Letter from the Editor

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Dear colleagues,

I am happy to introduce the first 2018 issue of the Russian Journal of Money and Finance — not just this year's first but first in its new form. In changing the journal's concept we aim to enhance its scholarly component and to improve the quality of publications by giving preference to articles reporting the results of original research. This has meant introducing a considerably more thorough article selection and reviewing process.

We have set the goal of publishing only high-level research that is of interest to all experts in macroeconomics and finance. This academic journal seeks to promote research in macroeconomics and finance in emerging markets and to further economic science in Russia by acquainting Russian scholars with the latest developments in the world economics, particularly in the areas directly related to central banks' mandate. The journal is now also published in English because we wish to give the international audience an idea of the Russian researchers' results and development of their research.

To what extent we have achieved this in the first issue of this renovated journal is certainly for our readers to judge. But I am pleased to note that this issue features high-quality studies by Russian and foreign researchers on contemporary subjects for monetary policy in Russia and throughout the world, as well as papers analyzing the situation in the Russian banking sector.

Now a few words about the papers themselves and implications of their findings for economic policy.

The paper by Clemens Grafe, Sara Grut and Lorenzo Rigan estimates the neutral interest rate for Central and Eastern European countries, including Russia. The neutral interest rate is a central bank's interest rate in a state of economic equilibrium, i.e., when GDP growth rate of a given country is equal to potential growth rate, with inflation on the target level. From a methodological perspective, this study presents an interesting case of using the currently widespread technique of estimating neutral, or equilibrium, interest rates as applied to emerging markets. In large economies with reserve currencies, the neutral rate is mainly determined by internal factors. However, in smaller and emerging economies, interest rates are largely driven by external factors. In Grafe et al.'s paper the results of econometric analysis suggest that whereas in Eastern European countries the key driver of neutral rate movements is the US neutral rate, in Russia, it is terms of trade, primarily for oil, that play a more important role. I can add that as the Russian economy's dependence on oil prices lessens due to, among other factors, changeover to inflation targeting and adoption of the budget rule (under which revenues from commodities exports in excess of the preset level go to reserves rather than to the government budget), one could expect a decline in the neutral rates' dependence on oil prices.

Two papers appearing in this issue analyze the effectiveness of monetary policy innovations in countries with reserve currencies which have found themselves in a situation of near-zero interest rates. Ugo Panizza and Charles Wyplosz test the hypothesis that the effectiveness of central banks' policy to buy up assets weakens with time. Their results are not entirely definitive, though. If the effectiveness of policy is analyzed by estimating shadow interest rates (i.e., rates that could produce the same effect as an asset-buying policy), then numerous tests confirm the hypothesis that the effectiveness of this policy weakens over time. But tests relying on central bank announcements about quantitative easing for analysis do not support this hypothesis. I would draw the following conclusion from these results: the effectiveness of quantitative easing does weaken over time, and thus monetary policy is incapable of dealing with all the problems in an economy. But as far as instruments are concerned, communication policy is in itself a fairly effective one, thanks above all to its influence on financial markets' expectations. I would also like to draw Russian researchers' attention to how thoroughly the authors study the problem and how many tests for the robustness of results they perform. Unfortunately, studies by many Russian researchers so far show a lack of this thoroughness.

The key points of Dr. Jacob Frenkel's paper, which is published in the section covering economic policy, is closely related to the conclusions of the above-mentioned article. Jacob Frenkel, a well-known macroeconomist and the Bank of Israel's former Governor, has been long setting forth the idea that the so-called unconventional policy measures should be resorted to on a short-term basis, under extraordinary circumstances in the markets and should not be the only measures used under such circumstances. Data on the global economic situation leads Dr. Frenkel to conclude that the world economy is ready for these measures to be scaled down. The trends and approaches covered in his article — with regard to both monetary policy and globalization issues — are directly related to both Russia's economic situation and its economic policy. Alexander Morozov, Director of the Bank of Russia's Research and Forecasting Department, covers this angle in his brief comment.

The remaining two papers published in this issue analyze the situation in the Russian banking sector. The study by Alexey Ponomarenko and Andrey Sinyakov analyzes the effect of banking supervision enhancement (entailing license withdrawal from weak players) on competition in the banking sector. This is a theoretical study with an analysis of potential implications relying on an agent-based model. I would like to note that this is now an extensively developing model class which is fairly often used to analyze financial stability issues. It helps depart from the representative agent concept and examine the results of interaction between different agent types. This study suggests that the impact of supervision toughening on various banks' competitive position is nonlinear. At the first stage, when customers lack clear understanding of specific banks' reliability, funding may become more expensive for small and medium-sized banks. However, after the majority of fragile players have gone out of business and customers have gained greater confidence in the reliability of small and medium-sized banks in operation, these banks' competitive positions will substantially improve. The results of Mikhail Mamonov's study shows that after the Bank of Russia has toughened banking supervision, banks have stepped up their efforts to prevent the emergence of problems with capital or have started to address them promptly.

Hence the long-term and, to a large extent, short-term results of supervision enhancement improve competition in the banking sector, providing incentives for players to improve risk-management. The extensive literature on the banking sector suggests that fragile banks or so-called zombie-banks hamper economic growth. Thus tougher supervision policy in the long run creates greater opportunities for a balanced economic growth.

In conclusion, I would like to thank the authors, reviewers and editors of this first issue. Your efforts have set a high standard for the renovated journal. I would also like to address potential authors once again: we expect you to submit new articles which would give us a better insight into the new trends in the economy as well as monetary and financial realms.