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MONETARY RULE OF INNOVATIVE ECONOMY

(Can Russian Experience be used in Europe?)

The problem of monetary policy has recently become actual as the necessity of economic changes for transition to innovative way of country's development was accepted. The article discusses the institutional role enhancement of monetary policy in society transition to innovative economy.

Modern conditions of international competition, economic relations development and changes of mechanisms for achievement of society's development goals demand constant improvement of state regulation methods and forms. Monetary policy is one of the important constituents of government economic policy and the dynamics of social-economic development greatly depends on how effective its instruments are used and on its correspondence to current economic conditions.

The problems of monetary policy have recently become extremely actual not only for scientists and experts. It is explained first, by accentuation of government attention on coping with inflation and second, by comprehension of necessity to change the vector of economic policy and monetary policy as policy defining the transition to innovative type of economy development.

The article discusses the monetary policy modeling in innovative economy.

1. A discretionary monetary policy or monetary rule

Since John M. Keynes one of the most debatable problems of monetary theory was the role and place of monetary regulation in state economic policy and the status of the main credit institute - the Central bank.

Monetary policy is known to be implemented in two forms: 1) discretionary policy when the Central bank reacts to some changes in economic conjuncture in an unplanned way and, 2) by stationary procedures or with monetary policy rules¹, that is, strategy according to which the Central bank can compulsorily or independently take some liabilities². Thus, for example, M. Friedman suggested to introduce legal restrictions concerning of the Federal Reserve System possibilities to increase money in circulation to a certain degree, that is, to introduce the elements of so-called monetary constitution³ which is to provide predictability and actions coordination of all market subjects.

The question concerning application of this or that form of monetary policy realization does not have a single answer despite the fact that famous economists⁴ are inclined to the use of monetary policy rules in this or that form. Many researchers at the same time are for the expediency of the use of discretion elements within certain limits while implementing monetary policies. Here, as we see it, it should be pointed out that in practice it is not advisable to compare monetary policy rules and discretionary policy, that is, policy having a free hand in current circumstances. Denial of discretionary policy, in particular, is a characteristic feature of orthodox-monetary theory. Certainly, we can't but agree to many arguments for the necessity of collaboration and observance of the main principles and rules of economic policy. However we must avoid extremes as it is also important to ensure monetary policy elasticity and possibility of use of its different variants taking into account the peculiarities of a definite situation and its changes tendencies, environmental factors and so on. Finally, we should remember that in practice appearance of new economic events may not correspond to any known rules.

Not casually, many proponents of strict rules policy underline the importance of a certain elasticity of monetary policy. For this purpose "the rules with a feedback" are suggested which allow policy changes when economic situation changes, but these changes happen according to the formulae stated in advance⁵. The preference problem of discretionary policy or policy based on a rule is considered as a dilemma «monetary policy elasticity – transparency and limpidity of strategy,

¹ Systematic process of decision making, using information in a successive and predictable way.

² See: Moiseev S.R. Monetary policy rules//Finance and Credit. 2002. №16. p.37

³ Constitution (Latin constitution – maintenance) is known to be the main law of a state, possessing the higher legal power, appointing its political and economic system, setting organization and activity principles of government institutions, management, court and the main rights, liberties and responsibilities of its citizens. Considering "monetary constitution" the authors mean lawful limitations of changes in monetary instruments parameters (monetary aggregates, interest rates and so on) and besides limitations of organizational-legal conditions of monetary powers functioning.

⁴ See, for example, the works by L. Ball, B. Maccallum, J.Taylor,L. Swenson, M.Friedman

⁵ See: Saks J. Larren F. Macroeconomy. Global Approach. M. Delo, 1996.P.667.

monetary policy predictability". Considering the last works of foreign researchers⁶ it may be pointed out that they are mostly devoted to problems of rules application in this or that form while realizing monetary policy. Such approach makes the choice of this or that mathematical model possible and actual and ensures its optimal specification.⁷

2. Monetary policy and inflation

Defining monetary policy rule for Russia presents a certain interest. On the one hand, the Bank of Russia is known to try to follow certain points – in the pre-crisis period the stress was made on restriction of money supply growth rates; subsequently the attention was paid to coping with inflation. Its policy remains discretionary in many respects, i.e. if necessary the Central bank of Russia allows deviation from the standards.

For national monetary authorities the prime problem of the nearest future is optimization of monetary policy in terms of “real exchange rate – inflation”. Thus, as it was already specified, the Bank of Russia supposes to pass to targeting inflation (at least according to its program documents⁸). Despite of the debatable character of a question concerning the inflation targeting adequacy to modern conditions of national economy development⁹, the general position for researchers is the one according to which, transition to new principles will demand consecutive refusal from discretionary character of the Bank of Russia actions¹⁰ (in particular, actions concerning exchange rate policy) and orientation to the use of a rule¹¹ in monetary policy realization.

Believing, that inflation is exclusively a monetary phenomenon, it is possible to come to absolutely incorrect conclusions, namely: that only the superfluous money supply (issue) causes their relative value change. It is necessary to take into account, that there is not only one but a few

⁶ The works of National Bureau of Economic Research (NBER), in particular, available at www.nber.org/papers

⁷ Splash of interest to the researchers devoted to central banks conduct modeling noted recently was caused by the works of J Taylor. The monetary policy rule suggested by him explained actual dynamics of short-term interest rate in a simple form. In the following years a lot of researches, conducted for different countries proved

⁸ That in practice central banks really follow mainly a certain set of predetermined rules reacting to different macroeconomics shocks.

⁹ See: The main trends of integrated state monetary policy for 2008.

¹⁰ The researchers point out the following problems corresponding to effective inflation targeting realization in Russia: preservation of fiscal domination in economy; considerable price share, regulated by the state and, as a result, problems connected with inflation indicator choice; objectives conflict appearance (for example, in striving to keep desirable interest rate level or exchange rate). See, for example: Moiseev S. Inflation targeting: international experience and Russian perspectives. // Questions of Economy. № 9, 2000. P. 104-105; Levchenko D.V. About inflation targeting.//Money and Credit. №10, 2001. P.30-31; Marjyasyn M. Sh. Approach to basic inflation yearly forecast realization probability estimation.//Banking, № 11, 2005. P. 16-21; Inflation and economic growth: theory and practice. Scientific miscellany of fundamental and applied researches. M.: Finance and Statistics, 2007. 287 p.

reasons changing the value of money, issue being not the main among these reasons. Inflation is often presented as the phenomenon which appeared mainly during the circulation of paper money in an economy¹². However inflation took place when both gold and silver coins, and also ingots were used. A different matter is depreciation volume, but it depends not only on paper money issue and in the past on issued gold and silver coins quantity, but also on economic system condition and manufacture of the blessings. The last circumstance is extremely important for understanding, and, hence, and for inflation measurement. Its disregard of results in appreciable errors in economic policy.

Experience of the western researchers in development of monetary and currency policy models is becoming more and more actual in Russian conditions due to objective necessity of macroeconomic management forms development and perfection. Use of a rule in monetary policy realization has a lot of positive moments. So American economist G. Simons marked that «market economy cannot effectively function in extreme uncertainty of monetary authorities actions. Certain, stable game rules, concerning money, have defining value for functioning of the system based on free enterprise»¹³. Really, the monetary policy based on a rule, as it has already been stated, acquires such important characteristics, as transparency, consistency and regularity. Such form of monetary policy realization disciplines monetary authorities, releases them from pressure of political conjuncture.

However application of rules in a developing economy demands considered approach.

First, it is necessary to estimate the parameters of transmission mechanism functioning and the importance of separate monetary policy impulses channels precisely. Structural changes in the transfer mechanism (strengthening of one channels importance and weakening of others) demand corresponding alterations into a rule in which the monetary policy instrument is expressed as function of economic variables (a rule of L.Ball and L.Svensson).

$$i_t = f\pi_t + gy_t + h_0e_t + h_1e_{t-1} \quad (1)$$

where i_t - the nominal interest rate imposed by national central bank; π_t - inflation rate; y_t - real Gross National Product deviation from the potential one; e_t - real exchange rate; f, g, h_0, h_1 - policy parameters (difficulties in use of the given equation arise at making of long-term forecasts as

¹¹ A monetary policy rule may also be defined as a function of monetary authority response reaction in correspondence with which monetary policy instrument respond to some key economic variables changes.

¹² Some researchers interpret inflation exclusively as a monetary phenomenon. See: V.I. Maevsky Fundamental money theory and macroeconomicaestimation.//A report at a section of UN RAS, M.: CEWR RAS, 2007. – P.10

¹³

in this case neither the real interest rate, nor a real exchange rate are not known, and besides temporary delays in interdependence «issue ↔ inflation ↔ the interest rate» are not considered.

It is necessary to test a rule of monetary policy for its optimum specification determination regularly providing the most effective reaction of the central bank to changes in economy. Events in the economy of the USA in the end of 2007 – in the beginning of 2008 testify that there are shifts in functioning of the credit policy transfer mechanism. Attempts of FRS to influence a situation (in particular, by means of sharp in the interest rate reduction) did not cause the expected response in the economy.¹⁴

In this connection the rule according to which the central bank strives to minimize the losses function (model of J. Taylor) is seen as more flexible as in this case it can use the necessary monetary policy instrument on its own discretion. Model of J. Taylor, assuming compatibility of monetary units targeting and national currency exchange rate policy may be presented mathematically as follows:¹⁵

$$L_t = (m_t - m_t^T) + v(S_t - S_t^T)^2, \quad (2)$$

Where m_t and m_t^T - monetary base (actual and targeted value); S_t and S_t^T - exchange rate (actual and targeted value); v - factor in losses function. The specified equation is a particular example of exchange policy realization (it can be applied by the central bank while carrying out currency market interventions) by targeting rule at which monetary authorities strive to minimize the value of certain losses function.

Second, the system approach realization in application of monetary policy rules is an important aspect. It perceives a rule not simply as a mathematical formula, but as a complete system, a methodological base, and a flexible mechanism of monetary policy development and realization.

Third, as in the conditions of economic system transitivity the currency channel of the transmission mechanism is the most significant for a monetary policy of the Bank of Russia, the inclusion of an exchange rate in the equation of a monetary policy rule as a instrument parameter is considered to be expedient.¹⁶

¹⁴ In this connection the head of the FRS Ben Bernanke in his report before the Financial Services Committee in the House of Representatives of the US Congress on February 27, 2008 noted that the most important task of FRS would be “monetary policy correspondence estimation to the demand to provide maximum employment and price stability in conditions of economy growth rates decrease risk, financial sphere stresses and inflationary pressure”.

¹⁵ Taylor, John B. (eds) *Monetary Policy Rules*, Chicago: University of Chicago Press, 1999.

¹⁶ However, it is worth to note that currency rate channel in transmission mechanism cannot be always used with the maximum effectiveness in economies with developing financial markets.

In such models it seems necessary to take into account a large number of factors of the exchange rate which is expressed in its complex interrelation with other economic categories - money, interest, balance of payments. Thus the degree of trust to national currency on domestic and world markets is of importance. The examined problems are especially actual in a developing economy when subjective factors, in particular population and the markets expectations, are not of minor importance in guideline formation of macroeconomic parameters.

3. Organizational-legal conditions of the central bank institute functioning

After the Central banks have acquired monopoly for currency issue, they became carriers of the so-called monetary sovereignty which emphasizes the sovereign right of the state to regulate monetary issue in every respect through the central bank and to implement monetary policy to solve economic problems.¹⁷

Basic elements of monetary sovereignty are:

- Existence of monetary sovereignty institution (the Central Bank) with discretionary powers;
- A priority of national authorities in a monopoly currency issue;
- Use opportunity of various monetary regulation methods and instruments;
- A floating exchange rate and absence of external liabilities and agreements.

Maintaining the monetary sovereignty, the country has a number of advantages:

- The state can implement independent economic policy, and monetary authorities can have ample opportunities of strategy and tactics choice of monetary policy.
- Getting seigniorage, the inflationary tax received by the state as a result of currency issue.
- Performance of a creditor role of the highest instance.

The central banks appeared in response to inability of commercial banks to overcome the bank crises connected with investors panic independently¹⁸. Before the crisis the role of creditors of the highest instance was carried out by bank coalitions¹⁹. With the appearance of the Central bank as

¹⁷ Dikic D. Monetary Sovereignty – Some Theoretical and Emperical Considerations. – Development and International Cooperation, 1995, vol. 11, №21-1, p. 225-248.

¹⁸ The notion “lender of last resort” was first introduced by English economist Y. Baygegot in his work “Lombardstreet” published in 1873.

¹⁹ Banks organized as formal so informal associations with the aim to self-ensure from depositors’ outflow. Then this role was taken by issuing banks which resulted in cessation of banks coalitions activity and introduction of bank supervision and regulation.

the most effective type of monetary authorities discussions concerning the degree of its autonomy in monetary policy implementation have not been over till now.²⁰

In 1936 F.Lutts wrote, that «money creation should be submitted to expedient monetary and currency policy objectives». The expediency is the concern for «reliability of money», «the credit party» requiring private institutions and competition, and the monetary party requiring management and guarantees "from the authorities", hence, from the point of view of the author, «the basic problem of the monetary constitution results from this reason». In modern conditions the idea of «the monetary constitution»²¹ is based on the concept of money "super neutrality". The concept of neutrality of money assumes that change of money quantity in circulation valid for one occasion only will not influence the equilibrium level of real volume of production in the long run. Neoclassical proponents put forward the assumption that changes in monetary policy do not result in any change in economic system even in the short run provided that economic objects expect prospective changes²². However the researchers and experts position on the given question is ambiguous.

The USA Federal Reserve System management, for example, considers tight activity regulation of monetary authorities to be fraught with more dangers than²³ Some authors put forward reforming projects of the Central bank institute. In particular, it is suggested to separate regulation functions of monetary base from controlling measures over the activity of commercial banks, by creating corresponding institutions. However, in this case there can be actions coordination problems of these institutions and competition. Not casually, probably, projects of regulating functions concentration, merges of the central bank and the exchequer are put forward, but thus there is another danger - excessive monopolization of powers. Some authors suggest forming a certain kind of super monopoly when they speak about the necessity to absorb monetary policy by financial policy and to create a single system of priorities²⁴ instead of two centers.

²⁰ Nations League Conference, held in Brussels (1920), Genoa (1922) and London (1933) adopted provision about the necessity to set up central banks in all developing countries which did not have them. At of the same time before the mid 1950s currency board was the main competitor of the central bank. Pound of sterling weakness in Bretton-Wood system and investment deficit in former British colonies contribute to refusal from currency board in favour of the central bank. In 1950-1960s the Central bank was introduced in all British colonies in Asia and Africa.

²¹ Luts F. The main problem of monetary constitution.// Politeconom. 1996. №2. P. 46-47

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²⁴ Moreover, "effective financial system management" is possible at "large government" coalition creation and a large bank, on the one hand, and leading financial institutes not connected with monetary authorities, on the other hand". Integrated monetary authorities must leave "firm core" of such coalition. See: Yevstigneyev V. Monetary issue and transitive economy.// Questions of economy. 1997. №10. P. 15-16.

However it is necessary to notice that differentiation of monetary circulation and «a contour of financial assets circulation» is considered to be rather essential and objective circumstance and their original merger is inexpedient. At the stated management system there is not a simple financial orientation of macroeconomic policy, but it is fully reoriented for the fiscal purposes. V.Yevstigneyev confirms the present thesis, specifying that in case of a "monetary" and "financial" contours merger «management criteria of a financial system have financial nature instead of social or real nature ... ». ²⁵

In a counterbalance of excessive authority concentration in monetary sphere offers are made to provide full independence of the central bank from government intervention. But excessive independence threatens with responsibility decrease and uncontrollable actions, isolation from uniform system of state economy regulation. More than that there are authors who specify the necessity of such activity organization of the Central bank which would completely be based on the free market competition mechanism²⁶. F.Hayek, for example, contended that «the opportunities of market economy could be revealed much fuller if the state monopoly for money²⁷ has been abolished». At such system the Central bank loses the monopoly rights for currency issue, a bank of banks role and the bank reserves holder, etc. Competition between commercial banks and the “private money” issue centers creates the self-regulation mechanism, which, in Hayek’s opinion, provides equilibrium in the monetary market and automatically provides stability of purchasing power of money.²⁸ At the same time the majority of researcher marks that transition to a free competition in bank system is practically impossible, as in this case the system of state economy regulation as a whole²⁹ is actually undermined.

Considering the problem of monetary authority’s independence M. Crawford has determined eight key parameters:

- Availability of legislative (constitutional) guarantees of central bank independent status excluding the intervention opportunity in its activity;

²⁵ See: Yevstigneyev V. Monetary issue and transitive economy.// Questions of economy. 1997. №10. P. 15-16.

²⁶ The theory of free banking activity substantiating the setting up of private issuing banks has a long history. Providing the Bank of England with exclusive powers to issue money in 1844 became the dividing range between the past and the future of emission policy. The idea of competitive issue was revived by F. who published his work “The currency choice” in 1976. During 1980s a group of economists (R. Waubel, D. Glasner, K. Doud, J. Selgin) replenished the theory of free banking activity, suggesting, in particular, to use e-money widely to reduce the central bank role in monetary issue.

²⁷ Disastrous presumption. P. 181.

²⁸ See: Hyek F. Private money. M.: Institute of national economy model , 1996.

²⁹ See: Management of social-economic development of Russia: ideas, purposes, mechanisms./D.S. Ljvov, A.G. Porshnev; State University of management, Economy department RAS. M.: Closed-end company “Publishing House “Economy”, 2002. P.424.

- Stability of standard basis determining the central bank status.³⁰
- Monetary authority's independence in refinancing rates determination;
- Securing such assignment of central bank manager which limits the authorities' opportunities to determine a candidate;
- A long term of directorship authority of the central bank;
- The limited opportunities of removal from central bank office ahead of schedule;
- Absence of authority representatives in the management of the central bank;
- Precise legislative definition and consistency of the activity objectives and purposes of the central bank;

D. Serve determines the following criteria of monetary authorities' independence.

- institutional independence which is determined by such factors as securing special status of the central bank and precisely formulated guarantees of authorities' non-interference in its activity.

- Personal independence which, in the researcher's opinion, is caused not only by prohibition of any authorities' instructions, but also by a special order of assignment to an office, and besides by a long and not renewed term of appointment of the managing director and board members of the Central bank.

- Functional independence within which the researcher singles out operational and financial independence. Operational independence is stipulated by availability and opportunity of independent application of corresponding credit policy instruments. Financial independence is determined by availability of the Central bank own assets, including isolated property.³¹

Examining the current position of monetary authorities' institute in Russia, it is possible to determine the following directions of organizational-legal conditions perfection of the central bank functioning. Our proposals follow from the concept of "economic system" dysfunction³² and are intended to rise functional management efficiency of monetary system, to make it adequate to the problems solution of national economy development, and to increase adaptive properties. To overcome the system dysfunction it is necessary to increase institutes quality on seven parameters groups which set frameworks of system (institute) functioning:

- 1) the existence purposes (the purpose of the given rules),

³⁰ Crawford M. One money for Europe? The Economics and Politics of Maasticht. L. 1993. P. 195.

³¹ Sevais D. A Single Financial Market. Brussels – Luxemburg, 1995. p. 92-93

³² Sukharev O.S. Institutional theory and economic policy. / in 2 volumes. – M.: Economy, 2007. The theory of economic dysfunction. – M.: Mashinostroenie, 2001.

- 2) areas of efforts application (the sphere of activity or realized requirement in a functional set of this system),
- 3) functional filling,
- 4) period of time before change (including a functional set),
- 5) costs of functioning,
- 6) degrees of rejection or acceptance of introduced standard (function),
- 7) stability to a mutation (a measure of system/institute stability to its transformation to any other form).

Change of one of these seven parameters with the reference to operated system as a whole can have serious consequences concerning the stability of system functioning, its quality and utility for the economy. The inefficient standard can be steadily viable. Availability of such standards tells about this or that degree of economic system dysfunction, and availability of inefficient steady standards tells about loss of "functional", "target" system quality. These processes can arise independently from each other or simultaneously. Introduction of new institutes or prolongation of the old ones cooperating with new often strengthens negative influence both on a definite system, and on economy as a whole.

Let's formulate our proposals concerning strengthening of a personnel autonomy of the Bank of Russia and increasing of its functional autonomy, proceeding from the necessity of reduction of system dysfunction degree.

1. Strengthening of the Bank of Russia management political autonomy.

Chairman appointment of the Russian Federation Central bank should be made by the Board of Directors of the Bank of Russia from its members. The term of office, in our opinion, should not be less than eight years to avoid management dependence on four-year political cycles³³. The grounds for removal from the office of chairman of the Central bank³⁴ fixed in legislation are also of great value. The reasons of the central bank chairman dismissal cannot be connected with the implemented monetary policy. Independence of Bank of Russia is known to be able to be formally undermined by authorities' intervention in decision-making process. Thus, in conformity from articles 12, 13 of the Federal law from July, 10th, 2002 86-FL «About the Central bank of the Russian Federation (the Bank of Russia)» (further in the text - the Law on the Central bank) the

³³ According to art. 14 and 15 of the Federal Law of July 10 2002 №86-FL "About the Central bank of Russian Federation (the Bank of Russia) the State Duma of the Federal Assembly of Russian Federation appoints the Bank of Russia Chairman and the members of the Board for 4 years term.

³⁴ There are five such grounds (art. 14 of the Law on the central Bank) but as a rule all chairmen of the Bank of Russia submit a personal application about resignation.

National bank council in which representatives of legislative and executive authorities are included, has the status of collective management authority of the Bank of Russia³⁵. Such management system, in our opinion, first, promotes collaboration of monetary policy pro-governmental orientation and, second, "washes out" the responsibility for decision-making in monetary regulation. Therefore, in our opinion, it is necessary to introduce amendments to the Law on the Central bank connected if not with abolition of such institute, as National bank council, then with determining of its function as consulting one.

In the Law on the Central bank it is necessary to establish with responsibility for the consequences of the Central bank of the Russian Federation activity as the body of state regulation of monetary and credit sphere, including stability of pay-accounting system. Attaining of monetary policy goals, ensuring of bank system functioning should be the only criterion of the Bank of Russia activity.

2. Strengthening of the Bank of Russia functional autonomy.

In existing edition of the Law on the Central bank there is no provision stating that government authorities of all levels have no right to interfere with its activity on legislatively fixed functions realization, and besides to make the decisions contradicting the Law on the Central bank. Owing to the introduced amendments it has recently become almost a norm to intervene directly in operative activity of the Bank of Russia. It is expressed in periodic instructions concerning the application order of these or those instruments of a monetary policy.³⁶

Critically estimating the forms and methods of economic policy implementation in Russia it is possible to speak about the expediency of a precise questions regulation of credit policy implementation with simultaneous expansion of powers and national monetary authorities independence strengthening.

It is necessary to designate the subordination hierarchy of monetary policy purposes precisely in order to prevent the potential conflict between them. The Bank of Russia requires independence while designing monetary policy which should be coordinated, but not arranged under budget-tax policy. The conflict of interests should be initially eliminated by introducing corresponding provisions about solving debatable moments or providing the Central Bank with "the

³⁵ Thus, according to art. 13 of the federal Law of July 10 2002 №86-FL "About the Central bank of Russian Federation (the Bank of Russia) the project of the main unified state monetary in particular fall under competence of National Bank Council policy trends

³⁶ Thus, the decree of Zamoskvoretsky intermunicipal court of Moscow of February 2004 about condemning Moscow main territorial Bank of Russia responsible person guilty in providing stabilization credits to commercial bank had a great effect. Meanwhile, legally the question about advancing stabilization credits falls fully under the Central Bank competence. Thus, the decree set an obvious precedent on the Central bank powers limitation.

right of the last word” in collaboration of common decisions with the Government of Russia into regulatory-legal acts. It is necessary for the Bank of Russia to set key monetary guidelines for the forthcoming period of time, such as exchange rate, inflation and money supply according to which the Government of the Russian Federation should make its own plans.³⁷ Representatives of the Bank of Russia should take an active part in designing budget-tax policy for the forthcoming planned period.

As for openness and transparency of the Bank of Russia monetary policy it is seen to be insufficient. The Russian monetary authorities demonstrate extreme closeness in comparison with their colleagues, and economic agents do not trust in its stabilization abilities. It is necessary to improve the information work standard of monetary authorities with population and markets considerably.³⁸

Besides it is very important to recognize that the structural policy which is extremely necessary in Russia requires absolutely specific monetary policy model³⁹. Thus macroeconomic policy will seriously differ from the standard schemes and procedures. For example, to set monetary ranges of their credit portfolios for banks which should be outlined by corresponding top and bottom interest rates may require. This will allow leveling eventually the profitability of sectors due to private capital distribution change and actually to impose the scheme « greater risk for the greater income». Today banks have incommensurably higher profitability and the greater income at rather smaller risk in comparison with real sector that essentially complicates effective interaction of sectors and structural changes management in economy. Borders of monetary policy can be outlined proceeding from data concerning an average profitability figures accounted on each sector of economy. The investments gain into these sectors will result in the growth of their competitiveness and profitability, and banks will expand their activity in significant for economy and society sectors, instead of transferring the credit resources, basically, to the financial market. However, on the one hand, in the short run it can lower the general profitability of economy, but on the other hand it will allow preserving the major directions of economic activities and a basis for the future competitiveness of all the economy. Certainly, it is important to think over, how to change borders

³⁷ In economics with macroeconomic non-stability it is necessary for budget-tax policy to follow monetary policy and not vice versa, which happens nowadays.

³⁸ Sukharev O.S., Kurjanov A.M. Actual problems of monetary policy.//Finance, 2007, №9. – P. 55-58

³⁹ Sukharev O.S. Institutionalization of economic growth.// Banking, 2008, №2. – P. 31-35

of the specified monetary ranges, to take into account the regional features of the country, and, maybe, to apply this scheme to regions with rather low level of social and economic development.⁴⁰

Summarizing we would like to note, that effective monetary and credit policy, currency stability and the innovative model of economy reproduced due to mode stimulation of new result achievement under which money are allocated will become a basis of structural quality increase of economy and high growth rates.

⁴⁰ Sukharev O.S. Monetary policy as an instrument to overcome economic dysfunction. // Portfolio investor, 2007, №8. – P.110-116