Vladimir Tarasov[1],

Theoretical Aspects of Currency Regulation, Balance of Payments and Anti-Inflation Policy Status

Theoretical problems of currency regulation, interaction between the balance of payments and exchange rate, as well as characteristic features of modern anti-inflation policy are discussed. It is demonstrated that artificial maintenance of a stable national currency exchange rate may strategically lead to most negative consequences for a sustainable development of the national economy. Specific features of modern inflation and the applicability of various anti-inflation policy methods are discussed.

Modern industrialized states grant their central banks a discretion to independently select the main lines and instruments of the monetary policy. Such independence of the central banks is a prerequisite for monetary policy implementation and attaining its main objective, i.e. ensuring the stability of the national currency and the consumer prices, and reducing inflation. At the same time, the general monetary policy goals may be defined by the central bank with regard to specific features of the current circulation of money and the banking system as a whole.

Specifically, monetary policy of the central bank may be aimed at reaching the goals connected, first of all, with confidence-building to the national currency and reducing the inflation rate and, secondly, with maintaining the national economy stability and stimulating its economic growth, primarily in the most progressive national economy spheres, such as export oriented or currency earning spheres, or, in recent years, the Belarusian agricultural production. Unless the above objectives are met, it may not be possible to avoid excessive money in the money circulation channels and, as a consequence, increased inflation rate. However, the impact of the monetary policy on economy must bear a long-term strategic character to which the central bank must pay special attention.

If the monetary authorities pay too much attention to individual and not crucial aspects of the monetary policy this may run contrary to the strategic goals of the general economic policy, for instance, to a sustainable growth of the national economy. In particular, an attempt to maintain unrealistic currency exchange rates may lead to distortions with regard to export and import, destabilization in attracting foreign capital (direct foreign investments, international credits, grants, etc.). In order to attain strategic goals of the general economic policy, monetary authorities can justifiably use the so-called intermediate monetary policy targets which include change in the total money, money and credit emission, money market price level, including interest rates and exchange rate. The dynamics and relation between such intermediate targets show, to what degree, how actively and using what instruments of monetary and credit regulation the central bank is going to use for reaching its strategic objectives. The instruments of monetary regulation themselves are common for all countries. Only the specific form of their implementation may differ, depending on the traditions, the level the banking system development, the role of the state and the central bank in the economy, the existing legislative and normative framework, and the specific political and economic situation.

In this connection, the problem of an efficient application of currency regulation deserves special attention. The *currency regulation* in each country primarily depends on the currency exchange rate system used, whether it is a fixed or a floating rates system. Therefore, the currency (exchange) rate is one of the most important aspects in conducting economic reforms based on exchange rate

[1] Belarusian State University. Doctor of Economics, professor.

mechanism. However, this is also true with regard to other instruments of the state's general economic policy, for instance, to prices, taxes, interest rates, etc.

The fixed exchange rate system used in the past is a system based on strictly fixed currency parity and a full currency convertibility. It is a currency system in which relative currency prices are established but there is no absolute price level. A problem of "n-th" currency may arise in such a system because the exchange rate is a relative price of two currencies, while in a system where the number of currencies equals "n" there may "n-1" exchange rates. It follows from this that the country of one of "n" currencies may not wish to fix a certain exchange rate for its own currency but will choose to maintain a certain level of prices.

In the Bretton Wood system, the role of the key currency serving as a reference value for the price level was played by the US dollar, the currency of the most economically powerful player within the system. The USA therefore had a "privilege" to determine the inflation level within the entire system. It is, however, difficult to resolve the problem of the "n-th" currency if the players within the system are more or less equal in power. A possible option would be monitoring the monetary policy of the country which has agreed that her currency play the role of the leader. However, it is unlikely for any country to agree that its price levels should be determined by other participants in the currency cartel since this would influence the country's balance of payments, etc. Therefore, the fixed exchange rate system is characterized by permanent conflicts between the internal and external policy objectives.

Within the floating currency exchange rate system, the balance of payments is equalized using foreign exchange markets. Therefore, the central banks are exempt from the duty to make interventions on currency markets and are able to pursue an autonomous monetary policy. If the currency exchange rates correspond to price differences on the internal and the external markets, exchange rate fluctuations will not damage external trade relations. However, experience shows that, even after the introduction of floating exchange rates, the currency exchange rates may for a long time deviate from the purchasing power parities. This undermines the national monetary policy and, therefore, requires appropriate regulating measures.

Floating exchange rates have been exerting a very negative impact on the price setting mechanisms and credit transactions of external trade companies in the European Communities (EEC). The experience of using a floating exchange rate shows that it does not result in a durable stability of the balance of payments, it strengthens the instability of currency markets and is an important inflation factor. Therefore, many states use fixed (hard) but regulated currency exchange rates and practice a "hard" floating rate regulation.

In this case, they proceed from the fact that a relative stability of exchange rates exerts a favorable impact on the internal and external economic balance. A relatively stable exchange rate facilitates (other conditions being equal) better conditions for exchange because it allows the import price to be "suppressed" and strengthens fight with inflation. As for considerable deviations of exchange rates from the purchasing power parities, its reasons are attributed by many economists, firstly, to a slow reaction of the trade balances due to the lack of flexibility in commodity prices and, secondly, to the existence of contractual commitments, and other reasons.

It is not by chance that the US dollar exchange rate fluctuations clearly demonstrate the limitations of the freely floating exchange rate model normally used in theoretical discussions. The efficiency of using either a fixed or a floating currency exchange rate is confirmed by the foreign experience. For instance, thanks to the European Currency System (ECS) a zone has appeared where the stability of currency exchange rates and prices is relatively high. During the ECS history (starting from 1979) the fluctuations of the currencies of the participating states with regard to each other has considerably decreased. On the contrary, the exchange rate fluctuations of the other important "floating" currencies, such as the dollar and the pound of sterling, have been very high. Meanwhile, the con-

cept of fixed but periodically adapted (periodically adjusted) exchange rates, on which the ECS is based, has justified itself and is going to be preserved in future since there are no prerequisites for forming a system of hard (fixed) exchange rates. This fully applies to the modern European currency system (Euro zone).

Notably, a currency regime existed in the Soviet Union which had the following characteristic features:

- the Soviet ruble exchange rate with regard to foreign currencies was hardly fixed;
- there existed a planned conversion system whereby all enterprises were able to exchange Soviet rubles for a foreign currency within an adopted fixed plan;
- the ruble was a locked currency in that the prices in the contracts were not specified in Soviet rubles;
- no Soviet ruble or currency values were allowed to be exported in large quantities from the country by Soviet or foreign citizens or by legal entities;
- foreigners were forbidden to purchase enterprises, land and other real estate in the USSR;
- the basis of external economic relations of the USSR on the world Socialist market was formed by the transferable ruble which, unlike the national currencies of industrial countries, carried the main load in servicing the USSR trade turnover.

At the same time, the system of fixed exchange rates (with narrow bounds of exchange rate fluctuations, as existed in the ECS) gives birth *to two convergence effects* for the economies of different countries. *The first one* is in that fixed exchange rates facilitate close international relation in prices and economic situation, bringing about convergence of the inflation rates and harmonization of the economic situation. The mechanism of the balance of payments equilibration also leads to the convergence of the change rates of money per unit of goods, bringing about a further change in inflation. This effect may be called an economic convergence effect which, however, is not able to cause convergence of real economic variables (GDP, etc.) since it is mainly limited to monetary values. *The second*, indirect convergence effect, caused by fixed exchange rates is reflected in the convergence of the economic policy since this system necessitates a long-term maintenance of exchange rates. To a certain degree, the above two convergence effects are characteristic for Belarus and Russia.

Currency exchange rate stabilization leads to more convergence of prices in different countries. It may be concluded therefore that ECS has caused a considerable stabilization of exchange rates, made a positive contribution to the convergence of price dynamics in the region, although it is impossible to prove it statistically. At the same time, the introduction in 1973 of the floating exchange rates in industrial countries (IC) meant the delegation of functions of determining equilibrium exchange rates to the market. However, the increased exchange rate fluctuation which it brought about disturbed the stability of international trade, and caused disequilibrium of trade and payment balance. All this required an active and flexible currency policy on the part of the central banks. In other words, the currency exchange rate regulation acquired a special importance, which is, in effect, what is happening at present.

However, there exist a market and a state regulation of exchange rate value. The market regulation based on competition and action of the laws of value, as well as on the supply and demand, is spontaneous. The state regulation is aimed at overcoming the negative consequences of the market regulation of the currency relations and at attaining a stable economic growth and balance of payments equilibrium; at reducing the unemployment and inflation in the country. It is effected using *the currency policy*, i.e. a complex of measures in the sphere of international currency relations implemented in line with the country's current and strategic objectives. The currency policy is legally shaped by the legislation on currency and the currency agreements between states. Currency interventions, protectionist measures and others, such as the discount policy, belong to the most important state impact on exchange rate.

The most important instrument of the state currency policy includes *currency interventions*, transactions of the central banks on currency markets, trading in the national currency against leading foreign currencies. The aim of interventions is to change the level of the respective exchange rate, the balance of assets and liabilities with regard to various currencies or expectations of the currency market players. The effect of the currency intervention mechanism is similar to that of the goods interventions. In order to increase the national currency exchange rate, the central bank must sell foreign currencies and buy the national one. This reduces the demand for the foreign currencies and, consequently, increases the national currency exchange rate. In order to reduce the national currency exchange rate, the central bank must sell the national currency and buy the foreign one. This increases the foreign currency exchange rate and reduces the national currency exchange rate.

As a rule, official foreign exchange reserves are used for interventions, and their changed levels may serve as an indicator of the scale of the state intervention into the process of exchange rate formation. Official interventions may be carried out using different methods, such as at stock exchanges (publicly) or at the inter-bank market (confidentially), via brokers or directly through transactions with banks, for a term or with immediate effect. Additionally, official currency interventions are subdivided into "sterilized" and "non-sterilized" interventions. *Sterilized* are the interventions in the course of which any change in the official foreign net assets is compensated by respective changes in the internal assets, so that is there is virtually no impact on the volume of the official money base. If, however, the change in the official currency reserves in the course of the intervention results in the change of the money base, the intervention is *non-sterilized*.

In order for the currency interventions to attain the desired results in terms of changing the national currency exchange rate in the long-term perspective, it is necessary to have sufficient reserves at the central bank for conducting currency interventions, confidence of the market players in the long-term policy of the central bank, changes in such fundamental economic variables as the rate of economic growth, inflation, change (increase or decrease) in money, etc.

In connection with the central bank currency interventions on the foreign exchange market within the so-called "regulated floating", the question arises, whether it is possible to make an impact on exchange rate by "sterilized interventions", or interventions which do not change the scope of money at the central bank. Theoretically there is no ready answer to the question. However, the results of empirical studies show that, using sterilized interventions, it is not possible to influence exchange rates. This means that, in order to pursue a exchange rate policy, the state only avails of the "classical" instruments of its monetary and fiscal policy.

In conducting currency interventions, there is a concern that the main reasons for long-term trends in exchange rates may come unnoticed. This is connected with the fact that import limitations and financial support provided to individual sectors in order to protect them enhance the currency risks for the unprotected sectors and for the goods and services integrated in the international turnover. Such sectors will require protection by monetary policy measures and wage restraint. Still, currency intervention currently remains the main instrument of the state impact on exchange rate. It is a direct interference of the central bank into the currency market activity, aimed at changing the national currency exchange rate by trading in foreign currency. However, currency interventions can only be efficiently applied by sufficiently economically developed countries.

The so-called *protectionist measures* may be used for currency regulation. These are the measures aimed at protecting certain segments of the national economy and regulating certain bank operations, in this case, currency transactions. Protectionist measures primarily include *foreign exchange restrictions*, which represent legislative or administrative prohibition, as well as regulation of transactions with currency or other values by residents and non-residents. Among the types of foreign exchange restrictions are the currency blockade; prohibition on free trade in a foreign currency; regulation of international payments, capital movement, profit repatriation, circulation of gold and securities; concentration by the

state of the foreign currency and other values. The state sufficiently frequently manipulates with exchange rate in order to change the country's external trade conditions, using such methods of currency regulation as a double currency market, devaluation and revaluation.

The developing countries, due to their chronic unfavorable balance of payments, are not attractive for short-term capital and have to resort to various foreign exchange restrictions (concentrating the national currency circulation in the hands of the state, introducing multiple currency exchange rates, prohibiting import and export of currency values without a special permit, limiting the rights of natural persons for possessing foreign currency and transferring it abroad, limiting the exchange of the national currency for foreign currency for going abroad, imposing currency clearings, etc.). An important factor in forming a demand for foreign currency in the countries with foreign exchange restrictions is a wish to invest into it the national currency which is devalued as a result of inflation. In this case, most currency transactions are made by the banks at the exchange rates established by them on the basis of supply and demand on the currency market. In implementing measures of currency regulation, the following must also be taken into account:

— The trade balance condition the deficit of which, while forcing the state to buy foreign currency to pay for the import, results in exchange rate reduction. On the contrary, a positive balance leads to its increase;
— The capital turnover balance connected with the fact that an inflow of foreign capital into the country increases its currency exchange rate. However, in the long-term perspective, this factor may bring about a reverse tendency in connection with a outflow of interest payments;
— The inflation rate and inflation expectations, due to the fact that a higher inflation rate in the country compared with other countries will reduce its exchange rate and vice versa.

Since the trade balance occupies a major place in the balance of payments, the latter's accounts which reflect the current transactions exert a most significant impact on the national currency exchange rate. A deficit of the current balance of payments demonstrates low competitiveness of the national goods and services on the world market and a higher attractiveness of foreign goods for the country's citizens. This results in a growing external debt of the country and a tendency of reducing the national currency exchange rate. However, an important role here is played by flexible prices for the exported and imported goods. This means that, if demand for imported goods is not flexible, a drop in the national currency exchange rate may deteriorate the country's trade balance.

If demand for imported goods grows faster than its supply, the national currency devaluation may temporarily deteriorate the trade balance. Such disturbed trade balance demonstrates that, despite the decrease of exchange rate, the consumers still buy imported goods but, since the national producers have failed to expand their export, the trade balance deteriorates. With a growth of the national currency exchange rate and continued non-flexible demand for imported goods, import expenses are reduced. If the export does not drop as fast as import, the country's trade balance will improve. However, the currency market may remain stable even in the conditions of non-flexible export and import, because there are numerous other factors which form the demand and supply of the national currency.

A favorable trade balance of the country means a higher demand of foreign debtors for the national currency and, respectively, a growth of its exchange rate. At first glance, such a situation demonstrates a constant inflow of foreign currency which may be used for import purchases. But in practice a favorable balance is not always a doubtless benefit for the country. For example, due to the growth of the currency exchange rate in country A, its goods are becoming more expensive for importers and their competitiveness as compared with similar goods from other countries deteriorates. Since the trade partners of country A find it more and more difficult to earn its money they try to limit the import of goods from

this country. If country A is strongly oriented towards export this situation may become painful for its economy as a whole, and will force it to look for ways to reduce its currency exchange rate.[1]

The impact of the balance of payments on exchange rate depends on the degree of openness of the national economy. For instance, the higher the share of export in the gross domestic product (higher the openness of economy), the higher elasticity of exchange rate to change in the balance of payments. The currency exchange rate is also dependent on the state's economic policy in the area of regulating such elements of the balance of payments as current and capital account. The state of the current account, for example, is influenced by changes in the duties rate, limitation of import, trade quotas, export subsidies, etc. The turnover of the long-term and short-term capitals depends on the level of the national interest rates, on limitation or encouragement of capital inflow and outflow. At the same time, an excessive inflow of short-term capital into the country may foster an increase in money, thereby stimulating a growth in consumer prices and devaluation of the national currency.

It should be born in mind that the balance of payments characterizes the quantitative aspect of the state's external economic activity and gives an idea of the structure of the national economy external trade sector. One of the main purposes of the balance of payments is reflecting and presenting information on all concluded external economic transactions by residents of one country with non-residents or residents of other countries. On the basis of such information, decisions are made on adjusting the external economic activity both on the national level and on the level of individual economic entities. Equilibrium of the balance of payments is one of the criteria of efficient national economic policy, just like absence of a high inflation, minimum unemployment and external debt levels, maintenance of high GDP growth rates, etc.

As for the Republic of Belarus, in order to activate its balance of payments it is necessary to channel the efforts of economic entities towards improving the quality of manufactured products, their closer inclusion into the international division of labor (for instance, active creation of joint ventures), extensive incorporation of foreign technologies in the production and management areas, implementation of modern marketing strategies, etc. In this connection, one should note the problems of Belarusian transport organizations in the area of international transportation, low export level of high-tech services, insignificant volumes of foreign capital attracted to the Republic of Belarus (direct foreign investments, international credits, etc.), growth of short-term external debt of the national economic entities.

The today's central banks try to pursue their currency policy aimed at maintaining the market (equilibrium) national currency exchange rate. Their role on the currency market is mainly limited to avoiding sharp fluctuations of their national exchange rate and keeping it within a certain range. The central banks regulate the commercial banks' activity in currency transactions, undertake measures against excessive speculation on the currency markets. In many countries, the scope of commercial banks' currency transactions is limited to 20% of their assets. Currency transactions of private persons and non-banking companies are subjected to a stricter regulation. Through the central bank, the state establishes the norms of currency sale and purchase, regulates loans in foreign currencies and makes other interferences into the banks' currency transactions. Currency regulation is also based on continuously improved currency legislation which is understood to mean not only main laws but also by-laws, instructions, various guidelines, rules and orders. In the long run, the currency legislation is aimed at resolving the problem of setting exchange rates and justifying their regulation principles.

Meanwhile, during the first half of the 80's of the 20th century the dollar exchange rate was influenced by a number of contradictory factors. In particular, the effect of the trade balance deficit proved to be weaker than the effect of high interest rates and the inflow of foreign capital to the USA. Therefore at present, the monetary policy of industrialized countries (in particular, interest rate regulation) is subordinated to the currency regulation tasks. For instance, due to a decrease in the dollar exchange rate at

[1] Tarasov V.I. Money, Credit, Banks: Textbook. — Mn.: Micanta. — 2003. — 512 p.

the and of 1985, a considerable part of capital was converted from dollars to West Germany marks resulting in an increase of the mark exchange rate. In order to decrease the mark exchange rate, the Bundesbank was forced to accept lower interest rates, despite the fact that it was contrary to traditional 10 goals of anti-inflation regulation. Similar situation developed in the UK at the time, where they had to decrease the interest rate (which was considerably higher than the rates in other European countries and caused conversion of capitals into pounds of sterling), despite their priority task to fight inflation and carry out measures to stabilize money circulation.

At present, the main measures of stabilizing money circulation include the anti-inflation policy and monetary reform. Anti-inflation policy is a complex of measures on state economy regulation aimed at reducing inflation. Such measures may be subdivided into strategic, including the long-term goals and methods, and tactical, oriented towards attaining short-term results.

The anti-inflation strategy includes a reduction of inflation expectations by strengthening market mechanisms (a complex of institutional reforms) and elimination of uncontrollable inflation by expanding the competence of management authorities; long-term monetary policy which envisages regulation of money demand (regulation of money growth) by imposing stringent limits on the annual money growth; budgetary policy aimed at reducing the budget deficit; national economy protection from external inflation impact (the policy of limiting the inflation import) which includes regulation of the balance of payment and exchange rate.

Anti-inflation policy, rather than aiming at elimination of the inflation causes, is oriented towards the use of short-term but strong measures aimed at reducing the current inflationary pressure and preparing the ground for long-term strategic measures. The methods of anti-inflation tactics allow the supply to be drastically increased without a respective increase in demand or facilitate a sharp decrease in the current demand without a respective decrease in the supply (indirect impact on money by increasing saving ratio and decreasing their liquidity, etc.).

The basis of anti-inflation measures is in elimination of the long-term disequilibrium of the money market and, in the long run, in reaching a relative long-term equilibrium on all markets. The anti-inflation impact methods include the activity of the state which is aimed at eliminating the inflation causes (in the macro-economic aspect — at eliminating disequilibrium of the supply and demand markets) and destroying the mechanism of its action. Here, the most efficient is the fight with inflation which bears an open character. At the same time, one should differentiate the anti-inflation measures proper from the methods to alleviate the inflation consequences (social protection of the population, compensation, income indexing, etc.) and pseudo-anti-inflation measures (state interference measures, such as a total state control over the prices, direct administrative regulation of demand and supply, etc.), which do not eliminate the inflation causes but only shift it from the open form into the hidden one.

The world practice has accumulated an extensive experience in forms and methods of anti-inflation policy. It includes a wide range of monetary, budgetary, taxation measures, the policy of income and stabilization programs up to imposing radical monetary reforms. The fight with inflation thereat is carried out with the use of measures which exert a negative impact on the economic growth and have a potential of production drop and unemployment growth. At the same time, any attempts to stimulate the production development result in the growth of inflation. The regulation methods in both cases are the same but they ought to act in the reverse directions. Fighting monopoly should also be considered as an important line of the anti-inflation policy.

The control over changes in money by the central bank is a key element in the money circulation stabilization. The central bank, by influencing the “money base”, gets an opportunity to influence its quantity. The direct control by the central bank is only possible by monitoring the issue of cash against public securities. At the same time, their issue against private commercial bills of credit or foreign currency, as well as check deposit issues of commercial banks may only be indirectly influenced.

Disturbed money circulation, inflationary processes lead to very serious consequences for the economy. There is virtually no country which, to this or that degree, during this or that period of its history, has not faced such problems. However, inflation level and its manageability considerably differ in different countries. As a rule, slow rates are the effect of maintaining a balanced and sustainable economic growth and, at the same time, a successful regulation of money circulation by the state. Therefore, money circulation stabilization in effect means a stable economic development. This is recognized by representatives of different scientific schools and trends. For instance, the use of monetary measures in neo-classic and New Keynesian theories is aimed at economic stabilization, although by the application of different methods.

As for the Republic of Belarus, at present many negative phenomena in its economy which were typical for it at the beginning, in mid and even late 90's of the last century have been eliminated. Specifically, the super-high inflation rates have been eliminated, the sharp drop of the national currency exchange rate has been stopped, there is no obvious production stagnation, the overall social stability of the Belarusian society has been improved. However, along with a number of above positive tendencies in the Belarusian economy there is still considerable state interference into its functioning. There is no doubt that, because the market relations system has not yet fully developed where market mechanisms could themselves regulate and eliminate negative aspects, there appears and persists a necessity of state interference into the country's economy. However, the degree of such interference must be scientifically grounded and strictly measured.

In the context of the above, the efficiency of economic policy in the Republic of Belarus acquires special attention. As is known, all actions by the Belarusian authorities for a rather long time have been directed towards a most close integration with the Russian Federation. The Belarusian economic policy has been shaped on this fact. The events of late 2006 and early 2007 demonstrated that such actions had been erroneous. Incidentally, many economists at the time warned about negative consequences of such biased orientation. This was confirmed by the "oil and gas war" started early in 2007, therefore the economic policy of the Republic of Belarus, rather than being oriented towards getting some unilateral advantages from any contracting parties in the economic relations (such as Russia, Kazakhstan, Ukraine, etc.), should try and build a system of civilized economic relations and economic ties envisaging an equivalent and mutually advantageous exchange with its trade partners. Only in this case a long-term economic interest, rather than short-term political ambitions, will prevail in the inter-state relations. In this connection, all illusions to the effect that such amorphous structure as the CIS will continue to exist for any durable time must be dumped.

The Republic of Belarus must build its economic policy based primarily on equal economic relations with all trade partners both in the East and in the West, in the South and in the North. It should also be based on internal economic development sources attracting foreign capital within reasonable (economically based) limits. This means that, during the transitional period of switching over to such market relations, the Belarusian economic policy must be oriented not towards resolving mythical CIS problems but towards solving its internal problems while primarily relying on its own production, economic and scientific and technological potential. In this case it needs to better utilize the Republic's production potential, to develop those sectors and productions which are needed currently and will be needed in future by the Republic's leading trade partners, rather than to adapt to the economy of the Russian Federation.

In the economic conditions which developed early in 2007, all efforts to pursue the *strategic components* of the economic policy of the Republic of Belarus must be aimed, first of all, at the creation and maintenance of a healthy economic environment at the macro-economic level by relaxing the economy as a whole, secondly, at the provision at the micro-economic level of economic freedom for manufacturers in order to start the market mechanisms, thirdly, at the development and maintenance of a reliable legal framework for a normal functioning of all economic structures, irrespec-

tive of their form of property. The *tactical components* of the economic policy at present must be aimed at price and finance stabilization, control of inflation, limitation of the state interference into the economy, stopping the arising economic stagnation process, and prevention of a potential social explosion in the Republic.

An imbalance of the national economy may in very near future become a reality. This is confirmed by the fact that, under the conditions currently arising in the Republic, there is no interrelated function of prices, finances and money circulation, aimed at ensuring a balanced national economy development. For instance, lack of efficient competition has failed to overcome the cost mechanism of price formation while the prices have not become an impetus for building up the production of really high-quality goods. The price setting again starts to reveal paternalism on the part of the state. The formation of the state financial resources is more and more loosing its ties with the material production (real sector of the economy) and its efficiency. For instance, the revenues from the customs activity form a considerable part of the state budget. The inflation of the costs becomes clearly noticed, when manufacturers produce their goods at whatever cost and make such costs to be born by the consumers. Due to a big difference in the growth rates of wholesale (ex-factory) and retail prices, a considerable inflation potential has accumulated and continues to accumulate in the economy. A durable maintenance of a stable national currency exchange rate with an increasing trade balance deficit may become an “Archilles’ heel” for the national economy in the form of a sharp rise of uncontrollable inflation.

In order to work out an anti-inflation policy, the starting point is the further development of the inflation theory as a multi-factor socio-economic process the roots of which lie in the reproduction mechanism. This means that one should not only orient towards the monetary character of the modern inflation or towards the pricing factors connected, for instance, with increasing prices for imported goods (spare parts for the Belarusian real economy sector) or towards internal low-profit or unprofitable goods (services). Therefore, a long-term anti-inflation strategy must be elaborated and measures to restraint the inflation factors defined.

Along with the general economic long-term strategy, urgent measures are needed to control of inflation and turn it into a manageable one, since it is impossible to overcome inflation overnight, its requires years. In this connection, the recent experience prompts two options of inflation regulation, depending on the economic situation:

deflationary policy connected with limiting the growth of money, credits, wages and, in the long run, of the effective demand. However, deflationary policy is only applicable in the conditions of an economic growth and should be aimed at reducing the so-called “overheating” of the economy, which does not happen often. As a result, deflationary measures cause a justifiable negative reaction on the part of workers, bankers and businessmen;

income policy applied during stagflation (a combination of inflation with production drop) and representing a coordination and interconnection between the wage growth rates and price growth rates under the surveillance and mediation of the state. The second option is a more acceptable and reliable way to gradually come out of inflation and economic decline.

Monetary reforms are also aimed at stabilizing the money circulation and control of inflation. Economic theory and the world experience demonstrate that a monetary reform connected with the introduction of a new currency is a measure to take the economy out of the crisis with subsequent stabilization. The principles and specific measures of the monetary reform must therefore be closely tied with the state economic policy implementation. Note, that the monetary reform should be carried out not for the reform’s sake but with the aim to attain macro-economic stabilization and get an additional impetus for subsequent introduction of an efficient monetary, pricing, fiscal and investment policy, removal of limitations on attracting foreign state and private investments into

the production and circulation sphere. The required complex of measures must be adopted gradually, in a sequential and coordinated way.

Monetary reforms may be carried out in different forms. A “shock therapy” monetary reform has recently become to be applied. Typically, such monetary reform may be, depending on the specific anti-inflation strategy and tactics, an initial or the final stage of stabilizing money circulation. However, the monetary reform does not provide a strategic solution of control of inflation without interconnection with other anti-inflation measures.

Historical experience confirms this. For instance, the monetary reform in the Russian Empire, conducted in 1895 – 1897, placed Russia on a par with other great European nations in terms of finances. One of the main measures by the tzar’s government in preparing the monetary reform was accumulation of gold reserves. To this end, measures were undertaken to expand the export of agricultural products, the internal taxation was increased. Simultaneously, the government encouraged the gold mining expansion by granting a number of privileges to gold miners. Such measures resulted in an increase in the gold reserves. While the Russian gold reserves as of January 1, 1886, only amounted to 336.5 million rubles, on January 1, 1896, they already reached 963.5 million rubles.

As a result of the monetary reform, a system of gold monometallism was established and gold was put at the basis of the entire monetary system. Having devalued the gold content in the ruble by one-third, the government set its new gold content at 17.424 share of pure gold. Simultaneously, a free exchange of banknotes for gold was announced. The banknotes issued by the bank for the amount of up to 600 million rubles were backed in gold at least by half, while the banknotes issued in excess of this amount were 100 % backed by gold. Silver coins became an auxiliary instrument of payments, in particular, the payments in high-standard gold were limited to the amount of 25 rubles, those in subsidiary instruments – to 3 rubles. Issue of silver coins was not to exceed 3 rubles per capita. This monetary reform ensured a stable currency in Russia.

The monetary reform in the Soviet Russia (1922 – 1924) was connected with the use of a parallel currency, i.e. the old Soviet currency was used along with the new money, the chervonets. The chervonets was introduced into circulation in the following way. The wholesale buyer of goods, upon their receipt, issued a promissory note to repay the debt within strictly fixed time limits. Due to a high instability of the Soviet currency, all transactions were concluded with regard to its devaluation in relation to gold by the day of the promissory note repayment. The seller produced the promissory note issued by the buyer to the bank which accepted it and issued a loan in chervonets against the promissory note, deducting its own respective interest. On the day of the promissory note maturity, the bank produced it to the buyer with a request to repay it in chervonets. If the buyer had no hard currency he had to buy the necessary amount of banknotes for the Soviet currency at the market exchange rate and repay the promissory note. If he failed to repay the promissory note in chervonets in due time, the debt was recovered by the State Bank by taking possession of the debtor’ property who was declared bankrupt. The issue by the State Bank of loans in chervonets on the goods with guaranteed sale was also widely practiced. The granted credits were also subject to repayment in banknotes.

The strict economic and legal responsibility of the entities involved into the economic turnover ensured close ties of the chervonets with the commodity flows, maintained a high purchasing power of the new currency and protected it from devaluation. Thanks to a consistent observance of the issue legislation, the amount of the issued chervonets was lower than the total cost of the goods in circulation. “Hunger” for chervonets was the best argument in favor of the stability of the banknotes.

The experience in the post-war Germany shows that its revival was linked with a stringent currency and financial policy, reliance on the force of a free market and entrepreneurship. Still, the major factor of improving the German economy was restoration of the monetary system viability which was impossible without a monetary reform. As a basis, the assumption was made that the dispro-

portion between the money and the goods circulation can be best eliminated by limiting money and adapting the commodity volume to the existing legal prices. The alternative option connected with an increase in prices in order to adapt them to the existing money had very little support.

The money reform was carried out in the following way. All natural persons and economic entities were obliged to declare their cash and bank deposits in Reichsmarks at their disposal. The money was to be exchanged for new German marks in the 100:10 ratio, which only left 10% of the previous amount. Additionally, after a check by the tax service, half of this 10% came at the owner's disposal, while the other half was divided once more, specifically, 1/5 remained at the owner's disposal, 1/10 went to the blocked account for investments and the rest 7/10 was cancelled. As a result, the real exchange ratio was 100:6.5 (although certain concessions were made with regard to small amounts). These conditions were also applied to all types of deposits. As can be seen, the exchange was carried out very stringently and rather painfully for the population, in a *confiscatory* way.

In order to provide the population with minimum money resources, 60 German marks was allocated "per capita", out of which 40 marks could be received by each person on the day of the reform and 20 marks more in two months. New money was also paid in exchange of old Reichsmarks in 1:1 ratio. In order to avoid a complete failure to pay wages and make other payments, each enterprise was allocated an amount of new money equal to 60 marks per one employee. The local authorities, including land authorities, received an initial sum in the amount of their actual monthly income, while their previous savings were written off.

Since a sharp reduction of money payments under previous short-term obligations impossible, such debts were devalued in the 10:1 proportion. Special rules were applied to the long-term obligations, especially mortgage debts, which precluded illegal enrichment. Contributions from the "mortgage profits" were transferred to the special fund from which financing under the program of leveling the burden was subsequently made.

The world experience demonstrates that the money reform must be aimed at reaching the following main objectives:

- To match the commodity and money (with or without differential confiscation measures) or, in some cases, introduce a new national currency;
- To stop the development of inflationary tendencies in the economy and, consequently, devaluation of the national currency;
- To limit for a certain time period the wage growth, resorting to "freezing" wages and, respectively, consumer prices;
- To set strict limits to issuing new banknotes, and exercise a stringent control over the circulation of the cash and no-cash money aggregates;
- To economically stabilize the new currency exchange rate, provided that, at the initial stage of the reform, its exchange rate will be relatively fixed with regard to strong currencies.

The starting point for developing an anti-inflation program, which includes improvement of money circulation, is the use of two regulators, i.e. the market and the state ones. The economic theory and the world experience demonstrate thereat that the anti-inflation policy and the monetary reform are only one measure to take economy out of a crisis with its subsequent stabilization. Therefore, the principles and specific measures of the anti-inflation policy must be closely linked with the implementation of the state's general economic policy. This means that the anti-inflation policy must be pursued not for the sake of the policy but with the aim to ensure macro-economic stabilization and get an additional impetus for subsequently pursuing an efficient monetary, pricing, taxation and innovation-investment policy, lifting limitations on the attraction of foreign capital into the real sector of economy and the circulation sphere.