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MODERNIZATION OF BANKING SYSTEM OF CHECHEN REPUBLIC IN THE 21ST CENTURY

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Abstract

The article is devoted to the infrastructural and technological development of the banking sector of the Chechen Republic in 2000–2018 and the influence of this process on the formation of the investment space of modern Chechnya. At the beginning of the 21st century, social stability was established in the Chechen Republic, economic activity was intensified, and business relations of the Republic with other regions of Russia and foreign partners were enhanced. One of the most important conditions for the consolidation of this trend was the opening of branches of a number of leading Russian banks in Chechnya. In modern Chechnya, a banking system was created, quantitative and qualitative characteristics of which ensure the integration of Chechnya into the Russian and world financial market. The authors conclude that the monetary policy of the Chechen Republic is aimed at implementing a regional program for the modernization of banking sector using variable adapted banking models. The authors pay special attention to the positive dynamics of the economic cooperation of the Chechen Republic with the United Arab Emirates, which business is involved in financing the pharmaceutical cluster, building large business and scientific and educational centers in Chechnya, and supporting an entrepreneurial initiative, including innovative business through Sheikh Zayed fund. The authors associate prospects for successful development of the Chechen banking sector with further improvement of its infrastructure and technologies, expanding the range of banking products and services, developing legal and organizational mechanisms for interaction with the banks of the Arab world.

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Keywords: The Chechen Republic, Russian banking system, Chechen banking system, Islamic banking, investment policy, financial globalization.



1. Introduction

Nowadays in the Chechen Republic, an innovative banking system is forming. This system integrates into the Russia-wide financial and economic space and at the same time develops international investment projects with the participation of the capital of Arab countries - Saudi Arabia and the United Arab Emirates (UAE), Kazakhstan investors, South Korea, China, Belgium, France, Latvia, Norway, as well as Malaysia and Australia.

2. Problem Statement

The relevance of the problem is determined by the increasing importance of understanding the practical experience of the financial institutions of the Chechen Republic in the process of technological modernization, creation of a system of higher and secondary education, and improvement of the social sphere of national and cultural formation.

The historiography of the problem includes a number of publications devoted to the newest experience and prospects for the development of the economy of the North Caucasus and Chechnya, taking into account the realization of the investment potential of the Republic (Starodubrovskaya et al., 2011). Jeffris (2003) in his book under the title “The Caucasus and Central Asia at the Beginning of the XXI Century” considers some aspects of the integration of the North Caucasus region into the global financial space in the book. The works of Lipina (2007, 2010) and Salgiriev (2012), which analyze the key problems of modernizing the economic space of Chechnya in the 21st century, including the issues of financial support for infrastructure and technological growth present considerable theoretical and practical interest. The historiographic complex of the work also includes publications by young Chechen authors studying the issues of modern banking and investment policy in Chechnya (Aslakhanova & Khozhakhmedova, 2016).

3. Research Questions

The subject of the research is the process of institutionalization of the banking system in the Chechen Republic, in the context of a developing socio-economic and information technology modernization, the implementation of a complex of measures of the state policy of the Russian Federation and the Chechen Republic aimed at the formation of a modern innovative banking system.

The object of the research is presented by financial institutions of the Russian Federation and the Chechen Republic, state and private banks, government and management bodies in the financial and economic sphere, banking research structures (R&D), a set of state documents and regulatory acts in the field of banking sector improvement, as well as the international investment agreements of Russia and Chechnya with the CIS countries, the European Union and Arabic countries.

The chronological framework of the research covers the period from the beginning of the 2000s, when banking institutions of a new type started to form under the conditions of the improvement of socio-political and economic formation in Russia, and until the present moment.

4. Purpose of the Study

The purpose of this research is to carry out the synthesis of scientific knowledge on the problem of the formation and modernization of the banking system of the Chechen Republic as a part of Russia-wide banking system in the context of the developing processes of financial and economic globalization of the early 21st century. The purpose is related to the solution of the following scientific and practical tasks:

1. To assess the role of the banking sector of the Chechen Republic in the process of formation and development of national economy of the Chechen Republic;
2. To show the importance of modern financial institutions of the Chechen Republic in the modernization of the socio-economic sphere, in the development of innovative technologies and science-driven industries, in the improvement of the system of higher education and R & D.
3. On the basis of a comprehensive scientific analysis, to identify the essence of the process of modernization of the banking system of the Chechen Republic as a part of Russia-wide financial complex and its activities in the global financial and economic space of the 21st century, and also determine the prospects for its further institutional development.

5. Research Methods

The research was based on general scientific methods of knowledge - scientific analysis, logical and comparative methods, the synthesis of scientific knowledge; such historical and interdisciplinary methods as economic, expert assessment, statistical and others were used.

6. Findings

In the early 2000s, when the economy and social sphere of the Chechen Republic was restoring, there was an urgent need to create a modern, developed banking sector that could provide a solution to the task of reviving the national economic complex. In 2003, certain structure-forming enterprises of fuel and energy complex and construction industry, transport, communications and other industries began to function in the Chechen Republic. They were capable of taking part in the creation of a favorable investment climate under conditions of which widespread lending of the real economy sector became possible. At the same time, the investment rating of the Chechen Republic was low at this stage, which hampered the inflow of foreign investment to the Republic (Aidamirov, 2016).

In the second half of the 2000s - 2010s, further restoration of industry and socio-cultural sphere of the Chechen Republic necessitated the creation of legal and organizational conditions to ensure and stimulate investment inflows (Khasiev, 2012). In order to implement this task, a well-institutionalized, efficient banking system was needed, which could be a moderator of socio-economic and technological transformations. At that time, there was only one universal banking institution in the Chechen Republic - the Chechen regional branch of the Russian Agricultural Bank, the resource base of which was entirely state capital. At the same time, the branch managed to create a network of banking regional divisions in the Republic and begin activity on reviving the staff of banking specialists, whose shortage was strong during that period (Reshiev, 2013).

In 2003, the administration of the Central Bank of the Russian Federation, together with the administration of the Chechen Republic, implemented a set of consecutive measures to create a modern, efficiently functioning banking system in the Republic. The opening of the territorial office of the Bank of Russia in November 2007 was an important step towards the institutionalization of the financial system of the Chechen Republic. In March 2008, as a result of joint activity of republican and federal state bodies, the National Bank of the Chechen Republic was opened within the structure of the Central Bank of the Russian Federation. The Regulation of the Bank of Russia determined the activities and powers of the Bank “On the territorial institutions of the Bank of Russia” (Central Bank of the Russian Federation, 2016).

In 2009, the authorities of the Chechen Republic set the task to the National Bank of the Chechen Republic to proceed to the full operation of banking services. After coordination of this issue with the authorities of Russia, who approved the project of expansion of the banking system of the Chechen Republic, it was decided to raise the status of the National Bank of the Chechen Republic and to provide full powers for full-fledged activity at the financial market. In October 2010, the Chairman of the Bank of Russia approved the Schedule of activities on the transfer of banking services from the Bank of Russia field office in Grozny to the National Bank of the Chechen Republic of the Bank of Russia. In 2011, in order to provide cash management services to credit institutions the Main Financial Settlements Center of the Central Bank was created as a part of the National Bank of the Chechen Republic.

Nowadays, such large banks as Sberbank of Russia, the Central Bank of the Russian Federation, the National Bank of the Chechen Republic, Cetelem Bank, Anelik Bank (Southern branch), Svyaz-Bank, CreditInvestBank, Mosoblbank, Rosselkhozbank, Kreditinvest Bank, Moscow Industrial Bank, CB Sokolovsky, etc. function in Grozny. In the future, the territorial structure of the banking system of the Chechen Republic will be expanded. The branches of credit institutions will be opened in other cities and major population centers of the Republic, which will correlate with the diversification programs of industrial and economic development of the Republic. The banking system of the Chechen Republic is developing in accordance with the Russian Strategy for the Development of the Financial Market of the Russian Federation up to 2020 adopted by the Russian government. This strategy involves the implementation of a large-scale set of measures in order to modernize the financial sector in accordance with the new quality standards of activities in the financial and economic globalization of the banking world (Ershov, 2015).

Nowadays the banking system of the Chechen Republic faces the task of further development of the institutional structure of the National Bank of the Chechen Republic, increasing the banking of the population, promoting competition between credit organizations, expanding the sector of lending to individuals and legal entities (Groznyi-*Inform*, 2012). The strategy for the socio-economic development of the North Caucasus Federal District up to 2025, approved by the Government of the Russian Federation in September 2010, defines the introduction of the latest banking information technologies (“Fintech”) as an extension of the electronic banking sector as one of the priority tasks for the improvement of the banking sector. This includes the transfer of budgetary organizations to the payment of wages using plastic bankcards. The Chairman of the Government of the Chechen Republic, Muslim Khuchiev (2018), summing up the meeting with the head of the Southern Central Administration of the Central Bank of the Russian Federation Evgenii Eberents, noted the significant role of development of banking institutions in the

implementation of programs for the socio-economic modernization of the Chechen Republic. He also highlighted the urgency of the solution of problems in the provision of the population of the Republic with banking infrastructure (Khuchiev, 2018).

The modern banking system of the Chechen Republic faces a complex of tasks: to further develop the institutional base, to raise public awareness about banking opportunities, to attract new investments, etc. (Bisultanova, 2015). An important condition for the integration of the banking system of the Chechen Republic into Russia-wide and international financial market is the expansion of the range of banking services to individuals and legal entities (Reshiev, Bisaev, & Daurbekov, 2014).

Further modernization of the banking system of the Chechen Republic is designed to solve the important task of the republican financial system - to provide the national economy of the Chechen Republic with the necessary financial resources for the further development of industrial production, the introduction of high technologies, the implementation of long-term investment programs for industrial construction, the development of science, culture and education.

In the Chechen Republic, 2018 year was the “Year of Investment”. Modern Chechen Republic has all the necessary conditions (organizational, institutional, natural) to create a favorable investment climate (Kutukhanov, Iliasov, & Varaev, 2016), which is confirmed by the successful implementation of a number of investment projects.

In 2015, as a part of the implementation of the state policy of Russia in the context of the creation of a favorable investment climate in the country, a number of regulatory and administrative measures were taken in the Chechen Republic aimed at the solution of this problem. It included, the List of priority investment projects of the Chechen Republic. In the same period, the implementation of the “Standard of the activities of the executive authorities of the constituent entity of the Russian Federation to ensure a favorable investment climate in the region”, which had been implemented in Russian regions since 2013, was introduced in the Chechen Republic. To further control the development of investment mechanisms and assess the quality of investment support in the Republic a “road map” for monitoring the results of the implementation of the Standard was developed in September 2015 and approved by the decree of the Government of the Chechen Republic (Aslakhanova & Khozhakhmedova 2016).

The significant investment funds in the development of the higher education system of the Chechen Republic are invested by businessmen from the United Arab Emirates, who have developed and embraced a large international university construction project in the Chechen Republic. The construction of this prestigious international educational institution is to be carried out by the “Emaar Properties” company, which also plans to allocate annual grants to young businessmen who have achieved the best results in their entrepreneurial activities. The solemn ceremony of laying the capsule for the construction of the Grozny International University was held in October 2015. The Head of the Chechen Republic, Ramzan Kadyrov and Muhammad Al-Abbari, the President of Emaar Properties attended the solemn event, which is an investor of this project. In his speech, Ramzan Kadyrov noted that the university will be a gift to the Chechen people and all Russian people from the fraternal people of the United Arab Emirates. “We highly appreciate the warm, friendly relations between our countries. I express my gratitude to the crown prince of Abu Dhabi, my elder brother Mukhammad bin Zaid Al-Nakhaian. We have concluded a number of agreements on the implementation of large-scale investment projects in the Republic. Today one of them

starts,” said Ramzan Kadyrov. The President of Emaar Properties thanked Ramzan Kadyrov for the opportunity to come to the Chechen Republic and start building an international university. He assured that he considers it an honor to participate in the development of the region (Galmurzaev, 2015).

The consistent policy of the government of the Chechen Republic and the National Bank of the Chechen Republic, aimed at enhancing economic and banking activities, attracting investment (both domestic and foreign), creating a favorable investment climate in the country (Abubakarov, 2017) is of great creative importance.

At the same time, the experience exchange with foreign partners in the field of organizational and technological development of banking activities and the participation of banks in the Chechen Republic in regional investment projects is performed. Chechen financiers study the possibilities of introducing various models of modern banking into the financial system of the Chechen Republic, including Islamic banks, whose business ethics comply with the traditions of the Chechen people. The idea of using Islamic banking financial instruments for investing in the modernization of agriculture in the Chechen Republic was supported by the participants of the IV International Peace Forum “Islam is a religion of peace and harmony”, held in August 2011 in Grozny. In January 2016, an agreement was reached with Mazcorp (UAE) on the development of a project to open an Islamic bank in Grozny. The head of the Chechen Republic, Ramzan Kadyrov, commenting on this event on his Instagram page, stressed that the opening of an Islamic bank for Chechnya “is of paramount importance, since large objects are being built in the Republic with the participation of the UAE capital” (Kommersant.ru, 2016). The implementation of this task is connected with the detailed elaboration at the federal level of the legal and organizational conditions for opening a bank. In 2016, on behalf of the Crown Prince of Abu-Dabi SHEikh Mukhammed Bin Zaiid Al Nakhaian, the Khalif Fund began work on setting up its branch in the Chechen Republic (Khalif Fund in the Chechen Republic, 2016).

In its practical activities in the financial and economic system of the Chechen Republic, the Fund uses business projects and techniques specifically developed by the specialists of the Khalif Fund in the United Arab Emirates (UAE) and adapted to the specific socio-economic conditions of the financial market of the Chechen Republic. The working group, which includes economists from the Chechen Republic and renowned scientists and international consultants, has developed a Prospective plan of Fund activities, which involves funding projects in total volume over 300 million dollars, promoting the creation of more than 60,000 jobs.

7. Conclusion

At the present stage of modernization, the banking system of the Chechen Republic has reached such a qualitative level marked by the transition to a new institutional, technological and organizational milestone and the meeting international quality standards of banking. This makes it possible for financial institutions of the Chechen Republic to take part in the implementation of large-scale investment projects, to accumulate the necessary financial resources for the development of the national economic complex of the Republic.

Thus, at present moment, there is a consistent integration of the banking system of the Russian Federation and the financial complex of the Chechen Republic as its integral part into the global economic

space of the 21st century. It will determine a further increase in its quality characteristics and an increase in financial and economic influence on the system of international banking institutions.

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