

Legal aspects of development of monetary integration on the post-Soviet space: an overview

The post-Soviet integration has not seen substantial steps towards monetary integration. The only major legal document that explicitly provides for a single monetary policy is the Agreement on the Union State of Russia and Belarus (1999). The agreement provides for exclusive competence of the Union State in this field (Article 17). Article 22 stipulates a step-by-step introduction of a single currency with a simultaneous creation of a single emissive center with the main function of protecting and ensuring stability of the single currency. The parties to that treaty concluded a separate Agreement on introduction of a single currency and formation of a single emissive center of the Union State (2000) where they agreed to introduce a single currency (the role was eventually assigned to the Russian ruble at the initial stage)¹ by 1 January 2005. However, the process did not come to fruition.²

Discussions on introduction of a single currency did not only take place among Russia and Belarus. First open discussion on the possibility and expediency of introduction of a single currency on the post-Soviet space took place at the meeting of the heads of Central Banks of the member states of the Commonwealth of Independent States (CIS) in 2001.³ In 2003 the issue was covered on the Eurasian Economic Community (EURASEC) Economic Forum, which suggested to introduce the currency by 2011. The interest to the idea eventually weakened and was only revived after the world financial crisis on a number of forums in 2009.

As of 1 January 2015 a new international organization of regional integration has appeared – the Eurasian Economic Union (EAEU). This is the most advanced economic integration attempt on the post-Soviet area to date. However, in order to understand the context and the relevant provisions in the EAEU Treaty, it is worth mentioning the cooperation that historically existed among post-Soviet states not only in purely monetary policy field (which has been very limited), but in related fields.

¹ Суздальцев А.И., «Проблема появления единой валюты Союзного Государства России и Белоруссии», *Безопасность Евразии*. - № 3(33). – 2008. – с. 244-255.

² Которченя В.М., Введение единой валюты в России и Белоруссии: соответствие критериям теории оптимальных валютных зон, с. 164-169.

³ Чувахина Л.Г., Введение единой региональной валюты на территории стран Таможенного союза, с. 9-15.

The focus of such cooperation was predominantly in the fields of foreign exchange⁴ and, partially, financial policy. In the beginning of 2000s a number of conceptual legal acts were adopted. Among those, the Concept of cooperation and coordination of activities of member states of the CIS member states in the foreign exchange field (2004), Concept of cooperation of EURASEC member states in the foreign exchange field (2005), Agreement on cooperation in the field of organization of integrated foreign exchange market of EURASEC member states (2006), Agreement on the main principles of foreign exchange policy of EURASEC member states on regulating and control of operations, related to the movement of capital (2009), Agreement on coordinated macroeconomic policy and Agreement on coordinated principles of foreign exchange policy (2010), Agreement on coordinated foreign exchange policy (2011), Agreement on cooperation of competent authorities (2011), Agreement on cooperation in the field of organization of an integrated foreign exchange market of the CIS member states (2012).

As literature indicates,⁵ the achievements of the cooperation in the fields covered by the aforementioned agreements have been, among others, the following: CIS member states have joined Article VIII of the IMF Agreement by removing restrictions on the making of payments and transfers for current international transactions; multiple exchange rates in the EURASEC countries have been replaced by a single market exchange rate; an integrated foreign exchange market has been implemented in the EURASEC.

Further, such cooperation has seen establishment of three relevant institutions: the CIS Interstate Foreign Exchange Committee (which has ceased to exist); Eurasian Development Bank (2006); and EURASEC Anti-Crisis Fund (2009). Eurasian Development Bank is an international financial organization established to promote economic growth in its member states, extend trade and economic ties between them and to support integration in Eurasia. It has been relatively successful financing investment projects that promote integration and in helping to implement such projects.⁶ The EURASEC Anti-Crisis Fund is an international financial institution established to assist member states in overcoming the consequences of the global financial crisis, to ensure their long-run economic stability and to

⁴ It is worth mentioning that there are certain theoretical differences in the scope of certain terms. Thus, it is sometimes argued, that Western scholars understand monetary policy wider by including foreign exchange policy into its scope, while in the post-Soviet area, foreign exchange policy is understood as part of economic policy and an instrument of attaining economic policy goals. See e.g. Рудый К.В. (2007), *Международные валютные, кредитные и финансовые отношения*, М: Новое знание.

⁵ Котляров Н.Н., Алексеев П.В., «Оценка перспектив евразийской валютно-экономической интеграции», *Деньги и кредит*. – № 6. – 2014. – с. 24-30.

⁶ Eurasian Development Bank, *Investing in Development and Integration*, <http://eabr.org/e/projects/priority/index.php>.

foster economic integration. The institutions is currently managed by the Eurasian Development Bank.⁷

Turning to the EAEU, the Treaty does not have provisions on monetary integration per se. The EAEU Treaty provides the Eurasian Economic Commission, the main regulatory body, only with the competence in the fields of foreign exchange policy and financial markets (banking, insurance, money-market, equity market) (para 3 Commission Provisions). There is no clear delimitation of these competences, as it goes that the Commission “exercises its activities within the limits of the competence, provided in the Treaty and international treaties in the Union framework” in these fields.

Therefore, not envisaging monetary integration, the EAEU rather builds upon the existing cooperation in the fields of foreign exchange and financial policy. Article 64 identifies the aims and principles of a coordinated foreign exchange policy. The aims are to deepen economic integration; develop cooperation in the foreign exchange and financial sphere; ensure free movement of goods, services and capital in member states; increase the role of national currencies of member states in foreign trade and investments; ensure mutual convertibility of member state currencies. These are to be achieved through (1) a stage-by-stage harmonization and approximation of approaches to forming and conducting foreign exchange policy to the extent conforming to the macroeconomic needs of integration cooperation; (2) creation of necessary organizational and legal conditions on the national and interstate levels for the development of integration processes in the foreign exchange sphere, coordination of foreign exchange policy; (3) abstention from application of measures in the foreign exchange sphere, which can negatively influence the development of integration process; if otherwise – minimization of their consequences; (4) conduct of economic policy aimed at increasing of confidence to member state currencies both on domestic foreign exchange market of each member state and international foreign exchange markets.

The measures are defined in more details in the “Protocol on measures, aimed at conducting a coordinated foreign exchange policy” annexed to the EAEU Treaty. According to the protocol, an “integrated foreign exchange market” is understood as a totality of domestic foreign exchange markets consolidated by common principles of functioning and state regulation. Coordination of the exchange rate policy is implemented by a separate body composed of the heads of member state central banks. The body is to be regulated by a

⁷ Agreement on the Management of Resources of the Anti-Crisis Fund of the Eurasian Economic Community, http://acf.eabr.org/media/img/eng/about/documents/Agreement_on_the_management_of_resources_of_the_Fund.pdf

separate international treaty. The coordinated approaches, including those on adoption of liberalizing measures, are also to be determined by a separate international treaty.

Financial market regulation cooperation is provided in Article 70 of the EAEU Treaty which identifies the aims and principles thereof. The aim is to create a common financial market which is understood as a totality of the following factors: harmonized requirements to regulation and supervision of financial markets of member states; mutual recognition of licenses in the banking and insurance sectors, and services sector on equity markets of member states; provision of financial services without additional incorporation in another member state; administrative cooperation. More details are provided in the Protocol on financial services annexed to the EAEU Treaty and a separate international treaty. The treaty provides that financial integration is to be based in accordance with international standards and best international practice. These are, therefore, as follows: Basel accords for the banking sector, standards of the International Association of Insurance Supervisors for the insurance companies, standards of the International Organization of Securities Commissions for the equity market.⁸ A consultative committee on financial markets has been created in 2012 which elaborates proposals on financial integration. Two researches on the topic have been also outsourced by the Commission.⁹

The EAEU Treaty envisages creation of a new institution: a supranational financial regulator which is scheduled to be established by 2025 on the basis of a harmonized financial markets legislation and administrative cooperation (Article 103 EAEU Treaty).

This institution, however, will not have monetary policy functions and no other institutions with such functions are envisaged in the EAEU Treaty. No steps towards monetary integration are provided either. On the national level, therefore outside the EAEU framework, the President of Russian Federation has commissioned the Russian Central Bank together with the Government to propose by 1 September 2015 further directions of foreign exchange and financial integration within the EAEU with elaboration of expediency and possibility of creating a monetary union. As it has been stressed by Member of the Eurasian Economic Commission Board (Minister) on economy and financial policy T. Suleymenov, at

⁸ Евразийский Банк Развития, Новости региональной интеграции, http://www.eabr.org/general/upload/Informatsionnyy_daydzhest_na_30_aprelya_2015.pdf

⁹ See Отчет о научно-исследовательской работе по Договору № Н-09/89 от 08 августа 2014 г. по теме «Разработка Стратегии развития финансовых рынков государств-членов ТС и ЕЭП на период до 2025 года» по первому этапу работы; Отчет о научно-исследовательской работе по теме «Формирование единого биржевого пространства и централизация институтов учета и расчетов в рамках ЕЭП» по договору № Н-09/97 от 10.10.2014 г. по первому этапу работы.

this stage, the Commission itself does not conduct any work on the issue whatsoever.¹⁰ The Commission is therefore waiting for a decision, which is to be taken by consensus of all EAEU member states, regarding the proposals, if any, from the Russian side resulting from the research commissioned.

¹⁰ Евразийская экономическая комиссия, Интервью Министра по экономике и финансовой политике ЕЭК Тимура Сулейменова, <http://www.eurasiancommission.org/ru/nae/news/Pages/12-05-2015-3.aspx>