declining real disposable income. High interest rates restrain the potential of loans for upgrading production facilities and implementing structural changes in the economy.

Since 2015, budget policy has mainly sought to adapt to structurally changing environments. Significant spread of shadow economy and offshore business do not allow increasing budget incomes of different levels and, thereby, providing necessary funding to support crucial aspects for economic development.

On the basis of developed economies' experience in achieving macroeconomic stability during crises, the article proposes credit and budget financing mechanisms aimed at developing current economy. Among these, monetary-industrial policy is considered an important mechanism for balanced growth of incomes and expenditures of budgets of different levels that makes it possible to efficiently support the development of the national economy.

Keywords: monetary policy, fiscal policy, economic growth, financing.

JEL code: E52, E52, E63.

Introduction

The development of the Russian economy in recent years has been mainly associated with the formation of a modern model of economic growth that suggests the emergence of a new technological base significantly increasing workforce productivity and reducing manufacturing costs.

Authorities are trying to develop innovative activity in the economy through state corporations and other state organizations (institutions) that engage budget resources for capital investments (Zubov & Inozemtsev, 2015). Other economic agents do not show noticeable demand for investment resources. In 2013–2016, the average annual increase in fixed capital investment per capita was approx. 3%, and it showed a negative value in 2015 (Investments in Fixed Capital, 2017). At the same time, a little more than 40% of large and medium-sized enterprises opted for loans for these purposes (Investment Activity, 2016). The stagnation of economic agents has objective reasons behind it. These are widely described in the literature and are largely related to the money-and-credit policy followed by the CBRF, and the budget policy of the Russian Ministry of Finance, which, in particular, are reflected in works by Glazyev (2016), Andryushin (2014) and Belousov (2006).

The question of the relationship between budget and monetary policy and economic growth has a long history of research, which also includes the neoclassical model of economic growth (see Smith, 1957; Foley et al., 1969, Drabicki & Takayama, 1983). Theoretical models are often tested

on national economies (Garcia & Malet, 2007; Patrick, 1959; Hossain, 2015; Wallich, 1985). At the same time, much more attention is paid to monetary policy (Fortin, 2003; Galindo, 2009; Bhattacharya, 2009). Among budget mechanisms (Van der Ploeg, 1996; DSouza, 1996), taxation is more often emphasized (Pokrovskaja et al., 2016), i.e. focus is rather shifted to the formation of incomes than the way they should be spent; it should be noted that often it is the tax mechanisms that have the least ability to be adopted from abroad (L'vova et al., 2017; Lvova et al., 2016).

Developed economies, as a rule, have a set of investment resources including funds of institutional investors, enterprises, people, budgetary funds, as well as foreign investment. In the Russian economy, the largest volumes of financial resources are accumulated by commercial banks.

Money-and-credit mechanism for financing economy

The availability of loans depends primarily on the level of interest rates and, in general, on the mechanism of the refinancing system. For credit institutions in Russia, the amount of the key interest rate determines costs for attracting additional funds. Maximum key interest rate in the Russian Federation was set by the Bank of Russia on December 16, 2014 and amounted to 17% per annum. Later, the size of the key rate gradually decreased and as of December 18, 2017 was 7.75% per annum.

Theoretically, lowering the key interest rate and, accordingly, loan rates by commercial banks should result in an increase in the volume of providing credit to the real economy through increased economic activity (aggregate demand), output growth and, probably, inflation and, on the contrary, higher interest rates result in a decrease in the value of bank assets, lower number of loans, lower output in the economy. Under the conditions of a high key interest, there is no stable correlation between its reduction and the value of bank loans in the Russian Federation (see Table. 1).

Table 1. The volume of issued bank loans to economic entities

Year	The volume of loans to non-financial organizations and entrepreneurs, million roubles	Volume of loans to individuals in roubles, million roubles
2013	31 582 836	8 778 163
2014	33 241 362	8 629 722
2015	29 995 671	5 861 351
2016	32 395 589	7 210 282
November 2017	27 654 012	7 237 613

Data provided based on information from the Central Bank of Russia

The banking channel of the transmission mechanism (TMM) can be noticed in most regions only by the rally in consumer lending. In the segment of corporate lending, the effectiveness of the TMM bank channel was determined mainly by non-interest factors.

The volume of lending grew in those segments that received state support (agriculture, mining, mortgage lending). The lending activity of most other sectors showed little response to the lowering of the key rate while macroeconomic uncertainty maintained.

Low efficiency of the banking channel of the transmission mechanism was caused by high interest rate and low aggregate demand in economy that is mostly determined by low personal income.

According to Rosstat, Russians' real income dropped by 0.7% in 2014, by 3.2% in 2015 and 5.9 in 2016. At the end of 2016, the average monthly salary in the country amounted to 36,703 roubles, what in nominal terms meant a 7.7% increase compared to 2015, but the real average

wage grew by only 0.6%. Even worse is the situation with pensions, the real size of which decreased by the end of 2016 by 3.4%. A direct consequence of declining incomes of the population is a reduction in retail trade turnover.

The official position of the Bank of Russia on liquidity management is still to create "conditions for the formation of money market rates close the key rate of the Bank of Russia" (see Report on Monetary Policy, 2015). The Bank of Russia primarily relates the amount of the key rate to rouble's stability, its strengthening or weakening, i.e. mainly to external factors affecting the functioning of the Russian financial market.

Strict monetary policy of the CBRF aimed at reducing inflation in the country is accompanied by a reduction in the money supply and consumer demand weakening, while the real incomes of the population are significantly reduced. It hardly takes into account the needs of the internal Russian market making it difficult for enterprises in the real economy to obtain the necessary amounts of financial resources to upgrade production facilities, implement structural changes in the national economy and implement measures to stimulate demand.

Undoubtedly, the reduction of inflation and the stability of the national currency (Nesterov & Sutyurin, 2017) are starting conditions for ensuring sustainable development of the national economy to accumulate resources and make subsequent investments. As global practice shows, it is impossible for this problem to be solved exclusively by the methods of money-and-credit policy while simultaneously solving the task of reducing inflation, which the Central Bank of the Russian Federation is trying to do. Especially it cannot be solved by reducing the money supply and consumer demand, which is accompanied simultaneously by a fall in investment even along the growth of profits of enterprises in the real economy.

The analysis of money supply growth rates and the rate of investment in the Russian Federation over the past 15 years demonstrates the direct dependence between these indicators. Thus, for an investment growth of 5% the growth rate of the money supply should be at least 20% in real terms (i.e. adjusted for inflation) (see Blinov, 2015, p.1).

Speaking about building up the resource base of commercial banks, an important role belongs to central banks. The Bank of Russia is also stepping up its activities in this direction, increasing the terms and volumes of refinancing credit institutions with a view to forming long-term sources of liquidity. At the same time, the volume of concessional financing included in the Program for Support of Investment Projects is insufficient to push the national economy into the path of intensive development.

At present, there is a sore lack of traditional sources of "long" resources for a forced transition to the creation of a new technological order. It is necessary to point out here that developed countries intensively use specific mechanisms for the formation of "long" money in the economy within the framework of the so-called "monetary-industrial policy". The essence of this policy is to issue currency for financing specific budget programs. Studies show (Ershov, 2013) that in recent years (both before the financial crisis and afterwards) such countries as the United States and Japan have formed their monetary base by 50-80% by means of emission involved into the operation of long state instruments.

It would be wrongful to reduce the mechanism of financing investment activities to a simple money printing. A whole number of procedures is important here. First of all, it is necessary to bear in mind that the state issues targeted securities, which are purchased by the central banks of the countries. These government securities later do not get into circulation in financial markets. They are mainly placed on the balance sheet of the central bank until their expiry. Such a mechanism for financing budgetary programs does not affect the liquidity of the financial market as a whole.

If these government securities had been placed on the secondary market in the usual way, then a significant part of the funds borrowed to finance current commercial activities would have been diverted, i.e. a process called in the economic science the "repression" effect would have occurred.

Of course, the above financing mechanism is fraught with many risks. At the same time, it is not something exceptional in global practice and is well known to Russian monetary authorities. The foregoing shows that developed and financially mature countries intensively use the emission mechanism to finance investments. It must be studied and analyzed for actual use in the Russian context.

Budget mechanisms of economic development

Budget funds are an important investment resource in the Russian Federation just as in other developed countries. In recent years, a significant part of these has been directed to the technical upgrade of the military-industrial sector, the development of infrastructure and, above all, transportation.

According to the Federal Law "On the Federal Budget for 2018 and the Planning Period of 2019-2020," the federal budget revenues during this period in relation to the country's GDP should be decreased from 15.7% in 2018 to 14.8% in 2020. This dynamics is mainly associated with a reduction in the share of oil and gas revenues from 5.6% to 4.9% of GDP, while the share of non-oil and non-gas revenues remains at 10% of GDP, what once again shows a significant dependence of the RF budget system on the external economic situation with energy resources (see. Table. 2).

Expenses of the federal budget for 2018-2020 are planned to be cut even in nominal terms by 200 billion roubles or by 1.1% of GDP. Approved for 2018-2020, the structure of expenditure is multidirectional (see Table. 2). In comparison with 2017, spending on national defense and social policy is planned to be cut. Expenditures on general national needs, national security, law enforcement and servicing of public debt will be significantly increased. It is planned to increase the public debt from 12,536 billion roubles in 2017 to 17,652 billion roubles in 2020. Planned expenses for servicing the public and municipal debt in 2020 will exceed the total expenditures for education, housing and public utility sector and environmental protection, while the federal budget is usually run with a surplus, which is subsequently sent to stabilization funds (National Wealth Fund and Reserve Fund). Spending related to supporting the national economy is planned to remain at the same level. It is unlikely that such a structure of federal budget expenditures can be called promising in terms of ensuring the requirements of economic growth of the national economy.

Table 2. Incomes, expenses and the state debt of the federal budget in 2017-2020, billion roubles

Criterion	2017	2018	2019	2020
Income – total/ % of GDP	14 720/ 16.0	15 258/ 15.7	15 555/ 15.1	16 285/ 14.8
Including:				
Oil and gas revenues/ % of GDP	5 795/ 6.3	5 480/ 5.6	5 248/ 5.1	5 440/ 4.9
Non-oil, non-gas revenues/ % of GDP	8 925/ 9.7	9 778/ 10.0	10 307/ 10.0	10 845/ 9.8
Expenses – total	16 728	16 529	16 374	17 155
Including:				
General national expenditures	1 249	1 306	1 243	1 239

National defense	3 054	2 772	2 798	2 808
National security and law enforcement	2 029	2 108	2 131	2 141
National economy	2 370	2 404	2 377	2 439
Housing and utilities	72	126	98	91
Environmental protection	92	89	93	98
Education	608	663	653	669
Healthcare	389	460	428	499
Social politics	5 054	4 706	4 742	4 873
Servicing of public and municipal debt	730	824	819	870
Intergovernmental transfers	1 669	1 652	1 577	1 591
Public debt at the end of the year – total/	12 536/	15 235/	16 360/	17 652/
% of GDP	13.6	15.6	15.8	16.0

Source: The Main Directions of the Budget, Tax and Customs Tariff Policy for 2018 and the Planning Period of 2019 and 2020, The official website of the Ministry of Finance of the Russian Federation, available on-line at www.minfin.ru (accessed: 24.12.2017).

In the context of cost reduction, the importance of the efficient use of public funds is growing. An important tool for assessing efficiency is the financial control over the targeted use of budgetary funds. The Accounts Chamber of the Russian Federation systematically reveals cases of their misuse. According to the audits of the country's highest control body, the federal budget lost every thirtieth rouble in 2015. Total damage nearly amounted to the spending on healthcare. Targeted and efficient use of budget funds is violated to a greater or lesser extent in virtually all the regions of the Russian Federation (see The official Site of the Accounts Chamber of the Russian Federation). Violations revealed during the receipt and use of budget funds are growing in their number and amount, and the average "weight" of such violations is increasing (see Table. 3). Only a small part of these funds can be returned to budgets. At the same time, the indicator of misuse of budgetary funds has a strange erratic dynamics, bringing the value of 2016 closer to the "normal" values of 0.97-1.2 billion roubles, recorded in the previous period of 2007-2013.

Table 3. Performance indicators of the Accounts Chamber of the Russian Federation

	2014	2015	2016
Number of control activities	349	244	259
Total violations detected, billion roubles / number	524.5/2587	516.5/3445	965.8/3845
Including non-targeted use of funds, billion roubles	9.1 billion roubles, of which 7.4 billion roubles were identified based on the results of testing the efficiency of the use of funds	3.7 billion roubles, inefficient use of federal and other resources - 81.2 billion roubles.	1.1 billion roubles, inefficient use of federal and other resources - 33.3 billion roubles.
The average "weight" of a violation, billion roubles	0.20	0.14	0.25
Returned to budgets, million roubles	1034.7	1031.7	8816.8

Data provided based on Reports by the Accounts Chamber of the Russian Federation for 2014, 2015, 2016.

The extreme manifestation of non-targeted expenditures of budgetary funds is corruption, which is difficult to measure, especially under current conditions in Russia. The international non-governmental organization Transparency International has been compiling countries' ratings every year since 1995 on the basis of the corruption perception index, which is a subjective indicator that reflects the level of perception of corruption by analysts and entrepreneurs on a 100-point grading scale. The higher the index, the less corrupt a given country is. At the end of 2016, Russia ranked

131 out of 176 countries recorded in the rating, with a corruption perception index of 29, behind almost all the developed countries (see Corruption Perception Index-2016).

The high level of corruption in Russia negatively affects all areas of the national economy: it undermines confidence in the state, contributes to the growth of the informal sector of the economy, drains brains and capital abroad and impedes efficient financial resources' allocation and redistribution.

The level of corruption determines the degree of development of shadow economies, namely the fictitious, underground and informal one¹.

The largest aspect of the shadow economy is the informal economy or the economy outside the tax system. According to Rosstat, the share of the population employed in the informal economy of Russia, from the number of all employed in the country's economy, was 16.4% in 2010, 19.7% in 2013, and 20.5% in 2015 (see Russian Statistical Yearbook, 2016). Thus, there is a negative trend to increase this indicator, which is an indirect evidence of the growth of corruption in the country.

The share of the shadow economy in GDP is 20-25%, according to Rosstat, and even reaches 40%, according to other sources. The Center for Regional Economic Research publishes the annual ratings of the regions of Russia in terms of the number of people engaged in the informal economy. Throughout the years of research, regions with a low level of industrial development, high unemployment, and, on the contrary, leading regions in terms of development level are less likely to drive the economy into the "shadow" (see Rating of Regions, 2016).

The informal economy is a factor destabilizing the financial system, since it leads to a reduction in budget revenues in terms of unpaid taxes, insurance contributions to extra-budgetary funds, and a decrease in the social security of citizens engaged in the informal economy (low wages, lack of social benefits). The resources of the shadow economy are a potential source not only for stabilizing the RF budget system, but also represent significant reserves for increasing the budget revenues of different levels. It is necessary to take effective measures to drive a significant part of the national economy back from the shadow. First of all it is necessary to counteract the activity of so-called "one-day companies" which are established exclusively for the purpose of "cashing" money with the help of commercial banks using fake contracts. Further on this cash-money is used for paying non-official cash-salary (the so-called "envelope salary") as well as for bribing and so on. Information about either the founders of such "one-day companies" or the companies transferring money on the accounts of those "one-day companies" is not a secret neither for commercial banks, nor for tax authorities. So there is the need in proper laws which would provide appropriate institutions adequate power to prevent activity of "one-day companies". The world has accumulated a positive experience of solving problems with the shadow economy, and it must be used in modern Russia.

Along with the shadow business, which does not bring revenues to the consolidated budget of the Russian Federation, a significant amount of offshore business, which legally allows you to withdraw from payment to the budget tax payments and, above all, corporate income tax. Of course, in this direction it is necessary to use the experience of developed countries that eliminate any possibilities of tax evasion. It is necessary to develop interstate interaction of tax administrations in tax cases not only in the field of coordination of international business income

¹ Fictitious economy is a direct consequence of corruption and represents a system of relations between constituents that is based on the provision of unjustified benefits, bribes, kickbacks, misappropriation of public and municipal property. Underground economy is an activity outlawed by national legislation, for example, drug trafficking, contract killing, etc.

taxation, but in the field of control of tax law infringement as well. The Government of Russia faces the difficult task of minimizing the informal sector, at least to the average European level of 15% of GDP.

An important role in the development of investment activity belongs to development institutions that potentially have significant growth reserves and are crucial to economic development (engineering, construction, etc.). Specialized development institutions¹ are unable to replace the banking sector in terms of investment lending. They should play an important role of "regulators" that drive the banking sector to invest into the most needy industries and enterprises. Unfortunately, many of them do not cope with this function. The activities of development institutions should be transparent and controlled by non-government audit institutions.

While there is deficit in most budgets of the Russian Federation constituents, the possibilities for financial support of regional economy are extremely weak. The existing system of interbudgetary relations is characterized by the dependence of regions on the federal budget in the absence of proper incentives for economic growth. Table 4 shows the expected volume of intergovernmental transfers.

Table 4. Intergovernmental transfers (billion roubles)

Criterion	2017	2018	2019	2020
Intergovernmental transfers - total	1 669	1 652	1 577	1 591
% of GDP	1.8	1.6	1.4	1.4
Donations	779	804	782	796
% of intergovernmental transfers	46.7	48.7	49.6	50.0
Subsidies	426	409	379	376
% of intergovernmental transfers	25.5	24.7	24.0	23.6
Subventions	302	304	312	315
% of intergovernmental transfers	18.1	18.4	19.8	19.8
Other intergovernmental transfers	162	135	105	104
% of intergovernmental transfers	9.7	8.2	6.6	6.5

Source: The Main Directions of the Budget, Tax and Customs Tariff Policy for 2018 and the Planning Period of 2019 and 2020, The official website of the Ministry of Finance of the Russian Federation, available on-line at www.minfin.ru (accessed: 24.12.2017).

The decrease in the volume of interbudgetary transfers is mainly planned to be implemented by reducing subsidies from 426 billion roubles in 2017 to 376 billion roubles in 2020. Thus, it is expected to reduce the co-financing from the federal center of certain state programs lead by the constituents of the federation. Donations are a stabilizing factor for the regional budget systems but not an incentive for development. In essence, they replace tax and non-tax revenues of regional budgets.

Budgetary loans are another element of interbudgetary relations. In the federal 2017 budget, a significant decrease from 338 billion roubles down to 100 billion roubles in budgetary credits was planned. However, in fact, over the first 7 months of 2017, regions already borrowed 505.3 billion roubles from the federal budget. The volumes of budgetary credits over the last four years have many-fold exceeded the planned volumes (see Table. 5). It seems that it will hardly be

¹ Currently, there is a number of such institutions in Russia: Fund for the Promotion of Small Forms of Enterprises in the Scientific and Technical Sphere (FASIE), Development Fund of the Center for the Development and Commercialization of New Technologies (Skolkovo), Mono-cities Development Fund, Industrial Development Fund, VEB Innovation Fund, State Corporation Vnesheconombank – Development Bank, OAO SME Bank – Development Bank, Innovation Support Fund (FASIE), ROSNANO Group, etc. Federal budget is the main source for funding these institutions.

possible to repay the debts of the constituents of the federation on budgetary credits in the foreseeable future. In order to reduce the debt burden of the regions, it is planned to carry out a restructuring of the debt on budgetary credits within seven years, what apparently will result in its write-off.

Table 5. Dynamics of the volume of budgetary credits from the federal budget to the subjects of the Russian Federation (billion roubles)

Year	Plan	Deed
2014	230	524.6
2015	310	869.5
2016	338	758.6
2017	100	505.3 (on August)

Data provided based on information from Ministry of Finance of the Russian Federation and Treasury of the Russian Federation

In our opinion, the priority of state policy in the area of regional development should not be a primitive equalization of budgetary provision through donation mechanisms and the provision of budgetary credits, which only partially achieve their goal, but the creation of incentives for the realization of internal reserves for the growth of regional economies.

Substantial institutional transformations of the entire budget system are needed, expressed in a new tax distribution between the levels of the budget system that would allow regions to carry out most of the expenditures from their own legally fixed sources. Thus, intergovernmental transfers and the costs associated with their servicing would be reduced.

Conclusion

Modern monetary and budget policies are fundamentally focused on stabilizing the financial sector and adjusting the real sector of the economy to unfavorable external and internal conditions of doing business. It is unlikely that such a financial policy will contribute to ensuring high rates of development of the national economy. It is necessary to develop those monetary and budgetary mechanisms that would allow increasing the money supply, the revenues of budgets at all levels and the efficiency of using budgetary funds including approaches allowing to radically curb corruption and reduce the share of the shadow economy.

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