

THE GOVERNMENT'S EXPANSION INTO THE ECONOMY AND ITS CONSEQUENCES FOR THE FINANCIAL MARKET

Krinichansky Konstantin,

Professor, Department of Finance and Financial Law

Abstract

The purpose of this study is to examine the impact of the policy of state property expansion upon the Russian financial market during the last decade. Using empirical data and the methods of structural and comparative analysis, the author reveals the following consequences of the analyzed process.

The consequences understood in general as negative, are: (1) strengthening the dominance of the debt sources in the financial structure of companies, (2) replacing the domestic capital market the foreign one, (3) the growing dependence of the Russian corporations on foreign capital sources, (4) the flow of the liquidity from the Russian stock market to foreign exchanges, (5) (as a consequence of the previous ones) the weakening of the development of the domestic financial sector: the stagnation of the indicators of domestic credit provided by the banking sector as a proportion of GDP, stock market turnover values as of GDP (turnover ratio), insurance premium volume to GDP, the slow growth of the indicator for private pension funds' assets as a share of GDP, the decrease of the indicators "Net asset value of mutual funds to GDP", "Number of non-banking financial companies per 1000 population", (6) the reduction of the attractiveness of participation in accumulative pension programs for the population.

The consequences, understood in general as positive, are: (1) strengthening of banks, which compensated the legal system shortcomings in investment protection, (2) the growth of the investment market, the expansion of the demand for the services of financial intermediaries, increased capitalization of issuers in the part in which it proved to be the consequence of the strengthened position of the state in the ownership, (3) the reduction of the foreign borrowing costs for different classes of borrowers, (4) the short-term effects of fiscal policy and the simplification of the task of the tax collection, (5) the (possible) effects of fiscal policy due to subsequent sale of the assets.

The results obtained by the author may be used as a guideline to the adjustment of the government economic policy and the preparation of the concept of the Russian financial market development.

Keywords: Russia, financial markets and institutions, financial development, government policy and regulation

JEL: G20, G28, N20, O16

References

1. Abramov A., Radygin A. Finansovyi rynek Rossii v usloviakh gosudarstvennogo kapitalizma [Russian financial market in the context of state capitalism]. *Voprosy ekonomiki* [Economic issues], 2007, № 6, pp. 28–44.
2. Alekseev M. V 1996 godu, dazhe ne vkhodia v sovet direktorov birzhi, ia imel namnogo bol'she vozmozhnostei zanimat'sia ee razvitiem [In 1996 even though I wasn't among the members of the Board of directors of the exchange, I had more opportunities to be engaged in its development]. *Rynok tsennykh bumag* [Securities market], 2012, № 9, pp. 26–28.
3. Arakelyan M., Nestmann T. Russia's quasi-sovereign debt. A sizeable contingent liability. *Deutsche Bank Research*, January 27, 2011, p. 10.
4. Beck T., Demirgüç-Kunt A., Levine R., Maksimovic V. Financial structure and economic development: Firm, industry, and country evidence. World Bank, mimeo, June 14, 2000.
5. Boot A.W.A., Thakor A. Financial System Architecture. *Review of Financial Studies*, 1997, 10, pp. 693–733.
6. Demirgüç-Kunt A., Levine R. *Financial Structures and Economic Growth: A Cross-Country Comparison of Banks, Markets, and Development*. Cambridge, MA, MIT Press, 2001.

7. Dodonov I., Pal'ianov A. Strategiiia kompanii «Finam» na IV kvartal 2013 g. [Strategy of the company “Finam” for Quarter IV of 2013]. *Investitsionnyi kholding «Finam»* [Investment holding “Finam”], 2013, 25 p.
8. Finansy Rossii. 2012: Stat. sb. [Finances of Russia. 2012: Statistical book]. Moscow, Rosstat, 2012, p. 441.
9. Finansy Rossii. 2012: Stat. sb. [Finances of Russia. 2012: Statistical book]. Moscow, Rosstat, 2012, p. 432.
10. Gavrilenko A. Fondovyi rynek – eto ne igrushka dlia vlasti [Stock market is not a toy for the power]. *Rynok tsennykh bumag* [Securities market], 2012, № 9, pp. 33–35.
11. Goldsmith R.W. *Financial Structure and Development*. New Haven, CT, Yale University Press, 1969.
12. Gordon A. Unyloe pike fondovogo rynka [Dreary peak of the stock market]. *Rynok tsennykh bumag* [Securities market], 2012, № 9, pp. 82–84.
13. Gradetskii A., Zherdiaev F. Strategii goskompanii: bez osobykh ambitsii. Proekt «Ekspert-400» [Strategies of state companies: without special ambitions. Project “Expert-400”]. *Ekspert* [Expert], 2012, № 39, p. 126.
14. Iakovlev A.A., Danilov Iu.A. Rossiiskaia korporatsiia na 20-letnem gorizonte: struktura sobstvennosti, rol' gosudarstva i korporativnoe finansirovanie [Russian corporation over the 20-year horizon: shareholder structure, role of government and corporate financing]. *Rossiiskii zhurnal menedzhmenta* [Russian management journal], 2007, № 1, part 5, pp. 3–34.
15. *Investitsii v Rossii. 2005: Stat. sb.* [Investments in Russia. 2005: Statistical book]. Moscow, Rosstat, 2005, p. 45.
16. *Investitsii v Rossii. 2009: Stat. sb.* [Investments in Russia. 2009: Statistical book]. Moscow, Rosstat, 2009, p. 45.
17. *Investitsii v Rossii. 2011: Stat. sb.* [Investments in Russia. 2011: Statistical book]. Moscow, Rosstat, 2011, p. 46.
18. *Investitsii v Rossii: vozmozhnosti, problemy, perspektivy...* [Investments in Russia: opportunities, problems, perspectives...]. *Rynok tsennykh bumag* [Securities market], 2011, № 6, pp. 56–58.
19. Kuvshinova O., Pis'mennaia E. Eshche odin biudzheth [One more budget]. *Vedomosti*, November 06, 2012, № 210.
20. La Porta R., L'opez-de-Silanes F., Shleifer A., Vishny R.W. Legal determinants of external finance. *Journal of Finance*, 1997, 52(3), pp. 1131–1150.
21. Lanskov P. *Investitsii v Rossii: vozmozhnosti, problemy, perspektivy...* [Investments in Russia: opportunities, problems, perspectives...]. *Rynok tsennykh bumag* [Securities market], 2011, № 6. S. 56–58.
22. Levine R. Financial Development and Economic Growth: Views and Agenda. *Journal of Economic Literature*, 1997, 35, pp. 688–726.
23. Mau V. *Ekonomika i politika v 2011: global'nyi krizis i poisk novoi modeli rosta* [Economics and politics in 2011: global crisis and search for a new growth model]. *Voprosy ekonomiki* [Economic issues], 2012, № 2, pp. 4–26.
24. Mirkin Ia.M. *Rynok tsennykh bumag Rossii: vozdeistvie fundamental'nykh faktorov, prognoz i politika razvitiia* [Securities market in Russia: influence of fundamental factors, forecast and development policies]. Moscow, Alpina Publisher, 2002, 624 p.
25. Mishkin F. *Ekonomicheskaiia teoriia deneg, bankovskogo dela i finansovykh rynkov* [The economics of money, banking and financial markets]. Per. s angl. [Translation from English]. Moscow, Vil'iams, 2008, 880 p.

26. *Osnovnye napravleniia gosudarstvennoi dolgovoi politiki Rossiiskoi Federatsii na 2013–2015 gg.* [Key directions of state debt policies of the Russian Federation for 2013-2015].
27. Papchenkova M., Trifonov A. FSFR uperlas' v goskompanii [FSFR bumped up against state companies]. *Vedomosti*, February 19, 2013, № 27.
28. Radygin A. Gosudarstvennyi kapitalizm i finansovyi krizis: faktory vzaimodeistviia, izderzhki i perspektivy [State capitalism and financial crisis: factors of cooperation, expenses and perspectives]. *Ekonomicheskaiia politika* [Economic policies], 2008, № 6, pp. 88–105.
29. Radygin A. Rossiia v 2000–2004 godakh: na puti k gosudarstvennomu kapitalizmu? [Russia in 2000-2004: on the way to state capitalism]. *Voprosy ekonomiki* [Economic issues], 2004, № 4, pp. 42–65.
30. Radygin A., Simachev Iu., Entov R. Gosudarstvo i razgosudarstvenenie: riski i ogranicheniia «novoi privatizatsionnoi politiki» [State and denationalization: risks and limitations of the “new privatization policies”]. *Voprosy ekonomiki* [Economic issues], 2011, № 9, pp. 4–26.
31. Solov'ev D. Mozhet byt', odin vzgliad nazad mne otkroet v budushchee glaza... [Maybe one glance backwards will open eyes in the future...]. *Rynok tsennykh bumag* [Securities market], 2012, № 9, p. 58.
32. Sotsial'noe polozhenie i uroven' zhizni naseleniia Rossii. 2007: Stat. sb. [Social state and living standards of the Russian population. 2007: Statistical book]. Moscow, Rosstat, 2007, p. 109, 110.
33. Sotsial'noe polozhenie i uroven' zhizni naseleniia Rossii. 2011: Stat. sb. [Social state and living standards of the Russian population. 2007: Statistical book]. Moscow, Rosstat, 2011, p. 99, 100.
34. Vardanian R. Vazhno vosstanovit' doverie k fondovomu rynku [It's important to restore confidence in the stock market]. *Rynok tsennykh bumag* [Securities market], 2012, № 9, pp. 30–32.
35. *World economic outlook: Transitions and Tensions*. Washington, DC, International Monetary Fund, 2013. 249 p.
36. Zhiznenko O. Monopolii – estestvennye i iskusstvennye (na primere sozdaniia tsentral'nogo depozitariia) [Monopolies – natural and artificial (evidence from the creation of the central depository)]. *Rynok tsennykh bumag* [Securities market], 2012, № 7, pp. 60–61.