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The regulation of Russian financial system

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**39TH CONGRESS OF THE EUROPEAN REGIONAL SCIENCE
ASSOCIATION REGIONAL SCIENCE ASSOCIATION
INTERNATIONAL (ERSA/RSAI)**

24 –27 AUGUST 1999 IN DUBLIN

THE REGULATION OF FINANCIAL SYSTEM OF RUSSIA

Introduction

“ A misunderstanding of money is the root of all Russia’s evils ”Economist- December 19, 1998

The regulation of financial system of Russia. Russian financial system is a sophisticated organism of GNP distribution. During a long period of the reformations it was completely altered and adapted to the market economy of the country. However there are still a great deal of serious problems in the state economy which destabilize the financial situation in Russia and lead to social and economic crises. This article concerns the revealing of all the peculiarities of Russian financial

system and analyzes the interaction between all its parts. Each part has its own special features and the way of formation, accumulation and the use of financial resources. They include the state budget, non-budget funds, insurance, finances of the population and its enterprises of different kinds of property. The authors underline the importance of the financial system in the life of the whole country and point out the regulatory and support functions of Russian finances.

1. Theoretical base of Financial system of Russia.

From the point of view of a post socialist marx school financial theory - each section of financial system presents a certain sphere of financial relations, and "financial system as a whole is a collection of different spheres of financial relations, in the process of which funds of bankrolls are formed and used" (Drobosina , 1998 [3,77]). Due to this, the essential of Russian economic legislation standard has been considered the financial system is a system of forms and methods of formation, distribution and use of state and enterprises bankrolls funds.

In transitive period to the market system of managing financial system of Russia Federations presents the following sections of financial relations: state budget system; nonbudget special funds; state credit; insurance funds; finance of enterprises of different forms of property. The first three blocks of financial relations refer to centralized finance and are used for the regulation of economy and social relations on the macrolevel . Financial relations of enterprises refer to noncentralized finance and are used for the regulation and stimulation of economy and social relations on the microlevel.

Cardinal principles of separation of financial system subsystems are:

- presence of own financial base, organized by profits of subjects of economic relations;
- each subsystem has its own function appointment, ensuring financing of expenses on the purposes,(production and realization of goods and services for the reason of getting profit), working population (satisfaction of material and spiritual need of individual, families), states(satisfaction of public needs, social support and economic inactive population protection and unemployed);
- unity and interaction of subsystems , predestined by the generality of the source of profits(GNP) and financial policy, targeted on the coordination of interests economic relations subjects, connection of their financial plans and balances.

2. Russia State budget system.

State budget is a main finance plan of state for a current year, it has a power of law. In the budget annually a part of money profits of enterprises and populations is centralized. Funds are distributed and used on the financing of expenses on carrying out the functions of state. From the budget funds national needs are financed- a defence, management, public order protection and safety of state, fundamental science and others. Besides, from the budget collective needs are financed -expenses for education, public health a culture and art.

Budget system of Russia consists of three levels:

- republican budget of Russian Federation, or a federal budget;
- budgets of republics of Russian Fåderationes . These are budgets of subjects of Federaaion;
- local budgets.

Budget system is a collection of budgets of all levels, based on economic relations and princelpals of their unity, fullnesses, reality, publicity and independency.

Main functions of budget:

1. Federal budget is a main instrument of redistribution of national income and GNP. Through this budget is redistributed nearly 30% of GNP.

2. Through the expenses and taxes a budget emerges an important instrument of regulation and stimulations of economy and investments, of raising efficiency of production.

3. In social policy priorities- support to the least protected populations (pensioners, invalids, students).

4. Budget also influences the institutes of nonproduction sphere.

5. State budget organizes a distribution processes in the public economy.

6. In the process of budget planning and performance of budget the financial and economic activity of economy are controled. In conditions of transition on market mechanisms a meaning of budget control increases.

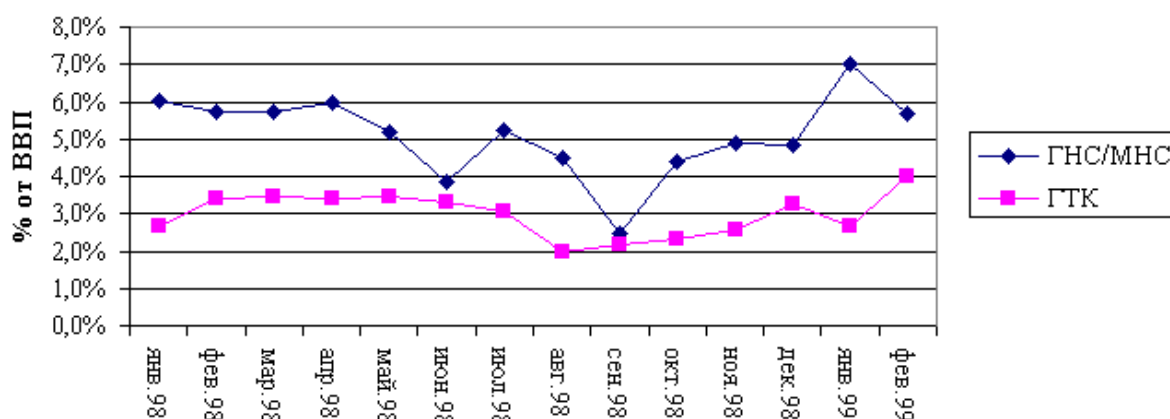
There are two methods of forming and using budget funds - strictly budget and credit. Essence of budget method consists in that taken money income of enterprises and population on the one hand and given financial resources are not payed back . Other part of the budget is formed and used on the credit base: arrivals in the form of internal loans, foreign credits and expenses in the form of budget loans, credits to foreign states.

RF Budget as a financial plan of state is based on forecast factors of social-economic development of the country for a next year. Total factors and structure of profits and expenses are connected with volumes of public product and national profit and are defined by tax system and budget financial policy of state.

Financial plan of state is interconnected with financial plans of enterprises and nonprofit organizations, money profits and expenses of population.

Main source of arrivals in the budget is national income. Other sources are national wealth: profits from privatization of state property , from sale of gold spare . Finally, loans - internal and external form a credit source of forming the budget profits. Tax methods are the base of budget profits .

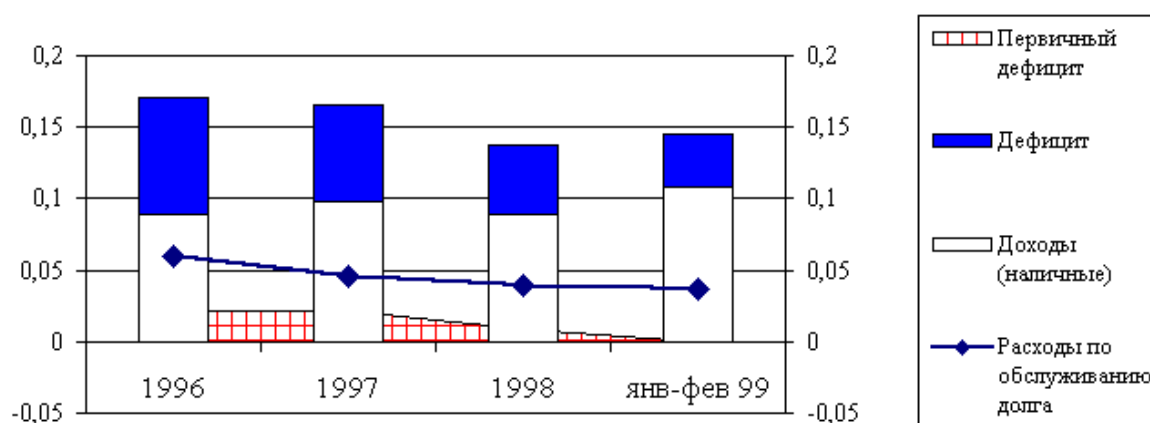
Налоговые поступления в наличной форме в федеральный бюджет



Economic essence of budget expenses reflects a composition of the state functions - economic, social, defense and others. State expenses include expenses on:

- state management;
- international activity, national defence; law-enforcement activity ; federal judicial system;
- fundamental studies and assistance to the science progress;
- industry, energy and construction; agriculture and fishing;
- environment and natural resources protection; transport, informatics; warning and liquidation of exceeding situations and ;education; culture and art; social policy; servicing a state debt; renewing a guest-grant spares and reserves; other expenses;
- expenses of target budget funds.

Показатели федерального бюджета по методологии МВФ в 1996-1999г.г., в % от ВВП



3. Nonbudget special funds.

Main reason of creation of nonbudget special funds is a need to give money to the very important social expenses and ensure their independent sources of the profit.

A decision to form a nonprofit fund makes a Federal Assembly of RF, as well as state representative organs of subjects of Federation. Funds have to support by special finance resources most important branches and spheres of public economy, and to make social help to

the people of RF (from different social funds). Nonbudget funds are the property of state. They usually have a strict target purpose.

The profits of nonbudget funds include:

- special target taxes installed for a certain fund;
- deductions from the profit of enterprises, organizations; the budget funds ;
- profit from commercial activity;
- loans, received by the fund from RF Central Bank or commercial banks.

In Russian Federations there are funds

· social: Pension fund of RF (PFR), Fund of social insurance (FSI), State fund of population employment of RF (SFPE), funds of obligatory health insurance , Fund of obligatory social population support and others;

· economic - Federal and territorial road funds. Fund of reproduction of mineral-resource base of RF, funds of finance regulation and others.

According to the President Edict (22 december 1993) dominating part of nonbudget funds (mainly economic), which profits were formed from payments of organizations, must be united with RF federal budget and budgets of Federation subjects.

Pension fund of Russian Federation is an independent financial-credit institution.

Most important principle of any pension fund is to ensure the earned money to a person.

Pension funds are formed on the base of three main sources: insurance payments of employers, insurance payments of employees and funds from the federal budget. A fund also attracts voluntary payments of organizations. If it has no money, it can use bank credits.

The funds of PFR are used on payments of pensions, pensions to the invalids, compensations to the pensioners, allowances for the children at an age from 1,5 to 6 years and other purposes. In conditions of inflations the pensions to the people are recalculated. Also minimum pensions are calculated.

Fund of social insurance (FSI) has the next main purposes:

- provision of guaranteed by the state allowances; participation in the development and realisation of state programs of workpeople health protection;
- preparing the measures on the improvement of social insurance.

Fund of social insurance, as a Pension fund, is autonomous and has a strict target.

Sources of the fund of social insurance are formed of:

- insurance payments of enterprises;
- profits from investing temporary free sources;
- voluntary payments of people and organizations;
- funds from RF federal budget .

State fund of employment of population of RF (SFEP) is formed for financing actions of state policy of population employment. A need in this fund appeared because of unemployed.

Funds of the fund are formed of: obligatory insurance payments of employers, obligatory insurance payments of employees, funds from federal budget. Additional sources are voluntary payments of people and organizations and other sources.

Fund of obligatory medical insurance of RF (FOMI) is formed in order to improve the organization of health insurance..

Payers of insurance payments in the fund of obligatory medical insurance are enterprises, organizations.

Monthly budget of fund FOMI is about 3.5mlrd rubles.

4. State credit

The essence and functions of state credit.

State credit is a totality of the economical relations between the state on the one hand and natural and juridical persons on the other hand during which the state mostly acts as a borrower, creditor and guarantor. On the quantitative side the state acts mostly as a borrower of resources. Total volume of the state's operations as a creditor, when the state lends loans to natural and juridical persons, is much lower. In those cases when the state assumes responsibility for the repayment of loans or meeting other commitments, which were entered by natural and juridical persons, it acts as a guarantor.

As a link of the financial system the state credit helps to form and use the centralized monetary funds of the state: budget and non-budget funds.

As a financial category the state credit performs three functions of finances: distributing function, regulating function and controlling function.

Forming the centralized monetary funds of the state and their using, based on the principles of urgency, payment and return realize through the distributing function of the state credit. Acting as a borrower the state provides additional resources for financing its expenses.

Realizing credit relations the state influences the currency condition, the level of interest rate in the money and capital markets, the production and employment. Using the state credit as an instrument of regulating economy, the state can realize its financial politics.

The state positively influences the production and employment, showing the demand for domestic goods for the account of the resources which it has borrowed from foreign countries and acting as a creditor and guarantor.

Credits allotted for the account of territorial budgets or non-budgets funds play a very big role in stimulating the production and employment development. The accelerated development of certain regions or necessary directions of the economy of a territory realizes with the help of these credits.

Controlling function of the state credit is like controlling function of finances and has its specific features which has this category.

Classification of state loans.

State loans can be classified by the number of peculiarities:

1. From the point of entities of borrowing relations – loans placed by centralized and territorial authorities.
2. From the point of location – internal and external.
3. From the point of market circulation – market and non-market.

4. Depending on the period of outside funds – short-term (with the period of repayment till 1 year), medium-term (1-5 years) and long-term (more than 5 years) loans.
5. From the point of margin of safety – mortgage and non-mortgage loans.
6. From the point of paid income – lottery, interest bearing and zero-coupon loans.
7. From the point of determining income – loans with fixed and floating income.

State credit controlling.

State credit controlling can be considered from two points of view. On the one side state credit controlling means forming one of the directions of the state financial politics, which is closely related with its acting as a borrower, creditor and guarantor. On the other side state credit controlling means a totality of actions concerned preparation for issuing and distributing state obligations, state stock exchange regulating, state debt service and discharge of state debt, giving loans and guaranties.

In the course of state credit controlling the following questions are being solved:

- debt's value minimization for the borrower
- not overshooting market with state loans and not letting their strong exchange fluctuations
- effective using of raised funds and credits' purpose use controlling
- credits' in time return guaranteeing
- solving maximally the problems, determined by the financial politics

5. Insurance funds

Concept of insurance.

Insurance refers to relations to protect property interests of natural and juridical persons under ensuing of specific events (insured accidents) at the expense of monetary funds formed from insurance dues (insurance premiums) paid by those persons.

Objects of insurance

Objects of insurance include property interests which do not contradict legislation of the Russian Federation:

those connected with life, health, capacity to work and pensions of the insured (personal insurance);

those connected with possession, use, disposition of property (property insurance);

those connected with compensation for harm caused by insurant to a personality or to property of a natural person, as well as for harm caused to a juridical person (liability insurance).

Insurants

1. Those natural persons with dispositive legal capacity and those juridical persons which concluded insurance contracts with insurers are recognized as insurants, as well as those which are insurants on the force of law.

2. Insurants have the right to conclude third-party insurance contracts with insurers (in favor of the persons insured).

3. When concluding contracts, insurants have the right to assign natural or juridical persons (beneficiaries) to receive insurance payments under the contracts, as well as to change these persons by own discretion before insured accident ensuing.

Insurers

1. Those juridical persons of any organizational and legal form provided for by legislation of the Russian Federation, which were founded to effectuate insurance activities (insurance organizations and mutual insurance societies) and which received, in accordance with present law,

a license for insurance activities on the territory of the Russian Federation, are recognized as insurers.

Legislative acts of the Russian Federation can establish limitations for founding insurance organizations by foreign juridical and natural persons on the territory of the Russian Federation.

Production activities, commercial and intermediary activities, and bank activities can not be an object of direct activities of insurers.

2. Juridical persons which do not meet requirements provided for by point 1 of present article do not have the right to engage in insurance activities.

Insurance agents and insurance brokers

1. Insurers can effectuate their insurance activities via insurance agents and insurance brokers.

2. Insurance agents are those natural or those juridical persons which act on behalf and on the instructions of insurer in accordance with powers granted.

3. Insurance brokers are those juridical or those natural persons, which are registered in the established procedure as entrepreneurs and which effectuate intermediary insurance activities on behalf of their own and on the grounds of the instructions from insurer or insurant.

Insurance brokers are obliged to send into Federal Service of Insurance Supervision a notification of intention to effectuate intermediary insurance activities 10 days before starting the activities. A copy of certificate (decision) to register the broker as a juridical person or as an entrepreneur should be appended to this notification.

4. Intermediary insurance activities, connected with concluding insurance contracts on behalf of foreign insurance organizations, are not permitted on the territory of the Russian Federation, if international agreements with participation of the Russian Federation do not provide for something different.

Classification and forms of insurance.

1. Insurance can be effectuated in voluntary and obligatory forms.

2. Voluntary insurance is effectuated on the basis of the law and on the freewill basis. Voluntary insurance is effectuated on the basis of a contract between insurant and insurer. Rules of voluntary insurance, which specify general conditions and carrying out of insurance procedure, are established by insurer autonomously in conformity with the statements of present law. Concrete conditions of insurance are specified under conclusion of insurance contract.

3. Insurance effectuated on the force of law is obligatory one. Types, conditions and procedure of carrying out of obligatory insurance are specified by respective laws of the Russian Federation.

The objects of obligatory insurance in the Russian Federation are personal property's obligatory insurance, servicemen state obligatory insurance, citizens' medical obligatory insurance etc.

Insurance can be divided into several parts. They are: property insurance, personal insurance and responsibility insurance.

Property insurance defends insurant's interests concerned owning, using and disposal of one's property (such as agricultural insurance, transport insurance, citizens' property insurance etc.).

Personal insurance is a form of social defence and consolidation of population welfare. Its objects are life, health and employability of citizens.

One of the main parts of Russian insurance market is medical insurance of citizens, effectuated on the basis of the law "About the medical insurance of citizens". The aim of the obligatory medical insurance is solving the problem of financial security of the health service and providing the minimal guaranteed level of medical service to the population.

Responsibility insurance defences not only insurant's interests, as the damage for him is redressed by the insurance company, but other people's too, who are guaranteed the payments for

the damage done as a result of action of the insurant.

Insurance organization in the Russian Federation.

The main part of insurance companies (more than 58%) is related to the companies with mixed patterns of ownership, with private – 36%, with state – 5%, with municipal – 1%.

The government sector of insurance is headed by “Rosgosstrah”. It consists of 78 subsidiaries with 2500 affiliated branches. It has large funds and big practical experience in the field of personal, property and agricultural insuring, it specializes in the main social forms of insuring.

The commerce sector of insurance is represented by insurance public companies or closed corporations and limited companies. There are 3000 insurers in Russia who has the licence for insurance dealings, but only 10% have substantial funds for it.

6. Finances of companies with different patterns of ownership

Finances of non-profit-making companies.

According to the civil code of the Russian Federation non-profit-making company is a juridical person, whose main purpose isn't making profit, and profit got as a result of business activities is used for developing this company and extending the performance of its public functions. Non-profit-making companies are established and act in the purpose of protecting citizens' health, developing physical training and sport, achieving social, cultural, scientific, educational and other purposes, defending citizens' and companies' rights and interests. Non-profit-making companies are represented by public and religious companies, social and other funds, associations and alliances.

The sources of functioning non-profit-making companies are the resources of budget, ventures and population.

Governmental and municipal non-profit-making companies.

Schools, hospitals, museums, libraries etc. are mostly based for the account of the governmental and municipal resources.

Till the first of January, 1996, more than 340 thousands of non-profit-making companies have been registered in Russia (it's 13,7% of the total volume of juridical persons), including more than 190 thousands of state and municipal companies, and 150 thousands of non-state companies. Financial resources of the non-profit-making companies are accumulated from different sources depending on purposes, forms and kind of services provided – market (paid) and non-market (free of charge).

Total income of the non-profit-making company is used for paying salary and wages, financing expenses and giving additional resources for social development fund.

Non-state non-profit-making companies.

Civil code and federal laws determine law basis for establishing and functioning of non-state non-profit-making companies of different forms. They consist of public and religious companies

(85,8 thousands in 1996), consumers' associations (51,6 thousands).

Finances of profit-making organizations (companies).

As a part of the financial system finances of companies function in the field of material production, where aggregate public product and national income are generated. Finances of companies are economical relations during formation of productive assets, producing and selling goods, attracting outside sources of financing, their distributing and using. Finances of companies are the base of the financial system of a country. The capital base of a company is formed for the account of profits and depreciation. Outside funds consist of different types of credit and obligations, stocks and shares of each participant of a certain project. Finances of companies has the same functions as the state finances: distributing and controlling functions. These two functions are closely related.

Finances of companies' organization.

Finances of companies' organization is determined by their industry classification of establishments and peculiarities of production distributing. There can be finances of industrial companies, agricultural companies, building companies, transport companies, trading companies etc. Commercial calculation based on the principles of self-repayment, self-financing and self-controlling is the basis of business activities and finances organization.

Self-repayment means that costs, commercial and managerial expenses of a company are covered for the account of the sales proceeds.

Self-financing means that profit and depreciation, which are assets of a company, will cover its requirements of reproduction of means of production and reproduction of labor-power fully with attracting outside funds or partially, that is possible only if a company has financial stability.

The necessity of self-controlling for the company's business activity is a result of requirements of self-repayment and self-financing. Self-controlling is made by the company's office and management personnel financial department.

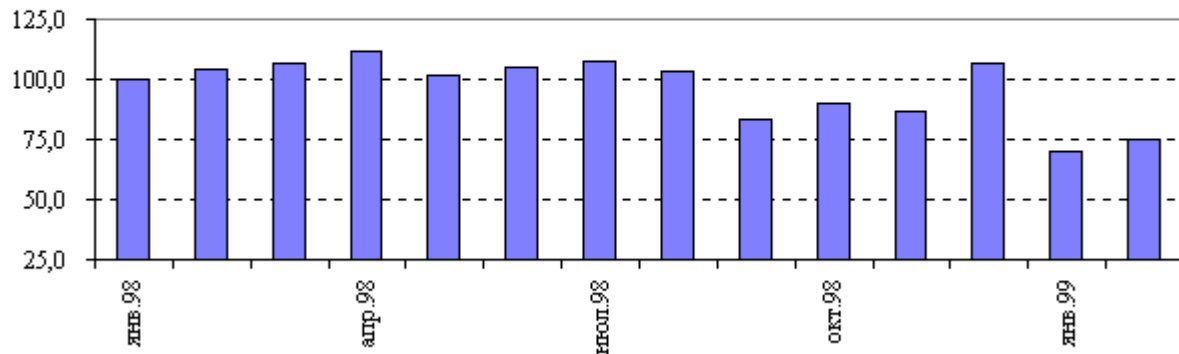
7. Finances of population

The most part of generated GNP (goods and services) goes in the field of personal consumption. The demand for consumer goods and services is determined and regulated by the population income and kind of state social politics. Monetary relations during profits and expenses of the population forming is a specific subsystem – household finances.

Household monetary income consists of three parts:

- 1) salary and wages, bonuses, social payments;
- 2) income got as a result of business activities, company's profits participation, financial operations;
- 3) governmental pensions and other social payments.

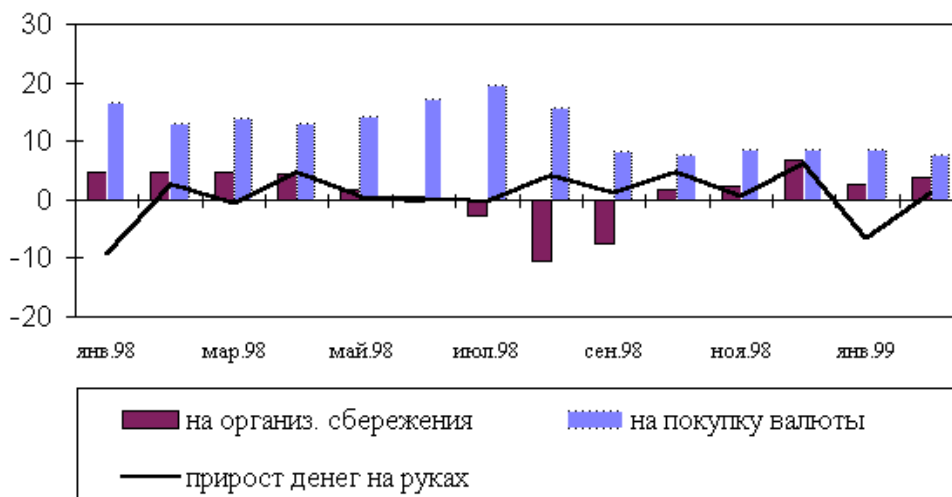
Реальные доходы на душу населения (январь 97 = 100)



Household monetary expenses are divided into three groups:

- 1) consumer expenses (purchasing and service payments);
- 2) taxes and other obligatory payments;
- 3) saving money

Составляющие расходов населения (в % от расходов)



8. Financial relations

The system of finances of the Russian Federation consists of several subsystems, each of which has its own peculiarities and principles of generating and using of the financial resources. It controls and supports all the interactions between these parts.

Subsystems and links of the financial system of Russia



Summary

Analysis done above shows that the financial system of the Russian Federation is changing now. Political, social and economical contradictions of governmental regulating have reflections in controlling financial relations. Financial and investment flows are realized on the basis of the following scheme: state budget system, non-budget special funds, state credit, insurance funds, finances of companies with different patterns of property and finances of the population.

Budget of the Russian Federation is a link of the financial system of the country using the main centralized monetary fund of the country. Non-budget funds accumulate monetary resources, which are used for financing certain social purposes and for additional financing territorial needs. State credit helps to form and use the centralized monetary funds of the state: budget and non-budget funds. Insurance protects property interests of natural and juridical persons under ensuing of specific events at the expense of monetary funds formed from insurance dues paid by those persons. Non-profit-making companies are represented by public and religious companies, social

and other funds, associations and alliances. Their main purpose isn't making profit. Finances of companies function in the field of material production, where aggregate public product and national income are generated.

Governmental financial politics must provide financial system normal functioning and on this basis it must realize its social, economical, ecological, defensive and other functions more effective.