

Khaustova V. Ye.

*Doctor of Economic Sciences, Associate Professor
Research Centre of Industrial Problems of Development of NAS of Ukraine,
Ukraine; e-mail: v.khaust@gmail.com*

Demchenko N. V.

*PhD in Economics, Associate Professor,
National University of Pharmacy,
Ukraine; e-mail: demchenata@ukr.net*

Kovalchuk V. G.

*Doctor of Sciences in Public Administration, Associate Professor,
Kharkiv educational and scientific Institute of the state
higher education institution "Banking University"
Ukraine; e-mail: covveron@ukr.net*

Volkova M. V.

*PhD in Economics, Associate Professor
O. M. Beketov National University of Urban Economy in Kharkiv,
Ukraine; e-mail: milaha7432@gmail.com*

GLOBAL FINANCIAL SYSTEM: RISKS AND FORECASTS

Abstract. The article is devoted to the analysis of the causes of the series of successively occurring crisis phenomena in the global financial system, the identification of imbalances and financial risks of development at the present stage. The article is dedicated to the evolution of the overall structure of the international financial sector, discusses the role of the euro area financial sector in financing non-financial corporations and analyses interconnectedness across different parts of the financial sector in order to assess possible structural risks to financial stability in the euro area and in the world. definition of existing risks and imbalances in the development of the global financial and economic sphere, as well as the possible directions of their minimization. The purpose of the article is to definition of existing risks and imbalances in the development of the global financial and economic sphere, as well as the possible directions of their minimization.

Keywords: globalization, imbalances, financial risks, eurozone, financial relations.

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Хаустова В. Є.

*доктор економічних наук, доцент,
Науково-дослідний центр індустріальних проблем розвитку НАН України
Україна; e-mail: v.khaust@gmail.com*

Демченко Н. В.

*кандидат економічних наук, доцент,
Національний фармацевтичний університет,
Україна; e-mail: demchenata@ukr.net*

Ковальчук В. Г.

*Доктор наук з державного. управління, доцент,
ХННІ ДВНЗ «Університет банківської справи»,
Україна; e-mail: covveron@ukr.net*

Волкова М. В.

*кандидат економічних наук, доцент,
Харківський Національний університет міського господарства імені А.Н. Бектова,
Україна; e-mail: milaha7432@gmail.com*

ГЛОБАЛЬНА ФІНАНСОВА СИСТЕМА: РИЗИКИ ТА ПРОГНОЗИ

Анотація. Стаття присвячена аналізу причин серії послідовно виникаючих кризових явищ у світовій фінансовій системі, виявлення диспропорцій та фінансових ризиків розвитку на сучасному етапі. Стаття присвячена розвитку загальної структури міжнародного фінансового

сектору, розглядається роль фінансового сектора зони євро в фінансуванні нефінансових корпорацій та аналізується взаємозв'язок між різними частинами фінансового сектору з метою оцінки можливих структурних ризиків. Фінансова стабільність у зоні євро та у світі. Визначення існуючих ризиків та дисбалансів у розвитку світової фінансово-економічної сфери, а також можливі напрямки їх мінімізації. Метою статті є визначення існуючих ризиків та дисбалансів у розвитку світової фінансово-економічної сфери, а також можливі напрями їх мінімізації.

Ключові слова: глобалізація, дисбаланс, фінансові ризики, євროзона, фінансові відносини.

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Хаустова В. Е.

Доктор экономических наук, доцент

Научно-исследовательский центр индустриальных проблем развития НАН Украины, Украина;

e-mail: v.khaust@gmail.com

Демченко Н. В.

Кандидат экономических наук, доцент,

Национальный фармацевтический университет,

Украина; e-mail: demchenata@ukr.net

Ковальчук В.Г.

Доктор наук государственного управления, доцент

Харьковский УНИ ГВУЗ «Университет банковского дела»,

Украина; e-mail: covveron@ukr.net

Волкова М.В.

Кандидат экономических наук, доцент

Харьковский Национальный университет городского хозяйства

имени А.Н.Бектова, Украина; e-mail: milaha7432@gmail.com

ГЛОБАЛЬНАЯ ФИНАНСОВАЯ СИСТЕМА: РИСКИ И ПРОГНОЗЫ

Аннотация. Статья посвящена анализу причин серии последовательно возникающих кризисных явлений в мировой финансовой системе, выявлению дисбалансов и финансовых рисков развития на современном этапе. Статья посвящена эволюции общей структуры международного финансового сектора, обсуждается роль финансового сектора еврозоны в финансировании нефинансовых корпораций и анализируется взаимосвязь между различными секторами финансового сектора, чтобы оценить возможные структурные риски для Финансовой стабильности в зоне евро и в мире. Определение существующих рисков и дисбалансов в развитии мировой финансово-экономической сферы, а также возможные направления их минимизации. Цель статьи – определение существующих рисков и дисбалансов в развитии мировой финансово-экономической сферы, а также возможные направления их минимизации.

Ключевые слова: глобализация, дисбаланс, финансовые риски, еврозона, финансовые отношения.

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Paper objective – definition of existing risks and imbalances in the development of the global financial and economic sphere, as well as the possible directions of their minimization.

Analysis of recent research and publications. Problems of financial imbalances are considered in the works of A. Baranovsky, O. Lunyakov, V. Kozyuk, A. Kuznetsova, O. Snizhko. Foreign scientists paid attention to the prospects and problems of the development of the international monetary and financial system: J. Attali, J. Baghvati, F. Bourguignon, I. Wallerstein, A. Greenspan, M. Castells, J. Soros, M. Porter, L. Taylor, S. Fisher, A. Ferrer.

Problem statement. Lower risk can lead to a prolonged period of weak growth in the global economy. The global economic outlook remains subject to significant uncertainty and downward risks, which could impede the currently forecast moderate growth acceleration in 2017–2018. Some of these risks are caused by monetary policy in the major developed countries. The consequences of the introduction of untested monetary policy instruments – such as negative key interest rates in

Europe and Japan – remain unclear. There is a risk that such measures can lead to a deterioration in the balance sheets of banks, as a result of which the credit conditions will become tougher, which could potentially destabilize vulnerable and undercapitalized banks. The specific time frame for raising the key interest rate in the United States is another area of uncertainty. The increase in interest rate differentials in other developed countries could potentially lead to financial instability, reverse reversal of capital inflows to developing countries, and sharp currency adjustments. Such instability would increase the vulnerabilities associated with high levels of debt and the increase in the number of defaults in a number of developing countries, which in turn can lead to an increase in borrowing costs, create pressure to reduce the proportion of borrowed funds, as well as increase the burden on the banking sector.

Discussion. The transition to a multipolar world order causes tensions in global cooperation. Modern geopolitics has a number of significant uncertainties. Global growth is expected to pick up further in 2017–2018, reflecting a stronger-than-expected recovery in many advanced economies and projected higher growth in many emerging market and developing economies, including from improved conditions in several commodity exporters. However, growth momentum is still modest and downside risks continue to dominate, with heightened policy uncertainty and persistent structural headwinds.

Better-than-expected incoming data and gathering growth momentum, as outlined in the April 2017 World Economic Outlook (WEO), have reduced nearterm macroeconomic risks (Figure 1).

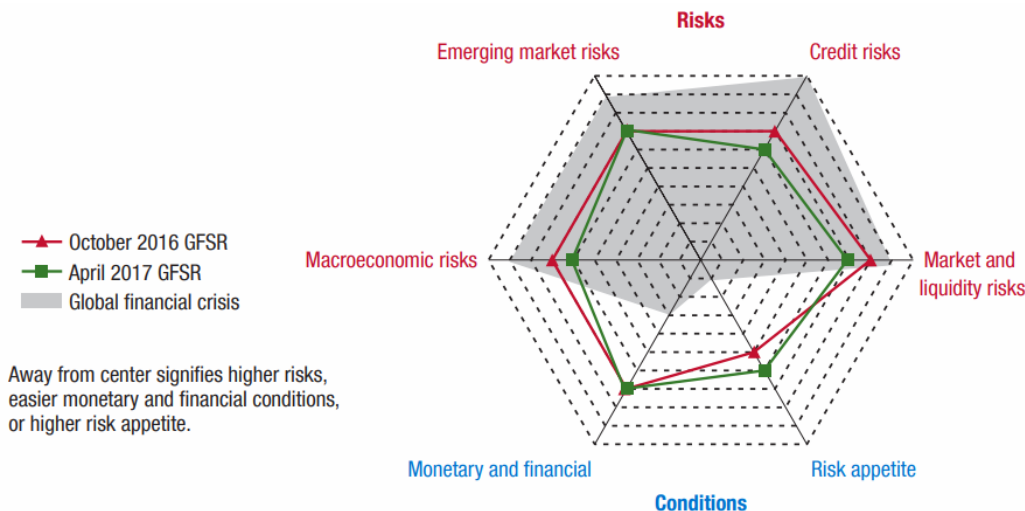


Fig 1. Global Financial Stability Map [1]

Over the past ten years, there has also been an increase in indices of economic policy uncertainty [2] to the maximum levels (Figure 2).

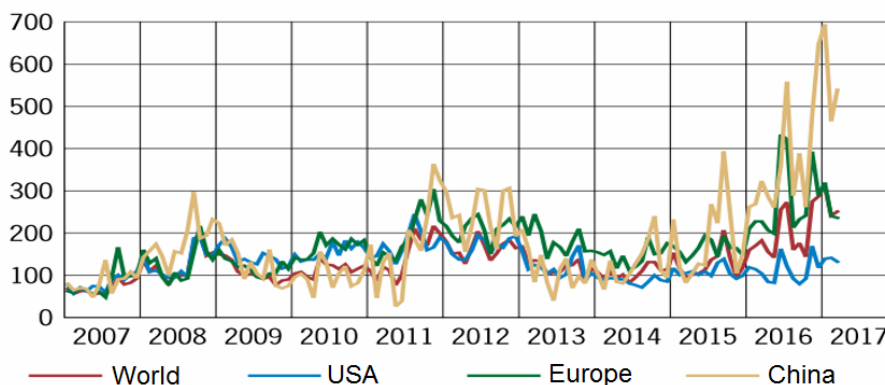


Fig. 2 Measuring Economic Policy Uncertainty

Among the most significant are changes in the economic policy of the new US administration in important areas in the field of international trade and immigration. The implementation of protectionism policies by US authorities can have global secondary effects, since it will have a direct impact on world trade and capital flows. As a result, many countries, especially emerging markets, which are highly integrated into world trade and are involved in cross-border capital flows, may face increasing sovereign risk premiums. In the event of the active implementation of protectionist policies, the aggravation of trade and currency wars is possible. Against the backdrop of expectations of US protectionist policy, Mexico and China have already faced a significant outflow of capital and a weakening of national currencies.

Among the global risks, the risk of negative developments in the economy and financial sector of China remains significant, despite the fact that at the moment the situation looks better than previously expected. The rate of GDP growth in China in 2016 slowed to 6,7 (in 2015 – 6,9%). According to the IMF, in 2017–2018, economic growth in China is expected to slow to 6,6 and 6,2%, respectively. The main support for China's economic growth continues to be the ongoing credit expansion. The growth of lending activity took place in the context of easing monetary policy by the People's Bank of China starting in 2012. According to Bloomberg, as of January 1, 2017, the total volume of assets of the Chinese banking sector increased to 312% of GDP, the Total Social Finance indicator, reflecting the debt of companies and households on loans from banks and non-banking financial organizations, reached 213% of GDP [3].

The Russia–Ukraine conflict and its unsettled nature have harmed the Ukrainian economy as well and deterred foreign investment there [4]. China's aggressive pursuit of sovereignty claims in the South China Sea has raised concerns about threats to ship-borne trade in some of the world's busiest international waters [5]. Syria has become the epicenter of a many-sided military conflict and humanitarian catastrophe, with highly uncertain long-term consequences. The Syrian conflict has produced a flood of migrants into neighboring countries and Europe, stoking security fears, creating anxiety about social and economic consequences, and placing enormous strains on the Schengen zone arrangements for free mobility in a border-less Europe [6].

The euro area also has a number of uncertainties in its development, and some investors are showing more and more doubts about its ability to survive. If Europe successfully passes the political obstacles that confront it, the uncertainty in the market should quickly disappear and return money to the bond markets, analysts say. But even if this happens, economic risks (which are exacerbated by political factors on the continent) will continue to give rise to fears for the future of the monetary union.

UK output from EU8 could have negative consequences for the financial stability and economic growth in Europe, given the difficulties that can arise when negotiating a new format of interaction between the UK and the European Union (the new conditions of foreign trade activities and Conducting financial transactions). The majority of banks included in this study have performed an assessment of the impact of Brexit upon their business and operations. The impact assessment has been typically done by market, client and product to assess the overall amount of business at risk from a 'hard Brexit'. As a result the impact assessments vary considerably from one bank to another. For some banks in this study, the impact of Brexit is less than 5% of their business, but for others it is above 33%. The impact of Brexit is likely to be distributed unevenly and skewed towards those banks which have a significant cross-border (UK–EU27) activities with a legal entity structure that does not provide sufficient EU27 market access in the post-Brexit environment [7]. The most acute issue in this case remains the achievement of a compromise on the contribution of the UK to the EU budget at the request of the European Commission. Until now, the UK was the second most important donor in the EU budget after Germany. As a result of Brexit, the need to increase contributions to the EU budget for individual countries, as well as the possible reduction in budget expenditures, can cause significant contradictions between the countries that are net donors and net recipients of budgetary funds.

Raiffeisen Bank International also noted that, despite last year's fears about the development of political events, such as a referendum on the withdrawal of the UK from the EU, government crises in Spain and Italy, economic growth in the eurozone in 2016 continued. On the other hand, the dynamics of this recovery remains modest. However, due to the impact of numerous downside risks, this trend can be considered strong. Analyst UniCredit suggest that the moderate pace of

economic recovery of the currency block will continue in 2017 and the region's GDP will rise by 1,5%. Raiffeisen Bank International forecasted economic growth in the euro area this year at 1,5% versus 1,6% in 2016 [8].

According to the British IHS Markit, the euro will reach parity with the dollar by the end of 2017. This opinion is shared by analysts at Royal Bank of Scotland. Thanks to the extension of the ECB's program for a monthly purchase of assets of € 80 billion, they say, the EUR / USD pair will be able to stay within the range of 1,00 –1,10. But the largest investment bank Goldman Sachs lowered its forecast below parity – from 1,00 to 0,90.

At J.P. Morgan believes that the GBP rate may increase or decrease by 5–10%, depending on the actions of the UK government regarding access to a single market. The pound is waiting for periodic attacks of instability and it can change its direction several times depending on political decisions, – says Paul Megieshi (Paul Meggyesi) of J.P. Morgan. As for the forecast, then, according to experts of the bank, by the end of 2017, the pair GBP / USD will be in the zone of 1,26.

As for currency strategists from ANZ Bank and ABN Amro, they believe that the pound will become weaker against the dollar, but will strengthen its position vis-à-vis the euro. It will be because – says ABN AMRO analyst Georgette Boele (Georgette Boele) – that political uncertainty in the Eurozone will put pressure on the euro in all directions.

The most recent estimates suggest that risk sharing remains low in the euro area and that limited private financial risk sharing plays a significant role in this, as can be seen in Chart B below. The large light blue parts of the bars indicate that a large share of income shocks in euro area countries are reflected in their consumption, whereas the small dark blue and yellow parts indicate that cross-border equity holdings or credit do not contribute greatly to smoothing consumption (Figure 3).

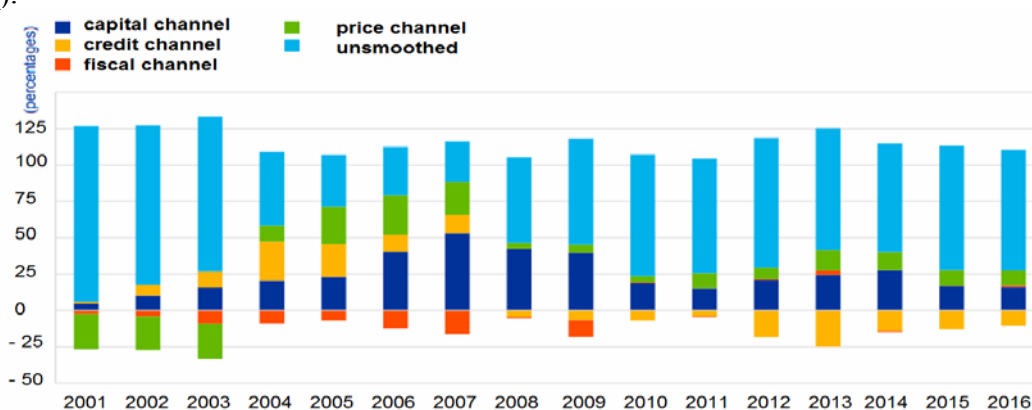


Fig.3 Consumption risk sharing in the future and its channels [9].

The European Commission on May 31, presented a possible plan for the development of the eurozone until 2025. It is divided into two stages: the first one ends in 2019, when elections to the European Parliament will be held, and the second will last from 2020 to 2025. By the end of the second stage, it is planned to deepen cooperation between the eurozone countries and finally complete the formation of a single currency and economic space [11]. The document, presented by the European Commission, describes options for further development of the eurozone, which will now be discussed in Brussels. In particular, we are talking about the creation of a single treasury and currency fund of the euro area, the issuance of joint bonds, as well as the establishment of the post of finance minister of the euro area, which will head the European Treasury and at the same time be the head of the Eurogroup – the association of EU finance ministers.

Conclusions. In our opinion, a flexible set of policy instruments, adapted to the conditions of each country, is needed. For example, structural reforms could include increased use of income policies to address inequality and demand, and active labor market policies to support vulnerable or marginal sectors of the labor market. Effective financial regulation should encourage the mobilization of resources and investment in inclusive and sustainable infrastructure, social services and clean technologies. In addition, investment in education, employee training and research base will contribute to the upgrading of the skills of the workforce and stimulate innovation. Policy measures should help create a dynamic business environment related to sustainable development, including unrestricted access to financial resources, transparent administrative procedures.

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Ковальчук В. Г., Волкова М. В.

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