
Strategic Directions of the Country's Ensuring Financial Security

O.B. Ivanova¹, T.F. Romanova¹, E.D. Kostoglodova¹, D.G. Romanov¹

Abstract:

It is grounded in the article that it is necessary to form a new fiscal policy paradigm and it is preconditioned by its orientation to provide economic growth and country's national security.

The change of the geopolitical situation, slow down of the global growth pace, decrease of the global demand on the traditional commodities require to work out the interconnected set of measures, based on the creation of conditions for the Russian economy to transit to a new technological structure, for Russia to be among the leading countries in terms of gross domestic product and to oppose the impact of external and internal threats successfully.

The objective of this work is to research the strategic directions of the Russian financial security aimed at analysis and indicative forecasting of a wide range of factors determining the financial and banking system stability, preserving its integrity and unity, overcoming Russia's internal and external threats in the financial sphere. To meet this objective the following tasks are set: to reveal the fundamentals and economic content of financial security; to structure the most important aspects of the financial security strategy; to identify specific features of budgetary security as a key component of financial security and determine fiscal consolidation priorities; to disclose methodological approaches to the formation of a financial security indicators system.

The article draws conclusions about the need for an integrated approach to the financial security strategy formation that stimulates economic growth, improves the quality of public administration, the banking and financial system stability, human potential development.

Keywords: *Financial security, fiscal consolidation, financial security indicators*

JEL Classification Codes: *H11, H40, H50*

¹Ivanova Olga Borisovna, ph.d., professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation, corresponding author, kafedra_finance@mail.ru

¹Romanova Tatyana Fedorovna, ph.d., professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation.

¹Kostoglodova Elena Dmitrievna, ph.d., associate professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation.

¹Romanov Dmitry Gennadevich, associate professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation.

1. Introduction

Ensuring balanced economic growth and sustainable improvement of the population's well-being is directly connected with resolving the deep structural problems of the Russian economy, which requires a transition to a new internal balance of the economy with a lower level of import consumption and a higher level of oil and gas exports. At the same time such structural imbalances as: a big share of the current unproductive expenditures in the budgetary obligations structure; low level of the accumulated reserves protection from external and internal risks; a high proportion of the ineffective public sector reduces the adaptive opportunities to develop economy and expand of its potential.

Being a part of economic and national security, financial security is remaining the most dynamic sphere going through all economic relations and reflecting the general state of security on the society. Theoretically financial security reflects such financial and banking state with necessary conditions for economic and financial stability, based on the formation of the effective system of the complex monitoring of the dynamics of all main financial and economic processes in the country and opposition to threats taking into account internal and external factors. The financial security strategy is to be provided with all means and tools of the government policy, determining the strategic national interests and ensuring country's sustainable development in the long-run. Financial strategy is called to consolidate the efforts of the Federal authorities, the Russian Federation subjects' authorities and local self-government bodies, financial institutions, civil society institutions involved in the development and implementation of a financial security strategy.

The main strategic threats for the financial security are:

- national budgetary system imbalance;
- budgetary appropriations misuse;
- capital outflow;
- lack of an optimum ratio of reserve funds and investments, reliable protection mechanisms against sharp changes in the exchange rate and price fluctuations;
- the population growing differentiation by income level, etc.

Structuring the most important aspects of the financial security strategy involves: setting goals and objectives for ensuring financial security in the specific geopolitical conditions in accordance with the specifics of the country's social and economic development, both in the short and long-run; the choice of the optimal means and tools of a financial security strategy; creating the necessary conditions to maximize the volume of financial resources to ensure economic growth; the formation of an effective mechanism to counter the financial security threats.

Thus, it is necessary to change the vector of financial regulations and to turn the budget into the effective financial security tool, to give it new specific functions to protect national interests. And it should be manifested in the growing effectiveness

of the economy state regulation through financial and budgetary tools application to ensure stable functioning of the financial system, stable ruble exchange rate, inflation decrease, the budgetary system balance, the intergovernmental fiscal relations improvement, national investment and financial institutions, deterioration of off-shore companies from the economy, entrepreneurs' property and security protection (Fetai, 2015; Theriou, 2015).

The financial security strategy pays much attention to the social sphere and citizens' life quality improvement, the formation of effective state social assistance to low-income people, reducing the level of social and property inequality of the population, primarily by increasing the incomes, reducing poverty together with a pension system development, social support for certain categories of citizens, the social services system improvement. One of the tasks of the social policy in the context of the financial security provision is social protection of the population from the negative consequences of the market relation in the economy. This implies maintaining a balance between the population monetary incomes and the commodity resources; creation of favorable conditions to improve the citizens living conditions; the service sector development for the population, satisfaction of population's demand for the quality of goods and services; expansion of the material base to strengthen the population's health, the growth of the population's education and culture.

The high level of the structural deficit of the federal budget and a high share of budget expenditures in GDP are among the threats and risks of national security in the part of the carried out budgetary policy. According to the statistics the share of the budget expenditures in GDP has a reverse-proportional dependence on the potential economic growth rate. This situation is developing with the growth of the unproductive expenditure share, including the pension system costs, government support costs, defense spending (Lukasevicius and Lapinskaite, 2014; Galooyek *et al.*, 2014; Denisova *et al.*, 2017; Boldeanu and Tache, 2016).

The Russian economy adaptation to the external conditions first of all means to provide country's balanced development and national economy expanded potential, stability and predictability of the main macroeconomic indicators, characterized primarily by the use of mechanisms that isolate the domestic economy from the volatility of market incomes. It is possible to reach the target macroeconomic balance with stable low inflation, low cost of the long-term capital, tax conditions stability, reduction of state participation in the economy and its efficiency increase. The mechanism of budget rules use which allows to level the oil prices cyclical fluctuations and to reduce the negative impact of oil price volatility on the budget sustainability is one of the most proven in the international and national practice.

In this connection, the introduction of the Russian Federation new budget rules design, which will allow to reduce the Federal budget dependence on the oil prices and to guarantee to fulfill all the obligations of the state, and also to contribute to the

formation of a predictable macroeconomic policy necessary for the sustainable economic growth is an undoubtedly positive result of the carried out budget policy. The Russian Federation new budget rules design is supposed to be introduced in Russia since 2020 under smooth transition to the new limit of Federal budget expenditures.

During this transition period (2017-2019) the target budget consolidation is to be provided as well as transition of the economy to the favorable investment model of the economic growth. At the same time the gradual reduction of the structural deficit of the Federal budget during 2017-2019 is aimed at creating favorable conditions to decrease and stabilize inflation, to reduce the equilibrium real interest rates in the economy and to eliminate the prerequisites for the tax burden increase. It all will demand the full-scale budget consolidation both in term of the revision of approaches to the budget revenue side formation through better administration, and the consolidation of the expenditure side, which ultimately is to reduce the income and expenditure gap and to ensure the balance of the budgets of the budget system.

2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research

Using serious international experience the following key structural measures to consolidate budgets are to be singled out.

First, it is necessary to perform structural reforms to balance the budget through balance between obligations and income sources. And it should be kept in mind that tax burden increase always constrains the growth of the effective economy sectors, increases the tax system uncertainty, results in interest rates growth. That is why the expenditure optimization is more preferable for budget consolidation in comparison with tax burden increase. According to the statistics the tax burden in the Russian economy for the last few years has remained approximately at the same level 31-32% from GDP. The estimated level of the tax burden on the economy in the Russian Federation is compatible with similar estimates of the Organization for Economic Cooperation and Development member countries (Thalassinos *et al.*, 2015).

Secondly, one of the key measures of the budget consolidation is to increase government sector efficiency through more effective investment resources use and to raise the state-owned companies' investment projects quality which will result in capitalization growth and wide access to debt resources as well as equal competitive conditions with private investments. In this context the measures to increase the minimum level of the norm for transferring dividends on the state-owned shares and of the Federal state unitary enterprises profits to 50% of net profit as well as measures to continue implementing the privatization program.

Thirdly, close coordination of structural, monetary, fiscal and currency policies is necessary. Synchronization of measures on currency, monetary and fiscal regulation with economic policy will allow: to improve the interaction of monetary and structural policies to provide economic growth and banking sector support of strategically important industries for the Russian economy, to provide monetary and fiscal policy coordination aimed at financial stability and economic growth through taking into consideration the influence of such factors as: prices, money supply volume and structure, national currency exchange rate, the resources cost at the financial market (Pociovalisteanu and Thalassinou, 2008; Kormishkin *et al.*, 2016).

Fourth, equal competition opportunities to do legal business first of all through quality improvement of the budget system income administration based on unified methodology and aimed at tax collection growth and reduction of administrative burden on business is the most important budget consolidation measure. The budget influences much on corporate capital flows in terms of economic security due to the tax system differentiation, i.e. the light taxes with developing corresponding types of production by businesses as well as creating conditions for the benefits and preferences Athanasenas *et al.*, 2015).

3. Results

Financial security is characterized by certain qualitative and quantitative criteria, parameters, which serve as indicators and their threshold values. The definitions of competitiveness and financial system sustainability are based on the methodology to ground financial security indicator system and their threshold values. Structuring the financial security indicators into different groups reflects specific threats for the development of all spheres of the financial relations. The financial security indicator system is to be based on use of modern economic and mathematic modeling and forecasting methods to identify the level of future risks and to take the preventing measures to low the level of threats in the financial sphere in the frame of different scenarios of social and economic development of the country.

The financial security assessment is based on comparison of actual and forecasted parameters of the public finance development, non-finance banking sector with quantitative parameters of the financial security threshold values which are qualitative values that reflect the national interests in the financial sphere. On the basis of the numerous researches in this sphere it is possible to state that the comparison of the actual indicators with the financial security threshold values and target indicators reflecting the government financial and credit policy allow to outline the measures to leave the danger zone. The set of such indicators can be the following:

- in the monetary and financial sphere: the size of the gold and foreign exchange reserves; annual inflation rate; the economy monetization level; the share of non-

refunds in the total volume of consumer and mortgage loans; the federal budget deficit; ratio of the size of the state external and internal debt to GDP;

- in the social sphere: the retirement and working age ratio; share of the population with incomes below the subsistence level; funds coefficient; the middle class share in the entire population; average pensions to average salary ratio; the unemployment rate according to ILO methodology; the size of housing per person; housing commissioning.

Nowadays there are serious risks in the monetary and financial sphere for such indicators as: the economy monetization level, inflation and capital flight. The monetization level as the ratio of the monetary aggregate M2 to GDP below 20-30% is considered critical. At the end of 2015, the Russian economy monetization was 44.53%. At the same time, the value of this indicator in the developed economies fluctuates in the range of 80-100%, and in the growing Chinese economy - about 160%. This shows that this level in Russia is insufficient to provide liquidity and stimulation, which is a brake on economic growth. It should be noted that, despite the biggest shock in the last decade, inflation in Russia has slowed from 17% in early 2015 to 5.38% by the end of 2016.

The monetary policy pursued within the framework of the inflation targeting strategy played the role of a shock absorber to smooth out the impact of external shocks on the functioning of the Russian economy. In the future the internal economic stability is supposed to be supported due to keeping inflation at the 4% level. Interest rates are becoming the Central Bank of Russia main channel to influence upon the monetary sphere and eventually inflation. The inflation targeting strategy is the most reasonable for Russia under the unfavorable conjuncture of world markets and because of the Russian economy limited access to the external financing.

The net outflow of capital from Russia in 2014, according to the assessment of the balance of payments provided by the Central Bank, amounted to \$ 151.5 billion. In 2013, this figure was \$ 61 billion. Thus, the outflow increased by 2.5 times. At the same time, the net outflow of capital from Russia in 2016 decreased by 3.7 times and amounted to \$ 15.4 billion in annual terms, compared to \$ 57.5 billion in 2015, the Central Bank expects that the outflow of capital from Russia will be in the base scenarios for 2017 are \$ 13 billion, in 2018 - \$ 22 billion, in 2019 - \$ 21 billion.

4. Conclusions and recommendations

To ensure financial security and to counter threats to the banking and financial sector, it is necessary to implement the following measures. In the budgetary sphere:

- to changing the budgetary policy principles through moving to the budget expenditures indexation taking into account the budget revenues dynamics on the basis of deepening the program-target budget formation principle;

- to restore gradually the budget without deficit with limited public debt growth;
- preferential use of the state programs as a tool to implement strategic planning documents;
- to reflect fully the instruments to achieve goals (tax and non-tax revenues, regulatory measures, expenditures of other budgets of the budget system, state-owned corporations and companies with state participation) in the government programs;
- to ensuring the possibility to plan the indicators and government programs activities for the long-run due to creating realistic budget expenditures "ceilings";
- to continue to monitor regularly the implementation of state programs aimed at potential risks identifying, to control events, the activities implementation;
- to introduce the intermediate evaluation mechanism while implementing the state programs based on the performance audit, which will determine the most effective options to use the budget resources and to redistribute timely them with taking into account the intermediate result.

In the banking and credit sphere:

- to strengthen the anti-inflation and interest-rate policies coordination to influence economic and business activity;
- to develop financial instruments to insure the market risks;
- to develop the national credit ratings system.

In the social sphere:

- to strengthen the targeting of support for socially vulnerable population groups;
- to implement the institutional reforms in the social sphere in the context of the human potential development itself, the efficient spending of the available financial resources;
- to form the investment climate to solve the infrastructure and social problems.

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