

## Monetary Union of the CIS countries as a strategy for economic consolidation in the post-crisis environment

Olga Digilina<sup>1</sup>, Irina Teslenko<sup>2</sup>, Olga Kornilova<sup>3</sup>

<sup>1</sup>Doctor of Economics, Professor Head of Department of Economics Russian Presidential Academy of National Economy and Public Administration the Vladimir branch, Russian Federation. [o.b.digilina@mail.ru](mailto:o.b.digilina@mail.ru)

<sup>2</sup>Doctor of Economics, Professor, Head of Department of Business Informatics and Economics Vladimir State University, Russian Federation. [iteslenko@inbox.ru](mailto:iteslenko@inbox.ru)

<sup>3</sup>Ph.D. Doctor of Economics, Associate Professor of Department of Business Informatics and Economics Vladimir State University, Russian Federation. [olgakornilova2006@yandex.ru](mailto:olgakornilova2006@yandex.ru)

**Abstract:** The article shows the need for further cooperation in the monetary sphere between the CIS countries and justified prerequisites for monetary union in the former Soviet space. The article proves that the strategy of economic consolidation can be implemented in the post-crisis development.

[Digilina O.B., Teslenko I.B. **Monetary Union of the CIS countries as a strategy for economic consolidation in the post-crisis environment.** *Life Sci J* 2014; 11(11):143-150]. (ISSN: 1097-8135). <http://www.lifesciencesite.com>.  
20

**Keywords:** monetary integration, monetary union, harmonization of the currency area, monetary policy.

### 1. Introduction

Countries of the world are involved in globalization process, which offers certain benefits, but causes serious problems as well (culture unification, domination of some countries, destruction of economic space integrity and violation of economic safety system, disturbing the development process). That is why regionalization and localization of economic space become reaction to unavoidable process of globalization.

The important part of modern economic integration and its' finishing stage is financial and currency integration and formation of currency unions. A currency union allows to create a common currency space, which, in its' turn, is a basis for trading and manufacturing relationship intensification in the integration group which is more important for developing countries.

Analysis of the world experience of economic, financial and currency integration gains special importance for post-Soviet countries, most of all for the Eurasian Economic Community (EurAsEC) and the Commonwealth of Independent States (CIS), which realize projects on currency and financial market integration, moving towards formation of economic and currency union. Despite of ambitious plans, actual achievements of currency and financial integration on the post-Soviet space are quite modest. Initial conditions and outer economic reality for the EU and the CIS are very different and copying of the EU experience is impossible. This gives importance not only to studying of the world and European experience of currency and financial integration, but to the analysis of the possibility of its'

implementation on the post-Soviet space during the post-crisis period as well. If small oil-dependent countries, reserves of which are not always a guarantee of security against outer shocks, should take part in different unions, remains a question.

The processes of currency and financial integration on post-Soviet space, their interdependence with tendencies of world currency system development were analyzed by Russian scientists O. Butorina, S. Drobyshevsky, V. Evstigneev, A. Konstantinov, V. Kudrov, D. Polevoy, M. Chumakov, G. Shagalov, V. Shmelev and others.

Practical suggestions on intensification of currency and financial interaction processes in CIS countries are made based on the analysis of works written by the authors who participated in development of the integration processes intensification mechanism on the post-Soviet space – D. Valova, A. Zakharov, A. Klepatch, V. Chaplygin.

Together with that the analysis of the economic literature of Russian and foreign authors shows that the analysis of interdependence of international currency system transformation processes and their influence on the interaction between CIS countries is insufficient. The post-Soviet reality, influenced by the crisis of the years 2007-2009 does not correspond the models, elaborated by western scientists.

### 2. Statement

In the post-crisis conditions, renewed vigor was a question about the formation of an economic union in the former Soviet Union. Instability of the global financial system and the weakening of the U.S. dollar and the euro as a global currency accelerate the

process of regional financial integration. The solution to this problem is becoming real with rapid advancement of the three countries - Russia, Belarus and Kazakhstan - towards the formation of the Customs Union and the Common Economic Space.

The idea of the revival of the Customs Union of these countries came back in 2007 at the CIS summit - CSTO - EurAsEC. It was decided to form a union in the mode of the three parties (Russia, Belarus and Kazakhstan). The Customs Union Commission began working already in 2009, holding 12 sessions, which resulted in more than 130 decisions taken on relevant issues of forming a single customs zone. Starting 1 January 2010 the power in the field of customs and tariff regulation were transferred the Commission. The Customs Union of Belarus, Kazakhstan and the Russian Federation began working. The countries - participants of the Customs Union consider it as the determining basis of all EurAsEC, and at the same time - as a transition stage to a more in-depth form of integration - the Common Economic Space (CES-3).

At 19 December 2009, the Supreme Body of the Customs Union at the level of Heads of the countries

approved a plan for CES-3 formation, which involved development and adoption of 20 documents that form the legal basis of the CES-3 in the sphere of:

- Public procurement regulation;
- Trade of services;
- Investment activities;
- Development of common market of oil and gas;
- Technical regulation, the application of sanitary, veterinary and phytosanitary measures;
- Access to services of natural monopolies in the areas of gas transfer using the gas transportation systems, telecommunications and railway transport;
- Measures against illegal migration from third countries.

The countries should provide freedom of movement of services, capital and labor on their territories. The Customs Union should be the buffer zone for involving countries in the integration process in the post-Soviet space [2]. Currently, the level of economic cooperation between the countries in the former Soviet space remains consistently low.

**Table 1.** CIS export share in total amount of export of some SIC countries, in %.

| Country       | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------|------|------|------|------|------|------|------|
| Azerbaijan    | 13   | 21   | 15   | 18   | 3    | 8    | 9    |
| Armenia       | 24   | 19   | 22   | 31   | 31   | 19   | 19   |
| Belarus       | 60   | 44   | 44   | 46   | 44   | 44   | 55   |
| Kazakhstan    | 27   | 15   | 15   | 17   | 16   | 16   | 11   |
| Kyrgyzstan    | 42   | 45   | 53   | 57   | 55   | 45   | 38   |
| Moldova       | 59   | 51   | 40   | 41   | 39   | 38   | 40   |
| Russia        | 13   | 14   | 14   | 15   | 15   | 15   | 14   |
| Tajikistan    | 48   | 20   | 13   | 16   | 16   | 21   | 13   |
| Ukraine       | 31   | 31   | 33   | 38   | 36   | 34   | 37   |
| CIS countries | 19   | 17   | 17   | 19   | 18   | 19   | 18   |

Source: Interstate statistical committee of the CIS

**Table 2.** Share of mutual trade of the CIS members and their share of trade with foreign countries in the volume of export-import operations in 2009 and 2010, in %.

| CIS countries | Export           |      |                                    |      | Import             |      |                                      |      |
|---------------|------------------|------|------------------------------------|------|--------------------|------|--------------------------------------|------|
|               | To CIS countries |      | to the countries of the far abroad |      | From CIS countries |      | From the countries of the far abroad |      |
|               | 2009             | 2010 | 2009                               | 2010 | 2009               | 2010 | 2009                                 | 2010 |
| Azerbaijan    | 7,7              | 9,3  | 92,3                               | 90,7 | 29,8               | 31,1 | 70,2                                 | 68,9 |
| Armenia       | 19,5             | 19,7 | 80,5                               | 80,3 | 31,4               | 30,2 | 68,6                                 | 69,8 |
| Belarus       | 43,7             | 53,5 | 56,3                               | 46,5 | 63,8               | 58,8 | 36,2                                 | 41,2 |
| Kazakhstan    | 15,7             | 13,4 | 84,3                               | 86,6 | 42,5               | 45,8 | 57,5                                 | 54,2 |
| Kirgizstan    | 45               | 44,8 | 55                                 | 55,2 | 56,5               | 53,1 | 43,5                                 | 46,9 |
| Moldova       | 31,8             | 39,5 | 61,9                               | 60,5 | 34,8               | 32,6 | 65,2                                 | 67,4 |
| Russia        | 15,5             | 15   | 84,5                               | 85   | 13                 | 13,8 | 87                                   | 86,2 |
| Tajikistan    | 20,7             | 13,5 | 79,3                               | 86,5 | 57,3               | 58,8 | 42,7                                 | 41,2 |
| Ukraine       | 33,9             | 36,4 | 66,1                               | 63,6 | 43,3               | 44   | 56,7                                 | 56   |
| CIS           | 18,6             | 18,5 | 81,4                               | 81,5 | 27,4               | 26,7 | 72,6                                 | 73,3 |

Source: Interstate statistical committee of the CIS.

Low level of trade cooperation between CIS countries, in our opinion, can be explained by the

following objective and subjective factors:

First, liberalization of economic relations

between countries under the influence of the Soviet collapse and market reforms, as well as the pursuit of short-term commercial effect have led to that the countries, especially the largest producers of energy resources, focused on trading with non-CIS countries. For example, Kazakhstan and Azerbaijan sell almost all their oil extracted to foreign countries [9].

Second, the growing need of the CIS countries in high-tech products and high-quality consumer goods lead to focus on suppliers of these products from developed countries.

Third, there are conflicts in political sphere, institutions, including integration institutions, and

trading relations facilitation tools are weak. For example, in the list of foreign countries, export to which is guaranteed by state support in Russia, the entire amount of the annual limits of the guarantee for CIS countries (excluding Kazakhstan and Belarus, but including Georgia) is 25% of the limit for Indonesia, 50% of the limit for the Philippines and is approximately equal to the limit for Macedonia [5].

Fourth, the low level of capitalization in the banking sector in CIS countries and distribution of its' resources between medium and small banks lead to difficulties in the area of long-term loans and bank guarantees on export-import operations.

**Table 3:** Banking sector total assets and equity of CIS countries in 2008 – 2009 [3], billion dollars

| Country             | Assets |        | Equity |       |
|---------------------|--------|--------|--------|-------|
|                     | 2008   | 2009   | 2008   | 2009  |
| Russia              | 953,4  | 973,1  | 127,9  | 152,8 |
| Azerbaijan          | 12,8   | 14,5   | 2,1    | 2,5   |
| Armenia             | 3,3    | 3,5    | 0,8    | 0,7   |
| Belarus             | 28,8   | 29,5   | 5,1    | 5,2   |
| Kazakhstan          | 98,4   | 77,9   | 12,3   | -6,6  |
| Kyrgyzstan          | 1,4    | 1,5    | 0,3    | 0,3   |
| Moldova             | 3,8    | 3,2    | 0,6    | 0,6   |
| Tajikistan          | 1,8    | -      | 315    | 0,2   |
| Uzbekistan          | 8,6    | 10,4   | 1,5    | 2,0   |
| Ukraine             | 126,4  | 110,2  | 15,8   | 17,0  |
| Total CIS countries | 1244,1 | 1223,9 | 169,5  | 174,8 |

Negative total equity of Kazakhstan banks was the result of losses in 2009.

Integration in the post-Soviet space cannot be limited by interaction in trade policy. Such integration supposes above all economic consolidation of post-Soviet space. As A.N. Spartak says: "There is a chance to add competing with Russia international specialization of CIS countries and coordinate activity on those markets where CIS countries are key players and are able to influence prices and situation on the market" [5]. Better conditions may be created for wide diversification of CIS countries export thanks to tighter connection between national economic complexes and faster development of industrial and technological cooperation.

In the post-crisis era for the most CIS countries, the prospect of integration becomes more attractive.

Overcoming the crisis and the need to move towards innovative development are common for all post-Soviet countries. In this case, integration helps modernization since the latest needs large markets and favorable conditions of work in these markets.

Research and development have great importance for modernization processes. The lack of results in basic science creates problems with development of new technologies. However, after the appearance of new technologies mechanisms are needed for commercialization of these innovations. There is a need for common rules for innovative

products trading in the former Soviet space, which would strengthen the integration effect.

Currently, the share of spending on research and development in the CIS countries is about 0.4-0.5% of GDP, while in developed economies it is more than 2.5% of GDP. [6] Unfortunately, now the whole amount of CIS expenses on innovation comprise only 4.9% of the total amount of expenses on industrial products production.

The implementation of "Guidelines of long-term cooperation between CIS members in the sphere of innovation", approved by the Council of heads of CIS countries at the 20 of November, 2009 in Yalta can provide prospects for economic integration of CIS countries. This document says that the effective overcome of the global financial and economic crisis consequences is possible only through formation of an interstate innovation space, concentration of combined efforts and resources on priority directions of development of modern technological structure. An important factor of integration is "The Interstate target program of innovation cooperation of the CIS countries until 2020", which will be carried out in accordance with national innovation programs.

Great importance for all post-Soviet countries has the attraction of investments, which in its' turn is impossible without integration of financial markets in these countries into a single financial center, the

convergence of the banking sector and the formation of the single currency area.

**Table 4:** Sources of fixed capital investments (in current prices, as % of total fixed capital investments)

| CIS countries, year         | Total | Sources of funding |        |  |                   |            |       |
|-----------------------------|-------|--------------------|--------|--|-------------------|------------|-------|
|                             |       | Budget funds       | Equity | Borrowed from banks and other borrowed funds | Foreign investors | Population | Other |
| <b>Azerbaijan</b>           |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 35                 | 23,8   | 1,2  | 25,5              | 4          | 10,5  |
| 2010                        | 100   | 32,8               | 21,6   | 2,1  | 29,1              | 4,2        | 10,2  |
| <b>Armenia</b>              |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 13,1               | 34,3   | ...  | 20,5              | 31,9       | 0,2   |
| 2010                        | 100   | 13,6               | 47,2   | ...  | 17,8              | 20,4       | 1     |
| <b>Belarus</b>              |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 22,2               | 36,7   | 26,7   | 2,8               | 7,9        | 3,7   |
| 2010                        | 100   | 18,6               | 33,2   | 30,5   | 4,3               | 8          | 5,4   |
| <b>Kazakhstan</b>           |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 18,9               | 28,7   | 11,5   | 37                | 3,9        | –     |
| 2010                        | 100   | 21,1               | 42,4   | 8,6  | 24,4              | 3,5        | –     |
| <b>Kyrgyzstan</b>           |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 15,2               | 18,8   | 5,9  | 26,8              | 30,8       | 2,5   |
| 2010                        | 100   | 8,7                | 36,3   | 7  | 19,9              | 24,5       | 3,6   |
| <b>Moldova<sup>1</sup></b>  |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 9,8                | 53,5   | 10,7   | 19                | 4,5        | 2,5   |
| 2010                        | 100   | 7,9                | 58,2   | 15,6   | 13                | 2,9        | 2,4   |
| <b>Russia<sup>1,2</sup></b> |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 18,8               | 38,3   | 16,5   | 5,4               | –          | 21    |
| 2010                        | 100   | 17,4               | 43     | 13   | 4,8               | –          | 21,8  |
| <b>Tajikistan</b>           |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 27,4               | 3,9    | ...  | 54,4              | 7,2        | 7,1   |
| 2010                        | 100   | 36,9               | 3,9    | ...  | 39                | 7,2        | 13    |
| <b>Ukraine<sup>1</sup></b>  |       |                    |        |  |                   |            |       |
| 2009                        | 100   | 6,6                | 64,3   | 11,7   | 6,3               | 3,7        | 7,4   |
| 2010                        | 100   | 7                  | 57,4   | 12,1   | 4,2               | 11,3       | 8     |

<sup>1</sup> January–September.

<sup>2</sup> Excluding small enterprises and individual developers, constructing dwelling houses

On this background, the consolidation of the banking sector as the most important factor in the development of national economies is a priority for the CIS. Without an effective mechanism of multilateral cooperation in the monetary sphere, successful development of economic integration of CIS countries is not possible.

Concerns of heads of CIS countries about this problem resulted in a Decision of constant monitoring of situation caused by the world financial crisis and issuing suggestions, which would help to overcome

the crisis taken on the 10 of October 2008 on the meeting in Bishkek. The constant conference of ministers of finance of CIS countries, created by this Decision began working. The first meeting with participation of CIS executive committee took place on the 21 of October 2008. The meeting facilitated information exchange on the current situation on financial markets of CIS countries.

The crisis influences financial markets of CIS countries in different ways. Nevertheless, ministers of finance admitted the necessity for the governments to

take appropriate for current conditions measures in fiscal policy, limitation of inflation and maintaining macroeconomic stability, providing sufficient liquidity in the banking sector, capital increasing in the banking sector, providing efficient work of deposit guarantee and deposit insurance system. The participants of the meeting emphasized the importance of complex approach to overcoming the crisis, because one-time measures, undertaken by single financial institutions do not give long lasting effect.

The participants of the meeting expressed concern about resource and food prices fluctuation and its' influence on forming negative tendencies in CIS countries economies. The agreement on continuing the dialog of ministers of finance of CIS countries on the most relevant economic problems of the world economy and information exchange on the situation and measures undertaken for its' solution was achieved on the meeting. The next meeting took place in April 2009 in Saint Petersburg. It strengthened the agreements achieved before on combined measures for world financial crisis consequences minimization. The participants

elaborated the project of measures plan for realization of the first stage of the CIS development strategy for the years 2009-2011. The project was approved by the meeting of heads of CIS countries on the 22 of May 2009 in Astana. One of possible ways of strengthening financial-banking system and currency integration on CIS space could have been creating international financial centers.

According to some analysts, the cooperation of the CIS countries in the financial sector significantly lagged behind the integration processes in the trading sphere. [3] Trends towards greater financial cooperation were developed only in the years preceding the crisis 2007 - 2009. And, most clearly these trends were seen in the banking sector in the form of expansion of banks in the markets of other CIS countries.

Whereas in the early 2000s, almost all the banking activities were concentrated in the domestic markets, now there are large credit institutions operating in several CIS countries (see table) and having a share of more than 90% of all CIS banks' operations in other CIS countries.

**Table 5:** Banks of CIS countries with the largest amount of foreign assets in the region at the beginning of 2010, billions of dollars

| Bank                             | Country    | Assets in the country | Presence in CIS   | Foreign assets in the CIS |
|----------------------------------|------------|-----------------------|---|---------------------------|
| Bank VTB                         | Russia     | 87,9                  | Armenia, Azerbaijan, Belarus, Kazakhstan, Russia, Ukraine | 4,7                       |
| Vnesheconombank                  | Russia     | 60                    | Belarus, Russia, Ukraine                                  | 4,6                       |
| Alfa Bank                        | Russia     | 19,3                  | Belarus, Kazakhstan, Russia, Ukraine                      | 4,2                       |
| Sberbank of Russia               | Russia     | 234                   | Belarus, Kazakhstan, Russia, Ukraine                      | 4                         |
| BTA bank                         | Kazakhstan | 13,3                  | Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Ukraine | 2,4                       |
| Kazcommercbank                   | Kazakhstan | 15,9                  | Kazakhstan, Kyrgyzstan, Russia, Tajikistan                | 1                         |
| Bank of Moscow                   | Russia     | 26                    | Belarus, Russia, Ukraine                                  | 0,9                       |
| Gazprombank                      | Russia     | 55,2                  | Armenia, Belarus, Russia                                  | 0,8                       |
| Privatbank                       | Ukraine    | 10,8                  | Russia, Ukraine   | 0,6                       |
| International Bank of Azerbaijan | Azerbaijan | 13,4                  | Azerbaijan, Russia  | 0,5                       |

At the beginning of 2010 the total amount of investment of banks in the capital of CIS subsidiaries operating in the region exceeded \$ 3 billion, and despite the global financial crisis of 2007 - 2009, during 2008-2009 this amount rose by half.

Acceleration of integration processes in the financial sector is caused by the following factors:

First, it is the enhancement of trading, economic and investment ties within the CIS before the crisis and common actions of CIS countries in overcoming the consequences of the crisis. Historical connections and analogies in market reforms of CIS countries result in synchronous change of macroeconomic indicators (GDP growth, inflation, capital flows) and financial market indicators (stock indices, exchange

rates) . According to the IMF, the share of CIS countries in the world GDP increased from 3.8 % in 2006 to 4.3 % - in 2009, while the share of Russia increased from 2.6% to 3.0%. Development of trade and economic cooperation requires adequate development of cooperation between national financial markets and credit institutions in the region;

Second, the authorities of the CIS countries are becoming more aware of the need to accelerate the integration and interaction in the financial sector in order to protect national economies from external shocks;

Third, a significant banking margin and underestimation of financial assets in many CIS



countries lead to increase in profitability of banking operations in the region. Recently there has been a significant revival of activity of various kinds of unions and associations of financial institutions of the CIS.

Fourth, the increased competition in the banking sector within the CIS that makes banks look for new markets for their services.

Nevertheless, the level of cooperation between CIS countries is far behind the needs of their economic development. The reasons for this lag are common to the integration processes in the post-Soviet space. These include:

First, significant differences in the level of development of financial markets and foreign exchange segments, which is seen in the differences in regulatory institutions and instruments of regulation, trading instruments, the frequency and severity of the impact of external shocks on national economies, destabilization of regional development. All this lead to significant differences in interests and even contradictions in fiscal and monetary policy, as well as difficulties in achieving common decisions on currency cooperation.

For example, in Russia currency law liberalization is complete. Nonresidents are able to open accounts in rubles, manage the funds on these accounts, and invest money in different Russian assets, repatriate income. This results in increase of activity of foreign participants on Russian markets. Share of nonresidents in the capital of Russian banks has grown 6 times since 2002 and achieved 30% in the beginning of 2009 (it decreased during the crisis and as at 01.07.2010 was about 26%).

Liberalization of currency regulation and cancelation of capital movement limitation have led to increase in amount of cross-border operations. For example, 6 years ago Russian participants of the foreign exchange market performed 67% of operations within the country and only 33% of operations with non-residents. Today the amount of operations with non-residents has grown up to 50%.

Subsidiaries of foreign banks work on the Russian foreign exchange market. After the crisis their share in the foreign exchange market turnover of Moscow Exchange has grown from 25% to 32% (in 2004 the share was 11%). Securities of Russian companies are circulating on the global market as well [1].

At the same time, the situation on financial markets of CIS countries is different. For example, Belarus stands on the second place in the world due to devaluation of national currency by 56% in May 2011 [10].

Second, restrictions on operations of a capital nature with foreign currencies, preserved in some

countries prevent conducting a single monetary policy and disturb the investment process. The most liberal regimes in respect of capital transactions currently exist in Russia, Kazakhstan, Armenia and Kyrgyzstan. The most strict foreign exchange restrictions apply in Turkmenistan and Tajikistan. Other countries have moderate liberal regimes, which provide a number of limitations in carrying out transactions related to exports and imports of capital, including direct and portfolio investment.

Third, Russia dominates in the post-Soviet space, including the financial sector. Russia produces 72% of the total regional GDP, provides 67-68% of the total exports of goods and services of the CIS. Russia's share in the GDP of EurAsEC and the Customs Union is about 90% [8].

Fourth, the appearance of new regional centers, such as the EU and China, affecting the CIS countries and being extremely attractive for trading and investment, strengthen "the centrifugal tendencies" in the CIS. Moreover, in the recent years, the presence of financial institutions from third countries less interested in integration processes in the post-Soviet space is expanding in the CIS markets.

There is no doubt that the CIS needs a sustainable financial system, which would help the implementation of the strategy of innovative development of all member countries. In current conditions, currency integration of the CIS countries is an effective instrument of strengthening national currencies on foreign and domestic markets. The most appropriate solution for the CIS would be formation of united currency and financial space.

However, it is too early to consider the idea of formation of a currency union on a post-Soviet space a goal for the near future. Many analysts notice that the relations within the CIS are undergoing a systemic crisis. Immaturity of trading, economic and institutional structures in most CIS countries, slightly adapted for real integration and cooperation in market conditions, violation of fundamental objective laws of monetary integration, hinder effective cooperation of the CIS, including cooperation in the monetary sphere.

In addition, almost all countries have developed full-fledged national monetary systems, have an independent monetary policy. Not to be discounted, that the national currency is perceived by many as a symbol of freedom and independence. Despite significant advances in the integration processes within the CIS, there are disagreements between national sovereignty and attempts of supranational regulation of monetary and credit relations.

The gap in levels of economic development of post-Soviet countries, as well as the gap in levels of development of their financial markets is too large;

there are significant differences in foreign exchange legislation and regulatory regimes of exchange rates. Obviously, the launch of a single economic space and its constituent parts - currency union requires long preparation period. As seen in the experience of the European Union, it may take years, even if there is political will of all the parties.

### 3. Results and Discussion

Currency and financial integration can be realized in the post-Soviet space in three forms:

- Cooperation in the organization of mutual payments and settlements;
- Coordination of exchange rate policies;
- Formation of a monetary union, involving fixed exchange rate regime or introduction of the single currency.

In fact, the first form of monetary integration can characterize current situation in the CIS countries. Although it is recognized that it is usually used by countries with relatively weak currency and a lack of foreign exchange reserves.

In our opinion, the main objective of the cooperation of the CIS countries in the near future should be to ensure the modernization of their financial systems by implementing the agreed policies and measures, as well as smoothing the most significant qualitative differences between countries in the level of development of their credit and monetary markets. [3] Especially because the CIS Economic Development Strategy for the period until 2020 indicates that the development of monetary and financial cooperation of the Commonwealth is one of the priority tasks [7].

In the area of monetary and financial cooperation further maintenance of the positive trends will largely be the result of formation of the stock market of the CIS, as well as the formation of an integrated foreign exchange market, the main objective of which is to build an effective infrastructure for conversion operations with national currencies and, ultimately, to a significant increase their use in netting.

In accordance with CIS economic development strategy, priority directions for further development of currency and financial cooperation of CIS countries are the following:

- creating legal basis for allowing non-resident banks of CIS countries to operate on foreign exchange markets in order to perform conversion operations to serve mutual external economic links;

- elaboration and realization of basic principles of currency regulation and currency control policy in CIS countries in order to draw the legislation of the countries together based on international practice;

- elaboration and realization of measures on financial service market liberalization in order to provide free access for companies and financial organizations to financial market of CIS countries;

- definition of order of concordance of basic macroeconomic indexes of economic development of CIS countries. Initially this order will be of recommendation;

- Interaction development in sphere of informational, analytical and consultative cooperation between national central banks;

- increasing the role of international bank for financing development programs in CIS countries;

- improving banks and other financial organizations supervision;

- further broadening the use of national currencies in mutual cross countries settlements;

- creating conditions for functioning of reliable and effective mechanisms of currency transferring for the CIS countries citizens, using a wide network of correspondent relationship of CIS countries banks, international money transfer systems and other modern information technologies;

It is supposed, that regular consultations of heads of financial and economic bodies and central banks of CIS countries will take place to minimize the influence of world financial crises.

In this regard, the main directions of further cooperation in the monetary sphere are:

First, the gradual removal of restrictions that are applied on the territory of the CIS, on the cross-border movement of capital and the admission of non-residents on the domestic markets of financial services as investors of non-residents.

Second, the implementation of selective at initial stage, and complete afterwards harmonization of monetary and financial laws of the CIS.

This suggestion is not new and an attempt to create unique legislation for CIS was made in the early 2000, when Interparliamentary assembly of the CIS and the EurAsEC elaborated and accepted some laws and norms of regulation of financial market. These documents were of recommendation for the countries members of the CIS. The third stage of collaboration and coordination of the CIS countries in currency regulation was a decision taken by the heads of the CIS countries on the 15 of September 2004, which foresees the agreement on the usage of common currency by 2017.

Third, the creation of the CIS regional international financial center (IFC), which serves as the central stock exchange for listing securities issuers of the CIS .

Fourth, the establishment of integrated payment

and settlement system in the CIS based on national currencies of the CIS countries. There should be a serious discussion on ambitious plans of practical measures for transition of settlements in mutual trading to national currency in order to transfer them later on a single reserve currency of the CIS (shared currency).

In our opinion, given the current state of monetary integration, it is impractical to completely abandon the use of national currencies in mutual settlements, which can be used along with the shared currency.

Fifth, the removal of technical barriers in the interaction of infrastructural institutions stock markets, which involves transparent legislation in the area of mergers and acquisitions of exchange and depository institutions within the CIS, development of common regulations and standards for exchanges and depositories, development of system of correspondent relations between depository institutions of the CIS, cooperation in the field of information technology.

Currently operating and tax complexity are maintained, especially in the field of remittances, which restrict the work of non-residents in almost all countries. First, this applies to the current system of payments and difficulties in the settlements due to the difference of standards and formats of payment orders in the international SWIFT system and within the CIS. For example, not all participants in the financial market of the Russian Federation are using SWIFT for payments and settlements, which makes it difficult to establish correspondent relations.

According to the words of ex Finance Minister Alexei Kudrin, Moscow Interbank Currency Exchange (MICEX) is ready to be a common platform for foreign exchange operations of the EurAsEC countries and the CIS countries.

It should be noted that the amount of transactions in currencies of CIS countries on the Russian interbank market is very small; its' share combines hundredths of a percent. On MICEX operation with the national currencies of the CIS are immaterial as well. According to the Bank of Russia in the geographical structure of interbank turnover, the share of contractors - non-residents from the CIS countries in the first half of 2010 accounted for 10.5 % of cash transactions and 2-4 % of pair dollar / ruble

swaps. As for the euro / dollar, pair the share of transactions of Russian banks with counterparties from CIS countries accounted for 4-9 %.

Sixth, the gradual harmonization of banking legislation of CIS countries on key parameters such as licensing procedures, compulsory standards, requirements for minimum capital adequacy and requirements for qualifications and reputation of top management in credit institutions, disclosure requirements and standards of corporate management. Organization of close cooperation of national regulatory authorities, elaboration to uniform standards of banking supervision is needed. Convergence in approaches to banking regulation will allow passing on the principle of mutual recognition of national licensed bank credit institutions.

#### References

1. Mishina V.U. Will ruble be the currency for international settlements? // Banking. - №1. – 2011. – P. 76.
2. Morozov G.B., Rahmankulov A.V. The format of common economic space 2012 – Utopia or a step towards the currency union // Messenger of the Eurasian Academy of Administrative Sciences – 2010. - №4 (13). – C.119.
3. Petrov M.V., Plisetskiy D.E. Possibilities and perspectives of the CIS countries integration in the financial sphere // Finance and credit. – 2011. - №8 (440). – C.39.
4. Securities market. - 2008. №10. C. 42.
5. Spartak A.N. Strategic interests of Russia on the post-Soviet space // The World Economy and the Foreign Relations – 2010. - №8. – C.35.
6. Souznoe veche. 23-29 сентября 2010 г.
7. Strategy of economic development of the CIS for the period until 2020. . <http://cis.minsk.by/page.php?id=18764>
8. Strategic interests of Russia on the post-Soviet space // The World Economy and the Foreign Relations. - 2010. № 8.
9. [http://expert.ru/kazakhstan/2007/18/eksport\\_uglevodorodov\\_editorial/](http://expert.ru/kazakhstan/2007/18/eksport_uglevodorodov_editorial/)
10. [http // www.prime-tass.ru](http://www.prime-tass.ru), 3.06.2011 №335944.